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

FORM 10-K

(MARK ONE)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ..... TO .....

REGISTRANT, STATE OF INCORPORATION,
ADDRESS AND TELEPHONE NUMBER

COMMISSION FILE NO.	HERSHEY FOODS CORPORATION (A DELAWARE CORPORATION)	I.R.S. EMPLOYER IDENTIFICATION NO.
1-183	100 CRYSTAL A DRIVE HERSHEY, PENNSYLVANIA 17033 (717) 534-6799	23-0691590

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

TITLE OF EACH CLASS	Name of each exchange on which registered
Common Stock, one dollar par value	New York Stock Exchange

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

Class B Common Stock, one dollar par value
(TITLE OF CLASS)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. |_|

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of a specified date within 60 days prior to the date of filing.

Common Stock, one dollar par value -- $6,450,447,595 as of March 2, 1998.

Class B Common Stock, one dollar par value -- $9,780,020 as of March 2, 1998. While the Class B Common Stock is not listed for public trading on any exchange or market system, shares of that class are convertible into shares of Common Stock at any time on a share-for-share basis. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on March 2, 1998.

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

Common Stock, one dollar par value -- 112,637,318 shares, as of March 2, 1998.

Class B Common Stock, one dollar par value -- 30,453,908 shares, as of March 2, 1998.

DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 1997 are included in Appendix A to the Corporation's Proxy Statement for the Corporation's 1998 Annual Meeting of Stockholders and are incorporated by reference into Part II and are filed as Exhibit 13 hereto. Portions of the Proxy Statement are incorporated by reference herein into Part III.

PART I

ITEM 1. BUSINESS

Hershey Foods Corporation and its subsidiaries (the "Corporation") are engaged in the manufacture, distribution and sale of consumer food products. The Corporation, primarily through its Hershey Chocolate North America, Hershey International and Hershey Pasta and Grocery Group divisions, produces and distributes a broad line of chocolate and non-chocolate confectionery, pasta and grocery products.

The Corporation was organized under the laws of the State of Delaware on October 24, 1927, as a successor to a business founded in 1894 by Milton S. Hershey.

The Corporation's principal product groups include: chocolate and non-chocolate confectionery products sold in the form of bar goods, bagged items and boxed items; grocery products in the form of baking ingredients, chocolate drink mixes, peanut butter, dessert toppings and beverages; and pasta products sold in a variety of shapes, sizes, flavors and packages. The Corporation believes it is a major factor in these product groups in North America. Operating profit margins vary considerably among individual products and brands. Generally, such margins on chocolate and non-chocolate confectionery products are greater than those on pasta and other food products.

In North America, the Corporation manufactures chocolate and non-chocolate confectionery products in a variety of packaged forms and markets them under more than 50 brands. The different packaged forms include various arrangements of the same bar products, such as boxes, trays and bags, as well as a variety of different sizes and weights of the same bar product, such as snack size, standard, king size, large and giant bars. Among the principal chocolate and non-chocolate confectionery products in the United States are: HERSHEY'S classic caramels, HERSHEY'S COOKIES 'N' CREME chocolate bars, HERSHEY'S COOKIES 'N' MINT chocolate bars, HERSHEY'S HUGS chocolates, HERSHEY'S HUGS WITH ALMONDS chocolates, HERSHEY'S KISSES chocolates, HERSHEY'S KISSES WITH ALMONDS chocolates, HERSHEY'S milk chocolate bars, HERSHEY'S milk chocolate bars with almonds, HERSHEY'S MINIATURES chocolate bars, HERSHEY'S NUGGETS chocolates, AMAZIN' FRUIT gummy bears fruit candy, CADBURY'S CREME EGGS candy, CARAMELLO candy bars, GOOD & PLENTY candy, HEATH toffee bar, JOLLY RANCHER candy, KIT KAT wafer bars, LUDEN'S throat drops, MILK DUDS chocolate covered caramels, MR. GOODBAR milk chocolate bars with peanuts, PAYDAY peanut caramel bar, PETER PAUL ALMOND JOY candy bars, PETER PAUL MOUNDS candy bars, RAIN-BLO and SUPER BUBBLE gum, REESE'S NUTRAGEOUS candy bars, REESE'S peanut butter cups, REESE'S PIECES candies, ROLO caramels in milk chocolate, SIXLETS candies, SKOR toffee bars, SYMPHONY milk chocolate bars, SWEET ESCAPES candy bars, TASTETATIONS candy, TWIZZLERS candy, WHATCHAMACALLIT candy bars, WHOPPERS malted milk balls, YORK peppermint pattie candy, 5TH AVENUE candy bars and ZERO candy bars. Principal products in Canada include CHIPITS chocolate chips, GLOSETTE chocolate-covered raisins, peanuts and almonds, OH HENRY! candy bars, POT OF GOLD boxed chocolates, REESE PEANUT BUTTER CUPS candy, and TWIZZLERS candy. The Corporation also manufactures, imports, markets, sells and distributes chocolate products in Mexico under the HERSHEY'S brand name.

The Corporation manufactures and markets a line of grocery products in the baking, beverage, peanut butter and toppings categories. Principal products in the United States include HERSHEY'S, REESE'S AND HEATH baking pieces, HERSHEY'S drink boxes, HERSHEY'S chocolate milk mix, HERSHEY'S cocoa, HERSHEY'S CHOCOLATE SHOPPE ice cream toppings, HERSHEY'S HOT COCOA COLLECTION hot cocoa mix, HERSHEY'S syrup and REESE'S peanut butter. HERSHEY'S chocolate milk is produced and sold under license by certain independent dairies throughout the United States, using a chocolate milk mix manufactured by the Corporation. Ice cream, baking and various other products are produced and sold under the HERSHEY'S and REESE'S brand names by third parties who have been granted licenses by the Corporation to use these trademarks.

The Corporation manufactures and sells quality pasta products throughout the United States. The Corporation markets its products on a regional basis under several brand names, including AMERICAN BEAUTY, IDEAL BY SAN GIORGIO, LIGHT 'N FLUFFY, MRS. WEISS', P&R, RONZONI, SAN GIORGIO and SKINNER, as well as certain private labels.

The Corporation's products are sold primarily to grocery wholesalers, chain grocery stores, candy distributors, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, concessionaires and food distributors by full-time sales representatives, food brokers and part-time retail sales merchandisers throughout the United States, Canada and Mexico. The Corporation believes its products are sold in over 2 million retail outlets in North America. In 1997, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 12% of total net sales.

In Japan, China and Russia/CIS, the Corporation imports and/or markets selected confectionery and grocery products. The Corporation also markets chocolate and non-chocolate confectionery products in over 90 countries worldwide.

The Corporation's marketing strategy is based upon the consistently superior quality of its products, mass distribution and the best possible consumer value in terms of price and weight. In addition, the Corporation devotes considerable resources to the identification, development, testing, manufacturing and marketing of new products. The Corporation utilizes a variety of promotional programs for customers and advertising and promotional programs for consumers. The Corporation employs promotional programs at various times during the year to stimulate sales of certain products. Chocolate and non-chocolate confectionery and grocery seasonal and holiday-related sales have typically been highest during the third and fourth quarters of the year.

The Corporation recognizes that the mass distribution of its consumer food products is an important element in maintaining sales growth and providing service to its customers. The Corporation attempts to meet the changing demands of its customers by planning optimum stock levels and reasonable delivery times consistent with achievement of efficiencies in distribution. To achieve these objectives, the Corporation has developed a distribution network from its manufacturing plants, distribution centers and field warehouses strategically located throughout the United States, Canada and Mexico. The Corporation uses a combination of public and contract carriers to deliver its products from the distribution points to its customers. In conjunction with sales and marketing efforts, the distribution system has been instrumental in the effective promotion of new, as well as established, products on both national and regional scales.

From time to time, the Corporation has changed the prices and weights of its products to accommodate changes in manufacturing costs, the competitive environment and profit objectives, while at the same time maintaining consumer value. The last standard candy bar price increase was implemented by the Corporation in December 1995, resulting in a wholesale price increase of approximately 11% on its standard and king-size candy bars sold in the United States.

The most significant raw material used in the production of the Corporation's chocolate products is cocoa beans. This commodity is imported principally from West African, South American and Far Eastern equatorial regions. West Africa accounts for approximately 60% of the world's crop. Cocoa beans are not uniform, and the various grades and varieties reflect the diverse agricultural practices and natural conditions found in the many growing areas. The Corporation buys a mix of cocoa beans to meet its manufacturing requirements.

The table below sets forth annual average cocoa prices as well as the highest and lowest monthly averages for each of the calendar years indicated. The prices are the monthly average of the quotations at noon of the three active futures trading contracts closest to maturity on the New York Coffee, Sugar and Cocoa Exchange. Because of the Corporation's forward purchasing practices discussed below, and premium prices paid for certain varieties of cocoa beans, these average futures contract prices are not necessarily indicative of the Corporation's average cost of cocoa beans or cocoa products.

COCOA FUTURES CONTRACT PRICES
(CENTS PER POUND)

	1993	1994	1995	1996	1997
Annual Average....	47.3	59.1	61.2	62.1	70.0
High..............	56.7	66.1	64.1	64.4	77.2
Low...............	41.8	51.3	58.3	57.4	59.1

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

The Federal Agricultural and Improvement Reform Act of 1996, which is a seven-year farm bill, impacts the prices of sugar, peanuts, and milk because it sets price support levels for these commodities.

The price of sugar, the Corporation's second most important commodity for its domestic chocolate and confectionery products, is subject to price supports under the above referenced farm legislation. Due to import quotas and duties imposed to support the price of sugar established by that legislation, sugar prices paid by United States users are currently substantially higher than prices on the world sugar market. The average wholesale list price of refined sugar, F.O.B. Northeast, has remained relatively stable in a range of $.28 to $.35 per pound for the past ten years.

Peanut prices remained near normal levels for the first three quarters of 1997 but increased slightly during the fourth quarter due to a late season drought in the southeastern U.S.

Dairy prices returned to more normal levels in 1997 after reaching historically high levels in 1996.

Almond prices were at historically high levels for the first three quarters of the year. During the fourth quarter, prices declined 30-40% as the much larger new crop was harvested.

Pasta is made from semolina milled from durum wheat, a class of hard wheat grown in the United States and Canada. The Corporation purchases semolina from commercial mills and is also engaged in custom milling agreements to obtain sufficient quantities of semolina. Durum wheat production during 1997 decreased in almost every area of the world, resulting in historically high price levels.

The Corporation attempts to minimize the effect of price fluctuations related to the purchase of its major raw materials primarily through the forward purchasing of such commodities to cover future manufacturing requirements generally for periods ranging from 3 to 24 months. With regard to cocoa, sugar, corn sweeteners and natural gas, price risks are also managed by entering into futures and options contracts. At the present time, active futures and options contracts are not available for use in pricing the Corporation's other major raw materials. Futures contracts are used in combination with forward purchasing of cocoa, sugar, corn sweetener and natural gas requirements principally to take advantage of market fluctuations which provide more favorable pricing opportunities and to increase diversity or flexibility in sourcing these raw materials. The Corporation's commodity procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the Corporation's ability to benefit from possible price decreases.

The primary effect on liquidity from using futures contracts is associated with margin requirements related to cocoa and sugar futures. Cash outflows and inflows result from original margins which are "good faith deposits" established by futures exchanges to ensure that market participants will meet their contractual financial obligations. Additionally, variation margin payments and receipts are required when the value of open positions is adjusted to reflect daily price movements. The magnitude of such cash inflows and outflows is dependent upon price coverage levels and the volatility of the market. Historically, cash flows related to margin requirements have not been material to the Corporation's total working capital requirements.

The Corporation manages the purchase of forward and futures contracts by developing and monitoring procurement strategies for each of its major commodities. These procurement strategies, including the use of futures contracts to hedge the pricing of cocoa, sugar, corn sweeteners and natural gas are directly linked to the overall planning and management of the Corporation's business, since the cost of raw materials accounts for a significant portion of the cost of finished goods. Procurement strategies with regard to cocoa, sugar and other major raw material requirements are developed by the analysis of fundamentals, including weather and crop analysis, and by discussions with market analysts, brokers and dealers. Procurement strategies are determined, implemented and monitored on a regular basis by senior management. Procurement activities for all major commodities are also reported to the Board of Directors on a regular basis.

The Corporation has license agreements with several companies to manufacture and/or sell products worldwide. Among the more significant are agreements with affiliated companies of Cadbury Schweppes p.l.c. to manufacture and/or market and distribute YORK, PETER PAUL ALMOND JOY and PETER PAUL MOUNDS confectionery products worldwide as well as CADBURY and CARAMELLO confectionery products in the United States. The Corporation's rights under these agreements are extendible on a long-term basis at the Corporation's option. The license for CADBURY and CARAMELLO products is subject to a minimum sales requirement which the Corporation exceeded in 1997. The Corporation also has an agreement with Societe des Produits Nestle SA, which licenses the Corporation to manufacture and distribute KIT KAT and ROLO confectionery products in the United States. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option, subject to certain conditions, including minimum unit volume sales. In 1997, the minimum volume requirements were exceeded. The Corporation has an agreement with an affiliate of Huhtamaki Oy (Huhtamaki) pursuant to which it licenses the use of certain trademarks, including the GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY and WHOPPERS confectionery products in the North, Central and South American regions. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option.

