# The Hershey's Company

Cory Griffin
DMG473
Alexa Maros
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## Introduction

Delicious Hershey's Chocolate; delectable sweets that brings joy and pleasure to so many individuals around the world. It is that very joy and pleasure that inspired this project and the work that went into it. Providing recommendations proved to be a challenge considering Hershey's already makes so many good business decisions. Hershey's should be considered a role model in the food industry for all of their business practices, and overall way of operating. The following information was great to research and dissect, hopefully it brings you pleasure and joy as you read.

## Background Information

The captivating story of Hershey's spans nearly a century and a half of industrial and social change. It was in the year 1894 that candy manufacturer Milton Hershey made the decision to try adding chocolate coating to his caramels. The Hershey Company (NYSE: HSY) is the largest producer of quality chocolate in North America and a global leader in chocolate and sugar confectionery. Headquartered in Hershey, Pa., The Hershey Company has operations throughout the world and more than 12,000 employees with revenues of more than $5 billion (Hershey's).

**Mission Statement**

- Bringing sweet moments of Hershey happiness to the world every day.
- To our stakeholders, this means:
- Consumers – Delivering quality consumer-driven confectionery experiences for all occasions
- Employees – Winning with an aligned and empowered organization … while having fun
- Business Partners – Building collaborative relationships for profitable growth with our customers, suppliers and partners
- Shareholders – Creating sustainable value
- Communities – Honoring our heritage through continued commitment to making a positive difference (Hershey's).

**Core Values**

For more than 100 years, The Hershey Company has been a leader in making a positive difference in the communities that surround us and where they do business. Milton Hershey School, established by the company's founder in 1909, provides a nurturing environment, quality education, housing, and medical care at no cost to children in social and financial need. The School is administered by the Hershey Trust Company, which is Hershey's largest shareholder, making the students of Milton Hershey School direct beneficiaries of Hershey's success (Hershey's).

Hershey's Values, "One Hershey," tell a powerful story: A global and diverse team, operating with integrity, working together, determined to make a difference.

- Open to Possibilities - We are Open to Possibilities by embracing diversity, seeking new approaches and striving for continuous improvement.
- Growing Together - We are Growing Together by sharing knowledge and unwrapping human potential in an environment of mutual respect.

- Making a Difference - We are Making a Difference by leading with integrity and determination to have a positive impact on everything we do.
- One Hershey - We are One Hershey, winning together while accepting individual responsibility for our results (Hershey's).

**The Products**

Hershey's main line of products include Hershey's milk chocolate, Reese's peanut butter cups, Kit Kat wafer bars, Jolly Rancher candies, ICE BREAKERS chewing gum and mints, Snack Barz, and low carb alternatives to the traditional Hershey's treats. In addition to the simple candy sales, Hershey's also has services to provide their products for other purposes. Starting with food services, Hershey's provides ingredients for businesses like Dairy queen to make Reese's blizzards and cakes. Hershey's also has concession services for all your movie going candy needs as well as vending machine services to satisfy your break time cravings (Hershey's).

The Hershey Company is America's largest chocolate company and has established itself as a cultural icon for brand innovation. Over the past century, Hershey's has designed and produced an atmosphere that exudes quality and value for its customers. This atmosphere is part of a strategy that has propelled Hershey's as an industry leader and has successfully ingrained the Hershey brand in the public's collective consciousness as America's premier choice chocolate bar (Hershey's).

With all this chocolaty goodness, there has to be a downside other than the calories. The downside is the stiff competition! Companies like Kraft Foods Inc., Mars Inc., and Nestle' S.A. Kraft Foods Inc. is the number one US food company while Nestle' S.A. is number one worldwide. While those are intense statistics, the reality is that Kraft and Nestle do a whole lot more than dabble in the chocolate business (Hoovers). Their product lines extend much farther than a chocolate bar and gum into water bottles, baby formula and boxed cuisines. Mars on the other hand is a more direct competitor with similar product lines. Looking strictly at the direct competitors (defined as confectioners), Hershey's leads the pack with 11.1 billion in market capitalization (Yahoo! Finance). Therefore, within the confectioners market, Hershey's is at the top position for growth and sales.

**Overview of Industry trends, issues, and challenges**

So how are things going for the confectionary market? Well considering that chocolate and candy is a small ticket item, they have remained resilient during the downturned economy. On average, the US consumer has been making fewer shopping trips, focusing their buying into products with more value and more coupons have been used. In addition, the market trend towards a healthier lifestyle hinders all candy companies (.docstoc).

Also socially conscious chocolate lovers are choosing to make the world a better place by seeking out chocolate bars and confections that offer more than just good taste. Many confection companies and brands demonstrate strong eco- friendly practices, organic and/or fair trade. As time passes these practices will become more important to the confectionary industry. Along with a social conscious, some companies are forming strategic alliances and partnerships between chocolate companies and organizations dedicated to social, economic, and environmental sustainability (Stuart, Joan).

Another significant hindrance to the confectionary market is snacks. Many non-chocolate snacks are available, such as peanut butter, fruits, potato chips, ice cream, etc. There is no need to stick with a specific snack other than personal preference. Further, because many consumers consider chocolate unhealthy they are willing to substitute it readily. With these factors taken into place, it is easy to see that Hershey's has been facing some challenges when it comes to its sales and products. In moving, forward Hershey's president stated, "Product focus will be shifted more on Hershey's "iconic" brands, as well as expanding the range of premium and dark chocolate products, such as the Cacao Reserve, Scharffen Berger and Starbucks bars, with its new Hershey's Bliss bar" (Hershey's). From a global standpoint, Hershey's is considered more of a US business. Corporations like Nestle have a bigger reach into foreign markets and this is where Hershey's falls short and faces a challenge. Instead of forcing their American brand candy bars into other markets, Hershey's has made several alliances with foreign confectionaries like Barry Callebaut a Swiss Chocolate company, Lotte a Korean confectionary, and Godrej food and beverages in India. With business alliances like these, Hershey's is breaking down some of their challenges.

## Strategic Profile

**Current Business Level Strategies**

The business level strategy for The Hershey Company focuses on a combined strategy integrating overall low cost and differentiation. Hershey is in the midst of an overhaul of their supply chain, reducing the number of production lines, outsourcing production of some of their products, and building a manufacturing plant in Mexico to offset the rising costs of production and inevitably pass the savings on to the consumer. Although it has required an enormous amount of upfront capital, the successful implementation of the revolutionary supply chain technology should streamline operations on a global scale and cut costs in production through efficiency. The company's strategy is a bid to cut costs by making its supply chain more efficient, further increase the company's global footprint, and allow them to outsource production of their low value-added products (foodproductiondaily). To achieve that aim, Hershey said it would outsource operations and reduce its number of production lines by over a third (foodproductiondaily).

Increased marketplace competition has significantly affected Hershey's business and as a result, The Hershey Company has been required to increase expenditures for promotions and advertising and continue to introduce and establish new products. The foundation of the Hershey marketing strategy is their strong brand equities, product innovation, and superior quality of the products, manufacturing expertise, and mass distribution capabilities. To achieve success, The Hershey Company will double ad spending and continue to utilize Wal-Mart TV. The company is now focused on improving margins in the long term, which they hope to achieve by investing in consumer marketing, greater retail coverage, and broadening its range of premium brands.

**Current Corporate Level Strategies**

Hershey's corporate level strategy is focused intently on growth and capitalizing on the diversification of its brand in the global market. The Hershey Company may take pleasure in the branding of its headquarters as "The sweetest place on earth," however over the past year, investors and management confidence has had a more bitter taste residing in their palate. Beginning over five years ago when The Hershey Company was on the verge of accepting a "$12.5 billion cash-and-stock offer from the Wm. Wrigley Jr. Co.", Hershey's has had a continuous problem with management and possible sale of the company to bigger industry rivals (Sorkin). The Hershey Company is losing market share in a marketplace and be a competitive industry player, The Hershey Company has set forth a strategy that streamlines their operations, closing six North American plants, and relying heavily on strategic alliances in emerging markets to grow and capitalize on future market opportunities.

The Hershey Company has intently focused on being a major competitor in the global market and recent strategic alliances and joint ventures may be the first step. This year alone, Hershey has announced deals with Swiss chocolate company Barry Callebaut, Korean confectioner Lotte, and Godrej Beverages & Foods in India. These three recent alliances will help propel The Hershey Company in their pursuit for global market share. The deal with Barry Callebaut, announced in May 2007, calls for the company to provide Hershey with 80,000 tons of chocolate per year. "We look forward to working with to expand our growth in the global chocolate market," said Richard Lenny, chairman and president of Hershey (smartbrief). "Barry Callebaut is a worldwide leader in premium chocolate and innovation, and this alliance provides Hershey with immediate access to these capabilities" (smartbrief).The Hershey alliance with Barry Callebaut follows the strategy of outsourcing to promote efficiency and profitability.

In order to target the lucrative potential of the burgeoning Chinese market, Hershey formed a partnership with Korean confectioners Lotte. Lotte will own a 51 percent stake in the joint venture, to be operated in Shanghai but headquartered in Hong Kong, according to the joint statement released by Lotte (Timmons). This brings Hershey's total investment in this venture to approximately $38 million (Timmons). The manufacturing joint venture in China is on track and producing products, specifically Hershey is manufacturing Kisses, Nuggets, and chocolate bars in anticipation of demand related to the holiday season. The Hershey Company has also begun discussions with Lotte about distribution and selling of Hershey products in South Korea and Japan.

