

HERSHEY FOODS CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 For the Years Ended December 31, 2000, 1999, 1998, 1997 and 1996,
 (in thousands of dollars except for ratios)
 (Unaudited)

	2000	1999	1998	1997	1996
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Earnings:					
Income from continuing operations before income taxes.....	\$ 546,639	\$727,874(a)	\$ 557,006	\$ 553,955	\$479,737(b)
Add (Deduct):					
Interest on indebtedness.....	80,956	77,300	88,648	79,138	52,036
Portion of rents representative of the interest factor(c)	13,585	15,162	13,197	10,592	8,618
Amortization of debt expense.....	489	486	462	412	234
Amortization of capitalized interest.....	325	3,884	3,856	3,496	3,359
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Earnings as adjusted.....	\$ 641,994	\$ 824,706	\$ 663,169	\$ 647,593	\$ 543,984
	=====	=====	=====	=====	=====
Fixed Charges:					
Interest on indebtedness.....	\$ 80,956	\$ 77,300	\$ 88,648	\$ 79,138	\$ 52,036
Portion of rents representative of the interest factor(c)..	13,585	15,162	13,197	10,592	8,618
Amortization of debt expense.....	489	486	462	412	234
Capitalized interest.....	145	1,214	2,547	1,883	1,534
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Total fixed charges.....	\$ 95,175	\$ 94,162	\$ 104,854	\$ 92,025	\$ 62,422
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Ratio of earnings to fixed charges.....	6.75	8.76	6.32	7.04	8.71
	=====	=====	=====	=====	=====

 NOTES:

- (a) Includes a gain on the disposal of pasta business of \$243.8 million.
- (b) Includes a loss on the disposal of businesses of \$35.4 million.
- (c) Portion of rents representative of the interest factor consists of one-third of rental expense for operating leases.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 26, 2001, included or incorporated by reference in this Form 10-K for the year ended December 31, 2000, 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, File No. 33-45556, and File No. 333-52509).

ARTHUR ANDERSEN LLP

New York, New York

March 12, 2001

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, 2000.

[/TABLE]

HERSHEY FOODS CORPORATION
KEY EMPLOYEE INCENTIVE PLAN

1. ESTABLISHMENT AND PURPOSE

Hershey Foods Corporation (the "Corporation") hereby establishes the Key Employee Incentive Plan (the "Plan"). The purpose of the Plan is to provide to selected key employees of the Corporation and its subsidiaries (as defined below), upon whose efforts the Corporation is dependent for the successful conduct of its business, further incentive to continue and increase their efforts as employees and to remain in the employ of the Corporation and its subsidiaries.

The Plan continues the Annual Incentive Program ("AIP"), with certain modifications, as in effect under the Corporation's Management Incentive Plan ("MIP") established in 1975 and as amended thereafter, pursuant to which participants are entitled to receive cash awards based on achievement of performance goals during annual performance cycles. The Plan also continues the Long-Term Incentive Program ("LTIP") portion of the MIP with certain modifications. In addition to performance stock units ("Performance Stock Units"), the LTIP portion now also includes nonqualified stock options for the purchase of Common Stock ("Options"); stock appreciation rights ("SARs"); and restricted stock units ("Restricted Stock Units").

As used herein, (i) the term "Subsidiary Corporation" shall mean any present or future corporation which is or would be a "subsidiary corporation" of the Corporation as defined in Section 424 of the Internal Revenue Code of 1986 (the "Code"), and (ii) the term "Corporation" defined above shall refer collectively to Hershey Foods Corporation and its Subsidiary Corporations unless the context indicates otherwise.

2. STOCK SUBJECT TO THE PLAN

The aggregate number of shares of the Corporation's Common Stock, \$1.00 Par Value (the "Common Stock"), which may be covered by Performance Stock Units, Options, SARs and Restricted Stock Units granted pursuant to the LTIP portion of the Plan will be established by the Board of Directors and will be subject to adjustment in accordance with Section 12 below. The shares issued under this Plan may be either authorized but unissued shares, treasury shares held by the Corporation or any direct or indirect subsidiary thereof or shares acquired by the Corporation through open market purchases (whether made before or after any exercise of Options(s) or the granting of stock compensation hereunder) or otherwise. In addition to shares of Common Stock actually issued or distributed under the Plan, there shall be deemed to have been issued a number of shares equal to (i) the number of shares of Common Stock in respect of which optionees utilize the manner of exercise of, and payment for, Options as provided in Paragraph 7II(g) of this Plan, and

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(ii) the number of shares of Common Stock which is equivalent in value to any cash amounts distributed upon payment of Performance Stock Units, SARs or Restricted Stock Units. For purposes of determining the charge to be made pursuant to subpart (ii) against the shares of Common Stock subject to the Plan, the value of a share of Common Stock shall be its Fair Market Value as defined in Paragraph 4 when awards are made with respect to Performance Stock Units, upon exercise of SARs, and upon expiration of the applicable restriction period of Restricted Stock Units. Any shares subject under the Plan to Performance Stock Units, Options, SARs or Restricted Stock Units which, for any reason, expire or terminate or are forfeited or surrendered shall again be available for issuance under the Plan.

3. ADMINISTRATION

The Plan shall be administered by the Compensation and Executive Organization Committee (the "Committee"), or any successor committee, appointed by and consisting solely of members of the Board of Directors (the "Board") of the Corporation, each of whom qualifies as both a "nonemployee director" within the meaning of Rule 16b-3 or its successor under the Securities Exchange Act of 1934 (the "Exchange Act") and an "outside director" within the meaning of Section 162(m) of the Code. Committee members shall not be eligible to participate in the Plan. The Board may from time to time remove and appoint members of the Committee in substitution for, or in addition to, members previously appointed and may fill vacancies, however caused, in the Committee. The Committee may adopt such rules and regulations as it deems useful in governing its affairs. Any action of the Committee with respect to the administration of the Plan shall be taken by majority vote at a Committee meeting or written consent of all Committee members.

Subject to the terms and conditions of the Plan, the Committee shall have authority: (i) to construe and interpret Plan provisions; (ii) to define the terms used in the Plan; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to select particular employees to participate in the Plan, (v) to determine the terms, conditions, form and amount of grants, distributions or payments made to each participant, including conditions upon and provisions for vesting, exercise and acceleration of any grants, distributions or payments; (vi) upon the request of a participant in the Plan, to approve and determine the duration of leaves of absence which may be granted to the participant without constituting a termination of his or her employment for purposes of the Plan; and (vii) to make all other determinations necessary or advisable for the administration and operation of the Plan. The Committee shall have the right to impose varying terms and conditions with respect to each grant or award. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all participants and on their legal representatives and beneficiaries.

4. FAIR MARKET VALUE

As used in the Plan (unless a different method of calculation is required by applicable law, and except as otherwise specifically provided in any Plan provision), "Fair Market Value" on or as of any date shall mean (i) the closing price of the Common Stock as reported in the New

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York Stock Exchange Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for the New York Stock Exchange trading day immediately preceding such date, or if there are no sales on such date, on the next preceding day on which there were sales, or (ii) in the event that the Common Stock is no longer listed for trading on the New York Stock Exchange, an amount determined in accordance with standards adopted by the Committee.

5. ELIGIBILITY AND PARTICIPATION

Key employees of the Corporation or of any of its Subsidiary Corporations, including officers and directors who are regular employees but not members of the Committee, who in the opinion of the Committee are in a position to contribute significantly to the success of the Corporation or any Subsidiary Corporation, division or operating unit thereof, shall be eligible for selection to participate in the Plan. In making this selection and in determining the form and amount of grants, distributions and payments under the Plan, the Committee shall take into account the duties of the respective employees, their present and potential contributions to the success of the Corporation or any Subsidiary Corporation, division or operating unit thereof, and such other factors as the Committee may deem relevant in connection with accomplishing the purposes of the Plan. An employee who has been selected to participate may, if he or she is otherwise eligible, receive more than one grant from time to time, and may be granted any combination of contingent target grants under the AIP or under the LTIP components of the Plan, as the Committee shall determine.

6. ANNUAL INCENTIVE PROGRAM

The Committee may from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, establish contingent target grants for those eligible employees it selects to participate in the AIP. Each such contingent grant may be, but need not be, evidenced by a written instrument, and shall be determined in relation to the participant's level of responsibility in the Corporation and the competitive compensation practices of other major businesses, and such other factors as are deemed appropriate by the Committee.

(a) Awards actually earned by and paid to AIP participants ("AIP Awards") will be based primarily upon achievement of performance goals over a one-year performance cycle as approved by the Committee.

(b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants; to select from among those eligible the employees to receive awards; to review and certify the achievement of performance goals; to designate levels of awards to be earned in relation to levels of achievement of performance goals; to adopt such financial and nonfinancial performance or other criteria for the payment of awards as it may determine from time to time; to make awards; and to establish such other measures as may be necessary to achieve the objectives of the Plan. The financial or non-financial performance goals established by the Committee may be based upon one or more of the following: earnings per share, return on net assets, market

share, control of costs, net sales, cash flow, economic value-added measures, sales growth, earnings growth, stock price, return on equity, improvements in financial ratings, regulatory compliance, achievement of balance sheet or income statement objectives, or any other objective goals established by the Committee (the "Performance Factors").

- (c) Aggregate annual AIP Awards shall not exceed six (6%) percent of the excess of Before-Tax Income (defined for these purposes as Net Income plus provision for Federal, state and local income taxes and interest expense on long-term debt, but after consideration of the cost of the Plan) over sixteen (16%) percent of Total Invested Capital (defined for these purposes as Stockholders' Equity plus Long-Term Debt plus Deferred Income Taxes) determined as the average of such Total Invested Capital at the beginning of the year and the end of each calendar quarter of such year. The maximum amount any participant can receive as an AIP Award for any calendar year shall not exceed \$2,100,000.
- (d) AIP Awards as earned under the terms of the Plan shall be paid in cash and may exceed or be less than the contingent target grants, provided that payments do not exceed the maximum permitted cost of the AIP calculated pursuant to subparagraph (c) above. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

7. LONG-TERM INCENTIVE PROGRAM

The LTIP consists of the following four components:

I. PERFORMANCE STOCK UNITS

The Committee may, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant Performance Stock Units to reflect the value of contingent target grants established for each eligible employee selected for participation. Each grant of Performance Stock Units may be, but need not be, evidenced by a written instrument. Such contingent target grants shall be determined in relation to the employee's level of responsibility in the Corporation or any Subsidiary Corporation, division or operating unit thereof, and the competitive compensation practices of other major businesses.

- (a) Awards actually earned by and paid to holders of Performance Stock Units ("PSU Awards") will be based upon achievement of performance goals over performance cycles as approved by the Committee. Such performance cycles each shall cover such period of time, not exceeding five years, as the Committee from time to time shall determine.
- (b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants and the granting of

Performance Stock Units; to select from among those eligible the employees to receive PSU Awards; to review and certify the achievement of performance goals; to designate levels of awards to be earned in relation to levels of achievement of performance goals; to adopt such financial and nonfinancial performance or other criteria for the payment of PSU Awards as it may determine from time to time; to make awards; and to establish such other measures as may be necessary to the objectives of the Plan. The performance goals established by the Committee may be based on one or more of the Performance Factors.

- (c) Payments of PSU Awards shall be made in shares of Common Stock or partly in cash as the Committee in its sole discretion shall determine and shall be charged against the shares available under the LTIP portion of the Plan as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share. In any case in which actual payment of a PSU Award is deferred as provided below, a charge will be made against the available shares for the number of shares equivalent to the dollar amount of the deferred PSU Award.
- (d) PSU Awards as earned under the terms of the Plan may exceed or be less than the contingent target grants. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.
- (e) The maximum amount a participant can receive as a PSU Award in any calendar year is \$2,430,000.

II. STOCK OPTIONS

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant nonqualified Options to purchase shares of Common Stock of the Corporation to employees eligible to participate in the Plan. Each grant of an Option shall be on such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

- (a) The exercise price per share with respect to each Option shall be determined by the Committee in its sole discretion, but shall not be less than 100% of the Fair Market Value of the Common Stock as of the date of the grant of the Option.
- (b) Options granted under the Plan shall be exercisable, in such installments and for such periods, as shall be provided by the Committee at the time of granting, but in no event shall any Option granted extend for a period in excess of ten years from the date of grant.
- (c) The maximum number of shares of Common Stock covered by Options granted to a participant for any calendar year shall not exceed 250,000.

- (d) Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which grantees of Options must be employed, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; and (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time.
- (e) Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee.
- (f) The purchase price upon exercise of any Option shall be paid in full by making payment (i) in cash; (ii) in whole or in part by the delivery of a certificate or certificates of shares of Common Stock of the Corporation, valued at its then Fair Market Value; or (iii) by a combination of (i) and (ii).
- (g) Notwithstanding subparagraph (e) above, any optionee may make payment of the Option price through a simultaneous exercise of his or her Option and sale of the shares thereby acquired pursuant to a brokerage arrangement approved in advance by the Committee to assure its conformity with the terms and conditions of the Plan.
- (h) The Committee may require the surrender of outstanding Options as a condition to the grant of new Options.
- (i) Notwithstanding any other provision of the Plan or of any Option agreement between the Corporation and an employee, upon the occurrence of a Change in Control, each outstanding Option held by a participant who is an employee of the Corporation or any Subsidiary Corporation or who retired while employed by the Corporation or any Subsidiary Corporation shall become fully vested and exercisable notwithstanding any vesting schedule or installment schedule relating to the exercisability of such Option contained in the applicable Option agreement or otherwise established at the time of grant of the Option.
- (j) For purposes of this Plan, a "Change in Control" means:
 - (1) Individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Corporation in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Exchange Act)

("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any person (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Section 13(d)(3) and 14(d)(2) of the Exchange Act) ("Person") other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Corporation Voting Power") shall be deemed to be an Incumbent Director; or

- (2) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Corporation representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Corporation (the "Outstanding Corporation Stock") or (ii) the Outstanding Corporation Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Corporation Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Corporation by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation; (iii) any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any Subsidiary Corporation; (iv) the Corporation or any Subsidiary Corporation or (v) any underwriter temporarily holding securities pursuant to an offering of such securities; or

- (3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or
- (4) The approval by the stockholders of the Corporation of (i) any sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation (the "Acquiring Corporation") if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding voting securities eligible to elect directors (x) of the Acquiring Corporation or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Corporation, or (ii) a liquidation or dissolution of the Company.

For purposes of this Plan, "Hershey Trust" means either or both of (a) the Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to the Hershey Trust Company as such trustee, and (b) the Milton Hershey School, a Pennsylvania not-for-profit corporation

(k) For purposes of this Plan, a "Potential Change in Control" means:

- (1) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (i) an offer made to the Hershey Trust to purchase any number of its shares in the Corporation such that if the Hershey Trust accepted such offer and sold such number of shares in the Corporation the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power, (ii) an offering by the Hershey Trust of any number of its shares in the Corporation for sale such that if such sale were consummated the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power or (iii) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or
- (2) The Board approves a transaction described in subsection (2), (3) or (4) of the definition of a Change in Control contained in subparagraph (j) of Paragraph 7II hereof.
- (1) In the event that a transaction which would constitute a Change in Control if approved by the stockholders of the Corporation is to be submitted to such stockholders for their approval, each participant who is an employee and who holds an Option granted under the Plan at the time scheduled for the taking of such vote, whether or not then exercisable, shall have the right to receive a notice at least ten (10) business days prior to the date on which such vote is to be taken. Such notice shall set forth the date on which such vote of stockholders is to be taken, a description of the transaction being proposed to stockholders for such approval, a description of the provisions of subparagraph (i) of Paragraph

7II of the Plan and a description of the impact thereof on such participant in the event that such stockholder approval is obtained. Such notice shall also set forth the manner in which and price at which all Options then held by each such participant could be exercised upon the obtaining of such stockholder approval.

III. STOCK APPRECIATION RIGHTS

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant SARs to employees eligible to participate in the Plan. SARs may, but need not be evidenced by an agreement executed by the Corporation and the holder, and shall be subject to such terms and conditions consistent with the Plan as the Committee shall impose from time to time, including the following:

- (a) SARs may, but need not, relate to Options granted under the Plan, as the Committee shall determine from time to time. In no event shall any SARs granted extend for a period in excess of ten years from the date of grant.
- (b) A holder shall exercise his or her SARs by giving written notice of such exercise in the form and manner determined by the Committee, and the date upon which such written notice is received by the Corporation shall be the exercise date for the SARs.
- (c) A holder of SARs shall be entitled to receive upon exercise the excess of the Fair Market Value of a share of Common Stock at the time of exercise over the Fair Market Value of a share at the time the SARs were granted, multiplied by the number of shares with respect to which the SARs relate.
- (d) In the sole discretion of the Committee, the amount payable to the holder upon exercise of SARs may be paid either in Common Stock or in cash or in a combination thereof. To the extent paid in Common Stock, the value of the Common Stock that shall be distributed shall be the Fair Market Value of a share of Common Stock upon exercise of the SARs as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.
- (e) In the sole discretion of the Committee, SARs related to specific Options may be exercisable only upon surrender of all or a portion of the related Option, or may be exercisable, in whole or in part, only at such times and to the extent that the related Option is exercisable, and the number of shares purchasable pursuant to the related Option may be reduced to the extent of the number of shares with respect to which the SARs are exercised.
- (f) In lieu of receiving payment at the time of exercise of SARs, payment of all or any portion may be deferred by the participant with the approval of the Committee.

- (g) The maximum number of SARs granted to a participant during any calendar year shall not exceed 250,000.

IV. RESTRICTED STOCK UNITS

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Restricted Stock Units to employees eligible to participate in the Plan. Each grant of Restricted Stock Units may be, but need not be evidenced by a written instrument. The grant of Restricted Stock Units shall state the number of Restricted Stock Units covered by the grant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

- (a) Each Restricted Stock Unit shall be equivalent in value to a share of Common Stock.
- (b) Vesting of each grant of Restricted Stock Units shall require the holder to remain in the employment of the Corporation or a Subsidiary Corporation for a prescribed period (a "Restriction Period"). The Committee shall determine the Restriction Period or Periods which shall apply to the shares of Common Stock covered by each grant of Restricted Stock Units. Except as otherwise determined by the Committee and provided in the written instrument granting the Restricted Stock Units, and except as otherwise provided in Paragraph 8, all Restricted Stock Units granted to a participant under the Plan shall terminate upon termination of the participant's employment with the Corporation or any Subsidiary Corporation before the end of the Restriction Period or Periods applicable to such Restricted Stock Units, and in such event the holder shall not be entitled to receive any payment with respect to those Restricted Stock Units. The Committee may also, in its sole discretion, establish other terms and conditions for the vesting of Restricted Stock Units, including conditioning vesting on the achievement of one or more of the Performance Factors. Notwithstanding any other provisions of the Plan or of any written instrument granting Restricted Stock Units, upon the occurrence of a Change in Control as defined in subparagraph (j) of Paragraph 7II hereof, all restrictions on Restricted Stock Units held by a participant who is an employee of the Corporation or any Subsidiary Corporation shall lapse.
- (c) Upon expiration of the Restriction Period or Periods applicable to each grant of Restricted Stock Units, the holder shall, without payment on his part, be entitled to receive payment in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such grant upon such expiration. Such payment may be made in cash, in shares of Common Stock equal to the number of Restricted Stock Units with respect to which such payment is made, or in any combination thereof, as the Committee in its sole discretion shall determine. Any payment in cash shall reduce the number of shares of Common Stock available under the Plan as provided in Paragraph 2, to the extent of the number of Restricted Stock Units to which such payment relates. Further upon such expiration, the holder shall be entitled to receive a cash payment in an amount equal to each cash dividend the Corporation would

have paid to such holder during the term of those Restricted Stock Units as if the holder had been the owner of record of the shares of Common Stock covered by such Restricted Stock Units on the record date for the payment of such dividend.

(d) In lieu of receiving payment at the time of expiration of the Restriction Period or Periods, payment of all or any portion may be deferred by the participant with the approval of the Committee.

(e) The maximum number of shares of Common Stock as to which Restricted Stock Units may be granted to a participant for any calendar year shall not exceed 50,000.

8. TERMINATION OF EMPLOYMENT

Upon termination of employment with the Corporation of any participant, such participant's rights with respect to any contingent target grants under the AIP, or any Performance Stock Units, Options, SARs or Restricted Stock Units granted under the LTIP, shall be as follows:

(a) In the event that the participant is terminated or discharged by the Corporation for any reason, except as and to the extent provided otherwise by the Committee in writing, the participant's rights and interests under the Plan shall immediately terminate upon notice of termination of employment. Upon the occurrence of a Potential Change in Control (as defined in subparagraph (k) of Paragraph 7II hereof) and for a period of one year thereafter, and upon the occurrence of a Change in Control (as defined in subparagraph (j) of Paragraph 7II hereof), the following special provisions and notice requirements shall be applicable in the event of the termination of the employment of any participant holding an Option under the Plan: (i) in no event may a notice of termination of employment be issued to such a participant unless at least ten (10) business days prior to the effective date of such termination the participant is provided with a written notice of intent to terminate the participant's employment which sets forth in reasonable detail the reason for such intent to terminate, the date on which such termination is to be effective, and a description of the participant's rights under this Plan and under the agreements granting such Option or Options, including the fact that no such Option may be exercised after such termination has become effective and the manner, extent and price at which all Options then held by such participant may be exercised; and (ii) such notice of intent to terminate a participant's employment shall not be considered a "notice of termination of employment" for purposes of the first sentence of this Paragraph 8 (a). This Paragraph 8 (a) is intended only to provide for a requirement of notice to terminate upon the occurrence of the events set forth herein and shall not be construed to create an obligation of continued employment or a contract of employment in any manner or to otherwise affect or limit the Corporation's ability to terminate the employment of any participant holding an Option under the Plan.

(b) If a participant terminates employment with the Corporation as the result, in the sole judgment of the Committee, of his or her becoming totally disabled (in which event termination will be deemed to occur on the date the Committee makes such determination), or if a participant should die or (except as to Restricted Stock Units) retire while

employed by the Corporation or any of its Subsidiary Corporations, then the participant or, as the case may be, the person or persons to whom the participant's interest under the Plan shall pass by will or by the laws of descent and distribution (the "Estate"), shall have the following rights:

- (i) the grantee of a contingent AIP grant or the Estate shall be entitled to receive payment of an AIP award as, and to the extent, determined by the Committee;
 - (ii) if the holder of Performance Stock Units shall have been employed for at least two-thirds of the related performance cycle prior to the date of termination or death, then, except as otherwise provided in the written instrument (if any) evidencing the Performance Stock Units, and subject to any further adjustments the Committee may make in its absolute discretion, the participant or the Estate shall be entitled to receive payment of a PSU Award upon the expiration of the related performance cycle, provided that such award shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of the beginning of each such performance cycle and the date of termination or death, and the denominator of which shall be the number of full and partial calendar months from the date of the beginning of the performance cycle to the end of the said performance cycle;
 - (iii) except as otherwise provided in the terms and conditions of the stock option or SAR grant, the holder or the Estate shall be entitled to exercise (provided any vesting requirement has been satisfied as of the date of exercise) any Option or SAR for a period of five years (three years in the case of options or SARs granted prior to 1997) from such date of death, total disability or retirement, or for such longer period as the Committee may determine in the case of financial hardship or other unusual circumstances (subject to the maximum exercise period for Options and SARs specified in Paragraph 7II(b) and 7III(a) hereof, respectively);
 - (iv) except as otherwise provided in the written instrument evidencing the Restricted Stock Units, upon death or termination due to total disability the holder or the Estate shall be entitled to receive payment in respect of the Restricted Stock Units, provided that such Units shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of grant of such Units and the date of death or termination, and the denominator of which shall be the number of full and partial calendar months from the date of the grant to the end of the Restriction Period. Upon retirement, the participant's rights with respect to Restricted Stock Units shall immediately terminate.
- (c) In the event of resignation by the participant, the participant's rights and interests under the Plan shall immediately terminate upon such resignation; provided, however, that the Committee shall have the absolute discretion to review the reasons and circumstances of the resignation and to determine whether, alternatively, and to what extent, if any, the participant may continue to hold any rights or interests under the Plan.

(d) A transfer of a participant's employment without an intervening period from the Corporation to a Subsidiary Corporation or vice versa, or from one Subsidiary Corporation to another, shall not be deemed a termination of employment.

(e) The Committee shall be authorized to make all determinations and calculations required by this Paragraph 8, including any determinations necessary to establish the reason for terminations of employment for purposes of the Plan, which determinations and calculations shall be conclusive and binding on any affected participants and Estates.

9. ADDITIONAL REQUIREMENTS

No Performance Stock Units, Options, SARs or Restricted Stock Units (hereinafter collectively an "Interest") granted pursuant to the Plan shall be exercisable or realized in whole or in part, and the Corporation shall not be obligated to sell, distribute or issue any shares subject to any such Interest, if such exercise and sale would, in the opinion of counsel for the Corporation, violate the Securities Act of 1933, as amended (or other Federal or state statutes having similar requirements). Each Interest shall be subject to the further requirement that, if at any time the Board of Directors shall determine in its discretion that the listing or qualification of the shares relating or subject to such Interest under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Interest or the distribution or issue of shares thereunder, such Interest may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Board of Directors.

Interests may be subject to restrictions as to resale or other disposition and to such other provisions as may be appropriate to comply with Federal and state securities laws and stock exchange requirements, and the exercise of any Interest or entitlement to payment thereunder may be contingent upon receipt from the holder (or any other person permitted by this Plan to exercise any Interest or receive any distribution hereunder) of a representation that at the time of such exercise it is his or her then present intention to acquire the shares being distributed for investment and not for resale.

10. NONTRANSFERABILITY

Unless otherwise approved by the Committee, contingent AIP grants, Performance Stock Units, Options, SARs and Restricted Stock Units granted under the Plan to an employee shall be nonassignable and shall not be transferable by him or her otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the employee's lifetime, only by the employee or the employee's guardian or legal representative.

11. DISCLAIMER OF RIGHTS

No provision in the Plan or any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units granted pursuant to the Plan shall be construed to confer upon the participant any right to be employed by the Corporation or by any Subsidiary Corporation, or to interfere in any way with the right and authority of the Corporation or any Subsidiary Corporation either to increase or decrease the compensation of the participant at any time, or to terminate any relationship of employment between the participant and the Corporation or any of its Subsidiary Corporations.

Participants under the Plan shall have none of the rights of a stockholder of the Corporation with respect to shares subject to Performance Stock Units, Options, SARs or Restricted Stock Units unless and until such shares have been issued to him or her.

12. STOCK ADJUSTMENTS

In the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or a dividend on the shares of Common Stock of rights or warrants to purchase securities of the Corporation shall be made, then there shall be substituted for or added to each share available under and subject to the Plan as provided in Paragraph 2 hereof, and to the limitations set forth in Paragraphs 7II (c); 7III (g) and 7IV (e), and each share theretofore appropriated or thereafter subject or which may become subject to Performance Stock Units, Options, SARs or Restricted Stock Units under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be. Outstanding Options and SARs also shall be appropriately amended as to price and other terms as may be necessary to reflect the foregoing events. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or of any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Board of Directors shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share or unit.

13. TAXES

The Corporation shall be entitled to withhold the amount of any tax attributable to any amounts payable or shares of Common Stock deliverable under the Plan. The person entitled to any such delivery, whether due to the settlement of PSUs, the exercise of an Option or SAR, or the vesting of Restricted Stock Units, or any other taxable event may, by notice to the Corporation, elect to have such withholding satisfied by a reduction of the number of shares otherwise so deliverable (a "Stock Withholding Election"), or by delivery of shares of Stock already owned by the Participant, with the amount of shares subject to such reduction or delivery to be calculated based on the Fair Market Value on the date of such taxable event. Reporting Persons may make a Stock Withholding Election only in accordance with the methods then permitted under applicable Securities and Exchange Commission interpretations.

14. EFFECTIVE DATE AND TERMINATION OF PLAN

The Plan shall become effective upon adoption by the Board of Directors of the Corporation, provided such adoption is approved by the stockholders, within twelve months of adoption by the Board of Directors. Contingent target AIP grants, Performance Stock Units, Options, SARs and Restricted Stock Units under this Plan, granted before approval of the Plan by the stockholders, shall be granted subject to such approval and shall not be exercisable or payable before such approval.

The Board of Directors at any time may terminate the Plan, but such termination shall not alter or impair any of the rights or obligations under any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted under the Plan unless the affected participant shall so consent.

15. PRIOR PLAN

Effective upon the adoption of this Plan by the Board of Directors, no additional grants of contingent target grants under the AIP or of Performance Stock Units shall be made under the MIP; provided, that any payments of AIP awards or deferrals thereof made with respect to prior grants of contingent AIP awards, any prior grants of any LTIP Units, and any payments of LTIP awards or deferrals thereto made with respect to such prior grants, shall not be affected. Notwithstanding the foregoing, to the extent the remaining shares reserved for use under the LTIP portion of the MIP are insufficient for any LTIP awards under performance cycles that began prior to January 1, 1987, shares available under this Plan may be used for such purpose.

16. APPLICATION OF FUNDS

The proceeds received by the Corporation from the sale of capital stock pursuant to Options will be used for general corporate purposes.

17. NO OBLIGATION TO EXERCISE OPTION OR SAR

The granting of an Option or SAR shall impose no obligation upon the optionee to exercise such Option or SAR.

18. AMENDMENT

The Board of Directors by majority vote, at any time and from time to time, may amend the Plan in such respects as it shall deem advisable, to conform to any change in any applicable law or in any other respect. Notwithstanding the foregoing, the Plan may not be terminated or amended in a manner adverse to the interests of any participant (without the consent of the participant) either: (a) after a Potential Change in Control occurs and for one (1) year following the cessation of a Potential Change in Control, or (b) for a two-year period beginning as of the date of a Change in Control (the "Coverage Period"). Upon the expiration of the Coverage Period, subparagraph (1) of Paragraph 7II of the Plan and Paragraph 8 (a) of the Plan may not be amended in any manner that would adversely affect any participant without the consent of the participant.

HERSHEY FOODS CORPORATION
 AMENDED AND RESTATED (1999)
 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

1. **PURPOSE OF PLAN.** The purpose of the Amended and Restated (1999) Supplemental Executive Retirement Plan (hereinafter called the "Plan") is to obtain for Hershey Foods Corporation (hereinafter called the "Corporation") all of the benefits which flow from maintaining a strong management team by providing to executive and upper level management employees the means to continue their attained standard of living during retirement and by offering benefits that will assist in attracting executive and upper level management employees of outstanding ability. The Plan is an amendment to and restatement (as amended) of the Hershey Foods Corporation Amended and Restated Supplemental Executive Retirement Plan, as amended from time to time which was in effect from November 1, 1994 to June 8, 1999.

2. **DEFINITIONS.** The following words and phrases as used in the Plan shall have the following meanings, unless a different meaning is plainly required by the context:

a. "Cause" means the willful engaging by an employee of the Corporation in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation.

For purposes of this definition, no act or failure to act, on the part of an employee of the Corporation, shall be considered "willful" unless it is done, or omitted to be done, by the employee in bad faith and without reasonable belief that the employee's action or omission was in the best interest of the Corporation. Any act or failure to act, based upon prior approval given by the Board or upon the instruction or with the approval of the Chief Executive Officer or the employee's superior or based upon the advice of counsel for the Corporation shall be conclusively presumed to be done, or omitted to be done, by the employee in good faith and in the best interest of the Corporation.

b. "Committee" means the Compensation and Executive Organization Committee of the Board of Directors of the Corporation (the "Board").

c. "Deferred Retirement Date" means the first day of the month following an employee's termination of employment with the Corporation provided such termination occurs after his Normal Retirement Date.

d. "Disability" or "Disabled", for purposes of this Plan, shall have the same meaning as provided in Section 1.16 of the Retirement Plan, as such section may be amended from time to time.

e. "Early Retirement Date" means the first day of any month following an employee's termination of employment with the Corporation which is coincident with or following his fifty-fifth (55th) birthday and prior to his Normal Retirement Date.

f. "Final Average Compensation" means the sum of (1) the highest annual average of a Vested Participant's basic salary paid or accrued over any thirty-six (36) consecutive month period during his last ten (10) years of employment with the Corporation and (2) the highest annual average of his annual awards under the Annual Incentive Program (hereinafter called the "AIP") of the Corporation's Key Employee Incentive Plan ("KEIP") paid or accrued over any five (5) consecutive calendar years during his last ten (10) years of employment with the Corporation. If a Vested Participant dies, retires, or suffers a Disability or if a Participant suffers a Disability during a calendar year and only a partial AIP award is made for that year, for purposes of the Plan, his AIP award for such year will be considered to equal the award actually made divided by the fraction of such year that he was employed by the Corporation prior to his death, retirement or Disability. If a Vested Participant otherwise terminates employment with the Corporation during a calendar year, his AIP award for that year for purposes of the Plan will be considered to be zero (0), regardless of whether any AIP award is actually made for that year.

g. "GATT Interest Rate" means, for purposes of this Plan, for any specific month, the annual interest rate on 30-year Treasury securities as specified by the Commissioner of the Internal Revenue Service in revenue rulings, notices or other guidance, published in the Internal Revenue Service Bulletin, decreased by the percentage applicable to such month as set forth on Schedule I attached hereto.

h. "Lump Sum Interest Rate" means, as of any specific date:

(x) after January 1, 1998 and prior to January 1, 2000 the sum of one twelfth (1/12th) of each PBGC Interest Rate for the twelve months preceding such date;

(y) after December 31, 1999 and prior to January 1, 2001, the sum of one-twelfth (1/12th) of each GATT Interest Rate for November 1999 and each month thereafter to and including the second month preceding the month during which such date occurs plus, if the number of months for which a GATT Interest Rate is determined as described is less than twelve, the sum of one-twelfth (1/12th) of each PBGC Interest Rate for December 1999 and each preceding month in reverse chronological order until the total number of months for which a GATT Interest Rate and/or a PBGC Interest Rate has been determined equals twelve; and

(z) after December 31, 2000, the sum of one twelfth (1/12th) of each GATT Interest Rate for the twelve consecutive months beginning with the thirteenth (13th) month preceding the month during which such date occurs.

i. "Normal Retirement Date" means, for the purposes of this Plan, the first day of the month nearest an employee's sixty-fifth (65th) birthday, except that if his birthday is equally near the first of two calendar months, the first day of the month prior to his sixty-fifth (65th) birthday shall be his Normal Retirement Date.

j. "PBGC Interest Rate" means, for any specific month, the interest rate used by the Pension Benefit Guaranty Corporation for such month for purposes of valuing immediate annuities for terminating single employer plans with insufficient assets to pay guaranteed benefits.

k. "Participant" means, as of any specific date, an employee of the Corporation who, as of such date, is a participant in the performance share unit portion of the KEIP or who, as of such date, is not then but had been a participant in the performance share unit portion of the KEIP for at least five (5) of his last ten (10) years of employment with the Corporation.

l. "Retirement Plan" means the Corporation's Retirement Plan, amended and restated effective January 1, 1989, as in effect from time to time and any successor plan thereto.

m. "Vested Participant" means, as of any specific date, a Participant who, as of such date, satisfies each eligibility requirement set forth in the first sentence of Section 3 of the Plan.

n. "Years of Service", for purposes of this Plan, shall have the same meaning as provided in Section 1.56 of the Retirement Plan, as such section may be amended from time to time.

3. ELIGIBILITY. An employee of the Corporation will be eligible to receive a benefit pursuant to Section 4 of the Plan if, at the time of his termination of employment with the Corporation, such employee (i) is at least 55 years of age, (ii) has ten (10) Years of Service, and (iii) has participated in the performance share unit portion of the KEIP for at least five (5) of his last ten (10) years of employment with the Corporation. No employee of the Corporation, regardless of whether he satisfies all the eligibility requirements to be a Vested Participant, shall be entitled to receive any benefits under the Plan if his employment with the Corporation is terminated for Cause. Notwithstanding the above, an employee whose employment is terminated with the Corporation prior to his Normal Retirement Date for reason of Disability will be treated as provided for in Section 4.c.

4. RETIREMENT BENEFITS.

a. Normal Retirement Benefit. An employee who qualifies as a Vested Participant on the date of his termination of employment with the Corporation, and who retires (or whose employment is otherwise terminated, other than for Cause) on or after his Normal Retirement Date shall be entitled under the Plan to receive a normal retirement benefit which shall be an annual benefit, payable in monthly installments, equal to:

(1) the product of three and two-thirds percent (3 2/3%) of his Final Average Compensation and his Years of Service not in excess of fifteen (15) Years of Service;

reduced by:

(2) one hundred percent (100%) of the Vested Participant's retirement benefit under the Retirement Plan and any other tax-qualified defined benefit pension plan maintained by the Corporation or any affiliate thereof or any defined benefit pension plan maintained by any other entity, payable as a life annuity commencing at his Normal Retirement Date or his Deferred Retirement Date if he retires after his Normal Retirement Date, regardless of whether such benefit payment is in that form or begins at that time; and

(3) one hundred percent (100%) of the primary social security benefit to which the Vested Participant would be entitled on his Normal Retirement Date or his Deferred Retirement Date if he retires after his Normal Retirement Date regardless of whether he receives any portion of such primary Social Security benefit on such date.

Payment of such benefit shall commence on his Normal Retirement Date if he retires (or otherwise has his employment terminated, other than for Cause) on such date and on his Deferred Retirement Date if he retires (or otherwise has his employment terminated, other than for Cause) after his Normal Retirement Date.

b. Early Retirement Benefit. An employee who qualifies as a Vested Participant on the date of his termination of employment with the Corporation, and who retires (or whose employment is otherwise terminated, other than for Cause) on or after his Early Retirement Date and prior to his Normal Retirement Date shall be entitled under the Plan to receive an early retirement benefit which shall be an annual benefit payable in monthly installments, equal to:

(1) the product of three and two-thirds percent (3 2/3%) of his Final Average Compensation and his Years of Service not in excess of fifteen (15) Years of Service;

reduced by:

(2) one hundred percent (100%) of his retirement benefit under the Retirement Plan and any other tax-qualified defined benefit pension plan maintained by the Corporation or any affiliate thereof or any defined benefit pension plan maintained by any other entity, payable as a life annuity commencing at his Early Retirement Date or the first date thereafter on which such benefits would be payable if they are not payable on his Early Retirement Date regardless of whether such benefit payment is in that form or begins at that time; and

(3) one hundred percent (100%) of the primary Social Security benefit to which the Vested Participant would be entitled on his Early Retirement Date or the first date thereafter on which such benefits would be payable if they are not payable on his Early Retirement Date regardless of whether he receives any portion of such primary Social Security benefit on such date; and

(4) the product of (a) the difference between (1) and the sum of (2) and (3), (b) five-twelfths of a percent (5/12%), and (c) the number of complete calendar months by which the Vested Participant's date of termination of employment precedes his sixtieth (60th) birthday.

