UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1996

OR

|-| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ..... to .....

Commission File No.	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-183	Hershey Foods Corporation (a Delaware Corporation) 100 Crystal A Drive Hershey, Pennsylvania 17033 (717) 534-6799	23-0691590

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

Title of each class	Name of each exchange on which registered
Common Stock, one dollar par value	New York Stock Exchange

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

Class B Common Stock, one dollar par value
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

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

Common Stock, one dollar par value -- $4,402,864,458 as of March 3, 1997.

Class B Common Stock, one dollar par value -- $7,461,816 as of March 3, 1997. While the Class B Common Stock is not listed for public trading on any exchange or market system, shares of that class are convertible into shares of Common Stock at any time on a share-for-share basis. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on March 3, 1997.

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 -- 122,314,799 shares, as of March 3, 1997.

Class B Common Stock, one dollar par value -- 30,470,908 shares, as of March 3, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 1996 are included in Appendix B to the Corporation's Proxy Statement for the Corporation's 1997 Annual Meeting of Stockholders and are incorporated by reference into Part II and are filed as Exhibit 13 hereto. Portions of the Proxy Statement are incorporated by reference herein into Part III.

Item 1. BUSINESS

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

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

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

Also in December 1996, the Corporation completed the sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH ("Gubor") and Sperlari, S.r.l. ("Sperlari"). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy.

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

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

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

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

The Corporation's products are sold primarily to grocery wholesalers, chain grocery stores, candy distributors, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, concessionaires and food distributors by full-time sales representatives, food brokers and part-time retail sales merchandisers throughout the United States, Canada and Mexico. The Corporation believes its products are sold in over 2 million retail outlets in North America. In 1996, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 12% of total net sales.

In Japan, China and Russia/CIS, the Corporation imports and/or markets selected confectionery and grocery products. The Corporation also exports chocolate and non-chocolate confectionery products to over 60 countries worldwide.

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

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

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

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

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

Cocoa Futures Contract Prices
(cents per pound)

	1992	1993	1994	1995	1996
Annual Average.........	47.6	47.3	59.1	61.2	62.1
High...................	56.2	56.7	66.1	64.1	64.4
Low....................	41.3	41.8	51.3	58.3	57.4

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, was signed into law in April 1996. This legislation impacts the prices of sugar, peanuts, and milk because it sets price support levels for these commodities.

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

Peanut prices were firm throughout the first three quarters of 1996, averaging about 10 - 20% higher than 1995. During the fourth quarter of 1996, prices returned to the 1995 levels as a result of the harvest of an above average new crop.

Dairy prices reached historically high levels in 1996 as the high price of dairy feeds negatively impacted milk production. While dairy product prices fell to 1995 levels during the fourth quarter as a result of inventory buildup and consumer price resistance, fluid milk prices did not fall to lower levels until the first quarter of 1997 as such pricing formulas lag the prices of other dairy products.

Almond prices remained at unprecedented high levels for the first three quarters of 1996. A slight decline in prices resulted during the fourth quarter as the new crop was harvested, but prices remained at historically high levels.

Pasta is made from semolina milled from durum wheat, a class of hard wheat grown in the United States and Canada. The Corporation purchases semolina from commercial mills and is also engaged in custom milling agreements to obtain sufficient quantities of semolina. In the first half of 1996, the market price for durum semolina remained near historic highs. Durum wheat production during 1996 increased in almost every area of the world, resulting in some price declines in the last quarter of the year. However, prices remained well above long-term historical price levels.

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

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

The Corporation manages the purchase of forward and futures contracts by developing and monitoring procurement strategies for each of its major commodities. These procurement strategies, including the use of futures contracts to hedge the pricing of cocoa, sugar and corn sweeteners, 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 PETER PAUL ALMOND JOY and PETER PAUL MOUNDS confectionery products worldwide as well as YORK, CADBURY and CARAMELLO confectionery products in the United States. The Corporation's rights under these agreements are extendable on a long-term basis at the Corporation's option. The license for CADBURY and CARAMELLO products is subject to a minimum sales requirement which the Corporation exceeded in 1996. 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 extendable on a long-term basis at the Corporation's option, subject to certain conditions, including minimum unit volume sales. In 1996, the minimum volume requirements were exceeded. The Corporation has also entered into an agreement with Huhtamaki pursuant to which it licenses the use of certain trademarks, including the GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY and WHOPPERS brands in the North, Central and South American regions. The Corporation's rights under this agreement are extendable 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.

Trademarks

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

Backlog of Orders

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

Research and Development

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

Regulation

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

Environmental Considerations

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

Employees

As of December 31, 1996, the Corporation had approximately 14,000 full-time and 1,300 part-time employees, of whom approximately 6,000 were covered by collective bargaining agreements. The Corporation considers its employee relations to be good.

Financial Information by Geographic Area

Information concerning the Corporation's geographic segments is contained in Footnote 16 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B to the Proxy Statement for its 1997 Annual Meeting of Stockholders (the "Proxy Statement"), which information is incorporated herein by reference and filed as Exhibit 13 hereto.

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 products
- Stuarts Draft, Virginia - confectionery products
- Winchester, Virginia - pasta products

CANADA

- Smiths Falls, Ontario - confectionery products

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

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

Item 3. LEGAL PROCEEDINGS

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

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

Not applicable.

PART II

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

Information concerning the principal United States trading market for, market prices of and dividends on the Corporation's Common Stock and Class B Common Stock, and the approximate number of stockholders, may be found in the section "Market Prices and Dividends" on pages B-7 and B-8 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B to the Proxy Statement which is deemed to be part of the Annual Report to Stockholders and which information is incorporated herein by reference and filed as Exhibit 13 hereto.

Item 6. SELECTED FINANCIAL DATA

The following information, for the five years ended December 31, 1996, found in the section "Eleven-Year Consolidated Financial Summary" on pages B-30 through B-32 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B 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 (excluding Notes h, i, j and k); Dividends Paid on Common Stock (and related Per Share amounts); Dividends Paid on Class B Common Stock (and related Per Share amounts); Long-term Portion of Debt; and Total Assets.

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

The section "Management's Discussion and Analysis," found on pages B-1 through B-8 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited consolidated financial statements of the Corporation and its subsidiaries are found at the indicated pages in the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B 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, 1996, 1995 and 1994. (Page B-9)

2. Consolidated Balance Sheets as of December 31, 1996 and 1995. (Page B-10)

3. Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994. (Page B-11)

4. Consolidated Statements of Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994. (Page B-12)

5. Notes to Consolidated Financial Statements (Pages B-13 through B-27), including "Quarterly Data (Unaudited)." (Page B-27)

6. Report of Independent Public Accountants. (Page B-29)

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Executive Officers of the Corporation as of March 3, 1997

Name	Age	Positions Held During the Last Five Years
K. L. Wolfe	58	Chairman of the Board and Chief Executive Officer (1993); President and Chief Operating Officer (1985)
J. P. Viviano	58	President and Chief Operating Officer (1993); President, Hershey Chocolate U.S.A., now Hershey Chocolate North America, a division of Hershey Foods Corporation (1985)
W. F. Christ	56	Senior Vice President and Chief Financial Officer (1994); President, Hershey International, a division of Hershey Foods Corporation (1988)
R. Brace	53	Vice President, Operations (1997); Vice President, Manufacturing, Hershey Chocolate North America (1995); Vice President, Manufacturing, Hershey Chocolate U.S.A. (1987)
J. F. Carr	52	President, Hershey Pasta and Grocery Group, a division of Hershey Foods Corporation (1997); President, Hershey International (1994); Vice President, Marketing, Hershey Chocolate U.S.A. (1984)
M. F. Pasquale	49	President, Hershey Chocolate North America (1995); President, Hershey Chocolate U.S.A. (1994); Senior Vice President and Chief Financial Officer (1988)
R. M. Reese	47	Vice President, General Counsel and Secretary (1995); Vice President and General Counsel (1992)
C. M. Skinner	63	Vice Chair, Hershey Pasta and Grocery Group (1997); President, Hershey Pasta and Grocery Group (1996); President, Hershey Pasta Group (1984)
D. W. Tacka	43	Corporate Controller and Chief Accounting Officer (1995); Vice President, Finance and Administration, Hershey Pasta Group (1989)

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

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

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

Item 11. EXECUTIVE COMPENSATION

Information concerning compensation of the five most highly-compensated executive officers, including the Chairman of the Board and Chief Executive Officer, of the Corporation individually, and compensation of directors, is set forth in the sections "1996 Executive Compensation" and "Compensation of Directors" in the Proxy Statement. This information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

Item 14(a)(1): Financial Statements

The audited consolidated financial statements of the Corporation and its subsidiaries and the Report of Independent Public Accountants thereon, as required to be filed with this report, are set forth in Item 8 of this report and are incorporated therein by reference to specific pages of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix B 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, 1996, 1995 and 1994 is filed herewith on the indicated page in response to Item 14(d):

Schedule II -- Valuation and Qualifying Accounts (Page 14)

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

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

Item 14(a)(3): Exhibits

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

(3) Articles of Incorporation and By-laws

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

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

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

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

b. 6.7% Notes due 2005

c. 6.95% Notes due 2007

d. 8.8% Debentures due 2021

e. Other Obligations

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

(10) Material contracts

a. Kit Kat and Rolo License Agreement (the "License Agreement") between Hershey Foods Corporation and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1980. The License Agreement was amended in 1988 and the Amendment Agreement is incorporated by reference from Exhibit 19 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended July 3, 1988. The License Agreement was assigned by Rowntree Mackintosh Confectionery Limited to Societe des Produits Nestle SA as of January 1, 1990. The Assignment Agreement is incorporated by reference from Exhibit 19 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.

b. Peter Paul/York Domestic Trademark & Technology License Agreement between Hershey Foods Corporation and Cadbury Schweppes Inc. (now CBI Holdings, Inc.) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Corporation's Current Report on Form 8-K dated September 8, 1988. This agreement was assigned by the Corporation to its wholly owned subsidiary, Homestead, Inc., effective January 1, 1997.

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

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

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

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

Executive Compensation Plans

g. The 1987 Key Employee Incentive Plan, as amended, is incorporated by reference from Exhibit 19(i) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

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

i. Hershey Foods Corporation's Non-Management Director Retirement Plan is incorporated by reference from Exhibit 19 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 29, 1992.

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

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

l. Hershey Foods Corporation's Deferred Compensation Plan, as revised, is attached hereto as Exhibit 10.3.

m. Hershey Foods Directors' Compensation Plan which is attached hereto 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, 1996, 1995, 1994, 1993 and 1992 is filed as Exhibit 12 hereto.

(13) Annual report to security holders

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

(21) Subsidiaries of the Registrant

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

(23) Consent of Independent Public Accountants

SIGNATURES

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

HERSHEY FOODS CORPORATION
(Registrant)

Date: March 17, 1997 By W. F. CHRIST
(W. F. Christ, Senior Vice President and Chief Financial Officer)

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

Signature	Title	Date
K. L. WOLFE (K. L. Wolfe)	Chief Executive Officer and Director	March 17, 1997
W. F. CHRIST (W. F. Christ)	Chief Financial Officer	March 17, 1997
D. W. TACKA (D.W. Tacka)	Chief Accounting Officer	March 17, 1997
J. P. VIVIANO (J. P. Viviano)	Director	March 17, 1997
W. H. ALEXANDER (W. H. Alexander)	Director	March 17, 1997
R. H. CAMPBELL (R. H. Campbell)	Director	March 17, 1997
C. M. EVARTS (C. M. Evarts)	Director	March 17, 1997
T. C. GRAHAM (T. C. Graham)	Director	March 17, 1997
B. GUITON HILL (B. Guiton Hill)	Director	March 17, 1997

Signature	Title	Date
J. C. JAMISON (J. C. Jamison)	Director	March 17, 1997
M. J. MCDONALD (M. J. McDonald)	Director	March 17, 1997
J. M. PIETRUSKI (J. M. Pietruski)	Director	March 17, 1997
V. A. SARNI (V. A. Sarni)	Director	March 17, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To Hershey Foods Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Hershey Foods Corporation's Proxy Statement for its 1997 Annual Meeting of Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 27, 1997. Our audit was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedule listed on page 8 in Item 14(a)(2)is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York
January 27, 1997

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1996, 1995 and 1994

(in thousands of dollars)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts (a)	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1996:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade	$ 14,801	$ 1,238	$ 298	$ (2,278)	$14,059
Year Ended December 31, 1995:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade.................	$ 13,972	$ 1,318	$ (432)	$(57)	$14,801
Year Ended December 31, 1994:					
Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade.................	$ 12,479	$ 3,144	$ (1,016)	$(635)	$13,972

(a) Includes recoveries of amounts previously written off.

HERSHEY FOODS CORPORATION ANNUAL REPORT ON FORM 10-K

Index to Exhibits

Exhibit No.	
10.1	- Amended and Restated 364-Day Credit Agreement
10.2	- Amended and Restated Five-Year Credit Agreement
10.3	- Hershey Foods Corporation Deferred Compensation Plan
10.4	- Hershey Foods Corporation Directors' Compensation Plan
12	- Computation of ratio of earnings to fixed charges statement
13	- Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 1996
21	- Subsidiaries of Registrant
23	- Consent of Independent Public Accountants

EXHIBIT 10.1

AMENDED AND RESTATED
364-DAY CREDIT AGREEMENT

Dated as of December 13, 1996

THIS AMENDED AND RESTATED 364-DAY CREDIT AGREEMENT (this "Amendment and Restatement") among HERSHEY FOODS CORPORATION, a Delaware corporation (the "Company"), the banks, financial institutions and other institutional lenders parties to the Credit Agreement referred to below (collectively, the "Lenders"), CITIBANK, N.A. ("Citibank"), as administrative agent (the "Agent") for the Lenders, and BA SECURITIES, INC. and CITICORP SECURITIES, INC., as co-syndication agents (the "Co-Syndication Agents"), evidences the agreement of the parties as follows:

PRELIMINARY STATEMENTS:

(1) The Company, the Lenders, the Agent and the Co-Syndication Agents have entered into a 364-Day Credit Agreement dated as of December 15, 1995 (the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment and Restatement have the same meanings as specified in the Credit Agreement.

(2) The Company and the Lenders have agreed to amend the Credit Agreement as hereinafter set forth and to restate the Credit Agreement in its entirety to read as set forth in the Credit Agreement with the amendments specified below.

(3) The Lenders are, on the terms and conditions stated below, willing to grant the request of the Company and the Company and the Lenders have agreed to amend and restate the Credit Agreement as hereinafter set forth.

SECTION 1. Amendments to Credit Agreement. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) The definition of the term "Termination Date" appearing in Section 1.01 is amended in full to read as follows:

"'Termination Date' means the earlier of (a) December 12, 1997 or, if the Termination Date is extended pursuant to Section 2.18(a), the date to which the Termination Date is extended pursuant to Section 2.18(a), and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 (a), 2.05 (b) or 6.01."

(b) Section 2.04 is amended by deleting the percentage ".05 % " in the ninth line therein and substituting for such percentage the percentage ".035 % ".

(c) Section 2.07(a)(ii) is amended by deleting the percentage ".15 % " in the fifth line therein and substituting for such percentage the percentage ".14 % ".

(d) Section 4.01 (e) is amended by deleting the reference to " December 31, 1994" in each place in which it appears and substituting "December 31, 1995" therefor, and deleting the reference to "October 1, 1995" in each place in which it appears and substituting "September 29, 1996" therefor.

SECTION 2. Conditions of Effectiveness. This Amendment and Restatement shall become effective as of the date first above written when, and only when, the Agent shall have received counterparts of this Amendment and Restatement executed by the Company and all of the Lenders or, as to any of the Lenders, advice satisfactory to the Agent that such Lender has executed this Amendment and Restatement and when the Agent shall have additionally received all of the following documents, each such document (unless otherwise specified) dated the date of receipt thereof by the Agent (unless otherwise specified) and in sufficient copies for each Lender, in form and substance satisfactory to the Agent (unless otherwise specified):

(a) Certified copies of (i) the resolutions of the Board of Directors of the Company approving this Amendment and Restatement and (ii) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and Restatement.