In late 1996, the Corporation approved a project to implement an enterprise-wide integrated information system to replace most of the transaction systems and applications currently supporting operations of the Corporation. Total commitments for this system are expected to be in the range of $75 million to $85 million. This system is Year 2000 compliant and will replace a large portion of the Corporation's legacy information systems. Legacy systems not being replaced by the new integrated information system are being upgraded to be Year 2000 compliant and the costs are not expected to be material to the Corporation's business, operations, or financial condition. Progress toward compliance with Year 2000 issues by the Corporation's major business partners and suppliers is being reviewed for the most significant operations and business activities. The extent of Year 2000 compliance efforts by major partners and suppliers and the possible effect on the Corporation's business of their failure to comply cannot be reliably determined and estimated at this time. The remediation of Year 2000 issues involving the Corporation's information systems is expected to be completed in time to prevent any material adverse consequences to the Corporation's business, operations or financial condition.

COMPETITION

Many of the Corporation's brands enjoy wide consumer acceptance and are among the leading brands sold in the marketplace. However, these brands are sold in highly competitive markets and compete with many other multinational, national, regional and local firms, some of which have resources in excess of those available to the Corporation.

TRADEMARKS

The Corporation owns various registered and unregistered trademarks and service marks, and has rights under licenses to use various trademarks which are of material importance to the Corporation's business.

BACKLOG OF ORDERS

The Corporation manufactures primarily for stock and fills customer orders from finished goods inventories. While at any given time there may be some backlog of orders, such backlog is not material in respect to total sales, nor are the changes from time to time significant.

RESEARCH AND DEVELOPMENT

The Corporation engages in a variety of research activities. These principally involve development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines.

REGULATION

The Corporation's domestic plants are subject to inspection by the Food and Drug Administration and various other governmental agencies, and its products must comply with regulations under the Federal Food, Drug and Cosmetic Act and with various comparable state statutes regulating the manufacturing and marketing of food products.

ENVIRONMENTAL CONSIDERATIONS

In the past the Corporation has made investments based on compliance with environmental laws and regulations. Such expenditures have not been material with respect to the Corporation's capital expenditures, earnings or competitive position.

EMPLOYEES

As of December 31, 1997, the Corporation had approximately 14,900 full-time and 1,300 part-time employees, of whom approximately 6,800 were covered by collective bargaining agreements. The Corporation considers its employee relations to be good.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Information concerning the Corporation's geographic segments is contained in Footnote 16 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement for its 1998 Annual Meeting of Stockholders (the "Proxy Statement"), which information is incorporated herein by reference and filed as Exhibit 13 hereto.

SAFE HARBOR STATEMENT

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Forward looking statements contained in this document include, but are not limited to Year 2000 issues (particularly with regard to the Corporation's business partners and suppliers), the impact of the use of derivative instruments, the amount of future capital expenditures and the possible uses of proceeds from any future borrowings under the Corporation's currently effective credit facility or 1997 Registration Statement. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and pasta business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including income taxes; market demand for new and existing products; and raw material pricing.

ITEM 2. PROPERTIES

The following is a list of the Corporation's principal manufacturing properties. The Corporation owns each of these properties.

UNITED STATES

- Hershey, Pennsylvania - confectionery and grocery products (3 principal plants)
- Lancaster, Pennsylvania - confectionery products
- Oakdale, California - confectionery and grocery products
- Robinson, Illinois - confectionery and grocery products
- Stuarts Draft, Virginia - confectionery and grocery products
- Winchester, Virginia - pasta products

CANADA

- Smiths Falls, Ontario - confectionery and grocery products

In addition to the locations indicated above, the Corporation owns or leases several other properties used for manufacturing chocolate and non-chocolate confectionery, grocery and pasta products and for sales, distribution and administrative functions.

The Corporation's plants are efficient and well maintained. These plants generally have adequate capacity and can accommodate seasonal demands, changing product mixes and certain additional growth. The largest plants are located in Hershey, Pennsylvania. Many additions and improvements have been made to these facilities over the years and the plants' manufacturing equipment includes equipment of the latest type and technology.

ITEM 3. LEGAL PROCEEDINGS

The Corporation has no material pending legal proceedings, other than ordinary routine litigation incidental to its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information concerning the principal United States trading market for, market prices of and dividends on the Corporation's Common Stock and Class B Common Stock, and the approximate number of stockholders, may be found in the section "Market Prices and Dividends" on pages A-9 and A-10 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement which is deemed to be part of the Annual Report to Stockholders and which information is incorporated herein by reference and filed as Exhibit 13 hereto.

ITEM 6. SELECTED FINANCIAL DATA

The following information, for the five years ended December 31, 1997, found in the section "Eleven-Year Consolidated Financial Summary" on pages A-34 through A-36 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto: Net Sales; Income from Continuing Operations Before Accounting Changes; Income Per Share from Continuing Operations Before Accounting Changes - Basic (excluding Notes h, i, j and k); Dividends Paid on Common Stock (and related Per Share amounts); Dividends Paid on Class B Common Stock (and related Per Share amounts); Long-term Portion of Debt; and Total Assets.

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

The section "Management's Discussion and Analysis," found on pages A-1 through A-11 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited consolidated financial statements of the Corporation and its subsidiaries are found at the indicated pages in the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement, and such financial statements, along with the report of the independent public accountants thereon, are incorporated herein by reference and filed as Exhibit 13 hereto.

1. Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995. (Page A-12)

2. Consolidated Balance Sheets as of December 31, 1997 and 1996. (Page A-13)

3. Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995. (Page A-14)

4. Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996 and 1995. (Page A-15)

5. Notes to Consolidated Financial Statements (Pages A-16 through A-31), including "Quarterly Data (Unaudited)." (Page A-31)

6. Report of Independent Public Accountants. (Page A-33)

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions held with the Corporation, periods of service as a director, principal occupations, business experience and other directorships of nominees for director of the Corporation are set forth in the section "Election of Directors" in the Proxy Statement. This information is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE CORPORATION AS OF MARCH 2, 1998

NAME	AGE	POSITIONS HELD DURING THE LAST FIVE YEARS
K. L. Wolfe	59	Chairman of the Board and Chief Executive Officer (1993); President and Chief Operating Officer (1985)
J. P. Viviano	59	President and Chief Operating Officer (1993); President, Hershey Chocolate U.S.A., now part of Hershey Chocolate North America, a division of Hershey Foods Corporation (1985)
W. F. Christ	57	Senior Vice President, Chief Financial Officer and Treasurer (1997); Senior Vice President and Chief Financial Officer (1994); President, Hershey International, a division of Hershey Foods Corporation (1988)
R. Brace	54	Vice President, Operations (1997); Vice President, Manufacturing, Hershey Chocolate North America (1995); Vice President, Manufacturing, Hershey Chocolate U.S.A. (1987)
J. F. Carr	53	President, Hershey Pasta and Grocery Group, a division of Hershey Foods Corporation (1997); President, Hershey International (1994); Vice President, Marketing, Hershey Chocolate U.S.A. (1984)
K. B. Kwiat	58	Vice President, Manufacturing, Hershey Foods Corporation (1998); Vice President, Manufacturing, Hershey Chocolate North America (1997); Vice President, Manufacturing, Technical Services and Logistics, Hershey International (1994); Vice President, Technical, Hershey Chocolate U.S.A. (1992)
P. N. Le Maire	40	President, Hershey International (1997). Mr. Le Maire was previously employed by The Procter & Gamble Company (Procter & Gamble) where he served in a succession of positions with export responsibility. He was most recently Director, Global Export and Special Operations with responsibility for restructuring Procter & Gamble's worldwide export operations.
M. F. Pasquale	50	President, Hershey Chocolate North America (1995); President, Hershey Chocolate U.S.A. (1994); Senior Vice President and Chief Financial Officer (1988)
R. M. Reese	48	Vice President, General Counsel and Secretary (1995); Vice President and General Counsel (1992)
D. W. Tacka	44	Corporate Controller and Chief Accounting Officer (1995); Vice President, Finance and Administration, Hershey Pasta Group, now part of Hershey Pasta and Grocery Group (1989)

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

Corporate Officers and Division Presidents are generally elected each year at the organization meeting of the Board of Directors in April.

Reporting of inadvertent late filings of a Securities and Exchange Commission Form 4 under Section 16 of the Securities Exchange Act of 1934, as amended, is set forth in the section of the Proxy Statement "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

Information concerning compensation of the five most highly-compensated executive officers, including the Chairman of the Board and Chief Executive Officer, of the Corporation individually, and compensation of directors, is set forth in the sections "1997 Executive Compensation" and "Compensation of Directors" in the Proxy Statement. This information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning ownership of the Corporation's voting securities by certain beneficial owners, individual nominees for director, and by management, including the five most highly-compensated executive officers, is set forth in the section "Voting Securities" in the Proxy Statement. This information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning "Certain Relationships and Related Transactions" is set forth in the section "Certain Transactions and Relationships" in the Proxy Statement. This information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

ITEM 14(a)(1): FINANCIAL STATEMENTS

The audited consolidated financial statements of the Corporation and its subsidiaries and the Report of Independent Public Accountants thereon, as required to be filed with this report, are set forth in Item 8 of this report and are incorporated therein by reference to specific pages of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement and filed as Exhibit 13 hereto.

ITEM 14(a)(2): FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statement schedule of the Corporation and its subsidiaries for the years ended December 31, 1997, 1996 and 1995 is filed herewith on the indicated page in response to Item 14(d):

Schedule II -- Valuation and Qualifying Accounts (Page 16)

Other schedules have been omitted as not applicable or required, or because information required is shown in the consolidated financial statements or notes thereto.

Financial statements of the parent corporation only are omitted because the Corporation is primarily an operating corporation and there are no significant restricted net assets of consolidated and unconsolidated subsidiaries.

ITEM 14(a)(3): EXHIBITS

The following items are attached or incorporated by reference in response to Item 14(c):

(3) Articles of Incorporation and By-laws

The Corporation's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988. The By-laws, as amended on October 3, 1995, are incorporated by reference from Exhibit 3 to the Corporation's Report on Form 10-Q for the quarter ended October 1, 1995.

(4) Instruments defining the rights of security holders, including indentures

The Corporation has issued certain long-term debt instruments, no one class of which creates indebtedness exceeding 10% of the total assets of the Corporation and its subsidiaries on a consolidated basis. These classes consist of the following:

a. 8.85% to 9.92% Medium-Term Notes due 1997-1998

b. 6.7% Notes due 2005

c. 6.95% Notes due 2007

d. 6.95% Notes due 2012

e. 8.8% Debentures due 2021

f. 7.2% Debentures due 2027

g. Other Obligations

The Corporation will furnish copies of the above debt instruments to the Commission upon request.

(10) Material contracts

a. Kit Kat and Rolo License Agreement (the "License Agreement") between Hershey Foods Corporation and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Corporation'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 Corporation'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 Societe des Produits Nestle SA as of January 1, 1990. The Assignment Agreement is incorporated by reference from Exhibit 19 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.

b. Peter Paul/York Domestic Trademark & Technology License Agreement between Hershey Foods Corporation and Cadbury Schweppes Inc. (now CBI Holdings, Inc.) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Corporation's Current Report on Form 8-K dated September 8, 1988.

c. Cadbury Trademark & Technology License Agreement among Hershey Foods Corporation and Cadbury Schweppes Inc. (now CBI Holdings, Inc.) and Cadbury Limited dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Corporation's Current Report on Form 8-K dated September 8, 1988.

d. 364-Day Credit Agreement among Hershey Foods Corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof, and Citibank, N.A. as administrative agent bank and Citicorp Securities, Inc. and BA Securities, Inc. as co-syndication agents, is incorporated by reference from Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated January 29, 1996. The 364-Day Credit Agreement was renewed in late 1997.

e. Five-Year Credit Agreement among Hershey Foods Corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof, and Citibank, N.A. as administrative agent bank and Citicorp Securities, Inc. and BA Securities, Inc. as co-syndication agents, is incorporated by reference from Exhibit 10.2 to the Corporation's Current Report on Form 8-K dated January 29, 1996. The Five-Year Credit Agreement was renewed in late 1997.

f. Trademark and Technology License Agreement between Huhtamaki and Hershey Foods Corporation dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Corporation's Current Report on Form 8-K dated February 26, 1997. This agreement was assigned by the Corporation to its wholly owned subsidiary, Homestead, Inc., effective January 1, 1997.