Payment of such benefit shall commence on the first day of the month coincident with the Vested Participant's retirement or other termination of employment, other than for Cause.

c. Disability Retirement Benefit. If an employee who is an active participant in the performance share unit portion of the KEIP suffers a Disability prior to his Normal Retirement Date and while employed by the Corporation, the period of his Disability will be recognized as Years of Service and as years of participation in the performance share unit portion of the KEIP under the Plan. If such Disability continues to his Normal Retirement Date, for purposes of the Plan, he will retire on that date and will be entitled to a normal retirement benefit calculated in accordance with Section 4.a. commencing on that date. In calculating the benefit under Section 4.a., the Participant's Final Average Compensation shall be equal to his annual base compensation immediately prior to his Disability plus the average of his AIP earned during the three (3) years immediately prior to the commencement of his Disability.

d. Pre-Retirement Death Benefit. If a Participant dies before his employment by the Corporation terminates and qualifies as a Vested Participant on his date of death, his designated beneficiary(ies), or his estate if he has not designated any beneficiary or beneficiaries in accordance with procedures established by the Committee, shall receive within ten (10) days of the Vested Participant's death a death benefit equal to the lump sum present value of one hundred percent (100%) of the retirement benefit that would have been payable to the Vested Participant under Sections 4.a. or 4.b. (including the spousal survivor benefit payable pursuant to Section 4.e. with respect to any Vested Participant survived by a spouse) if he had retired on the date of his death. The lump sum present value of the retirement benefit shall be calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the sum of one-twelfth (1/12th) of each PBGC Interest Rate for the twelve (12) months immediately preceding the date of the Vested Participant's death; and (y) for each Vested Participant who first became a Vested Participant after January 1, 1998, (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's death (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue

Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's death.

e. Post-Retirement Death Benefit. If a Vested Participant who is receiving monthly retirement benefits under this Plan following his termination of employment by the Corporation dies, his surviving spouse, if he is survived by a spouse, shall be entitled to receive a death benefit which shall be a monthly payment for the spouse's life, beginning on the first day of the month following the Vested Participant's death, equal to:

(1) fifty percent (50%) of the monthly retirement benefit to which the Vested Participant was entitled under the Plan prior to his death;

reduced by:

(2) the monthly annuity value of any life insurance provided by the Corporation or any affiliate thereof for retired employees that is in excess of post-retirement group term life insurance regularly provided by the Corporation or any affiliate thereof.

5. ADMINISTRATION OF THE PLAN. The Committee is charged with the administration of the Plan. It shall have full power and authority to construe and interpret the Plan. Its decisions shall be final, conclusive and binding on all parties. Subject to Section 10 of this Plan, the Committee shall also have the power, in its sole discretion, at any time (i) to waive, in whole or in part, application of any of the eligibility requirements of Section 3 or of the benefit reduction factors in Sections 4.a. and 4.b. and (ii) to determine the timing and form of payment of any benefit under the Plan, in the case of any individual Participant, Vested Participant or other employee of the Corporation who has participated in the performance share unit portion of the KEIP.

6. OPTIONAL FORMS OF PAYMENT. In lieu of the monthly retirement benefit (including the spousal survivor benefit payable pursuant to Section 4.e. hereof) payable pursuant to Section 4.a. or 4.b. hereof to a Vested Participant (and his surviving spouse) who retires (or whose employment is terminated other than for Cause) after August 2, 1994 (such benefit payable to a Vested Participant and/or his surviving spouse is herein referred to for purposes of this Section 6 as the "Applicable Retirement Benefit"), such Vested Participant may elect to receive the following form of benefit payment:

A lump sum cash payment, payable to the Vested Participant within ten (10) days after the Vested Participant's date of retirement (or the Vested Participant's date of termination of employment other than for Cause), equal to the actuarial present value of the Applicable Retirement Benefit, calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to one twelfth (1/12th) of each PBGC Interest Rate for the twelve months immediately preceding the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause), calculated in accordance with the Corporation's practices for determining retirement benefits; and (y) for each Vested Participant

who first became a Vested Participant after January 1, 1998 (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause) (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's retirement.

Prior to March 1, 1998, any such election must be made at least one hundred (100) days prior to the date that the Applicable Retirement Benefit payments would otherwise become payable. After February 28, 1998, any such election must be made by those Participants designated by the Committee from time to time at least two (2) years and by all other Participants at least one (1) year prior to the date that the Applicable Retirement Benefit payments would otherwise become payable.

7. PAYMENT UPON CHANGE IN CONTROL

a. Any former employee or the surviving spouse of an employee or former employee who is receiving a benefit under Sections 4.a., 4.b., 4.d. or 4.e. hereof (or pursuant to the terms of any version of this Plan) at the time of a Change in Control (collectively or individually, "SERP Recipient") shall receive, in lieu of the future monthly retirement benefit (including the spousal survivor benefit in the case of a benefit under Section 4.a. or 4.b.) to which he is entitled (such future benefit payable to the SERP Recipient is herein referred to for purposes of this Section 7.a as the "Future Retirement Benefit"), a lump sum cash payment, payable to the SERP Recipient, as applicable, within ten (10) days after a Change in Control (or such later date that is forty-five (45) days after the notice required by the following provisions of this Section 7.a. is provided to the applicable SERP Recipient), equal to the actuarial present value of his Future Retirement Benefit, calculated using: (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the PBGC Interest Rate as of the date of the Change of Control.

Notwithstanding the foregoing, the provisions of this Section 7.a. shall not apply with respect to a SERP Recipient unless such SERP Recipient consents to the application of this Section 7.a. within thirty (30) days after the date the SERP Recipient receives written notice of the terms of this Section 7.a., as provided for by the following sentence. The Corporation shall provide each SERP Recipient, a written notice of the terms of this Section 7.a. and the consent requirement contained herein not later than five (5) days after the earliest of (x) the occurrence of a Potential Change in Control, (y) the date that the Corporation provides notice to its stockholders that a vote on a transaction which, if consummated, would constitute a Change in Control will be submitted to the Corporation's stockholders for approval, or (z) the occurrence of a Change of Control.

b. For purposes of Sections 7 and 10, a "Change in

Control" means:

(1) Individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Corporation in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Exchange Act) ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Company Voting Power") shall be deemed to be an Incumbent Director;

(2) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Corporation representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Corporation (the "Outstanding Company Stock") or (ii) the Outstanding Company Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Company Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Corporation by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Corporation or by any Subsidiary for the benefit of the Corporation and/or its employees or those of a Subsidiary; (iii) any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any Subsidiary; (iv) the Corporation or any Subsidiary or (v) any underwriter temporarily holding securities pursuant to an offering of such securities;

(3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50%

of the total voting power of all outstanding voting securities eligible to elect directors of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

(4) The approval by the stockholders of the Corporation of (i) any sale or other disposition of all or substantially all of the assets of the Corporation, other than to a corporation (the "Acquiring Corporation") if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding voting securities eligible to elect directors (x) of the Acquiring Corporation or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Corporation, or (ii) a liquidation or dissolution of the Corporation.

c. For purposes of Sections 7 and 10, a "Potential

Change in Control" means:

(1) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (i) an offer made to the Hershey Trust to purchase any number of its shares in the Corporation such that if the Hershey Trust accepted such offer and sold such number of shares in the Corporation the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power, (ii) an offering by the Hershey Trust of any number of its shares in the Corporation for sale such that if such sale were consummated the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power or (iii) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or

(2) the Board approves a transaction described in subsection (2), (3) or (4) of the definition of a Change in Control contained in Section 7.b.

d. For purposes of this Section 7: (i) "Hershey Trust" means either or both of (a) the Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to the Hershey Trust Company as such trustee, and (b) the Milton Hershey School, a Pennsylvania not-for-profit corporation; (ii) "Exchange Act" shall mean the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder; (iii) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d)(3) and 14(d) thereof; and (iv) "Subsidiary" shall mean any corporation controlled by the Corporation, directly or indirectly.

8. PAYMENT OF BENEFITS. Nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Corporation and any Participant, Vested Participant, spouse of a Participant or Vested Participant, or any other person. No person other than the

Corporation shall by virtue of the provisions of the Plan have any interest in such assets. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Corporation. The right of any Vested Participant or any other person to the payment of benefits under the Plan shall not be assigned, transferred, pledged or encumbered; such payments and the right thereto are expressly declared to be non-assignable and nontransferable. No payments hereunder shall be subject to the claim of the creditors of any Vested Participant or of any other person entitled to payments hereunder. Any payments required to be made pursuant to the Plan to a person who is under a legal disability may be made by the Corporation to or for the benefit of such person in such of the following ways as the Committee shall determine:

- a. directly to such person.
- b. to the legal representative of such person.
- c. to a near relative of such person to be used for such

person's benefit.

- d. directly in payment of expenses of support, maintenance or education of such person.

The Corporation shall not be required to see to the application by any third party of any payments made pursuant to the Plan.

9. EFFECTIVE DATE OF PLAN. This Amended and Restated (1999) Supplemental Executive Retirement Plan shall be effective June 9, 1999 and Vested Participants who become eligible to retire under the Plan on or after that date shall be entitled to the benefits provided hereunder.

10. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN. The Board of Directors of the Corporation may, at any time, suspend or terminate the Plan. The Board may also from time to time, amend the Plan in such respects as it may deem advisable in order that benefits provided hereunder may conform to any change in law or in other respects which the Board deems to be in the best interest of the Corporation. No such suspension, termination or amendment of the Plan shall adversely affect any right of any person who is a Vested Participant at the time of such suspension, termination or amendment or his beneficiary(ies), estate or surviving spouse, as applicable, to receive benefits under the Plan in accordance with its provisions in effect immediately prior to such suspension, termination or amendment without the consent of such Vested Participant, beneficiary(ies), estate or surviving spouse. Any benefits payable under the terms of the Plan at the time of any suspension, termination or amendment of the Plan shall remain in effect according to their original terms, or such alternate terms as may be in the best interests of both parties and agreed to by the Vested Participant or his beneficiaries, estate or surviving spouse, as applicable. Notwithstanding the foregoing, (a) the Plan may not be terminated or amended in any manner that is adverse to the interests of

a Participant or the surviving spouse of a Participant without the consent of the Participant or surviving spouse, as applicable, either: (i) after a Potential Change in Control occurs and for one (1) year following the cessation of the Potential Change in Control, or (ii) for a two year period beginning on the date of a Change in Control (the "Coverage Period"); and (b) no termination of this Plan or amendment hereof in a manner adverse to the interests of any Participant (without the consent of the Participant or surviving spouse) shall be effective if such termination or amendment occurs (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control. After the Coverage Period, the Plan may not be amended or terminated in any manner that would adversely affect the entitlement of a Participant or his surviving spouse (without the consent of the Participant or surviving spouse) to benefits that have accrued hereunder. For purposes of the immediately preceding two sentences of this Section 10, whether an employee of the Corporation qualifies as a Participant shall be determined at the time (a) the Coverage Period commences and any time thereafter or (b) his employment is terminated or the Plan is amended (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control.

IN WITNESS WHEREOF, Hershey Foods Corporation has caused this Hershey Foods Corporation Amended and Restated (1999) Supplemental Executive Retirement Plan to be executed as of this 9th day of June, 1999.

HERSHEY FOODS CORPORATION

By: _____
Robert M. Reese
Senior Vice President,
General Counsel
and Secretary

SCHEDULE I
TO
AMENDED AND RESTATED (1999)
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

November 1999	1.850%
December 1999	1.811%
January 2000	1.773%
February 2000	1.734%
March 2000	1.696%
April 2000	1.657%
May 2000	1.619%
June 2000	1.580%
July 2000	1.542%
August 2000	1.503%
September 2000	1.465%
October 2000	1.426%
November 2000	1.388%
December 2000	1.349%
January 2001	1.310%
February 2001	1.272%
March 2001	1.233%
April 2001	1.195%
May 2001	1.156%
June 2001	1.118%
July 2001	1.079%
August 2001	1.041%
September 2001	1.002%
October 2001	0.964%
November 2001	0.925%
December 2001	0.887%
January 2002	0.848%
February 2002	0.809%
March 2002	0.771%
April 2002	0.732%
May 2002	0.694%
June 2002	0.655%
July 2002	0.617%
August 2002	0.578%
September 2002	0.540%
October 2002	0.501%
November 2002	0.463%
December 2002	0.424%
January 2003	0.385%
February 2003	0.347%
March 2003	0.308%
April 2003	0.270%
May 2003	0.231%
June 2003	0.193%
July 2003	0.154%
August 2003	0.116%
September 2003	0.077%
October 2003	0.039%
November 2003 and each succeeding month	0.000%

HERSHEY FOODS CORPORATION
EXECUTIVE BENEFITS PROTECTION PLAN
(GROUP 3A)

The Hershey Foods Corporation Executive Benefits Protection Plan (Group 3A), as set forth herein, is intended to help attract and retain qualified management employees and maintain a stable work environment by making provision for the protection of covered employees in connection with a Change in Control as set forth herein.

ARTICLE 1
DEFINITIONS

As hereinafter used, the following words shall have the meanings set forth below.

1.1 AIP means the Annual Incentive Program under the KEIP.

1.2 ANNUAL BASE SALARY means with respect to an Executive the higher of:

1.2.1 his highest annual base salary in effect during the one (1) year period preceding a Change in Control; or

1.2.2 his highest annual base salary in effect during the one year period preceding his Date of Termination.

For purposes of the foregoing, salary reduction elections pursuant to Sections 125 and 401(k) of the Code shall not be taken into account.

1.3 ANNUAL BONUS means with respect to an Executive the highest of:

1.3.1 the average of the three highest bonuses paid or payable, including any bonus or portion thereof which has been earned but deferred, to him by the Company in respect of the five fiscal years (or such shorter period during which he has been employed by the Company or eligible to receive any bonus payment) immediately preceding the fiscal year in which a Change in Control occurs (annualized for any fiscal year during such period consisting of less than twelve full months or with respect to which he has been employed by the Company or eligible to receive a bonus for less than twelve full months);

1.3.2 the bonus paid or payable (annualized as described above), including any bonus or portion thereof which has been earned but deferred, to him by the Company in respect of the most recently completed fiscal year prior to the Change in Control;

1.3.3 the bonus paid or payable (annualized as described above), including any bonus or portion thereof which has been earned or deferred, for the most recently completed fiscal year preceding his Date of Termination; and

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1.3.4 his 100% target bonus award amount for the year including his Date of Termination.

For purposes herein, only payments under the AIP, as well as payments under any successor or replacement substitute plan, shall be treated as bonus payments.

1.4 BASE AMOUNT shall have the meaning ascribed to such term in Section 280G(b)(3) of the Code.

1.5 BOARD means the Board of Directors of the Company.

1.6 CAUSE means with respect to an Executive:

1.6.1 his willful and continued failure to substantially perform his duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to him by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed his duties; or

1.6.2 his willfully engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this Section 1.6, no act or failure to act, on the part of an Executive, shall be considered willful unless it is done, or omitted to be done, by him in bad faith and without reasonable belief that his action or omission was in the best interests of the Company. Any act, or failure to act, based upon prior approval given by the Board or upon the instruction or with the approval of the Chief Executive Officer or an Executive's superior or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of an Executive shall not be deemed to be for Cause unless and until there shall have been delivered to him a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to him and he is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, he is guilty of the conduct described in Subsection 1.6.1 or 1.6.2 above, and specifying the particulars thereof in detail.

1.7 CLRP means the Hershey Foods Corporation Compensation Limit Replacement Plan and any successor or replacement plan thereof.

1.8 CHANGE IN CONTROL means:

1.8.1 individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any

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person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Company in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Securities Exchange Act of 1934 (the "Exchange Act")) ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any person (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Section 13(d)(3) and 14(d)(2) of the Exchange Act) ("Person") other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Power") shall be deemed to be an Incumbent Director;

1.8.2 the acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Company representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Company (the "Outstanding Company Stock") or (ii) the Outstanding Company Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Company Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Company by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Company or by any Subsidiary for the benefit of the Company and/or its employees or those of a Subsidiary; (iii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; (iv) the Company or any Subsidiary or (v) any underwriter temporarily holding securities pursuant to an offering of such securities;

1.8.3 the approval by the stockholders of the Company of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities eligible to elect directors of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

1.8.4 the approval by the stockholders of the Company of (i) any sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation (the "Acquiring Corporation") if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding

voting securities eligible to elect directors (x) of the Acquiring Corporation or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Corporation, or (ii) a liquidation or dissolution of the Company.

1.9 CODE means the Internal Revenue Code of 1986, as amended from time to time.

1.10 COMPANY means Hershey Foods Corporation, a Delaware corporation.

1.11 COVERAGE PERIOD means the period commencing on the date on which a Change in Control occurs and ending on the date which is the second anniversary thereof.

1.12 DATE OF TERMINATION has the meaning assigned to such term in Section 4.2 hereof.

1.13 DEFERRAL ELECTION means with respect to an Executive each of his elections to defer all or any part of any of his AIP or PSU awards as permitted under the Deferred Compensation Plan or any deferral arrangements in effect prior to the effective date thereof.

1.14 DEFERRED COMPENSATION PLAN means the Hershey Foods Corporation Deferred Compensation Plan and any successor or replacement plan thereof.

1.15 DISABILITY means with respect to an Executive his absence from his duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or his legal representative (such agreement as to acceptability not to be withheld unreasonably), provided that such absence shall constitute Disability only if the Executive is entitled to long-term disability benefits for the period of his disability after such 180 day period at least equal to 70% of the greater of his base salary as of the first day of such 180 day period or his Annual Base Salary.

1.16 EFFECTIVE DATE means June 8, 1999.

1.17 EXECUTIVE means each person who is listed on Schedule I hereto, as it may be amended from time to time pursuant to Article 7 hereof.

1.18 EXCISE TAX means any excise tax imposed under Section 4999 of the Code.

1.19 GOOD REASON means with respect to an Executive:

1.19.1 the assignment to him of any duties inconsistent in any respect with his position (including status, offices, titles and reporting relationships), authority, duties or responsibilities immediately prior to either the Potential Change in Control which precedes the Change in Control or the Change in Control or any other action by the Company which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

1.19.2 a reduction by the Company in his annual base salary as in effect, as applicable, on the Effective Date or as the same may be increased from time to time, or on the date he first becomes an Executive if he was not an Executive on the Effective Date or as the same may be increased from time to time;

1.19.3 the Company's requiring him to be based at any office or location that is more than 35 miles from his office or location immediately prior to either the Potential Change in Control which precedes the Change in Control or the Change in Control;

1.19.4 the Company's requiring him to travel on Company business to a substantially greater extent than required immediately prior to either the Potential Change in Control which precedes the Change in Control or the Change in Control;

1.19.5 the failure by the Company, without his consent, to pay to him any portion of his current compensation, or to pay to him any portion of an installment of deferred compensation under any deferred compensation program of the Company within seven (7) days of the date such compensation is due;

1.19.6 the failure by the Company to continue in effect any compensation plan in which he participates immediately prior to either the Potential Change in Control preceding the Change in Control or the Change in Control which is material to his total compensation, including but not limited to the KEIP, the CLRP, and the SERP, as applicable, or any substitute or alternative plans adopted prior to either such Potential Change in Control or Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of his participation relative to other participants, as existed at the time of such Potential Change in Control or Change in Control;

1.19.7 the failure by the Company to continue to provide him with benefits substantially similar to those enjoyed by him under any of the Company's pension, life insurance, medical, health and accident, disability or other welfare plans in which he was participating at the time of either the Potential Change in Control preceding the Change in Control or the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive him of any material fringe benefit enjoyed by him at the time of such Potential Change in Control or Change in Control, or the failure by the Company to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of such Potential Change in Control or Change in Control;

1.19.8 any purported termination by the Company of his employment after a Change in Control otherwise than in accordance with the termination procedures of Sections 4.1 through 4.4 hereof;

1.19.9 any material failure by the Company to comply with and satisfy any of its obligations under this Plan after a Potential Change in Control that is followed within one (1) year by a Change in Control; or

1.19.10 any material failure by the Company to comply with and satisfy any of its obligations under any grantor trust established by the Company to provide itself with a source of funds to assist itself in satisfying its liabilities under this Plan after (i) a Change in Control described in Subsection 1.8.1, clause (ii) of Subsection 1.8.4, or clause (i) of Subsection 1.8.4 other than a sale or other disposition to a corporation; (ii) a Change in Control described in Subsection 1.8.2 if during the Coverage Period, Incumbent Directors, as described in Subsection 1.8.1, cease for any reason to constitute at least a majority of the Board; (iii) a Change in Control described in Subsection 1.8.3 if, at any time during the Coverage Period, Incumbent Directors, as described in Subsection 1.8.1, do not constitute at least a majority of the board of directors of the Surviving Corporation; or (iv) a Change in Control described in clause (i) of Subsection 1.8.4 involving a sale or other disposition to a corporation if, at any time during the Coverage Period, Incumbent Directors, as described in Subsection 1.8.1, do not constitute at least a majority of the board of directors of such corporation.

For purposes of this Plan, any good faith determination of Good Reason made by the Executive shall be conclusive.

1.20 HERSHEY PENSION PLAN means the Hershey Foods Corporation Retirement Plan and any successor or replacement plan thereof.

1.21 HERSHEY TRUST means either or both of (a) the Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to the Hershey Trust Company as such trustee, and (b) the Milton Hershey School, a Pennsylvania not-for-profit corporation.

1.22 HIGHEST PSU AMOUNT means with respect to an Executive the highest of:

1.22.1 the average of the cash values of the three highest PSU awards paid or payable, including any PSU award or portion thereof which has been earned but deferred, to him by the Company in respect of the five fiscal years (or such shorter period during which he has been employed by the Company or eligible to receive a PSU award) immediately preceding the fiscal year in which the Change in Control occurs;

1.22.2 the cash value of the PSU award paid or payable, including any PSU award or portion thereof which has been earned but deferred, to him by the Company in respect of the most recently completed fiscal year prior to the Change in Control;

1.22.3 the cash value of the PSU award paid or payable, including any PSU award or portion thereof which has been earned but deferred, to him by the Company for the most recently completed fiscal year preceding his Date of Termination; and

1.22.4 the cash value of his 100% target PSU award for the year including his Date of Termination (each such PSU award being valued at the higher of (i) the highest closing price of the Company's Common Stock on the New York Stock Exchange during the period running from sixty (60) days prior to the Change in Control until the Executive's Date of Termination, and (ii) if the Change in Control involves a transaction in which an offer is made to purchase shares of Common Stock from the Company's stockholders, the price at which such offer is made).

1.23 KEIP means the Hershey Foods Corporation Key Employee Incentive Plan and any successor or replacement plan thereof.

1.24 NOTICE OF INTENT TO TERMINATE shall have the meaning assigned to such term in Section 4.1 hereof.

1.25 MANDATORY RETIREMENT AGE means age sixty-five (65) in the case of an Executive who has served for a minimum of two (2) years at a high level executive or high policy-making position and who is entitled to a nonforfeitable, immediate, annual employer-provided retirement benefit from any source, which is at least equal to a benefit, computed as a life annuity, of at least \$44,000 per year (or such other amount as may be provided by future legislation). In the case of all other Executives, there shall be no Mandatory Retirement Age.

1.26 PLAN means the Hershey Foods Corporation Executive Benefits Protection Plan (Group 3A), as set forth herein, as amended from time to time.

1.27 PLAN ADMINISTRATOR means the person appointed by the Company's Chief Executive Officer from time to time to administer the Plan.

1.28 POTENTIAL CHANGE IN CONTROL means the occurrence of any of the following:

1.28.1 the Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (1) an offer made to the Hershey Trust to purchase any number of its shares in the Company such that if the Hershey Trust accepted such offer and sold such number of shares in the Company the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power, (2) an offering by the Hershey Trust of any number of its shares in the Company for sale such that if such sale were consummated the Hershey Trust might no longer have more than 50% of the Outstanding Company Voting Power or (3) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or

1.28.2 the Board approves a transaction described in Subsection 1.8.2, 1.8.3 or 1.8.4 of the definition of a Change in Control contained herein.

1.29 SERP means the Hershey Foods Corporation Supplemental Executive Retirement Plan and any successor or replacement plan thereof.

1.30 SEVERANCE BENEFITS has the meaning assigned to such term in Section 3.2 hereof.

1.31 SUBSIDIARY means any corporation controlled by the Company, directly or indirectly.

1.32 VESTED CURRENT BONUS AMOUNT shall have the meaning assigned to such term in Section 2.1 hereof.

1.33 VESTED CURRENT PSU AMOUNT shall have the meaning assigned to such term in Section 2.2 hereof.

1.34 VESTED DEFERRED BONUS AMOUNT shall have the meaning assigned to such term in Section 2.1 hereof.

1.35 VESTED DEFERRED PSU AMOUNT shall have the meaning assigned to such term in Section 2.2 hereof.

1.36 VESTED PENSION BENEFIT shall have the meaning assigned to such term in Section 2.3 hereof.

1.37 VESTED PENSION AMOUNT shall have the meaning assigned to such term in Section 2.3 hereof.

1.38 WELFARE BENEFITS shall have the meaning assigned to such term in Subsection 3.2.2 hereof.

1.39 SECTION 1.39 TERMINATION OF EMPLOYMENT means:

1.39.1 with respect to an Executive who is the Chief Executive Officer of the Company on the date on which a Change in Control occurs, the termination of his employment with the Company by him in his sole and complete discretion for any reason other than his death or Disability or by the Company for any reason (a) on or after the later of (i) the first day of the ninth (9th) calendar month following the date on which the Potential Change in Control (if any) preceding the Change in Control occurs and (ii) the first day of the sixth (6th) calendar month of the Coverage Period; and (b) on or before the earlier of (x) the date the Executive attains his Mandatory Retirement Age, if applicable, and (y) the last day of the thirteenth (13th) calendar month of the Coverage Period; and

1.39.2 with respect to an Executive who is not the Chief Executive Officer of the Company on the date on which a Change in Control occurs, the termination of his employment with the Company by him in his sole and complete discretion for any reason other than his death or Disability or by the Company for any reason at any time during the thirteenth (13th) calendar

month of the Coverage Period and prior to the date he attains his Mandatory Retirement Age, if applicable.

For purposes of this Section 1.39, a partial month shall be treated as a "calendar month."

ARTICLE 2
VESTING OR PAYMENT OF CERTAIN BENEFITS
IN THE EVENT OF A CHANGE IN CONTROL

2.1 VESTING OF AIP BENEFITS; PAYMENT OF BENEFITS. Upon the occurrence of a Change in Control:

2.1.1 each Executive shall have a vested and nonforfeitable right hereunder to receive in cash an amount equal to the sum of:

2.1.1.1 the greater of (x) the 100% target award amount of all then outstanding contingent target AIP grants made to him under the KEIP, and (y) the amount that would have been payable to him under such contingent target AIP grants as of the end of the applicable award period calculated using as the applicable performance factors, his and the Company's actual performance on an annualized basis as of the date of the Change in Control (the greater of (x) and (y) is herein referred to as the "Vested Current Bonus Amount"); and

2.1.1.2 the value of all AIP Awards, as defined in the KEIP ("AIP Awards") previously earned by him for which payment has been deferred ("Deferred AIP Awards") (this value, calculated as of the date of payment to the Executive and taking into account his selection of Investment Options as defined in the Deferred Compensation Plan and his Deferral Elections applicable thereto is herein referred to as the "Vested Deferred Bonus Amount");

2.1.2 the Company shall, within five (5) business days following the Change in Control, pay to each Executive a lump sum cash payment equal to his Vested Current Bonus Amount; and

2.1.3 the Company shall, on the later of (i) the first day of January of the year first following the year during which the Change in Control occurs and (ii) the one hundred twentieth (120th) day following the Change in Control, pay to each Executive a lump sum cash payment equal to his Vested Deferred Bonus Amount attributable to his Deferred AIP Awards not previously paid to him in accordance with any of his applicable Deferral Elections if prior to the Change in Control, he elects, in his sole discretion, to receive such lump sum cash payment at such time.

2.2 VESTING OF PSU BENEFITS; PAYMENT OF BENEFITS. Upon the occurrence of a Change in Control:

2.2.1 each Executive shall have a vested and nonforfeitable right hereunder to receive in cash an amount equal to the sum of:

2.2.1.1 the 100% target award amount of the contingent target Performance Stock Unit ("PSU") grants, if any, made to him under the KEIP for the cycle ending in the year of the Change in Control valued at the higher of (i) the highest closing price of the Company's Common Stock on the New York Stock Exchange during the sixty (60) day period preceding and including the date of the Change in Control, and (ii) if the Change in Control involves a transaction in which an offer is made to purchase shares of Common Stock from the Company's stockholders, the price at which such offer is made ("Vested Current PSU Amount"); and

2.2.1.2 the value of all PSU Awards, as defined in the KEIP ("PSU Awards"), previously earned by the Executive for which payment has been deferred ("Deferred PSU Awards"), where, for purposes of calculating the value of the Executive's Deferred PSU Awards ("Vested Deferred PSU Amount") as of the date of payment to him (whether in accordance with his election as described in Subsection 2.2.3, his election as described in Subsection 3.4.3, or in the absence of any such election in accordance with his applicable Deferral Elections), all components of his Deferred PSU Awards that are denominated in shares of the Company's Common Stock shall be valued at the higher of (i) the highest closing price of the Company's Common Stock on the New York Stock Exchange during the sixty (60) day period preceding and including the date of the Change in Control, and (ii) if the Change in Control involves a transaction in which an offer is made to purchase shares of Common Stock from the Company's stockholders, the price at which such offer is made and investment credits shall be applied thereto and to all components of such Deferred PSU Awards that are not denominated in shares of the Company's Common Stock in accordance with the provisions of the Deferred Compensation Plan from the date of the Change in Control to the date of payment to the Executive in accordance with his selection of Investment Options as defined in the Deferred Compensation Plan.;

2.2.2 the Company shall, within five (5) business days following the Change in Control, pay to each Executive a lump sum cash payment equal to his Vested Current PSU Amount; and

2.2.3 the Company shall, on the later of (i) the first day of January of the year first following the year during which the Change in Control occurs and (ii) the one hundred twentieth (120th) day following the Change in Control, pay to each Executive a lump sum cash payment equal to his Vested Deferred PSU Amount attributable to his Deferred PSU Awards not previously paid to him in accordance with any of his applicable Deferral Elections if prior to the Change in Control, he elects, in his sole discretion, to receive such lump sum cash payment at such time.

2.3 VESTED PENSION AMOUNT. Upon the occurrence of a Change in Control:

2.3.1 each Executive who either is a participant in the SERP on the date of the Change in Control or was a participant in the SERP on the date of the Potential Change in Control preceding the Change in Control shall have a vested and nonforfeitable right hereunder to receive in cash an amount equal to the actuarial present value (as determined in accordance with Subsection 2.3.1.3 hereof) of the monthly retirement benefit (including the spousal survivor

benefit) to which he and his spouse would be entitled under Section 4 of the SERP if he retired as of the date of the Change in Control, taking into account Subsections 2.3.1.1 and 2.3.1.2 hereof (the amount of such monthly retirement benefits for him and his spouse being herein referred to as such Executive's "SERP Benefit", the actuarial present value of such SERP Benefit being herein referred to as such Executive's "Vested Pension Benefit" and the Vested Pension Benefit plus all investment credits applied thereto in accordance with the provisions of Section 2.5 hereof being herein referred to as "Vested Pension Amount"), where:

2.3.1.1 for purposes of determining such Executive's SERP Benefit as of the date of a Change in Control, he shall: (i) be credited for all purposes under the SERP with additional Years of Service (as defined in the SERP) equal to the lesser of three (3) or the number of years (including fractions thereof) from the date of the Change in Control until he would attain Mandatory Retirement Age if applicable to him; (ii) be credited for purposes of only Section 3 of the SERP (and not for the purposes of any other provision of the SERP, including but not limited to Section 4(a)(1) and Section 4(b)(1)) with additional Years of Service (as defined in the SERP) equal to the excess, if any, of ten (10) over his actual number of Years of Service (including fractions thereof) completed as of the date of the Change in Control; (iii) be deemed for the purposes of Section 3 of the SERP (and not for the purposes of any other provision of the SERP) to have five (5) years of participation in the performance share unit portion of the KEIP during his last ten (10) years of employment with the Company regardless of his actual years of participation in the performance share unit portion of the KEIP at the time of the Change in Control; (iv) be deemed for all purposes under the SERP (including but not limited to clause (4) of Section 4.b of the SERP) to have his age increased by three (3) years (or such lesser number of years (including fractions) until he would attain Mandatory Retirement Age if applicable to him); and (v) be deemed to have been paid his Annual Base Salary and Annual Bonus for three (3) additional years (or such lesser number of years (including fractions) until he would attain Mandatory Retirement Age if applicable to him) for purposes of calculating "Final Average Compensation" in Section 2.f. of the SERP;

2.3.1.2 if such Executive has not yet attained age fifty-five (55) (after increasing his age by three (3) years as provided in the preceding Subsection 2.3.1.1), he shall upon the occurrence of the Change in Control be deemed nevertheless to have attained age fifty-five (55), with the adjustments provided for in Subsection 2.3.1.1 hereof being made on this basis;

2.3.1.3 the actuarial present value of such Executive's SERP Benefit, as determined in accordance with the foregoing provisions of this Section 2.3 shall be determined using: (i) the 83 GAM mortality tables; and (ii) an interest rate equal to 100% of the interest rate that would be used (as of the date of the Change in Control) by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination; and (iii) the date of the Change in Control as the date on which payment of the Executive's SERP Benefit is to commence and as the date as of which the actuarial present value of such SERP Benefit is calculated; and

2.3.2 each Executive who neither is a participant in the SERP on the date of the Change in Control nor was a participant in the SERP on the date of the Potential Change in Control preceding the Change in Control shall have a vested and nonforfeitable right hereunder to receive in cash an amount equal to the sum of:

2.3.2.1 a lump sum cash amount equal to the actuarial equivalent of the excess of (x) the retirement pension (determined as a straight life annuity commencing at Normal Retirement Age, as defined in the Hershey Pension Plan) which he would have accrued under the terms of the Hershey Pension Plan (as in effect immediately prior to the Change in Control), determined as if he were fully vested thereunder and had accumulated thirty-six (36) additional months of service credit thereunder during each of which he will be deemed to have been paid one-twelfth (1/12th) of the sum of his highest annual rate of compensation as an employee of the Company and his Annual Bonus (but in no event shall he be deemed to have accumulated additional months of service credit after he would have attained Mandatory Retirement Age, if applicable) over (y) the retirement pension (determined as a straight life annuity commencing at Normal Retirement Age) which he has accrued pursuant to the terms of the Hershey Pension Plan as of the date of the Change in Control; and

2.3.2.2 if he is a participant in the CLRP, a lump sum cash amount ("CLRP Benefit") equal to his Excess Account, as defined in the CLRP (as in effect immediately prior to the Change in Control) determined as if he were fully vested thereunder and had accumulated thirty-six (36) additional months of service credit thereunder during each of which he will be deemed to have been paid one-twelfth (1/12th) of the sum of his highest annual rate of compensation as an employee of the Company and his Annual Bonus, but in no event shall he be deemed to have accumulated additional months of service credit after he would have attained Mandatory Retirement Age, if applicable (the sum of the amounts described in Subsections 2.3.2.1 and 2.3.2.2 is herein referred to as such Executive's "Vested Pension Benefit" and the Vested Pension Benefit plus all, if any, investment credit applied thereto in accordance with the provisions of Section 2.5 hereof is herein referred to as such Executive's "Vested Pension Amount").

For purposes of this Subsection 2.3.2, "actuarial equivalent" amounts shall be determined using the same methods and assumptions prescribed under the Hershey Pension Plan immediately prior to the Change in Control.

2.4 PAYMENT OF VESTED PENSION AMOUNT UPON TIMELY ELECTION. The Company shall, on the later of (i) the first day of January of the year first following the year during which the Change in Control occurs and (ii) the one-hundred twentieth (120th) day following the Change in Control, pay to each Executive a lump sum cash payment equal to his Vested Pension Amount plus interest thereon at the rate provided in Section 1274(b)(2)(B) of the Code from the date of the Change in Control to the date of payment if, prior to the Change in Control, he elects, in his sole discretion, to receive such lump sum cash payment at such time.

2.5 CONVERSION OF VESTED PENSION BENEFIT TO DEFERRED COMPENSATION PLAN ACCOUNT IN ABSENCE OF SECTION 2.4 ELECTION. In the event the Executive makes no election under Section 2.4 hereof, an amount equal to his Vested Pension Benefit shall be credited to him under

the Deferred Compensation Plan and subject to the provisions of this Subsection 2.5, the provisions of the Deferred Compensation Plan shall apply thereto as if such amount were a Deferred AIP Award. Within ten (10) days of the Change in Control the Executive shall select one or more Investment Options as defined in the Deferred Compensation Plan to be effective with respect to such amount and thereafter may change his selection of such Investment Options in accordance with the provisions of the Deferred Compensation Plan. Investment credits shall be applied to the amount of his Vested Pension Benefit in accordance with the provisions of the Deferred Compensation Plan from the date of the Change in Control to the date of payment to the Executive in accordance with his selection of such Investment Options. If the Executive makes no election under Section 2.4 hereof and does not select one or more Investment Options as defined in the Deferred Compensation Plan within ten (10) days of the Change in Control in accordance with the provisions of the second sentence of this Section 2.5, investment credits shall be applied to the amount of his Vested Pension Benefit from the date of the Change in Control to the earlier of the date he makes a selection of Investment Options with respect thereto in accordance with the provisions of the Deferred Compensation Plan and the date of payment in accordance with the latest of his pre-Change in Control selections of Investment Options relating to his Deferred AIP Awards or Deferred PSU Awards, if any. If there are no such pre-Change in Control selections of Investment Options, then investment credits shall be applied in accordance with the provisions of the immediately preceding sentence by treating the Hershey Fixed Income Fund Investment Option under the Deferred Compensation Plan as his latest pre-Change in Control selection of Investment Options. Within ten (10) days of the Change in Control the Executive shall make a Deferral Election with respect to his Vested Pension Amount. If the Executive makes no election under Section 2.4 hereof and makes no Deferral Election within ten (10) days of the Change in Control in accordance with the immediately preceding sentence, then for purposes hereof he will be considered to have made a Deferral Election under the Deferred Compensation Plan to have his Vested Pension Amount paid to him, his designated beneficiaries or his estate, as applicable, in accordance with the latest of his pre-Change in Control Deferral Elections relating to his Deferred AIP Awards or Deferred PSU Awards, if any. If there are no such pre-Change in Control Deferral Elections, then for purposes hereof he will be considered to have made a Deferral Election under the Deferred Compensation Plan to have his Vested Pension Amount paid to him, his designated beneficiaries or his estate, as applicable, on the first day of the month following his termination of employment by the Company. His Vested Pension Amount shall be paid to him in accordance with the Deferral Election described in the preceding three sentences, as applicable, or any subsequent Deferral Election with respect thereto permitted in accordance with the provisions of the Deferred Compensation Plan.

2.6 SERP OR CLRP AMENDMENTS. Notwithstanding any provision of the SERP, CLRP, or Deferred Compensation Plan, none of the SERP, CLRP, or Deferred Compensation Plan may be terminated or amended in any manner that is adverse to the interests of any Executive without his consent either: (i) after a Potential Change in Control occurs and for one (1) year following the cessation of the Potential Change in Control, or (ii) after a Change in Control. Any termination or amendment of the SERP, CLRP, or Deferred Compensation Plan in a manner adverse to the interests of an Executive within one (1) year prior to a Potential Change in Control shall not be given effect for purposes of Section 2.3 or Section 2.5 hereof.

ARTICLE 3
EXECUTIVE BENEFITS AND RIGHTS
UPON TERMINATION OF EMPLOYMENT

3.1 GENERAL TERMINATION RIGHTS AND BENEFITS. If an Executive's employment by the Company is terminated at any time after a Change in Control for any reason (whether by him or the Company), the Company shall pay to him the payments described in Subsections 3.1.1 through 3.1.7 below.

3.1.1 PREVIOUSLY EARNED SALARY. The Company shall pay his full salary to him through his Date of Termination at the highest rate in effect during the period between the Potential Change in Control preceding the Change in Control and the date the Notice of Intent to Terminate is given, together with all compensation and benefits payable to him through the Date of Termination under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period.

3.1.2 PREVIOUSLY EARNED BENEFITS. The Company shall pay his normal post-termination compensation and benefits to him as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with the Company's retirement, insurance, pension, welfare and other compensation or benefit plans, programs and arrangements.

3.1.3 PAYMENT OF VESTED CURRENT BONUS AMOUNT. Except to the extent that the Company has previously paid or concurrently pays to him all or a portion of his Vested Current Bonus Amount pursuant to Section 2.1, Subsection 3.1.1 or Subsection 3.1.2 hereof, the Company shall pay to him a lump sum cash payment equal to his Vested Current Bonus Amount.

3.1.4 PAYMENT OF VESTED DEFERRED BONUS AMOUNT. Except to the extent that the Company has previously paid or concurrently pays to him all or a portion of his Vested Deferred Bonus Amount pursuant to Section 2.1, Subsection 3.1.1 or Subsection 3.1.2 hereof, the Company shall pay to him a lump sum cash payment equal to his Vested Deferred Bonus Amount.