(b) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Amendment and Restatement and the other documents to be delivered hereunder.

(c) A favorable opinion of Robert M. Reese, Vice President and General Counsel of the Company, in substantially the form of Exhibit A hereto and as to such other matters as any Lender through the Agent may reasonably request.

(d) A favorable opinion of Shearman & Sterling, counsel for the Agent, in form and substance satisfactory to the Agent.

(e) A certificate signed by a duly authorized officer of the Company stating that:

(i) The representations and warranties contained in Section 4.01 of the Credit Agreement (except the representations set forth in the last sentence of subsection (e) thereof and in subsection (f) thereof (other than clause (i)(B) thereof) and in Section 3 hereof are correct on and as of the date of such certificate as though made on and as of such date; and

(ii) No event has occurred and is continuing that constitutes a Default.

SECTION 3. Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) The execution, delivery and performance by the Company of this Amendment and Restatement are within the Company's corporate powers, have been duly authorized by all necessary corporate action and do not contravene (i) the Company's charter or by-laws or (ii) any law or any contractual restriction binding on or affecting the Company, except where such contravention would not be reasonably likely to have a Material Adverse Effect.

(b) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery or performance by the Company of this Amendment and Restatement, except where the Company's failure to receive, take or make such authorization, approval, action, notice or filing would not have a Material Adverse Effect.

(c) This Amendment and Restatement has been duly executed and delivered by the Company. This Amendment and Restatement is a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and general principles of equity.

SECTION 4. Reference to and Effect on the Credit Agreement. (a) On and after the effectiveness of this Amendment and Restatement, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended and restated by this Amendment and Restatement.

(b) The Credit Agreement, as specifically amended and restated by this Amendment and Restatement, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment and Restatement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

SECTION 5. Costs, Expenses. The Company agrees to pay on demand all costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Restatement and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable fees and expenses of counsel for the Agent) in accordance with the terms of Section 9.04 of the Credit Agreement.

SECTION 6. Execution in Counterparts. This Amendment and Restatement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Restatement by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment and Restatement.

SECTION 7. Governing Law. This Amendment and Restatement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HERSHEY FOODS CORPORATION

By ______________________________
Title:

CITIBANK, N.A.,
as Administrative Agent

By ______________________________
Title:

BA SECURITIES, INC.,
as Co-Syndication Agent

By _______________________________
Title:

CITICORP SECURITIES, INC.,
as Co-Syndication Agent

By ________________________________
Title:

BANK OF AMERICA NATIONAL
TRUST & SAVINGS ASSOCIATION

By ________________________________
Title:

CIBC INC.

By ________________________________
Title:

CITIBANK, N.A.

By ________________________________
Title:

CREDIT SUISSE

By ________________________________
Title:

By ________________________________
Title:

DEUTSCHE BANK AG NEW YORK
BRANCH AND/OR CAYMAN
ISLANDS BRANCH

By _______________________________
Title:

By _______________________________
Title:

ISTITUTO BANCARIO SAN PAOLO
DI TORINO SPA

By _______________________________
Title:

By _______________________________
Title:

NATIONSBANK, N.A.

By _______________________________
Title:

PNC BANK,
NATIONAL ASSOCIATION

By _______________________________
Title:

THE FIRST NATIONAL BANK
OF CHICAGO

By ________________________________
Title:

THE FUJI BANK, LIMITED,
NEW YORK BRANCH

By ________________________________
Title:

EXHIBIT A - FORM OF
OPINION OF ROBERT M. REESE,
VICE PRESIDENT AND GENERAL COUNSEL
OF THE COMPANY

[ ], 1996

To each of the Lenders party
to the Amended and Restated
Credit Agreement referred
to below and to Citibank, N.A., as
Agent for such Lenders

Hershey Foods Corporation

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 2(c) of the Amended and Restated 364-Day Credit Agreement, dated as of [ ], 1996 (the "Amended and Restated Credit Agreement"), among Hershey Foods Corporation (the "Company"), the Lenders party thereto, Citibank, N.A., as administrative agent (the "Agent") for said Lenders, and BA Securities, Inc. and Citicorp Securities, Inc., as co-syndication agents (the "Co-Syndication Agents"), which amends and restates in its entirety the 364-Day Credit Agreement, dated as of December 15, 1995 among the Company, the Lenders party thereto, the Agent and the Co-Syndication Agents. Terms defined in the Amended and Restated Credit Agreement and used herein as therein defined.

I am the Vice President and General Counsel of the Company, and I have acted as counsel for the Company in connection with the preparation, execution and delivery of the Amended and Restated Credit Agreement.

In that connection, I have examined:

(1) the Amended and Restated Credit Agreement;

(2) the documents furnished by the Company pursuant to Section 2 of the Amended and Restated Credit Agreement;

(3) the Amended and Restated Certificate of Incorporation of the Company and all amendments thereto (the "Charter"); and

(4) the by-laws of the Company and all amendments thereto (the "By-laws").

I have also examined the originals, or copies certified to my satisfaction, of such other corporate records of the Company, certificates of public officials and of officers of the Company, and agreements, instruments and other documents, as I have deemed necessary as a basis for the opinions expressed below. In making such examinations, I have assumed the genuineness of all signatures (other than those on behalf of the Company), the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photographic copies. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon certificates of the Company or its officers or of public officials and as to questions of fact and law, on opinions or statements by other lawyers reporting to me. I have assumed the due execution and delivery, pursuant to due authorization, of the Amended and Restated Credit Agreement by the Lenders, the Agent and the Co-Syndication Agents.

My opinions expressed below are limited to the law of the Commonwealth of Pennsylvania, and, where applicable, the General Corporation Law of the State of Delaware and the Federal law of the United States.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

2. The execution, delivery and performance by the Company of the Amended and Restated Credit Agreement are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter or the Bylaws or (ii) any law, rule or regulation applicable to the Company (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or (iii) any contractual or legal restriction binding on or affecting the Company or, to the best of my knowledge, contained in any other similar document, except where such contravention would not be reasonably likely to have a Material Adverse Effect. The Amended and Restated Credit Agreement has been duly executed and delivered on behalf of the Company.

3. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other party is required for the due execution, delivery and performance by the Company of the Amended and Restated Credit

Agreement.

4. There are no pending or, to the best of my knowledge, threatened actions, investigations, litigations or proceedings against the Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (a) would be reasonably likely to have a Material Adverse Effect or (b) purport to affect the legality, validity, binding effect or enforceability of the Amended and Restated Credit Agreement.

This opinion letter may be relied upon by you only in connection with the transaction being consummated pursuant to the Amended and Restated Credit Agreement and may not be used or relied upon by any other person for any other purpose.

EXHIBIT 10.2

AMENDED AND RESTATED
FIVE-YEAR CREDIT AGREEMENT

Dated as of December 13, 1996

THIS AMENDED AND RESTATED FIVE-YEAR CREDIT AGREEMENT (this "Amendment and Restatement") among HERSHEY FOODS CORPORATION, a Delaware corporation (the "Company"), the banks, financial institutions and other institutional lenders parties to the Credit Agreement referred to below (collectively, the "Lenders"), CITIBANK, N.A. ("Citibank"), as administrative agent (the "Agent") for the Lenders, and BA SECURITIES, INC. and CITICORP SECURITIES, INC., as co-syndication agents (the "Co-Syndication Agents"), evidences the agreement of the parties as follows:

PRELIMINARY STATEMENTS:

(1) The Company, the Lenders, the Agent and the Co-Syndication Agents have entered into a Five-Year Credit Agreement dated as of December 15, 1995 (the "Credit Agreement"). Capitalized terms not otherwise defined in this Amendment and Restatement have the same meanings as specified in the Credit Agreement.

(2) The Company and the Lenders have agreed to amend the Credit Agreement as hereinafter set forth and to restate the Credit Agreement in its entirety to read as set forth in the Credit Agreement with the amendments specified below.

(3) The Lenders are, on the terms and conditions stated below, willing to grant the request of the Company and the Company and the Lenders have agreed to amend and restate the Credit Agreement as hereinafter set forth.

SECTION 1. Amendments to Credit Agreement. The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) The definitions of the terms "Applicable Margin", "Applicable Percentage", "Public Debt Rating" and "Termination Date" appearing in Section 1.01 are amended in full to read as follows:

"'Applicable Margin' means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin
Level 1 Long-Term Senior Unsecured Debt Rated at Least A- by S&P or A3 by Moody's	.12%
Level 2 Long-Term Senior Unsecured Debt Rated at Least BBB- by S&P and Baa3 by Moody's	.20%
Level 3 Long-Term Senior Unsecured Debt Rated Lower than Level 2	.30%

'Applicable Percentage' means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
Level 1 Long-Term Senior Unsecured Debt Rated at Least A- by S&P or A3 by Moody's	.055%

Level 2 Long-Term Senior Unsecured Debt Rated at Least BBB- by S&P and Baa3 by Moody's	.10%
Level 3 Long-Term Senior Unsecured Debt Rated Lower than Level 2	.20%

'Public Debt Rating' means, as of any date, the lowest rating that has been most recently and officially announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage will be set in accordance with Level 3 under the definition of "Applicable Margin" or "Applicable Percentage", as the case may be; (c) with respect to Level 1, the specified Public Debt Rating must be met with respect to either S&P or Moody's, and with respect to Level 2, the specified Public Debt rating must be met with respect to both S&P and Moody's; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change (regardless of the effective date thereof); and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

'Termination Date' means the earlier of December 15, 2001 and the date of termination in whole of the Commitments pursuant to Section 2.05(a), 2.05(b) or 6.01.

(b) Section 4.01 (e) is amended by deleting the reference to "December 31, 1994" in each place in which it appears and substituting "December 31, 1995" therefor, and deleting the reference to "October 1, 1995" in each place in which it appears and substituting "September 29, 1996" therefor.

SECTION 2. Conditions of Effectiveness. This Amendment and Restatement shall become effective as of the date first above written when, and only when, the Agent shall have received counterparts of this Amendment and Restatement executed by the Company and all of the Lenders or, as to any of the Lenders, advice satisfactory to the Agent that such Lender has executed this Amendment and Restatement and when the Agent shall have additionally received all of the following documents, each such document (unless otherwise specified) dated the date of receipt thereof by the Agent (unless otherwise specified) and in sufficient copies for each Lender, in form and substance satisfactory to the Agent (unless otherwise specified):

(a) Certified copies of (i) the resolutions of the Board of Directors of the Company approving this Amendment and Restatement and (ii) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and Restatement.

(b) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Amendment and Restatement and the other documents to be delivered hereunder.

(c) A favorable opinion of Robert M. Reese, Vice President and General Counsel of the Company, in substantially the form of Exhibit A hereto and as to such other matters as any Lender through the Agent may reasonably request.

(d) A favorable opinion of Shearman & Sterling, counsel for the Agent, in form and substance satisfactory to the Agent.

(e) A certificate signed by a duly authorized officer of the Company stating that:

(i) The representations and warranties contained in Section 4.01 of the Credit Agreement (except the representations set forth in the last sentence of subsection (e) thereof and in subsection (f) thereof (other than clause (i)(B) thereof) and in Section 3 hereof are correct on and as of the date of such certificate as though made on and as of such date; and

(ii) No event has occurred and is continuing that constitutes a Default.

SECTION 3. Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) The execution, delivery and performance by the Company of this Amendment and Restatement are within the Company's corporate powers, have been duly authorized by all necessary corporate action and do not contravene (i) the Company's charter or by-laws or (ii) any law or any contractual restriction binding on or affecting the Company, except where such contravention would not be reasonably likely to have a Material Adverse Effect.

(b) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery or performance by the Company of this Amendment and Restatement, except where the Company's failure to receive, take or make such authorization, approval, action, notice or filing would not have a Material Adverse Effect.

(c) This Amendment and Restatement has been duly executed and delivered by the Company. This Amendment and Restatement is a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and general principles of equity.

SECTION 4. Reference to and Effect on the Credit Agreement. (a) On and after the effectiveness of this Amendment and Restatement, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended and restated by this Amendment and Restatement.

(b) The Credit Agreement, as specifically amended and restated by this Amendment and Restatement, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment and Restatement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

SECTION 5. Costs, Expenses. The Company agrees to pay on demand all costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Restatement and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable fees and expenses of counsel for the Agent) in accordance with the terms of Section

9.04 of the Credit Agreement.

SECTION 6. Execution in Counterparts. This Amendment and Restatement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Restatement by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment and Restatement.

SECTION 7. Governing Law. This Amendment and Restatement shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HERSHEY FOODS CORPORATION

By ______________________________
Title:

CITIBANK, N.A.,
as Administrative Agent

By _____________________________
Title:

BA SECURITIES, INC.,
as Co-Syndication Agent

By ______________________________
Title:

CITICORP SECURITIES, INC.,
as Co-Syndication Agent

By ______________________________
Title:

BANK OF AMERICA NATIONAL
TRUST & SAVINGS ASSOCIATION

By ______________________________
Title:

CIBC INC.

By ______________________________
Title:

CITIBANK, N.A.

By ______________________________
Title:

CREDIT SUISSE

By ________________________________
Title:

By ________________________________
Title:

DEUTSCHE BANK AG NEW YORK
BRANCH AND/OR CAYMAN ISLANDS
BRANCH

By ________________________________
Title:

By ________________________________
Title:

ISTITUTO BANCARIO SAN PAOLO DI
TORINO SPA

By ________________________________
Title:

By ________________________________
Title:

NATIONSBANK, N.A.

By ________________________________
Title:

PNC BANK,
NATIONAL ASSOCIATION

By ________________________________
Title:

THE FIRST NATIONAL BANK
OF CHICAGO

By ________________________________
Title:

THE FUJI BANK, LIMITED,
NEW YORK BRANCH

By ________________________________
Title:

EXHIBIT A - FORM OF
OPINION OF ROBERT M. REESE,
VICE PRESIDENT AND GENERAL COUNSEL
OF THE COMPANY

[ ],1996

To each of the Lenders party
to the Amended and Restated
Credit Agreement referred
to below and to Citibank, N.A., as
Agent for such Lenders

Hershey Foods Corporation

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 2(c) of the Amended and Restated Five-Year Credit Agreement, dated as of [ ], 1996 (the "Amended and Restated Credit Agreement"), among Hershey Foods Corporation (the "Company"), the Lenders party thereto, Citibank, N.A., as administrative agent (the "Agent") for said Lenders, and BA Securities, Inc. and Citicorp Securities, Inc., as co-syndication agents (the "Co-Syndication Agents"), which amends and restates in its entirety the Five-Year Credit Agreement, dated as of December 15, 1995 among the Company, the Lenders party thereto, the Agent and the Co-Syndication Agents. Terms defined in the Amended and Restated Credit Agreement are used herein as therein defined.

I am the Vice President and General Counsel of the Company, and I have acted as counsel for the Company in connection with the preparation, execution and delivery of the Amended and Restated Credit Agreement.

In that connection, I have examined:

(1) the Amended and Restated Credit Agreement;

(2) the documents furnished by the Company pursuant to Section 2 of the Amended and Restated Credit Agreement;

(3) the Amended and Restated Certificate of Incorporation of the Company and all amendments thereto (the "Charter"); and

(4) The by-laws of the Company and all amendments thereto (the "By-laws").

I have also examined the originals, or copies certified to my satisfaction, of such other corporate records of the Company, certificates of public officials and of officers of the Company, and agreements, instruments and other documents, as I have deemed necessary as a basis for the opinions expressed below. In making such examinations, I have assumed the genuineness of all signatures (other than those on behalf of the Company), the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photographic copies. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon certificates of the Company or its officers or of public officials and as to questions of fact and law, on opinions or statements by other lawyers reporting to me. I have assumed the due execution and delivery, pursuant to due authorization, of the Amended and Restated Credit Agreement by the Lenders, the Agent and the Co-Syndication Agents.

