

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **April 1, 2001**

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 number: 1-183

HERSHEY FOODS CORPORATION

100 Crystal A Drive
Hershey, PA 17033

Registrant's telephone number: 717-534-6799

State of Incorporation
Delaware

IRS Employer Identification No.
23-0691590

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Common Stock, \$1 par value - 106,203,533 shares, as of April 30, 2001. Class B Common Stock, \$1 par value - 30,441,858 shares, as of April 30, 2001.

Exhibit Index - Page 16

-1-

PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

**HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share amounts)**

	For the Three Months Ended	
	April 1, 2001	April 2, 2000
Net Sales	\$ 1,080,281	\$ 993,115
Costs and Expenses:		
Cost of sales	637,506	605,097
Selling, marketing and administrative	298,619	253,800
Total costs and expenses	936,125	858,897
Income before Interest and Income Taxes	144,156	134,218
Interest expense, net	17,297	17,530
Income before Income Taxes	126,859	116,688
Provision for income taxes	47,953	45,508
Net Income	\$ 78,906	\$ 71,180
Net Income Per Share-Basic	\$.58	\$.51
Net Income Per Share-Diluted	\$.57	\$.51
Average Shares Outstanding-Basic	136,750	138,455
Average Shares Outstanding-Diluted	138,227	139,216
Cash Dividends Paid per Share:		
Common Stock	\$.2800	\$.2600
Class B Common Stock	\$.2525	\$.2350

The accompanying notes are an integral part of these statements.

-2-

ASSETS	2001	2000
Current Assets:		
Cash and cash equivalents	\$ 26,254	\$ 31,969
Accounts receivable - trade	308,519	379,680
Inventories	624,805	605,173
Deferred income taxes	76,463	76,136
Prepaid expenses and other	84,261	202,390
Total current assets	1,120,302	1,295,348
Property, Plant and Equipment, at cost		
Less-accumulated depreciation and amortization	(2,787,063)	(2,764,845)
	(1,213,050)	(1,179,457)
Net property, plant and equipment	1,574,013	1,585,388
Intangibles Resulting from Business		
Acquisitions, net	466,758	474,448
Other Assets		
	140,330	92,580
Total assets	\$ 3,301,403	\$ 3,447,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 147,936	\$ 149,232
Accrued liabilities	330,487	358,067
Accrued income taxes	44,620	1,479
Short-term debt	49,599	257,594
Current portion of long-term debt	634	529
Total current liabilities	573,276	766,901
Long-term Debt		
	877,510	877,654
Other Long-term Liabilities		
	322,570	327,674
Deferred Income Taxes		
	297,224	300,499
Total liabilities	2,070,580	2,272,728
Stockholders' Equity:		
Preferred Stock, shares issued: none in 2001 and 2000	---	---
Common Stock, shares issued: 149,509,014 in 2001 and 2000	149,508	149,508
Class B Common Stock, shares issued: 30,441,858 in 2001 and 2000	30,442	30,442
Additional paid-in capital	8,215	13,124
Unearned ESOP compensation	(18,362)	(19,161)
Retained earnings	2,744,455	2,702,927
Treasury-Common Stock shares at cost: 43,223,356 in 2001 and 43,669,284 in 2000	(1,620,366)	(1,645,088)
Accumulated other comprehensive loss	(63,069)	(56,716)
Total stockholders' equity	1,230,823	1,175,036
Total liabilities and stockholders' equity	\$ 3,301,403	\$ 3,447,764

The accompanying notes are an integral part of these balance sheets.