3.1.5 PAYMENT OF VESTED CURRENT PSU AMOUNTS. Except to the extent that the Company has previously paid or concurrently pays to him all or a portion of his Vested Current PSU Amount pursuant to Section 2.2, Subsection 3.1.1 or Subsection 3.1.2 hereof, the Company shall pay to him a lump sum cash payment equal to his Vested Current PSU Amount.

3.1.6 PAYMENT OF VESTED DEFERRED PSU AMOUNTS. Except to the extent that the Company has previously paid or concurrently pays to him all or a portion of his Vested Deferred PSU Amount pursuant to Section 2.2, Subsection 3.1.1 or Subsection 3.1.2 hereof, the Company shall pay to him a lump sum cash payment equal to his Vested Deferred PSU Amount.

3.1.7 PAYMENT OF VESTED PENSION AMOUNT. Except to the extent that the Company has previously paid or concurrently pays to him his Vested Pension Amount, the Company shall pay to him a lump-sum cash payment equal to his Vested Pension Amount.

3.2 SEVERANCE BENEFITS. In addition to the payments provided for by Section 3.1 hereof, the Company shall pay to an Executive the payments described in Subsections 3.2.1 through 3.2.4 below (the "Severance Benefits") in accordance with such Subsections upon termination of his employment with the Company during the Coverage Period, if his termination of employment either (i) is a Section 1.39 Termination of Employment, or (ii) is (a) not by the Company for Cause, (b) not by reason of his death or Disability or after his Mandatory Retirement Age, if applicable, and (c) not by him without Good Reason.

3.2.1 LUMP-SUM SEVERANCE PAYMENT. In lieu of any further salary payments to him for periods subsequent to the Date of Termination, the Company shall pay to him a lump sum severance payment, in cash, equal to three (3) (or, if less, the number of years, including fractions, from the Date of Termination until he would have reached Mandatory Retirement Age, if applicable) times the sum of (a), (b) and (c) where (a) equals his Annual Base Salary, (b) equals his Annual Bonus and (c) equals his Highest PSU Amount.

3.2.2 CONTINUED BENEFITS. For a thirty-six (36) month period (or, if less, the number of months from the Date of Termination until he would have reached Mandatory Retirement Age, if applicable) after the Date of Termination, the Company shall provide him with life insurance, health, disability and other welfare benefits ("Welfare Benefits") substantially similar in all respects to those which he was receiving immediately prior to the Notice of Termination on substantially the same terms and conditions, including contributions required from him for such benefits (without giving effect to any reduction in such benefits subsequent to the Potential Change in Control preceding the Change in Control or the Change in Control, which reduction constitutes or may constitute Good Reason); provided that if he cannot continue to participate in the Company plans providing Welfare Benefits, the Company shall otherwise provide such benefits on the same after-tax basis as if continued participation had been permitted. The Executive shall be entitled to elect to change his level of coverage and/or his choice of coverage options (such as Executive only or family medical coverage) with respect to the Welfare Benefits to be provided by the Company to him to the same extent that actively employed executives of the Company are permitted to make such changes; provided, however, that in the event of any such changes he shall pay the amount of any cost increase that would actually be paid by an actively employed executive of the Company by reason of such actively employed executive making the same change in level of coverage or coverage options. Notwithstanding the foregoing, in the event that the Executive becomes reemployed with another employer and becomes eligible to receive welfare benefits from such employer, the Welfare Benefits described herein shall be secondary to such benefits, but only to the extent that the Company reimburses him for any increased cost and provides any additional benefits necessary to give him the Welfare Benefits provided hereunder.

3.2.3 OUTSTANDING AWARDS. If an Executive's Date of Termination occurs within the Coverage Period and during any calendar year following the calendar year during which a Change in Control occurs, he shall be entitled to a lump sum cash payment with respect to each outstanding contingent target AIP and PSU grant under the KEIP or any similar types of grants under any replacement plans or programs equal to the sum of :

3.2.3.1 the sum of the product of (x) and (y) for each then outstanding contingent target PSU grant under the KEIP (or similar types of grants under any replacement plan or program) for the applicable award period that includes his Date of Termination, where (x) is an amount equal to the 100% target award amount of such outstanding contingent target PSU grant and (y) is a fraction the numerator of which is the number of days from and including the first day of the award period applicable to such outstanding contingent target PSU grant that includes the Executive's Date of Termination until (and including) his Date of Termination and the denominator of which is the number of days in the award period applicable to such outstanding contingent target PSU grant; and

3.2.3.2 the sum of the product of (x) and (y) for each then outstanding contingent target AIP grant made to him under the KEIP (or similar types of grants under any replacement plans or programs) for the applicable award period that includes his Date of Termination, where (x) is an amount equal to the greater of (A) the 100% target award amount of such outstanding contingent target AIP grant, and (B) the amount that would have been payable to him under such contingent target AIP grant as of the end of the applicable award period, calculated utilizing as the applicable performance factors his and the Company's actual performance on an annualized basis as of his Date of Termination, and (y) is a fraction the numerator of which is the number of days from and including the first day of the award period applicable to such outstanding contingent AIP grant that includes his Date of Termination until (and including) his Date of Termination and the denominator of which is the number of days in such applicable award period.

Contingent target PSU grants under the KEIP or a similar type of grant under a replacement plan or program shall be valued at the highest closing price of the Company's Common Stock on the New York Stock Exchange during the period running from sixty (60) days prior to the Change in Control until the Executive's Date of Termination.

3.2.4 RELOCATION ALLOWANCE. In the event that an Executive relocates following his Date of Termination and during the Coverage Period at the request of a successor employer, the Company shall pay to him a relocation allowance of \$75,000; provided, however, that any such payment shall be reduced by any payments received by him from such successor employer for the purpose of reimbursing him for costs of relocation. The Company shall pay him such relocation allowance within five (5) business days after delivery of his written request and may condition the payment of the relocation allowance upon his agreeing in writing to report to the Company any such payments from any successor employer and agreeing in writing to reimburse to the Company any amounts received from the Company pursuant to this Subsection 3.2.4 that should have been so reduced.

3.3 GROSS-UP PAYMENT. In the event that an Executive becomes entitled to the Severance Benefits or any other benefits or payments under this Plan (other than pursuant to this Section 3.3), or the KEIP by reason of the accelerated vesting of stock options thereunder (together, the "Total Benefits"), and in the event that any of the Total Benefits will be subject to the Excise Tax, the Company shall pay to him an additional amount (the "Gross-Up Payment") such that the net amount retained by him, after deduction of any Excise Tax on the Total Benefits

and any federal, state and local income tax, Excise Tax and FICA and Medicare withholding taxes upon the payment provided for by this Section 3.3, shall be equal to the Total Benefits.

For purposes of determining whether any of the Total Benefits will be subject to the Excise Tax and the amount of such Excise Tax, (i) any other payments or benefits received or to be received by an Executive in connection with a Change in Control or his termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement or agreement with the Company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) shall be treated as parachute payments within the meaning of Section 280G(b)(2) of the Code, and all excess parachute payments within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel ("Tax Counsel") selected by the Company's independent auditors and acceptable to the Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the Base Amount, or are otherwise not subject to the Excise Tax, (ii) the amount of the Total Benefits which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Benefits reduced by the amount of such Total Benefits that in the opinion of Tax Counsel are not parachute payments, or (B) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (i), above), and (iii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, an Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of his residence on the Date of Termination, net of the reduction in federal income taxes which could be obtained from deduction of such state and local taxes (calculated by assuming that any reduction under Section 68 of the Code in the amount of itemized deductions allowable to him applies first to reduce the amount of such state and local income taxes that would otherwise be deductible by him).

In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of an Executive's employment, he shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax, federal, state and local income taxes and FICA and Medicare withholding taxes imposed on the portion of the Gross-Up Payment being repaid by him to the extent that such repayment results in a reduction in Excise Tax, FICA and Medicare withholding taxes and/or federal, state or local income taxes) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. The Company may require an Executive to agree in writing to the repayment obligation imposed by the preceding sentence as a condition to receiving the Gross-Up Payment. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of an Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall

make an additional Gross-Up Payment, determined as previously described, to him in respect of such excess (plus any interest, penalties or additions payable by him with respect to such excess) at the time that the amount of such excess is finally determined.

3.4 TIMING OF PAYMENTS. The payments provided for:

3.4.1 in Subsections 3.1.1, 3.1.3, 3.1.5, 3.2.1 and 3.2.3, and in Section 3.3 hereof shall be made to an Executive not later than the fifth (5th) day following his Date of Termination; provided, however, that if the amounts of such payments cannot be finally determined on or before such day the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from the fifth (5th) day following the Date of Termination to the payment of such remainder) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from the fifth (5th) day following the Date of Termination to the payment of such remainder);

3.4.2 in Subsection 3.1.4 hereof shall be made to an Executive on the later of (i) the first day of January of the year first following the year during which his Date of Termination occurs and (ii) the one hundred twentieth (120th) day following his Date of Termination if prior to his Date of Termination he elects, in his sole discretion, to receive his previously unpaid Deferred AIP Awards at such time. In the event the Executive makes such election and the amount of the payment described in Subsection 3.1.4 cannot be finally determined on or before the later of such one hundred twentieth (120th) day or January 1, as applicable, the Company shall pay to the Executive on such one hundred twentieth (120th) day or January 1, as applicable, an estimate, as determined in good faith by the Company, of the minimum amount of such payment and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from such one hundred twentieth (120th) day or January 1, as applicable, to the payment of such remainder) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after such one hundred twentieth (120th) day or January 1, as applicable. In the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from the one hundred twentieth (120th) day following the Date of Termination or January 1, as applicable, to the payment of such remainder). In the event the Executive makes no such election, his previously unpaid Deferred AIP Awards shall be paid in accordance with each of his applicable Deferral Elections;

3.4.3 in Subsection 3.1.6 shall be made to an Executive on the later of (i) the first day of January of the year first following the year during which his Date of Termination occurs and (ii) the one hundred twentieth (120th) day following his Date of Termination if prior

to his Date of Termination he elects, in his sole discretion, to receive his previously unpaid Deferred PSU Awards at such time. In the event the Executive makes such election and the amount of the payment provided for in Subsection 3.1.6 cannot be finally determined on or before the later of such one hundred twentieth (120th) day or January 1, as applicable, the Company shall pay to the Executive on such one hundred twentieth (120th) day or January 1, as applicable, an estimate, as determined in good faith by the Company, of the minimum amount of such payment and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from such one hundred twentieth (120th) day or January 1, as applicable, to the payment of such remainder) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after such one hundred twentieth (120th) day or January 1, as applicable. In the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from the one hundred twentieth (120th) day following the Date of Termination or January 1, as applicable, to the payment of such remainder). In the event the Executive makes no such election, his previously unpaid Deferred PSU Awards shall be paid in accordance with each of his applicable Deferral Elections; and

3.4.4 in Subsection 3.1.7 shall be made to him on the later of (i) the first day of January following his Date of Termination and (ii) the one hundred twentieth (120th) day following his Date of Termination if, prior to his Date of Termination, he elects, in his sole discretion, to receive such payment at such time. In the event the Executive makes no such election, then his Vested Pension Amount shall be paid in accordance with the provisions of Section 2.5.

3.5 REIMBURSEMENT OF LEGAL COSTS. The Company shall pay to an Executive all legal fees and expenses incurred by him as a result of a termination of his employment which entitles him to any payments under this Plan (including all such fees and expenses, if any, incurred in contesting or disputing any Notice of Intent to Terminate under Section 4.3 hereof or in seeking to obtain or enforce any right or benefit provided by this Plan or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder). Such payments shall be made within five (5) business days after delivery of his respective written requests for payment accompanied by such evidence of fees and expenses incurred as the Company reasonably may require.

3.6 EXECUTIVES' COVENANT. The Company may condition the payment of the amounts and provision of the benefits described in Article 3 of the Plan to an Executive upon his providing to the Company a written agreement that, subject to the terms and conditions of this Plan, in the event of a Potential Change in Control, he will remain in the employ of the Company until the earliest of (a) a date which is nine months after the date of such Potential Change in Control, (b) the date of a Change in Control, (c) the date of his termination of his employment for Good Reason (determined by treating the Potential Change in Control for this purpose as a Change in Control in applying the definition of Good Reason) or by reason of death or Disability, (d) the termination by the Company of his employment for any reason or (e) his attaining age sixty-five (65).

ARTICLE 4
TERMINATION PROCEDURES AND
COMPENSATION DURING DISPUTE

4.1 NOTICE OF INTENT TO TERMINATE. After a Change in Control, any purported termination of an Executive's employment (other than by reason of death) must be preceded by a written Notice of Intent to Terminate from him to the Company or the Company to him, as applicable, in accordance with Section 8.17 hereof. For purposes of this Plan, a Notice of Intent to Terminate shall mean a notice which shall indicate the notifying party's opinion regarding the specific provisions of this Plan that will apply upon such termination and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for the application of the provisions so indicated. Further, a Notice of Intent to Terminate for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for him, together with his counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, he was guilty of conduct set forth in Subsection 1.6.1 or 1.6.2 herein, and specifying the particulars thereof in detail.

4.2 DATE OF TERMINATION. Date of Termination, with respect to any purported termination of an Executive's employment after a Change in Control, shall mean (except as provided in Section 4.3 hereof) (a) if his employment is terminated by reason of his death, his date of death (b) if his employment is terminated for Disability, thirty (30) days after Notice of Intent to Terminate is given (provided that he shall not have returned to the full-time performance of his duties during such thirty (30) day period), and (c) if his employment is terminated for any other reason, the date specified in the Notice of Intent to Terminate (which (i) in the case of a termination by the Company, shall not be less than thirty (30) days, except in the case of a termination for Cause in which case it shall not be less than ten (10) days, provided that the Company may require him to not report to work during such ten (10) day period and (ii) in the case of a termination by an Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Intent to Terminate is given).

4.3 DISPUTE CONCERNING TERMINATION. If within fifteen (15) days after any Notice of Intent to Terminate is given (within eight (8) days in the case of a termination for Cause by the Company), or, if later, prior to the Date of Termination (as determined without regard to this Section 4.3), the person receiving such Notice of Intent to Terminate notifies the person giving such notice that a dispute exists concerning the termination or the provisions of this Plan that apply to such termination, the Date of Termination shall be the date on which the dispute is finally resolved, either by mutual written agreement of the parties to such dispute or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the person giving such notice pursues the resolution of such dispute with reasonable diligence.

4.4 COMPENSATION DURING DISPUTE. If a purported termination of an Executive's employment occurs following a Change in Control and such termination or the provisions of this Plan that apply upon such termination is disputed in accordance with Section 4.3 hereof (including a dispute as to the existence of good faith and/or reasonable diligence thereunder), the Company shall continue to pay the Executive the full compensation (including, but not limited to, salary) at his Annual Base Salary and continue his participation in all compensation plans required to be maintained hereunder and continue to provide to him the Welfare Benefits provided for in Subsection 3.2.2 hereof until the dispute is finally resolved in accordance with Section 4.3 hereof. Amounts paid under this Section 4.4 are in addition to all other amounts due under this Plan (other than those due under Subsection 3.1.1 hereof) and shall not be offset against or reduce any other amounts due under this Plan.

ARTICLE 5
PLAN ADMINISTRATION

5.1 AUTHORITY TO PLAN ADMINISTRATOR. The Plan shall be interpreted, administered and operated by the Plan Administrator, subject to the express provisions of the Plan.

5.2 DELEGATION OF DUTIES. The Plan Administrator may delegate any of his duties hereunder to such person or persons from time to time as he may designate.

5.3 ENGAGEMENT OF THIRD PARTIES. The Plan Administrator is empowered, on behalf of the Plan, to engage accountants, legal counsel and such other personnel as he deems necessary or advisable to assist him in the performance of his duties under the Plan. The functions of any such persons engaged by the Plan Administrator shall be limited to the specified services and duties for which they are engaged, and such persons shall have no other duties, obligations or responsibilities under the Plan. Such persons shall exercise no discretionary authority or discretionary control respecting the management of the Plan. All reasonable expenses thereof shall be borne by the Company.

ARTICLE 6
CLAIMS

6.1 CLAIMS PROCEDURE. Claims for benefits under the Plan shall be filed with the Plan Administrator. If any Executive or other payee claims to be entitled to a benefit under the Plan and the Plan Administrator determines that such claim should be denied in whole or in part, the Plan Administrator shall notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain (a) specific reasons for the denial, (b) specific reference to pertinent Plan provisions, (c) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (d) information as to the steps to be taken if the person wishes to submit a request for review. Such notification will be given within 90 days after the claim is received by the Plan Administrator. If such notification is not

given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his claim.

6.2 REVIEW PROCEDURE. Within 60 days after the date on which a person receives a written notice of a denied claim (or, if applicable, within 60 days after the date on which such denial is considered to have occurred) such person (or his duly authorized representative) may (a) file a written request with the Plan Administrator for a review of his denied claim and of pertinent documents and (b) submit written issues and comments to the Plan Administrator. The Plan Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The decision on review will be made within 60 days after the request for review is received by the Plan Administrator. If the decision on review is not made within such period, the claim will be considered denied.

6.3 CLAIMS AND REVIEW PROCEDURES NOT MANDATORY. The claims procedure and review procedure provided for in this Article 6 are provided for the use and benefit of Executives who may choose to use such procedures, but compliance with the provisions of this Article 6 is not mandatory for any Executive claiming benefits under the Plan. It shall not be necessary for any Executive to file a claim with the Plan Administrator or to exhaust the procedures and remedies provided for by this Article 6 prior to bringing any legal claim or action, or asserting any other demand, for payments or other benefits to which he claims entitlement hereunder.

ARTICLE 7 PLAN MODIFICATION OR TERMINATION

The Plan may be amended or terminated by resolution of the Board at any time; provided, however, that: (a) Schedule I hereto may be amended at any time and in any manner by resolution of the Compensation Committee of the Board upon recommendation of the Company's Chief Executive Officer; and (b) Schedule I hereto may be amended at any time by the Company's Chief Executive Officer to delete any one or more persons therefrom. Notwithstanding the foregoing: (a) the Plan may not be terminated or amended in a manner adverse to the interests of any Executive, without his consent (including the amendment of Schedule I hereto to delete him therefrom) (i) after a Potential Change in Control occurs and for one (1) year following the cessation of a Potential Change in Control, or (ii) for the two-year period following consummation of the transaction(s) resulting from or in the Change in Control; and (b) no termination of this Plan or amendment hereof in a manner adverse to the interests of any Executive, without his consent (including the amendment of Schedule I hereto to delete him therefrom), shall be effective if such termination or amendment occurs (i) at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (ii) in connection with or in anticipation of a Change in Control or Potential Change in Control. For this purpose, the cessation of a Potential Change in Control occurs if a Change in Control has not occurred within one year following the Potential Change in Control. In the event that the termination of this Plan by the Company or an amendment hereof in a manner adverse to the interests of any Executive (without his consent) occurs within six (6) months prior to a Potential

Change in Control or a Change in Control, there shall be a presumption that the conditions of subclauses (i) and (ii) of clause (b) of the next preceding sentence shall have been met. Upon the expiration of the Coverage Period, the Plan may not be amended in any manner which would adversely affect the rights which any Executive has at that time to receive any and all payments or benefits pursuant to Articles 2, 3, and 4 by reason of a Change in Control which has theretofore occurred or by reason of a termination of his employment during the Coverage Period, and the Company's obligations to make such payments and provide such benefits shall survive any termination of the Plan.

ARTICLE 8
MISCELLANEOUS

8.1 TERMINATIONS IN ANTICIPATION OF CHANGE IN CONTROL. An Executive's employment shall be deemed to have been terminated by the Company without Cause during the Coverage Period if his employment is terminated by the Company without Cause prior to a Change in Control or Potential Change in Control and such termination of employment (a) was at the request of a third party who had indicated an intention to take or had taken steps reasonably calculated to effect a Change in Control, or (b) otherwise arose in connection with or in anticipation of a Change in Control and (c) in either case, a Change in Control does occur which may involve such third party (or a party competing with such third party to effectuate a Change in Control). An Executive shall be deemed to have terminated his employment for Good Reason during the Coverage Period if he terminates his employment with Good Reason prior to a Change in Control or Potential Change in Control if the circumstance or event which constitutes Good Reason (a) occurred at the request of a third party who had indicated an intention to take or had taken steps reasonably calculated to effect a Change in Control, or (b) otherwise arose in connection with or in anticipation of a Change in Control, and (c) in either case, a Change in Control does occur which may involve such third party (or a party competing with such third party to effectuate a Change in Control). In the event of a termination of employment described in this Section 8.1, the Executive shall be entitled to all payments and other benefits to which he would have been entitled had such termination occurred during the Coverage Period (other than salary pursuant to Subsection 3.1.1 hereof for any period after the actual date of termination) and he shall be entitled to an additional payment in an amount which shall compensate him to the extent that he was deprived by such termination of the opportunity prior to termination of employment to exercise any stock options granted to him under the KEIP (including any such stock options that were not exercisable at the time of his termination of employment) at the highest market price of the Company's Common Stock reached in connection with the Change in Control or Potential Change in Control if a Potential Change in Control shall occur and not be followed by a Change in Control within twelve (12) months of the Potential Change in Control. In the event that the termination of employment of an Executive as described in this Section 8.1 occurs following a Potential Change in Control or within six (6) months prior to a Change in Control, there shall be a presumption that clauses (a) and (b) of the first two sentences of this Section 8.1 shall have been met.

8.2 BURDEN. In any proceeding (regardless of who initiates such proceeding) in which the payment of Severance Benefits or other compensation or benefits under this Plan is at issue,

(i) the burden of proof as to whether Cause exists for purposes of this Plan shall be upon the Company and (ii) in the event that the last sentence of Section 8.1 applies, the Company shall have the burden to prove, by clear and convincing evidence, that a termination of employment has not been made in anticipation of a Change in Control as contemplated by Section 8.1.

8.3 NO RIGHT TO CONTINUED EMPLOYMENT. Nothing in the Plan shall be deemed to give any Executive the right to be retained in the employ of the Company, or to interfere with the right of the Company to discharge him at any time and for any lawful reason, with or without notice, subject in all cases to the terms of this Plan.

8.4 NO ASSIGNMENT OF BENEFITS. Except as otherwise provided herein or by law, no right or interest of any Executive under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of any Executive under the Plan shall be liable for, or subject to, any obligation or liability of such Executive.

8.5 DEATH. This Plan shall inure to the benefit of and be enforceable by an Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If an Executive shall die while any amount would still be payable to him hereunder (other than amounts which, by their terms, terminate upon his death) if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the executors, personal representatives or administrators of his estate.

8.6 INCOMPETENCY. Any benefit payable to or for the benefit of an Executive, if legally incompetent or incapable of giving a receipt therefor, shall be deemed paid when paid to his guardian or to the party providing or reasonably appearing to provide for his care, and such payment shall fully discharge the Company, the Plan Administrator and all other parties with respect thereto.

8.7 REDUCTION OF BENEFITS BY LEGALLY REQUIRED BENEFITS. Notwithstanding any other provision of this Plan to the contrary, if the Company is obligated by law or by contract (other than under this Plan) to pay severance pay, a termination indemnity, notice pay, or the like, to an Executive or if the Company is obligated by law or by contract to provide advance notice of separation ("Notice Period") to an Executive, then any Severance Benefits payable to him hereunder shall be reduced by the amount of any such severance pay, termination indemnity, notice pay or the like, as applicable, and by the amount of any pay received during any Notice Period; provided however, that the period following a Notice of Intent to Terminate shall not be considered a Notice Period.

8.8 ENFORCEABILITY. If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

8.9 EFFECTIVE DATE. The Plan shall be effective as of the Effective Date and shall remain in effect unless and until terminated by the Board, subject to the requirements of Article 7 hereof.

8.10 NO MITIGATION. The Company agrees that, if an Executive's employment by the Company is terminated during the Coverage Period, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to him by the Company pursuant to this Plan. Further, the amount of any payment or benefit provided for under this Plan (other than to the extent provided in Subsections 3.2.2 and 3.2.4) shall not be reduced by any compensation earned by him as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by him to the Company, or otherwise.

8.11 SUCCESSORS. In addition to any obligations imposed by law upon any successor to the Company, the Company shall be obligated to require any successor (whether direct or indirect, by purchase, merger, consolidation, operation of law, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall entitle each Executive to compensation and benefits from the Company in the same amount and on the same terms as he would be entitled to hereunder if he were to terminate his employment for Good Reason during the Coverage Period.

8.12 CONSENT TO CANCELLATION OF AWARDS AND REDUCTION OF SERP BENEFIT. The Company may condition the payment to an Executive of his Vested Current Bonus Amount, Vested Current PSU Amount, Vested Deferred Bonus Amount and/or Vested Deferred PSU Amount upon his providing a written consent to the cancellation of the applicable contingent target AIP and PSU grants and AIP and PSU Awards for which payment has been deferred on which his Vested Current Bonus Amount, Vested Current PSU Amount, Vested Deferred Bonus Amount and/or Vested Deferred PSU Amount is based and in lieu of which such amounts are paid. The Company may condition the payment to an Executive of his Vested Pension Amount or the providing of any benefit or payment under Section 2.5 or Subsection 3.4.4 hereof upon his providing a written consent to, as applicable, (i) the reduction of the benefit to be paid under the SERP (whether in the form of a monthly payment to him and his surviving spouse or as a lump sum) such reduction to be in the amount of the SERP Benefit which was used in the calculation of his Vested Pension Benefit or the amount of any payments or benefits provided under Subsection 3.4.4, or (ii) the reduction of his Excess Account under the CLRP, such reduction to be in the amount of the CLRP Benefit which was used in the calculation of his Vested Pension Benefit.

8.13 EMPLOYMENT BY SUBSIDIARY. For purposes of this Plan, an Executive who is employed by a Subsidiary shall be treated as if employed by the Company and his entitlement to benefits hereunder shall be determined as if he were employed by the Company. For such purpose, the Subsidiary shall be treated as if it were an unincorporated division of the Company.

8.14 WAIVER. No waiver by an Executive at any time of any breach of the terms of this Plan, or compliance with, any condition or provision of this Plan to be performed by the Company shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.15 WITHHOLDING TAXES. Any payments to an Executive provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which he has agreed.

8.16 CONSTRUCTION. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan. Neither the gender nor the number (singular or plural) of any word shall be construed to exclude another gender or number when a different gender or number would be appropriate.

8.17 NOTICES. Any notice or other communication required or permitted pursuant to the terms hereof shall be deemed to have been duly given when delivered or mailed by United States Mail, first class, postage prepaid, addressed to the intended recipient at his last known address (which in the case of an Executive shall be the address specified by him in any written notice provided to the Company in accordance with this Section 8.17).

8.18 STATUTORY CHANGES. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections.

8.19 GOVERNING LAW. This Plan shall be construed and enforced according to the laws of the State of Delaware to the extent not preempted by Federal law, which shall otherwise control.

IN WITNESS WHEREOF, the Company has caused the Plan to be adopted as of the 8th day of June, 1999.

HERSHEY FOODS CORPORATION

By: _____
Robert M. Reese
Senior Vice President,
General Counsel
and Secretary

CONFIDENTIAL SEPARATION AGREEMENT AND GENERAL RELEASE

This Confidential Separation Agreement and General Release (the "AGREEMENT") is made as of this 11th day of December, 2000 (the "Effective Date"), by and between Hershey Foods Corporation, a Delaware corporation (the "COMPANY"), and Michael F. Pasquale ("EMPLOYEE"), and together with the Company, (the "PARTIES").

WHEREAS, Employee will be retained as an employee of the Company on paid leave of absence until the Separation Date, as hereinafter defined, whereupon Employee's employment with the Company shall terminate (the "SEPARATION");

WHEREAS, the Company and Employee desire voluntarily to enter into this Agreement in order to set forth the definitive rights and obligations of the Parties in connection with the Separation; and

WHEREAS, the Parties enter into this Agreement for their mutual cooperation and benefit:

NOW, THEREFORE, in consideration of the mutual covenants, commitments and agreements set forth herein, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

1. **ACKNOWLEDGMENT OF SEPARATION.** The Parties acknowledge and agree that the Separation shall be effective (the "Separation Date") as of the earliest of (i) the date Employee commences full-time employment with another employer; (ii) in the event Employee breaches any of his covenants, agreements or obligations hereunder, the date the Company provides notice of such breach to Employee; (iii) Employee's date of death; and (iv) June 1, 2002. If Employee commences full-time employment with another employer prior to June 1, 2002, a determination of whether an exception or waiver of eligibility requirements under the SERP (as hereinafter defined) to allow Employee to receive benefits under the SERP may be made by and in the sole discretion of the Chief Executive Officer and Board of Directors of the Company, taking into account Section 4.9.

2. **RESIGNATION FROM COMPANY BOARD OF DIRECTORS AND COMPANY OFFICES.** Effective immediately, Employee hereby voluntarily resigns from all of his positions and offices with the Company and its subsidiaries, including, without limitation, (i) member of the Board of Directors of the Company and of each committee thereof of which he is a member, (ii) the Board of Directors of any subsidiary of the Company, (iii) Executive Vice President and Chief Operating Officer, and (iv) each office he may occupy of any subsidiary of the Company.

3. **EMPLOYEE'S ACKNOWLEDGMENT OF CONSIDERATION.** Employee specifically acknowledges and agrees that certain of the obligations created and payments made to him by the Company under this Agreement are promises and payments to which he is not otherwise entitled under any law or contract.

4. **PAID LEAVE OF ABSENCE.** Employee shall be placed on a paid leave of absence commencing on the Effective Date and continuing until the Separation Date. This period shall be known as the "Leave of Absence Period". The following conditions shall apply during the Leave of Absence Period:

4.1. Except as provided for below and in Section 4.2, Employee shall continue to be eligible to receive the following, and only the following, employment benefits and participate in or receive benefits under the following, and only the following,

programs and benefit plans (in accordance with the terms and conditions of the programs and benefit plans of the Company, including, without limitation, such terms and conditions permitting the Company to amend or terminate such programs and benefit plans) applicable to Employee immediately prior to the Effective Date:

- 4.1.1. his salary, which shall be payable in regular installments in accordance with the Company's general payroll practices and shall be subject to customary withholding;
- 4.1.2. the Company's medical (including dental and vision) benefits programs, including the retiree medical program if Employee's Separation Date occurs concurrently with or after he is eligible to retire;
- 4.1.3. the Company's life insurance program at one-times his base salary;
- 4.1.4. the Hershey Foods Corporation Deferred Compensation Plan ("DCP");
- 4.1.5. the Hershey Foods Corporation Retirement Plan ("HRA");
- 4.1.6. the Hershey Foods Corporation Employees Savings Stock Investment and Ownership Plan ("ESSIOP"); and
- 4.1.7. the Hershey Foods Corporation Supplemental Executive Retirement Plan ("SERP").

From and after Employee's Separation Date, he shall not be entitled to any payments or benefits of any kind from the Company under this Section 4.1, and any vested rights under the DCP, the HRA, the ESSIOP, the SERP, and the retiree medical program shall be determined by the terms and conditions of these plans respectively.

4.2. Notwithstanding the foregoing, the parties agree:

- 4.2.1. Employee shall not be eligible to accrue, earn or participate in salary adjustments after the Effective Date;
- 4.2.2. Employee shall not be eligible to receive any employment benefits or participate in or receive any payments or benefits under any programs or benefit plans not listed in Section 4.1 (in particular, Employee shall not, effective immediately, be eligible for any benefits under any Company employee benefit protection program, including its Executive Benefits Protection Plans, whether Group 2, 3 or 3A, and its Severance Benefits Plan);
- 4.2.3. Upon the Effective Date, all Employee's coverage under the Company's short-term and long-term disability plans shall cease;
- 4.2.4. Employee will be paid in January 2001 for any unused vacation days to which he is entitled in 2000 but shall not be entitled to payment for vacation days accrued for 2001 or any subsequent year; and

4.2.5. Employee shall not be permitted to contribute to a medical reimbursement account under the Company's flex benefits plan for any period after December 31, 2000.

- 4.3. Employee shall not participate in any part of the Long -Term Incentive Program ("LTIP") of the Company's Key Employee Incentive Plan ("KEIP") during 2001 or any subsequent year and any outstanding contingent target grants of Performance Stock Units granted to Employee prior to December 31, 2000 are hereby cancelled, except for those granted for the 1998-2000 cycle for pay-out, if any, in February 2001 in accordance with the terms of LTIP.
- 4.4. Except as provided in the immediately following sentence, presentation of a draft of this Agreement to Employee on December 11, 2000 for his consideration constitutes notice of termination of employment for purposes of Section 8(a) of the KEIP. If Employee executes this Agreement on December 11, 2000, presentation on December 11, 2000 of a draft of this Agreement to Employee for his consideration shall not constitute a notice of termination of employment for purposes of Section 8(a) of the KEIP. Whether Employee has received a notice of termination of employment for purposes of Section 8(a) the KEIP can be determined only upon the occurrence or non-occurrence of certain events following the presentation of this Agreement to Employee for his consideration. Employee, therefore, shall not be permitted to exercise any currently outstanding Options granted to him previously under the KEIP unless and until this Agreement becomes effective and enforceable. If this Agreement becomes effective and enforceable, then from and after the Effective Date and through and including his Separation Date, Employee shall be considered to be an active employee for purposes of any Options granted to him previously under KEIP during any years prior to 2001 and may exercise in accordance with the provisions of KEIP any such Options at any time prior to his Separation Date and thereafter in accordance with the KEIP and the terms and conditions of the grants of such Options if his Separation Date occurs concurrently with or after he is eligible to retire.
- 4.5. Employee shall be eligible to receive an award, if any, of his contingent target grant for 2000 under the Annual Incentive Program ("AIP") of KEIP subject to the terms and conditions of the KEIP and the contingent target grant. For these purposes his score for personal objectives will be set at 100%. Employee shall not be entitled to participate in or receive any benefits under the Annual Incentive Program of KEIP for 2001 or any subsequent year.
- 4.6. During the Leave of Absence Period, Employee shall have no assigned duties and shall perform no services for the Company.
- 4.7. Except as provided for in Section 6 below, Employee shall be free to seek and accept other employment after the Effective Date.
- 4.8. In the event Employee commences other employment during the Leave of Absence Period, and elects to receive health insurance benefits from another employer, then Employee shall immediately notify the Company at 100 Crystal A Drive, Hershey, PA, Attn: Director, Employee Benefits, of his election in writing and the health insurance provided by the Company hereunder shall terminate as of the effective date of such health insurance received from the other employer. Nothing herein shall obligate Employee to accept any health insurance benefit associated with any other employment. Employee shall not, however, accept coverage from BOTH the Company and a new employer.
- 4.9. If Employee commences full-time employment with another employer prior to June 1, 2002, he shall be entitled to a one-time lump-sum severance payment of

One Million Dollars (\$1,000,000), but shall receive no further payments or benefits under this Agreement, in accordance with Section 4.1.

- 4.10. Employee shall not be subject to the minimum stockholding requirements for Company executives or KEIP participants.
- 4.11. The Company will provide for the continuation of comparable financial advisory services by AYCO for a period of six months after the Effective Date.

5. SEPARATION AND COBRA RIGHTS. Effective as of the Separation Date, as required by the continuation coverage provisions of Section 4980B of the U. S. Internal Revenue Code of 1986, as amended ("THE CODE"), Employee shall be offered the opportunity to elect continuation coverage under the group medical plan of the Company ("COBRA COVERAGE"). The Company shall provide Employee with the appropriate COBRA coverage notice and election form for this purpose. Employee shall notify the Company within two weeks of any change in his circumstances that would warrant discontinuation of his COBRA coverage and benefits (including but not limited to Employee's receipt of group medical and dental benefits from any other employer). The existence and duration of Employee's rights and/or the COBRA rights of any of Employee's eligible dependents shall be determined in accordance with Section 4980B of the Code.

6. CONFIDENTIAL, PROPRIETARY AND PRIVILEGED INFORMATION; NON-COMPETITION. The parties agree the terms and conditions of that certain Long-Term Incentive Program Participation Agreement and Mutual Agreement to Arbitrate Claims by and between the Company and Employee executed by Employee January 27, 1997 ("Participation and Arbitration Agreement"), a copy of which is attached hereto, are incorporated herein by reference and made a part hereof as if fully set forth herein. Notwithstanding any provisions to the contrary in the Participation and Arbitration Agreement, the terms and conditions thereof shall remain in effect for three years after Employee's Separation Date regardless of whether Employee is eligible or not to receive benefits under the SERP.

7. GENERAL RELEASE AND WAIVER BY EMPLOYEE.

- 7.1. Employee, for and on behalf of himself and each of his heirs, executors, administrators, personal representatives, successors and assigns, hereby acknowledges full and complete satisfaction of and fully and forever releases, acquits and discharges the Company, together with its subsidiaries and affiliates, and each of its and their past and present direct and indirect stockholders, directors, members, partners, officers, employees, agents, inside and outside counsel and representatives and its and their respective heirs, executors, administrators, personal representatives, successors and assigns (collectively, the "Releasees"), from any and all claims, demands, suits, causes of action, liabilities, obligations, judgments, orders, debts, liens, contracts, agreements, covenants and causes of action of every kind and nature, whether known or unknown, suspected or unsuspected, concealed or hidden, vested or contingent, in law or equity, existing by statute, common law, contract or otherwise, which have existed, may exist or do exist, through and including the execution and delivery by Employee of this Agreement (but not including the Parties' performance under this Agreement), including, without limitation, any of the foregoing arising out of or in any way related to or based upon:

- 7.1.1. Employee's application for and employment with the Company, his being an employee of the Company, or the Separation;

- 7.1.2. any and all claims in tort or contract, and any and all claims alleging breach of an express or implied, or oral or written, contract, policy manual or employee handbook;
- 7.1.3. any alleged misrepresentation, coercion, duress, defamation, interference with contract, intentional or negligent infliction of emotional distress, sexual harassment, negligence or wrongful discharge; or
- 7.1.4. any federal, state or local statute, ordinance or regulation, including but not limited to the Fair Labor Standards Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Family and Medical Leave Act, and the Pennsylvania Human Relations Act.
- 7.2. Employee acknowledges and agrees that other than to seek the Company's performance under this Agreement he is waiving all rights to sue or obtain equitable, remedial or punitive relief from any or all Releasees of any kind whatsoever, including, without limitation, reinstatement, back pay, front pay, attorneys' fees and any form of injunctive relief. Employee acknowledges and agrees that this waiver and release is an essential and material term of this Agreement. Employee further acknowledges and agrees that he will not assert any breach of any agreement, plan, or right referred to herein based on any action or inaction of the Releasees prior to the date hereof.
- 7.3. Employee understands and intends that this SECTION 7 constitutes a general release, and that no reference therein to a specific form of claim, statute or type of relief is intended to limit the scope of such general release and waiver; provided, however, notwithstanding any other provision of this Section 7, the provisions of this Section 7 shall not apply to any rights Employee may have under the Age Discrimination in Employment Act of 1967, as amended.
- 7.4. Employee expressly waives all rights afforded by any statute which limits the effect of a release with respect to unknown claims. Employee understands the significance of his release of unknown claims and his waiver of statutory protection against a release of unknown claims.
- 7.5. Employee agrees that he will not be entitled to or accept any benefit from any claim or proceeding within the scope of this SECTION 7 general release that is filed or instigated by him or on his behalf with any agency, court or other government entity.