Hershey continued its push into Asia with a deal to buy 51 percent of Godrej Beverages & Foods in India (Timmons). Hershey is leveraging their R&D expertise and go-to-market capabilities as they focus on business growth and profitability. The Godrej-Hershey joint venture in India is progressing as planned. The Hershey Company's investment in manufacturing is on schedule and more than adequate to support the upcoming launch of the Hershey branded products in India. The Godrej-Hershey venture will give Hershey access to India's fast-growing market for imported candies and snacks. Hershey's chairman, chief executive and president, Richard Lenny, said in a statement that the deal was a "significant step in Hershey's global growth strategy" (Hershey's). Hershey paid about $60 million for the controlling stake, which brings access to Godrej's two factories and to 1.6 million retail outlets (Timmons). These joint ventures with Lotte and Godrej may speed up the access and acceptance among the people in the emerging countries that these companies reside and operate in. These regional players could also help alleviate potential problems that arise with government policy and negotiations that would aid in Hershey establishing their brand.

**Case Analysis Purpose**

The strategies that Hershey's is implementing are the correct ones, specifically the expansion into new markets like China and Korea. By making connections with Godrej, and Lotte they are expanding their brand and reach to new and diverse markets. Additionally, acquiring other companies like Dagoba and Scharffen Berger fill those niche markets that really fill a want and need. Besides acquiring companies and extending the Hershey's brand, it is a smart move to perfect and refine their Hershey's factories. The work they are putting into perfecting their supply chain, manufacturing, and R&D will optimize Hershey's products. Had they had their operations in order earlier this year, maybe they could have bought Cadbury instead of Kraft. If their new production strategy had been corrected earlier on, they could have had more money and would have been able to buy Cadbury and continue to add to their company. Hershey's might be North Americas number one candy company, but I feel that they could be become so much more. The candy market is ripe for the picking and they have all the resources to go global. Hershey's can become the global candy leader, and to do that extending into more markets like China, India, and Korea is crucial.

## Situational Analysis

### General Environment

With a bad economy, grocery spending has been effected, but not in the way, other sectors like leisure, and frivolous items have been. Consumers have no choice but to eat, therefore grocery stores still get necessary business. The way consumers are shopping in grocery stores has changed from name brand labels to store brand to save as many dollars as possible. Candy on the other hand is inexpensive and there is no need to switch to a store brand candy bar. In addition to candy bars keeping up in the bad economy "the natural/organic sectors of the food and beverage business (NOFB) have proven to be quite resilient because many users have integrated the products into their lifestyles and define themselves, in part, as users of natural/organic products" (Furore). With that being said a combination of the two unaffected food sectors would be a definite success. Since Hershey's already has one organic option - Dagoba, adding organic options for jolly ranchers or twizzlers would be an instant success. It would also allow them to get into natural food stores and access those consumers.

### Industry

All Natural and 100% organic are two key pieces of information that consumers are looking for and are noticing within their food items. What was once over looked is now a crucial piece of information that consumers like to see." Between 2005 and 2008 the share of new product introductions claiming to be ethical has risen significantly. Consumers are now interested in the production of the food they eat. An ethically sourced chocolate bar would show that it uses all-natural organic ingredients and that the cocoa farmers are treated and paid well for their work in the crops. Because of this 4.0% of all new product introductions in 2008 carried the organic tag compared with just 1.2% in 2005" (Innovations). Hershey's in particular knows of this trend and they made the quick decision to buy Dagoba. "Organic chocolate products are experiencing dramatic growth as consumers continue to trade up for indulgent, high-quality products. Dagoba, with its well-regarded portfolio of quality organic products, will enable Hershey to build on its leadership in the North American chocolate market by meeting emerging consumer needs and building profitable new marketplace opportunities" (Hershey's).

Another emerging trend within the confectionary industry is that of dark chocolate. Once it was deemed a healthy option, consumers seemed to jump at the idea of eating chocolate for health benefits." Dark chocolate contains a large number of antioxidants (nearly 8 times the number found in strawberries). Flavonoids also help relax blood pressure through the production of nitric oxide, and balance certain hormones in the body" (Stibich). In addition to lowering blood pressure and antioxidants, dark chocolate lowers cholesterol, gives you endorphins, which make you feel better, and serotonin which acts as an anti-depressant. With this dark chocolate trend, Hershey's can start producing more dark chocolate options for their candy bars.

### Competitors

Nestle, Mars, and Kraft Foods are three of the food industries biggest competitors. Starting with Nestle, they are the world's largest food company. Nestle has a focus on nutrition, health and wellness with 10.4 billion in sales in 2009. They have nearly 25,000 employees nationwide, 25 manufacturing facilities, 24 distribution centers, and 15 sales offices across the country. Narrowing down all that Nestle does into just the confectionary category, Nestle has several products that pose the largest threat to Hershey’s. Those products are – Butterfinger, Crunch, Kit Kat, Willy Wonka, and Smarties. Recently Nestlé USA has joined an unprecedented coalition of more than 40 retailers, food and beverage manufacturers and non-governmental organizations to launch the Healthy Weight Commitment Foundation, a national, multi-year effort designed to help reduce obesity  especially childhood obesity  by 2015. Additionally Nestlé USA is the first company in the United States to buy sustainable palm oil certified by The Roundtable on Sustainable Palm Oil. In May 2010, Nestlé S.A. announced a partnership with The Forest Trust (TFT) to define responsible sourcing guidelines to guide the Nestlé procurement process. Nestlé is the first consumer goods company to become a TFT member (Nestle).

From its humble beginnings in the Tacoma, Washington kitchen of Frank Mars, Mars, Incorporated has grown into a company of global scope with six business segments including Chocolate, Petcare, Wrigley Gum and Confections, Food, Drinks and Symbioscience, generating annual revenues of more than $28 billion (Mars). As far as candy bars goes, Mars currently makes up a large junk of direct competition for Hershey’s through Snickers, M&M’s, Dove, Wrigley and Orbit gum. These particular items always sit right next to the Hershey’s brand products in the vending machines and department store shelves. Mars, may have Hershey beat in the Petcare and symbioscience department, but Hershey will not give up the fight when it comes to candy.

Kraft on the other hand is the largest confectionery, food, and Beverage Corporation headquartered in the United States. It markets many brands in more than 155 countries. Eleven of its brands annually earn more than $1 Billion worldwide: Kraft, Cadbury, Oscar Mayer, Maxwell House, Nabisco, Oreo, Philadelphia Creme Cheese, Jacobs, Milka, LU, and Trident. With Cadbury now in their company portfolio, Kraft has a chocolaty edge on Hershey’s. The delicious Easter Cadbury egg would have been a nice addition to the Hershey family had they been able to afford the purchase price. Products like Trident compete with Ice Breakers and Bubble Yum while Nabisco and Oreo effect the Hershey’s snackerz division of products. Forty of its brands are at least 100 years old. In 2009 Kraft had sales over 40 billion while employing 97,000 employees. Kraft also has been making some big changes including: lowering packaging by 174 million pounds, lowering greenhouse gases by 17%, lowering energy use by 15%, reduced water consumption by 32%, between 1999 and 2009 they have provided one billion servings of food, and over 5,000 better-for-you products launched since 2005 or roughly 30% of their products (Kraft Foods).

**Internal**

As always, Hershey’s has chocolate and candy on their side. Their biggest strength is being the largest candy maker in the US with 42.5 percent of the market share with Mars coming in second at 25 percent and then Russell Stover at 7 percent (wikinvest). Additionally they are the largest US pasta manufacturer through Ronzoni pasta. Compared to Nestle and Kraft, Hershey’s seems like the baby of the food industry. Without Ronzoni, they would be considered strictly a confectionary company. Putting comparisons aside, Hershey’s still has good business ethics and operates in a very respectable way. Milton Hershey, the founder of Hershey has left a great impact on the company and the way they operate. From the very beginning, community involvement and good corporate citizenship were integral to Milton Hershey's business model. He was dedicated to improving lives. As one of the most forward-thinking industrialists of his time, Milton Hershey built the town of Hershey, Pennsylvania, including housing, parks, schools and a library. His actions were based on his belief that employees who could raise their families in a pleasant environment would live fuller lives and be better workers.

Hershey is involved with various organizations within the community. Hershey not only gives financial assistance but also employees' time and talents. Hershey gives direct financial assistance to the following organizations: American Red Cross, YMCA, and the Partnership for a Drug-free America (Hershey's). Hershey's annual involvement with the United Way Campaigns exemplifies their community work. For the past ten years, Hershey employees have raised money and devoted many hours with the Children's Miracle Network. This non-profit organization provides assistance to Children's Hospitals across the U.S. Hershey believes furthering education. "The company has made a five year, $500,000 commitment to the, providing scholarships that help minority students in Central Pennsylvania achieve their career and educational goals" (Hershey's).

In addition to the community involvement and treatment its employees, Hershey's looks to the source - The Hershey Company purchases cocoa from nearly 50 different producers, exporters and processors around the world. We interact directly with many of these business partners regarding their sustainability programs, visiting cocoa farms and cooperatives in West Africa, Asia and Latin America both to share our goals and to encourage their efforts. These programs include farmer organization development and capacity building, community sensitization regarding responsible labor practices, and farmer skills training focused on productivity and income improvement.

Some of Hershey's recent acquisitions penetrate the all-natural and organic food market. Dagoba Organic Chocolate and Scharffen Berger Chocolate Maker, part of Hershey's Artisan Confections Company subsidiary, seek to source cocoa directly from growers. These partnerships ensure high-quality cocoa while supporting social and environmental stewardship. Hershey's actively supports the World Cocoa Foundation (WCF) and its efforts to improve cocoa sustainability as well as The Sustainable Tree Crops Program (STCP). This helps West African farmers realize higher prices for their cocoa harvests by selling collectively, and educates farming communities about best practices for safe, responsible labor.

In looking at the Value Chain, the majority of Hershey's secondary activities are solid with a strong infrastructure, management team, and through procurement of other businesses such as Dagoba, and Scharffen Berger. As far as primary activities with a two million square ft factory their operations, outbound and inbound logistics are on an upward trend towards perfection. I also believe their service is exemplary considering the entire town of Hershey Pennsylvania is a tourist destination. Marketing and sales would be an improvement point under the assumption they change some of their support activities. Changes would be within procurement and technological development. They should be procuring new ingredients or even entire companies. With the new ingredients, they can pour more attention into product creation to create some organic products. Their firm infrastructure and core has given them the launching pad to take off into bigger markets and better products. They have so much potential to grow.