My opinions expressed below are limited to the law of the Commonwealth of Pennsylvania, and, where applicable, the General Corporation Law of the State of Delaware and the Federal law of the United States.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1 The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

2. The execution, delivery and performance by the Company of the Amended and Restated Credit Agreement are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Charter or the Bylaws or (ii) any law, rule or regulation applicable to the Company (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or (iii) any contractual or legal restriction binding on or affecting the Company or, to the best of my knowledge, contained in any other similar document, except where such contravention would not be reasonably likely to have a Material Adverse Effect. The Amended and Restated Credit Agreement has been duly executed and delivered on behalf of the Company.

3. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Company of the Amended and Restated Credit Agreement.

4. There (i) are no pending or, to the best of my knowledge, threatened actions, investigations, litigations or proceedings against the Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (a) would be reasonably likely to have a Material Adverse Effect [(other than the Disclosed Litigation)] or (b) purport to affect the legality, validity, binding effect or enforceability of the Amended and Restated Credit Agreement.

This opinion letter may be relied upon by you only in connection with the transaction being consummated pursuant to the Amended and Restated Credit Agreement and may not be used or relied upon by any other person for any other purpose.

EXHIBIT 10.3

HERSHEY FOODS CORPORATION
DEFERRED COMPENSATION PLAN

This Deferred Compensation Plan (the "Plan") allows participants in the Annual Incentive Program (the "AIP") of Hershey Foods Corporation's Key Employee Incentive Plan to defer receipt of all or part of their awards under the AIP. Participants in the Long Term Incentive Program ("LTIP") of the Key Employee Incentive Plan may also defer under this plan the cash equivalent of their PSU awards provided certain minimum stockholding requirements have been satisfied. The Plan is intended to benefit those key executives of Hershey Foods Corporation (and subsidiaries as specified in the AIP and LTIP) who participate in the AIP or LTIP, to secure their goodwill, loyalty and achievement, and to help attract and retain high quality executives.

AIP awards for 1995 and beyond may be deferred under this Plan. Also, Participants who have previously deferred AIP awards under the deferral arrangement in effect for awards prior to 1995 may elect to credit their deferral accounts under the prior deferral arrangement to their Accounts under this Plan as hereinafter described.

PSU awards under LTIP may also be deferred under the Plan, but only if the Participant has satisfied the employee minimum stockholding requirements established by the Compensation and Executive Organization Committee of the Board of Directors. Dividends previously earned, as well as future dividends earned on deferred PSU awards are eligible for deferral under the Plan.

ARTICLE I
DEFINITIONS

The following definitions apply to this Plan:

1.1 ACCOUNT. "Account" means the Account maintained by the Company pursuant to Article II with respect to each Participant.

1.2 AIP. "AIP" means the Annual Incentive Program of Hershey Foods Corporation's Key Employee Incentive Plan.

1.3 BOARD. "Board" or "Board of Directors" means the Board of Directors of Hershey Foods Corporation.

1.4 COMMITTEE OR COMPENSATION COMMITTEE. "Committee" or "Compensation Committee" means the Compensation and Executive Organization Committee of the Board.

1.5 COMPANY. "Company" means Hershey Foods Corporation, a Delaware corporation.

1.6 DEFERRAL ELECTION. "Deferral Election" means a Participant's election to defer all or part of the Participant's AIP or PSU award as described in Article II.

1.7 DETERMINATION DATE. "Determination Date" means the last day of each calendar quarter.

1.8 DISABILITY. "Disability" means a condition or circumstance entitling a Participant to be classified as "disabled" pursuant to the Company's Long Term Disability Plan.

1.9 INVESTMENT OPTIONS. "Investment Options" means the following investment options which are to be used as earnings indices as described in Section 2.3:

1. Hershey Fixed Income Fund
2. IDS Cash Management Fund
3. American Express Trust Equity Index Fund I

The Investment Options are chosen by the Plan Administrator and are subject to change from time to time as the Plan Administrator, in its discretion, deems necessary or appropriate. No provision of this Plan shall be construed as giving any Participant an interest in any of these Investment Options nor shall any provision require that the Company make any investment in any such funds.

1.10 LTIP. "LTIP" means the Long Term Incentive Program of Hershey Foods Corporation's Key Employee Incentive Plan.

1.11 PARTICIPANT. "Participant" means an employee of the Company who is eligible to participate in the AIP or LTIP and who elects to participate in this Plan by filing a Deferral Election as provided in Article II.

1.12 PLAN. "Plan" means this Hershey Foods Corporation Deferred Compensation Plan as set forth herein and as amended from time to time.

1.13 PLAN ADMINISTRATOR. "Plan Administrator" means the Director, Executive Compensation and Employee Benefits, for Hershey Foods Corporation.

1.14 PLAN YEAR. "Plan Year" means the calendar year.

1.15 PSU. "PSU" means performance share units granted under the LTIP portion of the KEIP.

1.16 RETIREMENT. "Retirement" means termination of employment with a Company after becoming eligible for retirement under the Hershey Foods Corporation Retirement Plan.

ARTICLE II
DEFERRAL ELECTIONS: ACCOUNTS

2.1. ELECTION TO DEFER.

a. AIP AWARDS. A Participant may elect to defer receipt of all or a portion of his or her anticipated bonus under the AIP. A Participant's election must be made no later than November 1st of the year in which the Participant renders the services which result in the bonus award. The election must be made on a form supplied by the Plan Administrator. The election to defer a bonus is irrevocable except as specifically provided otherwise in this Plan.

b. PSU AWARDS. A Participant may elect under this Plan to defer receipt of all or a portion of the amount earned as a PSU award under LTIP. An election to defer a PSU award under this Plan can only be made if the Participant has satisfied the minimum stockholding requirements established by the Board of Directors. A Participant's election must be made at least sixty (60) days prior to the date the PSU award will be paid. The election must be made on a form supplied by the Plan Administrator. The election to defer receipt of a PSU award is irrevocable except as specifically provided otherwise in this Plan.

2.2. ACCOUNTS.

a. ESTABLISHMENT OF ACCOUNTS. Any amounts deferred by a Participant will not be funded or set aside for future payment by the Company. Instead, an Account will be noted for the Participant on the Company's books. A Participant's Account will be credited with amounts deferred and with investment credits as provided in subparagraph c. below. A separate Account will be established for each Deferral Election.

b. PARTICIPANTS AS UNSECURED CREDITORS. A Participant's entitlement to receive the amount reflected by his or her Account will be based solely on an unconditional promise to pay by the Company and is not assignable; however, except as provided in Section 7.5 below, the Participant at all times will be fully vested in the Account.

c. INVESTMENT CREDITS TO ACCOUNTS. Subject to such limitations as may from time to time be required by law or imposed by the Plan Administrator, and subject to such operating rules and procedures as may be imposed from time to time by the Plan Administrator, each Participant may express to the Plan Administrator a preference as to how the Participant's Account should be constructively invested among the Investment Options. Such preference shall designate the percentage of the Participant's Accounts which is requested to be constructively invested in each Investment Option.

(1) Any initial or subsequent expression of investment preference shall be in writing, on a form supplied by and filed with the Plan Administrator, and shall be subject to such rules and procedures as the Plan Administrator may promulgate from time to time. Participants may change their investment preferences effective as of the beginning of each Plan Year.

(2) All investment preferences shall be advisory only and shall not bind the Company or the Plan Administrator. The Company shall not be obligated to invest any funds in connection with this Plan. If, however, the Company chooses to invest funds to provide for its liabilities under this Plan, the Plan Administrator shall have complete discretion as to investments.

(3) Whether or not a Participant's investment preferences are followed, the Participant's Account will be credited with earnings or losses as follows. As of each Determination Date, the net earnings or losses (as defined below) of each Investment Option since the preceding Determination Date shall be allocated among all Accounts in accordance with the preferences indicated by each Participant as though the Accounts had been invested in the Investment Option in accordance with each Participant's indicated preference.

(4) If the Plan Administrator receives an initial or revised investment preference which it deems to be incomplete, unclear or improper, the Participant's investment preference then in effect shall remain in effect (or, in the case of a deficiency in an initial investment preference, the Participant shall be deemed to have filed no investment preference) until the beginning of the next Plan Year, unless the Plan Administrator provides for, and permits the application of, corrective action prior thereto. If a Participant fails to file an effective investment preference, the Participant's Account will be constructively invested in the IDS Federal Income Fund.

(5) If the Plan Administrator determines that the constructive value of an Account as of any date on which distributions are to be made differs materially from the constructive value of the Account on the prior Determination Date upon which the distribution is to be based, the Plan Administrator, in its discretion, shall have the right to designate any date in the interim as a Determination Date for the purpose of constructively revaluing the Account so that the account from which the distribution is being made will, prior to the distribution, reflect its share of such material difference in value. Similarly, the Plan Administrator may adopt a policy of providing for regular interim valuations without regard to the materiality of changes in the value of the Accounts.

d. STATEMENT OF ACCOUNTS. Within a reasonable time after the end of each calendar year, the Plan Administrator shall submit to each Participant a statement of the balance in his Accounts.

2.3 CREDIT OF PREVIOUS AIP DEFERRALS TO ACCOUNTS. Participants who have previously deferred AIP awards under the deferral arrangements in effect for awards prior to 1995 may elect as of any beginning of any Plan Year to credit any portion of their deferral accounts under the prior arrangement to their Accounts under this Plan. Credits shall be made to this Plan pursuant to this Section on January 1 of the year subsequent to any such election being made. Amounts so credited shall become part of a Participant's Account and shall be subject to the terms and conditions of this Plan, except that prior elections as to payment of deferred amounts shall remain in effect. Once amounts are credited to a Participant's Account pursuant to this Section 2.3, they may not thereafter be returned to the Participant's deferral accounts under the prior deferral arrangement.

2.4 CREDIT OF PREVIOUS DIVIDENDS PAID ON PSU DEFERRALS TO ACCOUNTS. Participants who have previously received dividends on deferred PSU awards under the deferral arrangements in effect for awards prior to 1995 may elect as of the beginning of any Plan Year to credit any portion of their previously deferred dividends under the prior arrangement to their Accounts under this Plan. Notwithstanding the above, previously deferred PSU dividends are not eligible to be deferred pursuant to the terms of the Plan unless the Participant has satisfied the employee minimum stockholding requirements established by the Committee. Credits shall be made to this Plan pursuant to this Section on the January 1 of the year subsequent to any such election being made. Amounts so credited shall become part of a Participant's Account and shall be subject to the terms and conditions of this Plan, except that prior elections as to payment of deferred amounts shall remain in effect. Once amounts are credited to a Participant's Account pursuant to this Section 2.4, they may not thereafter be returned to the Participant's deferral accounts under the prior deferral arrangement.

ARTICLE III
DISTRIBUTION OF DEFERRALS

3.1 INITIAL ELECTION OF DISTRIBUTION OPTIONS IN DEFERRAL ELECTION. A Participant must specify in his or her Deferral Election when the Participant's Account will be distributed. Distribution may be made or begin in any year or years in the future, but distributions must begin not later than the calendar year following the calendar year in which the Participant attains age 70. The Participant may elect to receive amounts deferred in a lump sum or in up to ten approximately equal annual installments. A Participant may specify different distribution dates and forms of payment under each of his or her Deferral Elections.

3.2 CHANGES IN DISTRIBUTION OPTIONS.

a. A Participant is entitled to one future opportunity to further lengthen (not shorten) the deferral period provided in a Deferral Election and to make one future change with regard to lengthening (not shortening) the payment schedule provided in that Election up to a maximum payment schedule of ten years.

b. Any change in the deferral period or the payment schedule must be submitted to the Plan Administrator in writing, on a form provided by the Plan Administrator, at least twelve months before the date payments were originally scheduled to begin. Any change in the deferral period shall not require payments to begin after the calendar year following the Participant's attainment of age 70.

3.3 PAYMENT OF DEFERRED AMOUNTS.

a. Upon the date elected by the Participant, the Company shall begin to pay an amount equal to the total amount then credited to the Participant's Account. Such amount is to be paid either in one lump sum or in approximately equal annual installments over a period of years as elected by the Participant, which period shall be not more than ten years. Each annual installment shall include investment credits on the remaining balance during the previous year until the Account shall have been paid out in full. A Participant may continue to express investment preferences as provided in paragraph c of Section 2.2 during the period that the

Account is being distributed.

b. If the Participant should die before payment in full of the amount standing to the Participant's credit in the Account, the unpaid balance may be paid in one lump sum or in installments to the Participant's beneficiary in accordance with whichever election has been made by the Participant. If the Participant should die before the beginning date of the deferral payment and did not indicate a specific method of distribution, then the beneficiary may petition the Plan Administrator regarding the method of distribution. In the absence of a designated beneficiary, the balance of the Account will be paid in a lump sum to the estate of the Participant as soon as possible.

c. If the Participant's employment is terminated for any reason other than Retirement, death or Disability before the elected payment date, then the Company, acting through the Plan Administrator, at its discretion and at any time thereafter may:

(1) Immediately pay over any amounts credited to the Participant's Account to the Participant.

(2) Deposit any amounts credited to the Participant's Account with a third party fiduciary in trust for the Company's benefit who will manage and pay over such amounts to the Participant in accordance with the terms of this Plan, with administrative costs in such event being charged to the Participant's Account.

(3) Continue to itself maintain and pay over amounts deferred to the Participant in accordance with the terms of this Plan and the Participant's election pursuant thereto.

d. If both the Participant and his beneficiary shall die after payments to the Participant begin and before all payments are made from the Participant's Account, the remaining value of the Account shall be determined as of the date of death of the beneficiary or Participant, whichever is later, and shall be paid as promptly as possible in one lump sum to the estate of such beneficiary or as specified in the beneficiary's last will and testament, as the case may be.

e. A Participant may designate or change his or her beneficiary (without the consent of any prior beneficiary) on a form provided by the Plan Administrator and delivered to the Plan Administrator before the Participant's death.

f. Installment payments shall commence on or before the fifteenth day of the year selected by the Participant (or on or before the fifteenth day of the year after the year in which the Participant retires, if the Participant has elected to defer until after Retirement).

3.4 HARDSHIP DISTRIBUTIONS. The Compensation Committee may, in its discretion, accelerate payments to a Participant in an amount up to the bonus previously deferred, together with investment credits to date, in the event of demonstrated severe financial hardship. Any such payments made will be limited to the amount needed to meet the demonstrated financial need. A Participant seeking a financial hardship withdrawal from his or her Account must request a hearing with the Plan Administrator, who will gather facts and render a report to the

Compensation Committee for a decision.

3.5 OTHER WITHDRAWALS: FORFEITURE PENALTY. A Participant may, by written request on a form provided by the Plan Administrator, withdraw all or any portion of his Account as of any Determination Date, provided that the Participant shall forfeit 15% of the amount withdrawn as a penalty.

3.6. WITHHOLDING. Any payments made pursuant to this Article III shall be subject to appropriate federal, state or local income tax withholdings.

ARTICLE IV
CLAIMS PROCEDURE

4.1 The following provisions are incorporated in the Plan in accordance with the requirements of the Employment Retirement Income Security Act of 1974:

a. The following claims procedure is hereby established:

(1) A Participant or beneficiary shall make a claim for the benefits provided by delivering a written request to the Plan Administrator. Upon receipt of a claim, the Plan Administrator shall determine whether to grant the claim, deny it, or grant it in part.

(2) If a claim is wholly or partially denied, notice of the decision, meeting the requirements of paragraph (3) following shall be furnished to the claimant within a reasonable period of time after receipt of a claim by the Plan Administrator.

(3) The Plan Administrator shall provide to every claimant who is denied a claim for benefits, written notice setting forth in a manner calculated to be understood by the claimant, the specific reason or reasons for the denial; specific reference to pertinent Plan provisions on which denial is based; a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and an explanation of the Plan's claim review procedure as set forth herein.

(4) The purpose of the review procedures set forth herein is to provide a procedure by which a claimant under the Plan may have a reasonable opportunity to appeal a denial of a claim to the named fiduciary for a full and fair review. To accomplish that purpose, the claimant or his duly authorized representative may request a review upon written application to the Committee may review pertinent Plan documents; and may submit issues and comments in writing. A claimant (or his duly authorized representative) shall request a review by filing a written application for review with the Committee at any time within sixty (60) days after receipt by the claimant of written notice of denial of this claim.