8. EMPLOYEE'S REPRESENTATIONS AND COVENANTS REGARDING ACTIONS. Employee represents, warrants and covenants to each of the Releasees that at no time prior to or contemporaneous with his execution of this Agreement has he filed or caused or knowingly permitted the filing or maintenance, in any state, federal or foreign court, or before any local, state, federal or foreign administrative agency or other tribunal, any charge, claim or action of any kind, nature and character whatsoever ("CLAIM"), known or unknown, suspected or unsuspected, which he may now have or has ever had against the Releasees which is based in whole or in part on any matter referred to in SECTION 7.1. above, and, to the maximum extent permitted by law Employee is prohibited from filing or maintaining, or causing or knowingly permitting the filing or maintaining, of any such Claim in any such forum. Employee hereby grants the Company his perpetual and irrevocable limited power of attorney with full right, power and authority to take all actions necessary to dismiss or discharge any such Claim. Employee further covenants and agrees that he will not encourage any person or entity, including but not limited to any current or former employee, officer, director or stockholder of the Company, to institute any Claim against

the Releasees or any of them, and that except as expressly permitted by law or administrative policy or as required by legally enforceable order he will not aid or assist any such person or entity in prosecuting such Claim.

9. NO DISPARAGING REMARKS. Employee hereby covenants to each of the Releasees and agrees that he shall not, directly or indirectly, within or without the Company, make or solicit or encourage others to make or solicit any disparaging or negative remarks concerning the Releasees (as defined in SECTION 7 of this Agreement), or any of their products, services, businesses or activities. Employee understands that, in addition to the consequences such breach may have under other provisions of this Agreement, his breach of this SECTION 9 and the Company's delivery to him of notice of such breach shall result in his Separation; shall eliminate his entitlement to any subsequent payment or benefits under this Agreement including, without limitation, to further exercise any Options under the KEIP and any further participation in or eligibility for benefits under the SERP; and shall subject him to liability for any damages arising from such remarks.

10. NO CONFLICT OF INTEREST. Employee hereby covenants and agrees that he shall not, directly or indirectly, incur any obligation or commitment, or enter into any contract, agreement or understanding, whether express or implied, and whether written or oral, which would be in conflict with his obligations, covenants or agreements hereunder or which could cause any of his representations or warranties made herein to be untrue or inaccurate.

11. CONFIDENTIALITY. The Company and Employee agree that the terms and conditions of this Agreement are to be strictly confidential, except that Employee may disclose the terms and conditions to his family, attorneys, accountants, tax consultants, state and federal tax authorities or as may otherwise be required by law. The Company may disclose the terms and conditions of this Agreement and the circumstances of Employee's separation as the Company deems necessary or appropriate to its or its affiliates' or representatives' officers, employees, board of directors, insurers, attorneys, accountants, state and federal tax authorities, or as otherwise allowed by law. Employee represents that except as expressly authorized by this SECTION 11 he has not discussed, and agrees that except as expressly authorized by this SECTION 11 or by the Company he will not discuss, this Agreement or the circumstances of his Separation, and that he will take affirmative steps to avoid or absent himself from any such discussion even if he is not an active participant therein. EMPLOYEE ACKNOWLEDGES THE SIGNIFICANCE AND MATERIALITY OF THIS PROVISION TO THIS AGREEMENT, AND HIS UNDERSTANDING THEREOF.

12. RETURN OF CORPORATE PROPERTY; CONVEYANCE OF INFORMATION. Employee hereby covenants and agrees to immediately return all documents, keys, ID cards, credit cards (without further use thereof), laptop computer, and all other items which are the property of the Company and/or which contain confidential information; and, in the case of documents, to return any and all materials of any kind and in whatever medium evidenced, including, without limitation, all hard disk drive data, diskettes, microfiche, photographs, negatives, blueprints, printed materials, tape recordings and videotapes.

13. REMEDIES. In the event that Employee has breached any of his covenants, agreements or obligations under this Agreement, the Company shall notify Employee in writing at his home address as shown in the Company's records of the reason for such determination. The notice shall be sent via hand delivery or overnight courier. Employee hereby acknowledges and affirms that in the event of any breach by Employee of any of his covenants, agreements and obligations hereunder, Employee's Separation shall be effective as of the day the Company provides notice thereof. Employee further hereby acknowledges and affirms that in the event of such breach monetary damages would be inadequate to compensate the Releasees or any of them. Accordingly, in addition to other remedies which may be available to the Releasees hereunder or otherwise at law or in equity, any Releasee shall be entitled to specifically enforce such

covenants, obligations and restrictions through injunctive and/or equitable relief, in each case without the posting of any bond or other security with respect thereto. Should any provision hereof be adjudged to any extent invalid by any court or tribunal of competent jurisdiction, each provision shall be deemed modified to the minimum extent necessary to render it enforceable.

14. **ACKNOWLEDGMENT OF VOLUNTARY AGREEMENT.** Employee hereby acknowledges and affirms that he is entering into this Agreement knowingly and voluntarily, without coercion or duress of any sort, in order to receive the payments and other consideration from the Company as set forth herein. Employee acknowledges and affirms that he has been given adequate opportunity to review and consider this Agreement.

15. **COMPLETE AGREEMENT; INCONSISTENCIES.** This Agreement and the Participation and Arbitration Agreement constitute the complete and entire agreement between Employee and the Company with respect to the subject matter hereof, and supersede in their entirety any and all prior understandings, commitments, obligations and/or agreements, whether written or oral, with respect thereto; it being understood and agreed that this Agreement and those agreements, including the mutual covenants, agreements, acknowledgments and affirmations contained herein and therein, are intended to constitute a complete settlement and resolution of all matters set forth in SECTION 7 hereof.

16. **NO STRICT CONSTRUCTION.** The language used in this Agreement shall be deemed to be the language mutually chosen by the Parties to reflect their mutual intent, and no doctrine of strict construction shall be applied against any Party.

17. **THIRD PARTY BENEFICIARIES.** The Releasees are intended third-party beneficiaries of this Agreement, and this Agreement may be enforced by each of them in accordance with the terms hereof in respect of the rights granted to such Releasees hereunder. Except and to the extent set forth in the preceding sentence, this Agreement is not intended for the benefit of any person other than the Parties, and no such other person shall be deemed to be a third party beneficiary hereof. Without limiting the generality of the foregoing, it is not the intention of the Company to establish any policy, procedure, course of dealing or plan of general application for the benefit of or otherwise in respect of any other employee, officer, director or stockholder, irrespective of any similarity between any contract, agreement, commitment or understanding between the Company and such other employee, officer, director or stockholder, on the one hand, and any contract, agreement, commitment or understanding between the Company and Employee, on the other hand, and irrespective of any similarity in facts or circumstances involving such other employee, officer, director or stockholder, on the one hand, and the Employee, on the other hand.

18. **TAX WITHHOLDINGS.** Notwithstanding any other provision herein, the Company shall be entitled to withhold from any amounts otherwise payable hereunder to Employee any amounts required to be withheld in respect of federal, state or local taxes.

19. **GOVERNING LAW.** All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Pennsylvania, without giving effect to any choice of law or conflict of law rules or provisions (whether of the Commonwealth of Pennsylvania or any other jurisdiction) that would cause the application hereto of the laws of any jurisdiction other than the Commonwealth of Pennsylvania. In furtherance of the foregoing, the internal law of the Commonwealth of Pennsylvania shall control the interpretation and construction of this Agreement, even though under any other jurisdiction's choice of law or conflict of law analysis the substantive law of some other jurisdiction may ordinarily apply.

20. **SEVERABILITY.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall otherwise remain in full force and effect.

HERSHEY FOODS CORPORATION

LONG-TERM INCENTIVE PROGRAM PARTICIPATION AGREEMENT

The undersigned is an executive employee of Hershey Foods Corporation or one of its subsidiaries (hereinafter collectively referred to as "Hershey"). I understand that I have been selected to participate in the Key Employee Incentive Plan (the "Plan"), including the Long-Term Incentive Program ("LTIP") under the Plan. I understand, acknowledge and agree that the purpose of this Agreement is to provide for enhanced confidentiality requirements, an agreement not to compete with Hershey once I become eligible for supplemental retirement benefits, and an arbitration program to be the sole and exclusive method for resolving disputes. I understand and acknowledge that by this Agreement, both I and Hershey, in order to avoid delay and expense, are mutually waiving the right of access to a judicial forum for resolving disputes covered by the arbitration program. I hereby accept the opportunity to participate in the Plan, including the LTIP, and in consideration of my selection by Hershey to be a participant in the Plan and being eligible to receive benefits under the Plan, I agree to the following:

1. PARTICIPATION.

I understand and agree that participating in the LTIP at any time is no guarantee I will be selected to participate in the LTIP or any other aspect of the Plan in any future years. I understand and agree that participation in the Plan and the LTIP is voluntary; specifically, I understand that I am under no obligation to participate in the LTIP or any other aspect of the Plan, and that I may retain my job if I decline to so participate. I understand and agree that if I elect to participate in the Plan and the LTIP, then, depending on my job performance, the financial performance of Hershey and the achievement of certain goals and objectives, I will be eligible to receive Annual Incentive Program Awards, Performance Stock Unit Awards and Stock Options, in accordance with the terms of the Plan, as it may be amended from time to time.

2. CONFIDENTIALITY.

I acknowledge that due to the nature of my employment and the position of trust that I hold with Hershey, I will have special access to, learn, be provided with, and in some cases will prepare and create for Hershey, trade secrets and other confidential and proprietary information relating to Hershey's business, including, but not limited to, information about Hershey's manufacturing processes; manuals, recipes and ingredient percentages; engineering drawings; product and process research and development; new product information; cost information; supplier data; strategic business information;

marketing, financial and business development information, plans, forecasts, reports and budgets; customer information; new product strategies, plans and project activities; and acquisition and divestiture strategies, plans and project activities. I acknowledge and agree that such information, whether or not in written form, is the exclusive property of Hershey, that it has been and will continue to be of critical importance to the business of Hershey, and that the disclosure of it to, or use by, competitors or others will cause Hershey substantial and irreparable harm. Accordingly, I will not, either during my employment or at any time after the termination (whether voluntary or involuntary) of my employment with Hershey, use, reproduce or disclose any trade secrets or other confidential information relating to the business of Hershey which is not generally available to the public, except as may be specially authorized and necessary in discharging my assigned duties as an employee of Hershey. I understand and agree that my obligations under this Agreement shall be in addition to, rather than in lieu of, any obligations I may already have under any Confidentiality Agreement or other agreement with Hershey relating to confidential information or under any applicable statute or at common law.

3. UNFAIR COMPETITION.

I understand and acknowledge that Hershey is engaged in the business of developing, producing, marketing, selling and distributing confectionery products, chocolate-related grocery products and pasta products. I acknowledge that the scope of Hershey's business and operations is world-wide. I acknowledge that due to the nature of my employment with Hershey, I have special access to, contact with, and information about, Hershey's business activities as described above and to its customers, suppliers, agents, licensees and licensors. I acknowledge that Hershey has incurred considerable expense and invested considerable time and resources in developing relationships with customers, suppliers, agents, licensees and licensors, and that those relationships are critical to the success of Hershey's business.

Accordingly, both (a) during the term of my employment with Hershey, and (b) for a period of three (3) years following the termination of my employment for any reason, provided at the time of such termination I am eligible to receive benefits under Hershey's Supplemental Executive Retirement Plan, I shall not, without the prior written consent of Hershey, directly or indirectly serve or act as an officer, director, employee, consultant, adviser, agent or representative for the domestic or worldwide confectionery, chocolate-related grocery or pasta businesses of any entity or individual that is in competition with Hershey's confectionery, chocolate-related grocery or pasta businesses.

4. SURVIVAL OF OBLIGATIONS.

Both I and Hershey understand and agree that our respective rights and obligations under, and the terms and conditions of, this Agreement (and the Mutual Agreement to Arbitrate Claims appended hereto) shall apply and continue during, and survive the termination (for any reason) of, my employment with Hershey.

5. ARBITRATION AND MEDIATION.

Both I and Hershey promise to arbitrate any claim covered by the Mutual Agreement to Arbitrate Claims which is attached hereto and incorporated in full herein by reference.

Both I and Hershey further agree, before seeking arbitration of any claim, to engage in good faith efforts to resolve the dispute through nonbinding mediation. Mediation shall be conducted by, and in accordance with procedures for the mediation of employment disputes of, one of the American Arbitration Association, the Judicial Arbitration + Mediation Services, Inc. (JAMS/Endispute) or the Center for Public Resources (CPR) as Hershey and I may agree (and if such agreement is not possible, then the mediation procedures of CPR shall apply), together with any other procedures as may be agreed upon by me and Hershey.

6. SAVINGS CLAUSE AND SEVERABILITY.

a. All provisions of this Agreement (and of the Mutual Agreement to Arbitrate Claims appended hereto) are severable, and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

b. Without limiting the foregoing, I specifically agree that each of the covenants set forth in Paragraph 3 of this Agreement is severable; that if any of them is held invalid or unenforceable by reason of length of time, area covered or activity covered, or any combination thereof, or for any other reason, the court or arbitrator shall adjust, reduce or otherwise reform any such covenant to the extent necessary to cure any invalidity and to protect the interests of Hershey to the fullest extent of the law; that the area, time period and scope of activity restricted shall be the maximum area, time period and scope of activity the court or arbitrator deems valid and enforceable; and that, as reformed, such covenant shall then be enforced.

c. Without limiting the foregoing, I also specifically agree that if any part of the Mutual Agreement to Arbitrate Claims is determined to be invalid or

unenforceable for any reason, then the invalid or unenforceable portion shall be severed and the agreement to submit any claim to binding arbitration shall be interpreted and enforced as if the invalid or unenforceable portion did not appear.

7. MISCELLANEOUS.

a. Any notice to Hershey shall be in writing and shall be sent by certified mail to Hershey Foods Corporation, 100 Crystal A Drive, Hershey, PA 17033-0810, Attention: Vice President, Human Resources. Any notice to me shall be in writing and shall be sent to me by certified mail at the latest address listed for me in Hershey's employment records, unless I specifically notify Hershey in writing that notice shall be delivered to me at a different address. Notice shall be deemed delivered when personally delivered or a properly addressed notice is deposited with the U.S. Postal Service for delivery by certified mail.

b. I understand and agree that neither this Agreement nor the Mutual Agreement to Arbitrate Claims shall be construed in any way as an agreement or guarantee of employment for any period of time and that I remain an employee-at-will for all purposes.

c. The rights and obligations under this Agreement and the Mutual Agreement to Arbitrate Claims shall inure to the benefit of, shall be binding upon, and may be enforced by and for the benefit of, Hershey Foods Corporation, any subsidiary or affiliate of Hershey Foods Corporation, and their successors and assigns.

d. Any waiver by either Hershey or me of any breach, or the failure to enforce any of the terms or conditions, of this Agreement or the Mutual Agreement to Arbitrate Claims, shall not in any way affect, limit, or waive any rights thereafter to enforce, and compel strict compliance with, every term and condition of this Agreement and the Mutual Agreement to Arbitrate Claims.

e. This Agreement and the Mutual Agreement to Arbitrate Claims constitute the entire agreement between Hershey and me with respect to the matters addressed herein and therein, there being no representations, warranties, commitments, or other agreements, except as set forth herein and therein. This Agreement and the Mutual Agreement to Arbitrate Claims may be amended only by an instrument in writing executed by me and an authorized officer of Hershey.

f. The substantive law governing this Agreement shall be the law of the Commonwealth of Pennsylvania. The law of arbitrability shall be that set forth in the Federal Arbitration Act. If for any reason the Federal Arbitration Act is inapplicable, then the law of arbitrability shall be that of the Commonwealth of Pennsylvania.

LONG-TERM INCENTIVE PROGRAM PARTICIPATION AGREEMENT

Mutual Agreement To Arbitrate Claims

I recognize that differences may arise between Hershey Foods Corporation (the "Company") and me during or following my employment with the Company, and that those differences may or may not be related to my employment. I understand and agree that by entering into this Mutual Agreement to Arbitrate Claims ("Arbitration Agreement"), I anticipate gaining the benefits of a speedy, impartial dispute-resolution procedure.

I understand that any reference in this Arbitration Agreement to the Company will be a reference also to all subsidiary and affiliated entities, all benefit plans, the benefit plans' sponsors, fiduciaries, administrators, affiliates and agents, and all successors and assigns of any of them.

A. CLAIMS COVERED BY THE ARBITRATION AGREEMENT.

The Company and I mutually consent to the resolution by arbitration of all claims or controversies ("claims"), past, present, or future, whether or not arising out of my employment (or its termination), that the Company may have against me or that I may have against the Company or against its officers, directors, employees or agents in their capacity as such. The only claims that are arbitrable are those that, in the absence of this Arbitration Agreement, would have been justiciable under applicable state or federal law. The claims covered by this Arbitration Agreement include, but are not limited to, claims arising out of, connected with or relating to the Long-Term Incentive Program Participation Agreement and this Arbitration Agreement; claims for wages or other compensation due; claims for breach of any contract or covenant (express or implied); tort claims; claims for discrimination (including, but not limited to, race, sex, sexual orientation, religion, national origin, age, marital status, or medical condition, handicap or disability); claims for benefits (except claims under an employee benefit or pension plan that either specifies that its claims procedure shall culminate in an arbitration procedure different from this one or is underwritten by a commercial insurer which decides claims); and claims for violation of any federal, state, or other governmental law, statute, regulation, or ordinance, except as otherwise provided in this Arbitration Agreement.

B. CLAIMS NOT COVERED BY THE ARBITRATION AGREEMENT.

Claims I may have for workers' compensation or unemployment compensation benefits are not covered by this Agreement.

Also not covered are claims by the Company for injunctive and/or other equitable relief, including but not limited to those for unfair competition and/or the use and/or unauthorized disclosure of trade secrets or confidential information, as to which I understand and agree that the Company may seek and obtain relief from a court of competent jurisdiction. In such an injunctive/equitable proceeding, I understand and agree that the court is entitled to and will award to the prevailing party costs and actual attorneys' fees incurred.

C. REQUIRED NOTICE OF ALL CLAIMS.

The Company and I agree that the aggrieved party must give written notice of any claim to the other party. Written notice to the Company, or its officers, directors, employees or agents, shall be sent pursuant to the notice provision of the Agreement to which this Arbitration Agreement is appended.

The written notice shall identify and describe the nature of all claims asserted and the facts upon which such claims are based.

D. REPRESENTATION.

Any party may be represented by an attorney or other representative selected by the party.

E. DISCOVERY.

Each party shall have the right to take the deposition of one individual and any expert witness designated by another party. Each party also shall have the right to make requests for production of documents to any party. The subpoena right specified below shall be applicable to discovery pursuant to this paragraph. Additional discovery may be had only where the arbitrator selected pursuant to this Arbitration Agreement so orders, upon a showing of substantial need.

F. DESIGNATION OF WITNESSES.

At least 30 days before the arbitration, the parties must exchange lists of witnesses, including any expert, and copies of all exhibits intended to be used at the arbitration.

G. SUBPOENAS.

Each party shall have the right to subpoena witnesses and documents for the arbitration.

H. ARBITRATION PROCEDURES.

The arbitration will be held under the auspices of one of the American Arbitration Association, Judicial Arbitration + Mediation Services, Inc. or Center for Public Resources, with the designation of such sponsoring organization to be made by the party that did not initiate the claim.

The arbitration shall be confidential and closed to the public. Any evidence proffered in the arbitration shall be held in strict confidence and not disclosed to any third party.

The Company and I agree that, except as provided in this Agreement, the arbitration shall be in accordance with the then-current dispute arbitration procedures of the sponsoring organization for the type of claim involved. The arbitration shall take place in or near the location in which I am or was last employed by the Company.

The Arbitrator shall be selected as follows. The sponsoring organization shall give each party a list of 7 arbitrators. Each party may strike all names on the list it deems unacceptable. If only one common name remains on the lists of all parties, that individual shall be designated as the Arbitrator. If more than one common name remains on the lists of all parties, the parties shall strike names alternately from the list of common names until only one remains. The party who did not initiate the claim shall strike first. If no common name exists on the lists of all parties, the sponsoring organization shall furnish an additional list and the process shall be repeated. If no arbitrator has been selected after two lists have been distributed, then the parties shall strike alternately from a third list, with the party initiating the claim striking first, until only one name remains. That person shall be designated as the Arbitrator.

The Arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the Commonwealth of Pennsylvania or federal law, or both, as applicable to the claim(s) asserted. The Arbitrator is without jurisdiction to apply any different substantive law, or law of remedies. The Federal Rules of Evidence shall apply. The Arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Arbitration Agreement, including but not limited to any claim that all or any part of this Arbitration Agreement is void or voidable. The arbitration shall be final and binding upon the parties, except as provided in this Arbitration Agreement.

The Arbitrator shall have jurisdiction to hear and rule on pre-hearing disputes and is authorized to hold pre-hearing conferences by telephone or in person, as the Arbitrator deems necessary. The Arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

Either party, at its expense, may arrange for and pay the cost of a court reporter to provide a stenographic record of proceedings.

Either party, upon request at the close of hearing, shall be given leave to file a post-hearing brief. The time for filing such a brief shall be set by the Arbitrator.

The Arbitrator shall render a proposed award and opinion in the form typically rendered in labor arbitrations.

Either party shall have the right, within 20 days of issuance of the Arbitrator's proposed award and opinion, to file with the Arbitrator a motion to reconsider (accompanied by a supporting brief), and the other party shall have 20 days from the date of the motion to respond. The Arbitrator thereupon shall reconsider the issues raised by the motion and, promptly, either confirm or change the decision, which (except as provided by this Arbitration Agreement) shall then be final and conclusive upon the parties. The costs of such a motion for reconsideration and written opinion of the Arbitrator shall be borne by the party prevailing on the motion, unless the Arbitrator orders otherwise.

I. ARBITRATION FEES AND COSTS.

The Company and I shall equally share the fees and costs of the Arbitrator; provided, however, that my maximum contribution will be no more than 20% of the amount at issue. Each party will deposit funds or post other appropriate security for its share of the Arbitrator's fee, in an amount and manner determined by the Arbitrator, 10 days before the first day of hearing. Each party shall pay for its own costs and attorneys' fees, if any. However, if any party prevails on a statutory claim which affords the prevailing party attorneys' fees, or if there is a written agreement providing for fees, the Arbitrator may award fees to the prevailing party as provided by statute or agreement.

J. EXCLUSIVITY, WAIVER AND BINDING EFFECT.

The procedure set out in this Arbitration Agreement is the exclusive procedure for resolving claims covered hereunder. The resolution of any claim covered by this Arbitration Agreement pursuant to the procedure set out herein shall be final and binding on the parties to the fullest extent permitted by law. Both I and the Company expressly waive

any right to resolve any claim covered by this Arbitration Agreement through any other means, including by filing a lawsuit in court for trial by the court or before a jury. Both I and the Company are precluded from bringing or raising in court or before another forum any claim which could have been brought or raised hereunder, unless the right to pursue a statutory claim or remedy is expressly preserved by law. Neither I nor the Company shall seek to enjoin any proceeding hereunder on the basis that any award resulting therefrom would not be enforceable.

K. INTERSTATE COMMERCE.

I understand and agree that the Company is engaged in transactions involving interstate commerce.

L. CONSIDERATION.

The promises by the Company and by me to arbitrate differences, rather than litigate them before courts or other bodies, provide consideration for each other. In addition, my participation in this Long-Term Incentive Program provides further consideration for this Arbitration Agreement.

IN WITNESS WHEREOF, by signing my name below, I am acknowledging that I am entering into this Long-Term Incentive Program Participation Agreement and Mutual Agreement to Arbitrate Claims voluntarily and with a full understanding of all of their terms and conditions, and, intending to be legally bound, I am agreeing to such terms and conditions.

Long-Term Incentive Program Participant

/S/ M. F. PASQUALE

(Signature)

/S/ M. F. PASQUALE

Name (Print)

Date: JANUARY 27, 1997

IN WITNESS WHEREOF, Hershey Foods Corporation and/or its employing subsidiary, intending to be legally bound, has or have caused this Agreement to be signed by its or their authorized officer.

R. M. REESE

Vice President

Date: JANUARY 17, 1997

HERSHEY FOODS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net Sales

Net sales increased \$250.1 million, or 6%, from 1999 to 2000. The higher sales primarily reflected an increase in sales of core confectionery and grocery products in North America, incremental sales from the introduction of new confectionery products, increased international exports and lower product returns, discounts, and allowances. In 2000, certain international distributor allowances were netted against sales instead of being reported in selling, marketing and administrative expenses as in 1999 and 1998. These distributor allowances amounted to \$18.3 million and \$17.8 million in 1999 and 1998, respectively. Net sales in 1999 included \$29.3 million related to the Corporation's pasta business, which was sold in January 1999.

Net sales decreased \$464.7 million, or 10%, from 1998 to 1999. The decrease in sales in 1999 was primarily a result of the divestiture of the Corporation's pasta business, which resulted in a sales reduction of \$343.8 million, and sales decreases in the United States of core confectionery and grocery products. Sales of confectionery and grocery products declined in the first quarter of 1999 primarily as a result of the December 1998 buy-in on promotions of regular count and vending items. Decreases in sales in the third and fourth quarters of 1999 were primarily the result of problems encountered after the July 1999 start-up of new business systems and processes. These sales declines were partially offset by incremental sales from the introduction of new confectionery products, increased export sales in international markets and sales increases in the Corporation's Canadian and Mexican markets.

Gross Margin

Gross margin increased from 40.7% in 1999 to 41.5% in 2000. The increase in gross margin reflected decreased costs for certain major raw materials, primarily cocoa, as well as lower product returns, discounts, and allowances. The impact of these items was offset partially by higher absorption of fixed manufacturing costs in 2000, primarily related to decreased finished goods inventory levels in 2000 compared to 1999. In addition, the sales mix of confectionery items sold in 2000 compared to 1999 contributed to lower profitability, as the growth in sales of the more profitable standard bars was outpaced by sales of packaged confectionery items. Also, higher distribution and warehousing costs in 2000 reflected higher warehouse handling costs, incremental costs associated with expanded warehousing capacity and one-time start-up costs for new distribution centers located near Hershey, Pennsylvania and Atlanta, Georgia.

Gross margin in 1999 benefited .3 percentage points from the inclusion in cost of sales of a one-time \$12.5 million gain from revisions to the Corporation's retiree medical plan, net of contributions into the Employee Savings Stock Investment and Ownership Plan ("ESSIOP"). During the first quarter of 1999, the Corporation changed its retiree medical plan to eliminate coverage for all eligible hourly employees under age 45, to be replaced by annual contributions into the ESSIOP. The change applied primarily to U.S. hourly employees working in Pennsylvania. In addition, gross margin in 1999 would have been .3 percentage points lower if certain international distributor allowances were reclassified and reported as discussed above for 2000.

Gross margin decreased from 40.8% in 1998 to 40.7% in 1999. The decrease reflected lower profitability resulting from the mix of confectionery items sold in 1999 compared with sales during 1998, primarily related to lower sales of the more profitable standard bars. Higher freight and distribution costs, reflecting increased costs related to the implementation of new business systems and processes and distribution center capacity constraints, and higher depreciation expense as a percent of sales, also contributed to the lower gross margin. These cost increases were offset partially by selling price

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<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Hershey Chocolate & Confectionery Corporation	Delaware
Hershey Chocolate of Virginia, Inc.	Delaware
Hershey Canada, Inc.	Canada

increases in the Corporation's Canadian and Mexican markets and decreased costs for packaging materials and certain raw materials. Effective December 1998, the Corporation changed its retiree medical plan to eliminate coverage for all U.S. full-time salaried employees and all non-union hourly plant employees working outside Hershey, Pennsylvania under age 45, replacing it with annual ESSIOP contributions, resulting in the recognition of a \$13.0 million pre-tax gain in 1998.

Selling, Marketing and Administrative

Selling, marketing and administrative expenses increased \$69.3 million, or 7%, from 1999 to 2000, primarily reflecting: increased marketing expenditures for core confectionery brands, international exports and the introduction of new products; increased selling and administrative expenses primarily related to higher staffing levels to support sales and customer service activity in North America and the international export business; higher incentive compensation expense reflecting improved operating performance in 2000; and higher software amortization costs. The impact of these items was offset partially by the inclusion in administrative expense in 2000 of a one-time gain of \$7.3 million arising from the sale of certain corporate aircraft. Selling, marketing and administrative costs in 1999 included \$10.7 million related to the Corporation's pasta business, which was sold in January 1999.

Selling, marketing and administrative expenses decreased by \$110.1 million, or 9%, from 1998 to 1999, reflecting lower expenses resulting from the divestiture of the pasta business, reduced marketing expenses for core confectionery brands and lower administrative expenses. These decreases were offset partially by increased spending associated with the introduction of new products and international exports, in addition to higher amortization expense for capitalized software. Excluding the divestiture of the pasta business, advertising and promotion expense was essentially equal to the prior year as a percent of sales.

Interest Expense, Net

Net interest expense for 2000 was \$1.7 million above the prior year, primarily as a result of higher short-term interest expense related to increased average short-term borrowings and borrowing rates, and lower capitalized interest. The impact of these items was offset partially by higher interest income, and lower fixed interest expense as a result of interest rate swap and forward agreements entered into in October 1999. Net interest expense in 1999

was \$11.4 million below the prior year, primarily as a result of lower short-term interest expense as a portion of the proceeds from the sale of the pasta business and positive cash flow were used to reduce short-term borrowings.

Income Taxes

The Corporation's effective income tax rate was 38.8%, 36.8% and 38.8% in 1998, 1999 and 2000, respectively. Excluding the provision for income taxes associated with the gain on the sale of the Corporation's pasta business, the effective income tax rate was 39.0% in 1999.

Net Income

Net income decreased \$125.8 million, or 27%, from 1999 to 2000. In the first quarter of 1999, the Corporation received cash proceeds of \$450.0 million, retained a 6% minority interest and recorded a gain of approximately \$243.8 million before tax, \$165.0 million or \$1.17 per share—diluted after tax, as a result of the sale of the Corporation's pasta business. Excluding the gain, net income increased \$39.2 million, or 13%, from 1999 to 2000. The Corporation's net income increased \$119.4 million, or 35%, from 1998 to 1999, reflecting the gain on the sale of the pasta business. Excluding the gain, net income decreased \$45.6 million, or 13% from 1998 to 1999.

Net income as a percent of net sales was 7.9% in 2000, 7.4% in 1999, excluding the gain on the sale of the pasta business, and 7.7% in 1998.

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FINANCIAL CONDITION

The Corporation's financial condition remained strong during 2000. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 49% as of December 31, 2000 and 50% as of December 31, 1999. The ratio of current assets to current liabilities was 1.7:1 as of December 31, 2000, and 1.8:1 as of December 31, 1999. The lower ratio of current assets to current liabilities as of December 31, 2000, primarily reflected increased short-term borrowings to finance stock repurchases and a business acquisition.

In December 2000, the Corporation completed the purchase of the intense and breath freshener mints and gum businesses of Nabisco, Inc. ("Nabisco"). The Corporation paid \$135.0 million to acquire the businesses, including *Ice Breakers* and *Breath Savers Cool Blasts* intense mints, *Breath Savers* mints, and *Ice Breakers*, *Carefree*, *Stick*Free*, *Bubble Yum* and *Fruit Stripe* gums. Also included in the purchase were manufacturing machinery and equipment and a gum-manufacturing plant in Las Piedras, Puerto Rico. These businesses had sales of approximately \$270 million in 1999. The Corporation's results of operations for 2000 did not include results of the acquisition, as the transaction was completed very late in the year. Had the results of the acquired businesses been included in the consolidated results, the effect would not have been material.

Assets

Total assets increased \$101.1 million, or 3%, as of December 31, 2000, primarily as a result of higher accounts receivable, prepaid expenses and other current assets, property, plant and equipment, and intangibles resulting from business acquisitions, substantially offset by a decrease in cash and cash equivalents. These increases were due, in part, to the acquisition of Nabisco's mint and gum businesses.

Current assets increased by \$15.4 million, or 1%, reflecting increased accounts receivable, inventories, prepaid expenses and other current assets. An increase in accounts receivable of \$26.9 million reflected higher sales in December 2000. The increase in prepaid expenses and other current assets was principally associated with hedging transactions. The decrease in cash and cash equivalents reflected the comparison to an unusually high balance as of December 31, 1999, as a result of year 2000 (Y2K) liquidity contingency plans.

Property, plant and equipment was higher than the prior year primarily due to capital additions of \$138.3 million and the acquisition of the Nabisco businesses, partially offset by depreciation expense of \$140.2 million. The increase in intangibles resulting from business acquisitions primarily reflected preliminary goodwill associated with the Nabisco acquisition, partly offset by the amortization of intangibles. The decrease in other non-current assets was primarily associated with the amortization of capitalized software.

Liabilities

Total liabilities increased by \$24.7 million, or 1%, as of December 31, 2000, primarily reflecting higher accrued liabilities and an increase in short-term borrowings to finance the acquisition of the Nabisco businesses and stock repurchases, partially offset by a decrease in accrued and deferred income taxes. The increase in accrued liabilities was associated primarily with higher accruals for promotion and advertising programs and accrued liabilities related to the Nabisco acquisition. The decrease in accrued income taxes primarily reflected a decrease in the income tax provision which included accrued income taxes for the gain on sale of the pasta business as of December 31, 1999, and the decrease in deferred income taxes was associated with the payment in September 2000 of an assessment related to a Corporate Owned Life Insurance program discussed further under Liquidity below.

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

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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.

In December 2000, the Corporation's Board of Directors unanimously adopted a Stockholder Protection Rights Agreement ("Rights Agreement"). The Rights Agreement was supported by the Corporation's largest stockholder, Hershey Trust Company, as trustee for the benefit of Milton Hershey School ("Milton Hershey School Trust"). This action was not in response to any specific effort to acquire control of the Corporation. Under the Rights Agreement, the Corporation's Board of Directors declared a dividend of one right ("Right") for each outstanding share of Common Stock and Class B Stock payable to stockholders of record at the close of business on December 26, 2000. The Rights will at no time have voting power or receive dividends. The issuance of the Rights has no dilutive effect, will not affect reported earnings per share, is not taxable and will not change the manner in which the Corporation's Common Stock is traded. The Rights Agreement is discussed further in Note 12 to the Consolidated Financial Statements.

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 provided from operating activities and proceeds from the sale of the pasta business exceeded cash requirements for share repurchases, capital expenditures, capitalized software additions, dividend payments and a business acquisition by \$88.7 million. Total debt, including debt assumed, decreased during the period by \$150.9 million, reflecting reduced short-term borrowings and the repayment of long-term debt. Cash and cash equivalents decreased by \$22.3 million during the period.

The Corporation anticipates that capital expenditures and capitalized software additions will be in the range of \$150 million to \$170 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, along with continued improvement and enhancements of computer software. As of December 31, 2000, the Corporation's principal capital commitments included manufacturing capacity expansion to support new products and line extensions, modernization and efficiency improvements.

In February 2001, the Corporation made a \$75.0 million contribution to its domestic pension plans to improve the funded status and reduce future expense.

In December 2000, the Corporation entered into an operating lease agreement for a warehouse and distribution facility to be constructed in southern California. The lease term is approximately ten years and shall begin upon completion of the facility, but no later than September 1, 2001. The Corporation or its designee has an option between December 15, 2001 and March 31, 2002 to purchase the facility at original cost. The estimated cost of the facility, including land, is approximately \$38.0 million.

In October 2000, the Corporation entered into an operating lease agreement to finance the purchase of a warehouse and distribution facility near Atlanta, Georgia for \$18.2 million. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. In July 1999, the Corporation entered into an operating lease agreement to finance the construction of a warehouse and distribution facility located on land owned by the Corporation near Hershey, Pennsylvania. Under the agreement, the lessor paid construction costs totaling \$61.7 million. The lease term is six years, including the one-year construction period, with up to four renewal periods of five years each with the consent of

the lessor. Both leases provide for substantial residual guarantees and include options to purchase the facilities at original cost.

In 1999, the Corporation implemented the first phase of an enterprise-wide integrated information system in the United States. The first phase of system implementation included new business systems and processes related to purchasing, accounts payable, fixed assets, the general ledger, production reporting, and tracking of plant inventories. The second phase of system implementation included systems and processes in the areas of sales order and billing, transportation planning and management, electronic data interchange communications with warehouses, finished goods inventories, accounts receivable and tracking of marketing promotions. Initial implementation costs amounted to approximately \$101.0 million of capitalized software and hardware and \$10.6 million of expenses. These expenditures were financed with cash provided from operations and proceeds from the sale of the Corporation's pasta business.

Under share repurchase programs which began in 1993, a total of 17,624,037 shares of Common Stock have been repurchased for approximately \$705.5 million. Of the shares repurchased, 528,000 shares were retired, 1,427,289 shares were reissued to satisfy stock options obligations, Supplemental Retirement Contributions and employee stock ownership trust ("ESOP") obligations and the remaining 15,668,748 shares were held as Treasury Stock as of December 31, 2000. Additionally, the Corporation has purchased a total of 28,000,536 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for \$1.0 billion. As of December 31, 2000, a total of 43,669,284 shares were held as Treasury Stock and \$124.5 million remained available for repurchases of Common Stock under a program approved by the Corporation's Board of Directors in October 1999.

In March 1997, the Corporation issued \$150 million of 6.95% Notes under a November 1993 Form S-3 Registration Statement. 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 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. As of December 31, 2000, \$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 share repurchases, and funding future business acquisitions and working capital requirements.

As of December 31, 2000, the Corporation maintained a committed credit facility agreement with a syndicate of banks in the amount of \$500 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation may increase the credit facility by \$1.0 billion with the concurrence of the banks. In December 2000, the short-term credit facility agreement was renewed for a total of \$200 million and the long-term committed credit facility agreement remained in effect for \$300 million, expiring in December 2002. 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 \$27.5 million and \$25.0 million as of December 31, 2000 and 1999, respectively.

In January 1999, the Corporation received a Notice of Proposed Deficiency ("Notice") from the Internal Revenue Service ("IRS") related to years 1989 through 1996. The Notice pertained to the Corporate Owned Life Insurance ("COLI") program which was implemented by the Corporation in 1989. The IRS disallowed the interest expense deductions associated with the underlying life insurance policies. The total deficiency of \$61.2 million, including interest, was paid to the IRS in September 2000 to eliminate further accruing of interest. The Corporation may be subject to additional assessments for federal taxes and interest for 1997 and 1998 and for state taxes and interest for 1989 through 1998. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program, has filed for the refund of amounts paid and will continue to seek favorable resolution of this matter.

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Cash Flow Activities

Over the past three years, cash from operating activities provided approximately \$1.1 billion. 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 hedging transactions, the timing of payments for accrued liabilities, including income taxes, and variations in the funding status of pension plans.

Investing activities included capital additions, capitalized software additions, a business acquisition and a business divestiture. Capital additions during the past three years included the purchase of manufacturing equipment, and expansion and modernization of existing facilities. Capitalized software additions over the past three years were associated primarily with the implementation of an enterprise-wide integrated information system.

The acquisition of Nabisco's mint and gum businesses for \$135.0 million was completed in 2000 and the Corporation's pasta business was sold for \$450.0 million in 1999.

Financing activities included debt borrowings and repayments, payments 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 purchase Nabisco's mint and gum businesses, fund seasonal working capital requirements, and finance share repurchase programs. During the past three years, a total of 8,013,318 shares of Common Stock have been repurchased for \$434.1 million, including 1,579,779 shares purchased from the Milton Hershey School Trust for \$100.0 million. Cash used for incentive plan transactions of \$74.3 million during the past three years was substantially offset by cash received from the exercise of stock options of \$62.6 million. Cash used by incentive plan transactions reflected purchases, from time to time, of the Corporation's Common Stock in the open market to repurchase treasury stock issued for stock options exercises, mitigating dilution of weighted-average shares outstanding.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

The Corporation utilizes certain derivative instruments, from time to time, including interest rate swaps and forward agreements, foreign currency forward exchange contracts and commodity futures contracts, to manage interest rate, currency exchange rate and commodity market price risk exposures. Interest rate swaps and forward agreements, 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 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, 2000. 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, including the current portion, as of December 31, 2000. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

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Maturity Date

	(In thousands of dollars except for rates)						Total	Fair Value
	2001	2002	2003	2004	2005	There-after		
Long-term Debt	\$529	\$838	\$17,133	\$136	\$202,138	\$657,409	\$878,183	\$920,374
Fixed Rate	2.0%	2.0%	4.4%	2.0%	6.7%	7.3%	7.1%	

Interest Rate Swaps and Forward Agreements

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swaps and forward agreements. In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert \$200 million of 6.7% Notes Due 2005 ("Notes") to variable rate debt. In December 2000, the counterparty chose to cancel the interest rate swap and forward agreements effective April 2, 2001. Subsequent to this date, the effective interest rate on the Notes will return to a fixed rate of 6.7%. The potential loss in fair value of interest rate swaps and forward agreements resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 2000 and 1999.