## SWOTT

**Strengths**

- Hershey Foods has grown from a one-product, one plant operation to a $4 billion company with many US and international plants providing an array of quality chocolate and confectionary products and services.
- Diversified product line-up
- Powerful partnerships including: Scharffen Berger, Dagoba, Barry Callebaut, Lotte, and Godrej
- Hershey is North America's largest chocolate manufacturer with 42.3% market share.
- Hershey is the largest pasta manufacturer in the US with 28.4 percent market share.

- Hershey Foods Corporation is committed to the values of its founder Milton S. Hershey – the highest standard of quality, honesty, fairness, integrity, and respect. The firm makes annual distributions of cash, products, and services to a variety of national and local charitable organizations. The corporation operates the Milton Hershey School for socially disadvantaged children and is the sole sponsor of the Hershey National Track and Field youth Program. Hershey also makes contributions to the Children's Miracle Network, a national program benefiting children's hospitals across the US.
- Hershey's main chocolate factory, for example, occupies more than 2 million square feet, is highly automated, and contains much heavy equipment, vats, and containers. It is the largest chocolate plant in the world.
- Technological improvements within chocolate factories allow for optimum production and efficiency within distribution
- More countries becoming industrialized and growing which allows for new markets
- Hershey is an exemplary organization in terms of business ethics and social responsibility; a significant part of Hershey Food's profits go toward operating the Milton Hershey School for Orphaned Children.

**Weaknesses**

- Hershey's global market share in the chocolate confectionary industry is only 10 percent, lowest among its competitors.
- Concern for the natural environment is an issue Hershey should address before competitors seize the initiative.
- Presence in the global market.

**Opportunities**

- China and India are huge untapped markets. Malaysia, Indonesia, Vietnam, and Thailand also are untapped, so, Hershey has the opportunity to gain a foothold in those countries.
- There is another opportunity for Hershey to develop environmentally safe products and packages, reducing industrial waste, recycling, and establishing an environmental audit process are strategies that could benefit Hershey.
- Another opportunity is that Hershey diversifies more into non-chocolate candies because that segment is growing rapidly in foreign countries like UK and US.
- Increasing the importance of holidays, and the potential that days like Christmas, Valentine's Day, and Easter hold.

**Threats**

- The main competitors of Hershey Foods are Mars and Nestle. Mars is already a threat for Hershey, because Mars has a stronger presence than Hershey in Europe, Asia, Mexico, and Japan.
- The average price of Cocoa beans rose 25.8 percent in 1995, following 28.9 percent rise in 1994. World production is not keeping pace with increased consumption. The price per pound in 1995 was $0.72 and is expected to continue increasing. This is a major problem for Hershey because even a small price increase at the retail level severely restricts consumer buying.

- Unlike Hershey, Mars has historically relied upon extensive marketing and advertising expenditures to gain market share, rather than on product innovation. Like the M&M commercials!
- Outsourcing production plants may leave Americans bitter from leaving a job and could even effect consumption if it is no longer produced in the US.
- Increasing obesity in children as well as adults
- Alternatives to candy, such as chips, crackers, cookies, and flowers.

**Trends**

- Natural foods. Consumer demand for products that are free-from artificial colors, flavors and additives and concern over the long-term effects of artificial ingredients has driven growth in the confectionery industry.
- Heritage and provenance. For chocolate manufacturers a key growth opportunity is for premiumization through either high quality country of origin (or even single estate) ingredients or by focusing on the quality of production methods (global business insights).
- Healthy and functional confectionery. Health continues to be key innovation opportunity for confectionery managers in line with an ageing population and an obesity epidemic.

## Financial Analysis

Hershey operates as a single reported segment in manufacturing, marketing, selling and distributing various packages types of chocolate and confectionery products, pantry items and gum and mint refreshment products under more than 80 brand names. They have five operating segments comprised geographic region including United States , Canada , Mexico , Brazil and other international location , such as India, Korea, Japan, The Middle East, China, and Philippines. They market confections products in approximately 50 countries worldwide.

During 2009, the average cocoa futures contract prices increased compared with 2008, and traded in a range between $1.10 and $1.52 per pound, based on the Intercontinental Exchange futures contract. Cocoa prices during 2009 traded at prices, which were near 30-year highs. The significant increase in cocoa futures prices reflected the impact of a weakening U.S. dollar as compared with other currencies, and an increase in asset allocation into commodity-based investments by various hedge funds. The table below shows annual average cocoa prices, and the highest and lowest monthly averages for each of the calendar years indicated. The prices are the monthly averages of the quotations at noon of the three active futures trading contracts closest to maturity on the Intercontinental Exchange.

**Cocoa Futures Contract Prices**

| | (dollars per pound) | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| Annual Average . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **$1.28** | $1.19 | $.86 | $.70 | $.68 |
| High . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **1.52** | 1.50 | .95 | .75 | .79 |
| Low . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | **1.10** | . 86 | .75 | .67 | .64 |

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Our costs will not necessarily reflect market price fluctuations because of our forward purchasing and

**Analysis of Selected Items from Hershey Income Statement**

| | **2009** | **2008** | **2007** | **%Change** |
|---|---|---|---|---|

| For the years ended December 31, In millions of dollars except per share amounts | | | | Increase (Decrease) | |
|---|---|---|---|---|---|
| | | | | 2009-2008 | 2008-2007 |
| Net Sales | **$5,298.7** | $5,132.8 | $4,946.7 | 3.2% | 3.8% |
| Cost of Sales | **3,245.5** | 3,375.1 | 3,315. | 1 (3.8) | 1.8 |
| Gross Profit | **2,053.2** | 1,757.7 | 1,631.6 | 16.8 | 7.7 |
| Gross Margin | ***38.7%*** | *34.2%* | *33.0%* | | |
| SM&A Expense | **1,208.7** | 1,073.0 | 895.9 | 12.6 | 19.8 |
| SM&A Expense as a percent of sales | ***22.8%*** | *20.9%* | *18.1%* | | |
| Business Realignment and Impairment Charges, Net | **82.9** | 94.8 | 276.9 | (12.6) | (65.8) |
| EBIT | **761.6** | 589.9 | 458.8 | 29.1 | 28.6 |
| EBIT Margin | ***14.4%*** | *11.5%* | *9.3%* | | |
| Interest Expense, Net | **90.5** | 97.9 | 118.6 | (7.6) | (17.5) |
| Provision for Income Taxes | **235.1** | 180.6 | 126.0 | 30.2 | 43.2 |
| Effective Income Tax Rate | ***35.0%*** | *36.7%* | *37.1%* | | |
| Net Income | **$436.0** | $ 311.4 | $ 214.2 | 40.0 | 45.4 |
| Net Income Per Share—Diluted | **$1.90** | $1.36 | $ .93 | 39.7 | 46.2 |

The increase in net sales from 2009 - 2010 was primarily attributable to favorable price realization from list price increases and a reduction in promotional allowances, offset by sales volume decreases, primarily in the United States. Sales volume decreases were associated with pricing elasticity and the rationalization of certain products and businesses. Sales growth was primarily contributed by core brands, particularly Hershey's, Reese's, and Twizzlers, which benefited from our consumer-driven strategy, including advertising and in-store selling, merchandising and programming.

Sales increases in local currency for their international businesses, particularly in Mexico, Canada, and Brazil, were more than offset by the unfavorable impact of foreign currency exchange rates, which reduced total net sales by approximately 1.0%. The cost of sales decrease in 2009 compared with 2008 was primarily due to sales volume decreases, favorable supply chain productivity and lower product obsolescence costs, offset substantially by higher input costs, particularly for raw materials and pension expense. During 2009, a reduction in inventories related to working capital initiatives resulted in a liquidation of applicable last in, first-out ("LIFO") inventory quantities carried at lower costs in prior years. The LIFO liquidation resulted in a $12.7 million cost of sales decrease.

Charges (credits) associated with business realignment initiatives and impairment recorded during 2009, 2008 and 2007 were as follows:

| For the years ended December 31, In thousands of dollars | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cost of sales | | | |
| 2007 business realignment initiatives: | | | |
| Global supply chain transformation program | **$10,136** | $ 77,767 | $123,090 |
| | | | |
| Selling, marketing and administrative | | | |
| 2007 business realignment initiatives: | | | |

| | | | |
|---|---|---|---|
| Global supply chain transformation program | **6,120** | 8,102 | 12,623 |
| Business realignment and impairment charges, net | | | |
| 2007 business realignment initiatives: | | | |
| Global supply chain transformation program: | | | |
| Net (gain on sale)/impairment of fixed assets | **(3,418)** | (4,882) | 47,938 |
| Plant closure expense | **22,157** | 23,415 | 13,506 |
| Employee separation costs | **2,474** | 11,469 | 176,463 |
| Pension settlement loss | **60,431** | 12,501 | 12,075 |
| Contract termination costs | **1,231** | 1,637 | 14,316 |
| Brazilian business realignment: | | | |
| Goodwill impairment | **—** | — | 12,260 |
| Employee separation costs | **—** | 1,581 | 310 |
| Fixed asset impairment charges | **—** | 754 | — |
| Contract termination and other exit costs | **—** | 2,587 | — |
| 2008 impairment of trademarks | **—** | 45,739 | — |
| Total business realignment and impairment charges, net | **82,875** | 94,801 | 276,868 |
| Total net charges associated with business realignment initiatives and impairment | **$99,131** | $180,670 | $412,581 |

**Recommendation Trends**

| | Current Month | Last Month | Two Months Ago | Three Months Ago |
|---|---|---|---|---|
| Strong Buy | 1 | 1 | 1 | 1 |
| Buy | 0 | 0 | 0 | 0 |
| Hold | 13 | 12 | 12 | 12 |
| Underperform | 1 | 1 | 1 | 1 |
| Sell | 0 | 0 | 0 | 0 |

In October of 2010, Hershey declared its 324th consecutive quarterly dividend when management confirmed a third quarter distribution of $0.32 and since 1947 there have been six stock splits. The most recent split was in June 2004. The company recently declared third quarter earnings with net sales coming in at $1.54bn compared with $1.48bn for the third quarter of 2009. Net income for the third quarter of 2010 was $180m or $0.78 per share, compared with $162m or $0.71 per share-diluted, for the comparable period of 2009.