Executive Compensation Plans

g. The restated Key Employee Incentive Plan is incorporated by reference from the Corporation's Proxy Statement dated March 17, 1997 filed in connection with the April 29, 1997 Annual Meeting of Stockholders.

h. Hershey Foods Corporation's Restated Supplemental Executive Retirement Plan is incorporated by reference from Exhibit 19(ii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

i. Hershey Foods Corporation's Deferral Plan for Non-Management Directors is incorporated by reference from Exhibit 10 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.

j. A form of the Benefit Protection Agreements entered into between the Corporation and certain of its executive officers is incorporated by reference from Exhibit 10 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

k. Hershey Foods Corporation's Deferred Compensation Plan, is incorporated by reference from Exhibit 10.3 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

l. Hershey Foods Directors' Compensation Plan is incorporated by reference from Exhibit 10 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 28, 1997.

(12) Computation of ratio of earnings to fixed charges statement

A computation of ratio of earnings to fixed charges for the years ended December 31, 1997, 1996, 1995, 1994 and 1993 is filed as Exhibit 12 hereto.

(13) Annual report to security holders

The Corporation's Consolidated Financial Statements and Management's Discussion and Analysis is included in Appendix A to the Proxy Statement and is filed as Exhibit 13 hereto.

(21) Subsidiaries of the Registrant

A list setting forth subsidiaries of the Corporation is filed as Exhibit 21 hereto.

(23) Consent of Independent Public Accountants

The consent to the incorporation of reports of the Corporation's Independent Public Accountants dated January 28, 1998, is filed as Exhibit 23 hereto.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE CORPORATION HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

HERSHEY FOODS CORPORATION
(Registrant)

Date: March 16, 1998

By W. F. CHRIST
(W. F. Christ, Senior Vice President, Chief Financial Officer and Treasurer)

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

SIGNATURE	TITLE	DATE
K. L. WOLFE (K. L. Wolfe)	Chief Executive Officer and Director	March 16, 1998
W. F. CHRIST (W. F. Christ)	Chief Financial Officer and Treasurer	March 16, 1998
D. W. TACKA (D. W. Tacka)	Chief Accounting Officer	March 16, 1998
J. P. VIVIANO (J. P. Viviano)	Director	March 16, 1998
W. H. ALEXANDER (W. H. Alexander)	Director	March 16, 1998
R. H. CAMPBELL (R. H. Campbell)	Director	March 16, 1998
C. M. EVARTS (C. M. Evarts)	Director	March 16, 1998
B. GUITON HILL (B. Guiton Hill)	Director	March 16, 1998

SIGNATURE	TITLE	DATE
J. C. JAMISON ------------- (J. C. Jamison)	Director	March 16, 1998
M. J. MCDONALD ----------------- (M. J. McDonald)	Director	March 16, 1998
J. M. PIETRUSKI ----------------- (J. M. Pietruski)	Director	March 16, 1998
V. A. SARNI -------------- (V. A. Sarni)	Director	March 16, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To Hershey Foods Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Hershey Foods Corporation's Proxy Statement for its 1998 Annual Meeting of Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 28, 1998. Our audit was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedule listed on page 9 in Item 14(a)(2) is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York
January 28, 1998

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands of dollars)

Description	Balance at Beginning of Period	ADDITIONS Charged to Costs and Expenses	ADDITIONS Charged to Other Accounts (a)	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1997: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade....	$ 14,059	$ 2,623	$ 522	$(1,361)	$ 15,843
Year Ended December 31, 1996: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade ...	$ 14,801	$ 1,238	$ 298	$(2,278)	$ 14,059
Year Ended December 31, 1995: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade....	$ 13,972	$ 1,318	$ (432)	$ (57)	$ 14,801

(a) Includes recoveries of amounts previously written off.

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, 1995, 1994 AND 1993
(in thousands of dollars except for ratios)
(Unaudited)

	1997	1996	1995	1994	1993
Earnings:					
Income from continuing operations before income taxes and accounting changes	$ 553,955	$479,737(a)	$465,953(b)	$333,138(c)	$510,875(d)
Add (Deduct):					
Interest on indebtedness	79,138	52,036	47,568	37,249	30,224
Portion of rents representative of the interest factor(e)	10,592	8,618	8,176	8,556	8,175
Amortization of debt expense	412	234	97	64	84
Amortization of capitalized interest	3,496	3,359	3,183	2,958	2,684
Earnings as adjusted	$ 647,593	$543,984	$524,977	$381,965	$552,042
Fixed Charges:					
Interest on indebtedness	$ 79,138	$ 52,036	$ 47,568	$ 37,249	$ 30,224
Portion of rents representative of the interest factor(e)	10,592	8,618	8,176	8,556	8,175
Amortization of debt expense	412	234	97	64	84
Capitalized interest	1,883	1,534	1,957	3,009	4,646
Total fixed charges	$ 92,025	$ 62,422	$ 57,798	$ 48,878	$ 43,129
Ratio of earnings to fixed charges	7.04	8.71	9.08	7.81	12.80

NOTES:

(a) Includes a loss on the disposal of businesses of $35.4 million.

(b) Includes a restructuring credit of $.2 million.

(c) Includes a restructuring charge of $106.1 million.

(d) Includes a gain of $80.6 million on the sale of the Corporation's 18.6% investment interest in Freia Marabou a.s.

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

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

The following is a listing of Subsidiaries of the Corporation, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned. Certain subsidiaries are not listed since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 1997.

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
Christiana, Inc.	Delaware
Hershey Canada Inc.	Canada
Hershey Holding Corporation	Delaware
Homestead, Inc.	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 28, 1998, included or incorporated by reference in this Form 10-K for the year ended December 31, 1997, into the Corporation's previously filed Registration Statements on Forms S-8 and S-3, (File No. 333-25853, File No. 333-33507, File No. 33-45431 and File No. 33-45556).

ARTHUR ANDERSEN LLP

New York, New York
March 16, 1998

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This schedule contains summary financial information extracted from Hershey Foods Corporation's Consolidated Condensed Balance Sheet as of December 31, 1997 and Consolidated Statement of Income for the twelve months ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.

1,000

YEAR
DEC-31-1997
DEC-31-1997
54,237
0
360,831
0
505,525
1,034,814
2,587,230
938,993
3,291,236
795,715
1,029,136
0
0
179,950
672,856
3,291,236
4,302,236
4,302,236
2,488,896
3,672,026
0
0
76,255
553,955
217,704
336,251
0
0
0
336,251
2.25
2.23

Balance is net of Reserves for Doubtful Accounts and Cash Discounts.

APPENDIX A

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Corporation achieved record sales and income levels in 1997, following record sales in 1996. This performance was driven by strategic acquisitions and divestitures, which increased the focus on profitable North American confectionery operations, aggressive new product introductions in the confectionery and grocery categories, and growth in sales of traditional core confectionery and grocery brands.

Net sales during the two-year period increased at a compound annual rate of 8%, while net income increased at a compound annual rate of 9%. The increase in net income over the period reflected the growth in sales, partially offset by a slightly lower gross margin and higher selling, marketing and administrative expenses.

Hershey Chocolate U.S.A. increased the wholesale price of its standard bar line and king size bars by approximately eleven percent in December 1995. These products represented approximately 25% of the Corporation's 1995 sales. Price increases were intended to offset higher costs for raw materials and packaging, together with the cumulative impact of inflation on other costs since the last standard bar price increase in early 1991. Hershey Pasta Group implemented selected price increases in late 1995 in an effort to recover substantial increases in semolina costs.

The following acquisitions and divestitures occurred during the period:

. December 1996--The acquisition from an affiliate of Huhtamaki Oy (Huhtamaki), the international foods company based in Finland, of Huhtamaki's Leaf North America (Leaf) confectionery operations for $437.2 million, plus the assumption of $17.0 million in debt. In addition, the parties entered into a trademark and technology license agreement under which the Corporation will manufacture and/or market and distribute in North, Central and South America Huhtamaki's confectionery brands including GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY and WHOPPERS.

. December 1996--The sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari, S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy. The sale resulted in an after-tax loss of $35.4 million, since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were $216.6 million and $222.0 million in 1996 and 1995, respectively.

. January 1996--The sale of the assets of Hershey Canada, Inc.'s PLANTERS nut (Planters) business to Johnvince Foods Group and LIFE SAVERS and BREATH SAVERS hard candy and BEECH-NUT cough drops (Life Savers) business to Beta Brands Inc. Both transactions were part of a restructuring program announced by the Corporation in late 1994.

. December 1995--The acquisition of Henry Heide, Incorporated, a confectionery company which manufactures a variety of non-chocolate confectionery products including JUJYFRUITS candy and WUNDERBEANS jellybeans.

. June 1995--The sale of the outstanding shares of OZF Jamin to a management buyout group at OZF Jamin also as part of the restructuring program.

NET SALES

Net sales rose $312.9 million in 1997 and $298.6 million in 1996, an increase of 8% in both years. The increase in 1997 was primarily due to incremental sales from the Leaf acquisition, increased sales of core confectionery items and the introduction of new confectionery products. These increases were offset somewhat by lower sales resulting from the divestiture of the Gubor and Sperlari businesses and a decline in sales of pasta and grocery products. The increase in 1996 was primarily due to incremental sales from new confectionery and grocery products, increased confectionery sales volume in the North American seasonal packaged candy line and in various international markets, selected confectionery selling price increases in the United States partially offset by related sales volume declines, and incremental sales from the acquisition of Henry Heide.

COSTS AND EXPENSES

Cost of sales as a percent of net sales increased from 57.6% in 1995 to 57.7% in 1996, and to 57.9% in 1997. The decrease in gross margin in 1997 was primarily the result of the lower margin associated with the Leaf business and higher costs associated with certain new products and seasonal items, partially offset by lower costs for certain major raw materials, primarily milk and semolina, and the favorable impact of the Gubor and Sperlari divestitures. The decrease in gross margin in 1996 was principally the result of higher costs for certain major raw materials, primarily cocoa beans, milk, almonds and semolina and increased manufacturing labor and overhead rates, substantially offset by selected confectionery price increases, manufacturing efficiency improvements and the favorable impact of the OZF Jamin divestiture.

Selling, marketing and administrative expenses increased by 5% in 1997, as a result of incremental expenses associated with the Leaf business and increased marketing expenses related to the introduction of new products, partially offset by decreases resulting from the Gubor and Sperlari divestitures and reduced marketing spending for existing brands. Selling, marketing and administrative costs increased by 7% in 1996 primarily due to a net increase in advertising and promotion expenses associated with the introduction of new products and higher selling expenses primarily related to international sales volume increases and new product introductions.

RESTRUCTURING ACTIVITIES

During the third quarter of 1995, a pre-tax restructuring charge of $16.6 million was recorded in connection with a voluntary retirement program announced by the Corporation in August 1995. The charge was primarily related to the funding of retirement benefits for eligible employees who elected early retirement. The impact of this charge was more than offset by the partial reversal of $16.7 million of 1994 accrued restructuring reserves, resulting in an increase to income before income taxes of $151,000 and an increase to net income of $2.0 million as the tax benefit associated with the 1995 charge more than offset the tax provision associated with the reversal of 1994 restructuring reserves. The partial reversal of 1994 accrued restructuring reserves related to revised workforce reductions and relocation expenses along with a lower loss on the disposal of the Planters and Life Savers businesses. In 1996, $7.6 million of 1994 accrued restructuring reserves were utilized as the restructuring program was completed.

INTEREST EXPENSE, NET

Net interest expense in 1997 was $28.2 million above prior year, primarily as a result of incremental borrowings associated with the Leaf acquisition and the purchase of Common Stock from the Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust). Fixed interest expense increased as a result of the issuance of $150 million of 6.95% Notes due 2007 (6.95% Notes) in March 1997 and $150 million of 6.95% Notes due 2012 (Notes) and $250 million of 7.2% Debentures due 2027 (Debentures) in August 1997.

Net interest expense increased $3.2 million in 1996 as higher fixed interest expense was only partially offset by reduced short-term interest expense. Increased fixed interest expense resulted from the issuance of $200 million of 6.7% Notes due 2005 (6.7% Notes) in the fourth quarter of 1995. Lower short-term interest expense resulted from lower average borrowing balances and reduced interest rates as compared to 1995.

PROVISION FOR INCOME TAXES

The Corporation's effective income tax rate was 39.3%, 43.1%, and 39.5% in 1997, 1996 and 1995, respectively. The rate decreased in 1997 compared to 1996 primarily due to the lack of any tax benefit associated with the 1996 loss on disposal of businesses and the lower 1997 effective state income tax rate. The higher 1996 rate compared to 1995 was due primarily to the lack of any tax benefit associated with the 1996 loss on disposal of businesses.