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 to be and are 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, 2000, the Corporation had foreign exchange forward contracts maturing in 2001 and 2002 to purchase \$36.3 million in foreign currency, primarily British sterling and euros, and to sell \$11.5 million in foreign currency, primarily Japanese yen, at contracted forward rates.

As of December 31, 1999, the Corporation had foreign exchange forward contracts maturing in 2000 and 2001 to purchase \$18.0 million in foreign currency, primarily euros and British sterling, and to sell \$31.2 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, 2000 and 1999, 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, 2000 and 1999.

Commodity Price Risk Management

The Corporation's most significant raw material requirements include cocoa, sugar, milk, peanuts 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, natural gas and certain dairy products, price risks are also managed by entering into futures contracts. At the present time, active futures contracts are not available for use in pricing the Corporation's other major raw material requirements. Futures contracts are used in combination with forward purchasing of cocoa, sugar, corn sweetener, natural gas and certain dairy product requirements principally to take

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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, political unrest in producing countries and speculative influences. Cocoa prices remained near historical lows during most of 2000, as additional production, spurred by high prices in the mid-1990s, has come on stream under favorable climatic conditions. Additionally, demand has been reduced below historical levels as a result of economic difficulties in Eastern Europe, particularly the former Soviet Union. During 2001, continued improvement in chocolate consuming economies could result in prices stabilizing and possibly moving higher. The Corporation's costs during 2001 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 Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures 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 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 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 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.

For the years ended December 31,	2000		1999	
	Fair Value	Market Risk (Hypothetical 10% Change)	Fair Value	Market Risk (Hypothetical 10% Change)
Highest long position	\$77.6	\$7.8	\$147.7	\$14.8
Lowest long position	(28.3)	2.8	54.3	5.4
Average position (long)	30.3	3.0	111.0	11.1

The decrease in fair values and market risks from 1999 to 2000 primarily reflected a decrease in net commodity positions and lower commodity futures prices in 2000. The negative lowest long position in 2000 resulted as commodities futures required to fix the price of unpriced physical forward contracts exceeded the amount of commodities futures being held at a point in time during the year.

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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 \$144.9 million in 2000 and \$136.7 million in 1999. The annual dividend rate on the Common Stock was \$1.12 per share, an increase of 8% over the 1999 rate of \$1.04 per share. The 2000 dividend represented the 26th consecutive year of Common Stock dividend increases.

On February 7, 2001, the Corporation's Board of Directors declared a quarterly dividend of \$.28 per share of Common Stock payable on March 15, 2001, to stockholders of record as of February 23, 2001. It is the Corporation's 285th consecutive Common Stock dividend. A quarterly dividend of \$.2525 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 138.6 million shares of the Corporation's Common Stock were traded during 2000. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 2000, was \$64 3/8. There were 41,482 stockholders of record of the Common Stock and the Class B Stock as of December 31, 2000.

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
2000				
1st Quarter	\$.26	\$2350	\$50 ¹¹ / ₁₆	\$ 37 ³ / ₄
2nd Quarter	.26	.2350	55 ¹³ / ₁₆	45
3rd Quarter	.28	.2525	54 ¹¹ / ₁₆	41 ⁹ / ₁₆
4th Quarter	.28	.2525	66 ⁷ / ₁₆	48 ⁷ / ₁₆
Total	\$1.08	\$9750		
1999				
1st Quarter	\$.24	\$2175	\$64 ⁷ / ₈	\$ 54 ¹ / ₈
2nd Quarter	.24	.2175	59 ¹ / ₂	48 ¹³ / ₁₆
3rd Quarter	.26	.2350	61 ⁷ / ₁₆	48 ¹ / ₂
4th Quarter	.26	.2350	54 ³ / ₁₆	45 ³ / ₄
Total	\$1.00	\$9050		

RETURN MEASURES

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 29.4% in 2000. Over the most recent five-year period, the return has ranged from 27.5% in 1996 to 36.0% in 1998. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the after-tax loss on the disposal of businesses in 1996 and the after-tax gain on the sale of the pasta business in 1999.

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 16.1% in 2000. Over the most recent five-year period, the return has ranged from 17.8% in 1996 to 14.8% in 1999. 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 after-tax loss on disposal of businesses in 1996, the after-tax gain on the sale of the pasta business in 1999 and the after-tax effect of interest on long-term debt.

OUTLOOK

The outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially.

The Corporation's strategy is to profitably grow its North American confectionery and grocery business, and to build growing and profitable confectionery businesses in selected markets outside North America. To implement this strategy, the Corporation plans to continue to attract and hold customers and consumers with products and services of consistently superior quality and value.

The total U.S. confectionery market is anticipated to grow at a rate of three to four percent in 2001. Over the years, the Corporation's goal has been to grow at a faster rate than the overall confectionery category. The Corporation expects to achieve this goal in 2001 by the integration of recently acquired products, strong results from new product introductions and the continued volume growth of confectionery products in North America and selected international markets.

Variability of gross margin in future periods is affected by various factors, including raw material and logistics costs, manufacturing efficiencies, and the mix of products sold in any period. The Corporation expects to improve profitability in 2001. Gross margin is expected to increase in 2001, as compared to the full year 2000, as the Corporation anticipates a more profitable sales mix, manufacturing efficiencies, modest declines in freight and distribution costs as a percent of sales and relatively stable commodity costs. These profitability improvements are expected to more than offset anticipated increases in employee benefits and energy costs.

The industry in which the Corporation operates is characterized by brand recognition. The Corporation will continue spending to promote its products and to increase the value of its brands. Planned spending on advertising in 2001 is significantly higher than 2000, while selling and administrative expenses are expected to remain relatively constant as a percent of sales.

The tax rate is projected to slightly decrease in 2001, as incremental earnings from the Corporation's recent acquisition will be taxed at a more favorable tax rate.

The Corporation expects continued strong cash flows from operating activities in 2001. Net cash provided from operating activities is expected to exceed cash requirements for capital additions, capitalized software additions and anticipated dividend payments. Additionally, cash provided from operations is expected to be sufficient to reduce short-term borrowings and/or finance possible business acquisitions and continued repurchases of the Corporation's Common Stock.

In May 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached consensus on EITF Issue No. 00-14 "Accounting for Coupons, Rebates and Discounts," requiring the reporting of certain sales incentives such as consumer coupon redemption costs and off-invoice allowances as a reduction of net sales. Effective with the quarter ending June 30, 2001, consumer coupon redemption costs and off-invoice allowances currently reported as marketing expense will be reported as a reduction of net sales. The implementation of EITF Issue No. 00-14, along with other similar pending EITF issues regarding the classification of certain sales incentives, may result in a material restatement to reduce net sales, with a corresponding restatement to reduce selling, marketing and administrative expenses. Upon adoption, all prior period amounts will be reclassified to conform to the new requirements.

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. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential," among others. Factors which could cause results to

differ include, but are not limited to: changes in the confectionery and grocery 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; changes in raw material costs; and the Corporation's ability to implement improvements and to reduce costs associated with the Corporation's customer service, warehousing and order fulfillment processes and systems.

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HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,	2000	1999	1998
<i>In thousands of dollars except per share amounts</i>			
Net Sales	\$4,220,976	\$3,970,924	\$4,435,615
Costs and Expenses:			
Cost of sales	2,471,151	2,354,724	2,625,057
Selling, marketing and administrative	1,127,175	1,057,840	1,167,895
Gain on sale of business	—	(243,785)	—
Total costs and expenses	3,598,326	3,168,779	3,792,952
Income before Interest and Income Taxes	622,650	802,145	642,663
Interest expense, net	76,011	74,271	85,657
Income before Income Taxes	546,639	727,874	557,006
Provision for income taxes	212,096	267,564	216,118
Net Income	\$ 334,543	\$ 460,310	\$ 340,888
Net Income Per Share—Basic	\$ 2.44	\$ 3.29	\$ 2.38
Net Income Per Share—Diluted	\$ 2.42	\$ 3.26	\$ 2.34
Cash Dividends Paid Per Share:			
Common Stock	\$ 1.08	\$ 1.00	\$.920
Class B Common Stock	.975	.905	.835

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

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HERSHEY FOODS CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31,	2000	1999
<i>In thousands of dollars</i>		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 31,969	\$ 118,078
Accounts receivable—trade	379,680	352,750
Inventories	605,173	602,202
Deferred income taxes	76,136	80,303
Prepaid expenses and other	202,390	126,647
Total current assets	1,295,348	1,279,980
Property, Plant and Equipment, Net	1,585,388	1,510,460
Intangibles Resulting from Business Acquisitions, Net	474,448	450,165
Other Assets	92,580	106,047
Total assets	\$3,447,764	\$3,346,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		

Accounts payable	\$ 149,232	\$ 136,567
Accrued liabilities	358,067	292,497
Accrued income taxes	1,479	72,159
Short-term debt	257,594	209,166
Current portion of long-term debt	529	2,440
Total current liabilities	766,901	712,829
Long-term Debt	877,654	878,213
Other Long-term Liabilities	327,674	330,938
Deferred Income Taxes	300,499	326,045
Total liabilities	2,272,728	2,248,025
Stockholders' Equity:		
Preferred Stock, shares issued: none in 2000 and 1999	—	—
Common Stock, shares issued: 149,509,014 in 2000 and 149,506,964 in 1999	149,508	149,507
Class B Common Stock, shares issued: 30,441,858 in 2000 and 30,443,908 in 1999	30,442	30,443
Additional paid-in capital	13,124	30,079
Unearned ESOP compensation	(19,161)	(22,354)
Retained earnings	2,702,927	2,513,275
Treasury—Common Stock shares, at cost: 43,669,284 in 2000 and 41,491,253 in 1999	(1,645,088)	(1,552,708)
Accumulated other comprehensive loss	(56,716)	(49,615)
Total stockholders' equity	1,175,036	1,098,627
Total liabilities and stockholders' equity	\$3,447,764	\$3,346,652

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

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HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2000	1999	1998
In thousands of dollars			
Cash Flows Provided from (Used by)			
Operating Activities			
Net income	\$ 334,543	\$ 460,310	\$ 340,888
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	175,964	163,308	158,161
Deferred income taxes	(16,400)	(8,336)	82,241
Gain on sale of business, net of tax of \$78,769	—	(165,016)	—
Changes in assets and liabilities, net of effects from business acquisition and divestiture:			
Accounts receivable—trade	(26,930)	77,918	(90,493)
Inventories	28,029	(136,535)	12,276
Accounts payable	7,280	(8,742)	10,005
Other assets and liabilities	(90,277)	(64,704)	(137,693)
Other, net	—	—	745
Net Cash Provided from Operating Activities	412,209	318,203	376,130
Cash Flows Provided from (Used by)			
Investing Activities			
Capital additions	(138,333)	(115,448)	(161,328)
Capitalized software additions	(4,686)	(25,394)	(42,859)
Business acquisition	(135,000)	—	—
Proceeds from divestiture	—	450,000	—
Other, net	6,206	23,006	22,859
Net Cash (Used by) Provided from Investing Activities	(271,813)	332,164	(181,328)
Cash Flows Provided from (Used by)			
Financing Activities			
Net change in short-term borrowings	48,428	(136,742)	(36,543)
Long-term borrowings	187	1,696	—
Repayment of long-term debt	(2,815)	(393)	(25,187)
Cash dividends paid	(144,891)	(136,728)	(129,044)
Exercise of stock options	24,376	18,878	19,368
Incentive plan transactions	(51,859)	—	(22,458)
Repurchase of Common Stock	(99,931)	(318,024)	(16,151)
Net Cash (Used by) Financing Activities	(226,505)	(571,313)	(210,015)
(Decrease) Increase in Cash and Cash Equivalents	(86,109)	79,054	(15,213)
Cash and Cash Equivalents as of January 1	118,078	39,024	54,237

Cash and Cash Equivalents as of December 31	\$ 31,969	\$ 118,078	\$ 39,024
Interest Paid	\$ 81,465	\$ 77,049	\$ 89,001
Income Taxes Paid	299,104	218,665	123,970

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

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HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
In thousands of dollars									
Balance as of January 1, 1998	\$ —	\$149,485	\$30,465	\$33,852	\$(28,741)	\$1,977,849	\$(1,267,861)	\$(42,243)	\$852,806
Comprehensive income (loss)									
Net income						340,888			340,888
Other comprehensive income (loss):									
Foreign currency translation adjustments								(18,073)	(18,073)
Minimum pension liability adjustments, net of tax benefit								(4,051)	(4,051)
Comprehensive income									318,764
Dividends:									
Common Stock, \$.92 per share						(103,616)			(103,616)
Class B Common Stock, \$.835 per share						(25,428)			(25,428)
Conversion of Class B Common Stock into Common Stock		18	(18)						—
Incentive plan transactions				(985)					(985)
Exercise of stock options				(3,375)			16,590		13,215
Employee stock ownership trust transactions				503	3,193				3,696
Repurchase of Common Stock							(16,151)		(16,151)
Balance as of December 31, 1998	—	149,503	30,447	29,995	(25,548)	2,189,693	(1,267,422)	(64,367)	1,042,301
Comprehensive income (loss)									
Net income						460,310			460,310
Other comprehensive income (loss):									
Foreign currency translation adjustments								10,701	10,701
Minimum pension liability adjustments, net of tax provision								4,051	4,051
Comprehensive income									475,062
Dividends:									
Common Stock, \$1.00 per share						(109,175)			(109,175)
Class B Common Stock, \$.905 per share						(27,553)			(27,553)
Conversion of Class B Common Stock into Common Stock		4	(4)						—
Incentive plan transactions				2					2
Exercise of stock options				(458)			32,738		32,280
Employee stock ownership trust/benefits transactions				540	3,194				3,734
Repurchase of Common Stock							(318,024)		(318,024)
Balance as of December 31, 1999	—	149,507	30,443	30,079	(22,354)	2,513,275	(1,552,708)	(49,615)	1,098,627
Comprehensive income (loss)									
Net income						334,543			334,543
Other comprehensive income (loss):									
Foreign currency translation adjustments								(6,185)	(6,185)
Minimum pension liability adjustments, net of tax benefit								(916)	(916)
Comprehensive income									327,442
Dividends:									
Common Stock, \$1.08 per share						(115,209)			(115,209)
Class B Common Stock, \$.975 per share						(29,682)			(29,682)
Conversion of Class B Common Stock into Common Stock		1	(1)						—
Incentive plan transactions				(426)					(426)
Exercise of stock options				(16,728)			7,551		(9,177)
Employee stock ownership trust/benefits transactions				199	3,193				3,392
Repurchase of Common Stock							(99,931)		(99,931)
Balance as of December 31, 2000	\$ —	\$149,508	\$30,442	\$13,124	\$(19,161)	\$2,702,927	\$(1,645,088)	\$(56,716)	\$1,175,036

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

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HERSHEY FOODS CORPORATION
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 2000 presentation.

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 accounting principles generally accepted in the United States 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.

Revenue Recognition

The Corporation records sales when all of the following criteria have been met: a valid customer order with a fixed price has been received; a delivery appointment with the customer has been made; the product has been shipped in accordance with the delivery appointment; there is no further significant obligation to assist in the resale of the product; and collectibility is reasonably assured.

Cash Equivalents

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

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures 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 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 designated as hedges of anticipated purchases which are no longer likely to occur are recorded in income currently.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvements.

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 \$457.3 million and \$431.7 million as of December 31, 2000 and 1999, respectively. The increase in goodwill primarily reflected the acquisition of the intense breath freshener mints and gum businesses of Nabisco, Inc. in

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December 2000. 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 \$135.5 million and \$121.6 million as of December 31, 2000 and 1999, respectively.

Comprehensive Income

Comprehensive income (loss) is reported on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive (loss) is reported on the Consolidated Balance Sheets.

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 as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

A minimum pension liability adjustment is required when the actuarial present value of accumulated pension plan benefits exceeds plan assets and accrued pension liabilities, less allowable intangible assets. Minimum pension liability adjustments, net of income taxes, are recorded as a component of other comprehensive income (loss), "Minimum Pension Liability Adjustments, net of tax benefit/provision."

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. 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. 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.

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 \$25.4 million, \$26.7 million and \$28.6 million in 2000, 1999 and 1998, respectively.

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Advertising

The Corporation expenses advertising costs as incurred. Advertising expense was \$161.6 million, \$164.9 million and \$187.5 million in 2000, 1999 and 1998, respectively. Prepaid advertising as of December 31, 2000 and 1999, was \$7.0 million and \$5.8 million, respectively.

Computer Software

The Corporation capitalizes certain costs of computer software developed or obtained for internal use. The amount capitalized as of December 31, 2000 and 1999, was \$66.2 million and \$82.2 million, respectively. Software assets are classified as other non-current assets and are amortized over periods up to five years. Accumulated amortization of capitalized software was \$35.7 million and \$15.1 million as of December 31, 2000 and 1999, respectively.

Pending Accounting Pronouncements

In May 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus on EITF Issue No. 00-14, "*Accounting for Coupons, Rebates and Discounts*," requiring the reporting of certain sales incentives such as consumer coupon redemption costs and off-invoice allowances as a reduction of net sales. In November 2000, the EITF delayed implementation of this change until the quarter ended June 30, 2001. The consumer coupon redemption costs and off-invoice allowances currently being reported in selling, marketing, and administrative expense will be recorded as a reduction of net sales on the effective date of the consensus.

Consumer coupon redemption costs are expensed and recognized at the offer date and measured based on expected utilization. Off-invoice allowances are expensed and recognized as incurred. These costs and allowances amounted to \$116.1 million, \$122.7 million and \$199.4 million in 2000, 1999 and 1998, respectively, and are included in selling, marketing and administrative expenses in the Consolidated Statements of Income.

The EITF is also addressing several related topics that also impact the classification and recognition of certain sales incentives including:

- Issue No. 00-21 "*Accounting for Revenue Arrangements with Multiple Deliverables*";
- Issue No. 00-22 "*Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future*"; and
- Issue No. 00-25 "*Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer*."

Final consensus has not yet been reached on Issues No. 00-21, No. 00-22, and No. 00-25, although further discussion is planned. The Corporation offers sales incentives to its customers and consumers in the ordinary course of business that are covered by these Issues. When consensus is reached on these Issues, certain other costs historically recorded in selling, marketing and administrative expense, which may be material, may also be reclassified as a reduction to net sales. These changes will not affect the Corporation's financial condition or net income. Upon adoption, all prior period amounts will be reclassified to conform with the new requirements.

2. ACQUISITION AND DIVESTITURE

In December 2000, the Corporation completed the purchase of the intense and breath freshener mints and gum businesses of Nabisco, Inc. ("Nabisco"). The Corporation paid \$135.0 million to acquire the businesses, including *Ice Breakers* and *Breath Savers Cool Blasts* intense mints, *Breath Savers* mints, and *Ice Breakers*, *Carefree*, *Stick*Free*, *Bubble Yum* and *Fruit Stripe* gums. Also included in the purchase were manufacturing machinery and equipment and a gum-manufacturing plant in Las Piedras, Puerto Rico. These businesses had sales of approximately \$270 million in 1999.

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In accordance with the purchase method of accounting, the purchase price of the acquisition was allocated on a preliminary basis to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values, which may be revised at a later date. Total liabilities assumed were \$30.3 million. Had the results of the acquisition been included in the consolidated results, the effect would not have been material.

In January 1999, the Corporation completed the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction included the *American Beauty*, *Ideal by San Giorgio*, *Light 'n Fluffy*, *Mrs. Weiss*, *P&R*, *Ronzoni*, *San Giorgio* and *Skinner* pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of \$450.0 million, retained a 6% minority interest and recorded a gain of approximately \$243.8 million before tax, \$165.0 million or \$1.17 per share—diluted after tax, as a result of the transaction. Net sales for the pasta business were \$29.3 million and \$373.1 million in 1999 and 1998, respectively. Net income for the pasta business was \$1.5 million and \$25.9 million in 1999 and 1998, respectively.

3. COMMITMENTS

Rent expense was \$40.8 million, \$45.5 million, and \$39.6 million for 2000, 1999 and 1998, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. In December 2000, the Corporation entered into an operating lease agreement for a warehouse and distribution facility to be constructed in southern California. The lease term is for approximately ten years and shall begin upon completion of the facility, but no later than September 1, 2001. The Corporation or its designee has an option between December 15, 2001 and March 31, 2002 to purchase the facility at original cost. The estimated cost of the facility, including land, is approximately \$38.0 million.

In October 2000, the Corporation entered into an operating lease agreement to finance the purchase of a warehouse and distribution facility near Atlanta, Georgia for \$18.2 million. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. The lease provides for a substantial residual guarantee and includes an option to purchase the facility at original cost. In July 1999, the Corporation entered into an operating lease agreement to finance the construction of a warehouse and distribution facility located on land owned by the Corporation near Hershey, Pennsylvania. Under the agreement, the lessor paid construction costs totaling \$61.7 million. The lease term is six years, including the one-year construction period, with up to four renewal periods of five years each with the consent of the lessor. The lease provides for a substantial residual guarantee and includes an option to purchase the facility at original cost. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 2000, were: 2001, \$21.0 million; 2002, \$24.2 million; 2003, \$24.0 million; 2004, \$23.8 million; 2005, \$23.7 million; 2006 and beyond, \$67.4 million.

As of December 31, 2000, the Corporation had entered into purchase agreements with various suppliers. Subject to the Corporation's quality standards being met, the purchase commitments covered by these agreements aggregated approximately \$701.7 million in 2001, \$426.8 million in 2002, \$280.4 million in 2003, \$181.1 million in 2004, \$41.9 million in 2005 and \$12.1 million in 2006 and beyond.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS No. 133"). Subsequently, the FASB issued Statement No. 137, "*Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133*" and Statement No. 138, "*Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133*." SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless

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specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000, but may be implemented as of the beginning of any fiscal quarter after issuance. Retroactive application is not permitted. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. Changes in accounting methods will be required for derivative instruments utilized by the Corporation to hedge commodity price, foreign currency exchange rate and interest rate risks. Such derivatives include commodity futures contracts, foreign exchange forward contracts and interest rate swaps and forward agreements.

The Corporation adopted SFAS No. 133 as of January 1, 2001. As of December 31, 2000, net deferred losses on derivatives of approximately \$68.5 million after tax would have been reported as a component of other comprehensive loss and classified as accumulated other comprehensive loss on the Consolidated Balance Sheets upon adoption of SFAS No. 133. The adoption of SFAS No. 133 will not have a material impact on the Corporation's results of operations.

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, 2000 and 1999, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was \$878.2 million as of December 31, 2000, compared to a fair value of \$920.4 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 \$880.7 million as of December 31, 1999, compared to a fair value of \$856.9 million.

As of December 31, 2000, the Corporation had foreign exchange forward contracts maturing in 2001 and 2002 to purchase \$36.3 million in foreign currency, primarily British sterling and euros, and to sell \$11.5 million in foreign

currency, primarily Japanese yen, at contracted forward rates.

As of December 31, 1999, the Corporation had foreign exchange forward contracts maturing in 2000 and 2001 to purchase \$18.0 million in foreign currency, primarily euros and British sterling and to sell \$31.2 million in foreign currency, primarily Canadian dollars and Japanese yen, at contracted forward rates.

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. As of December 31, 2000 and 1999, the fair value of foreign exchange forward 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 swaps and forward agreements. In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert \$200 million of 6.7% Notes Due 2005 ("Notes") to variable rate debt. In December 2000, the counterparty chose to cancel the interest rate swap and forward agreements effective April 2, 2001. Subsequent to this date, the effective interest rate on the Notes will return to a fixed rate of 6.7%.

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6. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	2000	1999	1998
In thousands of dollars			
Long-term debt and lease obligations	\$64,681	\$66,323	\$67,538
Short-term debt	16,420	12,191	23,657
Capitalized interest	(145)	(1,214)	(2,547)
Interest expense, gross	80,956	77,300	88,648
Interest income	(4,945)	(3,029)	(2,991)
Interest expense, net	\$76,011	\$74,271	\$85,657

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. As of December 31, 2000, the Corporation maintained a committed credit facility agreement with a syndicate of banks in the amount of \$500 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation may increase the credit facility by \$1.0 billion with the concurrence of the banks. In December 2000, the short-term credit facility agreement was renewed for a total of \$200 million and the long-term committed credit facility agreement remained in effect for \$300 million, expiring in December 2002. 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 maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately \$27.5 million and \$25.0 million as of December 31, 2000 and 1999, respectively, at the lending banks' prime commercial interest rates or lower.

The Corporation had combined domestic commercial paper borrowings and short-term foreign bank loans against its credit facilities and lines of credit of \$257.6 million as of December 31, 2000, and \$209.2 million as of December 31, 1999. The weighted-average interest rates on short-term borrowings outstanding as of December 31, 2000 and 1999, were 6.4% and 5.8%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 2000 was less than .1% 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 \$22.5 million and \$20.4 million as of December 31, 2000 and 1999, respectively.

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8. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31,	2000	1999
In thousands of dollars		
6.7% Notes due 2005	\$200,000	\$200,000
6.95% Notes due 2007	150,000	150,000
6.95% Notes due 2012	150,000	150,000
8.8% Debentures due 2021	100,000	100,000
7.2% Debentures due 2027	250,000	250,000

Other obligations, net of unamortized debt discount	28,183	30,653
Total long-term debt	878,183	880,653
Less—current portion	529	2,440
Long-term portion	\$877,654	\$878,213

In October 1999, the Corporation entered into an interest rate swap agreement to effectively convert \$200 million of 6.7% Notes due 2005 to variable rate debt. In December 2000, the counterparty chose to cancel the interest rate swap and forward agreements effective April 2, 2001. Subsequent to this date, the effective interest rate on the Notes will return to a fixed rate of 6.7%.

Aggregate annual maturities during the next five years are: 2001, \$5 million; 2002, \$8 million; 2003, \$17.1 million; 2004, \$1 million; and 2005, \$202.1 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,	2000	1999	1998
In thousands of dollars			
Current:			
Federal	\$ 212,858	\$ 256,054	\$ 119,706
State	12,184	15,998	10,498
Foreign	3,454	3,848	3,673
Current provision for income taxes	228,496	275,900	133,877
Deferred:			
Federal	(28,108)	(23,271)	73,422
State	11,986	16,280	10,568
Foreign	(278)	(1,345)	(1,749)
Deferred income tax (benefit) provision	(16,400)	(8,336)	82,241
Total provision for income taxes	\$ 212,096	\$ 267,564	\$ 216,118

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Deferred taxes reflect temporary differences between tax reporting and financial statement reporting in the recognition of revenue and expense. The tax effects of the significant temporary differences which comprised the deferred tax assets and liabilities were as follows:

December 31,	2000	1999
In thousands of dollars		
Deferred tax assets:		
Post-retirement benefit obligations	\$ 84,103	\$ 84,305
Accrued expenses and other reserves	109,116	103,232
Accrued trade promotion reserves	33,987	34,708
Other	16,159	16,513
Total deferred tax assets	243,365	238,758
Deferred tax liabilities:		
Depreciation	256,769	289,369
Inventory	24,025	7,304
Other	186,934	187,827
Total deferred tax liabilities	467,728	484,500
Net deferred tax liabilities	\$224,363	\$245,742
Included in:		
Current deferred tax assets, net	\$ 76,136	\$ 80,303
Non-current deferred tax liabilities, net	300,499	326,045
Net deferred tax liabilities	\$224,363	\$245,742

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

For the years ended December 31,	2000	1999	1998
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	3.5	2.3	3.0
Non-deductible acquisition costs	.8	.6	.9
Utilization of capital loss carryforwards	—	(.9)	—

Other, net	(.5)	(.2)	(.1)
Effective income tax rate	38.8%	36.8%	38.8%

In January 1999, the Corporation received a Notice of Proposed Deficiency ("Notice") from the Internal Revenue Service ("IRS") related to the years 1989 through 1996. The Notice pertained to the Corporate Owned Life Insurance ("COLI") program which was implemented by the Corporation in 1989. The IRS disallowed the interest expense deductions associated with the underlying life insurance policies. The total deficiency of \$61.2 million, including interest, was paid to the IRS in September 2000 to eliminate further accruing of interest. The Corporation may be subject to additional assessments for federal taxes and interest for 1997 and 1998 and for state taxes and interest for 1989 through 1998. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program, has filed for the refund of amounts paid and will continue to seek favorable resolution of this matter.

10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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. Other benefits include health care and life insurance provided by the Corporation under two post-retirement benefit plans.

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A summary of the changes in benefit obligations and plan assets as of December 31, 2000 and 1999 is presented below:

December 31,	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
In thousands of dollars				
Change in benefits obligation				
Benefits obligation at beginning of year	\$ 627,710	\$ 692,422	\$ 214,510	\$ 251,040
Service cost	27,961	31,050	3,184	3,803
Interest cost	45,710	41,781	14,056	13,813
Amendments	2,362	16,404	—	(11,092)
Actuarial loss (gain)	7,243	(93,537)	36,785	(32,285)
Acquisition/(divestiture)	6,980	(8,648)	514	—
Other	(1,031)	3,185	(148)	222
Benefits paid	(61,757)	(54,947)	(12,594)	(10,991)
Benefits obligation at end of year	655,178	627,710	256,307	214,510
Change in plan assets				
Fair value of plan assets at beginning of year	650,699	628,041	—	—
Actual return on plan assets	(1,155)	74,511	—	—
Acquisition/(divestiture)	5,739	(5,993)	—	—
Employer contribution	10,323	6,253	12,594	10,991
Other	(978)	2,834	—	—
Benefits paid	(61,757)	(54,947)	(12,594)	(10,991)
Fair value of plan assets at end of year	602,871	650,699	—	—
Funded status	(52,307)	22,989	(256,307)	(214,510)
Unrecognized transition asset	(56)	(308)	—	—
Unrecognized prior service cost	48,201	49,046	(16,805)	(24,842)
Unrecognized net actuarial (gain) loss	(36,138)	(105,839)	63,032	26,085
Accumulated other comprehensive (loss)	(1,528)	—	—	—
Prior service cost recognized due to curtailment	—	—	—	17,034
Unrecognized prior service cost due to amendment	—	—	—	(11,105)
(Accrued) benefits cost	\$ (41,828)	\$ (34,112)	\$ (210,080)	\$ (207,338)
Weighted-average assumptions				
Discount rate	7.5%	7.5%	7.5%	7.5%
Expected long-term rate of return on assets	9.5	9.5	N/A	N/A
Rate of increase in compensation levels	4.9	4.8	N/A	N/A

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001 and future years.

The Corporation's acquisition of Nabisco's mint and gum businesses in December 2000 included its Hourly Pension Plan for employees at the Las Piedras, Puerto Rico manufacturing plant. Salaried employees at the plant were covered by the Hershey Foods Corporation Retirement Plan as of December 31, 2000 for services subsequent to the date of acquisition.

As of December 31, 2000, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation and accumulated benefit obligation were \$36.5 million and \$34.9 million, respectively, with no plan assets.

As of December 31, 1999, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation and accumulated benefit obligation were \$36.4 million and \$35.0 million, respectively, with no plan assets.

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 2000, a minimum liability adjustment of \$1.5 million, net of a deferred tax benefit of \$.6 million, was recorded as a component of other

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comprehensive income (loss) and reported in accumulated other comprehensive loss as a component of stockholders' equity. In 1999, accrued pension liabilities exceeded the actuarial present value of accumulated plan benefits because the discount rate used to determine the present value of accumulated benefits increased from 6.4% to 7.5% and a plan amendment shifted benefits from an unfunded pension plan to a funded plan. Accordingly, a minimum pension liability adjustment of \$4.1 million, initially recorded in other comprehensive income in 1998, was reversed in 1999, net of deferred income taxes of \$2.7 million.

A summary of the components of net periodic benefits cost for the years ended December 31, 2000 and 1999 is presented below:

For the years ended December 31,	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
In thousands of dollars				
Components of net periodic benefits cost				
Service cost	\$ 27,961	\$ 31,050	\$ 3,184	\$ 3,803
Interest cost	45,710	41,781	14,056	13,813
Expected return on plan assets	(60,143)	(57,836)	—	—
Amortization of prior service cost	3,783	2,956	(2,165)	(2,293)
Recognized net actuarial (gain) loss	(286)	341	—	1,042
Amortization of unrecognized (gain)	(2,670)	—	—	—
Other	—	—	(41)	54
Corporate sponsored plans	14,355	18,292	15,034	16,419
Multi-employer plans	577	698	—	—
Administrative expenses	421	287	—	—
Net periodic benefits cost	\$ 15,353	\$ 19,277	\$ 15,034	\$ 16,419

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory. During the first quarter of 1999, for all eligible employees under age 45, the Corporation provided annual contributions into the Employee Savings Stock Investment and Ownership Plan ("ESSIOP") instead of providing coverage under the current retiree medical plan. This change resulted in the immediate recognition of a \$15.4 million pre-tax gain which is not included above as a component of net periodic benefits costs. The changes applied primarily to U.S. hourly employees working in Pennsylvania.

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

	1 Percentage Point Increase	1 Percentage Point (Decrease)
In thousands of dollars		
Effect on total service and interest cost components	\$ 952	\$ (816)
Effect on post-retirement benefit obligation	13,241	(11,880)

11. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust ("ESOP") serves as the primary vehicle for contributions to its existing ESSIOP 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 2000 and 1999, 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, 2000, the ESOP held 1,058,028 allocated shares and 955,048 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.

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Compensation expense related to the ESOP for 2000, 1999 and 1998 was \$3.2 million, \$1.6 million and \$1.0 million, respectively. Dividends paid on unallocated ESOP shares were \$1.1 million in 2000 and \$1.2 million in both 1999 and 1998. 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.

12. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 2000, 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, 2000, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 136,281,588 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 2000.

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 2000, 1999 and 1998, a total of 2,050 shares, 4,000 shares and 18,000 shares, respectively, of Class B Stock were converted into Common Stock.

In December 2000, the Corporation’s Board of Directors unanimously adopted a Stockholder Protection Rights Agreement and declared a dividend of one right (“Right”) for each outstanding share of Common Stock and Class B Stock payable to stockholders of record at the close of business on December 26, 2000. The Rights will at no time have voting power or receive dividends. The issuance of the Rights has no dilutive effect, will not affect reported earnings per share, is not taxable and will not change the manner in which the Corporation’s Common Stock is traded.

The Rights become exercisable only upon (i) resolution of the Board of Directors after any person has commenced a tender offer that would result in such person becoming the beneficial owner of 15% or more of the Common Stock, (ii) the Corporation’s announcement that a person or group has acquired 15% or more of the outstanding shares of Common Stock, or (iii) a person or group becoming the beneficial owner of more than 35% of the voting power of all of the outstanding Common Stock and Class B Stock. When exercisable, each Right entitles its registered holder to purchase from the Corporation, at a pre-determined exercise price, one one-thousandth of a share of Series A Participating Preferred Stock, par value \$1.00 per share (which would be convertible by holders of Class B Stock into Series B Participating Preferred Stock on the basis of one one-thousandth of a share of Series B Participating Preferred Stock for every share of Class B Common Stock held at that time). Each one one-thousandth of a share of Series A Participating Preferred Stock would have economic and voting terms similar to those of one share of Common Stock. Similarly, each one one-thousandth of a share of Series B Participating Preferred Stock would have economic and voting terms similar to those of one share of Class B Stock.

Upon the earlier of (a) a public announcement by the Corporation that a person or group has acquired 15% or more of the outstanding shares of Common Stock or (b) such person or group acquiring more than 35% of the voting power of the Common Stock and Class B Stock, each Right (except those owned by the acquiring person or group) will automatically become a right to buy, at the pre-determined exercise price, that number of one one-thousandth of a share of Series A Participating Preferred Stock having a market value of twice the exercise price. In addition, if the Corporation is acquired in a merger or other business combination, each Right will entitle a holder to purchase from the acquiring company, for the pre-determined exercise price, preferred stock of the acquiring company having an aggregate market value equal to twice the exercise price.

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Further, at any time after a person or group acquires 15% or more (but less than 50%) of the Corporation’s Common Stock or more than 35% of the voting power of all outstanding Common Stock and Class B Stock, the Corporation’s Board of Directors may, at its option, exchange all (but not less than all) of the outstanding Preferred Stock (other than Rights held by the acquiring person or group) for shares of Common Stock or Class B Stock, as applicable, at an exchange ratio of one share of Common Stock or Class B Stock for each one one-thousandth of a share of Preferred Stock.

The Corporation, solely at its option, may amend the Rights or redeem the Rights for \$.01 per Right at any time before the acquisition by a person or group of beneficial ownership of 15% or more of its Common Stock or more than 35% of the voting power of all of the outstanding Common Stock and Class B Stock. Unless redeemed earlier or extended by the Corporation, the Rights will expire on December 14, 2010.

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 12,787,537 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, 2000, and was entitled to cast approximately 77% 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.

Changes in outstanding Common Stock for the past three years were:

For the years ended December 31,	2000	1999	1998
Shares issued	179,950,872	179,950,872	179,950,872
Treasury shares at beginning of year	(41,491,253)	(36,804,157)	(37,018,566)
Stock repurchases:			
Repurchase programs	(2,284,539)	(5,478,379)	(250,400)
Stock options and benefits	(957,261)	—	(343,300)
Stock issuances:			
Stock options and benefits	1,063,769	791,283	808,109
Treasury shares at end of year	(43,669,284)	(41,491,253)	(36,804,157)
Net shares outstanding at end of year	136,281,588	138,459,619	143,146,715

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

For the years ended December 31,	2000	1999	1998
In thousands of dollars except per share amounts			
Net income	\$334,543	\$460,310	\$340,888
Weighted-average shares—basic	137,326	140,031	143,446
Effect of dilutive securities:			
Employee stock options	1,016	1,260	2,008
Performance and restricted stock units	23	9	109
Weighted-average shares—diluted	138,365	141,300	145,563
Net income per share—basic	\$ 2.44	\$ 3.29	\$ 2.38
Net income per share—diluted	\$ 2.42	\$ 3.26	\$ 2.34

For the years ended December 31, 2000 and 1999, 5.5 million and 1.8 million stock options, respectively, were not included in the diluted earnings per share calculation because the exercise price was higher than the average market price of the Common Stock for the year and therefore, the effect would have been antidilutive.

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13. STOCK COMPENSATION PLAN

The long-term portion of the Key Employee Incentive Plan (“Incentive Plan”), 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 Incentive Plan also provides for the deferral of performance stock unit awards by participants. As of December 31, 2000, 15.3 million shares were authorized for grants under the long-term portion of the Incentive Plan.

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 options 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 Incentive Plan 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 Incentive Plan 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,		2000	1999	1998
In thousands of dollars except per share amounts				
Net income	As reported	\$334,543	\$460,310	\$340,888
	Pro forma	328,156	449,986	329,621
Net income per share—Basic	As reported	\$ 2.44	\$ 3.29	\$ 2.38
	Pro forma	2.39	3.21	2.30
Net income per share—Diluted	As reported	\$ 2.42	\$ 3.26	\$ 2.34
	Pro forma	2.37	3.18	2.26

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 2000, 1999 and 1998, respectively: dividend yields of 1.8%, 1.4% and 1.6%, expected volatility of 27%, 23% and 21%, risk-free interest rates of 6.7%, 4.9% and 5.9%, and expected lives of 6.5 years for all periods.

Fixed Stock Options

The exercise price of each option equals the market price of the Corporation’s Common Stock on the date of grant. Each option has a maximum term of ten years. Options granted under the Incentive Plan prior to December 31, 1999, vest at the end of the second year after grant. In 2000, the terms and conditions of the grant were changed to provide for pro-rated vesting over four years for options granted subsequent to December 31, 1999. Options granted under the HSY Growth program vest at the end of the fifth year and have a term of ten years.