While global economic uncertainty and challenges persist, confectionery remains one of the better-performing snack categories. In the third quarter, Hershey's net sales increased 4.2 percent, driven primarily by U.S. core brand volume growth, including new products, and growth in the emerging market businesses, which continues to increase at rates greater than the Company's overall long-term target. For more in depth financial coverage, refer to appendices A-C.

## Five-Force Model (External)

The chocolate and cocoa industry can use the "five forces" model as an analytical tool to determine the competitive market. Economies of scale reduce the per-unit cost of a product as the number of units being produced increases. The chocolate and cocoa industry does have a significant economy of scale entry barrier because large companies exist in the industry that has high production output, which reduces the cost to produce chocolate and cocoa. If a new competitor wanted to enter the market, the company would have to enter the market producing a large quantity at the same low price as competitors or the company would have to compete with a cost disadvantage (Furore). Competition is always the forefront of concern for businesses since it is such a high barrier. Whether they are small or large scale, Hershey's always has to keep on top of what everyone else is doing, and how do we get our candy sold over the competitors.

Moving on to bargaining power of buyers; if a buyer represents a large percentage of the supplier's sales, the buyer has more bargaining power over the supplier. The chocolate and cocoa industry has several large volume retailers, like Wal-Mart, that have significant bargaining power. These large volume retailers can bargain for lower prices and reduce the industry's profits, which creates a medium barrier (Foodproductiondaily).

With bargaining power of suppliers, the cocoa bean is a required ingredient in chocolate and cocoa industry; the suppliers do not have any substitute products for which they must compete. Another condition that enhances the bargaining power of the supplier group is the dependency of the industry's product on the supplier's product. The chocolate and cocoa industry relies on suppliers to deliver high quality products that meet food regulations and consumer taste tests. Even with the apparent high control from the supplier's standpoint, they want the business Hershey's provides and are more concerned with selling their crops. With that being said this would be a low-level barrier.

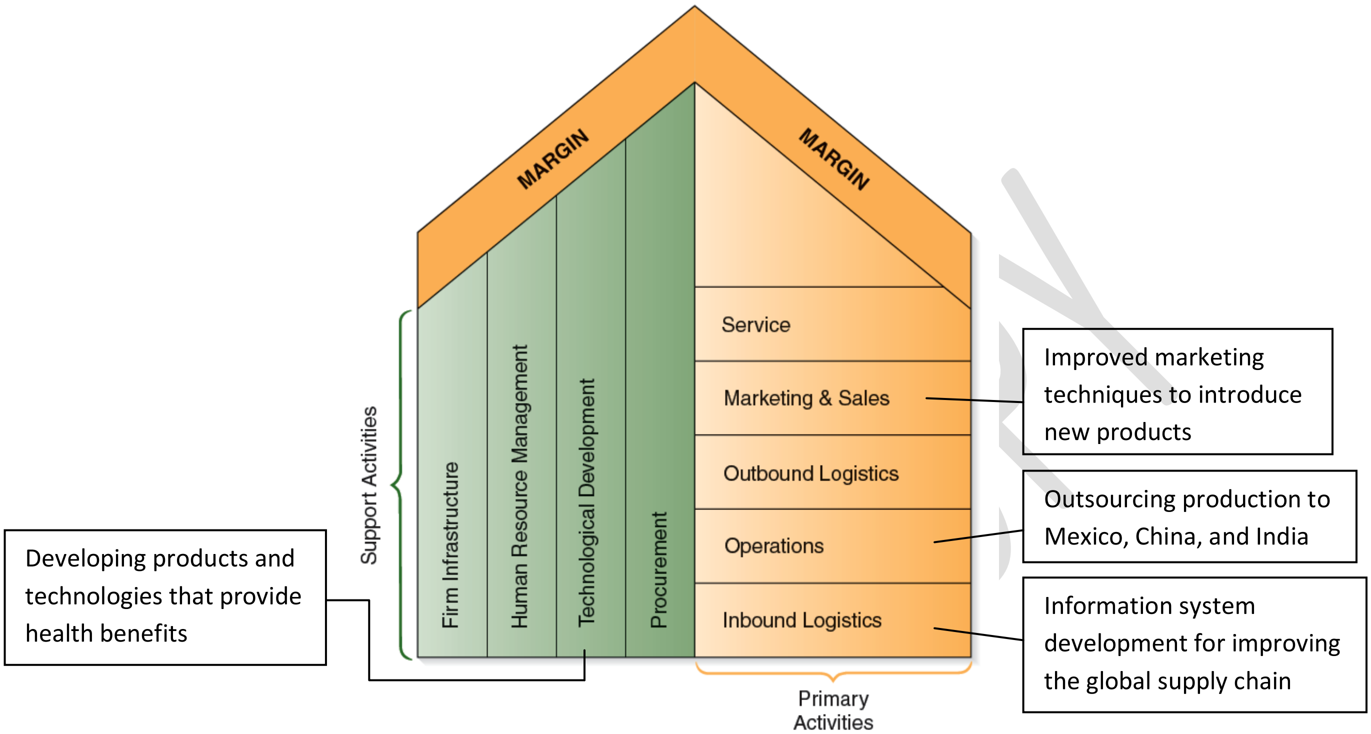
The threat of substitutes is a high area of concern to Hershey's because the chocolate and cocoa industry must compete with substitute products in the retail arena. Specialty chocolate and cocoa products are used as gifts during numerous seasons and celebrations including Christmas, Easter, Halloween, Valentine's Day, anniversaries and birthdays. Other types of gifts during these seasons are viewed as substitute products. These products are flowers, fruit, jewelry and stuffed animals. All of these products can be purchased instead of chocolate and cocoa products. Many different cooking flavors, a hugely diverse selection of alternate snacks, and a wide variety of seasonal gifts make the threat of substitute products high in the chocolate and cocoa industry (Foodproductiondaily.com)

Lastly, in the five force model is the intensity of rivalry among competitors in an industry. This competitive force can create price wars, advertising battles, new product lines, and higher quality of customer service. The chocolate and cocoa industry has numerous industry leaders that are similar in size and product offerings. Because there are numerous competitors that are equally balanced, competitor rivalry is higher.

## Value Chain (Internal)

Some major changes have gone down in the Hershey's to maximize the value chain and drive customer sales. Overhauls in several different sections get to take credit for turning the raw materials into delicious candy for the customers to enjoy. The areas to be addressed are production, marketing, information systems, and R&D. Starting with production, a major restructuring designed to cut costs and excess production capacity in the United States and Canada, while expanding in Mexico, China and India, where labor is cheaper (.docstoc) Refer to the diagram on the following page for a visual representation of where the discussed sections fit into the overall value chain.

The money saved in cut production costs will go partially into marketing where increased marketplace competition has significantly impacted Hershey's business and as a result, has been required to increase expenditures for promotions and advertising and continue to introduce and establish new products. The foundation of their marketing strategy is their strong brand equities, product innovation, superior quality of the products, manufacturing expertise, and mass distribution capabilities.




Regarding information systems, The Hershey Company has implemented a three-year plan for the development and execution of a revolutionary global supply chain technology. This supply chain transformation will utilize a number of data gathering centers and implement a core realignment that will create a more efficient and flexible global supply chain network. The transformation program will result in a flexible, global supply chain capable of delivering Hershey's iconic brands, in a wide range of affordable items and assortments, across retail channels in the company's priority markets (.docstoc)

Lastly, with research and development, The Hershey Company has a strong tradition of creating quality products and successfully extending these products into new lines and new ventures. "Our goal is to redefine the future of snacking by offering consumers products that provide proven health benefits and the superior taste they expect from Hershey," said Tom Hernquist, senior vice president, chief global growth officer (Hershey's). In May of 2006, as part of their increasing efforts in the area of healthier snacking, the Hershey Company announced the establishment of the Hershey Center for Health and Nutrition in Hershey, Pennsylvania. The center will direct cutting-edge scientific research to develop products and technologies that provide consumers with health benefits in the areas of heart health, weight management and mental and physical energy, as well as build upon the science, clinical studies and research work already underway at the company.

## Recommendations

**Business Level Recommendation**

Hershey has a well-established business strategy. The business level strategy for The Hershey Company focuses on a combined low-cost strategy and differentiation. With that being said Hershey's has a lot to keep up with. To remain a cost leader as well as creating a differentiated product line they must adapt quickly to change and new technologies. Our recommendations start with reducing the number of products from their production line and outsourcing production of some of their products. Research states that Hershey's is building a manufacturing plant in Mexico to offset the rising costs of production in the United States. (foodproductiondaily) This will put them in an even better position to save overall cost that can be passed onto the customer.

Following the process of the above information, having innovative and efficient facilities can help operation on a global scale and cut costs in production. The company's best strategy is to cut costs by making its supply chain more efficient, further increase the company's global footprint, and allow them to outsource production of their low value-added products (foodproductiondaily). If Hershey can focus production on a small number of factories rather than scattering manufacturing across North America this could cut cost drastically. Research shows that Hershey can expect margins to rise significantly because of the restructuring. Restructuring savings of between $170 million to $190 million by 2010 (foodproductiondaily).