NET INCOME

Net income increased $63.1 million or 23% in 1997, following a decrease of $8.7 million or 3% in 1996. Excluding the loss on the disposal of the Gubor and Sperlari businesses in 1996 and the net after-tax effects of restructuring activities in 1995, 1997 income increased $27.7 million or 9% and 1996 income increased $28.6 million or 10%. Net income as a percent of net sales was 7.8% in 1997, 6.8% in 1996 and 7.6% in 1995. Income as a percent of net sales excluding the loss on the sale of the Gubor and Sperlari businesses was 7.7% in 1996.

FINANCIAL POSITION

The Corporation's financial position remained strong during 1997. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 60% as of December 31, 1997, and 46% as of December 31, 1996. The higher capitalization ratio in 1997 primarily reflected the additional borrowings to finance the purchase of Common Stock and the related decrease in stockholders' equity as a result of the additional Treasury Stock. The ratio of current assets to current liabilities was 1.3:1 as of December 31, 1997, and 1.2:1 as of December 31, 1996.

ASSETS

Total assets increased $106.4 million or 3% as of December 31, 1997, primarily as a result of increases in accounts receivable, property, plant and equipment, inventories and other non-current assets.

Current assets increased by $48.6 million or 5% reflecting increased accounts receivable and higher inventories, partially offset by a decrease in prepaid expenses and other current assets. The increase in accounts receivable was primarily the result of higher sales in December and the increase in inventories reflected higher raw material and finished goods inventory levels. The decrease in prepaid expenses and other current assets was principally associated with commodities transactions.

The $46.3 million net increase in property, plant and equipment principally reflected capital additions of $172.9 million, partially offset by depreciation expense of $135.0 million. The increase in other non-current assets was associated with the capitalization of software in 1997.

LIABILITIES

Total liabilities increased by $414.7 million or 20% as of December 31, 1997, primarily due to an increase in long-term debt. The increase in long-term debt of $373.8 million reflected the long-term debt issued during the year to repay a portion of the commercial paper borrowings associated with the Leaf acquisition and the repurchase of Common Stock from the Milton Hershey School Trust. As of December 31, 1997 and 1996, respectively, $150.0 million and $300.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. In addition, deferred taxes increased by $43.1 million primarily reflecting adjustments to the preliminary acquisition accounting for Leaf.

STOCKHOLDERS' EQUITY

Total stockholders' equity declined by 27% in 1997, as increased Treasury Stock from the repurchase of Common Stock and dividends paid exceeded net income. Total stockholders' equity has increased at a compound annual rate of less than 1% over the past ten years reflecting the $1.3 billion of Common Stock repurchased since 1993.

CAPITAL STRUCTURE

The Corporation has two classes of stock outstanding, Common Stock and Class B Common Stock (Class B Stock). Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having ten votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

LIQUIDITY

Historically, the Corporation's major source of financing has been cash generated from operations. The Corporation's income and, consequently, cash provided from operations during the year are affected by seasonal sales patterns, the timing of new product introductions, business acquisitions and divestitures, and price increases. Chocolate, confectionery and grocery seasonal and holiday-related sales have typically been highest during the third and fourth quarters of the year, representing the principal seasonal effect. Generally, seasonal working capital needs peak during the summer months and have been met by issuing commercial paper.

Over the past three years, cash requirements for share repurchases, capital additions, business acquisitions and dividend payments exceeded cash provided from operating activities and proceeds from business divestitures by $784.2 million. Total debt, including debt assumed, increased during the period by $804.7 million. Cash and cash equivalents increased by $27.5 million during the period.

The Corporation anticipates that capital expenditures will be in the range of $175 million to $200 million per annum during the next several years as a result of continued modernization of existing facilities and capacity expansion to support new products and line extensions. As of December 31, 1997, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization.

In late 1996, the Corporation approved a project to implement an enterprise-wide integrated information system to replace most of the transaction systems and applications currently supporting operations of the Corporation. Total commitments for this system are expected to be in the range of $75 million to $85 million. This system is Year 2000 compliant and will replace a large portion of the Corporation's legacy information systems. Legacy systems not being replaced by the new integrated information system are being upgraded to be Year 2000 compliant and the costs are not expected to be material to the Corporation's business, operations, or financial condition. Progress toward compliance with Year 2000 issues by the Corporation's major business partners and suppliers is being reviewed for the most significant operations and business activities. The extent of Year 2000 compliance efforts by major partners and suppliers and the possible effect on the Corporation's business of their failure to comply cannot be reliably determined and estimated at this time. The remediation of Year 2000 issues involving the Corporation's information systems is expected to be completed in time to prevent any material adverse consequences to the Corporation's business, operations or financial condition.

In August 1996, the Corporation's Board of Directors declared a two-for-one split of the Common Stock and Class B Stock effective September 13, 1996, to stockholders of record August 23, 1996. The split was effected as a stock dividend by distributing one additional share for each share held. Unless otherwise indicated, all shares and per share information have been restated to reflect the stock split.

Under share repurchase programs which began in 1993, a total of 9,546,030 shares of Common Stock have been repurchased for approximately $271.4 million. Of the shares repurchased, 528,000 shares were retired and the remaining 9,018,030 shares were held as Treasury Stock as of December 31, 1997.

In August 1995, the Corporation purchased 18,099,546 shares (9,049,773 shares on a pre-split basis) of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. In August 1997, the Corporation purchased an additional 9,900,990 shares of its Common Stock from the Milton Hershey School Trust for $500.0 million. As of December 31, 1997, a total of 37,018,566 shares were held as Treasury Stock and $128.6 million remained available for repurchases of Common Stock under a program approved by the Corporation's Board of Directors in February 1996.

In October 1995, the Corporation issued $200 million of 6.7% Notes under Form S-3 Registration Statements which were declared effective in June 1990 and November 1993. In March 1997, the Corporation issued $150 million of 6.95% Notes under the November 1993 Form S-3 Registration Statement. Proceeds from the debt issuance were used to repay a portion of the commercial paper borrowings associated with the Leaf acquisition.

In August 1997, the Corporation filed another Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. Also in August 1997, the Corporation issued $150 million of Notes and $250 million of Debentures under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust. As of December 31, 1997, $250 million of debt securities remained available for issuance under the August 1997 Registration Statement. Proceeds from any offering of the $250 million of debt securities available under the shelf registration may be used for general corporate requirements which include reducing existing commercial paper borrowings, financing capital additions, and funding future business acquisitions and working capital requirements.

In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million with options to increase borrowings by $1.0 billion with the concurrence of the banks. Lines of credit previously maintained by the Corporation were significantly reduced when the credit facility agreements became effective. Of the total committed credit facility, $200 million is for a renewable 364-day term and $400 million is effective for a five-year term. Both the short-term and long-term committed credit facility agreements were amended and renewed effective December 12, 1997. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. The Corporation also had lines of credit with domestic and international commercial banks of $20.7 million as of December 31, 1997.

CASH FLOW ACTIVITIES

Cash provided from operating activities totaled $1.4 billion during the past three years. Over this period, cash used by or provided from accounts receivable and inventories has tended to fluctuate as a result of sales during December and inventory management practices. The change in cash required for or provided from other assets and liabilities between the years was primarily related to commodities transactions, the timing of payments for accrued liabilities, including income taxes, capitalized software, variations in the funding status of pension plans, and, in 1995, restructuring expenses.

Investing activities included capital additions and business acquisitions and divestitures. Capital additions during the past three years included the purchase of manufacturing equipment, and expansion and modernization of existing facilities. Businesses acquired during the past three years included Leaf in 1996 and Henry Heide in 1995. The Gubor, Sperlari, Planters and Life Savers businesses were sold in 1996 and OZF Jamin was sold in 1995. Cash used for business acquisitions represented the purchase price paid and consisted of the current assets, property, plant and equipment, intangibles and other assets acquired, net of liabilities assumed.

Financing activities included debt borrowings and repayments, payment of dividends, the exercise of stock options, incentive plan transactions and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to fund seasonal working capital requirements, business acquisitions, share repurchase programs and purchases of Common Stock from the Milton Hershey School Trust. The proceeds from the issuance of $200 million of 6.7% Notes in October 1995, $150 million of 6.95% Notes in March 1997 and $150 million of Notes and $250 million of Debentures in August 1997 were used to reduce short-term borrowings. During the past three years, a total of 30,644,288 shares of Common Stock has been repurchased for approximately $1.1 billion. Cash requirements for incentive plan transactions were $102.6 million during the past three years, partially offset by cash received from the exercise of stock options of $51.6 million.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

The Corporation utilizes certain derivative instruments, including interest rate swaps, foreign currency forward exchange contracts and commodity futures and options contracts, to manage interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodity futures and options contracts are entered into for varying periods and are intended and effective as hedges of anticipated raw material purchases. The Corporation does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. In entering into these contracts, the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

The information below summarizes the Corporation's market risks associated with long-term debt and derivative instruments outstanding as of December 31, 1997. This information should be read in conjunction with Note 1, Note 5, Note 7, and Note 8 to the Consolidated Financial Statements.

LONG-TERM DEBT

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt as of December 31, 1997. The table does not include $150.0 million of commercial paper borrowings classified as long-term debt as of December 31, 1997, in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. Generally, commercial paper borrowings have an original maturity of three months or less. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

	MATURITY DATE (IN THOUSANDS OF DOLLARS EXCEPT FOR RATES)							
	1998	1999	2000	2001	2002	THERE-AFTER	TOTAL	FAIR VALUE
Long-term Debt	$25,095	$192	$2,199	$203	$194	$876,348	$904,231	$961,011
Fixed Rate	8.9%	2.0%	6.4%	2.0%	2.0%	7.1%	7.2%	

INTEREST RATE SWAPS

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt, principally commercial paper borrowings or bank loans with an original maturity of three months or less, to fixed rate debt. As of December 31, 1997 and 1996, the Corporation had agreements outstanding with an aggregate notional amount of $150.0 million and $125.0 million with maturities through September 1999 and October 1997, respectively. As of December 31, 1997 and 1996, interest rates payable were at weighted average fixed rates of 6.3% and 5.8%, respectively, and interest rates receivable were floating based on 30- day commercial paper composite rates which were 5.7% and 5.5% as of December 31, 1997 and 1996, respectively. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates. The potential loss in fair value of interest rate swaps resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1997.

FOREIGN EXCHANGE CONTRACTS

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. In accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation," these contracts meet the conditions for hedge accounting treatment and accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, are recorded currently in income.

As of December 31, 1997, the Corporation had foreign exchange forward contracts maturing in 1998 and 1999 to purchase $19.2 million in foreign currency, primarily British sterling, and to sell $16.7 million in foreign currency, primarily Japanese yen and Canadian dollars, at contracted forward rates.

As of December 31, 1996, the Corporation had foreign exchange forward contracts maturing in 1997 and 1998 to purchase $25.0 million in foreign currency, primarily British sterling and German marks, and to sell $24.6 million in foreign currency, primarily Canadian dollars and Japanese yen, at contracted forward rates.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 1997 and 1996, the fair value of foreign exchange forward contracts approximated the contract value. The potential loss in fair value of foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1997.

FOREIGN EXCHANGE OPTIONS

To hedge foreign currency exposure related to firm commitments to purchase equipment and anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation, from time to time, also purchases foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. Foreign exchange options are intended and effective as hedges of anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on options designated as hedges of anticipated transactions which are no longer likely to occur are recorded currently in income.

As of December 31, 1997, the Corporation had purchased foreign exchange options of $3.6 million maturing in 1998, related to Swiss francs. No foreign exchange options were outstanding as of December 31, 1996. The fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1997, the fair value of foreign exchange options approximated the contract value. The potential loss in fair value of foreign exchange options contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1997.

COMMODITY PRICE RISK MANAGEMENT

The Corporation's most significant raw materials include cocoa, sugar, milk, peanuts, flour and almonds. The Corporation attempts to minimize the effect of future price fluctuations related to the purchase of these raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from 3 to 24 months. With regard to cocoa, sugar, corn sweeteners and natural gas, price risks are also managed by entering into futures and options contracts. At the present time, active futures and options contracts are not available for use in pricing the Corporation's other major raw materials. Futures contracts are used in combination with forward purchasing of cocoa, sugar, corn sweetener and natural gas requirements principally to take advantage of market fluctuations which provide more favorable pricing opportunities and to increase diversity or flexibility in sourcing these raw materials and energy requirements. The Corporation's commodity procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Cocoa prices have been rising since 1992 due to cocoa demand exceeding production. During 1998, any problems with the development of the West African crop to be harvested beginning in the fall could again result in demand exceeding production, leading to possible additional cocoa futures price increases. The Corporation's costs during 1998 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

COMMODITIES FUTURES AND OPTIONS CONTRACTS

In connection with the purchasing of cocoa, sugar, corn sweeteners and natural gas for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80 "Accounting for Futures Contracts," these futures and options contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost. Gains and losses on futures and options designated as hedges of anticipated purchases which are no longer likely to occur are recorded currently in income.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts are made on a daily basis and are included in other current assets or accrued liabilities on the consolidated balance sheets. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials and energy requirements in the future. Futures being held in excess of the amount required to fix the price of unpriced physical forward contracts are intended and effective as hedges of anticipated purchases.