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A summary of the status of the Corporation’s fixed stock options as of December 31, 2000, 1999 and 1998, and changes during the years ending on those dates is presented below:

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options						
Outstanding at beginning of year	6,905,924	\$40.23	7,665,270	\$38.91	6,713,920	\$31.73

Granted	2,403,400	\$44.99	197,450	\$59.24	1,739,050	\$61.22
Exercised	(933,219)	\$26.19	(701,596)	\$26.80	(751,600)	\$25.78
Forfeited	(77,440)	\$49.81	(255,200)	\$52.16	(36,100)	\$52.61
Outstanding at end of year	8,298,665	\$43.10	6,905,924	\$40.23	7,665,270	\$38.91
Options exercisable at year-end	4,655,855	\$41.24	4,015,624	\$29.78	4,480,670	\$28.45
Weighted-average fair value of options granted during the year (per share)	\$ 15.58		\$ 17.23		\$ 18.30	

The following table summarizes information about fixed stock options outstanding as of December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/00	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/00	Weighted-Average Exercise Price
\$22.375-37.625	2,836,955	4.2	\$29.63	2,836,955	\$29.63
\$41.00-45.00	3,675,610	7.9	\$44.81	230,250	\$44.50
\$49.813-63.875	1,786,100	7.1	\$60.96	1,588,650	\$61.50
\$22.375-63.875	8,298,665	6.5	\$43.10	4,655,855	\$41.24

Performance Stock Units

Under the long-term portion of the Incentive Plan, 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 the applicable three-year performance cycle, targets for financial measures of earnings per share, economic value added 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% of the targeted amounts. The compensation amount charged against (credited to) income for the performance-based plan was \$1.8 million, \$(1.9) million and \$6.6 million for 2000, 1999 and 1998, respectively. The compensation credit in 1999 resulted from a partial achievement of the 1999 cycle objectives, expectation of partially achieving the target objectives for the 2000 cycle and the lower stock price. The compensation cost associated with the long-term portion of the Incentive Plan 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,	2000	1999	1998
Shares granted	58,550	48,550	48,150
Weighted-average fair value at date of grant	\$ 49.65	\$ 59.48	\$ 61.54

Deferred performance stock units, deferred directors' fees and accumulated dividend amounts totaled 353,874 shares as of December 31, 2000.

No stock appreciation rights were outstanding as of December 31, 2000.

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14. 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 \$16.0 million and \$16.9 million as of December 31, 2000 and 1999, 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 \$456.7 million and \$469.2 million as of December 31, 2000 and 1999, respectively, and inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31,	2000	1999
In thousands of dollars		
Raw materials	\$ 263,658	\$ 270,711
Goods in process	47,866	49,412
Finished goods	338,749	365,575
Inventories at FIFO	650,273	685,698
Adjustment to LIFO	(45,100)	(83,496)
Total inventories	\$ 605,173	\$ 602,202

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were as follows:

December 31,	2000	1999
In thousands of dollars		
Hedging transactions	\$141,572	\$ 74,243
Other	60,818	52,404
Total prepaid expenses and other	\$202,390	\$126,647

Hedging transactions were associated with exchange traded futures contracts entered into to manage price risk related to the purchase of raw materials for manufacturing requirements.

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of \$125.0 million and \$76.6 million as of December 31, 2000 and 1999, respectively. Major classes of property, plant and equipment were as follows:

December 31,	2000	1999
In thousands of dollars		
Land	\$ 53,725	\$ 50,830
Buildings	502,419	484,768
Machinery and equipment	2,208,701	2,036,670
Property, plant and equipment, gross	2,764,845	2,572,268
Accumulated depreciation	(1,179,457)	(1,061,808)
Property, plant and equipment, net	\$ 1,585,388	\$ 1,510,460

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Accrued Liabilities

Accrued liabilities were as follows:

December 31,	2000	1999
In thousands of dollars		
Payroll, compensation and benefits	\$107,914	\$ 98,527
Advertising and promotion	135,123	71,233
Other	115,030	122,737
Total accrued liabilities	\$358,067	\$292,497

Other Long-term Liabilities

Other long-term liabilities were as follows:

December 31,	2000	1999
In thousands of dollars		
Accrued post-retirement benefits	\$194,354	\$194,563
Other	133,320	136,375
Total other long-term liabilities	\$327,674	\$330,938

15. SEGMENT INFORMATION

The Corporation operates in a single consumer foods line of business, encompassing the manufacture, distribution and sale of confectionery and grocery products. Consolidated net sales represented primarily sales of confectionery products. The Corporation's principal operations and markets are located in the United States. The Corporation also manufactures, markets, sells and distributes confectionery and grocery products in Canada and Mexico, imports and/or markets selected confectionery products in Japan, the Philippines, China and Korea, and markets confectionery products in over 90 countries worldwide.

Net sales and long-lived assets of businesses outside of the United States were not significant. Sales to Wal-Mart Stores, Inc. and Subsidiaries exceeded 10% of total net sales and amounted to approximately \$710.9 million, \$605.3 million and \$619.1 million in 2000, 1999 and 1998, respectively.

16. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

Year 2000	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	\$993,115	\$836,204	\$1,196,755	\$1,194,902

Gross profit	388,018	334,134	500,324	527,349
Net income	71,180	39,996	107,405	115,962
Net income per share—Basic(a)	.51	.29	.78	.85
Net income per share—Diluted	.51	.29	.78	.84

Year 1999	First	Second	Third	Fourth
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In thousands of dollars except per share amounts

Net sales	\$945,152	\$853,239	\$1,066,695	\$1,105,838
Gross profit	382,988	340,443	432,653	460,116
Net income	224,670(b)	50,055	87,578	98,007
Net income per share—Basic(a)	1.58	.36	.63	.71
Net income per share—Diluted(a)	1.57	.35	.62	.70

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

(b) Net income for the first quarter and year 1999 included an after-tax gain on the sale of the Corporation's pasta business of \$165.0 million. Net income per share was similarly impacted.

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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 accounting principles generally accepted in the United States 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 25, 2000. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with accounting principles generally accepted in the United States, and they have indicated to us that their audit was performed in accordance with auditing standards generally accepted in the United States 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.

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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, 2000 and 1999, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2000, 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 auditing standards generally accepted in the United States. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

New York, New York
January 26, 2001

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	2000	1999	1998
Summary of Operations				
Net Sales	4.5%	\$4,220,976	3,970,924	4,435,615
Cost of Sales	4.5%	\$2,471,151	2,354,724	2,625,057
Selling, Marketing and Administrative	3.8%	\$1,127,175	1,057,840	1,167,895
Non-recurring Credits/(Charges)(o)		\$ —	243,785	—
Interest Expense, Net	11.9%	\$ 76,011	74,271	85,657
Provision for Income Taxes	3.8%	\$ 212,096	267,564	216,118
Income from Continuing Operations Before Accounting Changes	4.5%	\$ 334,543	460,310	340,888
Net Cumulative Effect of Accounting Changes		\$ —	—	—
Net Income	4.5%	\$ 334,543	460,310	340,888
Income Per Share:(a)				
From Continuing Operations Before Accounting Changes				
—Basic	7.4%	\$ 2.44	3.29(i)	2.38
—Diluted	7.4%	\$ 2.42	3.26	2.34
Net Cumulative Effect of Accounting Changes —Basic and Diluted		\$ —	—	—
Net Income—Basic	7.4%	\$ 2.44	3.29(i)	2.38
Net Income—Diluted	7.4%	\$ 2.42	3.26	2.34
Weighted-Average Shares Outstanding—Basic(a)		137,326	140,031	143,446
Weighted-Average Shares Outstanding—Diluted(a)		138,365	141,300	145,563
Dividends Paid on Common Stock	4.5%	\$ 115,209	109,175	103,616
Per Share(a)	8.1%	\$ 1.08	1.00	.920
Dividends Paid on Class B Common Stock	8.1%	\$ 29,682	27,553	25,428
Per Share(a)	8.2%	\$.975	.905	.835
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales		7.9%	7.4%(c)	7.7%
Depreciation	8.5%	\$ 140,168	135,574	138,489
Advertising	1.0%	\$ 161,580	164,894	187,505
Promotion	3.4%	\$ 441,914	395,849	469,709
Payroll	4.1%	\$ 557,342	534,854	563,045
Year-end Position and Statistics				
Capital Additions	(2.6)%	\$ 138,333	115,448	161,328
Capitalized Software Additions	N/A	\$ 4,686	25,394	42,859
Total Assets	5.2%	\$3,447,764	3,346,652	3,404,098
Long-term Portion of Debt	12.4%	\$ 877,654	878,213	879,103
Stockholders' Equity	(6)%	\$1,175,036	1,098,627	1,042,301
Operating Return on Average Stockholders' Equity(b)		29.4%	27.6%	36.0%
Operating Return on Average Invested Capital(b)		16.1%	14.8%	17.4%
Full-time Employees		14,300	13,900	14,700
Stockholders' Data(a)				
Outstanding Shares of Common Stock and Class B Common Stock at Year-end		136,282	138,460	143,147
Market Price of Common Stock at Year-end	13.1%	\$ 64 ³ / ₈	47 ⁷ / ₁₆	62 ³ / ₁₆
Range During Year		\$66 ⁷ / ₁₆ -37 ³ / ₄	64 ⁷ / ₈ -45 ³ / ₄	76 ³ / ₈ -59 ¹ / ₁₆

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

	1997	1996	1995	1994
Summary of Operations				
Net Sales	4,302,236	3,989,308	3,690,667	3,606,271
Cost of Sales	2,488,896	2,302,089	2,126,274	2,097,556
Selling, Marketing and Administrative	1,183,130	1,124,087	1,053,758	1,034,115
Non-recurring Credits/(Charges)(o)	—	(35,352)	151	(106,105)
Interest Expense, Net	76,255	48,043	44,833	35,357
Provision for Income Taxes	217,704	206,551	184,034	148,919
Income from Continuing Operations Before Accounting Changes	336,251	273,186	281,919	184,219
Net Cumulative Effect of Accounting Changes	—	—	—	—
Net Income	336,251	273,186	281,919	184,219
Income Per Share:(a)				
From Continuing Operations Before Accounting Changes				
—Basic	2.25	1.77(j)	1.70(k)	1.06(l)
—Diluted	2.23	1.75	1.69	1.05
Net Cumulative Effect of Accounting Changes —Basic and Diluted	—	—	—	—
Net Income—Basic	2.25	1.77(j)	1.70(k)	1.06(l)
Net Income—Diluted	2.23	1.75	1.69	1.05
Weighted-Average Shares Outstanding—Basic(a)	149,174	154,334	166,036	174,367
Weighted-Average Shares Outstanding—Diluted(a)	151,016	155,690	166,721	174,740
Dividends Paid on Common Stock	98,390	93,884	91,190	89,660
Per Share(a)	.840	.760	.685	.625
Dividends Paid on Class B Common Stock	23,156	20,879	18,900	17,301
Per Share(a)	.760	.685	.620	.5675
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales	7.8%	7.7%(d)	7.6%	7.3%(e)
Depreciation	135,016	119,443	119,438	114,821
Advertising	202,408	174,199	159,200	120,629
Promotion	451,580	429,208	402,454	419,164

Payroll	524,827	491,677	461,928	472,997
Year-end Position and Statistics				
Capital Additions	172,939	159,433	140,626	138,711
Capitalized Software Additions	29,100	—	—	—
Total Assets	3,291,236	3,184,796	2,830,623	2,890,981
Long-term Portion of Debt	1,029,136	655,289	357,034	157,227
Stockholders' Equity	852,806	1,161,021	1,082,959	1,441,100
Operating Return on Average Stockholders' Equity(b)	33.4%	27.5%	22.2%	18.5%
Operating Return on Average Invested Capital(b)	17.5%	17.8%	17.1%	15.6%
Full-time Employees	14,900	14,000	13,300	14,000
Stockholders' Data(a)				
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	142,932	152,942	154,532	173,470
Market Price of Common Stock at Year-end	61 ¹⁵ / ₁₆	43 ³ / ₄	32 ¹ / ₂	24 ³ / ₁₆
Range During Year	63 ⁷ / ₈ -42 ¹ / ₈	51 ³ / ₄ -31 ¹⁵ / ₁₆	33 ¹⁵ / ₁₆ -24	26 ³ / ₄ -20 ⁹ / ₁₆
	1993	1992	1991	1990
Summary of Operations				
Net Sales	3,488,249	3,219,805	2,899,165	2,715,609
Cost of Sales	1,995,502	1,833,388	1,694,404	1,588,360
Selling, Marketing and Administrative	1,035,519	958,189	814,459	776,668
Non-recurring Credits (Charges)(o)	80,642	—	—	35,540
Interest Expense, Net	26,995	27,240	26,845	24,603
Provision for Income Taxes	213,642	158,390	143,929	145,636
Income from Continuing Operations Before Accounting Changes	297,233	242,598	219,528	215,882
Net Cumulative Effect of Accounting Changes	(103,908)	—	—	—
Net Income	193,325	242,598	219,528	215,882
Income Per Share:(a)				
From Continuing Operations Before Accounting Changes				
—Basic	1.65(m)	1.34	1.21	1.19(n)
—Diluted	1.65	1.34	1.21	1.19
Net Cumulative Effect of Accounting Changes—Basic and Diluted	(.58)	—	—	—
Net Income—Basic	1.07(m)	1.34	1.21	1.19(n)
Net Income—Diluted	1.07	1.34	1.21	1.19
Weighted-Average Shares Outstanding—Basic(a)	179,929	180,775	180,767	180,766
Weighted-Average Shares Outstanding—Diluted(a)	180,495	181,160	181,112	180,987
Dividends Paid on Common Stock	84,711	77,174	70,426	74,161(g)
Per Share(a)	.570	.515	.470	.495(g)
Dividends Paid on Class B Common Stock	15,788	14,270	12,975	13,596(g)
Per Share(a)	.5175	.4675	.425	.445(g)
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales	7.4%(f)	7.5%	7.6%	7.2%(h)
Depreciation	100,124	84,434	72,735	61,725
Advertising	130,009	137,631	117,049	146,297
Promotion	444,546	398,577	325,465	315,242
Payroll	469,564	433,162	398,661	372,780
Year-end Position and Statistics				
Capital Additions	211,621	249,795	226,071	179,408
Capitalized Software Additions	—	—	—	—
Total Assets	2,855,091	2,672,909	2,341,822	2,078,828
Long-term Portion of Debt	165,757	174,273	282,933	273,442
Stockholders' Equity	1,412,344	1,465,279	1,335,251	1,243,537
Operating Return on Average Stockholders' Equity(b)	17.8%	17.3%	17.0%	16.6%
Operating Return on Average Invested Capital(b)	15.0%	14.4%	13.8%	13.4%
Full-time Employees	14,300	13,700	14,000	12,700
Stockholders' Data(a)				
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	175,226	180,373	180,373	180,373
Market Price of Common Stock at Year-end	24 ¹ / ₂	23 ¹ / ₂	22 ³ / ₁₆	18 ³ / ₄
Range During Year	27 ¹⁵ / ₁₆ -21 ³ / ₄	24 ³ / ₁₆ -19 ¹ / ₈	22 ¹ / ₄ -17 ³ / ₁₆	19 ¹³ / ₁₆ -14 ¹ / ₈

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

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Notes to the Eleven-Year Consolidated Financial Summary

- (a) All shares and per share amounts have been adjusted for the two-for-one stock split effective September 13, 1996.
- (b) Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been computed using Net Income, excluding 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, the 1996 Loss on Sale of Businesses, and the 1999 Gain on Sale of Business.
- (c) Calculated percent excludes the 1999 Gain on Sale of Business. Including the gain, Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales was 11.6%.
- (d) 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%.
- (e) 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%.
- (f) 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%.
- (g) 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.
- (h) 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%.

- (i) Income Per Share from Continuing Operations Before Accounting Changes—Basic and Net Income Per Share—Basic for 1999 included a \$1.18 per share gain on the sale of the pasta business. 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 \$2.11.
- (j) 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.
- (k) 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.
- (l) 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.
- (m) 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.
- (n) 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.
- (o) Includes the Gain on Sale of Business in 1999; Loss on Sale of Businesses in 1996; Restructuring Credit in 1995; Restructuring Charge in 1994; Gain on Sale of Investment Interest in 1993 and Restructuring Gain, Net in 1990.

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OTHER STOCKHOLDER INFORMATION

INVESTOR INFORMATION

Stockholders

As of December 31, 2000, Hershey Foods Corporation had outstanding 105,839,730 shares of Common Stock and 30,441,858 shares of Class B Stock.

Year	Year-End Common Stock and Class B Stock Stockholders	Approximate Annual Composite Trading Volume
2000	41,482	138,636,000
1999	43,265	128,557,000
1998	44,364	78,955,000
1997	44,602	74,781,000
1996	42,483	47,002,000

Stock Market Data

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hershey." Options on the Corporation's Common Stock are traded on the American Stock Exchange.

Common Stock Profile

2000 Calendar Quarter	Common Stock Price			Dividends Paid Per Share	
	High	Low	Close	Common Stock	Class B Stock
1st Quarter	\$50 ¹¹ / ₁₆	\$37 ³ / ₄	\$48 ³ / ₄	\$.26	\$.235
2nd Quarter	55 ¹³ / ₁₆	45	48 ¹ / ₂	.26	.235
3rd Quarter	54 ¹¹ / ₁₆	41 ⁹ / ₁₆	54 ¹ / ₈	.28	.2525
4th Quarter	66 ⁷ / ₁₆	48 ⁷ / ₁₆	64 ³ / ₈	.28	.2525

Dividend Policy

Dividends on Hershey Foods Corporation's Common Stock and Class B Stock are declared by the Board of Directors and are paid normally in March, June, September and December.

The dividend on the Common Stock payable on March 15, 2001, is the 285th consecutive quarterly dividend paid by the Corporation. The dividend rate has been increased annually for 26 consecutive years. Historically, the Corporation has targeted approximately one-third of its income from continuing operations for dividends to stockholders.

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Investor Services Program

The Corporation offers an Investor Services Program. Features of the Program include the ability to purchase directly from our agent initial shares of Hershey Foods Corporation Common Stock, as well as additional shares; dividend reinvestment on 10 shares or greater; automatic monthly deductions from a bank account for optional cash purchases; safekeeping of certificates; direct deposit of dividends; and an IRA option. For more information, contact:

Mellon Investor Services
P. O. Box 3338
South Hackensack, NJ 07606-1938
(800) 851-4216

www.mellon-investor.com
To request enrollment materials,
please call (800) 842-7629.

Stockholder Inquiries

Questions relating to stockholder records, change of ownership, change of address and dividend payments should be sent to the Corporation's Transfer Agent, Mellon Investor Services, whose address appears below.

Financial Information

Securities analysts, investment managers and stockholders should direct financial information inquiries to the Investor Relations contact listed below.

2000 Annual Report

To control costs and to meet our stockholders' needs, we have published this 2000 Annual Report to Stockholders, including the Consolidated Financial Statements and Management's Discussion and Analysis, as an appendix to the Corporation's Proxy Statement. Further information regarding various aspects of the Corporation's business can be found on the Corporation's web site (www.hersheys.com).

Electronic Delivery

In an effort to reduce paper mailed to your home and to help lower printing and postage costs, we now offer to registered stockholders the convenience of viewing Proxy Statements, Annual Reports to Stockholders and related materials on-line. With your consent, we can stop sending future paper copies of these documents to you by mail. To participate, follow the instructions at www.icsdelivery.com/hsy or select the On-Line Proxy/Voting option in the Investor Relations section of the Corporation's web site (www.hersheys.com).

On-Line Voting at www.proxyvote.com

Use the Internet to transmit your voting instructions anytime before 11:59 p.m. EDT on April 23, 2001. Have your proxy card in hand when you access the web site. You will be prompted to enter your Control Number to obtain your records and create an electronic voting instruction form.

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STOCKHOLDER INFORMATION

Executive Offices

100 Crystal A Drive
P. O. Box 810
Hershey, PA 17033-0810
(717) 534-4000

Transfer Agent and Registrar

Mellon Investor Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
www.mellon-investor.com
(800) 851-4216 - Domestic Holders
(201) 329-8660 - Foreign Holders
(800) 231-5469 - Hearing Impaired

www.hersheys.com

Independent Public Accountants

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

Investor Relations Contact

James A. Edris
Director, Investor Relations
100 Crystal A Drive
P. O. Box 810
Hershey, PA 17033-0810
(717) 534-7556
jedris@hersheys.com

Financial Information

(800) 539-0261
www.hersheys.com

Hershey Foods Corporation's web site provides access to a wide variety of information including products, recipes, news releases, a plant tour, and consumer information. A principal feature of the web site is the Investor Relations section which contains general financial information (e.g., Hershey's corporate overview, Mission Statement, product information, financial fundamentals, and current stock quotes), the current Proxy Statement and Annual Report to Stockholders and archived information (e.g., historical financial releases, annual reports, dividends and stock prices). The site also provides analyst presentations and audio archives of conference calls and analyst group presentations for those interested in a more in-depth review of the Corporation's operations as presented by senior management to the financial community. Another interesting feature is the "email alert," which allows users to receive automatic updates informing them when new items such as calendar events, presentations, dividend information, annual reports and SEC documents are added to the site.

www.mellon-investor.com

Mellon Investor Services' web site provides access to an Internet self-service product, Investor ServiceDirect (sm) ("ISD"). Through ISD, stockholders can view their account profiles, stock certificate histories, dividend reinvestment/book-entry transactions (including any new funds pending investment), dividend payment histories, Form 1099 tax information, current stock price quote (20-minute delay), and historical stock prices. Stockholders may also request a replacement dividend check, the issuance of stock certificates or the sale of shares from a book-entry position, duplicate Form 1099 or dividend reinvestment statement, safekeeping of stock certificates, an address change, or a stock transfer involving book-entry shares. Future ISD enhancements are planned; be sure to check the www.mellon-investor.com web site.

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DIRECTORS AND MANAGEMENT COMMITTEE

As of March 15, 2001

Directors

Kenneth L. Wolfe Chairman of the Board of Directors	Mackey J. McDonald Chairman of the Board, Chief Executive Officer and President VF Corporation Greensboro, NC	Richard H. Lenny President and Chief Executive Officer
William H. Alexander Administrator Family Business Program The Wharton School of the University of Pennsylvania Philadelphia, PA	John M. Pietruski Chairman of the Board Texas Biotechnology Corporation Houston, TX	William F. Christ Executive Vice President and Chief Operating Officer
Robert H. Campbell Chairman of the Board and Chief Executive Officer (Retired) Sunoco, Inc. Philadelphia, PA	Audit Committee John C. Jamison, Chair William H. Alexander Mackey J. McDonald	Robert M. Reese Senior Vice President, General Counsel and Secretary
C. McCollister Everts, M.D. University Professor and Professor of Orthopaedics The Pennsylvania State University College of Medicine Hershey, PA	Committee on Directors and Corporate Governance John M. Pietruski, Chair William H. Alexander Bonnie G. Hill Kenneth L. Wolfe	Raymond Brace Vice President Conversion and Procurement
Bonnie G. Hill President and Chief Executive Officer The Times Mirror Foundation Senior Vice President <i>The Los Angeles Times</i> Los Angeles, CA	Compensation and Executive Organization Committee Robert H. Campbell, Chair C. McCollister Everts, M.D. John C. Jamison Mackey J. McDonald	John R. Canavan Vice President Human Resources
John C. Jamison Chairman Mallardee Associates Williamsburg, VA	Executive Committee Kenneth L. Wolfe, Chair Richard H. Lenny	Jay F. Carr Vice President Research Services and Special Operations
Richard H. Lenny President and Chief Executive Officer	Management Committee Kenneth L. Wolfe Chairman of the Board of Directors	Frank Cerminara Vice President, Chief Financial Officer and Treasurer
		George F. Davis Vice President and Chief Information Officer
		Michael H. Holmes Vice President U.S. Marketing
		Milton T. Matthews Vice President, U.S. Sales

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Exhibit 4.1

STOCKHOLDER PROTECTION RIGHTS AGREEMENT

dated as of
December 15, 2000
between
HERSHEY FOODS CORPORATION
and
MELLON INVESTOR SERVICES LLC,
as Rights Agent

STOCKHOLDER PROTECTION RIGHTS AGREEMENT

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EXHIBITS

- Exhibit A Form of Rights Certificate for Common Stock
(Together with Form of Election to Exercise)
- Exhibit B Form of Certificate of Designation and Terms of
Series A Participating Preferred Stock
- Exhibit C Form of Certificate of Designation and Terms
of Series B Participating Preferred Stock

STOCKHOLDER PROTECTION RIGHTS AGREEMENT

STOCKHOLDER PROTECTION RIGHTS AGREEMENT (as amended from time to time, this "Agreement"), dated as of December 15, 2000, between HERSHEY FOODS CORPORATION, a Delaware corporation (the "COMPANY"), and MELLON INVESTOR SERVICES LLC, a New Jersey limited liability company, as Rights Agent (the "RIGHTS AGENT", which term shall include any successor Rights Agent hereunder).

WITNESSETH:

WHEREAS, the Board of Directors of the Company has (a) authorized and declared a dividend of one right ("RIGHT") in respect of each share of Common Stock (as hereinafter defined) and Class B Common Stock (as hereinafter defined) held of record as of the close of business on December 26, 2000 (the "RECORD TIME") payable in respect of each such share at the Record Time or, if applicable, upon certification by the New York Stock Exchange to the Securities and Exchange Commission that the Rights have been approved for listing and registration (the "PAYMENT TIME") and (b) as provided in Section 2.4, authorized the issuance of one Right in respect of each share of Common Stock and Class B Common Stock issued after the Record Time and prior to the Separation Time (as hereinafter defined) and, to the extent provided in Section 5.3, each share of Common Stock and Class B Common Stock issued after the Separation Time;

WHEREAS, subject to the terms and conditions hereof, each Right entitles the holder thereof, after the Separation Time, to purchase securities or assets of the Company (or, in certain cases, securities of certain other entities) pursuant to the terms and subject to the conditions set forth herein; and

WHEREAS, the Company desires to appoint the Rights Agent to act on behalf of the Company, and the Rights Agent is willing so to act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates (as hereinafter defined), the exercise of Rights and other matters referred to herein;

NOW THEREFORE, in consideration of the premises and the respective agreements set forth herein, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 DEFINITIONS. For purposes of this Agreement, the following terms have the meanings indicated:

"ACQUIRING PERSON" shall mean any Person who is or becomes the Beneficial Owner of 15% or more of the outstanding shares of Common Stock; provided, however, that the term "Acquiring Person" shall not include (i) Hershey Trust Company, a Pennsylvania corporation, as trustee for Milton Hershey School (together with any successor or other validly appointed trustee, the "Trustee") and Milton Hershey School as beneficiary under deed of trust dated as of November 15, 1909 between Milton S. Hershey and Catherine S. Hershey and the Hershey Trust Company, or any Affiliates or Associates of the Trustee or Milton Hershey School, (ii) any Person who shall become the Beneficial Owner of 15% or more of the outstanding shares of Common Stock as the result of purchasing Common Shares from the Trustee in its capacity as trustee or Milton Hershey School (the "Trust Shares") so long as at the time of such purchase (a "Trust Transaction"), and after giving effect to such Trust Transaction, such Person does not become the Beneficial Owner of more than 35% of the voting power of all of the outstanding Common Shares, until such time thereafter as such Person shall become the Beneficial Owner (other than (A) by means of a stock dividend or stock split or (B) as the result of a Trust Transaction after giving effect to which such Person does not Beneficially Own more than 35% of the voting power of all of the outstanding Common Shares) of any additional shares of Common Stock while such Person is, or as the result of which such Person becomes, the Beneficial Owner of 15% or more of the outstanding shares of Common Stock, (iii) any Person who is the Beneficial Owner of 15% or more of the outstanding shares of Common Stock on the date of this Agreement, or any Person who shall become the Beneficial Owner of 15% or more of the outstanding Common Stock solely as a result of an acquisition by the Company of shares of Common Stock, until such time hereafter or thereafter as such Person shall become the Beneficial Owner (other than (A) by means of a stock dividend or stock split or (B) as the result of a Trust Transaction after giving effect to which such Person does not Beneficially Own more than 35% of the voting power of all of the outstanding Common Shares) of any additional shares of Common Stock while such Person is or as a result of which such Person becomes the Beneficial Owner of 15% or more of the outstanding shares of Common Stock, (iv) any Person who becomes the Beneficial Owner of 15% or more of the outstanding shares of Common Stock but who acquired Beneficial Ownership of shares of Common Stock without any plan or intention to seek or affect control of the Company, if such Person promptly divests, or promptly enters into an agreement with, and satisfactory to, the Company, in its sole discretion, to divest (without exercising or retaining any power, including voting power, with respect to such shares), sufficient shares of Common Stock (or securities convertible into, exchangeable into or exercisable for Common Stock) so that such Person ceases to be the Beneficial Owner of 15% or more of the outstanding shares of Common Stock or (v) any Person who Beneficially Owns shares of Common Stock consisting solely of one or more (A) shares of Common Stock Beneficially Owned pursuant to the grant or exercise of an option granted to such Person (an "Option Holder") by the Company in connection with an agreement to merge with, or acquire, the Company entered into prior to a Flip-in Date, (B) shares of Common Stock (or securities convertible into, exchangeable into or exercisable for Common

Stock) Beneficially Owned by such Option Holder or its Affiliates or Associates at the time of grant of such option and (C) shares of Common Stock (or securities convertible into, exchangeable into or exercisable for Common Stock) acquired by Affiliates or Associates of such Option Holder after the time of such grant which, in the aggregate, amount to less than 1% of the outstanding shares of Common Stock. In addition, the Company, any Subsidiary of the Company and any employee stock ownership or other employee benefit plan of the Company or a Subsidiary of the Company (or any entity or trustee holding Common Shares for or pursuant to the terms of any such plan or for the purpose of funding any such plan or funding other employee benefits for employees of the Company or of any Subsidiary of the Company) shall not be an Acquiring Person.

"AFFILIATE" and "ASSOCIATE" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Exchange Act, as such Rule is in effect on the date of this Agreement.

"AGREEMENT" shall have the meaning set forth in the Preamble.

A Person shall be deemed the "BENEFICIAL OWNER", and to have "BENEFICIAL OWNERSHIP" of, and to "Beneficially Own", any securities as to which such Person or any of such Person's Affiliates or Associates is or may be deemed to be the beneficial owner of pursuant to Rule 13d-3 and 13d-5 under the Exchange Act, as such Rules are in effect on the date of this Agreement, as well as any securities as to which such Person or any of such Person's Affiliates or Associates has the right to become Beneficial Owner (whether such right is exercisable immediately or only after the passage of time or the occurrence of conditions) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner", or to have "Beneficial Ownership" of, or to "Beneficially Own", any security (i) solely because such security has been tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered security is accepted for payment or exchange or (ii) solely because such Person or any of such Person's Affiliates or Associates has or shares the power to vote or direct the voting of such security pursuant to a revocable proxy or consent given in response to a public proxy or consent solicitation made to more than ten holders of shares of a class of stock of the Company registered under Section 12 of the Exchange Act and pursuant to, and in accordance with, the applicable rules and regulations under the Exchange Act, except if such power (or the arrangements relating thereto) is then reportable under Item 6 of Schedule 13D under the Exchange Act (or any similar provision of a comparable or successor report). Notwithstanding the foregoing, no officer or director of the Company shall be deemed to Beneficially Own any securities of any other Person by virtue of any actions such officer or director takes in such capacity. For purposes of this Agreement, in determining the percentage of the outstanding shares of Common Stock with respect to which a Person is

the Beneficial Owner, all shares as to which such Person is deemed the Beneficial Owner shall be deemed outstanding.

"BUSINESS DAY" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in New York, New York are generally authorized or obligated by law or executive order to close.

"CLASS B COMMON STOCK" shall mean the shares of Class B Common Stock, par value \$1.00 per share, of the Company.

"CLOSE OF BUSINESS" on any given date shall mean 5:00 p.m. New York, New York time on such date or, if such date is not a Business Day, 5:00 p.m. New York, New York time on the next succeeding Business Day.

"COMMON SHARES" shall mean the shares of Common Stock and Class B Common Stock.

"COMMON STOCK" shall mean the shares of Common Stock, par value \$1.00 per share, of the Company.

"COMPANY" shall have the meaning set forth in the preamble.

"ELECTION TO EXERCISE" shall have the meaning set forth in Section 2.3(d) hereof.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"EXCHANGE RATIO" shall have the meaning set forth in Section 3.1(c) hereof.

"EXCHANGE TIME" shall mean the time at which the right to exercise the Rights shall terminate pursuant to Section 3.1(c) hereof.

"EXERCISE PRICE" shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right. Until adjustment thereof in accordance with the terms hereof, the Exercise Price shall equal \$270.

"EXPANSION FACTOR" shall have the meaning set forth in Section 2.4(a) hereof.

"EXPIRATION TIME" shall mean the earliest of (i) the Exchange Time, (ii) the Redemption Time, (iii) the Close of Business on the tenth anniversary of the date of this Agreement, unless extended by action of the Board of Directors (in which case the applicable time shall be the time at which it has been so extended) and (iv) immediately

prior to the effective time of a consolidation, merger or statutory share exchange effective pursuant to an agreement to which the Company is a party that does not constitute a Flip-over Transaction or Event.

"FLIP-IN DATE" shall mean any Stock Acquisition Date or such later date and time as the Board of Directors of the Company may fix by resolution adopted prior to the Flip-in Date that would otherwise have occurred.

"FLIP-OVER ENTITY," for purposes of Section 3.2, shall mean (i) in the case of a Flip-over Transaction or Event described in clause (i) of the definition thereof, the Person issuing any securities into which any Common Shares are being converted or exchanged and, if no such securities are being issued, the other Person to such Flip-over Transaction or Event and (ii) in the case of a Flip-over Transaction or Event referred to in clause (ii) of the definition thereof, the Person receiving the greatest portion of the (A) assets or (B) operating income or cash flow being transferred in such Flip-over Transaction or Event, provided in all cases if such Person is a Subsidiary of another Person, the ultimate parent entity shall be the Flip-over Entity.

"FLIP-OVER STOCK" shall mean, as applicable, (i) preferred stock (the "SERIES A FLIP-OVER STOCK") with terms substantially identical to the Preferred Stock, including, without limitation, conversion terms such that the preferred stock can be converted into a series of preferred stock with terms substantially identical to the Series B Preferred Stock and with a Reference Package comprised of an equity security ("REFERENCE SECURITY") that prior to the Flip-over Transaction had the greatest voting power in respect of the election of directors (or other persons similarly responsible for the direction of the business and affairs of the Flip-over Entity) but, after the Flip-over Transaction, is second in voting power only to the equity security referred to in clause (ii) below and (ii) a series of preferred stock substantially identical to the Series B Preferred Stock, including without limitation, conversion terms such that the preferred stock can be converted into the Reference Security referred to in clause (i) above and with a Reference Package comprised of an equity security identical to that of the Class B Common Stock, including the voting provisions.

"FLIP-OVER TRANSACTION OR EVENT" shall mean a transaction or series of transactions on or after a Flip-in Date in which, directly or indirectly, (i) the Company shall consolidate or merge or participate in a statutory share exchange with any other Person if, at the time of consummation of the consolidation, merger or statutory share exchange or at the time the Company enters into any agreement with respect to any such consolidation, merger or statutory share exchange, the Acquiring Person is the Beneficial Owner of 90% or more of the outstanding shares each of the Common Stock and, to the extent it then exists, the Class B Common Stock or controls the Board of Directors of the Company and either (A) any term of or arrangement concerning the treatment of shares of Common Stock or Class B Common Stock, as the case may be, in such consolidation, merger or statutory share exchange relating to the Acquiring Person is not identical to the

terms and arrangements relating to other holders of the Common Stock or Class B Common Stock, as the case may be, or (B) the Person with whom the transaction or series of transactions occurs is the Acquiring Person or an Affiliate or Associate of the Acquiring Person or (ii) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer) assets (A) aggregating more than 50% of the assets (measured by either book value or fair market value) or (B) generating more than 50% of the operating income or cash flow, of the Company and its Subsidiaries (taken as a whole) to any Person (other than the Company or one or more of its wholly owned Subsidiaries) or to two or more such Persons which are Affiliates or Associates or otherwise acting in concert, if, at the time of the entry by the Company (or any such Subsidiary) into an agreement with respect to such sale or transfer of assets, the Acquiring Person controls the Board of Directors of the Company. For purposes of the foregoing description, the term "Acquiring Person" shall include any Acquiring Person and its Affiliates and Associates, counted together as a single Person. An Acquiring Person shall be deemed to control the Company's Board of Directors when, on or following a Stock Acquisition Date, the persons who were directors of the Company (or persons nominated and/or appointed as directors by vote of a majority of such persons) before the Stock Acquisition Date shall cease to constitute a majority of the Company's Board of Directors.

"MARKET PRICE" per share of any securities on any date shall mean the average of the daily closing prices per share of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, HOWEVER, that if any event described in Section 2.4 hereof, or any analogous event, shall have caused the closing prices used to determine the Market Price on any Trading Days during such period of 20 Trading Days not to be fully comparable with the closing price on such date, each such closing price so used shall be appropriately adjusted in order to make it fully comparable with the closing price on such date. The closing price per share of any securities on any date shall be the last reported sale price, regular way, or, in case no such sale takes place or is quoted on such date, the average of the closing bid and asked prices, regular way, for each share of such securities, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, Inc. or, if the securities are not listed or admitted to trading on the New York Stock Exchange, Inc., as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the securities are listed or admitted to trading or, if the securities are not listed or admitted to trading on any national securities exchange, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or such other system then in use, or, if on any such date the securities are not listed or admitted to trading on any national securities exchange or quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities selected by the Board of Directors of the Company; PROVIDED, HOWEVER, that if on any such date the securities are not listed or admitted to trading on a

national securities exchange or traded in the over-the-counter market, the closing price per share of such securities on such date shall mean the fair value per share of securities on such date as determined in good faith by the Board of Directors of the Company, after consultation with a nationally recognized investment banking firm, and set forth in a certificate delivered to the Rights Agent.

"OPTION HOLDER" shall have the meaning set forth in the definition of Acquiring Person.

"PAYMENT TIME" shall have the meaning set forth in the Recitals.

"PERSON" shall mean any individual, firm, partnership, limited liability company, association, group (as such term is used in Rule 13d-5 under the Exchange Act, as such Rule is in effect on the date of this Agreement), corporation or other entity.

"PREFERRED STOCK" shall mean the Series A Participating Preferred Stock, par value \$1.00 per share, of the Company created by a Certificate of Designation and Terms in substantially the form set forth in Exhibit B hereto appropriately completed.

"RECORD TIME" shall have the meaning set forth in the Recitals.

"REDEMPTION PRICE" shall mean an amount equal to one cent (\$0.01).

"REDEMPTION TIME" shall mean the time at which the right to exercise the Rights shall terminate pursuant to Section 5.1 hereof.

"REFERENCE PACKAGE" with respect to the Preferred Stock, shall have the meaning set forth in the Certificate of Designation in substantially the form set forth in Exhibit B hereto appropriately completed and, with respect to the Series B Preferred Stock, shall have the meaning set forth in the Certificate of Designation in substantially the form set forth in Exhibit C hereto appropriately completed.

"RIGHT" shall have the meaning set forth in the Recitals.

"RIGHTS AGENT" shall have the meaning set forth in the Preamble.

"RIGHTS CERTIFICATE" shall have the meaning set forth in Section 2.3(c) hereof.

"RIGHTS REGISTER" shall have the meaning set forth in Section 2.7(a) hereof.