The savings from manufacturing realignment would allow for higher distribution rates, lower product costs, more frequent product merchandising, which in the end strengthens Hershey's already established integrated low-cost strategy. Because Hershey's is in a highly competitive market, they must compete with many different rivals offering similar products for similar prices. In being a cost leader through creating the lowest price points on select items, Hershey's can become the top global confectionary market. For instance if Twizzlers were offered at a lower price than that of Red Vines, the majority would probably go for the less expensive option. By picking the most comparable competitive items and establishing lower prices on those select items, Hershey's could tower of their competitors. As far as differentiation, with the money saved from the manufacturing realignment, Hershey's will be better positioned to improve their current product line.

The improvements of their product line will be made towards that of a healthier alternative. Hershey's addresses the sugar free market with a variety of products such as Reese's and Jolly Ranchers, but why not go in-between? Perhaps a half the fat, or 50% less calorie Hershey bar will be more appealing to some people that are not willing to give up all that tasty sugar. Through differentiating existing products into a middle of the road option, perhaps some people will not feel so guilty in eating a reduced fat candy option.

**Business Level Recommendation Steps**

First course of action for our Business plan strategy recommendation will start in the Marketplace, which includes the company's commitment to fair and ethical business dealings. Due to Hershey's popularity and large market share – we already know what most people think of Hershey Chocolate. Most Hershey Consumers feel chocolate mystical and magical like the town named after it in Hershey Pennsylvania. However if you go into the local Bodega's on Alberta Street in NE Portland you won't find a drop of Hershey Chocolate anywhere. This area structured to indulge the bohemian & sustainable adults with young families. In order to prepare for the future, Hershey needs to know what this demographic thinks of a Reese's Peanut butter Cup or a Hershey kiss. It is this demographic that needs to be educated in the new plans of Hershey.

It will be beneficial to create large marketing campaign with a small town feel that can educate adults ages 22- 45. Trying to reach them through local shops and vendors can help get the word out that Hershey is environmentally aware and striving to be better.

In 2006, Hershey acquired the Artisan Confections Company, which produces Dagoba Chocolate and Scharffen Berger chocolate. By acquiring the company, Hershey inherited Dagoba's cocoa purchasing policies for its specific branded items, which include the "Conacado Bar" that is made using cocoa from the Conacado Fair Trade cocoa cooperative in the Dominican Republic. Dagoba's drinking chocolate, syrup, and cacao powder are also Fair Trade Certified™. Of 22 different chocolate bars, baking products, and drinking chocolate produced by Dagoba, seven are made using Fair Trade Certified™ cocoa (greenamerica).I hope that with this additional demographic interest – Hershey can proceed beyond the Dagoba subsidiary and use Fair TradeCertified™ cocoa on more products.

It is important that in the main market demographics the product line be reduced so that additional fair trade products can be introduced. It is our recommendation that fair trade and organic Hershey products cannot be in addition to their line but instead of some of their less popular products. In order to not betray loyal Hershey lovers and to make them a part of the process, we suggest and online survey. This survey should be connected with online orders for vendors, end-users, and Hershey Park reservations etc. It is important to nurture the community of loyal Hershey lovers and for that community to grow. As the action plan is implemented Hershey's focus can expand on making a positive difference in communities around the world.

While a large part of Hershey's production is, relocate and combined into a Mexican factory it needs to be common public knowledge that they are trying to take care of dedicated workers that will be relocated or laid off. It is also important to educate the public that fair working conditions are provided to the Mexican workers.

In addition to their commitment to local communities, Hershey can take an active interest in the communities of their workers and vendors. It is our suggestion that they strongly consider take a percentage of revenue- for one of their most popular selling bars and create a fair trade fund/ organization. These funds can be donated directly back into the area where the cocoa is harvested.

**Corporate Level Recommendation**

Moving into our corporate level strategy, Hershey's should advance into more trend-driven niches such as premium, dark and ethically sourced chocolate. This will benefit Hershey due to its joint venture with Barry Callebaut's. Barry Callebaut offers cocoa and chocolate products, ready-to-use fillings and decorations, coatings and cocoa powders as well as customized services to the entire food manufacturing industry. For companies that choose to outsource their chocolate production to improve efficiency and reduce costs, Barry Callebaut makes an ideal global partner. (dairyreporter). This partnership provides Hershey with immediate access to broad expertise in premium chocolate and builds on strong research and development capabilities. They can work together on research involving new cocoa flavors and new product innovation (www.dairyreporter.com). The Dairy Reporter also states, that alliance with larger outsourced companies in the Cocoa industry will push for further reform in West Africa to monitor cocoa production also ensuring the efficiency standards and labor regulations are followed.

Hershey has been strategic in the acquisitions of Scharffen Berger, Joseph Schmidt, and Dagoba Chocolate in July of 2005, which helped establish the company as a significant player in the high growth premium chocolate segment. These alliances and acquisitions have helped differentiate Hershey in the prestigious gourmet chocolate. By maintaining integrated low-cost and differentiation strategies, they have made it harder for competitors to duplicate their successful model.

As for the unrelated diversification move with the purchase of Ronzoni - pasta is one of the fastest growing categories in the food business.  It is a nice addition and diversification for a company that is generally known for its chocolate. Ronzoni was purchased to increase Hershey's market share percent and draw closer to its competition Borden's.  Through this acquisition, New World was formed in 1999 out of Hershey Food Corporation's pasta division. In 2001, New World combined the former Hershey operations with most of the pasta division of Borden. During their reign as pasta makers and the creation of New World – Hershey kept themselves separate while still focused on advancing in the pasta industry. They gained market share by acquiring brands with strong regional followings. However for Hershey Chocolate – chocolate should always be their first priority. It will be more productive if their next venture they were to purchase another company that can help them improve their confection strong holds. (Ramirez, Anthony)

Hershey's does chocolate best; therefore, it seems only logical for Hershey's to stick to its core competencies – confectionaries. The unrelated diversification through Ronzoni was a power move and ultimately was only to improve their market share. In moving forward, it is recommended that Hershey's stick to related diversification by transferring core competencies onto smaller confectionary markets. If Hershey's were to extend their reach into all of the specialty chocolate and candy markets they would be creating multipoint competition through all avenues that is candy.

In acquiring or aligning with smaller local confectionaries, they can obtain the local charm factor. Companies like Moonstruck chocolates gain local appeal as well as vegan and kosher sectors. Niches also include ethically sourced candies with organic ingredients. By obtaining the majority of the confectionary sector, Hershey's would be capable of obtaining huge market power.

**Corporate Level Recommendation Steps**

In diversifying their product line-up and reaching every aspect of the confectionary niche market, Hershey will first have to sell of Ronzoni. The pasta division of the Hershey's corporation does in fact provide diversification and a hefty chunk of market share, but in order to move in a cohesive direction, this is the first step that must be taken.

Hershey's has formed an entirely new division of pasta in addition to Ronzoni. It is under the umbrella of New World Pasta, which also includes Smart Taste Pasta and Ronzoni Healthy Harvest. With this grouping of pasta brands, Hershey can essentially sell a completely new pasta division that is ready to go.

In selling the New World Pasta division, Hershey will have a large sum of money that can be used towards diversifying their product line-up through niche markets including organic, vegan, kosher, and local markets.

Acquiring local businesses such as Moonstruck Chocolates, and Kakayo Chocolate Company, which offers all-natural organic chocolates will allow for product diversity and maximum chocolate market exposure (Kakayo). In making these acquisitions, Hershey has the potential to acquire even more of the US confectionary market share and move towards a more prominent global position.

## Conclusion

Recently Hershey's has been making some impressive strides towards growing their business and extending their reach as far as possible. If they want to reach maximum potential, following the discussed business recommendations would be the best way to achieve their goal. By incorporating a new and improved integrated cost leadership-differentiation strategy Hershey's will take the competition by store with new product offerings at unheard of price points. Additionally venturing into smaller niche market businesses will allow Hershey's to reach consumers of all areas, tastes, and backgrounds. With that being said, Hershey's can take the confectionary market by storm and take an even bigger chunk of the market share. Hershey's has been around for over a century, they have come a long way since then, and have made many good business decisions. Their business decisions have worked well thus far, and will undoubtedly keep them going into the future. In the next ten years, Hershey's will remain a prominent industry within the US, and potentially grow into a global status. Unless the world progressively becomes allergic to chocolate or candy, the future only holds positivity and growth for this confectionary leader.

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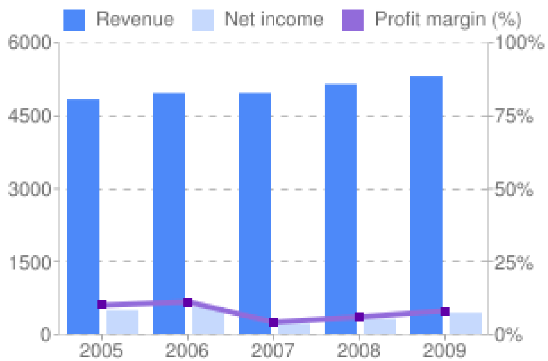
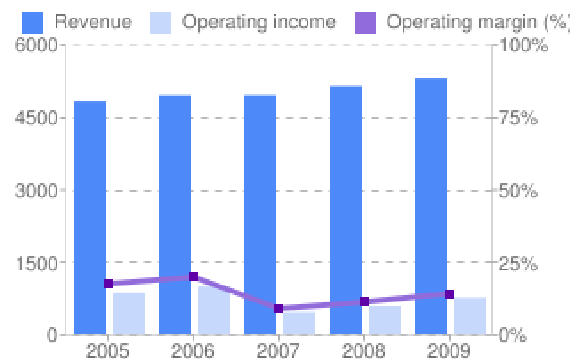
Appendix A