(5) The decision on review of a denied claim shall be made as follows. The decision on review shall be made by the Committee, which may in its discretion hold a hearing on the denied claim. The Committee shall make a decision promptly, and not later than sixty (60) days after receipt of the request for review, unless special circumstances (such as the

need to hold a hearing) require an extension of time of reprocessing, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of the request for review. The decision on review shall be in writing and shall include specific reasons for the decisions, written in the manner calculated to be understood by the claimant, and specific references to the pertinent Plan revisions on which the decision is based. The Committee shall have full discretion to decide the claim and its decision on review shall be final and binding on all parties.

b. For purposes of implementing the claims procedure (but not for any other purposes), the Committee is hereby designated as a named fiduciary of this Plan.

ARTICLE V
PLAN ADMINISTRATOR

5.1 PLAN ADMINISTRATOR DUTIES. The Plan Administrator shall administer this Plan and shall be a named fiduciary of the Plan for that purpose. The Plan Administrator may be a Participant. A Plan Administrator who is a Participant may not vote on matters affecting his or her personal benefit under this Plan, but any such individual shall otherwise be fully entitled to act in matters arising out of or affecting this Plan notwithstanding his or her participation herein. The Plan Administrator shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with the Plan.

5.2 AGENTS. In the administration of this Plan, the Plan Administrator may, from time to time, employ agents and delegate to them or to others (including employees of the Company) such administrative duties as it sees fit. The Plan Administrator may from time to time consult with counsel, who may be counsel to the Company.

5.3 BINDING EFFECT OF DECISIONS. In carrying out its duties herein, the Plan Administrator (or its designee) shall have full discretion to exercise all powers and to make all determinations, consistent with the terms of the Plan, in all matters entrusted to it, and its determinations shall be final and binding on all parties.

5.4 INDEMNITY. The Company shall indemnify and hold harmless the Plan Administrator and any employees to whom administrative duties under this Plan are delegated, against any and all claims, loss, damage, expense, or liability arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct.

ARTICLE VI
AMENDMENT AND TERMINATION

6.1 AMENDMENT. The Committee may at any time amend the Plan in whole or in part. However, no amendment shall be effective to decrease or restrict any then existing Account or to change the Company's obligations under any then existing Deferral Election.

6.2 BOARD'S RIGHT TO TERMINATE. The Board may at any time terminate the Plan in its entirety, in which event no new Deferral Elections shall be made, but the obligations of the Company under existing Deferral Elections shall continue.

ARTICLE VII
MISCELLANEOUS

7.1 UNFUNDED PLAN. This Plan is intended to be an "unfunded" plan maintained primarily to provide deferred compensation for a "select group of management or highly compensated employees" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and shall be so construed.

7.2 UNSECURED GENERAL CREDITOR. This Plan is unfunded. Benefits shall be paid from the Company's general assets. Participants and their beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest or claims in any property or assets owned or which may be acquired by the Company. Such assets of the Company shall not be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors or assigns, or held in any way as collateral security against the obligations of the Company under this Plan. The Company's obligation under the Plan shall be that of an unfunded and unsecured promise of the Company to pay money in the future. The Company in its sole discretion, may, however, elect to provide for its liabilities under this Plan through a trust or funding vehicle, provided, however, that the terms of any such trust or funding vehicle shall not alter the status of Participants and beneficiaries as mere general unsecured creditors of the Company or otherwise cause the Plan to be funded or benefits taxable to Participants except upon actual receipt.

7.3 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof. The rights to all such amounts are expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owned by Participants or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency, except as required by law.

7.4 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Company and a Participant, and a Participant shall have no rights against the Company except as may otherwise be specifically provided herein. Moreover, nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge an employee at any time.

7.5 FORFEITURE OF BENEFITS. If a Participant's employment is terminated because of willful misfeasance or gross negligence in the performance of his or her duties, his or her right to benefits under this Plan shall, in the discretion of the Committee, be forfeited, and the Company shall have no further obligation hereunder to such Participant or his or her beneficiary(ies).

7.6 TERMS. Use of the masculine pronoun in this Plan will include the feminine and use of the singular will include the plural, unless the context clearly indicates otherwise.

7.7 CAPTIONS. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

7.8 GOVERNING LAW. This Plan shall be governed by the laws of the United States and, to the extent not preempted thereby, the laws of Pennsylvania.

7.9 VALIDITY. The illegality or invalidity of any provision of this Plan shall not affect its remaining parts, but this Plan shall be construed and enforced without such illegal or invalid provisions.

7.10 NOTICE. Any notice or filing required or permitted to be given to the Plan Administrator under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to:

Director, Executive Compensation
and Employee Benefits
Hershey Foods Corporation
100 Crystal A Drive
Hershey, Pennsylvania 17033

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

7.11 SUCCESSORS. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns. The term successors as used herein shall include any corporation or other business entity which shall, whether by merger, consolidation, purchase of assets, or otherwise, acquire all or substantially all of the business or assets of the Company, and successors of any such corporation or other business entity.

7.12 INCAPACITY. If the Plan Administrator finds that any Participant or beneficiary to whom a benefit is payable under this Plan is unable to care for his affairs, any payment due (unless prior claim therefore shall have been made by a duly authorized guardian or other legal representative) may be paid, upon appropriate indemnification of the Plan Administrator, to any person who is charged with the support of the Participant or beneficiary. Any such payment shall be payment for the account of the Participant and shall be a complete discharge of any liability of the Company to the Participant or beneficiary.

HERSHEY FOODS CORPORATION

DIRECTORS COMPENSATION PLAN

1

PURPOSE

The purposes of the Directors' Compensation Plan (Plan) are to provide Directors of Hershey Foods Corporation (Corporation) with payment alternatives for the retainer and fees payable for services as a member of the Board of Directors (Board) of the Corporation or as a member or chair of any committee thereof (together, Director Fees) and to promote the identification of interests between such Directors and the stockholders of the Corporation by paying a portion of the retainer in shares of Common Stock, par value $1.00 per share, of the Corporation (Common Stock) and providing Directors the opportunity to elect to receive a greater portion of the retainer in Common Stock.

2

ELIGIBILITY

Any Director of the Corporation who is not an employee of the Corporation or any of its subsidiaries shall be eligible to participate in the Plan.

3

PAYMENT

A Director shall be entitled to Director Fees, in such amounts as shall be determined by the Board, for services on the Board and as a member or chair of any committee of the Board. Except as modified by the Board, at least one-third of the portion of the Director Fees payable as the annual retainer shall be payable in shares of Common Stock. Directors may elect to have all or any portion of such retainer in excess of the one-third minimum to be paid in shares of Common Stock. Fees payable for services as a member or chair of any committee of the Board shall be payable currently only in cash. Any shares of Common Stock payable under this Section 3 shall be paid by the issuance to the Director of a number of shares of Common Stock equal to the cash amount of the retainer so payable divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof. Any fractional share of Common Stock resulting from such payment shall be rounded to the nearest whole share. The Corporation shall issue share certificates to the Director for the shares of Common Stock acquired or, if requested in writing by the Director and permitted under such plan, the shares acquired shall be added to the Director's account

under the Corporation's Automatic Dividend Reinvestment Plan. As of the date on which the part or whole of the retainer is payable in shares of Common Stock, the Director shall be a stockholder of the Corporation with respect to such shares. Unless otherwise elected in Section 4, any remaining Director Fees shall be payable in cash.

4

ELECTIONS

(a) Director Fee Payment Alternatives. A Director may elect any one of the following alternatives for the payment of Director Fees:

(1) to receive currently full payment in cash and Common Stock, as set forth in Section 3 above, on the date or dates on which the Director Fees are payable;

(2) to defer payment of all or a portion of the Director Fees payable in cash for subsequent payment in cash (a "Cash Deferral Election"); or

(3) to defer payment of all or a portion of the Director Fees for subsequent payment in shares of Common Stock (a "Stock Deferral Election").

(b) Filing and Effectiveness of Elections. The election by a Director to receive payment of Director Fees other than as set forth in Section 3 on the date on which the Director Fees are otherwise payable is made by filing with the Secretary of the Corporation a Notice of Election in the form prescribed by the Corporation (an Election). In order to be effective for any calendar year, an Election must be received by the Secretary of the Corporation on or before December 31 of the preceding calendar year, except that if a Director files a Notice of Election on or before 30 days subsequent to the Director's initial election to the office of Director, the Election shall be effective on the date of filing with respect to Director Fees payable for any portion of the calendar year which remains at the date of such filing. An Election may not be modified or terminated after the beginning of a calendar year for which it is effective. Unless modified or terminated by filing a new Notice of Election on or before December 31 immediately preceding the calendar year for which such modification or termination is effective, an Election shall be effective for and apply to Director Fees payable for each subsequent calendar year. Director Fees earned at any time for which an Election is not effective shall be paid as set forth in Section 3 on the date when the Director Fees are otherwise payable. Any Election shall terminate on the date a Director ceases to be a member of the Board.

(c) Cash Deferral Elections. Director Fees deferred pursuant to a Cash Deferral Election shall be deferred and paid as provided in Sections 5 and 7. The Director may elect to defer payment of the

Common Stock portion or cash portion, as determined under Section 3, of the Director Fees separately, and any deferral of the portion of the Director Fees payable in Common Stock shall be deemed to be a Stock Deferral Election subject to the provisions of Section 4(d). If only a portion of the Director Fees otherwise payable in cash for a calendar year is deferred pursuant to a Cash Deferral Election, the Director Fees deferred shall be on a pro-rata basis with the Director Fees earned and not deferred (excluding one-third of the annual retainer) during such year after the Cash Deferral Election becomes effective up to the amount of the Director Fees subject to such Cash Deferral Election.

(d) Stock Deferral Elections. Director Fees deferred pursuant to a Stock Deferral Election shall be deferred and paid as provided in Sections 6 and 7. The Director may elect to defer payment of the portion of the Director Fees payable in Common Stock in accordance with Section 3 and any remaining Director Fees for later payment in Common Stock pursuant to a Stock Deferral Election. If only a portion of the Director Fees otherwise payable for a calendar year is deferred pursuant to a Stock Deferral Election, the Director Fees deferred shall be on a pro-rata basis with the Director Fees earned and not deferred during such year and payable after the Stock Deferral Election becomes effective up to the amount of the Director Fees subject to such Stock Deferral Election.

(e) Previous Deferral Election. In addition to the amounts otherwise permitted to be deferred under this Plan, a current Director as of January 1, 1997 who has previously deferred director fees under the Hershey Foods Corporation's Deferral Plan for Non-Management Directors (Prior Plan) may elect to credit any portion of their deferral accounts under the Prior Plan to the Deferred Cash Compensation Account or the Deferred Stock Compensation Account under this Plan. If a Director elects to credit any portion of his account under the Prior Plan to the Deferred Stock Compensation Account, the amount of the credit to such account shall be determined by dividing the account balance under the Prior Plan by the Fair Market Value of a share of Common Stock and rounding the balance to the nearest whole share. Credits shall be made to the Plan pursuant to this Section as soon as practicable after an election form has been filed with the Secretary of the Corporation. Amounts so credited shall become part of a Director's account under this Plan and shall be subject to the terms and conditions of this Plan, except that prior elections as to payment of deferred amounts shall remain in effect. Once amounts are credited to a Director's account pursuant to this Section, they may not thereafter be returned to the Director's deferral accounts under the prior deferral arrangement.

5

DEFERRED CASH COMPENSATION ACCOUNT

(a) General. The amount of any Director Fees deferred in accordance with a Cash Deferral Election shall be credited on the date on which such Director Fees are otherwise payable to a deferred cash compensation account maintained by the Corporation in the name of the Director (a "Deferred Cash Compensation Account"). A separate Deferred Cash Compensation Account shall be maintained for each calendar year for which a Director has elected a different number of payment installments or as otherwise may be agreed between the Directors and the Corporation.

(b) Adjustment for Earnings or Losses. The amount in the Director's Deferred Cash Compensation Account shall be adjusted to reflect net earnings, gains or losses in accordance with the provisions of the Hershey Foods Corporation Deferred Compensation Plan relating to Investment Credits and Investment Options. The adjustment for earnings, gains or losses shall be equal to the amount determined under (1) below as follows:

(1) Deemed Investment Options. The total amount determined by multiplying the rate earned (positive or negative) by each fund available (taking into account earnings distributed and share appreciation (gains) or depreciation (losses) on the value of shares of the fund) for the applicable period by the portion of the balance in the Director's Deferred Cash Compensation Account as of the end of each such period, respectively, which is deemed to be invested in such fund pursuant to paragraph (2) below. Subject to elimination, modification or addition by the Board, the funds available for the Director's election of deemed investments pursuant to paragraph (2) below shall be the funds available under the Investment Options of the Hershey Foods Corporation Deferred Compensation Plan.

(2) Deemed Investment Elections.

(A) The Director shall designate, on a form prescribed by the Corporation, the percentage, of the deferred Director Fees that are to be deemed to be invested in the available funds under paragraph (1) above. Said designation shall be effective on a date specified by the Board and remain in effect and apply to all subsequent deferred Director Fees until changed as provided below.

(B) A Director may elect to change, on a calendar year basis (or on such other basis as permitted from time to time by the Board), the deemed investment election under paragraph (A) above with respect to future deferred Director Fees among one or more of the options then available by written notice to the Secretary of the Corporation, on a form prescribed by the Corporation (or by voice or other form of notice permitted by the Corporation), at least 10 days before the first day of the calendar year as of which the change is to be effective, with such change to be effective for deferred Director Fees credited to the Deferred Cash Compensation Account on or after the effective date.

(C) A Director may elect to reallocate the balance of his Deferred Cash Compensation Account, subject to limitations imposed by the Board, on a calendar year basis, among the deemed investment options then available. A Director may make such an election by written notice to the Secretary of the Corporation, on a form prescribed by the Corporation (or by voice or other form of notice permitted by the Corporation), at least 10 days before the first day of the calendar year as of which the transfer election is to be effective, with such transfer to be based on the value of the Deferred Cash Compensation Account on the last day of the preceding year.

(D) The election of deemed investments among the options provided above shall be the sole responsibility of each Director. The Corporation and Board members are not authorized to make any recommendation to any Director with respect to such election. Each Director assumes all risk connected with any adjustment to the value of his Deferred Cash Compensation Account. Neither the Board nor the Corporation in any way guarantees against loss or depreciation.

(E) All payments from the Plan shall be made pro rata from the portion of the Director's Deferred Cash Compensation Account which is deemed to be invested in such funds as may be available from time to time for deemed investment elections under the Plan.

(F) The Corporation shall not be required or obligated to invest any amounts in the funds provided as deemed investment options, and such funds shall be used solely to measure investment performance. Further, the Corporation shall not be precluded from providing for its liabilities hereunder by investing in such funds or in any other investments deemed to be appropriate by the Board.

(c) Manner of Payment. The balance of a Director's Deferred Cash Compensation Account will be paid to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Cash Deferral Election. A Director may elect at the time of filing the Notice of Election for a Cash Deferral Election to receive payment of the Director Fees in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed ten years following the Payment Commencement Date, as described in Section 7 hereof. The amount of any installment shall be determined by multiplying (i) the balance in the Director's Deferred Cash Compensation Account on the date of such installment by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments. The balance of the Deferred Cash Compensation Account shall be appropriately reduced on the date of payment to the Director or the Director's designated beneficiary to reflect the installment payments made hereunder.

Amounts held pending distribution pursuant to this Section 5(c) shall continue to be credited with the earnings, gains or losses as described in Section 5(b) hereof.