"SEPARATION TIME" shall mean the earlier of (i) the Close of Business on the tenth Business Day (or such later date as the Board of Directors of the Company may

from time to time fix by resolution adopted prior to the Separation Time that would otherwise have occurred) after the date on which any Person commences a tender or exchange offer which, if consummated, would result in such Person's becoming an Acquiring Person and (ii) the time of the first event causing a Flip-in Date to occur; provided, that if the foregoing results in the Separation Time being prior to the Payment Time, the Separation Time shall be the Payment Time and provided further, that if any tender or exchange offer referred to in clause (i) of this paragraph is cancelled, terminated or otherwise withdrawn prior to the Separation Time without the purchase of any Common Shares in connection therewith, such offer shall be deemed, for purposes of this paragraph, never to have been made.

"SERIES A FLIP-OVER STOCK" shall have the meaning set forth in the definition of Flip-over Stock.

"SERIES B PREFERRED STOCK" shall mean the Series B Participating Preferred Stock, par value \$1.00 per share, of the Company created by a Certificate of Designation and Terms in substantially the form set forth in Exhibit C hereto appropriately completed.

"Stock Acquisition Date" shall mean the earlier of (i) the first date on which there shall be a public announcement by the Company (by any means) that a Person has become an Acquiring Person or (ii) the date and time on which any Acquiring Person becomes the Beneficial Owner of more than 35% of the voting power of all of the outstanding Common Shares.

"Subsidiary" of any specified Person shall mean any corporation or other entity of which a majority of the voting power of the equity securities or a majority of the equity or membership interest is Beneficially Owned, directly or indirectly, by such Person.

"TRADING DAY," when used with respect to any securities, shall mean a day on which the New York Stock Exchange, Inc. is open for the transaction of business or, if such securities are not listed or admitted to trading on the New York Stock Exchange, Inc., a day on which the principal national securities exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if such securities are not listed or admitted to trading on any national securities exchange, a Business Day.

"Trustee" shall have the meaning set forth in the definition of Acquiring Person.

"TRUST SHARES" shall have the meaning set forth in the definition of Acquiring Person.

"TRUST TRANSACTION" shall have the meaning set forth in the definition of Acquiring Person.

ARTICLE II

THE RIGHTS

2.1 SUMMARY OF RIGHTS. As soon as practicable after the Record Time, the Company will mail a letter, that incorporates by reference the terms of this Agreement, to each holder of record of Common Shares as of the Record Time, at such holder's address as shown by the records of the Company.

2.2 LEGEND ON COMMON SHARES CERTIFICATES. Certificates for the Common Shares issued after the Payment Time but prior to the Separation Time shall evidence one Right for each Common Share represented thereby and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the Separation Time (as defined in the Rights Agreement referred to below), this certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement, dated as of December 15, 2000 (as such may be amended from time to time, the "Rights Agreement"), between Hershey Foods Corporation (the "Company") and the Rights Agent named therein, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights may be redeemed, may become exercisable for securities or assets of the Company or securities of another entity, may be exchanged for Preferred Stock or other securities or assets of the Company, may expire, may become void (if they are "Beneficially Owned" by an "Acquiring Person" or an Affiliate or Associate thereof, as such terms are defined in the Rights Agreement, or by any transferee of any of the foregoing) or may be evidenced by separate certificates and may no longer be evidenced by this certificate. The Company will mail or arrange for the mailing of a copy of the Rights Agreement to the holder of this certificate without charge after the receipt of a written request therefor.

Certificates representing Common Shares that are issued and outstanding at the Payment Time shall, together with the letter mailed pursuant to Section 2.1, evidence one Right for each Common Share evidenced thereby notwithstanding the absence of the foregoing legend.

If the Common Shares issued after the Payment Time but prior to the Separation Time shall be uncertificated, the registration of such Common Shares on the stock transfer books of the Company shall evidence one Right for each Common Share represented thereby and the Company shall mail to every Person that holds such Common Shares a confirmation of the registration of such Common Shares on the stock transfer books of the Company, which confirmation will have impressed, printed, written

or stamped thereon or otherwise affixed thereto the above legend. The Company shall mail or arrange for the mailing of a copy of this Agreement to any Person that holds Common Shares, as evidenced by the registration of the Common Shares in the name of such Person on the stock transfer books of the Company, without charge after the receipt of a written request therefor.

2.3 EXERCISE OF RIGHTS; SEPARATION OF RIGHTS. (a) Subject to Sections 3.1, 5.1 and 5.10 and subject to adjustment as herein set forth, each Right will entitle the holder thereof, on or after the Separation Time and prior to the Expiration Time, to purchase, for the Exercise Price, one one-thousandth of a share of Preferred Stock.

(b) Until the Separation Time, (i) no Right may be exercised and (ii) each Right will be evidenced by the certificate for the associated Common Share together, in the case of certificates issued prior to the Payment Time, with the letter mailed to the record holder thereof pursuant to Section 2.1 (or, if the Common Shares shall be uncertificated, by the registration of the associated Common Share on the stock transfer books of the Company and the confirmation thereof provided for in Section 2.2) and will be transferable only together with, and will be transferred by a transfer (whether with or without such letter or confirmation) of, such associated share.

(c) Subject to the terms and conditions hereof, on or after the Separation Time and prior to the Expiration Time, the Rights (i) may be exercised and (ii) may be transferred independent of the Common Shares. Promptly following the Separation Time, upon receipt by the Rights Agent of notice thereof and receipt of all other necessary information, the Rights Agent will mail to each holder of record of a Common Share as of the Separation Time (other than any Person whose Rights have become void pursuant to Section 3.1(b)), at such holder's address as shown by the records of the Company (the Company hereby agreeing to furnish copies of such records to the Rights Agent for this purpose), (x) a certificate in substantially the form of Exhibit A hereto (a "RIGHTS CERTIFICATE"), appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate (but which do not effect the rights or duties of the Rights Agent) and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any national securities exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage, and (y) a disclosure statement describing the Rights; provided, however, that the Company shall have no obligation to distribute Rights Certificates to any Acquiring Person or Affiliate or Associate of an Acquiring Person or any transferee of any of the foregoing.

(d) Subject to the terms and conditions hereof, Rights may be exercised on any Business Day on or after the Separation Time and prior to the

Expiration Time by submitting to the Rights Agent the Rights Certificate evidencing such Rights with an Election to Exercise (an "Election to Exercise") substantially in the form attached to the Rights Certificate duly and properly completed, accompanied by payment in cash, or by certified or official bank check or money order payable to the order of the Company, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates (or, if uncertificated, the registration on the stock transfer books of the Company) for shares or depositary receipts (or both) in a name other than that of the holder of the Rights being exercised.

(e) Upon receipt of a Rights Certificate, with a duly and properly completed Election to Exercise accompanied by payment as set forth in Section 2.3(d), and subject to the terms and conditions hereof, the Rights Agent will thereupon promptly (i)(A) requisition from a transfer agent stock certificates evidencing such number of shares or other securities to be purchased or, in the case of uncertificated shares or other securities, requisition from a transfer agent a notice setting forth such number of shares or other securities to be purchased for which registration will be made on the stock transfer books of the Company (the Company hereby irrevocably authorizing its transfer agents to comply with all such requisitions) and (B) if the Company elects pursuant to Section 5.5 not to issue certificates (or effect registrations on the stock transfer books of the Company) representing fractional shares, requisition from the depositary selected by the Company depositary receipts representing the fractional shares to be purchased or requisition from the Company the amount of cash to be paid in lieu of fractional shares in accordance with Section 5.5 and (ii) after receipt of such certificates, depositary receipts, notices and/or cash, deliver the same to or upon the order of the registered holder of such Rights Certificate, registered (in the case of certificates, depositary receipts or notices) in such name or names as may be designated by such holder. The Rights Agent shall have no duty or obligation with respect to this Section and any other Section of this Agreement relating to fractional shares unless and until it has received specific instructions (and sufficient cash, if required) from the Company with respect to its duties and obligations under such Sections.

(f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.

(g) The Company covenants and agrees that it will (i) take all such action as may be necessary to ensure that all shares delivered (or evidenced by registration on the stock transfer books of the Company) upon exercise of Rights shall, at the time of delivery of the certificates (or registration) for such shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered (or registered) and fully paid and nonassessable; (ii) take all such action as may be necessary

to comply with any applicable requirements of the Securities Act of 1933 or the Exchange Act, and the rules and regulations thereunder, and any other applicable law, rule or regulation, in connection with the issuance of any shares upon exercise of Rights; and (iii) pay when due and payable any and all federal and state taxes and charges which may be payable in respect of the original issuance or delivery of the Rights Certificates or of any shares issued upon the exercise of Rights, provided, that the Company shall not be required to pay any tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates (or the registration) for shares in a name other than that of the holder of the Rights being transferred or exercised.

2.4 ADJUSTMENTS TO EXERCISE PRICE; NUMBER OF RIGHTS. (a) In the event the Company shall at any time after the Record Time and prior to the Separation Time (i) declare or pay a dividend on any class of Common Shares payable in Common Stock or Class B Common Stock, as the case may be, (ii) subdivide any outstanding class of Common Shares or (iii) combine any outstanding class of Common Shares into a smaller number of shares of Common Stock or Class B Common Stock, as the case may be, (x) the Exercise Price in effect after such adjustment will be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of shares of Common Stock or Class B Common Stock (the "Expansion Factor"), that a holder of one share of Common Stock or Class B Common Stock, as the case may be, immediately prior to such dividend, subdivision or combination would hold thereafter as a result thereof and (y) each Right held prior to such adjustment will become that number of Rights equal to the Expansion Factor, and the adjusted number of Rights will be deemed to be distributed among the shares of Common Stock or Class B Common Stock, as the case may be, with respect to which the original Rights were associated (if they remain outstanding) and the shares issued in respect of such dividend, subdivision or combination, so that each such share of Common Stock or Class B Common Stock, as the case may be, will have exactly one Right associated with it. Each adjustment made pursuant to this paragraph shall be made as of the payment or effective date for the applicable dividend, subdivision or combination.

In the event the Company shall at any time after the Record Time and prior to the Separation Time issue any Common Shares otherwise than in a transaction referred to in the preceding paragraph, each such Common Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such share (or, if the Common Shares shall be uncertificated, such Right shall be evidenced by the registration of such Common Shares on the stock transfer books of the Company and the confirmation thereof provided for in Section 2.2). Rights shall be issued by the Company in respect of Common Shares that are issued or sold by the Company after the Separation Time only to the extent provided in Section 5.3.

(b) In the event the Company shall at any time after the Record Time and prior to the Separation Time issue or distribute any securities or assets in respect of, in lieu of or in exchange for Common Shares (other than pursuant to any non-extraordinary periodic cash dividend or a dividend paid solely in Common Shares) whether by dividend, in a reclassification or recapitalization (including any such transaction involving a merger, consolidation or statutory share exchange), or otherwise, the Company shall make such adjustments, if any, in the Exercise Price, number of Rights and/or securities or other property purchasable upon exercise of Rights as the Board of Directors of the Company, in its sole discretion, may deem to be appropriate under the circumstances in order to adequately protect the interests of the holders of Rights generally, and the Company and the Rights Agent shall amend this Agreement as necessary to provide for such adjustments.

(c) Each adjustment to the Exercise Price made pursuant to this Section 2.4 shall be calculated to the nearest cent. Whenever an adjustment to the Exercise Price is made pursuant to this Section 2.4, the Company shall (i) promptly prepare a certificate setting forth such adjustment and a brief, reasonably detailed statement of the facts, computations and methodology accounting for such adjustment and (ii) promptly file with the Rights Agent and with each transfer agent for the Common Shares a copy of such certificate. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall have no duty with respect to and shall not be deemed to have knowledge of any adjustment unless and until it shall have received such a certificate.

(d) Rights Certificates shall represent the right to purchase the securities purchasable under the terms of this Agreement, including any adjustment or change in the securities purchasable upon exercise of the Rights, even though such certificates may continue to express the securities purchasable at the time of issuance of the initial Rights Certificates.

2.5 DATE ON WHICH EXERCISE IS EFFECTIVE. Each Person in whose name any certificate for shares is issued (or registration on the stock transfer books is effected) upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the shares represented thereby on the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Exercise Price for such Rights (and any applicable taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the stock transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate (or registration) shall be dated, the next succeeding Business Day on which the stock transfer books of the Company are open.

2.6 EXECUTION, AUTHENTICATION, DELIVERY AND DATING OF RIGHTS CERTIFICATES. (a) The Rights Certificates shall be executed on behalf of the Company by

its Chairman of the Board, President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Rights Certificates may be manual or facsimile.

Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the countersignature and delivery of such Rights Certificates.

Promptly after the Separation Time, the Company will notify, in writing, the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Company to the Rights Agent for counter-signature, and, subject to Section 3.1(b), the Rights Agent shall manually countersign and deliver such Rights Certificates to the holders of the Rights pursuant to Section 2.3(c) hereof. No Rights Certificate shall be valid for any purpose unless manually countersigned by the Rights Agent.

(b) Each Rights Certificate shall be dated the date of countersignature thereof.

2.7 REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE. (a) After the Separation Time, the Company will cause to be kept a register (the "RIGHTS REGISTER") in which, subject to such reasonable regulations as it may prescribe, the Company will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed "Rights Registrar" for the purpose of maintaining the Rights Register for the Company and registering Rights and transfers of Rights after the Separation Time as herein provided. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times after the Separation Time.

After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of Section 2.7(c) and (d), the Company will execute, and the Rights Agent will countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificate so surrendered.

(b) Except as otherwise provided in Section 3.1(b), all Rights issued upon any registration of transfer or exchange of Rights Certificates shall be the valid obligations of the Company, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.

(c) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer

in form satisfactory to the Company or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder's attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other charge that may be imposed in relation thereto. The Rights Agent shall have no duty or obligation to take any action under any Section of this Agreement which requires the payment by a Rights holder of applicable taxes and charges unless and until the Rights Agent is satisfied that all such taxes and/or charges have been paid.

(d) The Company shall not register the transfer or exchange of any Rights which have become void under Section 3.1(b), been exchanged under Section 3.1(c) or been redeemed under Section 5.1.

2.8 MUTILATED, DESTROYED, LOST AND STOLEN RIGHTS CERTIFICATES. (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, then, subject to Sections 3.1(b), 3.1(c) and 5.1, the Company shall execute and the Rights Agent shall countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.

(b) If there shall be delivered to the Company and the Rights Agent prior to the Expiration Time (i) evidence to their satisfaction of the destruction, loss or theft of any Rights Certificate and (ii) such security or indemnity as may be required by them to save each of them and any of their agents harmless, then, subject to Sections 3.1(b), 3.1(c) and 5.1 and in the absence of notice to the Company or the Rights Agent that such Rights Certificate has been acquired by a BONA FIDE purchaser, the Company shall execute and upon its request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.

(c) As a condition to the issuance of any new Rights Certificate under this Section 2.8, the Company may require the payment of a sum sufficient to cover any tax or other charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Rights Agent) connected therewith.

(d) Every new Rights Certificate issued pursuant to this Section 2.8 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and, subject to Section 3.1(b) shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

2.9 PERSONS DEEMED OWNERS. Prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate or

notice of transfer, if uncertificated) for registration of transfer, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name such Rights Certificate (or, prior to the Separation Time, such Common Share certificate or Common Share registration, if uncertificated) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever, including the payment of the Redemption Price and neither the Company nor the Rights Agent shall be affected by any notice to the contrary. As used in this Agreement, unless the context otherwise requires, the term "holder" of any Rights shall mean the registered holder of such Rights (or, prior to the Separation Time, the associated Common Shares).

2.10 DELIVERY AND CANCELLATION OF CERTIFICATES. All Rights Certificates surrendered upon exercise or for registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Company may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificates shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.10, except as expressly permitted by this Agreement. The Rights Agent shall destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Company.

2.11 AGREEMENT OF RIGHTS HOLDERS. Every holder of Rights by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of Rights that:

(a) prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Common Share;

(b) after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;

(c) prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate or Common Share registration, if uncertificated) for registration of transfer, the Company, the Rights Agent and any agent of the Company or the Rights Agent may deem and treat the person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Common Share certificate or Common Share registration, if uncertificated) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary;

(d) Rights beneficially owned by certain Persons will, under the circumstances set forth in Section 3.1(b), become null and void; and

(e) this Agreement may be supplemented or amended from time to time pursuant to Section 2.4(b) or 5.4 hereof.

ARTICLE III
ADJUSTMENTS TO THE RIGHTS IN
THE EVENT OF CERTAIN TRANSACTIONS

3.1 FLIP-IN (a) In the event that prior to the Expiration Time a Flip-in Date shall occur, except as provided in this Section 3.1, each Right shall constitute the right to purchase from the Company, upon exercise thereof in accordance with the terms hereof (but subject to Section 5.10), that number of one one-thousandths of a share of Preferred Stock equal to that number of shares of Common Stock, having an aggregate Market Price on the Stock Acquisition Date that gave rise to the Flip-in Date equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in order to protect the interests of the holders of Rights generally in the event that on or after such Stock Acquisition Date any of the events described in Section 2.4(a) or (b), or any analogous event, shall have occurred with respect to the Common Shares).

(b) Notwithstanding the foregoing, any Rights that are or were Beneficially Owned on or after the Stock Acquisition Date by an Acquiring Person or an Affiliate or Associate thereof or by any transferee, direct or indirect, of any of the foregoing shall become null and void and any holder of such Rights (including transferees) shall thereafter have no right to exercise or transfer such Rights under any provision of this Agreement. If any Rights Certificate is presented for assignment or exercise and the Person presenting the same will not complete the certification set forth at the end of the form of assignment or notice of election to exercise and provide such additional evidence of the identity of the Beneficial Owner and its Affiliates and Associates (or former Beneficial Owners and their Affiliates and Associates) as the Company shall reasonably request, then the Company shall be entitled conclusively to deem the Beneficial Owner thereof to be an Acquiring Person or an Affiliate or Associate thereof or a transferee of any of the foregoing and accordingly will deem the Rights evidenced thereby to be null and void and not transferable or exercisable.

(c) The Board of Directors of the Company may, at its option, at any time after a Flip-in Date and prior to the time that an Acquiring Person becomes the Beneficial Owner of more than 50% of the outstanding voting power of the Common Shares elect to exchange all (but not less than all) the then outstanding Rights (which shall not include Rights that have become null and void pursuant to the provisions of Section 3.1(b)) for shares of Preferred Stock, at an exchange ratio of one one-thousandth of a share of Preferred Stock, per Right, appropriately adjusted in order to protect the interests of holders of Rights generally in the event that after the Stock Acquisition Date any of the events described in Section 2.4(a) or (b), or any analogous event, shall have

occurred with respect to the Common Shares (such exchange ratio, as adjusted from time to time, being hereinafter referred to as the "Exchange Ratio").

Immediately upon the action of the Board of Directors of the Company electing to exchange the Rights, without any further action and without any notice, the right to exercise the Rights will terminate and each Right (other than Rights that have become null and void pursuant to Section 3.1(b)), whether or not previously exercised, will thereafter represent only the right to receive a number of one one-thousandths of a share of Preferred Stock equal to the Exchange Ratio. Promptly after the action of the Board of Directors electing to exchange the Rights, the Company shall give written notice thereof (specifying the steps to be taken to receive Common Shares in exchange for Rights) to the Rights Agent and the holders of the Rights (other than Rights that have become void pursuant to Section 3.1(b)) outstanding immediately prior thereto by mailing such notice in accordance with Section 5.9.

Each Person in whose name any certificate for shares is issued (or for whom any registration on the stock transfer books of the Company is made) upon the exchange of Rights pursuant to this Section 3.1(c) or Section 3.1(d) shall for all purposes be deemed to have become the holder of record of the shares represented thereby on, and such certificate (or registration on the stock transfer books of the Company) shall be dated (or registered as of) the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of any applicable taxes and other charges payable by the holder is made; PROVIDED, HOWEVER, that if the date of such surrender and payment is a date upon which the stock transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate (or registration on the stock transfer books of the Company) shall be dated (or registered as of) the next succeeding Business Day on which the stock transfer books of the Company are open.

(d) Whenever the Company shall become obligated under Section 3.1(a) or (c) to issue a share (or fractional share) of Preferred Stock upon exercise of or in exchange for Rights, the Company, to the extent permitted by the Company's Restated Certificate of Incorporation, as amended, at its option, may substitute therefor shares of Common Stock or Class B Common Stock, as applicable, at a ratio of one share of Common Stock or Class B Common Stock, as applicable, for each one-thousandth of a share of the Preferred Stock so issuable.

(e) In the event that there shall not be sufficient treasury shares or authorized but unissued Common Shares or Preferred Stock of the Company to permit the exercise or exchange in full of the Rights in accordance with Section 3.1(a) or if the Company so elects, to make the exchange referred to in Section 3.1(c), the Company shall either (i) call a meeting of stockholders seeking approval to cause sufficient additional shares to be authorized (provided that if such approval is not obtained the Company will take the action specified in clause (ii) of this sentence) or (ii) take such

action as shall be necessary to ensure and provide, to the extent permitted by applicable law and any agreements or instruments in effect on the Stock Acquisition Date to which it is a party, that each Right shall thereafter constitute the right to receive, (x) at the Company's option, either (A) in return for the Exercise Price, debt or equity securities or other assets (or a combination thereof) having a fair value equal to twice the Exercise Price, or (B) without payment of consideration (except as otherwise required by applicable law), debt or equity securities or other assets (or a combination thereof) having a fair value equal to the Exercise Price, or (y) if the Board of Directors of the Company elects to exchange the Rights in accordance with Section 3.1(c), debt or equity securities or other assets (or a combination thereof) having a fair value equal to the product of the Market Price of a share of Common Stock on the Flip-in Date times the Exchange Ratio in effect on the Flip-in Date, where in any case set forth in (x) or (y) above the fair value of such debt or equity securities or other assets shall be as determined in good faith by the Board of Directors of the Company, after consultation with a nationally recognized investment banking firm.

3.2 FLIP-OVER. (a) Prior to the Expiration Time, the Company shall not enter into any agreement with respect to, consummate or permit to occur any Flip-over Transaction or Event unless and until it shall have entered into a supplemental agreement with the Flip-over Entity, for the benefit of the holders of the Rights, providing that, upon consummation or occurrence of the Flip-over Transaction or Event (i) the Flip-over Entity will have duly authorized and available for issuance sufficient shares of (x) Flip-over Stock and (y) the classes of common equity securities into which the shares of Flip-over Stock are convertible, (ii) each Right shall thereafter constitute the right to purchase from the Flip-over Entity, upon exercise thereof in accordance with the terms hereof, that number of shares of Series A Flip-over Stock of the Flip-over Entity having an aggregate Market Price (based on the Market Price of the Common Stock in the Reference Package) on the date of consummation or occurrence of such Flip-over Transaction or Event equal to twice the Exercise Price for the Right for an amount in cash equal to the Exercise Price for the Right (such right to be appropriately adjusted in order to protect the interests of the holders of Rights generally in the event that after such date of consummation or occurrence any of the events described in Section 2.4(a) or (b), or any analogous event, shall have occurred with respect to the Flip-over Stock) and (iii) the Flip-over Entity shall thereafter be liable for, and shall assume, by virtue of such Flip-over Transaction or Event and such supplemental agreement, all the obligations and duties of the Company pursuant to this Agreement. The provisions of this Section 3.2 shall apply to successive Flip-over Transactions or Events.

(b) Prior to the Expiration Time, unless the Rights will be redeemed pursuant to Section 5.1 hereof pursuant to an agreement entered into by the Company prior to a Flip-in Date, the Company shall not enter into any agreement with respect to, consummate or permit to occur any Flip-over Transaction or Event if at the time thereof there are any rights, warrants or securities outstanding or any other arrangements, agreements or instruments that would eliminate or otherwise diminish in any material

respect the benefits intended to be afforded by this Rights Agreement to the holders of Rights upon consummation of such transaction.

ARTICLE IV
THE RIGHTS AGENT

4.1 GENERAL. (a) The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the preparation, execution, delivery, administration and amendment of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, damage, judgment, fine, penalty, claim, settlement, cost or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent (which gross negligence, bad faith or willful misconduct must be determined by an order, judgment, decree or ruling of a court of competent jurisdiction), for any action taken, suffered or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including without limitation the costs and expenses of defending against any claim of liability. The indemnity provided herein shall survive the termination of this Agreement and the termination and expiration of the Rights. The costs and expenses incurred in successfully enforcing this right of indemnification shall be paid by the Company.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its acceptance and administration of this Agreement in reliance upon any certificate for securities (or registration on the stock transfer books of the Company) purchasable upon exercise of Rights, Rights Certificate, certificate for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons, or otherwise upon the advice of counsel as set forth in Section 4.3 hereof.

4.2 MERGER OR CONSOLIDATION OR CHANGE OF NAME OF RIGHTS AGENT. (a) Any Person into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent is a party, or any Person succeeding to the shareholder services business of the Rights Agent or any successor Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such Person would be eligible for appointment as a successor

Rights Agent under the provisions of Section 4.4 hereof. In case at the time such successor Rights Agent succeeds to the agency created by this Agreement any of the Rights Certificates have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates have not been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

4.3 DUTIES OF RIGHTS AGENT. The Rights Agent undertakes only the duties and obligations expressly imposed by this Agreement (and no implied duties or obligations) upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company or an employee of the Rights Agent), and the advice or opinion of such counsel will be full and complete authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered by it or omitted by it in good faith and in accordance with such advice or opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent deems it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of Market Price) be proved or established by the Company prior to taking, suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a person believed by the Rights Agent to be the Chairman of the Board, the President or any Vice President and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate will be full authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent will be liable hereunder only for its own gross negligence, bad faith or willful misconduct (which gross negligence, bad faith or willful misconduct must be determined by an order, judgment, decree or ruling of a court of competent jurisdiction). Anything to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage.

(d) The Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates, if any, for securities purchasable upon exercise of Rights or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Company only.

(e) The Rights Agent will have no liability nor be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any certificate, if any, for securities purchasable upon exercise of Rights or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exercisability of the Rights (including the Rights becoming null and void pursuant to Section 3.1(b) hereof) or any adjustment required under the provisions of Section 2.4, 3.1 or 3.2 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by Section 2.4 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any securities purchasable upon exercise of Rights or any Rights or as to whether any securities purchasable upon exercise of Rights will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept advice or instructions with respect to the performance of its duties hereunder from any person believed by the Rights Agent to be the Chairman of the Board, the President or any Vice President or the Secretary or any Assistant Secretary or the Treasurer or any Assistant Treasurer of the Company, and to apply to such persons for advice or

instructions in connection with its duties, and such advice or instructions shall be full authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted by it in good faith in accordance with the advice or instructions of any such person.

(h) The Rights Agent and any stockholder, affiliate, director, officer or employee of the Rights Agent may buy, sell or deal in Common Stock, Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any Person.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, absent gross negligence, bad faith, or willful misconduct (which gross negligence, bad faith or willful misconduct must be determined by an order, judgment, decree or ruling of a court of competent jurisdiction) in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or obligations hereunder or in the exercise of its rights if it believes that repayment of such funds or adequate indemnification against such risk or liability is not assured to it.

4.4 CHANGE OF RIGHTS AGENT. The Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice (or such lesser notice as is acceptable to the Company) in writing mailed to the Company and to each transfer agent of Common Shares by registered or certified mail, and to the holders of the Rights in accordance with Section 5.9. The Company may remove the Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent and to each transfer agent of the Common Shares by registered or certified mail, and to the holders of the Rights in accordance with Section 5.9. If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Company will appoint a successor to the Rights Agent. If the Company fails to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of any Rights (which holder shall, with such notice, submit such holder's Rights Certificate for inspection by the Company), then the holder of any Rights may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (a) a Person organized

and doing business under the laws of the United States or any state of the United States, in good standing, which is authorized under such laws to exercise the powers of the Rights Agent contemplated by this Agreement and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50,000,000 or (b) an Affiliate of a Person described in clause (a) of this sentence that is under control of such Person. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares, and mail a notice thereof in writing to the holders of the Rights. Failure to give any notice provided for in this Section 4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

ARTICLE V
MISCELLANEOUS

5.1 REDEMPTION. (a) The Board of Directors of the Company may, at its option, at any time prior to the Flip-in Date, elect to redeem all (but not less than all) the then outstanding Rights at the Redemption Price and the Company, at its option, may pay the Redemption Price either in cash or other securities of the Company deemed by the Board of Directors, in the exercise of its sole discretion, to be at least equivalent in value to the Redemption Price.

(b) Immediately upon the action of the Board of Directors of the Company electing to redeem the Rights (or, if the resolution of the Board of Directors electing to redeem the Rights states that the redemption will not be effective until the occurrence of a specified future time or event, upon the occurrence of such future time or event), without any further action and without any notice, the right to exercise the Rights will terminate and each Right, whether or not previously exercised, will thereafter represent only the right to receive the Redemption Price in cash or securities, as determined by the Board of Directors. Promptly after the Rights are redeemed, the Company shall give written notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice in accordance with Section 5.9.

5.2 EXPIRATION. The Rights and this Agreement shall expire at the Expiration Time and no Person shall have any rights pursuant to this Agreement or any

Right after the Expiration Time, except, if the Rights are exchanged or redeemed, as provided in Section 3.1 or 5.1 hereof, respectively.

5.3 ISSUANCE OF NEW RIGHTS CERTIFICATES. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the number or kind or class of shares of stock purchasable upon exercise of Rights made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares by the Company following the Separation Time and prior to the Expiration Time pursuant to the terms of securities convertible or redeemable into Common Shares (other than any such securities issued or issuable in connection with the exercise or exchange of Rights or upon conversion of shares of Class B Common Stock after the Separation Time) or to options, in each case issued or granted prior to, and outstanding at, the Separation Time, the Company shall issue to the holders of such Common Shares, Rights Certificates representing the appropriate number of Rights in connection with the issuance or sale of such Common Shares; PROVIDED, HOWEVER, in each case, (i) no such Rights Certificate shall be issued, if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or to the Person to whom such Rights Certificates would be issued, (ii) no such Rights Certificates shall be issued if, and to the extent that, appropriate adjustment shall have otherwise been made in lieu of the issuance thereof, and (iii) the Company shall have no obligation to distribute Rights Certificates to any Acquiring Person or Affiliate or Associate of an Acquiring Person or any transferee of any of the foregoing.

5.4 SUPPLEMENTS AND AMENDMENTS. The Company and the Rights Agent may from time to time supplement or amend this Agreement without the approval of any holders of Rights (i) prior to the Flip-in Date, in any respect and (ii) on or after the Flip-in Date, to make any changes that the Company may deem necessary or desirable and which shall not materially adversely affect the interests of the holders of Rights generally or in order to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with any other provisions herein or otherwise defective. The Rights Agent will, upon delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment complies with this Section 5.4, duly execute and deliver any supplement or amendment hereto requested by the Company which satisfies the terms of the preceding sentence, provided that any supplement or amendment shall become effective immediately upon execution by the Company, whether or not also executed by the Rights Agent. Notwithstanding anything contained in this Agreement to the contrary, the Rights Agent may, but shall not be obligated to, enter into any supplement or amendment that affects only the rights, duties, obligations or indemnities of the Rights Agent hereunder.

5.5 FRACTIONAL SHARES. If the Company elects not to issue certificates representing (or register on the stock transfer books of the Company) fractional shares upon exercise, exchange or redemption of Rights, the Company shall, in lieu thereof, in the sole discretion of its Board of Directors, either (a) evidence such fractional shares by depositary receipts issued pursuant to an appropriate agreement between the Company and a depositary selected by it, providing that each holder of a depositary receipt shall have all of the rights, privileges and preferences to which such holder would be entitled as a beneficial owner of such fractional share, or (b) pay to the registered holder of such Rights the appropriate fraction of the Market Price per share in cash.

5.6 RIGHTS OF ACTION. Subject to the terms of this Agreement (including Sections 3.1(b) and 5.14), rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights; and any holder of any Rights, without the consent of the Rights Agent or of the holder of any other Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, such holder's right to exercise such holder's Rights in the manner provided in such holder's Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

5.7 HOLDER OF RIGHTS NOT DEEMED A STOCKHOLDER. No holder, as such, of any Rights shall be entitled to vote, receive dividends or be deemed for any purpose the holder of shares or any other securities which may at any time be issuable on the exercise of such Rights, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 5.8 hereof), or to receive dividends or subscription rights, or otherwise, until such Rights shall have been exercised or exchanged in accordance with the provisions hereof.

5.8 NOTICE OF PROPOSED ACTIONS. In case the Company shall propose on or after the Separation Time and prior to the Expiration Time (i) to effect or permit a Flip-over Transaction or Event or (ii) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Right, in accordance with Section 5.9 hereof, a notice of such proposed action, which shall specify the date on which such Flip-over Transaction or Event, liquidation, dissolution,

or winding up is to take place, and such notice shall be so given at least 20 Business Days prior to the date of the taking of such proposed action.

5.9 NOTICES. Notices or demands authorized or required by this Agreement to be given or made by the Rights Agent or by the holder of any Rights to or on the Company shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Hershey Foods Corporation
100 Crystal A Drive
Hershey, Pennsylvania 17033
Attention: General Counsel and Secretary

Any notice or demand authorized or required by this Agreement to be given or made by the Company or by the holder of any Rights to or on the Rights Agent shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Mellon Investor Services LLC
44 Wall Street
6th and 7th Floor
New York, New York 10005
Attention: Relationship Manager

With a copy to:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, New Jersey 07660-2108
Attention: General Counsel

Notices or demands authorized or required by this Agreement to be given or made by the Company or the Rights Agent to or on the holder of any Rights shall be sufficiently given or made if delivered or sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the registry books of the Rights Agent or, prior to the Separation Time, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice.

5.10 SUSPENSION OF EXERCISABILITY. To the extent that the Company determines in good faith that some action will or need be taken pursuant to Section 3.1 or to comply with federal or state securities laws, the Company may suspend the exercisability of the Rights for a reasonable period in order to take such action or comply with

such laws. In the event of any such suspension, the Company shall issue as promptly as practicable a public announcement stating that the exercisability or exchangeability of the Rights has been temporarily suspended (with prompt written notice thereof to the Rights Agent). Notice thereof pursuant to Section 5.9 shall not be required.

Failure to give a notice pursuant to the provisions of this Agreement shall not affect the validity of any action taken hereunder.

5.11 COSTS OF ENFORCEMENT. The Company agrees that if the Company or any other Person the securities of which are purchasable upon exercise of Rights fails to fulfill any of its obligations pursuant to this Agreement, then the Company or such Person will reimburse the holder of any Rights for the costs and expenses (including legal fees) incurred by such holder in actions to enforce such holder's rights pursuant to any Rights or this Agreement.

5.12 SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

5.13 BENEFITS OF THIS AGREEMENT. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the holders of the Rights any legal or equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the holders of the Rights.

5.14 DETERMINATION AND ACTIONS BY THE BOARD OF DIRECTORS, ETC. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement. All such actions, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) done or made by the Board, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject the Board of Directors of the Company to any liability to the holders of the Rights. The Rights Agent shall always be entitled to assume that the Company's Board of Directors acted in good faith and shall be fully protected and incur no liability in reliance thereon.

5.15 DESCRIPTIVE HEADINGS. Descriptive headings appear herein for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

5.16 GOVERNING LAW. THIS AGREEMENT AND EACH RIGHT ISSUED HEREUNDER SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF DELAWARE AND FOR ALL PURPOSES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF SUCH STATE APPLICABLE TO CONTRACTS TO BE MADE AND PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED, HOWEVER, THAT ALL PROVISIONS REGARDING THE RIGHTS, DUTIES AND OBLIGATIONS OF THE RIGHTS AGENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE.

5.17 COUNTERPARTS. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

5.18 Severability. If any term or provision hereof or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining terms and provisions hereof or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

HERSHEY FOODS CORPORATION

By: /S/ ROBERT M. REESE

Name: Robert M. Reese
Title: Vice President,
General Counsel
and Secretary

MELLON INVESTOR SERVICES LLC,
As Rights Agent

By: /S/ ROBERT G. SCOTT, JR.

Name: Robert G. Scott, Jr.
Title: Vice President

EXHIBIT A

[Form of Rights Certificate]

Certificate No. W- _____ Rights

THE RIGHTS ARE SUBJECT TO REDEMPTION OR MANDATORY EXCHANGE, AT THE OPTION OF THE COMPANY, ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. RIGHTS BENEFICIALLY OWNED BY ACQUIRING PERSONS OR AFFILIATES OR ASSOCIATES THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR TRANSFEREES OF ANY OF THE FOREGOING WILL BE VOID.

Rights Certificate

HERSHEY FOODS CORPORATION

This certifies that _____, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Stockholder Protection Rights Agreement, dated as of December 15, 2000 (as amended from time to time, the "RIGHTS AGREEMENT"), between Hershey Foods Corporation, a Delaware corporation (the "COMPANY"), and Mellon Investor Services LLC, a New Jersey limited liability company, as Rights Agent (the "RIGHTS AGENT", which term shall include any successor Rights Agent under the Rights Agreement), to purchase from the Company at any time after the Separation Time (as such term is defined in the Rights Agreement) and prior to the close of business on December 15, 2010, one one-thousandth of a fully paid share of Series A Participating Preferred Stock, par value \$1.00 per share (the "SERIES A PREFERRED STOCK"), of the Company (subject to adjustment as provided in the Rights Agreement) at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate with the Form of Election to Exercise duly executed at the office of the Rights Agent designated for such purpose. The Exercise Price shall initially be \$270 per Right and shall be subject to adjustment in certain events as provided in the Rights Agreement.

Under certain circumstances, each one one-thousandth of a share of Series A Preferred Stock held by a holder of a share of Class B Common Stock at the Separation Time may be converted at the election of the holder thereof into one one-thousandth of a fully paid share of Series B Participating Preferred Stock, par value \$1.00 per share (the "SERIES B PREFERRED STOCK"), of the Company. The procedures to be followed and

limitations on effecting such conversion are set forth in the Certificate of Designation and Terms of the Series A Preferred Stock.

In certain circumstances described in the Rights Agreement, the Rights evidenced hereby may entitle the registered holder thereof to purchase securities of an entity other than the Company or securities of the Company other than Series A Preferred Stock or assets of the Company, all as provided in the Rights Agreement.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates. Copies of the Rights Agreement are on file at the principal office of the Company and are available without cost upon written request.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the office of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, each Right evidenced by this Rights Certificate may be (a) redeemed by the Company under certain circumstances, at its option, at a redemption price of \$0.01 per Right or (b) exchanged by the Company under certain circumstances, at its option, for one share of Common Stock or Class B Common Stock, as applicable, or one one-thousandth of a share of Series A Preferred Stock per Right (or, in certain cases, other securities or assets of the Company), subject in each case to adjustment in certain events as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of any securities which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised or exchanged as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Date: _____

ATTEST: HERSHEY FOODS CORPORATION

Secretary By _____

Countersigned:

MELLON INVESTOR SERVICES LLC,
As Rights Agent

By _____
Authorized Signature

[Form of Reverse Side of Rights Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer this Rights Certificate.)

FOR VALUE RECEIVED _____ hereby
sells, assigns and transfers unto _____
(Please Print name

_____ and address of transferee)

this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Rights Certificate on the books of the within-named Company, with full power of substitution.

Dated: _____, ____

Signature Guaranteed: _____

Signature
(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Signatures must be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee Medallion program), pursuant to Exchange Act Rule 17Ad-15.

(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge

of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement).

Signature

NOTICE

In the event the certification set forth above is not completed in connection with a purported assignment, the Company will deem the Beneficial Owner of the Rights evidenced by the enclosed Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) or a transferee of any of the foregoing and accordingly will deem the Rights evidenced by such Rights Certificate to be void and not transferable or exercisable.

[To be attached to each Rights Certificate]

FORM OF ELECTION TO EXERCISE

(To be executed if holder desires to exercise the Rights Certificate.)