**Hershey's Annual Income Statement**




| In Millions of USD (except for per share items) | 12 months ending 2009-12-31 | 12 months ending 2008-12-31 | 12 months ending 2007-12-31 | 12 months ending 2006-12-31 |
|---|---|---|---|---|
| Revenue | 5,298.67 | 5,132.77 | 4,946.72 | 4,944.23 |
| Other Revenue, Total | - | - | - | - |
| Total Revenue | 5,298.67 | 5,132.77 | 4,946.72 | 4,944.23 |
| Cost of Revenue, Total | 3,245.53 | 3,375.05 | 3,315.15 | 3,076.72 |
| Gross Profit | 2,053.14 | 1,757.72 | 1,631.57 | 1,867.51 |
| Selling/General/Admin. Expenses, Total | 1,208.67 | 1,073.02 | 895.87 | 860.38 |
| Research & Development | - | - | - | - |
| Depreciation/Amortization | - | - | - | - |
| Interest Expense(Income) - Net Operating | - | - | - | - |
| Unusual Expense (Income) | 82.88 | 94.80 | 276.87 | 14.58 |
| Other Operating Expenses, Total | - | - | - | - |
| Total Operating Expense | 4,537.08 | 4,542.87 | 4,487.89 | 3,951.67 |
| Operating Income | 761.59 | 589.90 | 458.83 | 992.56 |
| Interest Income(Expense), Net Non-Operating | - | - | - | - |
| Gain (Loss) on Sale of Assets | - | - | - | - |
| Other, Net | - | - | - | - |
| Income Before Tax | 671.13 | 492.02 | 340.24 | 876.50 |
| Income After Tax | 435.99 | 311.40 | 214.15 | 559.06 |
| Minority Interest | - | - | - | - |
| Equity In Affiliates | - | - | - | - |
| Net Income Before Extra. Items | 435.99 | 311.40 | 214.15 | 559.06 |
| Accounting Change | - | - | - | - |
| Discontinued Operations | - | - | - | - |
| Extraordinary Item | - | - | - | - |
| Net Income | 435.99 | 311.40 | 214.15 | 559.06 |
| Preferred Dividends | - | - | - | - |
| Income Available to Common Excl. | 435.99 | 311.40 | 214.15 | 559.06 |

| | | | | |
|---|---|---|---|---|
| **Extra Items** | | | | |
| **Income Available to Common Incl. Extra Items** | 435.99 | 311.40 | 214.15 | 559.06 |
| **Basic Weighted Average Shares** | - | - | - | - |
| **Basic EPS Excluding Extraordinary Items** | - | - | - | - |
| **Basic EPS Including Extraordinary Items** | - | - | - | - |
| **Dilution Adjustment** | - | - | - | - |
| **Diluted Weighted Average Shares** | 229.00 | 228.70 | 231.45 | 239.07 |
| **Diluted EPS Excluding Extraordinary Items** | 1.90 | 1.36 | 0.93 | 2.34 |
| **Diluted EPS Including Extraordinary Items** | - | - | - | - |
| **Dividends per Share - Common Stock Primary Issue** | 1.19 | 1.19 | 1.14 | 1.03 |
| **Gross Dividends - Common Stock** | - | - | - | - |
| **Net Income after Stock Based Comp. Expense** | - | - | - | - |
| **Basic EPS after Stock Based Comp. Expense** | - | - | - | - |
| **Diluted EPS after Stock Based Comp. Expense** | - | - | - | - |
| **Depreciation, Supplemental** | - | - | - | - |
| **Total Special Items** | - | - | - | - |
| **Normalized Income Before Taxes** | - | - | - | - |
| **Effect of Special Items on Income Taxes** | - | - | - | - |
| **Income Taxes Ex. Impact of Special Items** | - | - | - | - |
| **Normalized Income After Taxes** | - | - | - | - |
| **Normalized Income Avail to Common** | - | - | - | - |
| **Basic Normalized EPS** | - | - | - | - |
| **Diluted Normalized EPS** | 2.14 | 1.62 | 1.68 | 2.38 |

| **In Millions of USD (except for per share items)** | **As of 2010-10-03** | **As of 2010-07-04** | **As of 2010-04-04** | **As of 2009-12-31** | **As of 2009-10-04** |
|---|---|---|---|---|---|
| **Cash & Equivalents** | 244.95 | 249.07 | 303.79 | 253.60 | 119.25 |
| **Short Term Investments** | - | - | - | - | - |
| **Cash and Short Term Investments** | 244.95 | 249.07 | 303.79 | 253.60 | 119.25 |
| **Accounts Receivable - Trade, Net** | 605.74 | 321.05 | 411.25 | 410.39 | 567.61 |
| **Receivables - Other** | - | - | - | - | - |
| **Total Receivables, Net** | 605.74 | 321.05 | 411.25 | 410.39 | 567.61 |
| **Total Inventory** | 594.57 | 603.73 | 481.85 | 519.71 | 559.32 |
| **Prepaid Expenses** | 142.07 | 173.30 | 159.26 | 161.86 | 185.29 |
| **Other Current Assets, Total** | 77.48 | 67.84 | 56.88 | 39.87 | 31.16 |

| | | | | | |
|---|---|---|---|---|---|
| **Total Current Assets** | 1,664.81 | 1,414.99 | 1,413.03 | 1,385.43 | 1,462.64 |
| **Property/Plant/Equipment, Total - Gross** | 3,224.49 | 3,245.58 | 3,236.90 | 3,242.87 | 3,348.03 |
| **Accumulated Depreciation, Total** | -1,846.46 | -1,867.07 | -1,842.22 | -1,838.10 | -1,935.22 |
| **Goodwill, Net** | 522.49 | 517.42 | 577.71 | 571.58 | 567.16 |
| **Intangibles, Net** | 123.49 | 123.06 | 125.33 | 125.52 | 125.34 |
| **Long Term Investments** | - | - | - | - | - |
| **Other Long Term Assets, Total** | 198.12 | 186.01 | 187.94 | 187.73 | 205.14 |
| **Total Assets** | 3,886.94 | 3,619.99 | 3,698.69 | 3,675.03 | 3,773.11 |
| **Accounts Payable** | 350.25 | 304.99 | 294.22 | 287.94 | 285.23 |
| **Accrued Expenses** | 605.64 | 530.01 | 466.29 | 546.46 | 546.42 |
| **Notes Payable/Short Term Debt** | 14.99 | 28.97 | 42.16 | 24.07 | 227.39 |
| **Current Port. of LT Debt/Capital Leases** | 261.92 | 12.04 | 13.79 | 15.25 | 15.63 |
| **Other Current liabilities, Total** | 37.29 | 0.00 | 85.84 | 36.92 | 33.65 |
| **Total Current Liabilities** | 1,270.09 | 876.01 | 902.29 | 910.63 | 1,108.33 |
| **Long Term Debt** | 1,250.55 | 1,501.34 | 1,502.18 | 1,502.73 | 1,503.43 |
| **Capital Lease Obligations** | - | - | - | - | - |
| **Total Long Term Debt** | 1,250.55 | 1,501.34 | 1,502.18 | 1,502.73 | 1,503.43 |
| **Total Debt** | 1,527.45 | 1,542.34 | 1,558.13 | 1,542.04 | 1,746.46 |
| **Deferred Income Tax** | 1.54 | 2.06 | 4.64 | 0.00 | 42.72 |
| **Minority Interest** | 36.19 | 35.13 | 36.85 | 39.88 | 40.45 |
| **Other Liabilities, Total** | 501.83 | 508.09 | 500.50 | 501.33 | 481.11 |
| **Total Liabilities** | 3,060.19 | 2,922.62 | 2,946.47 | 2,954.57 | 3,176.04 |
| **Redeemable Preferred Stock, Total** | - | - | - | - | - |
| **Preferred Stock - Non Redeemable, Net** | - | - | - | - | - |
| **Common Stock, Total** | 359.90 | 359.90 | 359.90 | 359.90 | 359.90 |
| **Additional Paid-In Capital** | 430.43 | 420.03 | 399.51 | 394.68 | 386.84 |
| **Retained Earnings (Accumulated Deficit)** | 4,310.04 | 4,200.76 | 4,224.84 | 4,148.35 | 4,087.57 |
| **Treasury Stock - Common** | -4,033.24 | -4,040.87 | -4,014.95 | -3,979.63 | -3,989.12 |
| **Other Equity, Total** | -240.37 | -242.45 | -217.08 | -202.84 | -248.13 |
| **Total Equity** | 826.75 | 697.37 | 752.22 | 720.46 | 597.07 |
| **Total Liabilities & Shareholders' Equity** | 3,886.94 | 3,619.99 | 3,698.69 | 3,675.03 | 3,773.11 |
| **Shares Outs - Common Stock Primary Issue** | - | - | - | - | - |
| **Total Common Shares Outstanding** | 227.28 | 227.05 | 227.20 | 228.00 | 227.71 |