6

DEFERRED STOCK COMPENSATION ACCOUNT

(a) General. The amount of any Director Fees deferred in accordance with a Stock Deferral Election shall be credited to a deferred stock compensation account maintained by the Corporation in the name of the Director (a "Deferred Stock Compensation Account"). A separate Deferred Stock Compensation Account shall be maintained for each calendar year for which a Director has elected a different number of payment installments or as otherwise determined by the Board. On each date on which Director Fees are otherwise payable and a Stock Deferral Election is effective for a Director, the Director's Deferred Stock Compensation Account for that calendar year shall be credited with a number of shares of Common Stock (including fractional shares) equal to the cash amount of the Director Fees payable divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof, on the date on which such Director Fees are payable. If a dividend or distribution is paid on the Common Stock in cash or property other than Common Stock, on the date of payment of the dividend or distribution to holders of the Common Stock each Deferred Stock Compensation Account shall be credited with a number of shares of Common Stock (including fractional shares) equal to the number of shares of Common Stock credited to such Account on the date fixed for determining the stockholders entitled to receive such dividend or distribution times the amount of the dividend or distribution paid per share of Common Stock divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof, on the date on which the dividend or distribution is paid. If the dividend or distribution is paid in property, the amount of the dividend or distribution shall equal the fair market value of the property on the date on which the dividend or distribution is paid. The Deferred Stock Compensation Account of a Director shall be charged on the date of distribution with any distribution of shares of Common Stock made to the Director from such Account pursuant to Section 6(d) hereof.

(b) Effective January 1, 1997 the Corporation will no longer provide accruals under the Hershey Foods Corporation Non-Management Directors Pension Plan ("Pension Plan"). Effective as of that date, Directors participating in the Pension Plan (other than those who are age 68 or older as of that date who may elect to continue to participate in the Pension Plan) will have their accrual balances as of that date converted into equivalent shares of Hershey Foods Common Stock and these shares will be credited to such Directors Deferred Stock Compensation Account established pursuant to this Section 6. The conversion rate of the accrual to shares will be as determined by the Board of Directors and will not necessarily be as provided for in this Plan.

(c) Adjustment and Substitution. The number of shares of Common Stock credited to each Deferred Stock Compensation Account shall be proportionately adjusted to reflect any dividend or other distribution on the outstanding Common Stock payable in shares of Common Stock or any split or consolidation of the outstanding shares of Common Stock. If the outstanding Common Stock shall, in whole or in part, be changed into or exchangeable for a different class or classes of securities of the Corporation or securities of another corporation or cash or property other than Common Stock, whether through reorganization, reclassification, recapitalization, merger, consolidation or otherwise, the Board shall adopt such amendments to the Plan as it deems necessary to carry out the purposes of the Plan, including the continuing deferral of any amount of any Deferred Stock Compensation Account.

(d) Manner of Payment. The balance of a Director's Deferred Stock Compensation Account including amounts credited pursuant to Section 6(b) will be paid in shares of Common Stock to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Stock Deferral Election. A Director may elect at the time of filing of the Notice of Election for a Stock Deferral Election to receive payment of the shares of Common Stock credited to the Director's Deferred Stock Compensation Account in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed ten years following the Payment Commencement Date as described in Section 7 hereof. The number of shares of Common Stock distributed in each installment shall be determined by multiplying (i) the number of shares of Common Stock in the Deferred Stock Compensation Account on the date of payment of such installment, by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments, and by rounding such result down to the nearest whole number of shares. The balance of the number of shares of Common Stock in the Deferred Stock Compensation Account shall be appropriately reduced in accordance with Section 6(d) hereof to reflect the installment payments made hereunder. Shares of Common Stock remaining in a Deferred Stock Compensation Account pending distribution pursuant to this Section 6(d) shall continue to be credited with respect to dividends or distributions paid on the Common Stock pursuant to Section 6(a) hereof and shall be subject to adjustment pursuant to Section 6(c) hereof. If a lump sum payment or the final installment payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based on the Fair Market Value of a share of Common Stock, as defined in Section 12 hereof, on the date immediately preceding the date of such payment. The Corporation shall issue share certificates to the Director, or the Director's designated beneficiary, for the shares of Common Stock distributed hereunder, or if requested in writing by the Director and permitted under such plan, the shares to be distributed shall be added to the Director's account under the Corporation's Automatic Dividend Reinvestment Plan. As of the date on which the Director is entitled to receive payment of shares of

Common Stock, a Director shall be a stockholder of the Corporation with respect to such shares.

7

PAYMENT COMMENCEMENT DATE

Payment of amounts in a Deferred Cash Compensation Account or a Deferred Stock Compensation Account shall commence on March 30 (or if March 30 is not a business day, on the first preceding business day) of the calendar year following the calendar year during which the Director ceases to be a member of the Board for any reason, including death or disability.

8

BENEFICIARY DESIGNATION

A Director may designate, in the Beneficiary Designation form prescribed by the Corporation, any person to whom payments of cash or shares of Common Stock are to be made if the Director dies before receiving payment of all amounts due hereunder. A beneficiary designation will be effective only after the signed beneficiary designation form is filed with the Secretary of the Corporation while the Director is alive and will cancel all beneficiary designations signed and filed earlier. If the Director fails to designate a beneficiary, or if all designated beneficiaries of the Director die before the Director or before complete payment of all amounts due hereunder, any remaining unpaid amounts shall be paid in one lump sum to the estate of the last to die of the Director or the Director's designated beneficiaries, if any.

9

NON-ALIENABILITY OF BENEFITS

Neither the Director nor any beneficiary designated by the Director shall have the right to, directly or indirectly, alienate, assign, transfer, pledge, anticipate or encumber (except by reason of death) any amount that is or may be payable hereunder, nor shall any such amount be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Director or the Director's designated beneficiary or to the debts, contracts, liabilities, engagements, or torts of any Director or designated beneficiary, or transfer by operation of law in the event of bankruptcy or insolvency of the Director or any beneficiary, or any legal process.

10

NATURE OF DEFERRED ACCOUNTS

Any Deferred Cash Compensation Account or Deferred Stock Compensation Account shall be established and maintained only on the books and records of the Corporation, and no assets or funds of the Corporation or the Plan or shares of Common Stock of the Corporation shall be removed from the claims of the Corporation's general or judgment creditors or otherwise made available until such amounts are actually payable to Directors or their designated beneficiaries as provided herein. The Plan constitutes a mere promise by the Corporation to make payments in the future. The Directors and their designated beneficiaries shall have the status of, and their rights to receive a payment of cash or shares of Common Stock under the Plan shall be no greater than the rights of, general unsecured creditors of the Corporation. No person shall be entitled to any voting rights with respect to shares credited to a Deferred Stock Compensation Account and not yet payable to a Director or the Director's designated beneficiary. The Corporation shall not be obligated under any circumstance to fund its financial obligations under the Plan, and the Plan is intended to constitute an unfunded plan for tax purposes. However, the Corporation may, in its discretion, set aside funds in a trust or other vehicle, subject to the claims of its creditors, in order to assist it in meeting its obligations under the Plan, if such arrangement will not cause the Plan to be considered a funded deferred compensation plan under the Internal Revenue Code of 1986, as amended.

11

ADMINISTRATION OF PLAN; HARDSHIP WITHDRAWAL

Full power and authority to construe, interpret, and administer the Plan shall be vested in the Board. Decisions of the Board shall be final, conclusive, and binding upon all parties. Notwithstanding the terms of a Cash Deferral Election or a Stock Deferral Election made by a Director hereunder, the Board may, in its sole discretion, permit the withdrawal of amounts credited to a Deferred Cash Compensation Account or shares credited to a Deferred Stock Compensation Account with respect to Director Fees previously payable, upon the request of a Director or the Director's representative, or following the death of a Director upon the request of a Director's beneficiary or such beneficiary's representative, if the Board determines that the Director or the Director's beneficiary, as the case may be, is confronted with an unforeseeable emergency. For this purpose, an unforeseeable emergency is an unanticipated emergency caused by an event that is beyond the control of the Director or the Director's beneficiary and that would result in severe financial hardship to the Director or the Director's beneficiary if an early hardship withdrawal were not permitted. The Director or the Director's beneficiary shall provide to the Board such evidence as the Board, in its discretion, may require to demonstrate that such emergency exists and financial hardship would occur if the withdrawal were not permitted. The withdrawal shall be limited to the amount or to the number of shares, as the case may be, necessary to meet the emergency. For purposes of the Plan, a hardship shall be considered to constitute an immediate and unforeseen financial hardship if the Director has an unexpected need for cash to pay for expenses incurred by the Director or a member of the Director's immediate family (spouse and/or natural or adopted children) such as those arising from illness, casualty loss, or death. Cash needs arising from foreseeable events, such as the purchase or building of a house or education expenses, will not be considered to be the result of an unforeseeable financial emergency. Payment shall be made as soon as practicable after the Board approves the payment and determines the amount of the payment or number of shares which shall be withdrawn, in a single lump sum from the portion of the Deferred Cash Compensation Account or Deferred Stock Compensation Account, as applicable, with the largest number and in reverse order of installment payments, in each case in accordance with Section 5(b)(2)(E) if the distribution is from the Deferred Cash Compensation Account. No Director shall participate in any decision of the Board regarding such Director's request for a withdrawal under this Section 11.

12

FAIR MARKET VALUE

Fair market value of the Common Stock shall be the average of the closing price for all trading dates of the month immediately preceding the date as of which fair market value is to be determined as quoted in The Wall Street Journal (or in such other reliable publication as the Board or its delegate, in its discretion, may determine to rely upon) of the Common Stock.

13

SECURITIES LAWS; ISSUANCE OF SHARES

The obligation of the Corporation to issue or credit shares of Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Corporation, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock shares may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect. If, on the date on which any shares of Common Stock would be issued or credited to a Deferred Stock Compensation Account, sufficient shares of Common Stock are not available under the Plan or the Corporation is not obligated to issue shares pursuant to this Section 13, then no shares of Common Stock shall be issued or credited but rather, in the case of Common Stock to be issued currently, cash shall be paid in payment of the Director Fees payable, and in the case of a Deferred Stock Compensation Account, Director Fees and dividends which would otherwise have been credited in shares of Common Stock shall be credited in cash to a Deferred Cash Compensation Account in the name of the Director. The Board shall adopt appropriate rules and regulations to carry out the intent of the immediately preceding sentence if the need for such rules and regulations arises.

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GOVERNING LAW

The provisions of this Plan shall be interpreted and construed in accordance with the laws of the State of Delaware.

15

EFFECTIVE DATE; AMENDMENT AND TERMINATION

The Plan was adopted by the Board on December 4, 1996, and is effective as of January 1, 1997. The Board may amend or terminate the Plan at any time, provided that no such amendment or termination shall adversely affect rights with respect to amounts or shares then credited to any Deferred Cash Compensation Account or Deferred Stock Compensation Account.

EXHIBIT 12

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
For the Years Ended December 31, 1996, 1995, 1994, 1993, and 1992
(in thousands of dollars except for ratios)
(Unaudited)

	1996	1995	1994	1993	1992
Earnings:					
Income from continuing operations before income taxes and accounting changes	$479,737(a)	$465,953(b)	$333,138(c)	$510,875(d)	$400,988
Add (Deduct):					
Interest on indebtedness	52,036	47,568	37,249	30,224	29,708
Portion of rents representative of the interest factor(e)	8,618	8,176	8,556	8,175	7,987
Amortization of debt expense	234	97	64	84	165
Amortization of capitalized interest	3,359	3,183	2,958	2,684	1,988
Adjustment for equity companies(f)	--	--	--	--	628
Adjustment for majority-owned subsidiary(g)	--	--	--	--	17
Earnings as adjusted	$534,984	$524,977	$381,965	$552,042	$441,481
Fixed Charges:					
Interest on indebtedness	$52,036	$47,568	$37,249	$30,224	$29,708
Portion of rents representative of the interest factor(e)	8,618	8,176	8,556	8,175	7,987
Amortization of debt expense	234	97	64	84	165
Capitalized interest	1,534	1,957	3,009	4,646	12,055
Total fixed charges	$62,422	$57,798	$48,878	$43,129	$49,915
Ratio of earnings to fixed charges	8.71	9.08	7.81	12.80	8.84

NOTES:

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

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

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

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

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

(f) Adjustment for equity companies includes the eliminations from income of both undistributed earnings and losses of companies in which at least 20% but less than 50% equity is owned. In April 1992, the Corporation sold its equity interest in its Brazilian joint venture.

(g) In December 1992, the Corporation purchased the remaining shares of Hershey Japan. Prior to the acquisition, the Corporation owned 51% of Hershey Japan.

Appendix B

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

HERSHEY FOODS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Corporation achieved record sales levels in 1996 and 1995. Net sales during this two-year period increased at a compound annual rate of 5%, primarily reflecting volume growth from the introduction of new confectionery and grocery products and significant volume increases from seasonal packaged candy items. Sales increases also resulted from selected confectionery selling price increases in the United States partially offset by related sales volume declines, increased confectionery sales volume in various international markets and incremental sales from the acquisition of Henry Heide, Incorporated (Henry Heide). These increases were partially offset by lower sales resulting from the divestitures of Hershey Canada, Inc.'s PLANTERS nut (Planters) and LIFE SAVERS and BREATH SAVERS hard candy, and BEECH-NUT cough drops (Life Savers) businesses in January 1996 and Overspecht B.V. (OZF Jamin) in the second quarter of 1995. The discontinuance of the Corporation's refrigerated pudding line in late 1994 also reduced sales during the two-year period.

Hershey Chocolate U.S.A. increased the wholesale price of its standard bar line and king size bars by approximately eleven percent in December 1995. These products represented approximately 25% of the Corporation's 1995 sales. Price increases were intended to offset higher costs for raw materials and packaging, together with the cumulative impact of inflation on other costs since the last standard bar price increase in early 1991. Hershey Pasta Group implemented selected price increases in late 1993, early 1994 and late 1995 in an effort to recover substantial increases in semolina costs. The price increases have not been sufficient to recover the full impact of the higher semolina costs, partly due to competition from subsidized pasta imports shipped into the United States.

The following acquisitions and divestitures occurred during the period:

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

- December 1996--The sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari, S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy. The sale resulted in an after-tax loss of $35.4 million, since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were $216.6 million, $222.0 million and $186.6 million in 1996, 1995 and 1994, respectively.

- January 1996--The sale of the assets of Hershey Canada, Inc.'s Planters and Life Savers businesses to Johnvince Foods Group and Beta Brands Inc., respectively. Both transactions were part of a restructuring program announced by the Corporation in late 1994.

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

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

Income, excluding the loss on disposal of businesses in 1996 and the net after-tax effect of restructuring activities recorded in 1994, increased at a compound annual rate of 8% during the two-year period. This increase was a result of the growth in sales, partially offset by a slightly lower gross profit margin and higher selling, marketing and administrative expenses.

The Corporation's net sales, net income and cash flows are affected by the timing of business acquisitions and divestitures, new product introductions, promotional activities, price increases, and a seasonal sales bias toward the second half of the year. These factors, from time to time, cause fluctuations in net sales and net income versus the comparable quarterly periods of prior years.

NET SALES

Net sales rose $298.6 million or 8% in 1996 and $84.4 million or 2% in 1995. The increase in 1996 was primarily due to incremental sales from new confectionery and grocery products, increased confectionery sales volume in the North American seasonal packaged candy line and in various international markets, selected confectionery selling price increases in the United States partially offset by related sales volume declines, and incremental sales from the acquisition of Henry Heide. The increase in 1995 was due to incremental sales from new confectionery and grocery products, volume growth from existing domestic and foreign confectionery brands and pasta products, and selected selling price increases, principally in the Corporation's foreign businesses. These increases were partially offset by lower sales resulting from the divestiture of OZF Jamin in the second quarter of 1995 and the discontinuance of the Corporation's refrigerated pudding line in late 1994.

COSTS AND EXPENSES

Cost of sales as a percent of net sales declined from 58.2% in 1994 to 57.6% in 1995, but increased slightly to 57.7% in 1996. The decrease in gross margin in 1996 was principally the result of higher costs for certain major raw materials, primarily cocoa beans, milk, almonds and durum semolina and increased manufacturing labor and overhead rates, substantially offset by selected confectionery price increases, manufacturing efficiency improvements and the favorable impact of the OZF Jamin divestiture. The increase in gross margin in 1995 was primarily the result of manufacturing efficiency improvements, selling price increases in the Corporation's foreign businesses, and the favorable impact of the OZF Jamin divestiture. These increases were partially offset by higher costs for certain major raw materials and packaging, along with inflation in labor and overhead costs.