The following sensitivity analysis reflects the market risk of the Corporation to a hypothetical adverse market price movement of ten percent, based on the Corporation's net commodity positions at four dates spaced equally throughout the year. The Corporation's net commodity positions consist of the excess of futures contracts held over unpriced physical forward contracts for the same commodities, relating to cocoa, sugar, corn sweeteners and natural gas. Inventories, priced forward contracts and estimated anticipated purchases not yet contracted for were not included in the sensitivity analysis calculations. A loss is defined, for purposes of determining market risk, as the potential decrease in fair value or the opportunity cost resulting from the hypothetical adverse price movement. The fair values of net commodity positions were based upon quoted market prices or estimated future prices including estimated carrying costs corresponding with the future delivery period.

	FAIR VALUE	MARKET RISK (HYPOTHETICAL 10% CHANGE)
	(IN MILLIONS OF DOLLARS)	
Highest long position	$210.8	$21.1
Lowest long position	39.6	4.0
Average position (long)	96.2	9.6

Sensitivity analysis disclosures represent forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those presently anticipated or projected. The important factors that could affect the sensitivity analysis disclosures include significant increases or decreases in market prices reflecting fluctuations attributable to the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences in addition to changes in the Corporation's hedging strategies.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $121.5 million in 1997 and $114.8 million in 1996. The annual dividend rate on the Common Stock was $.88 per share, an increase of 10% over the 1996 rate of $.80 per share. The 1997 dividend represented the 23rd consecutive year of Common Stock dividend increases.

On February 3, 1998, the Corporation's Board of Directors declared a quarterly dividend of $.22 per share of Common Stock payable on March 13, 1998, to stockholders of record as of February 24, 1998. It is the Corporation's 273rd consecutive Common Stock dividend. A quarterly dividend of $.20 per share of Class B Stock also was declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol "HSY." Approximately 74.8 million shares of the Corporation's Common Stock were traded during 1997. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 1997, was $61 15/16. There were 44,602 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1997.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years:

	DIVIDENDS PAID PER SHARE		COMMON STOCK PRICE RANGE*	
	COMMON STOCK	CLASS B STOCK	HIGH	LOW
1997				
1st Quarter	$.200	$.1800	$52 7/8	$42 1/8
2nd Quarter	.200	.1800	58 5/8	48 3/8
3rd Quarter	.220	.2000	59 15/16	51 7/8
4th Quarter	.220	.2000	63 7/8	50 5/8
Total	$.840	$.7600		
1996				
1st Quarter	$.180	$.1625	$40 5/8	$31 15/16
2nd Quarter	.180	.1625	38 15/16	34 7/8
3rd Quarter	.200	.1800	51 3/4	35
4th Quarter	.200	.1800	51 3/4	43 1/2
Total	$.760	$.6850		

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*NYSE-Composite Quotations for Common Stock by calendar quarter.

RETURN MEASURES

OPERATING RETURN ON AVERAGE STOCKHOLDERS' EQUITY

The Corporation's operating return on average stockholders' equity was 33.4% in 1997. Over the most recent five-year period, the return has ranged from 17.8% in 1993 to 33.4% in 1997. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the catch-up adjustments for accounting changes and the after-tax gain on the sale of the investment in Freia Marabou a.s (Freia) in 1993, the after-tax restructuring activities in 1994 and 1995 and the after-tax loss on the disposal of businesses in 1996.

OPERATING RETURN ON AVERAGE INVESTED CAPITAL

The Corporation's operating return on average invested capital was 17.5% in 1997. Over the most recent five-year period, the return has ranged from 15.0% in 1993 to 17.8% in 1996. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the sale of the investment in Freia, the catch-up adjustments for accounting changes, the after-tax restructuring activities in 1994 and 1995, the after-tax loss on disposal of businesses in 1996, and the after-tax effect of interest on long-term debt.

SAFE HARBOR STATEMENT

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Forward looking statements contained in this document include, but are not limited to Year 2000 issues (particularly with regard to the Corporation's business partners and suppliers), the impact of the use of derivative instruments, the amount of future capital expenditures and the possible uses of proceeds from any future borrowings under the Corporation's currently effective credit facility or 1997 Registration Statement. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and pasta business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including income taxes; market demand for new and existing products; and raw material pricing.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS			
NET SALES	$4,302,236	$3,989,308	$3,690,667
COSTS AND EXPENSES:			
Cost of sales	2,488,896	2,302,089	2,126,274
Selling, marketing and administrative	1,183,130	1,124,087	1,053,758
Restructuring (credit)	--	--	(151)
Loss on disposal of businesses	--	35,352	--
Total costs and expenses	3,672,026	3,461,528	3,179,881
INCOME BEFORE INTEREST AND INCOME TAXES	630,210	527,780	510,786
Interest expense, net	76,255	48,043	44,833
INCOME BEFORE INCOME TAXES	553,955	479,737	465,953
Provision for income taxes	217,704	206,551	184,034
NET INCOME	$ 336,251	$ 273,186	$ 281,919
NET INCOME PER SHARE--BASIC	$ 2.25	$ 1.77	$ 1.70
NET INCOME PER SHARE--DILUTED	$ 2.23	$ 1.75	$ 1.69
CASH DIVIDENDS PAID PER SHARE:			
Common Stock	$ .840	$ .760	$ .685
Class B Common Stock	.760	.685	.620

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

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 54,237	$ 61,422
Accounts receivable--trade	360,831	294,606
Inventories	505,525	474,978
Deferred income taxes	84,024	94,464
Prepaid expenses and other	30,197	60,759
Total current assets	1,034,814	986,229
PROPERTY, PLANT AND EQUIPMENT, NET	1,648,237	1,601,895
INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS	551,849	565,962
OTHER ASSETS	56,336	30,710
Total assets	$3,291,236	$3,184,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 146,932	$ 134,213
Accrued liabilities	371,545	357,828
Accrued income taxes	19,692	10,254
Short-term debt	232,451	299,469
Current portion of long-term debt	25,095	15,510
Total current liabilities	795,715	817,274
LONG-TERM DEBT	1,029,136	655,289
OTHER LONG-TERM LIABILITIES	346,500	327,209
DEFERRED INCOME TAXES	267,079	224,003
Total liabilities	2,438,430	2,023,775
STOCKHOLDERS' EQUITY:		
Preferred Stock, shares issued: none in 1997 and 1996	--	--
Common Stock, shares issued: 149,484,964 in 1997 and 149,471,964 in 1996	149,485	149,472
Class B Common Stock, shares issued: 30,465,908 in 1997 and 30,478,908 in 1996	30,465	30,478
Additional paid-in capital	33,852	42,432
Cumulative foreign currency translation adjustments	(42,243)	(32,875)
Unearned ESOP compensation	(28,741)	(31,935)
Retained earnings	1,977,849	1,763,144
Treasury--Common Stock shares, at cost: 37,018,566 in 1997 and 27,009,316 in 1996	(1,267,861)	(759,695)
Total stockholders' equity	852,806	1,161,021
Total liabilities and stockholders' equity	$3,291,236	$3,184,796

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
IN THOUSANDS OF DOLLARS			
CASH FLOWS PROVIDED FROM (USED BY) OPERATING ACTIVITIES			
Net income	$ 336,251	$ 273,186	$ 281,919
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	152,750	133,476	133,884
Deferred income taxes	16,915	22,863	26,380
Restructuring (credit)	--	--	(151)
Loss on disposal of businesses	--	35,352	--
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable--trade	(68,479)	5,159	1,666
Inventories	(33,538)	(41,038)	28,147
Accounts payable	12,967	14,032	14,767
Other assets and liabilities	55,974	15,120	(11,297)
Other, net	4,018	5,593	19,614
Net Cash Provided from Operating Activities	476,858	463,743	494,929
CASH FLOWS PROVIDED FROM (USED BY) INVESTING ACTIVITIES			
Capital additions	(172,939)	(159,433)	(140,626)
Business acquisitions	--	(437,195)	(12,500)
Proceeds from divestitures	--	149,222	--
Other, net	21,368	9,333	8,720
Net Cash (Used by) Investing Activities	(151,571)	(438,073)	(144,406)
CASH FLOWS PROVIDED FROM (USED BY) FINANCING ACTIVITIES			
Net change in short-term borrowings partially classified as long-term debt	(217,018)	210,929	103,530
Long-term borrowings	550,000	--	202,448
Repayment of long-term debt	(15,588)	(3,103)	(7,887)
Cash dividends paid	(121,546)	(114,763)	(110,090)
Exercise of stock options	14,397	22,049	15,106
Incentive plan transactions	(35,063)	(45,634)	(21,903)
Repurchase of Common Stock	(507,654)	(66,072)	(526,119)
Net Cash (Used by) Provided from Financing Activities	(332,472)	3,406	(344,915)
Increase (Decrease) in Cash and Cash Equivalents	(7,185)	29,076	5,608
Cash and Cash Equivalents as of January 1	61,422	32,346	26,738
Cash and Cash Equivalents as of December 31	$ 54,237	$ 61,422	$ 32,346
Interest Paid	$ 64,937	$ 52,143	$ 43,731
Income Taxes Paid	181,377	180,347	148,629

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

IN THOUSANDS OF DOLLARS	PREFERRED STOCK	COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	UNEARNED ESOP COMPENSATION	RETAINED EARNINGS	TREASURY COMMON STOCK	TOTAL STOCKHOLDERS EQUITY
BALANCE AS OF JANUARY 1, 1995	$ --	$ 74,679	$ 15,243	$ 49,880	$ (24,537)	$ (38,321)	$ 1,522,867	$ (158,711)	$ 1,441,100
Net income							281,919		281,919
Dividends:									
Common Stock, $.685 per share							(91,190)		(91,190)
Class B Common Stock, $.62 per share							(18,900)		(18,900)
Foreign currency translation adjustments					(4,703)				(4,703)
Conversion of Class B Common Stock into Common Stock		2	(2)						--
Incentive plan transactions				(180)					(180)
Exercise of stock options		53		(2,456)				(246)	(2,649)
Employee stock ownership trust transactions				488		3,193			3,681
Repurchase of Common Stock								(526,119)	(526,119)
BALANCE AS OF DECEMBER 31, 1995	--	74,734	15,241	47,732	(29,240)	(35,128)	1,694,696	(685,076)	1,082,959
Net income							273,186		273,186
Dividends:									
Common Stock, $.76 per share							(93,884)		(93,884)
Class B Common Stock, $.685 per share							(20,879)		(20,879)
Foreign currency translation adjustments					(3,635)				(3,635)
Two-for-one stock split		74,736	15,239				(89,975)		--
Conversion of Class B Common Stock into Common Stock		2	(2)						--
Incentive plan transactions				(426)					(426)
Exercise of stock options				(5,391)				(8,547)	(13,938)
Employee stock ownership trust transactions				517		3,193			3,710
Repurchase of Common Stock								(66,072)	(66,072)
BALANCE AS OF DECEMBER 31, 1996	--	149,472	30,478	42,432	(32,875)	(31,935)	1,763,144	(759,695)	1,161,021
Net income							336,251		336,251
Dividends:									
Common Stock, $.84 per share							(98,390)		(98,390)
Class B Common Stock, $.76 per share							(23,156)		(23,156)
Foreign currency translation adjustments					(9,368)				(9,368)
Conversion of Class B Common Stock into Common Stock		13	(13)						--
Incentive plan transactions				(879)					(879)
Exercise of stock options				(8,200)				(512)	(8,712)
Employee stock									

ownership trust transactions				499		3,194			3,693
Repurchase of Common Stock								(507,654)	(507,654)
BALANCE AS OF DECEMBER 31, 1997	$ --	$ 149,485	$ 30,465	$ 33,852	$ (42,243)	$ (28,741)	$ 1,977,849	$ (1,267,861)	$ 852,806

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1997 presentation. Unless otherwise indicated, all shares and per share information have been restated for the two-for-one stock split effective September 13, 1996.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly for accounts receivable and certain current and long-term liabilities.

CASH EQUIVALENTS

All highly liquid debt instruments purchased with a maturity of three months or less are classified as cash equivalents.

COMMODITIES FUTURES AND OPTIONS CONTRACTS

In connection with the purchasing of cocoa, sugar, corn sweeteners and natural gas for anticipated manufacturing requirements, the Corporation enters into commodities futures and options contracts as deemed appropriate to reduce the effect of price fluctuations. In accordance with Statement of Financial Accounting Standards No. 80 "Accounting for Futures Contracts," these futures and options contracts meet the hedge criteria and are accounted for as hedges. Accordingly, gains and losses are deferred and recognized in cost of sales as part of the product cost.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of buildings, machinery and equipment is computed using the straight-line method over the estimated useful lives.

INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill was $527.6 million and $539.9 million as of December 31, 1997 and 1996, respectively. Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over the estimated useful lives. The Corporation periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Corporation uses an estimate of the acquired business' undiscounted future cash flows compared to the related carrying amount of net assets, including goodwill, to determine if an impairment loss should be recognized.

Accumulated amortization of intangible assets resulting from business acquisitions was $116.5 million and $100.0 million as of December 31, 1997 and 1996, respectively.

FOREIGN CURRENCY TRANSLATION

Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments."

FOREIGN EXCHANGE CONTRACTS

The Corporation enters into foreign exchange forward and options contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments and foreign exchange options contracts meet required hedge criteria for anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, or of anticipated transactions which are no longer likely to occur, are recorded currently in income. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts.

LICENSE AGREEMENTS

The Corporation has entered into license agreements under which it has access to certain trademarks and proprietary technology, and manufactures and/or markets and distributes certain products. The rights under these agreements are extendible on a long-term basis at the Corporation's option subject to certain conditions, including minimum sales levels, which the Corporation has met. License fees and royalties, payable under the terms of the agreements, are expensed as incurred.

RESEARCH AND DEVELOPMENT

The Corporation expenses research and development costs as incurred. Research and development expense was $27.5 million, $26.1 million and $26.2 million in 1997, 1996 and 1995, respectively.

ADVERTISING

The Corporation expenses advertising costs as incurred. Advertising expense was $202.4 million, $174.2 million and $159.2 million in 1997, 1996 and 1995, respectively. Prepaid advertising as of December 31, 1997 and 1996, was $2.0 million and $2.2 million, respectively.

COMPUTER SOFTWARE

In 1997, the Corporation began capitalizing certain costs of computer software developed or obtained for internal use. The amount capitalized as of December 31, 1997, was $29.1 million. If such costs were capitalized in prior years, the effect would not have been material. Software assets are classified as other non-current assets and will be amortized over periods up to five years.

2. ACQUISITIONS AND DIVESTITURES

In December 1996, the Corporation acquired from an affiliate of Huhtamaki Oy (Huhtamaki), the international foods company based in Finland, Huhtamaki's Leaf North America (Leaf) confectionery operations for $437.2 million, plus the assumption of $17.0 million in debt. In addition, the parties entered into a trademark and technology license agreement under which the Corporation will manufacture and/or market and distribute in North, Central and South America Huhtamaki's confectionery brands including GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY AND WHOPPERS. Leaf's principal manufacturing facilities are located in Denver, Colorado; Memphis, Tennessee; and Robinson, Illinois.

In December 1995, the Corporation completed the acquisition of the outstanding shares of the confectionery company Henry Heide, Incorporated (Henry Heide), for approximately $12.5 million. Henry Heide's headquarters and manufacturing facility are located in New Brunswick, N.J., where it manufactures a variety of non-chocolate confectionery products including JUJYFRUITS candy and WUNDERBEANS jellybeans.

In accordance with the purchase method of accounting, the purchase prices of the acquisitions summarized above were allocated on a preliminary basis to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values, which were revised and finalized by the anniversary date of each acquisition. Total liabilities assumed, including debt, were $138.0 million in 1996 and $10.6 million in 1995. Results subsequent to the dates of acquisition are included in the consolidated financial statements.

Had the acquisition of Leaf occurred at the beginning of 1996, pro forma consolidated results would have been as follows:

FOR THE YEAR ENDED DECEMBER 31,	1996
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS	(unaudited)
Net sales	$4,473,950
Net income	234,000
Net income per share --Basic	1.52
Net income per share--Diluted	1.50

The pro forma results are based on historical financial information provided by Huhtamaki, including a business restructuring charge recorded by Huhtamaki in 1996, and adjusted to give effect to certain costs and expenses, including fees under the trademark and technology license agreement, goodwill amortization, interest expense and income taxes which would have been incurred by the Corporation if it had owned and operated the Leaf confectionery business throughout 1996. These results are not necessarily reflective of the actual results which would have occurred if the acquisition had been completed at the beginning of 1996, nor are they necessarily indicative of future combined financial results.

In December 1996, the Corporation completed the sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari, S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy. The total proceeds from the sale of the Gubor and Sperlari businesses were $121.7 million. The transaction resulted in an after-tax loss of $35.4 million since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were $216.6 million and $222.0 million in 1996 and 1995, respectively. The sale of Gubor and Sperlari allowed the Corporation to place additional focus on its North American markets and improve financial returns.

In January 1996, the Corporation completed the sale of the assets of Hershey Canada, Inc.'s PLANTERS nut (Planters) business to Johnvince Foods Group and LIFE SAVERS and BREATH SAVERS hard candy and BEECH-NUT cough drops (Life Savers) business to Beta Brands Inc. Both transactions were part of a restructuring program announced by the Corporation in late 1994.

In June 1995, the Corporation completed the sale of the outstanding shares of Overspecht B.V. (OZF Jamin) to a management buyout group at OZF Jamin, as part of the Corporation's restructuring program. OZF Jamin manufactures chocolate and non-chocolate confectionery products, cookies, biscuits and ice cream for distribution primarily to customers in the Netherlands and Belgium.

3. RESTRUCTURING ACTIVITIES

In the fourth quarter of 1994, the Corporation recorded a pre-tax restructuring charge of $106.1 million, following a comprehensive review of domestic and foreign operations designed to enhance performance of operating assets by lowering operating and administrative costs, eliminating underperforming assets and streamlining the overall decision-making process. As of December 31, 1995, $81.8 million of restructuring reserves had been utilized and $16.7 million had been reversed to reflect revisions and changes in estimates to the original restructuring program. Such changes related to revised workforce reductions and a lower loss on the sale of the Planters and Life Savers businesses. Operating cash flows were used to fund cash requirements which represented approximately 25% of the total reserves utilized. The non-cash portion of restructuring reserve utilization was associated primarily with the divestiture of foreign businesses and the discontinuation of certain product lines. The remaining $7.6 million of accrued restructuring reserves as of December 31, 1995, were utilized during 1996 as the restructuring program was completed.

During the third quarter of 1995, a pre-tax restructuring charge of $16.6 million was recorded in connection with a voluntary retirement program announced by the Corporation in August 1995. The charge was primarily related to the funding of retirement benefits for eligible employees who elected early retirement. This cash charge was funded from operating cash flows. The impact of this charge was more than offset by the partial reversal of $16.7 million of 1994 accrued restructuring reserves in the fourth quarter of 1995 resulting in an increase to income before income taxes of $151,000 and an increase to net income of $2.0 million, as the tax benefit associated with the 1995 charge more than offset the tax provision associated with the reversal of 1994 restructuring reserves.

4. RENTAL AND LEASE COMMITMENTS

Rent expense was $31.8 million, $25.3 million and $24.9 million for 1997, 1996 and 1995, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 1997, were: 1998, $11.6 million; 1999, $13.1 million; 2000, $12.8 million; 2001, $12.7 million; 2002, $9.6 million; 2003 and beyond, $55.8 million.

5. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 1997 and 1996, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $904.2 million as of December 31, 1997, compared to a fair value of $961.0 million based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was $370.8 million as of December 31, 1996, compared to a fair value of $388.0 million.

As of December 31, 1997, the Corporation had foreign exchange forward contracts maturing in 1998 and 1999 to purchase $19.2 million in foreign currency, primarily British sterling, and to sell $16.7 million in foreign currency, primarily Japanese yen and Canadian dollars, at contracted forward rates.

As of December 31, 1996, the Corporation had foreign exchange forward contracts maturing in 1997 and 1998 to purchase $25.0 million in foreign currency, primarily British sterling and German marks, and to sell $24.6 million in foreign currency, primarily Canadian dollars and Japanese yen, at contracted forward rates.

To hedge foreign currency exposure related to anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation also purchases foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. As of December 31, 1997, the Corporation had purchased foreign exchange options of $3.6 million, related to Swiss francs. No options were outstanding as of December 31, 1996.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and the fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1997 and 1996, the fair value of foreign exchange forward and options contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt to fixed rate debt. As of December 31, 1997 and 1996, the Corporation had agreements outstanding with an aggregate notional amount of $150.0 million and $125.0 million with maturities through September 1999 and October 1997, respectively. As of December 31, 1997 and 1996, interest rates payable were at weighted average fixed rates of 6.3% and 5.8%, respectively, and interest rates receivable were floating based on 30-day commercial paper composite rates which were 5.7% and 5.5% as of December 31, 1997 and 1996, respectively. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
IN THOUSANDS OF DOLLARS			
Long-term debt and lease obligations	$48,737	$30,818	$20,949
Short-term debt	32,284	22,752	28,576
Capitalized interest	(1,883)	(1,534)	(1,957)
Interest expense, gross	79,138	52,036	47,568
Interest income	(2,883)	(3,993)	(2,735)
Interest expense, net	$76,255	$48,043	$44,833

7. SHORT-TERM DEBT

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to

$600 million, with options to increase borrowings by $1.0 billion with the concurrence of the banks. Of the total committed credit facility, $200 million is for a renewable 364-day term and $400 million is effective for a five-year term. Both the short-term and long-term committed credit facility agreements were amended and renewed effective December 12, 1997. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. As of December 31, 1997 and 1996, respectively, $150.0 million and $300.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis.

The Corporation also maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $20.7 million and $96.1 million as of December 31, 1997 and 1996, respectively, at the lending banks' prime commercial interest rates or lower. The Corporation had combined domestic commercial paper borrowings, including the portion classified as long-term debt, and short-term foreign bank loans against its credit facilities and lines of credit of $382.5 million as of December 31, 1997, and $599.5 million as of December 31, 1996. The weighted average interest rates on short-term borrowings outstanding as of December 31, 1997 and 1996, were 5.7% and 5.5%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 1997 was approximately .05% per annum of the commitment. The Corporation's credit facility agreements contain a financial covenant which requires that a specified interest and fixed charge ratio be maintained. These agreements are also subject to other representations and covenants which do not materially restrict the Corporation's activities. The Corporation is in compliance with all covenants included in the credit facility agreements. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $30.7 million and $25.2 million as of December 31, 1997 and 1996, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Commercial Paper at interest rates ranging from 5.35% to 6.55%	$ 150,000	$300,000
Medium-term Notes, 8.85% to 9.92% due 1997-1998	25,000	40,400
6.7% Notes due 2005	200,000	200,000
6.95% Notes due 2007	150,000	--
6.95% Notes due 2012	150,000	--
8.8% Debentures due 2021	100,000	100,000
7.2% Debentures due 2027	250,000	--
Other obligations, net of unamortized debt discount	29,231	30,399
Total long-term debt	1,054,231	670,799
Less--current portion	25,095	15,510
Long-term portion	$1,029,136	$655,289

As of December 31, 1997 and 1996, respectively, $150.0 million and $300.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis.

In March 1997, the Corporation issued $150 million of 6.95% Notes due 2007 under the November 1993 Form S-3 Registration Statement. Proceeds from the debt issuance were used to repay a portion of the commercial paper borrowings associated with the Leaf acquisition.

In August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust.

Aggregate annual maturities during the next five years, excluding short-term borrowings reclassified, are: 1998, $25.1 million; 1999, $.2 million; 2000, $2.2 million; 2001, $.2 million; and 2002, $.2 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

9. INCOME TAXES

The provision for income taxes was as follows:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
IN THOUSANDS OF DOLLARS			
Current:			
Federal	$177,145	$158,040	$135,034
State	20,252	23,288	22,620
Foreign	3,392	2,360	--
Current provision for income taxes	200,789	183,688	157,654
Deferred:			
Federal	9,370	12,952	12,455
State	5,103	8,134	8,198
Foreign	2,442	1,777	5,727
Deferred provision for income taxes	16,915	22,863	26,380
Total provision for income taxes	$217,704	$206,551	$184,034

The tax effects of the significant temporary differences which comprised the deferred tax assets and liabilities were as follows:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Deferred tax assets:		
Post-retirement benefit obligations	$ 91,706	$ 88,885
Accrued expenses and other reserves	91,067	91,675
Accrued trade promotion reserves	30,905	22,910
Other	23,234	20,676
Total deferred tax assets	236,912	224,146
Deferred tax liabilities:		
Depreciation	302,675	256,424
Other	117,292	97,261
Total deferred tax liabilities	419,967	353,685
Net deferred tax liabilities	$183,055	$129,539
Included in:		
Current deferred tax assets, net	$ 84,024	$ 94,464
Non-current deferred tax liabilities, net	267,079	224,003
Net deferred tax liabilities	$183,055	$129,539

The following table reconciles the Federal statutory income tax rate with the Corporation's effective income tax rate:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	3.4	4.7	4.6
Non-deductible acquisition costs	.9	.6	.6
Loss on disposal of businesses for which no tax benefit was provided	--	2.6	--
Other, net	--	.2	(.7)
Effective income tax rate	39.3%	43.1%	39.5%

10. RETIREMENT PLANS

The Corporation and its subsidiaries sponsor several defined benefit retirement plans covering substantially all employees. Plans covering most domestic salaried and hourly employees provide retirement benefits based on individual account balances which are increased annually by pay-related and interest credits. Plans covering certain non-domestic employees provide retirement benefits based on career average pay, final pay, or final average pay as defined within the provisions of the individual plans. The Corporation also participates in several multi-employer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and Federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities.