| **In Millions of USD (except for per share items)** | **As of 2009-12-31** | **As of 2008-12-31** | **As of 2007-12-31** | **As of 2006-12-31** |
|---|---|---|---|---|
| **Cash & Equivalents** | 253.60 | 37.10 | 129.20 | 97.14 |
| **Short Term Investments** | - | - | - | - |
| **Cash and Short Term Investments** | 253.60 | 37.10 | 129.20 | 97.14 |
| **Accounts Receivable - Trade, Net** | 410.39 | 455.15 | 487.29 | 522.67 |
| **Receivables - Other** | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Total Receivables, Net** | 410.39 | 455.15 | 487.29 | 522.67 |
| **Total Inventory** | 519.71 | 592.53 | 600.18 | 648.82 |
| **Prepaid Expenses** | 161.86 | 189.26 | 126.24 | 87.82 |
| **Other Current Assets, Total** | 39.87 | 70.90 | 83.67 | 61.36 |
| **Total Current Assets** | 1,385.43 | 1,344.94 | 1,426.57 | 1,417.81 |
| **Property/Plant/Equipment, Total - Gross** | 3,242.87 | 3,437.42 | 3,606.44 | 3,597.76 |
| **Accumulated Depreciation, Total** | -1,838.10 | -1,978.47 | -2,066.73 | -1,946.46 |
| **Goodwill, Net** | 571.58 | 554.68 | 584.71 | 501.95 |
| **Intangibles, Net** | 125.52 | 110.77 | 155.86 | 140.31 |
| **Long Term Investments** | - | - | - | - |
| **Other Long Term Assets, Total** | 187.73 | 165.38 | 540.25 | 446.18 |
| **Total Assets** | 3,675.03 | 3,634.72 | 4,247.11 | 4,157.56 |
| **Accounts Payable** | 287.94 | 249.45 | 223.02 | 155.52 |
| **Accrued Expenses** | 546.46 | 504.06 | 538.99 | 454.02 |
| **Notes Payable/Short Term Debt** | 24.07 | 483.12 | 850.29 | 655.23 |
| **Current Port. of LT Debt/Capital Leases** | 15.25 | 18.38 | 6.10 | 188.76 |
| **Other Current liabilities, Total** | 36.92 | 15.19 | 0.37 | 0.00 |
| **Total Current Liabilities** | 910.63 | 1,270.21 | 1,618.77 | 1,453.54 |
| **Long Term Debt** | 1,502.73 | 1,505.95 | 1,279.96 | 1,248.13 |
| **Capital Lease Obligations** | - | - | - | - |
| **Total Long Term Debt** | 1,502.73 | 1,505.95 | 1,279.96 | 1,248.13 |
| **Total Debt** | 1,542.04 | 2,007.46 | 2,136.36 | 2,092.13 |
| **Deferred Income Tax** | 0.00 | 3.65 | 180.84 | 286.00 |
| **Minority Interest** | 39.88 | 31.75 | 30.60 | 0.00 |
| **Other Liabilities, Total** | 501.33 | 504.96 | 544.02 | 486.47 |
| **Total Liabilities** | 2,954.57 | 3,316.52 | 3,654.19 | 3,474.14 |
| **Redeemable Preferred Stock, Total** | - | - | - | - |
| **Preferred Stock - Non Redeemable, Net** | - | - | - | - |
| **Common Stock, Total** | 359.90 | 359.90 | 359.90 | 359.90 |
| **Additional Paid-In Capital** | 394.68 | 352.38 | 335.26 | 298.24 |
| **Retained Earnings (Accumulated Deficit)** | 4,148.35 | 3,975.76 | 3,927.31 | 3,965.41 |
| **Treasury Stock - Common** | -3,979.63 | -4,009.93 | -4,001.56 | -3,801.95 |
| **Other Equity, Total** | -202.84 | -359.91 | -27.98 | -138.19 |
| **Total Equity** | 720.46 | 318.20 | 592.92 | 683.42 |
| **Total Liabilities & Shareholders' Equity** | 3,675.03 | 3,634.72 | 4,247.11 | 4,157.56 |
| **Shares Outs - Common Stock Primary Issue** | - | - | - | - |
| **Total Common Shares Outstanding** | 228.00 | 227.04 | 227.05 | 230.26 |

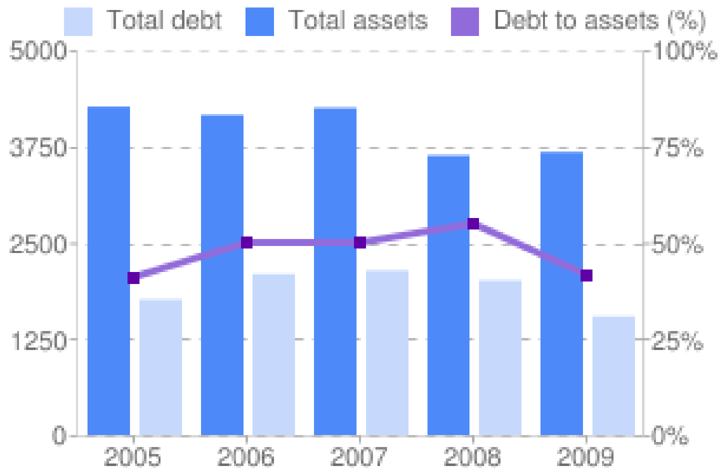
| In Millions of USD (except for per share items) | 9 months ending 2010-10-03 | 6 months ending 2010-07-04 | 3 months ending 2010-04-04 | 12 months ending 2009-12-31 |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Net Income/Starting Line | 374.29 | 194.12 | 147.39 | 435.99 |
| Depreciation/Depletion | 145.74 | 93.30 | 47.33 | 182.41 |
| Amortization | - | - | - | - |
| Deferred Taxes | 1.90 | 12.46 | 1.84 | -40.58 |
| Non-Cash Items | 97.01 | 85.05 | 7.70 | 91.30 |
| Changes in Working Capital | -230.73 | -120.08 | -23.08 | 396.63 |
| Cash from Operating Activities | 388.20 | 264.85 | 181.19 | 1,065.75 |
| Capital Expenditures | -123.70 | -74.86 | -35.55 | -145.47 |
| Other Investing Cash Flow Items, Total | 2.09 | 0.76 | 0.17 | -4.86 |
| Cash from Investing Activities | -121.61 | -74.10 | -35.38 | -150.33 |
| Financing Cash Flow Items | 10.89 | 11.47 | 1.29 | 11.78 |
| Total Cash Dividends Paid | -212.60 | -141.71 | -70.91 | -263.40 |
| Issuance (Retirement) of Stock, Net | -59.44 | -66.05 | -43.03 | 19.00 |
| Issuance (Retirement) of Debt, Net | -14.10 | 1.01 | 17.01 | -466.30 |
| Cash from Financing Activities | -275.25 | -195.28 | -95.63 | -698.92 |
| Foreign Exchange Effects | - | - | - | - |
| Net Change in Cash | -8.66 | -4.54 | 50.18 | 216.50 |
| Cash Interest Paid, Supplemental | 90.65 | 45.77 | 45.03 | 91.62 |
| Cash Taxes Paid, Supplemental | 236.63 | 201.58 | 29.58 | 252.23 |

| In Millions of USD (except for per share items) | 12 months ending 2009-12-31 | 12 months ending 2008-12-31 | 12 months ending 2007-12-31 | 12 months ending 2006-12-31 |
|---|---|---|---|---|
| Net Income/Starting Line | 435.99 | 311.40 | 214.15 | 559.06 |
| Depreciation/Depletion | 182.41 | 249.49 | 310.93 | 199.91 |
| Amortization | - | - | - | - |
| Deferred Taxes | -40.58 | -17.12 | -124.28 | 4.17 |
| Non-Cash Items | 36.84 | 108.55 | 261.34 | 0.33 |
| Changes in Working Capital | 451.08 | -132.76 | 116.69 | -40.28 |
| Cash from Operating Activities | 1,065.75 | 519.56 | 778.84 | 723.19 |
| Capital Expenditures | -145.47 | -282.98 | -203.89 | -198.51 |
| Other Investing Cash Flow Items, Total | -4.86 | 84.78 | -100.46 | -17.00 |
| Cash from Investing Activities | -150.33 | -198.20 | -304.35 | -215.51 |
| Financing Cash Flow Items | 11.78 | 1.39 | 9.46 | 9.28 |
| Total Cash Dividends Paid | -263.40 | -262.95 | -252.26 | -235.13 |
| Issuance (Retirement) of Stock, Net | 19.00 | -23.36 | -205.79 | -584.54 |
| Issuance (Retirement) of Debt, Net | -466.30 | -128.53 | 6.16 | 332.67 |
| Cash from Financing Activities | -698.92 | -413.45 | -442.43 | -477.72 |
| Foreign Exchange Effects | - | - | - | - |
| Net Change in Cash | 216.50 | -92.09 | 32.06 | 29.96 |
| Cash Interest Paid, Supplemental | 91.62 | 97.36 | 126.45 | 105.25 |
| Cash Taxes Paid, Supplemental | 252.23 | 197.66 | 253.98 | 325.45 |

Appendix B

**Hershey's Balance Sheet**




| In Millions of USD (except for per share items) | As of 2009-12-31 | As of 2008-12-31 | As of 2007-12-31 | As of 2006-12-31 |
|---|---|---|---|---|
| Cash & Equivalents | 253.60 | 37.10 | 129.20 | 97.14 |
| Short Term Investments | - | - | - | - |
| Cash and Short Term Investments | 253.60 | 37.10 | 129.20 | 97.14 |
| Accounts Receivable - Trade, Net | 410.39 | 455.15 | 487.29 | 522.67 |
| Receivables - Other | - | - | - | - |
| Total Receivables, Net | 410.39 | 455.15 | 487.29 | 522.67 |
| Total Inventory | 519.71 | 592.53 | 600.18 | 648.82 |
| Prepaid Expenses | 161.86 | 189.26 | 126.24 | 87.82 |
| Other Current Assets, Total | 39.87 | 70.90 | 83.67 | 61.36 |
| Total Current Assets | 1,385.43 | 1,344.94 | 1,426.57 | 1,417.81 |
| Property/Plant/Equipment, Total - Gross | 3,242.87 | 3,437.42 | 3,606.44 | 3,597.76 |
| Accumulated Depreciation, Total | -1,838.10 | -1,978.47 | -2,066.73 | -1,946.46 |
| Goodwill, Net | 571.58 | 554.68 | 584.71 | 501.95 |
| Intangibles, Net | 125.52 | 110.77 | 155.86 | 140.31 |
| Long Term Investments | - | - | - | - |
| Other Long Term Assets, Total | 187.73 | 165.38 | 540.25 | 446.18 |
| Total Assets | 3,675.03 | 3,634.72 | 4,247.11 | 4,157.56 |
| Accounts Payable | 287.94 | 249.45 | 223.02 | 155.52 |
| Accrued Expenses | 546.46 | 504.06 | 538.99 | 454.02 |
| Notes Payable/Short Term Debt | 24.07 | 483.12 | 850.29 | 655.23 |
| Current Port. of LT Debt/Capital Leases | 15.25 | 18.38 | 6.10 | 188.76 |
| Other Current liabilities, Total | 36.92 | 15.19 | 0.37 | 0.00 |
| Total Current Liabilities | 910.63 | 1,270.21 | 1,618.77 | 1,453.54 |
| Long Term Debt | 1,502.73 | 1,505.95 | 1,279.96 | 1,248.13 |
| Capital Lease Obligations | - | - | - | - |
| Total Long Term Debt | 1,502.73 | 1,505.95 | 1,279.96 | 1,248.13 |
| Total Debt | 1,542.04 | 2,007.46 | 2,136.36 | 2,092.13 |