Selling, marketing and administrative costs increased by 7% in 1996 primarily due to a net increase in advertising and promotion expenses associated with the introduction of new products and higher selling expenses primarily related to international sales volume increases and new product introductions. Selling, marketing and administrative costs increased by 2% in 1995 primarily due to increased advertising for existing confectionery brands and the introduction of new products, partially offset by reduced promotion and administrative expenses.

RESTRUCTURING ACTIVITIES

In the fourth quarter of 1994, the Corporation recorded a pre-tax restructuring charge of $106.1 million ($80.2 million after tax or $.46 per share) following a comprehensive review of domestic and foreign operations designed to enhance performance of operating assets by lowering operating and administrative costs, eliminating underperforming assets and streamlining the overall decision-making process. As of December 31, 1995, $81.8 million of restructuring reserves had been utilized and $16.7 million had been reversed to reflect revisions and changes in estimates to the original restructuring program.

During the third quarter of 1995, a pre-tax restructuring charge of $16.6 million was recorded in connection with a voluntary retirement program announced by the Corporation in August 1995. The charge was primarily related to the funding of retirement benefits for eligible employees who elected early retirement. The impact of this charge was more than offset by the partial reversal of 1994 accrued restructuring reserves, resulting in an increase to income before income taxes of $.2 million and an increase to net income of $2.0 million as the tax benefit associated with the 1995 charge more than offset the tax provision associated with the reversal of 1994 restructuring reserves.

The remaining $7.6 million of accrued restructuring reserves were utilized during 1996 as the restructuring program was completed. A portion of the restructuring reserves were used for severance and relocation benefits related to the consolidation of the pasta and grocery field sales organizations.

INTEREST EXPENSE, NET

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

Net interest expense increased $9.5 million in 1995 primarily as a result of higher short-term interest expense. Short-term interest expense increased due to higher borrowing rates and increased borrowings associated with the purchase of approximately 9.0 million shares, on a pre-split basis, of the Corporation's Common Stock from the Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust).

PROVISION FOR INCOME TAXES

The Corporation's effective income tax rate was 43.1%, 39.5%, and 44.7% in 1996, 1995 and 1994, respectively. The higher 1996 rate compared to 1995 was due primarily to the lack of any tax benefit associated with the loss on disposal of businesses. The lower rate in 1995 compared to 1994 was principally due to the impact of restructuring activities.

NET INCOME

Net income decreased by 3% in 1996. Excluding the loss on the disposal of the Gubor and Sperlari businesses in 1996 and the net after-tax effects of the 1995 restructuring activities, income increased $28.6 million or 10%. Net income increased $15.5 million or 6% in 1995, excluding the net after-tax effects of the 1995 and 1994 restructuring activities. Income as a percent of net sales, after excluding the loss on the sale of the Gubor and Sperlari businesses in 1996 and the net after-tax effects of restructuring activities in 1995 and 1994 was 7.7% in 1996, 7.6% in 1995 and 7.3% in 1994.

FINANCIAL POSITION

The Corporation's financial position remained strong during 1996. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 46% as of December 31, 1996, and 42% as of December 31, 1995. The higher capitalization ratio in 1996 primarily reflected increased borrowings for business acquisitions and share repurchases. The ratio of current assets to current liabilities was 1.2:1 as of December 31, 1996, and 1.1:1 as of December 31, 1995.

ASSETS

Total assets increased $354.2 million or 13% as of December 31, 1996, primarily as a result of increases in inventories, property, plant and equipment and intangibles resulting from the Leaf acquisition, offset somewhat by decreases associated with the divestitures of Gubor and Sperlari.

Current assets increased by $63.9 million or 7% reflecting increased cash and cash equivalents and higher inventories in existing businesses, partly to support the introduction of new products, and current assets resulting from the Leaf acquisition, substantially offset by decreases associated with the business divestitures.

The $165.9 million net increase in property, plant and equipment principally reflected the Leaf acquisition and capital additions of $159.4 million, partly offset by the divestiture of the Gubor and Sperlari businesses, and depreciation expense of $119.4 million.

The increase in intangibles resulting from business acquisitions primarily reflected preliminary goodwill associated with the acquisition of the Leaf confectionery operations, partially offset by a decrease related to the divestiture of the Gubor and Sperlari businesses and the amortization of intangibles. The decrease in other assets was primarily associated with employee retirement plans.

LIABILITIES

Total liabilities increased by $276.1 million or 16% as of December 31, 1996, primarily due to an increase in long-term debt. The increase in long-term debt of $298.3 million reflected an increase in commercial paper borrowings associated with the acquisition of Leaf, net of proceeds received from the sale of the Gubor, Sperlari, Planters and Life Savers businesses. As of December 31, 1996, $300.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis.

STOCKHOLDERS' EQUITY

Total stockholders' equity rose by 7% in 1996, as net income exceeded dividends paid and the repurchase of Common Stock. Total stockholders' equity has increased at a compound annual rate of 5% over the past ten years.

CAPITAL STRUCTURE

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

LIQUIDITY

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

Over the past three years, cash requirements for share repurchases, business acquisitions, capital additions, and dividend payments exceeded cash provided from operating activities and proceeds from business divestitures by $404.6 million. Total debt, including debt assumed, increased during the period by $453.9 million. Cash and cash equivalents increased by $45.5 million during the period.

The Corporation anticipates that capital expenditures will be in the range of $175 million to $225 million per annum during the next several years as a result of continued modernization of existing facilities and capacity expansion to support new products and line extensions. As of December 31, 1996, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization.

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

A total of 9,437,770 shares of Common Stock have been repurchased for approximately $263.7 million under share repurchase programs which began in 1993. Of the shares repurchased, 528,000 shares were retired and the remaining 8,909,770 shares were held as Treasury Stock as of December 31, 1996.

In August 1995, the Corporation purchased an additional 18,099,546 shares (9,049,773 shares on a pre-split basis) of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. In connection with the share repurchase program begun in 1993, a total of 4,000,000 shares (2,000,000 shares on a pre-split basis) were also acquired from the Milton Hershey School Trust in 1993 for approximately $103.1 million. As of December 31, 1996, a total of 27,009,316 shares were held as Treasury Stock and $136.3 million remained available for repurchases of Common Stock under a program approved by the Corporation's Board of Directors in February 1996.

In October 1995, the Corporation issued $200 million of Notes under Form S-3 Registration Statements which were declared effective in June 1990 and November 1993. As of December 31, 1996, $300 million of debt securities remained available for issuance under the November 1993 Registration Statement. Proceeds from any offering of the $300 million of debt securities available under the shelf registration may be used for general corporate requirements including, reducing existing commercial paper borrowings, financing capital additions and funding future business acquisitions and working capital requirements.

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

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt to fixed rate debt. As of December 31, 1996, the Corporation had agreements outstanding with an aggregate notional amount of $125.0 million, with maturities through October 1997. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at current market rates.

In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million with options to increase borrowings by $1.0 billion with the concurrence of the banks. Lines of credit previously maintained by the Corporation were significantly reduced when the credit facility agreements became effective. Of the total committed credit facility, $200 million is for a renewable 364-day term and $400 million is effective for a five-year term. Both the short-term and long-term committed credit facility agreements were amended and renewed effective December 13, 1996. 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.

CASH FLOW ACTIVITIES

Cash provided from operating activities totaled $1.3 billion during the past three years. Over this period, cash used by or provided from accounts receivable and inventories has tended to fluctuate as a result of sales during December and inventory management practices. The change in cash required for or provided from other assets and liabilities between the years was primarily related to variations in the funding status of pension plans, commodities transactions and the timing of payments for accrued liabilities, including income taxes, and in 1995 and 1994, restructuring expenses.

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

Financing activities included debt borrowings and repayments, payment of dividends, the exercise of stock options, incentive plan transactions and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to fund seasonal working capital requirements, business acquisitions, a share repurchase program and the purchase of Common Stock from the Milton Hershey School Trust. The proceeds from the issuance of $200 million of Notes in October 1995 were used to reduce short-term borrowings. During the past three years, a total of 22,391,116 shares of Common Stock has been repurchased for approximately $631.9 million. Cash requirements for incentive plan transactions were $75.3 million during the past three years, partially offset by cash received from the exercise of stock options of $40.6 million.

COMMODITY PRICE RISK MANAGEMENT

The Corporation's most significant raw materials include cocoa, sugar, milk, peanuts, flour and almonds. The Corporation attempts to minimize the effect of 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 and corn sweeteners, price risks are also managed by entering into futures and options contracts. At the present time, similar futures and options contracts are not available for use in pricing the Corporation's other major raw materials. Futures contracts are used in combination with forward purchasing of cocoa, sugar and corn sweetener 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 ability to benefit from possible price decreases.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Cocoa prices have been rising since 1992 due to cocoa demand exceeding production. During 1996, prices for cocoa futures were relatively stable as a result of record high cocoa production in West Africa. During 1997, any problems with the development of the West African crop to be harvested beginning in the fall, could result in demand exceeding production, leading to possible cocoa futures price increases. The Corporation's costs during 1997 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.

The major raw material used in the manufacture of pasta products is semolina milled from durum wheat. The Corporation purchases semolina from commercial mills and is also engaged in custom milling agreements to obtain sufficient quantities of semolina. In the first half of 1996, the market price for durum semolina remained near historic highs. Durum wheat production during 1996 increased in almost every area of the world, resulting in some price declines in the last quarter of the year. However, prices remained well above long-term historical price levels.

Generally, the Corporation has been able to offset the effects of increases in the cost of its major raw materials, particularly cocoa beans, through selling price increases or reductions in product weights. Conversely, declines in the cost of major raw materials have served as a source of funds to enhance consumer value through increases in product weights, respond to competitive activity, develop new products and markets, and offset rising costs of other raw materials and expenses.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $114.8 million in 1996 and $110.1 million in 1995. After adjustment for the two-for-one stock split, the annual dividend rate on the Common Stock was $.80 per share, an increase of 11% over the 1995 rate of $.72 per share. The 1996 dividend represented the 22nd consecutive year of Common Stock dividend increases.

On February 4, 1997, the Corporation's Board of Directors declared a quarterly dividend of $.20 per share of Common Stock payable on March 14, 1997, to stockholders of record as of February 24, 1997. It is the Corporation's 269th consecutive Common Stock dividend. A quarterly dividend of $.18 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 47.0 million shares of the Corporation's Common Stock were traded during 1996. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 1996, was $43 3/4. There were 42,483 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1996.

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	Dividends Paid Per Share: Class B Stock	Common Stock Price Range*: High	Common Stock Price Range*: Low
1996				
1st Quarter	$ .180	$.1625	$40 5/8	$31 15/16
2nd Quarter	.180	.1625	38 15/16	34 7/8
3rd Quarter	.200	.1800	51 3/4	35
4th Quarter	.200	.1800	51 3/4	43 1/2
Total	$ .760	$.6850		
1995				
1st Quarter	$.1625	$.1475	$26 3/16	$24
2nd Quarter	.1625	.1475	27 15/16	25 1/16
3rd Quarter	.1800	.1625	32 7/16	26 13/16
4th Quarter	.1800	.1625	33 15/16	29 1/2
Total	$.6850	$.6200		

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

RETURN MEASURES

OPERATING RETURN ON AVERAGE STOCKHOLDERS' EQUITY

The Corporation's operating return on average stockholders' equity was 27.5% in 1996. Over the most recent five-year period, the return has ranged from 17.3% in 1992 to 27.5% in 1996. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the catch-up adjustments for accounting changes and the after-tax gain on the sale of the investment in Freia Marabou a.s (Freia) in 1993, the after-tax restructuring activities in 1994 and 1995 and the after-tax loss on the disposal of businesses in 1996.

OPERATING RETURN ON AVERAGE INVESTED CAPITAL

The Corporation's operating return on average invested capital was 17.8% in 1996. Over the most recent five-year period, the return has ranged from 14.4% in 1992 to 17.8% in 1996. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the sale of the investment in Freia, the catch-up adjustments for accounting changes, the after-tax restructuring activities in 1994 and 1995, the after-tax loss on disposal of businesses in 1996, and the after-tax effect of interest on long-term debt.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS			
NET SALES	$3,989,308	$3,690,667	$3,606,271
COSTS AND EXPENSES:			
Cost of sales	2,302,089	2,126,274	2,097,556
Selling, marketing and administrative	1,124,087	1,053,758	1,034,115
Total costs and expenses	3,426,176	3,180,032	3,131,671
RESTRUCTURING CREDIT (CHARGE)	--	151	(106,105)
LOSS ON DISPOSAL OF BUSINESSES	(35,352)	--	--
INCOME BEFORE INTEREST AND INCOME TAXES	527,780	510,786	368,495
Interest expense, net	48,043	44,833	35,357
INCOME BEFORE INCOME TAXES	479,737	465,953	333,138
Provision for income taxes	206,551	184,034	148,919
NET INCOME	$ 273,186	$ 281,919	$ 184,219
NET INCOME PER SHARE	$ 1.77	$ 1.70	$ 1.06
CASH DIVIDENDS PAID PER SHARE:			
Common Stock	$ .7600	$ .6850	$ .6250
Class B Common Stock	.6850	.6200	.5675

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

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 61,422	$ 32,346
Accounts receivable--trade	294,606	326,024
Inventories	474,978	397,570
Deferred income taxes	94,464	84,785
Prepaid expenses and other	60,759	81,598
Total current assets	986,229	922,323
PROPERTY, PLANT AND EQUIPMENT, NET	1,601,895	1,436,009
INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS	565,962	428,714
OTHER ASSETS	30,710	43,577
Total assets	$3,184,796	$2,830,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 134,213	$ 127,067
Accrued liabilities	357,828	308,123
Accrued income taxes	10,254	15,514
Short-term debt	299,469	413,268
Current portion of long-term debt	15,510	383
Total current liabilities	817,274	864,355
LONG-TERM DEBT	655,289	357,034
OTHER LONG-TERM LIABILITIES	327,209	333,814
DEFERRED INCOME TAXES	224,003	192,461
Total liabilities	2,023,775	1,747,664
STOCKHOLDERS' EQUITY:		
Preferred Stock, shares issued: none in 1996 and 1995	--	--
Common Stock, shares issued: 149,471,964 in 1996 and 74,733,982 on a pre-split basis in 1995	149,472	74,734
Class B Common Stock, shares issued: 30,478,908 in 1996 and 15,241,454 on a pre-split basis in 1995	30,478	15,241
Additional paid-in capital	42,432	47,732
Cumulative foreign currency translation adjustments	(32,875)	(29,240)
Unearned ESOP compensation	(31,935)	(35,128)
Retained earnings	1,763,144	1,694,696
Treasury--Common Stock shares, at cost: 27,009,316 in 1996 and 12,709,553 on a pre-split basis in 1995	(759,695)	(685,076)
Total stockholders' equity	1,161,021	1,082,959
Total liabilities and stockholders' equity	$3,184,796	$2,830,623

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
CASH FLOWS PROVIDED FROM (USED BY) OPERATING ACTIVITIES			
Net income	$ 273,186	$ 281,919	$ 184,219
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	133,476	133,884	129,041
Deferred income taxes	22,863	26,380	(2,328)
Restructuring (credit) charge	--	(151)	106,105
Loss on disposal of businesses	35,352	--	--
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable--trade	5,159	1,666	(36,696)
Inventories	(41,038)	28,147	7,740
Accounts payable	14,032	14,767	(10,230)
Other assets and liabilities	15,120	(11,297)	(58,146)
Other, net	5,593	19,614	20,032
Net Cash Provided from Operating Activities	463,743	494,929	339,737
CASH FLOWS PROVIDED FROM (USED BY) INVESTING ACTIVITIES			
Capital additions	(159,433)	(140,626)	(138,711)
Business acquisitions	(437,195)	(12,500)	--
Proceeds from divestitures	149,222	--	--
Other, net	9,333	8,720	(4,492)
Net Cash (Used by) Investing Activities	(438,073)	(144,406)	(143,203)
CASH FLOWS PROVIDED FROM (USED BY) FINANCING ACTIVITIES			
Net change in short-term borrowings partially classified as long-term debt	210,929	103,530	(20,503)
Long-term borrowings	--	202,448	102
Repayment of long-term debt	(3,103)	(7,887)	(14,413)
Cash dividends paid	(114,763)	(110,090)	(106,961)
Exercise of stock options	22,049	15,106	3,494
Incentive plan transactions	(45,634)	(21,903)	(7,726)
Repurchase of Common Stock	(66,072)	(526,119)	(39,748)
Net Cash Provided from (Used by) Financing Activities	3,406	(344,915)	(185,755)
Increase in Cash and Cash Equivalents	29,076	5,608	10,779
Cash and Cash Equivalents as of January 1	32,346	26,738	15,959
Cash and Cash Equivalents as of December 31	$ 61,422	$ 32,346	$ 26,738
Interest Paid	$ 52,143	$ 43,731	$ 36,803
Income Taxes Paid	180,347	148,629	177,876