Pension expense included the following components:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
IN THOUSANDS OF DOLLARS			
Service cost	$ 26,177	$ 29,311	$ 25,311
Interest cost on projected benefit obligations	39,385	35,374	32,531
Investment (return) on plan assets	(91,767)	(51,205)	(71,578)
Net amortization and deferral	47,605	14,844	40,823
Corporate sponsored plans	21,400	28,324	27,087
Multi-employer plans	1,627	571	361
Other	864	1,340	615
Total pension expense	$ 23,891	$ 30,235	$ 28,063

The funded status and amounts recognized in the consolidated balance sheets for the retirement plans were as follows:

	DECEMBER 31, 1997		DECEMBER 31, 1996	
	ASSETS EXCEEDED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEEDED ASSETS	ASSETS EXCEEDED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEEDED ASSETS
IN THOUSANDS OF DOLLARS				
Actuarial present value of:				
Vested benefit obligations	$464,816	$28,951	$427,839	$27,316
Accumulated benefit obligations	$493,371	$35,135	$452,907	$32,422
Actuarial present value of projected benefit obligations	$565,330	$36,751	$502,371	$34,135
Plan assets at fair value	566,810	--	488,222	--
Plan assets (greater than) less than projected benefit obligations	(1,480)	36,751	14,149	34,135
Net gain (loss) unrecognized at date of transition	558	(751)	906	(1,233)
Prior service cost and amendments not yet recognized in earnings	(37,351)	(1,986)	(26,885)	(2,305)
Unrecognized net gain (loss) from past experience different than that assumed	32,325	(5,007)	12,386	(2,502)
Minimum liability adjustment	--	6,336	--	4,494
(Prepaid pension expense) Pension liability	$ (5,948)	$35,343	$ 556	$32,589

The projected benefit obligations for the plans were determined principally using discount rates of 7.0% as of December 31, 1997, and 7.5% as of December 31, 1996. For both 1997 and 1996, the assumed long-term rate of return on plan assets was 9.5%. The assumed long-term compensation increase rate for 1997 and 1996 was primarily 4.8%.

In the third quarter of 1995, the Corporation offered a voluntary retirement program to domestic eligible employees age 55 and over. The voluntary retirement program gave eligible salaried employees an opportunity to retire with enhanced retirement benefits. The pre-tax impact on pension expense of the 1995 charge was $13.0 million or $7.7 million after tax. This amount has not been included in the disclosure of pension expense by component.

11. POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees subject to pre-defined limits. Substantially all of the Corporation's domestic employees become eligible for these benefits at retirement with a pre-defined benefit being available at an early retirement date. The post-retirement medical benefit is contributory for pre-Medicare retirees and for most post-Medicare retirees retiring on or after February 1, 1993. Retiree contributions are based upon a combination of years of service and age at retirement. The post-retirement life insurance benefit is non-contributory.

Net post-retirement benefit costs consisted of the following components:

FOR THE YEARS ENDED DECEMBER 31, IN THOUSANDS OF DOLLARS	1997	1996	1995
Service cost	$ 4,390	$ 3,947	$ 3,262
Interest cost on projected benefit obligations	13,395	10,853	12,918
Amortization	(2,246)	(2,986)	(2,322)
Total	$15,539	$11,814	$13,858

Obligations are unfunded and the actuarial present values of accumulated post-retirement benefit obligations recognized in the consolidated balance sheets were as follows:

DECEMBER 31, IN THOUSANDS OF DOLLARS	1997	1996
Retirees	$115,353	$ 96,870
Fully eligible active plan participants	16,087	22,096
Other active plan participants	75,255	58,578
Total	206,695	177,544
Plan amendments	25,685	28,903
Unrecognized net (loss) gain from past experience different than that assumed	(4,330)	12,127
Accrued post-retirement benefits	$228,050	$218,574

The accumulated post-retirement benefit obligations were determined principally using discount rates of 7.0% and 7.5% as of December 31, 1997 and 1996, respectively. The assumed average health care cost trend rate used in measuring the accumulated post-retirement benefit obligation as of December 31, 1997 and 1996, was 6% which was also the ultimate trend rate. A one percentage point increase in the average health care cost trend rate for each year would increase the accumulated post-retirement benefit obligations as of December 31, 1997 and 1996, by $14.4 million and $24.4 million, respectively, and would increase the sum of the net service and interest cost components of net post-retirement benefit costs for 1997 and 1996 by $1.4 million and $2.9 million, respectively.

The pre-tax impact on post-retirement benefits expense and liabilities of the 1995 charge for the voluntary retirement program was $.4 million or $.2 million after tax. This amount has not been included in the disclosure of net post-retirement benefit costs by component.

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate-owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program were available for general corporate purposes and also could be used to offset future employee benefits costs, including retiree medical benefits. During 1996, Federal tax legislation sharply curtailed the financial viability of most corporate-owned life insurance programs. As a result, the Corporation began the phase-out of its corporate-owned life insurance program during 1996. The Corporation's investment in corporate-owned life insurance policies was recorded net of policy loans in other assets, and interest accrued on the policy loans was included in accrued liabilities as of December 31, 1997 and 1996. Net life insurance expense, including interest expense, was included in selling, marketing and administrative expenses.

12. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1997 and 1996, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 1997, the ESOP held 811,235 allocated shares and 1,432,576 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1997, 1996 and 1995 was $1.4 million, $1.8 million and $1.9 million, respectively. Dividends paid on unallocated ESOP shares were $1.3 million in 1997 and 1996 and $1.2 million in 1995. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

13. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 1997, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1997, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 142,932,306 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1997.

In August 1996, the Corporation's Board of Directors declared a two-for-one split of the Common Stock and Class B Common Stock effective September 13, 1996, to stockholders of record August 23, 1996. The split was effected as a stock dividend by distributing one additional share for each share held.

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

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1997, 1996 and 1995, a total of 13,000 shares, 2,000 shares and 1,525 shares, respectively, of Class B Stock were converted into Common Stock (shares converted in 1996 and 1995 are on a pre-split basis).

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 14,635,252 shares of the Common Stock, and as

Trustee for the benefit of Milton Hershey School, held 30,306,006 shares of the Class B Stock as of December 31, 1997, and was entitled to cast approximately 76% of the total votes of both classes of the Corporation's common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action which would result in the Milton Hershey School Trust not continuing to have voting control of the Corporation.

A total of 9,546,030 shares of Common Stock have been repurchased for approximately $271.4 million under share repurchase programs which were approved by the Corporation's Board of Director's in 1993 and 1996. Of the shares repurchased, 528,000 shares were retired and the remaining 9,018,030 shares were held as Treasury Stock as of December 31, 1997. In August 1997, the Corporation purchased an additional 9,900,990 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. This was in addition to the 18,099,546 shares (9,049,773 shares on a pre-split basis) purchased from the Milton Hershey School Trust in August 1995 for $500.0 million. A total of 37,018,566 shares were held as Treasury Stock as of December 31, 1997.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS No. 128). Under FAS No. 128, Basic and Diluted Earnings per Share are computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding as follows:

FOR THE YEAR ENDED DECEMBER 31, 1997	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
IN THOUSANDS OF DOLLARS EXCEPT SHARES AND PER SHARE AMOUNTS			
Net Income per Share--Basic			
Net income	$336,251	149,173,558	$2.25
Effect of Dilutive Securities			
Stock options	--	1,726,761	
Performance stock units	--	112,649	
Restricted stock units	--	3,389	
Net Income per Share--Diluted			
Net income and assumed conversions	$336,251	151,016,357	$2.23

FOR THE YEAR ENDED DECEMBER 31, 1996	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
IN THOUSANDS OF DOLLARS EXCEPT SHARES AND PER SHARE AMOUNTS			
Net Income per Share--Basic			
Net income	$273,186	154,333,549	$1.77
Effect of Dilutive Securities			
Stock options	--	1,270,177	
Performance stock units	--	84,697	
Restricted stock units	--	1,528	
Net Income per Share--Diluted			
Net income and assumed conversions	$273,186	155,689,951	$1.75

FOR THE YEAR ENDED DECEMBER 31, 1995	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
IN THOUSANDS OF DOLLARS EXCEPT SHARES AND PER SHARE AMOUNTS			
Net Income per Share--Basic			
Net income	$281,919	166,036,254	$1.70
Effect of Dilutive Securities			
Stock options	--	610,132	
Performance stock units	--	74,576	
Net Income per Share--Diluted			
Net income and assumed conversions	$281,919	166,720,962	$1.69

14. STOCK COMPENSATION PLAN

The long-term portion of the Key Employee Incentive Plan (KEIP), provides for grants of stock-based compensation awards to senior executives and key employees of one or more of the following: non-qualified stock options (fixed stock options), performance stock units, stock appreciation rights and restricted stock units. The KEIP also provides for the deferral of performance stock unit awards by participants. As of December 31, 1997, 9.3 million shares were authorized for grants under the long-term portion of the KEIP. In February 1998, the Corporation's Board of Directors approved the registration of an additional 6.0 million shares of Common Stock to be granted under the KEIP.

In 1996, the Corporation's Board of Directors approved a world-wide, broad-based employee stock option program, called HSY Growth. HSY Growth provides all eligible employees with a one-time grant of 100 non-qualified stock options. Under HSY Growth, over 1.2 million shares were granted on January 7, 1997.

The Corporation applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related Interpretations in accounting for the KEIP and HSY Growth. Accordingly, no compensation cost has been recognized for its fixed stock option grants. Had compensation cost for the Corporation's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the KEIP and HSY Growth consistent with the method of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," the Corporation's net income and net income per share would have been reduced to the pro forma amounts indicated below:

FOR THE YEARS ENDED DECEMBER 31,		1997	1996	1995
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS				
Net income	As reported	$336,251	$273,186	$281,919
	Pro forma	330,710	266,517	281,015
Net income per share--Basic	As reported	$2.25	$1.77	$1.70
	Pro forma	2.22	1.73	1.69
Net income per share--Diluted	As reported	$2.23	$1.75	$1.69
	Pro forma	2.19	1.71	1.69

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996 and 1995, respectively: dividend yields of 1.9%, 2.4% and 2.7%, expected volatility of 20%, 20% and 21%, risk-free interest rates of 6.2%, 5.6% and 7.8%, and expected lives of 5.7, 7.5 and 7 years.

FIXED STOCK OPTIONS

The exercise price of each option equals the market price of the Corporation's Common Stock on the date of grant. Under the KEIP, options are granted in January and generally vest at the end of the second year and have a term of ten years. Options granted under the HSY Growth program vest at the end of the fifth year and have a term of ten years.

A summary of the status of the Corporation's fixed stock options as of December 31, 1997, 1996, and 1995, and changes during the years ending on those dates is presented below:

	1997		1996		1995	
FIXED OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	5,902,220	$27.40	4,435,800	$22.54	5,067,900	$21.62
Granted	1,485,250	$44.64	2,619,200	$33.08	237,400	$24.19
Exercised	(656,350)	$21.94	(1,062,980)	$20.74	(843,100)	$17.43
Forfeited	(17,200)	$33.06	(89,800)	$31.92	(26,400)	$24.24
Outstanding at end of year	6,713,920	$31.73	5,902,220	$27.40	4,435,800	$22.54
Options exercisable at year-end	3,013,670	$24.38	3,670,020	$23.94	2,901,800	$21.50
Weighted-average fair value of options granted during the year (per share)	$ 11.66		$ 8.70		$ 7.38	

The following table summarizes information about fixed stock options outstanding as of December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AS OF 12/31/97	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF 12/31/97	WEIGHTED-AVERAGE EXERCISE PRICE
$12 11/16-26 1/2	2,718,570	5.2	$23.43	2,718,570	$23.43
$33 1/16-37 5/8	2,510,100	8.0	$33.08	295,100	$33.08
$44 1/2-56 1/4	1,485,250	9.0	$44.64	--	
$12 11/16-56 1/4	6,713,920	7.1	$31.73	3,013,670	$24.38

PERFORMANCE STOCK UNITS

Under the long-term portion of the KEIP, each January the Corporation grants selected executives and other key employees performance stock units whose vesting is contingent upon the achievement of certain performance objectives. If at the end of three-year performance cycles, targets for financial measures of earnings per share, return on net assets and free cash flow are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 150%. The compensation cost charged against income for the performance-based plan was $9.1 million, $5.8 million, and $3.6 million for 1997, 1996, and 1995, respectively. The compensation cost associated with the long-term portion of the KEIP is recognized ratably over the three-year term based on the year-end market value of the stock. Performance stock units and restricted stock units granted for potential future distribution were as follows:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
Shares granted	95,250	86,000	97,600
Weighted-average fair value at date of grant	$ 45.17	$ 33.56	$ 24.56

Deferred performance stock units, deferred directors' fees and accumulated dividend amounts totaled 384,009 shares as of December 31, 1997.