| | | | | |
|---|---|---|---|---|
| **Deferred Income Tax** | **0.00** | **3.65** | **180.84** | **286.00** |
| **Minority Interest** | **39.88** | **31.75** | **30.60** | **0.00** |
| **Other Liabilities, Total** | **501.33** | **504.96** | **544.02** | **486.47** |
| **Total Liabilities** | **2,954.57** | **3,316.52** | **3,654.19** | **3,474.14** |
| **Redeemable Preferred Stock, Total** | **-** | **-** | **-** | **-** |
| **Preferred Stock - Non Redeemable, Net** | **-** | **-** | **-** | **-** |
| **Common Stock, Total** | **359.90** | **359.90** | **359.90** | **359.90** |
| **Additional Paid-In Capital** | **394.68** | **352.38** | **335.26** | **298.24** |
| **Retained Earnings (Accumulated Deficit)** | **4,148.35** | **3,975.76** | **3,927.31** | **3,965.41** |
| **Treasury Stock - Common** | **-3,979.63** | **-4,009.93** | **-4,001.56** | **-3,801.95** |
| **Other Equity, Total** | **-202.84** | **-359.91** | **-27.98** | **-138.19** |
| **Total Equity** | **720.46** | **318.20** | **592.92** | **683.42** |
| **Total Liabilities & Shareholders' Equity** | **3,675.03** | **3,634.72** | **4,247.11** | **4,157.56** |
| **Shares Outs - Common Stock Primary Issue** | **-** | **-** | **-** | **-** |
| **Total Common Shares Outstanding** | **228.00** | **227.04** | **227.05** | **230.26** |

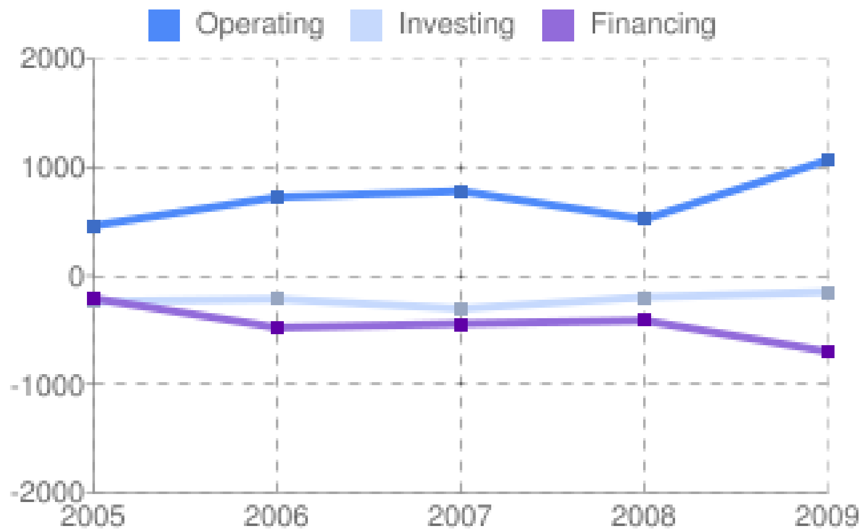
| **In Millions of USD (except for per share items)** | **9 months ending 2010-10-03** | **6 months ending 2010-07-04** | **3 months ending 2010-04-04** | **12 months ending 2009-12-31** |
|---|---|---|---|---|
| **Net Income/Starting Line** | **374.29** | **194.12** | **147.39** | **435.99** |
| **Depreciation/Depletion** | **145.74** | **93.30** | **47.33** | **182.41** |
| **Amortization** | **-** | **-** | **-** | **-** |
| **Deferred Taxes** | **1.90** | **12.46** | **1.84** | **-40.58** |
| **Non-Cash Items** | **97.01** | **85.05** | **7.70** | **91.30** |
| **Changes in Working Capital** | **-230.73** | **-120.08** | **-23.08** | **396.63** |
| **Cash from Operating Activities** | **388.20** | **264.85** | **181.19** | **1,065.75** |
| **Capital Expenditures** | **-123.70** | **-74.86** | **-35.55** | **-145.47** |
| **Other Investing Cash Flow Items, Total** | **2.09** | **0.76** | **0.17** | **-4.86** |
| **Cash from Investing Activities** | **-121.61** | **-74.10** | **-35.38** | **-150.33** |
| **Financing Cash Flow Items** | **10.89** | **11.47** | **1.29** | **11.78** |
| **Total Cash Dividends Paid** | **-212.60** | **-141.71** | **-70.91** | **-263.40** |
| **Issuance (Retirement) of Stock, Net** | **-59.44** | **-66.05** | **-43.03** | **19.00** |
| **Issuance (Retirement) of Debt, Net** | **-14.10** | **1.01** | **17.01** | **-466.30** |
| **Cash from Financing Activities** | **-275.25** | **-195.28** | **-95.63** | **-698.92** |
| **Foreign Exchange Effects** | - | - | - | - |
| **Net Change in Cash** | -8.66 | -4.54 | 50.18 | 216.50 |
| **Cash Interest Paid, Supplemental** | 90.65 | 45.77 | 45.03 | 91.62 |
| **Cash Taxes Paid, Supplemental** | 236.63 | 201.58 | 29.58 | 252.23 |

| **In Millions of USD (except for per share items)** | **12 months ending 2009-12-31** | **12 months ending 2008-12-31** | **12 months ending 2007-12-31** | **12 months ending 2006-12-31** |
|---|---|---|---|---|
| **Net Income/Starting Line** | 435.99 | 311.40 | 214.15 | 559.06 |
| **Depreciation/Depletion** | 182.41 | 249.49 | 310.93 | 199.91 |
| **Amortization** | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| **Deferred Taxes** | -40.58 | -17.12 | -124.28 | 4.17 |
| **Non-Cash Items** | 36.84 | 108.55 | 261.34 | 0.33 |
| **Changes in Working Capital** | 451.08 | -132.76 | 116.69 | -40.28 |
| **Cash from Operating Activities** | 1,065.75 | 519.56 | 778.84 | 723.19 |
| **Capital Expenditures** | -145.47 | -282.98 | -203.89 | -198.51 |
| **Other Investing Cash Flow Items, Total** | -4.86 | 84.78 | -100.46 | -17.00 |
| **Cash from Investing Activities** | -150.33 | -198.20 | -304.35 | -215.51 |
| **Financing Cash Flow Items** | 11.78 | 1.39 | 9.46 | 9.28 |
| **Total Cash Dividends Paid** | -263.40 | -262.95 | -252.26 | -235.13 |
| **Issuance (Retirement) of Stock, Net** | 19.00 | -23.36 | -205.79 | -584.54 |
| **Issuance (Retirement) of Debt, Net** | -466.30 | -128.53 | 6.16 | 332.67 |
| **Cash from Financing Activities** | -698.92 | -413.45 | -442.43 | -477.72 |
| **Foreign Exchange Effects** | - | - | - | - |
| **Net Change in Cash** | 216.50 | -92.09 | 32.06 | 29.96 |
| **Cash Interest Paid, Supplemental** | 91.62 | 97.36 | 126.45 | 105.25 |
| **Cash Taxes Paid, Supplemental** | 252.23 | 197.66 | 253.98 | 325.45 |

Appendix C

**Hershey's Cash Flow**




| In Millions of USD (except for per share items) | 12 months ending 2009-12-31 | 12 months ending 2008-12-31 | 12 months ending 2007-12-31 | 12 months ending 2006-12-31 |
|---|---|---|---|---|
| **Net Income/Starting Line** | 435.99 | 311.40 | 214.15 | 559.06 |
| **Depreciation/Depletion** | 182.41 | 249.49 | 310.93 | 199.91 |
| **Amortization** | - | - | - | - |
| **Deferred Taxes** | -40.58 | -17.12 | -124.28 | 4.17 |
| **Non-Cash Items** | 36.84 | 108.55 | 261.34 | 0.33 |
| **Changes in Working Capital** | 451.08 | -132.76 | 116.69 | -40.28 |
| **Cash from Operating Activities** | 1,065.75 | 519.56 | 778.84 | 723.19 |
| **Capital Expenditures** | -145.47 | -282.98 | -203.89 | -198.51 |
| **Other Investing Cash Flow Items, Total** | -4.86 | 84.78 | -100.46 | -17.00 |
| **Cash from Investing Activities** | -150.33 | -198.20 | -304.35 | -215.51 |
| **Financing Cash Flow Items** | 11.78 | 1.39 | 9.46 | 9.28 |
| **Total Cash Dividends Paid** | -263.40 | -262.95 | -252.26 | -235.13 |
| **Issuance (Retirement) of Stock, Net** | 19.00 | -23.36 | -205.79 | -584.54 |
| **Issuance (Retirement) of Debt, Net** | -466.30 | -128.53 | 6.16 | 332.67 |
| **Cash from Financing Activities** | -698.92 | -413.45 | -442.43 | -477.72 |
| **Foreign Exchange Effects** | - | - | - | - |
| **Net Change in Cash** | 216.50 | -92.09 | 32.06 | 29.96 |
| **Cash Interest Paid, Supplemental** | 91.62 | 97.36 | 126.45 | 105.25 |
| **Cash Taxes Paid, Supplemental** | 252.23 | 197.66 | 253.98 | 325.45 |