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

IN THOUSANDS OF DOLLARS	PREFERRED STOCK	COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	UNEARNED ESOP COMPENSATION	RETAINED EARNINGS	TREASURY COMMON STOCK	TOTAL STOCKHOLDERS' EQUITY
BALANCE AS OF JANUARY 1, 1994	$ --	$ 74,669	$15,253	$51,196	$(13,905)	$(41,515)	$1,445,609	$(118,963)	$1,412,344
Net income							184,219		184,219
Dividends:									
Common Stock, $.625 per share							(89,660)		(89,660)
Class B Common Stock, $.5675 per share							(17,301)		(17,301)
Foreign currency translation adjustments					(10,632)				(10,632)
Conversion of Class B Common Stock into Common Stock		10	(10)						--
Incentive plan transactions				(1,264)					(1,264)
Exercise of stock options				(548)					(548)
Employee stock ownership trust transactions				496		3,194			3,690
Repurchase of Common Stock								(39,748)	(39,748)
BALANCE AS OF DECEMBER 31, 1994	--	74,679	15,243	49,880	(24,537)	(38,321)	1,522,867	(158,711)	1,441,100
Net income							281,919		281,919
Dividends:									
Common Stock, $.685 per share							(91,190)		(91,190)
Class B Common Stock, $.62 per share							(18,900)		(18,900)
Foreign currency translation adjustments					(4,703)				(4,703)
Conversion of Class B Common Stock into Common Stock		2	(2)						--
Incentive plan transactions				(180)					(180)
Exercise of stock options		53		(2,456)				(246)	(2,649)
Employee stock ownership trust transactions				488		3,193			3,681
Repurchase of Common Stock								(526,119)	(526,119)
BALANCE AS OF DECEMBER 31, 1995	--	74,734	15,241	47,732	(29,240)	(35,128)	1,694,696	(685,076)	1,082,959
Net income							273,186		273,186
Dividends:									
Common Stock, $.76 per share							(93,884)		(93,884)
Class B Common Stock, $.685 per share							(20,879)		(20,879)
Foreign currency translation adjustments					(3,635)				(3,635)
Two-for-one stock split		74,736	15,239				(89,975)		--
Conversion of Class B Common Stock into Common Stock		2	(2)						--
Incentive plan transactions				(426)					(426)
Exercise of stock options				(5,391)				(8,547)	(13,938)
Employee stock ownership trust transactions				517		3,193			3,710
Repurchase of Common Stock								(66,072)	(66,072)
BALANCE AS OF DECEMBER 31, 1996	$ --	$149,472	$30,478	$42,432	$(32,875)	$(31,935)	$1,763,144	$(759,695)	$1,161,021

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

CASH EQUIVALENTS

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

COMMODITIES FUTURES AND OPTIONS CONTRACTS

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

PROPERTY, PLANT AND EQUIPMENT

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

INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill 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 $110.1 million and $101.5 million as of December 31, 1996 and 1995, respectively.

FOREIGN CURRENCY TRANSLATION

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

FOREIGN EXCHANGE CONTRACTS

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

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments and foreign exchange options contracts meet required hedge criteria for anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, or of anticipated transactions which are no longer likely to occur, are recorded currently in income. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. 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 extendable 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 $26.1 million, $26.2 million and $26.3 million in 1996, 1995 and 1994, respectively.

ADVERTISING

The Corporation expenses advertising costs as incurred. Advertising expense was $174.2 million, $159.2 million and $120.6 million in 1996, 1995 and 1994, respectively. Prepaid advertising as of December 31, 1996 and 1995, was $2.2 million and $3.0 million, respectively.

2. ACQUISITIONS AND DIVESTITURES

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

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

In accordance with the purchase method of accounting, the purchase prices of the acquisitions summarized above were allocated on a preliminary basis to the underlying assets and liabilities at the date of acquisition based on their estimated respective fair values, which may be revised at a later date. Total liabilities assumed, including debt, were $138.0 million in 1996 and $10.6 million in 1995. Results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the results of the Henry Heide acquisition been included in consolidated results for the entire length of each period presented, the effect would not have been material.

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

FOR THE YEAR ENDED DECEMBER 31,	1996
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNT	(UNAUDITED)
Net sales	$4,473,950
Net income	256,300
Net income per share	1.66

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

In December 1996, the Corporation completed the sale to Huhtamaki of the outstanding shares of Gubor Holding GmbH (Gubor) and Sperlari, S.r.l. (Sperlari). Gubor manufactures and markets high-quality assorted pralines and seasonal chocolate products in Germany and Sperlari manufactures and markets various confectionery and grocery products in Italy. The total proceeds from the sale of the Gubor and Sperlari businesses were $121.7 million. The transaction resulted in an after-tax loss of $35.4 million since no tax benefit associated with the transaction was recorded. Combined net sales for Gubor and Sperlari were $216.6 million, $222.0 million and $186.6 million in 1996, 1995 and 1994, respectively.

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

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

3. RESTRUCTURING ACTIVITIES

In the fourth quarter of 1994, the Corporation recorded a pre-tax restructuring charge of $106.1 million, following a comprehensive review of domestic and foreign operations designed to enhance performance of operating assets by lowering operating and administrative costs, eliminating underperforming assets and streamlining the overall decision-making process. The charge of $106.1 million resulted in an after-tax charge of $80.2 million or $.46 per share in 1994.

The charge included $34.3 million of severance and termination benefits for the elimination of approximately 500 positions in the manufacturing, technical and administrative areas at both domestic and foreign operations. The charge also included anticipated losses on disposals of certain businesses of $39.1 million, product line discontinuations of $17.5 million and the consolidation of operations and disposal of machinery and equipment of $15.2 million.

As of December 31, 1995, $81.8 million of restructuring reserves had been utilized and $16.7 million had been reversed to reflect revisions and changes in estimates to the original restructuring program. Operating cash flows were used to fund cash requirements which represented approximately 25% of the total reserves utilized. The non-cash portion of restructuring reserve utilization was associated primarily with the divestiture of foreign businesses and the discontinuation of certain product lines.

During the third quarter of 1995, a pre-tax restructuring charge of $16.6 million was recorded in connection with a voluntary retirement program announced by the Corporation in August 1995. The charge was primarily related to the funding of retirement benefits for eligible employees who elected early retirement. This cash charge was funded from operating cash flows. The impact of this charge was more than offset by the partial reversal of 1994 accrued restructuring reserves in the fourth quarter of 1995 resulting in an increase to income before income taxes of $.2 million and an increase to net income of $2.0 million, as the tax benefit associated with the 1995 charge more than offset the tax provision associated with the reversal of 1994 restructuring reserves.

The remaining $7.6 million of accrued restructuring reserves as of December 31, 1995, were utilized during 1996 as the restructuring program was completed. A portion of the restructuring reserves were used for severance and relocation benefits related to the consolidation of the pasta and grocery field sales organizations.

4. RENTAL AND LEASE COMMITMENTS

Rent expense was $25.3 million, $24.9 million and $25.7 million for 1996, 1995 and 1994, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 1996, were: 1997, $16.4 million; 1998, $15.1 million; 1999, $15.5 million; 2000, $15.1 million; 2001, $15.1 million; 2002 and beyond, $90.8 million.

5. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 1996 and 1995, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, approximated fair value as of December 31, 1996 and 1995, based upon quoted market prices for the same or similar debt issues.

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

As of December 31, 1995, the Corporation had foreign exchange forward contracts maturing in 1996 and 1997 to purchase $54.7 million in foreign currency, primarily Canadian dollars, British sterling and Swiss francs, and to sell $26.4 million in foreign currency, primarily Italian lira, Canadian dollars and Japanese yen, at contracted forward rates.

To hedge foreign currency exposure related to anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation also purchases, from time to time, foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. To finance premiums paid on such options, the Corporation may also write offsetting options at exercise prices which limit but do not eliminate the effect of purchased options and forward contracts as a hedge. As of December 31, 1995, the Corporation had purchased foreign exchange options of $11.5 million and written foreign exchange options of $8.9 million, principally related to British sterling. Such options expired or were settled in the first quarter of 1996.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and the fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1996 and 1995, the fair value of foreign exchange forward and options contracts approximated carrying value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt to fixed rate debt. Agreements outstanding with an aggregate notional amount of $75.0 million matured during 1996. As of December 31, 1996, the Corporation had agreements outstanding with an aggregate notional amount of $125.0 million with maturities through October 1997. As of December 31, 1996 and 1995, interest rates payable were at weighted average fixed rates of 5.8% and 5.6%, respectively, and interest rates receivable were floating based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at current market rates.

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
Long-term debt and lease obligations	$30,818	$20,949	$19,103
Short-term debt	22,752	28,576	21,155
Capitalized interest	(1,534)	(1,957)	(3,009)
Interest expense, gross	52,036	47,568	37,249
Interest income	(3,993)	(2,735)	(1,892)
Interest expense, net	$48,043	$44,833	$35,357

7. SHORT-TERM DEBT

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million as of December 31, 1996, with options to increase borrowings by $1.0 billion with the concurrence of the banks. Of the total committed credit facility, $200 million is for a renewable 364-day term and $400 million is effective for a five-year term. Both the short-term and long-term committed credit facility agreements were amended and renewed effective December 13, 1996. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. As of December 31, 1996, $300.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis.

The Corporation also maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $96.1 million and $97.7 million as of December 31, 1996 and 1995, respectively, at the lending banks' prime commercial interest rates or lower. The Corporation had combined domestic commercial paper borrowings, including the portion classified as long-term debt, and short-term foreign bank loans against its credit facilities and lines of credit of $599.5 million as of December 31, 1996, and $413.3 million as of December 31, 1995. The weighted average interest rates on short-term borrowings outstanding as of December 31, 1996 and 1995, were 5.5% and 5.7%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 1996 was approximately .05% per annum of the commitment. 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 $25.2 million and $24.8 million as of December 31, 1996 and 1995, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Commercial Paper at interest rates ranging from 5.54% to 5.59%	$300,000	$ --
Medium-term Notes, 8.85% to 9.92%, due 1997-1998	40,400	40,400
6.7% Notes due 2005	200,000	200,000
8.8% Debentures due 2021	100,000	100,000
Other obligations, net of unamortized debt discount	30,399	17,017
Total long-term debt	670,799	357,417
Less--current portion	15,510	383
Long-term portion	$655,289	$357,034

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

Aggregate annual maturities during the next five years, excluding short-term borrowings reclassified, are: 1997, $15.5 million; 1998, $25.2 million; 1999, $.2 million; 2000, $2.2 million; and 2001, $.2 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

9. INCOME TAXES

Income before income taxes was as follows:

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
Domestic	$499,607	$452,084	$411,089
Foreign	(19,870)	13,869	(77,951)
Income before income taxes	$479,737	$465,953	$333,138

The provision for income taxes was as follows:

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
Current:			
Federal	$158,040	$135,034	$126,234
State	23,288	22,620	24,712
Foreign	2,360	--	301
Current provision for income taxes	183,688	157,654	151,247
Deferred:			
Federal	12,952	12,455	6,221
State	8,134	8,198	2,652
Foreign	1,777	5,727	(11,201)
Deferred provision for income taxes	22,863	26,380	(2,328)
Total provision for income taxes	$206,551	$184,034	$148,919

The 1994 Foreign deferred income tax benefit was associated primarily with the restructuring charge recorded in the fourth quarter of that year.

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

DECEMBER 31, IN THOUSANDS OF DOLLARS	1996	1995
Deferred tax assets:		
Post-retirement benefit obligations	$ 88,885	$ 85,907
Accrued expenses and other reserves	91,675	78,506
Net operating loss carryforwards, net of valuation allowances of $2,663 in 1996 and $25,544 in 1995	2,663	7,298
Accrued trade promotion reserves	22,910	16,389
Other	18,013	27,869
Total deferred tax assets	224,146	215,969
Deferred tax liabilities:		
Depreciation	256,424	239,389
Other	97,261	84,256
Total deferred tax liabilities	353,685	323,645
Net deferred tax liabilities	$129,539	$107,676
Included in:		
Current deferred tax assets, net	$ 94,464	$ 84,785
Non-current deferred tax liabilities, net	224,003	192,461
Net deferred tax liabilities	$129,539	$107,676

As of December 31, 1996, the Corporation had $15.7 million of operating loss carryforwards available to reduce the future taxable income of a foreign subsidiary. The loss carryforwards must be utilized within the next ten years.

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

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	4.7	4.6	6.0
Restructuring (credit) charge for which no tax benefit was provided	--	(.3)	4.5
Non-deductible acquisition costs	.6	.6	.8
Loss on disposal of businesses for which no tax benefit was provided	2.6	--	--
Other, net	.2	(.4)	(1.6)
Effective income tax rate	43.1%	39.5%	44.7%

10. RETIREMENT PLANS

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

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

Pension expense included the following components:

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
Service cost	$ 29,311	$ 25,311	$ 30,077
Interest cost on projected benefit obligations	35,374	32,531	28,351
Investment (return) loss on plan assets	(51,205)	(71,578)	8,288
Net amortization and deferral	14,844	40,823	(40,550)
Corporate sponsored plans	28,324	27,087	26,166
Multi-employer plans	571	361	374
Other	1,340	615	622
Total pension expense	$ 30,235	$ 28,063	$ 27,162

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

	DECEMBER 31, 1996		DECEMBER 31, 1995	
	ASSETS EXCEEDED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEEDED ASSETS	ASSETS EXCEEDED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEEDED ASSETS
IN THOUSANDS OF DOLLARS				
Actuarial present value of:				
Vested benefit obligations	$427,839	$27,316	$17,241	$417,027
Accumulated benefit obligations	$452,907	$32,422	$17,833	$447,792
Actuarial present value of projected benefit obligations	$502,371	$34,135	$27,005	$476,439
Plan assets at fair value	488,222	--	19,765	389,064
Plan assets less than projected benefit obligations	14,149	34,135	7,240	87,375
Net gain (loss) unrecognized at date of transition	906	(1,233)	525	(818)
Prior service cost and amendments not yet recognized in earnings	(26,885)	(2,305)	(1,159)	(28,701)
Unrecognized net gain (loss) from past experience different than that assumed	12,386	(2,502)	(3,615)	(3,660)
Minimum liability adjustment	--	4,494	--	21,678
Pension liability	$ 556	$32,589	$ 2,991	$ 75,874

The projected benefit obligations for the plans were determined principally using discount rates of 7.50% as of December 31, 1996, and 7.25% as of December 31, 1995. For both 1996 and 1995 the assumed long-term rate of return on plan assets was 9.5%. The assumed long-term compensation increase rate for 1996 and 1995 was primarily 4.8%.