No stock appreciation rights were outstanding as of December 31, 1997.

15. SUPPLEMENTAL BALANCE SHEET INFORMATION

ACCOUNTS RECEIVABLE--TRADE

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $15.8 million and $14.1 million as of December 31, 1997 and 1996, respectively.

INVENTORIES

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $372.7 million and $299.2 million as of December 31, 1997 and 1996, respectively, and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Raw materials	$223,702	$204,419
Goods in process	36,015	31,444
Finished goods	334,639	316,726
Inventories at FIFO	594,356	552,589
Adjustment to LIFO	(88,831)	(77,611)
Total inventories	$505,525	$474,978

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment balances included construction in progress of $144.0 million and $91.9 million as of December 31, 1997 and 1996, respectively. Major classes of property, plant and equipment were as follows:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Land	$ 31,340	$ 34,056
Buildings	540,729	533,559
Machinery and equipment	2,015,161	1,855,087
Property, plant and equipment, gross	2,587,230	2,422,702
Accumulated depreciation	(938,993)	(820,807)
Property, plant and equipment, net	$1,648,237	$1,601,895

ACCRUED LIABILITIES

Accrued liabilities were as follows:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Payroll and other compensation	$ 92,102	$ 81,264
Advertising and promotion	86,184	77,351
Other	193,259	199,213
Total accrued liabilities	$371,545	$357,828

OTHER LONG-TERM LIABILITIES

Other long-term liabilities were as follows:

DECEMBER 31,	1997	1996
IN THOUSANDS OF DOLLARS		
Accrued post-retirement benefits	$216,901	$207,881
Other	129,599	119,328
Total other long-term liabilities	$346,500	$327,209

16. SEGMENT INFORMATION

The Corporation operates in a single consumer foods line of business, encompassing the manufacture, distribution and sale of chocolate and non-chocolate confectionery, grocery and pasta products. The Corporation's principal operations and markets are located in North America. In December 1996, the Corporation sold its Gubor and Sperlari European businesses.

Net sales, income before interest and income taxes and identifiable assets of businesses outside of North America were not significant. Historically, transfers of product between geographic areas have not been significant. In 1997 and 1996, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 12% of total net sales.

17. QUARTERLY DATA (UNAUDITED)

Summary quarterly results were as follows:

YEAR 1997	FIRST	SECOND	THIRD	FOURTH
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS				
Net sales	$1,002,469	$905,729	$1,151,610	$1,242,428
Gross profit	413,188	375,411	479,006	545,735
Net income	68,894	50,564	100,673	116,120
Net income per share--Basic(a)	.45	.33	.68	.81
Net income per share--Diluted(a)	.45	.33	.67	.80

YEAR 1996	FIRST	SECOND	THIRD	FOURTH
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS				
Net sales	$931,514	$796,343	$1,072,336	$1,189,115
Gross profit	381,766	326,545	458,362	520,546
Net income	59,415	40,847	94,270	78,654(b)
Net income per share--Basic(a)	.38	.26	.61	.51
Net income per share--Diluted(a)	.38	.26	.61	.51

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(a) Quarterly income per share amounts for 1997 and 1996 do not total to the annual amount due to the changes in weighted average shares outstanding during the year.

(b) Net income for the fourth quarter and year 1996 included an after-tax loss on the sale of Gubor and Sperlari of $35.4 million. Net income per share was similarly impacted.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 29, 1997. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of non-management directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997, appearing on pages A-12 through A-31. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

New York, New York
January 28, 1998

HERSHEY FOODS CORPORATION

ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

ALL DOLLAR AND SHARE AMOUNTS IN THOUSANDS EXCEPT MARKET PRICE AND PER SHARE STATISTICS

	10-YEAR COMPOUND GROWTH RATE		1997	1996	1995
SUMMARY OF OPERATIONS(a)					
Net Sales	8.72%	$	4,302,236	3,989,308	3,690,667
Cost of Sales	8.03%	$	2,488,896	2,302,089	2,126,274
Selling, Marketing and Administrative	9.72%	$	1,183,130	1,124,087	1,053,758
Non-recurring Credits/(Charges)(n)		$	--	(35,352)	151
Interest Expense, Net	13.03%	$	76,255	48,043	44,833
Income Taxes	8.13%	$	217,704	206,551	184,034
Income from Continuing Operations Before Accounting Changes	10.48%	$	336,251	273,186	281,919
Net Cumulative Effect of Accounting Changes		$	--	--	--
Discontinued Operations		$	--	--	--
Net Income	8.54%	$	336,251	273,186	281,919
Income Per Share:(b)					
From Continuing Operations Before Accounting Changes					
--Basic(m)	12.71%	$	2.25	1.77(h)	1.70(i)
--Diluted(m)	12.61%	$	2.23	1.75	1.69
Net Cumulative Effect of Accounting Changes --Basic and Diluted(m)		$	--	--	--
Net Income--Basic(m)	10.62%	$	2.25	1.77(h)	1.70(i)
Net Income--Diluted(m)	10.52%	$	2.23	1.75	1.69
Weighted Average Shares Outstanding--Basic(b)			149,174	154,334	166,036
Weighted Average Shares Outstanding--Diluted(b)			151,016	155,690	166,721
Dividends Paid on Common Stock	8.52%	$	98,390	93,884	91,190
Per Share(b)	11.22%	$	.840	.760	.685
Dividends Paid on Class B Common Stock	11.17%	$	23,156	20,879	18,900
Per Share(b)	11.22%	$	.760	.685	.620
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales			7.8%	7.7%(c)	7.6%
Depreciation	14.33%	$	135,016	119,443	119,438
Advertising	7.63%	$	202,408	174,199	159,200
Promotion	10.19%	$	451,580	429,208	402,454
Payroll	7.13%	$	524,827	491,677	461,928
YEAR-END POSITION AND STATISTICS(a)					
Capital Additions	9.70%	$	172,939	159,433	140,626
Total Assets	7.86%	$	3,291,236	3,184,796	2,830,623
Long-term Portion of Debt	13.87%	$	1,029,136	655,289	357,034
Stockholders' Equity	.24%	$	852,806	1,161,021	1,082,959
Operating Return on Average Stockholders' Equity			33.4%	27.5%	22.2%
Operating Return on Average Invested Capital			17.5%	17.8%	17.1%
Full-time Employees			14,900	14,000	13,300
STOCKHOLDERS' DATA(b)					
Outstanding Shares of Common Stock and Class B Common Stock at Year-end			142,932	152,942	154,532
Market Price of Common Stock at Year-end	17.59%	$	61 15/16	43 3/4	32 1/2
Range During Year		$	63 7/8-42 1/8	51 3/4-31 15/16	33 15/16-24

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See Notes to the Eleven-Year Consolidated Financial Summary on page A-36.

1994	1993	1992	1991	1990	1989	1988	1987
3,606,271	3,488,249	3,219,805	2,899,165	2,715,609	2,420,988	2,168,048	1,863,816
2,097,556	1,995,502	1,833,388	1,694,404	1,588,360	1,455,612	1,326,458	1,149,663
1,034,115	1,035,519	958,189	814,459	776,668	655,040	575,515	468,062
(106,105)	80,642	--	--	35,540	--	--	--
35,357	26,995	27,240	26,845	24,603	20,414	29,954	22,413
148,919	213,642	158,390	143,929	145,636	118,868	91,615	99,604
184,219	297,233	242,598	219,528	215,882	171,054	144,506	124,074
--	(103,908)	--	--	--	--	--	--
--	--	--	--	--	--	69,443	24,097
184,219	193,325	242,598	219,528	215,882	171,054	213,949	148,171
1.06(j)	1.65(k)	1.34	1.21	1.19(l)	.95	.80	.68
1.05	1.65	1.34	1.21	1.19	.95	.80	.68
--	(.58)	--	--	--	--	--	--
1.06(j)	1.07(k)	1.34	1.21	1.19(l)	.95	1.18	.82
1.05	1.07	1.34	1.21	1.19	.95	1.18	.82
174,367	179,929	180,775	180,767	180,766	180,824	180,981	181,189
174,740	180,495	181,160	181,112	180,987	180,984	181,140	181,372
89,660	84,711	77,174	70,426	74,161(f)	55,431	49,433	43,436
.625	.570	.515	.470	.495(f)	.370	.330	.290
17,301	15,788	14,270	12,975	13,596(f)	10,161	9,097	8,031
.5675	.5175	.4675	.425	.445(f)	.3325	.2975	.2625
7.3%(d)	7.4%(e)	7.5%	7.6%	7.2%(g)	7.1%	6.7%	6.7%
114,821	100,124	84,434	72,735	61,725	54,543	43,721	35,397
120,629	130,009	137,631	117,049	146,297	121,182	99,082	97,033
419,164	444,546	398,577	325,465	315,242	256,237	230,187	171,162
472,997	469,564	433,162	398,661	372,780	340,129	298,483	263,529
138,711	211,621	249,795	226,071	179,408	162,032	101,682	68,504
2,890,981	2,855,091	2,672,909	2,341,822	2,078,828	1,814,101	1,764,665	1,544,354
157,227	165,757	174,273	282,933	273,442	216,108	233,025	280,900
1,441,100	1,412,344	1,465,279	1,335,251	1,243,537	1,117,050	1,005,866	832,410
18.5%	17.8%	17.3%	17.0%	16.6%	16.1%	17.5%	19.0%
15.6%	15.0%	14.4%	13.8%	13.4%	13.2%	13.3%	13.5%
14,000	14,300	13,700	14,000	12,700	11,800	12,100	10,540
173,470	175,226	180,373	180,373	180,373	180,373	180,373	180,373
24 3/16	24 1/2	23 1/2	22 3/16	18 3/4	17 15/16	13	12 1/4
26 3/4-20 9/16	27 15/16-21 3/4	24 3/16-19 1/8	22 1/4-17 9/16	19 13/16-14 1/8	18 7/16-12 3/8	14 5/16-10 15/16	18 7/8-10 3/8

NOTES TO THE ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

(a) All amounts for 1987 and 1988 have been restated for discontinued operations, where applicable. Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding the 1988 gain on disposal included in Discontinued Operations, the 1993 Net Cumulative Effect of Accounting Changes, and the after-tax impacts of the 1990 Restructuring Gain, Net, the 1993 Gain on Sale of the Investment Interest in Freia Marabou a.s (Freia), the 1994 Restructuring Charge, the net 1995 Restructuring Credit and the 1996 Loss on Sale of Businesses.

(b) All shares and per share amounts have been adjusted for the two-for-one stock split effective September 13, 1996.

(c) Calculated percent excludes the 1996 Loss on Sale of Businesses. Including the loss, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 6.8%.

(d) Calculated percent excludes the 1994 Restructuring Charge. Including the charge, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 5.1%.

(e) Calculated percent excludes the 1993 Gain on Sale of Investment Interest in Freia. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 8.5%.

(f) Amounts included a special dividend for 1990 of $11.2 million or $.075 per share of Common Stock and $2.1 million or $.0675 per share of Class B Common Stock.

(g) Calculated percent excludes the 1990 Restructuring Gain, Net. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 7.9%.

(h) Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic for 1996 included a $.23 per share loss on the sale of the Gubor and Sperlari businesses. Excluding the impact of this loss, Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic would have been $2.00.

(i) Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic for 1995 included a net $.01 per share credit associated with adjustments to accrued restructuring reserves. Excluding the impact of this net credit, Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic would have been $1.69.

(j) Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic for 1994 included a $.46 per share restructuring charge. Excluding the impact of this charge, Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic would have been $1.52.

(k) Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic for 1993 included a $.23 per share gain on the sale of the investment interest in Freia. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes--Basic would have been $1.43.

(l) Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic for 1990 included an $.11 per share Restructuring Gain, Net. Excluding the impact of this gain, Income Per Share from Continuing Operations Before Accounting Changes--Basic and Net Income Per Share--Basic would have been $1.08.

(m) In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS No. 128). Under FAS No. 128, Basic and Diluted Earnings per Share are required to be computed for all prior-period EPS data.

(n) Includes the 1996 Loss on Sale of Businesses; the net 1995 Restructuring Credit; the 1994 Restructuring Charge; the 1993 Gain on Sale of Investment Interest and the 1990 Restructuring Gain, Net.