TO: HERSHEY FOODS CORPORATION

The undersigned hereby irrevocably elects to exercise _____ whole Rights represented by the attached Rights Certificate to purchase the shares of Series A Participating Preferred Stock issuable upon the exercise of such Rights and requests that certificates for such shares be issued in the name of:

ADDRESS: _____

SOCIAL SECURITY OR OTHER TAXPAYER IDENTIFICATION NUMBER: _____

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

ADDRESS: _____

SOCIAL SECURITY OR OTHER TAXPAYER IDENTIFICATION NUMBER: _____

Dated: _____, _____

Signature Guaranteed:

Signature
(Signature must correspond to name as written upon the face of the attached Rights Certificate in every particular, without alteration or enlargement or any change whatsoever)

Signatures must be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee Medallion program), pursuant to Exchange Act Rule 17Ad-15.

(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Common Shares, that the Rights evidenced by the attached Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement).

Signature

NOTICE

In the event the certification set forth above is not completed in connection with a purported exercise, the Company will deem the Beneficial Owner of the Rights evidenced by the attached Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) or a transferee of any of the foregoing and accordingly will deem the Rights evidenced by such Rights Certificate to be void and not transferable or exercisable.

EXHIBIT B

FORM OF CERTIFICATE OF DESIGNATION AND TERMS
OF SERIES A PARTICIPATING PREFERRED STOCK OF
HERSHEY FOODS CORPORATION

Pursuant to Section 151 of the General
Corporation Law of the State of Delaware

We, the undersigned, _____ and
_____, the _____, and _____, respectively, of
Hershey Foods Corporation, a Delaware corporation (the "CORPORATION"), do hereby
certify as follows:

Pursuant to authority granted by Article FOURTH of the Restated
Certificate of Incorporation of the Corporation, as amended, and in accordance
with the provisions of Section 151 of the General Corporation Law of the State
of Delaware, the Board of Directors of the Corporation has adopted the following
resolutions fixing the designation and certain terms, powers, preferences and
other rights of a new series of the Corporation's Preferred Stock, par value
\$1.00 per share, and certain qualifications, limitations and restrictions
thereon:

RESOLVED, that there is hereby established a series of Preferred
Stock, par value \$1.00 per share, of the Corporation, and the designation
and certain terms, powers, preferences and other rights of the shares of
such series, and certain qualifications, limitations and restrictions
thereon, are hereby fixed as follows:

(i) The distinctive serial designation of this series
shall be "Series A Participating Preferred Stock" (hereinafter
called "THIS SERIES"). Each share of this Series shall be
identical in all respects with the other shares of this Series
except as to the dates from and after which dividends thereon
shall be cumulative and except as otherwise herein provided.

(ii) The number of shares in this Series shall initially
be _____, which number may from time to time be increased or
decreased (but not below the number then outstanding) by the
Board of Directors. Shares of this Series purchased by the
Corporation or converted into Common Stock or into a different
series of Preferred Stock of the Corporation shall be

cancelled and shall revert to authorized and designated as to series, but unissued shares of Preferred Stock. Shares of this Series may be issued in fractional shares which are whole number multiples of one one-thousandth of a share, which fractional shares shall entitle the holder, in proportion to such holder's fractional share, to all rights of a holder of a whole share of this Series.

(iii) The holders of full or fractional shares of this Series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available therefor, dividends, (A) on each date that dividends or other distributions (other than dividends or distributions payable in Common Stock of the Corporation) are payable on or in respect of Common Stock comprising part of the Reference Package (as defined below), in an amount per whole share of this Series equal to the aggregate amount of dividends or other distributions (other than dividends or distributions payable in Common Stock of the Corporation) that would be payable on such date to a holder of the Reference Package and (B) on the last day of March, June, September and December in each year, in an amount per whole share of this Series equal to the amount by which \$10 exceeds the aggregate dividends paid per whole share of this Series during the three month period ending on such last day. Each such dividend shall be paid to the holders of record of shares of this Series on the date, not exceeding sixty days preceding such dividend or distribution payment date, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend or distribution. Dividends on each full and each fractional share of this Series shall be cumulative from the date such full or fractional share is originally issued; provided that any such full or fractional share originally issued after a dividend record date and on or prior to the dividend payment date to which such record date relates shall not be entitled to receive the dividend payable on such dividend payment date or any amount in respect of the period from such original issuance to such dividend payment date.

The term "Reference Package" shall initially mean 1000 shares of Common Stock, par value \$1.00 per share ("COMMON STOCK"), of the Corporation. In the event the Corporation shall at any time after the close of business on _____, _____*/f1/ (A) declare or pay a dividend on any Common Stock payable in Common Stock, (B) subdivide any Common Stock or (C) combine any Common Stock into a smaller number

/f1/* For a certificate of designation relating to shares to be issues pursuant to Section 2.3 of the Rights Agreement, insert the Separation Time. For a certificate of designation relating to shares to be issued pursuant to Section 3.1(d) of the Rights Agreement, insert the Flip-in Date.

of shares, then and in each such case the Reference Package after such event shall be the Common Stock that a holder of the Reference Package immediately prior to such event would hold thereafter as a result thereof.

Holders of shares of this Series shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends, as herein provided on this Series. This Series shall rank pari passu in all respects with the Series B Participating Preferred Stock of the Company except with respect to voting rights.

So long as any shares of this Series are outstanding, no dividend (other than a dividend in Common Stock or in any other stock ranking junior to this Series as to dividends and upon liquidation) shall be declared or paid or set aside for payment or other distribution declared or made upon the Common Stock or Class B Common Stock or upon any other stock ranking junior to this Series as to dividends or upon liquidation, unless the full cumulative dividends (including the dividend to be paid upon payment of such dividend or other distribution) on all outstanding shares of this Series shall have been, or shall contemporaneously be, paid. When dividends are not paid in full upon this Series and any other stock ranking on a parity as to dividends with this Series, all dividends declared upon shares of this Series and any other stock ranking on a parity as to dividends shall be declared pro rata so that in all cases the amount of dividends declared per share on this Series and such other stock shall bear to each other the same ratio that accumulated dividends per share on the shares of the Series and such other stock bear to each other. Neither the Common Stock or Class B Common Stock nor any other stock of the Corporation ranking junior to or on a parity with this Series as to dividends or upon liquidation may be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Corporation (except by conversion into or exchange for stock of the Corporation ranking junior to this Series as to dividends and upon liquidation), unless, in each case, the full cumulative dividends (including the dividend to be due upon payment of such dividend, distribution, redemption, purchase or other acquisition) on all outstanding shares of this Series shall have been, or shall contemporaneously be, paid.

(iv) In the event of any merger, consolidation, reclassification or other transaction in which the Common Shares are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of this Series shall at the same time be similarly exchanged or changed in an amount per whole share equal to the aggregate amount of stock, securities, cash and/or any other property

(payable in kind), as the case may be, that a holder of the Reference Package would be entitled to receive as a result of such transaction.

(v) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the holders of full and fractional shares of this Series shall be entitled, before any distribution or payment is made on any date to the holders of the Common Stock or Class B Common Stock or any other stock of the Corporation ranking junior to this Series upon liquidation, to be paid in full an amount per whole share of this Series equal to the greater of (A) \$_____*/f2/ or (B) the aggregate amount distributed or to be distributed in connection with such liquidation, dissolution or winding up to a holder of the Reference Package (such greater amount being hereinafter referred to as the "Liquidation Preference"), together with accrued dividends to such distribution or payment date, whether or not earned or declared. If such payment shall have been made in full to all holders of shares of this Series, the holders of shares of this Series as such shall have no right or claim to any of the remaining assets of the Corporation.

In the event the assets of the Corporation available for distribution to the holders of shares of this Series upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to the first paragraph of this Section (v), no such distribution shall be made on account of any shares of any other class or series of Preferred Stock ranking on a parity with the shares of this Series upon such liquidation, dissolution or winding up unless proportionate distributive amounts shall be paid on account of the shares of this Series, ratably in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon such liquidation, dissolution or winding up.

Upon the liquidation, dissolution or winding up of the Corporation, the holders of shares of this Series then outstanding shall be entitled to be paid out of assets of the Corporation available for distribution to its stockholders all amounts to which such holders are entitled pursuant to the first paragraph of this Section (v) before any payment shall be made to the holders of Common Stock or Class B Common Stock or any other stock of the Corporation ranking junior upon liquidation to this Series.

/f2/* Insert an amount equal to 10 times the Exercise Price in effect as of the Separation Time.

For the purposes of this Section (v), the consolidation or merger of, or binding share exchange by, the Corporation with any other corporation shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(vi) The shares of this Series shall not be redeemable.

(vii) In addition to any other vote or consent of stockholders required by law or by the Restated Certificate of Incorporation, as amended, of the Corporation and except as otherwise required by law, each share (or fraction thereof) of this Series shall, on any matter, vote as a class with any other capital stock comprising part of the Reference Package and shall have the number of votes thereon that a holder of the Reference Package (or a similar fraction thereof) would have.

(viii) To the extent any holder of this Series was the record holder of Class B Common Stock at the Separation Time (a "CLASS B HOLDER"), as reflected in the stock transfer books of the Company, such holder may convert one one-thousandth of a share of this Series for every share of Class B Common Stock held as of Separation Time at any time at the election of the holder thereof into one one-thousandth of a fully paid share of Series B Participating Preferred Stock, par value \$1.00 per share (the "SERIES B PREFERRED STOCK") of the Corporation. Any such Class B Holder may elect to convert any or all of such one one-thousandths of a share of this Series at one time or at various times in such Class B Holder's discretion but in no event shall such Holder be able to convert more one-thousandths of a share of this Series than the number of shares of Class B Common Stock held at the Separation Time. Such right shall be exercised by the surrender of the certificate representing each one one-thousandth of a share of this Series to be converted to the agent for the registration of transfer of shares of this Series at its office, or to the Corporation at its principal executive offices, accompanied by a written notice of the election by the holder thereof to convert, a statement (the "Ownership Statement") certifying the number of, and if requested further identifying the, shares of Class B Common Stock held as of the Separation Time and (if so required by the transfer agent or by the Corporation) by instruments of transfer, in form satisfactory to the transfer agent and to the Corporation, duly executed by such holder or his duly authorized attorney. The issuance of a certificate or certificates for shares of Series B Preferred Stock upon conversion of shares of this Series shall be made without charge for any stamp or other similar tax in respect of such issuance. However, if any such certificate or certificates is or are to be issued in a name other than that of the holder of the share or shares of this Series converted, the person or persons requesting the issuance thereof shall pay to the transfer agent or to the Corporation the amount of any tax which

may be payable in respect of any such transfer, or shall establish to the satisfaction of the transfer agent or of the Corporation that such tax has been that such tax has been paid. As promptly as practicable after the surrender for conversion of a certificate or certificates representing shares of this Series and the payment of any tax as hereinbefore provided, the Corporation, subject to verification of the Ownership Statement, will deliver or cause to be delivered at the office of the transfer agent to, or upon the written order of, the holder of such certificate or certificates, a certificate or certificates representing the number of shares of the Series B Preferred Stock issuable upon such conversion, issued in such name or names as such holder may direct. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of the certificate or certificates representing shares of this Series (if on such date the transfer books of the Corporation shall be closed, then immediately prior to the close of business on the first date thereafter that said books shall be open), and all rights of such holder arising from ownership of shares of this Series shall cease at such time, and the person or persons in whose name or names the certificate or certificates representing shares of the Series B Preferred Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of the Series B Preferred Stock at such time and shall have and may exercise all the rights and powers appertaining thereto.

(ix) For so long as there are shares of Class B Common Stock outstanding, this Series shall be convertible into Series B Preferred Stock in accordance with Paragraph (viii) above. Immediately upon the automatic conversion of all outstanding shares of Class B Common Stock into shares of Common Stock pursuant to the terms of the Restated Certificate of Incorporation of the Corporation, as amended, each one one-thousandth of a share of this Series which is then outstanding shall, without any action by the Board of Directors of the Corporation or the holder or holders thereof, automatically convert into and become for all purposes a share of the Common Stock, subject to a sufficient number of shares of Common Stock being authorized and available for issuance to permit such conversion. To the extent a sufficient number of shares of Common Stock is not authorized and available for issuance to permit the conversion set forth in the previous sentence, then the one one-thousandths of a share of this Series shall be converted into Common Stock on a pro-rata basis to the extent possible given the number of shares of Common Stock that is authorized and available for issuance. The Board of Directors of the Corporation is hereby authorized to take such actions, consistent with the Delaware General Corporation Law, as it

deems appropriate or advisable with respect to the replacement of certificates then outstanding evidencing ownership of this Series, or otherwise, in order to carry into effect the foregoing provisions.

IN WITNESS WHEREOF, the undersigned have signed and attested this certificate on the _____ day of _____, _____.

Attest:

EXHIBIT C

FORM OF CERTIFICATE OF DESIGNATION AND TERMS
OF SERIES B PARTICIPATING PREFERRED STOCK OF
HERSHEY FOODS CORPORATION

Pursuant to Section 151 of the General
Corporation Law of the State of Delaware

We, the undersigned, _____ and
_____, the _____, and _____, respectively, of
Hershey Foods Corporation, a Delaware corporation (the "CORPORATION"), do hereby
certify as follows:

Pursuant to authority granted by Article FOURTH of the
Restated Certificate of Incorporation of the Corporation, as amended, and in
accordance with the provisions of Section 151 of the General Corporation Law of
the State of Delaware, the Board of Directors of the Corporation has adopted the
following resolutions fixing the designation and certain terms, powers,
preferences and other rights of a new series of the Corporation's Preferred
Stock, par value \$1.00 per share, and certain qualifications, limitations and
restrictions thereon:

RESOLVED, that there is hereby established a series of
Preferred Stock, par value \$1.00 per share, of the Corporation, and the
designation and certain terms, powers, preferences and other rights of
the shares of such series, and certain qualifications, limitations and
restrictions thereon, are hereby fixed as follows:

(i) The distinctive serial designation of this series
shall be "Series B Participating Preferred Stock" (hereinafter
called "THIS SERIES"). Each share of this Series shall be
identical in all respects with the other shares of this Series
except as to the dates from and after which dividends thereon
shall be cumulative.

(ii) The number of shares in this Series shall initially
be _____, which number may from time to time be increased or
decreased (but not below the number then outstanding) by the
Board of Directors. Shares of this Series purchased by the
Corporation or converted into Common Stock or into a different
series of Preferred Stock of the Corporation shall be

cancelled and shall revert to authorized but unissued shares of Preferred Stock undesignated as to series. Shares of this Series may be issued in fractional shares which are whole number multiples of one one-thousandth of a share, which fractional shares shall entitle the holder, in proportion to such holder's fractional share, to all rights of a holder of a whole share of this Series.

(iii) The holders of full or fractional shares of this Series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available therefor, dividends, (A) on each date that dividends or other distributions (other than dividends or distributions payable in Class B Common Stock of the Corporation) are payable on or in respect of Class B Common Stock comprising part of the Reference Package (as defined below), in an amount per whole share of this Series equal to the aggregate amount of dividends or other distributions (other than dividends or distributions payable in Class B Common Stock of the Corporation) that would be payable on such date to a holder of the Reference Package and (B) on the last day of March, June, September and December in each year, in an amount per whole share of this Series equal to the amount by which \$9.091 exceeds the aggregate dividends paid per whole share of this Series during the three month period ending on such last day. Each such dividend shall be paid to the holders of record of shares of this Series on the date, not exceeding sixty days preceding such dividend or distribution payment date, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend or distribution. Dividends on each full and each fractional share of this Series shall be cumulative from the date such full or fractional share is originally issued; provided that any such full or fractional share originally issued after a dividend record date and on or prior to the dividend payment date to which such record date relates shall not be entitled to receive the dividend payable on such dividend payment date or any amount in respect of the period from such original issuance to such dividend payment date.

The term "Reference Package" shall initially mean 1000 shares of Class B Common Stock, par value \$1.00 per share ("CLASS B COMMON STOCK"), of the Corporation. In the event the Corporation shall at any time after the close of business on _____, ____*.f1/ (A) declare or pay a dividend on any Class B Common Stock payable in Class B Common Stock, (B) subdivide any Class B Common Stock or

/f1/* For certificate of designation relating to shares to be issued pursuant to Section 2.3 of the Rights Agreement, insert the Separation Time. For a certificate of designation relating to shares to be issued pursuant to Section 3.1(d) of the Rights Agreement, insert the Flip-in Date.

(C) combine any Class B Common Stock into a smaller number of shares, then and in each such case the Reference Package after such event shall be the Class B Common Stock that a holder of the Reference Package immediately prior to such event would hold thereafter as a result thereof.

Holders of shares of this Series shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends, as herein provided on this Series. This Series shall rank pari passu in all respects with the Series A Participating Preferred Stock of the Corporation except with respect to voting rights.

So long as any shares of this Series are outstanding, no dividend (other than a dividend in Class B Common Stock or in any other stock ranking junior to this Series as to dividends and upon liquidation) shall be declared or paid or set aside for payment or other distribution declared or made upon the Common Stock or Class B Common Stock or upon any other stock ranking junior to this Series as to dividends or upon liquidation, unless the full cumulative dividends (including the dividend to be paid upon payment of such dividend or other distribution) on all outstanding shares of this Series shall have been, or shall contemporaneously be, paid. When dividends are not paid in full upon this Series and any other stock ranking on a parity as to dividends with this Series, all dividends declared upon shares of this Series and any other stock ranking on a parity as to dividends shall be declared pro rata so that in all cases the amount of dividends declared per share on this Series and such other stock shall bear to each other the same ratio that accumulated dividends per share on the shares of the Series and such other stock bear to each other. Neither the Common Stock or Class B Common Stock nor any other stock of the Corporation ranking junior to or on a parity with this Series as to dividends or upon liquidation may be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) by the Corporation (except by conversion into or exchange for stock of the Corporation ranking junior to this Series as to dividends and upon liquidation), unless, in each case, the full cumulative dividends (including the dividend to be due upon payment of such dividend, distribution, redemption, purchase or other acquisition) on all outstanding shares of this Series shall have been, or shall contemporaneously be, paid.

(iv) In the event of any merger, consolidation, reclassification or other transaction in which the Common Shares are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of this Series shall at the same time be similarly exchanged or changed in an amount per whole share equal to the

aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, that a holder of the Reference Package would be entitled to receive as a result of such transaction.

(v) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the holders of full and fractional shares of this Series shall be entitled, before any distribution or payment is made on any date to the holders of the Common Stock or Class B Common Stock or any other stock of the Corporation ranking junior to this Series upon liquidation, to be paid in full an amount per whole share of this Series equal to the greater of (A) \$ _____ /f2/ or (B) the aggregate amount distributed or to be distributed in connection with such liquidation, dissolution or winding up to a holder of the Reference Package (such greater amount being hereinafter referred to as the "Liquidation Preference"), together with accrued dividends to such distribution or payment date, whether or not earned or declared. If such payment shall have been made in full to all holders of shares of this Series, the holders of shares of this Series as such shall have no right or claim to any of the remaining assets of the Corporation.

In the event the assets of the Corporation available for distribution to the holders of shares of this Series upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full all amounts to which such holders are entitled pursuant to the first paragraph of this Section (v), no such distribution shall be made on account of any shares of any other class or series of Preferred Stock ranking on a parity with the shares of this Series upon such liquidation, dissolution or winding up unless proportionate distributive amounts shall be paid on account of the shares of this Series, ratably in proportion to the full distributable amounts for which holders of all such parity shares are respectively entitled upon such liquidation, dissolution or winding up.

Upon the liquidation, dissolution or winding up of the Corporation, the holders of shares of this Series then outstanding shall be entitled to be paid out of assets of the Corporation available for distribution to its stockholders all amounts to which such holders are entitled pursuant to the first paragraph of this Section (v) before any payment shall be made to the holders of Common Stock or Class B Common Stock or any other stock of the Corporation ranking junior upon liquidation to this Series.

/f2/* Insert an amount equal to 10 times the Exercise Price in effect as of the Separation Time.

For the purposes of this Section (v), the consolidation or merger of, or binding share exchange by, the Corporation with any other corporation shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(vi) Shares of this Series (or fractions thereof) shall not be redeemable. Shares of this Series (or fractions thereof) shall only be issued in connection with the conversion of shares of Series A Participating Preferred Stock (or fractions thereof) of the Corporation ("Series A Preferred Stock").

(vii) In addition to any other vote or consent of stockholders required by law or by the Restated Certificate of Incorporation, as amended, of the Corporation and except as otherwise required by law, each share of this Series (or fraction thereof) shall, on any matter, vote as a class with any other capital stock comprising part of the Reference Package and shall have the number of votes thereon that a holder of the Reference Package (or a similar fraction thereof) would have.

(viii) Each one one-thousandth of a share of this Series may at any time be converted at the election of the holder thereof into one one-thousandth of a share of Series A Preferred Stock. Any holder of one one-thousandth of a share of this Series may elect to convert any or all of such one one-thousandths of a share at one time or at various times in such holder's discretion. Such right shall be exercised by the surrender of the certificate(s) representing the number of one one-thousandths of a share of this Series to be converted to the agent for the registration of transfer of shares of this Series at its office, or to the Corporation at its principal executive offices, accompanied by a written notice of the election by the holder thereof to convert and (if so required by the transfer agent or by the Corporation) by instruments of transfer, in form satisfactory to the transfer agent and to the Corporation, duly executed by such holder or his duly authorized attorney. The issuance of a certificate or certificates for a number of one one-thousandths of a share of Series A Preferred Stock upon conversion of a number of one one-thousandths of a share of this Series shall be made without charge for any stamp or other similar tax in respect of such issuance. However, if any such certificate or certificates is or are to be issued in a name other than that of the holder of the share or shares of this Series converted, the person or persons requesting the issuance thereof shall pay to the transfer agent or to the Corporation the amount of any tax which may be payable in respect of any such transfer, or shall establish to the satisfaction of the transfer agent or of the Corporation that such tax has been paid. As promptly as practicable after the surrender for conversion of a certificate or certificates representing one

one-thousandths of a share of this Series and the payment of any tax as hereinbefore provided, the Corporation will deliver or cause to be delivered at the office of the transfer agent to, or upon the written order of, the holder of such certificate or certificates, a certificate or certificates representing the number of one one-thousandths of a share of Series A Preferred Stock issuable upon such conversion, issued in such name or names as such holder may direct. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of the certificate or certificates representing one one-thousandths of a share of this Series (if on such date the transfer books of the Corporation shall be closed, then immediately prior to the close of business on the first date thereafter that said books shall be open), and all rights of such holder arising from ownership of one one-thousandths of a share of this Series shall cease at such time, and the person or persons in whose name or names the certificate or certificates representing a number of one one-thousandths of a share of Series A Preferred Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such number of one one-thousandths of a share of Series A Preferred Stock at such time and shall have and may exercise all the rights and powers appertaining thereto. No adjustments in respect of past cash dividends shall be made upon the conversion of any one one-thousandths of a share of this Series; provided, however, that if any one one-thousandths of a share of this Series shall be converted subsequent to the record date for the payment of a cash or stock dividend or other distribution on one one-thousandths of a share of this Series but prior to such payment, the registered holder of such one one-thousandths of a share at the close of business on such record date shall be entitled to receive the cash or stock dividend or other distribution payable to holders of Series A Preferred Stock. The Corporation shall at all times reserve and keep available, solely for the purpose of issue upon conversion of outstanding one one-thousandths of a share of this Series, such number of one one-thousandths of a share of Series A Preferred Stock as may be issuable upon the conversion of all such outstanding one one-thousandths of a share of this Series, provided, the Corporation may deliver shares of Series A Preferred Stock which are held in the treasury of the Corporation for shares of this Series to be converted. If any shares of the Series A Preferred Stock require registration with or approval of any governmental authority under any federal or state law before such shares of the Series A Preferred Stock may be issued upon conversion, the Corporation will cause such shares to be duly registered or approved, as the case may be. The Corporation will endeavor to list shares of the Series A Preferred Stock required to be delivered upon conversion prior to such delivery upon any national securities exchange or national market system on which the outstanding shares of the Series A Preferred Stock may be listed at the time of such delivery. All shares of the Series A Preferred Stock which

may be issued upon conversion of shares of this Series will, upon issue, be fully paid and nonassessable.

(ix) Immediately upon the automatic conversion of all outstanding shares of Class B Common Stock into shares of Common Stock pursuant to the terms of the Restated Certificate of Incorporation of the Corporation, as amended, each one one-thousandth of a share of this Series which is then outstanding shall, without any action by the Board of Directors of the Corporation or the holder or holders thereof, automatically convert into and become for all purposes one share (subject to adjustment) of the Common Stock, and the provisions of this Certificate of Designation which provide for different voting or cash dividend rights for this Series shall not be of any effect; PROVIDED, HOWEVER, if there is not a sufficient number of shares of Common Stock authorized and available for issuance to permit such conversion, each one one-thousandth of a share of this Series which is then outstanding shall, without any action by the Board of Directors of the Corporation or the holder or holders thereof, automatically convert into and become for all purposes one share (subject to adjustment) of the Common Stock on a pro rata basis to the extent possible given the number of shares of Common Stock that is authorized and available for issuance and each one one-thousandth of a share of this Series which is then remaining shall automatically convert into one one-thousandth of a share of Series A Participating Preferred Stock of the Company. The Board of Directors of the Corporation is hereby authorized to take such actions, consistent with the Delaware General Corporation Law, as it deems appropriate or advisable with respect to the replacement of certificates then outstanding evidencing ownership of this Series, or otherwise, in order to carry into effect the foregoing provisions.

IN WITNESS WHEREOF, the undersigned have signed and attested this certificate on the _____ day of _____, ____.

Attest:

- - - - -

FOOTNOTES:

- * For a certificate of designation relating to shares to be issued pursuant to Section 2.3 of the Rights Agreement, insert the Separation Time. For a certificate of designation relating to shares to be issued pursuant to Section 3.1(d) of the Rights Agreement, insert the Flip-in Date.
- * Insert an amount equal to 10 times the Exercise Price in effect as of the Separation Time.
- * For a certificate of designation relating to shares to be issued pursuant to Section 2.3 of the Rights Agreement, insert the Separation Time. For a certificate of designation relating to shares to be issued pursuant to Section 3.1(d) of the Rights Agreement, insert the Flip-in Date.
- * Insert an amount equal to 10 times the Exercise Price in effect as of the Separation Time.

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 For the fiscal year ended December 31, 2000

Commission File Number 1-183

Registrant, State of Incorporation, Address and Telephone Number

HERSHEY FOODS CORPORATION

(a Delaware Corporation)

100 Crystal A Drive
Hershey, Pennsylvania 17033
(717) 534-6799

I.R.S. Employer Identification Number 23-0691590

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
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. [X]

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 — \$5,943,458,722 as of February 26, 2001.

Class B Common Stock, one dollar par value — \$8,683,660 as of February 26, 2001. 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 February 26, 2001.

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 — 106,049,141 shares, as of February 26, 2001.

Class B Common Stock, one dollar par value — 30,441,858 shares, as of February 26, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Annual Report to Stockholders for the year ended December 31, 2000 is included as Appendix A to the Corporation's Proxy Statement for the Corporation's 2001 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated by reference into Part II and 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 produces and distributes a broad line of chocolate and non-chocolate confectionery 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.

In December 2000, the Corporation completed the purchase of the intense and breath freshener mints and gum businesses of Nabisco, Inc. The Corporation paid \$135.0 million to acquire the businesses, including *ICE BREAKERS* and *BREATH SAVERS COOL BLASTS* intense mints, *BREATH SAVERS* mints, and *ICE BREAKERS*, *CAREFREE*, *STICK*FREE*, *BUBBLE YUM* and *FRUIT STRIPE* gums. Also included in the purchase were manufacturing machinery and equipment and a gum-manufacturing plant in Las Piedras, Puerto Rico. These businesses had sales of approximately \$270 million in 1999.

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; and grocery products in the form of baking ingredients, chocolate drink mixes, peanut butter, dessert toppings and beverages. The Corporation believes it is a leader 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 grocery 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 products, 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 BITES* candies, *HERSHEY'S* classic caramels, *HERSHEY'S COOKIES 'N' CREME* chocolate bars, *HERSHEY'S HUGS* 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, *CARAMELLO* candy bars, *GOOD & PLENTY* candy, *HEATH* toffee bar, *JOLLY RANCHER* candy, *KIT KAT* wafer bars, *LUDEX* 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, *POT OF GOLD* boxed chocolates, *RAIN-BLO* and *SUPER BUBBLE* gum, *REESE'S NUTRAGEOUS* candy bars, *REESE'S* peanut butter cups, *REESE'S PIECES* candies, *REESESTICKS* wafer bars, *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/or 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 and strawberry flavored milks are produced and sold under license by various dairies throughout the United States, using milk mixes manufactured by the Corporation. 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.

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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 2000, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 17% of the Corporation's total net sales.

In Japan, the Philippines, Korea and China, the Corporation imports and/or markets selected confectionery and grocery products. The Corporation also markets confectionery and grocery 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 70% 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 Board of Trade. 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)				
	1996	1997	1998	1999	2000
Annual Average	62.1	70.0	72.7	48.8	37.9
High	64.4	77.2	78.3	62.7	40.1
Low	57.4	59.1	65.5	39.6	34.4

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.

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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 in a range of 25¢ to 32¢ per pound for the past ten years. Peanut and almond prices remained near normal levels throughout 2000. Milk prices moderated in 2000 as a result of strong milk production. The Corporation believes that the supply of raw materials is adequate to meet its manufacturing requirements.

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, natural gas and certain dairy products, price risks are also managed by entering into futures contracts. At the present time, active futures 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 sweeteners, natural gas and certain dairy product 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 for futures contracts related to cocoa, sugar, corn sweeteners, natural gas and certain dairy products. 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 markets. 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, natural gas and certain dairy products, 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 CAMELLO 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 CAMELLO products is subject to a minimum sales requirement which the Corporation exceeded in 2000. 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 2000, the minimum volume requirements were exceeded. The Corporation has an agreement with an affiliate of Huhtamäki Oy (Huhtamäki) pursuant to which it licenses the use of certain trademarks, including *GOOD & PLENTY*, *HEATH*, *JOLLY RANCHER*, *MILK DUDS*, *PAYDAY* and *WHOPPERS* confectionery products worldwide. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option.

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.

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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 annual sales, nor are the changes from time to time significant, aside from the third quarter of 1999 when a significant backlog of orders resulted from customer service and order fulfillment problems encountered during the start-up of new business systems and processes.

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. Information concerning the Corporation's research and development expense is contained in Note 1 of the Corporation's Annual Report to Stockholders included as Appendix A to the Proxy Statement, which information is incorporated herein by reference and filed as Exhibit 13 hereto.

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, 2000, the Corporation had approximately 14,300 full-time and 1,400 part-time employees, of whom approximately 6,300 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 Note 15 of the Corporation's Annual Report to Stockholders included as Appendix A to 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. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential," among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery 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; changes in raw material costs; and the Corporation's ability to implement improvements to and reduce costs associated with the Corporation's customer service, warehousing and order fulfillment processes and systems.

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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

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 and grocery 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

In January 1999, the Corporation received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The Notice pertained to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS disallowed the interest expense deductions associated with the underlying life insurance policies. The total deficiency of \$61.2 million, including interest, was paid to the IRS in September 2000 to eliminate further accruing of interest. The Corporation may be subject to additional assessments for federal taxes and interest for years 1997 and 1998 and for state taxes and interest for 1989 through 1998. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program, has filed for the refund of amounts paid and will continue to seek favorable resolution of this matter. The Corporation has no other 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.

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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 page A-9 of the Corporation's Annual Report to Stockholders included as Appendix A to the Proxy Statement, 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, 2000, found in the section "Eleven-Year Consolidated Financial Summary" on pages A-34 through A-36 of the Corporation's Annual Report to Stockholders included as 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 i and j); 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 of Financial Condition and Results of Operations," found on pages A-1 through A-11 of the Corporation's Annual Report to Stockholders included as 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 Annual Report to Stockholders included as 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, 2000, 1999 and 1998. (Page A-12)
2. Consolidated Balance Sheets as of December 31, 2000 and 1999. (Page A-13)
3. Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998. (Page A-14)
4. Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998. (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.

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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 15, 2001

Name	Age	Positions Held During the Last Five Years
K. L. Wolfe	62	Chairman of the Board of Directors (2001); Chairman of the Board and Chief Executive Officer (1993)
R.H. Lenny (1)	49	President and Chief Executive Officer (2001)
W. F. Christ	60	Executive Vice President and Chief Operating Officer (2000); Senior Vice President, Chief Financial Officer and Treasurer (1997); Senior Vice President and Chief Financial Officer (1994)
R. M. Reese	51	Senior Vice President - Public Affairs, General Counsel and Secretary (1999); Vice President, General Counsel and Secretary (1995)
R. Brace	57	Vice President, Conversion and Procurement (2000); Senior Vice President, Operations (1999); Vice President, Operations (1997); Vice President, Manufacturing, Hershey Chocolate North America (1995)
J. R. Canavan (2)	53	Vice President, Human Resources (1999)
J. F. Carr	56	Vice President, Research Services and Special Operations (1999); President, Hershey Pasta and Grocery Group (1997); President, Hershey International (1994)
F. Cerminara	52	Vice President, Chief Financial Officer and Treasurer (2000); Vice President, Procurement (1994)
G. F. Davis (3)	53	Vice President and Chief Information Officer (2000)
M. H. Holmes	56	Vice President, U. S. Marketing (2000); Vice President and General Manager, Chocolate (1994)

M. T. Matthews	55	Vice President, U. S. Sales (1989)
D. W. Tacka	47	Vice President, Corporate Controller and Chief Accounting Officer (2000); Corporate Controller and Chief Accounting Officer (1995)

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

(1) Mr. Lenny was elected President and Chief Executive Officer effective March 12, 2001. Prior to joining the Corporation he was Group Vice President, Kraft Foods, Inc. and President, Nabisco Biscuit and Snacks (2000); President, Nabisco Biscuit Company (1998); President, Pillsbury North America (1996).

(2) Mr. Canavan was elected Vice President, Human Resources effective January 1, 1999. Prior to joining the Corporation he was Vice President, Staffing, IBM United States Corporation in New York (1998) and Vice President, Human Resources, IBM North America (1993).

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(3) Mr. Davis was elected Vice President and Chief Information Officer effective December 14, 2000. Prior to joining the Corporation he was Vice President - Global Infrastructure Services, Computer Sciences Corporation (2000); Director - Global Infrastructure Services, Computer Sciences Corporation (1999); Executive Director - Global Infrastructure and Financial Systems, Pratt and Whitney (1998); Chief Information Officer, Rocco Inc. (1992).

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

Reporting of any 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 entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

Item 11. EXECUTIVE COMPENSATION

Information concerning compensation of the named 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 "2000 Executive Compensation" and "Directors' Compensation" 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 and one appointed officer, 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 sections entitled "Certain Transactions and Relationships" and "Transactions with Management and Others" 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 Annual Report to Stockholders included as 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, 2000, 1999 and 1998 is filed herewith on the indicated page in response to Item 14(d):

Schedule II -- Valuation and Qualifying Accounts (Page 15)

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.

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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 and restated as of December 1, 1998, are incorporated by reference from Exhibit 3 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

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

a. Stockholder Protection Rights Agreement between Hershey Foods Corporation and Mellon Investor Services LLC, as Rights Agent, dated December 14, 2000, is attached hereto and filed as Exhibit 4.1.

b. 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:

1) 6.7% Notes due 2005

2) 6.95% Notes due 2007

3) 6.95% Notes due 2012

4) 8.8% Debentures due 2021

5) 7.2% Debentures due 2027

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. This agreement was assigned by the Corporation to its wholly owned subsidiary, Hershey Chocolate & Confectionery Corporation.
- 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.

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d. The Amended and Restated 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, Banc America Securities LLC as co-syndication agent, and Salomon Smith Barney Inc., as co-syndication agent and arranger is incorporated by reference from Exhibit 10.1 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999. The 364-day Credit Agreement was renewed in December 2000.

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 and Citicorp Securities, Inc. (now Salomon Smith Barney Inc.) and BA Securities, Inc. (now Banc America Securities LLC) 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, Hershey Chocolate & Confectionery Corporation. The agreement was amended and restated in 1999 and the Amended and Restated Trademark and Technology License Agreement is incorporated by reference from Exhibit 10.2 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

Executive Compensation Plans and Management Contracts

g. Hershey Foods Corporation's Restated Key Employee Incentive Plan, incorporated by reference from Exhibit 10.3 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 was amended in 2000, and a copy of the plan, as amended, is attached hereto and filed as Exhibit 10.1.

h. Hershey Foods Corporation's Restated Supplemental Executive Retirement Plan is attached hereto and filed as Exhibit 10.2.

i. 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.

j. Hershey Foods Corporation's 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.

k. Hershey Foods Corporation's Executive Benefits Protection Plan (Group 3A), covering certain of its executive officers, is attached hereto and filed as Exhibit 10.3.

l. Separation Agreement and General Release entered into on December 11, 2000 between Hershey Foods Corporation and Michael F. Pasquale is attached hereto and filed as Exhibit 10.4.

(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, 2000, 1999, 1998, 1997 and 1996 is filed as Exhibit 12 hereto.

(13) Annual report to security holders

The Corporation's Annual Report to Stockholders is included as Appendix A to the Proxy Statement and is filed as Exhibit 13 hereto.

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(14b) Reports on Form 8-K

a. A Current Report on Form 8-K was filed on December 11, 2000, announcing that Michael F. Pasquale, Executive Vice President and Chief Operating Officer and a member of the Board of Directors, resigned from those positions effective that date. The Corporation also announced that William F. Christ, Senior Vice President, Chief Financial Officer and Treasurer, would become Executive Vice President and Chief Operating Officer, and that Frank Cerminara would become Vice President, Chief Financial Officer and Treasurer.

b. A Current Report on Form 8-K was filed on December 14, 2000, announcing that the Board of Directors of the Corporation unanimously adopted a Stockholder Protection Rights Agreement between the Corporation and Mellon Investor Services LLC, as Rights Agent, dated December 14, 2000. A copy of the Stockholder Protection Rights Agreement is attached hereto and filed as Exhibit 4.1.

(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 26, 2001, is filed as Exhibit 23 hereto.

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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, this 15th day of March 2001.

HERSHEY FOODS CORPORATION

By: _____ /s/ F. CERMINARA

F. Cerminara
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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ K. L. WOLFE K. L. Wolfe	Chairman of the Board of Directors	March 15, 2001
/s/ R. H. Lenny R. H. Lenny	President and Chief Executive Officer	March 15, 2001
/s/ F. CERMINARA F. Cerminara	Chief Financial Officer and Treasurer	March 15, 2001
/s/ D. W. TACKA D. W. Tacka	Chief Accounting Officer	March 15, 2001
/s/W. H. ALEXANDER W. H. Alexander	Director	March 15, 2001
/s/ R. H. CAMPBELL R. H. Campbell	Director	March 15, 2001
/s/ C. M. EVARTS, M.D. C. M. Evarts, M.D.	Director	March 15, 2001

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ B. G. HILL B. G. Hill	Director	March 15, 2001
/s/ J. C. JAMISON J.C. Jamison	Director	March 15, 2001
/s/ M.J. MCDONALD M.J. McDonald	Director	March 15, 2001
/s/ J. M. PIETRUSKI J. M. Pietruski	Director	March 15, 2001

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hershey Foods Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Hershey Foods Corporation's Proxy Statement for its 2001 Annual Meeting of Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 26, 2001. Our audit was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedule listed on page 15 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.

/s/ ARTHUR ANDERSEN LLP

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2000, 1999 and 1998

(in thousands of dollars)

Description	<u>Additions</u>				Balance at End of Period
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts ^(a)	Deductions from Reserves	
Year Ended December 31,2000:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable - Trade.....	\$ 16,941	\$ 8,531	\$ 1,362	\$ (10,830)	\$ 16,004
Year Ended December 31,1999:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable - Trade.....	\$ 19,941	\$ 2,629	\$ 597	\$ (6,226) ^(b)	\$ 16,941
Year Ended December 31,1998:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable - Trade.....	\$ 15,843	\$ 5,540	\$ (210)	\$ (1,232)	\$ 19,941

(a) Includes recoveries of amounts previously written off.

(b) Includes reserves related to the Corporation's pasta business which was sold in January 1999.