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

11. POST-RETIREMENT BENEFITS

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

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

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
IN THOUSANDS OF DOLLARS			
Service cost	$ 3,947	$ 3,262	$ 3,642
Interest cost on projected benefit obligations	10,853	12,918	13,334
Amortization	(2,986)	(2,322)	(1,028)
Total	$11,814	$13,858	$15,948

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

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Retirees	$ 96,870	$ 78,090
Fully eligible active plan participants	22,096	24,686
Other active plan participants	58,578	57,448
Total	177,544	160,224
Plan amendments	28,903	31,377
Unrecognized net gain from past experience different than that assumed	12,127	20,892
Accrued post-retirement benefits	$218,574	$212,493

The accumulated post-retirement benefit obligations were determined principally using discount rates of 7.50% and 7.25% as of December 31, 1996 and 1995, respectively. The assumed average health care cost trend rate used in measuring the accumulated post-retirement benefit obligation as of December 31, 1996 and 1995, was 6% which was also the ultimate trend rate. A one percentage point increase in the average health care cost trend rate for each year would increase the accumulated post-retirement benefit obligations as of December 31, 1996 and 1995, by $24.4 million and $22.2 million, respectively, and would increase the sum of the net service and interest cost components of net post-retirement benefit costs for 1996 and 1995 by $2.9 million and $2.4 million, respectively.

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

As part of its long-range financing plans, the Corporation, in 1989, implemented a corporate-owned life insurance program covering most of its domestic employees. After paying employee death benefits, proceeds from this program were available for general corporate purposes and also could be used to offset future employee benefits costs, including retiree medical benefits. During 1996, Federal tax legislation sharply curtailed the financial viability of most corporate-owned life insurance programs. As a result, the Corporation began the phase-out of its corporate-owned life insurance program during 1996. The Corporation's investment in corporate-owned life insurance policies was recorded net of policy loans in other assets, and interest accrued on the policy loans was included in accrued liabilities as of December 31, 1996 and 1995. Net life insurance expense, including interest expense, was included in selling, marketing and administrative expenses.

12. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing employee savings and stock investment plan for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1996 and 1995, 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, 1996, the ESOP held 687,610 allocated shares and 1,591,752 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1996, 1995 and 1994 was $1.8 million, $1.9 million and $1.7 million, respectively. Dividends paid on unallocated ESOP shares were $1.3 million in 1996 and $1.2 million in 1995 and 1994. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

13. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 1996, 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, 1996, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 152,941,556 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1996.

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

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

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. On a pre-split basis during 1996, 1995 and 1994, a total of 2,000 shares, 1,525 shares and 10,300 shares, respectively, of Class B Stock were converted into Common Stock.

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 24,587,025 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, 1996, 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.

A total of 9,437,770 shares of Common Stock have been repurchased for approximately $263.7 million under share repurchase programs which were approved by the Corporation's Board of Director's in 1993 and 1996. Of the shares repurchased, 528,000 shares were retired and the remaining 8,909,770 shares were held as Treasury Stock as of December 31, 1996. In August 1995, the Corporation purchased an additional 18,099,546 shares (9,049,773 shares on a pre-split basis) of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. A total of 27,009,316 shares were held as Treasury Stock as of December 31, 1996.

Net income per share has been computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year. Average shares outstanding were 153,995,307 for 1996, 165,687,082 for 1995 and 174,037,252 for 1994.

14. STOCK COMPENSATION PLAN

The long-term portion of the 1987 Key Employee Incentive Plan (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 Plan also provides for the deferral of performance stock unit awards by participants. Under the long-term portion of the Plan, the Corporation may grant to its employees up to 6.5 million shares of Common Stock on a pre-split basis. The Corporation applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its Plan.

Accordingly, no compensation cost has been recognized for its fixed stock option plan. Had compensation cost for the Corporation's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the Plan 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,		1996	1995
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS			
Net income	As reported	$273,186	$281,919
	Pro forma	266,517	281,015
Net income per share	As reported	$1.77	$1.70
	Pro forma	1.73	1.70

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 1996 and 1995, respectively: dividend yields of 2.4% and 2.7%, expected volatility of 20% and 21%, risk-free interest rates of 5.6% and 7.8%, and expected lives of 7 1/2 and 7 years.

FIXED STOCK OPTIONS

The exercise price of each option equals the market price of the Corporation's common stock on the date of grant and an option's maximum term is ten years. Options are granted in January and generally vest at the end of the second year.

A summary of the status of the Corporation's fixed stock options as of December 31, 1996, 1995, and 1994, and changes during the years ending on those dates is presented below:

	1996		1995		1994	
FIXED OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	4,435,800	$22.54	5,067,900	$21.62	3,460,850	$19.91
Granted	2,619,200	$33.08	237,400	$24.19	1,927,600	$24.50
Exercised	(1,062,980)	$20.74	(843,100)	$17.43	(209,950)	$18.58
Forfeited	(89,800)	$31.92	(26,400)	$24.24	(110,600)	$24.01
Outstanding at end of year	5,902,220	$27.40	4,435,800	$22.54	5,067,900	$21.62
Options exercisable at year-end	3,670,020		2,901,800		3,469,500	
Weighted-average fair value of options granted during the year (per share)	$8.70		$7.38			

The following table summarizes information about fixed stock options outstanding as of December 31, 1996:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AS OF 12/31/96	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF 12/31/96	WEIGHTED-AVERAGE EXERCISE PRICE
$12 11/16-22 3/8	1,370,820	4.5	$21.22	1,370,820	$21.22
$23 1/2 - 26 1/2	1,990,000	7.0	$24.40	1,990,000	$24.40
$33 1/16-37 5/8	2,541,400	9.0	$33.08	309,200	$33.08
$12 11/16-37 5/8	5,902,220	7.3	$27.40	3,670,020	$23.94

PERFORMANCE STOCK UNITS

Under the long-term portion of the 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 three-year performance cycles, targets for financial measures of earnings per share, return on net assets and free cash flow are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 150%. The compensation cost charged against income for the performance-based plan was $5.8 million, $3.6 million, and $1.8 million for 1996, 1995, and 1994, respectively.

As of December 31, 1996, a total of 259,730 contingent performance stock units and restricted stock units had been granted for potential future distribution, primarily related to three-year cycles ending December 31, 1996, 1997, and 1998. Deferred performance stock units and accumulated dividend amounts totaled 391,750 shares as of December 31, 1996.

No stock appreciation rights were outstanding as of December 31, 1996.

15. SUPPLEMENTAL BALANCE SHEET INFORMATION

ACCOUNTS RECEIVABLE--TRADE

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $14.1 million and $14.8 million as of December 31, 1996 and 1995, 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 $299.2 million and $282.0 million as of December 31, 1996 and 1995, respectively, and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Raw materials	$204,419	$189,371
Goods in process	31,444	28,201
Finished goods	316,726	249,106
Inventories at FIFO	552,589	466,678
Adjustment to LIFO	(77,611)	(69,108)
Total inventories	$474,978	$397,570

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment balances included construction in progress of $91.9 million and $119.5 million as of December 31, 1996 and 1995, respectively. Major classes of property, plant and equipment were as follows:

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Land	$ 34,056	$ 35,385
Buildings	533,559	471,663
Machinery and equipment	1,855,087	1,683,338
Property, plant and equipment, gross	2,422,702	2,190,386
Accumulated depreciation	(820,807)	(754,377)
Property, plant and equipment, net	$1,601,895	$1,436,009

ACCRUED LIABILITIES

Accrued liabilities were as follows:

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Payroll and other compensation	$ 81,264	$ 97,710
Advertising and promotion	77,351	87,368
Other	199,213	123,045
Total accrued liabilities	$357,828	$308,123

OTHER LONG-TERM LIABILITIES

Other long-term liabilities were as follows:

DECEMBER 31,	1996	1995
IN THOUSANDS OF DOLLARS		
Accrued post-retirement benefits	$207,881	$204,044
Other	119,328	129,770
Total other long-term liabilities	$327,209	$333,814

16. SEGMENT INFORMATION

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

Net sales, income before interest and income taxes and identifiable assets of businesses outside of North America were not significant. Historically, transfers of product between geographic areas have not been significant. In 1996 and 1995, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 12% and 11% of total net sales, respectively.

17. QUARTERLY DATA (UNAUDITED)

Summary quarterly results were as follows:

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

YEAR 1995	FIRST	SECOND	THIRD	FOURTH
IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS				
Net sales	$867,446	$722,269	$ 981,101	$1,119,851
Gross profit	364,085	298,506	408,658	493,144
Net income	60,633	33,323	82,127	105,836(c)
Net income per share(b)	.35	.19	.51	.68

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

(b) Quarterly income per share amounts for 1996 and 1995 do not total to the annual amount due to the changes in weighted average shares outstanding during the year.

(c) Net income for the fourth quarter and year 1995 included a net after-tax credit of $2.0 million associated with adjustments to accrued restructuring reserves. Net income per share was similarly impacted.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 30, 1996. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996, appearing on pages B-9 through B-27. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen

New York, New York
January 27, 1997

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		1996	1995	1994
SUMMARY OF OPERATIONS(a)					
Net Sales	9.33%	$	3,989,308	3,690,667	3,606,271
Cost of Sales	8.35%	$	2,302,089	2,126,274	2,097,556
Selling, Marketing and Administrative	11.25%	$	1,124,087	1,053,758	1,034,115
Restructuring Credit, (Charge) and Gain, Net		$	--	151	(106,105)
(Loss)/Gain on Sale of Businesses and Investment Interest		$	(35,352)	--	--
Interest Expense, Net	19.54%	$	48,043	44,833	35,357
Income Taxes	7.42%	$	206,551	184,034	148,919
Income from Continuing Operations Before Accounting Changes	9.81%	$	273,186	281,919	184,219
Net Cumulative Effect of Accounting Changes		$	--	--	--
Discontinued Operations		$	--	--	--
Net Income	7.48%	$	273,186	281,919	184,219
Income Per Share:(b)					
From Continuing Operations Before Accounting Changes	12.00%	$	1.77(h)	1.70(i)	1.06(j)
Net Cumulative Effect of Accounting Changes		$	--	--	--
Net Income	9.56%	$	1.77(h)	1.70(i)	1.06(j)
Weighted Average Shares Outstanding(b)			153,995	165,687	174,037
Dividends Paid on Common Stock	8.66%	$	93,884	91,190	89,660
Per Share(b)	11.32%	$	.760	.685	.625
Dividends Paid on Class B Common Stock	11.21%	$	20,879	18,900	17,301
Per Share(b)	11.24%	$	.685	.620	.5675
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales			7.7%(c)	7.6%	7.3%(d)
Depreciation	14.35%	$	119,443	119,438	114,821
Advertising	7.62%	$	174,199	159,200	120,629
Promotion	13.36%	$	429,208	402,454	419,164
Payroll	7.49%	$	491,677	461,928	472,997
YEAR-END POSITION AND STATISTICS(a)					
Capital Additions	7.91%	$	159,433	140,626	138,711
Total Assets	9.70%	$	3,184,796	2,830,623	2,890,981
Long-term Portion of Debt	13.44%	$	655,289	357,034	157,227
Stockholders' Equity	4.78%	$	1,161,021	1,082,959	1,441,100
Net Book Value Per Share(b)	6.51%	$	7.59	7.01	8.31
Operating Return on Average Stockholders' Equity			27.5%	22.2%	18.5%
Operating Return on Average Invested Capital			17.8%	17.1%	15.6%
Full-time Employees			14,000	13,300	14,000
STOCKHOLDERS' DATA(b)					
Outstanding Shares of Common Stock and Class B Common Stock at Year-end			152,942	154,532	173,470
Market Price of Common Stock at Year-end	13.52%	$	43 3/4	32 1/2	24 3/16
Range During Year			$51 3/4-31 15/16	33 15/16-24	26 3/4-20 9/16

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See Notes to the Eleven-Year Consolidated Financial Summary on page B-32.

1993	1992	1991	1990	1989	1988	1987	1986
3,488,249	3,219,805	2,899,165	2,715,609	2,420,988	2,168,048	1,863,816	1,635,486
1,995,502	1,833,388	1,694,404	1,588,360	1,455,612	1,326,458	1,149,663	1,032,061
1,035,519	958,189	814,459	776,668	655,040	575,515	468,062	387,227
--	--	--	35,540	--	--	--	--
80,642	--	--	--	--	--	--	--
26,995	27,240	26,845	24,603	20,414	29,954	22,413	8,061
213,642	158,390	143,929	145,636	118,868	91,615	99,604	100,931
297,233	242,598	219,528	215,882	171,054	144,506	124,074	107,206
(103,908)	--	--	--	--	--	--	--
--	--	--	--	--	69,443	24,097	25,558
193,325	242,598	219,528	215,882	171,054	213,949	148,171	132,764
1.66(k)	1.34	1.22	1.20(l)	.95	.80	.69	.57
(.58)	--	--	--	--	--	--	--
1.08(k)	1.34	1.22	1.20(l)	.95	1.19	.82	.71
179,514	180,373	180,373	180,373	180,373	180,373	180,373	187,017
84,711	77,174	70,426	74,161(f)	55,431	49,433	43,436	40,930
.570	.515	.470	.495(f)	.370	.330	.290	.260
15,788	14,270	12,975	13,596(f)	10,161	9,097	8,031	7,216
.5175	.4675	.425	.445(f)	.3325	.2975	.2625	.236
7.4%(e)	7.5%	7.6%	7.2%(g)	7.1%	6.7%	6.7%	6.6%
100,124	84,434	72,735	61,725	54,543	43,721	35,397	31,254
130,009	137,631	117,049	146,297	121,182	99,082	97,033	83,600
444,546	398,577	325,465	315,242	256,237	230,187	171,162	122,508
469,564	433,162	398,661	372,780	340,129	298,483	263,529	238,742
211,621	249,795	226,071	179,408	162,032	101,682	68,504	74,452
2,855,091	2,672,909	2,341,822	2,078,828	1,814,101	1,764,665	1,544,354	1,262,332
165,757	174,273	282,933	273,442	216,108	233,025	280,900	185,676
1,412,344	1,465,279	1,335,251	1,243,537	1,117,050	1,005,866	832,410	727,941
8.06	8.12	7.40	6.89	6.19	5.58	4.61	4.04
17.8%	17.3%	17.0%	16.6%	16.1%	17.5%	19.0%	18.2%
15.0%	14.4%	13.8%	13.4%	13.2%	13.3%	13.5%	13.5%
14,300	13,700	14,000	12,700	11,800	12,100	10,540	10,210
175,226	180,373	180,373	180,373	180,373	180,373	180,373	180,373
24 1/2	23 1/2	22 3/16	18 3/4	17 15/16	13	12 1/4	12 5/16
27 15/16-21 3/4	24 3/16-19 1/8	22 1/4-17 9/16	19 13/16-14 1/8	18 7/16-12 3/8	14 5/16-10 15/16	18 7/8-10 3/8	15-7 3/4

NOTES TO THE ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

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

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

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

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

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

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

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

(h) Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share 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 and Net Income Per Share would have been $2.00.

(i) Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share 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 and Net Income Per Share would have been $1.69.

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

(k) Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share 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 would have been $1.43.

(l) Income Per Share from Continuing Operations Before Accounting Changes and Net Income Per Share 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 and Net Income Per Share would have been $1.08.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

The following is a listing of Subsidiaries of the Corporation, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned. Certain subsidiaries are not listed since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 1996.

Name of Subsidiary	Jurisdiction of Incorporation
Christiana, Inc.	Delaware
Hershey Canada Inc.	Canada
Hershey Holding Corporation	Delaware
Homestead, Inc.	Delaware
Huhtamaki, Inc.	Delaware
Leaf, Inc.	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 27, 1997, included or incorporated by reference in this Form 10-K for the year ended December 31, 1996, into the Corporation's previously filed Registration Statements on Forms S-8 and S-3, (File No. 33-45431, File No. 33-45556 and File No. 33- 51089).

ARTHUR ANDERSEN LLP

New York, New York
March 17, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM HERSHEY FOODS CORPORATION'S CONSOLIDATED CONDENSED BALANCE SHEET AS OF DECEMBER 31, 1996 AND CONSOLIDATED STATEMENT OF INCOME FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
DEC-31-1996
DEC-31-1996
61,422
0
294,606
0
474,978
986,229
2,422,702
820,807
3,184,796
817,274
655,289
0
0
179,950
981,071
3,184,796
3,989,308
3,989,308
2,302,089
3,426,176
35,352
0
48,043
479,737
206,551
273,186
0
0
0
273,186
1.77
0

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