-3-

HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	For the Three Months Ended	
	April 1, 2001	April 2, 2000
Cash Flow Provided from (Used by)		
Operating Activities		
Net Income	\$ 78,906	\$ 71,180
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	46,875	43,203
Deferred income taxes	(4,141)	(11,259)
Changes in assets and liabilities:		
Accounts receivable - trade	71,161	39,285
Inventories	(45,432)	(16,572)
Accounts payable	(1,296)	(47,976)
Other assets and liabilities	104,808	14,975
Net Cash Flows Provided from Operating Activities	250,881	92,836
Cash Flows Provided from (Used by)		
Investing Activities		
Capital additions	(32,032)	(30,045)
Capitalized software additions	(1,125)	(1,652)
Other, net	11,079	(5,398)
Net Cash Flows (Used by) Investing Activities	(22,078)	(37,095)
Cash Flows Provided from (Used by)		
Financing Activities		
Net (decrease) in short-term debt	(207,995)	(34,635)
Long-term borrowings	---	102
Repayment of long-term debt	(76)	(192)
Cash dividends paid	(37,378)	(35,182)
Exercise of stock options	15,134	658
Incentive plan transactions	(4,203)	(2,670)
Repurchase of Common Stock	---	(55,342)
Net Cash Flows (Used by) Financing Activities	(234,518)	(127,261)
(Decrease) in Cash and Cash Equivalents	(5,715)	(71,520)
Cash and Cash Equivalents, beginning of period	31,969	118,078
Cash and Cash Equivalents, end of period	\$ 26,254	\$ 46,558
=====		
Interest Paid	\$ 30,109	\$ 29,613
Income Taxes Paid	\$ 1,852	\$ 58,484
=====		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Hershey Foods Corporation and its subsidiaries (the "Corporation") after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to prior year amounts to conform to the 2001 presentation. Operating results for the three months ended April 1, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For more information, refer to the consolidated financial statements and footnotes included in the Corporation's 2000 Annual Report on Form 10-K.

2. INTEREST EXPENSE

Interest expense, net consisted of the following:

	For the Three Months Ended		
	April 1, 2001	April 2, 2000	
(in thousands of dollars)			
Interest expense	\$ 18,541	\$ 18,946	\$
Interest income	(972)	(1,416)	
Capitalized interest	(272)	---	
	-----	-----	
Interest expense, net	\$ 17,297	\$ 17,530	\$
	=====	=====	

3. NET INCOME PER SHARE

A total of 43,223,356 shares were held as Treasury Stock as of April 1, 2001.

In accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share," Basic and Diluted Earnings per Share are computed based on the weighted-average number of shares of the Common Stock and the Class B Stock outstanding as follows:

	For the Three Months Ended		
	April 1, 2001	April 2, 2000	
(in thousands of dollars except per share amounts)			
Net income	\$ 78,906	\$ 71,180	
	=====	=====	
Weighted-average shares-basic	136,750	138,455	
Effect of dilutive securities:			
Employee stock options	1,450	752	
Performance and restricted stock units	27	9	
	-----	-----	
Weighted-average shares - diluted	138,227	139,216	
	=====	=====	
Net income per share - basic	\$ 0.58	\$ 0.51	
	=====	=====	
Net income per share-diluted	\$ 0.57	\$ 0.51	
	=====	=====	

Employee stock options for 1,750,100 shares and 5,534,550 shares were anti-dilutive and were excluded from the earnings per share calculation for the three months ended April 1, 2001 and April 2, 2000, respectively.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). Subsequently, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, an amendment of FASB Statement No. 133" and Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Corporation adopted SFAS No. 133 as of January 1, 2001. The adoption of SFAS No. 133 is not expected to have a significant impact on the Corporation's results of operations and financial position. However, as discussed in the following paragraphs, SFAS No. 133 could increase volatility in other comprehensive income and involve certain changes in the Corporation's business practices.

SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation are designated as cash flow hedges.

Objectives, Strategies and Accounting Policies Associated with Derivative Instruments

The Corporation utilizes certain derivative instruments, including interest rate swap agreements, foreign currency forward exchange contracts and commodity futures contracts, to manage variability in cash flows associated with interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodity futures contracts are entered into for varying periods and are intended and effective as hedges of market price risks associated with the purchase of raw materials for anticipated manufacturing requirements. If it is probable that hedged forecasted transactions will not occur either by the end of the originally specified time period or within an additional two-month period of time, derivative gains and losses reported in Accumulated Other Comprehensive Loss on the Consolidated Balance Sheet are immediately reclassified into earnings. 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 that mature or are sold or terminated, are recognized in income in the same period as the originally hedged transaction was anticipated to affect earnings. The Corporation utilizes derivative instruments as cash flow hedges and does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Corporation has assumed the risk that 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.

Interest Rate Swap Agreements

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. In February 2001, the Corporation entered into interest rate swap agreements to effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate. Rental payments on operating leases associated with the financing of construction of a warehouse and distribution facility near Hershey, Pennsylvania for \$61.7 million and the purchase of a warehouse and distribution facility near Atlanta, Georgia for \$18.2 million are variable based on the London Interbank Offered Rate (LIBOR). Such contingent operating lease rental payments are forecasted

The interest swap agreements effectively convert the interest-rate-contingent rental payments on the operating leases from LIBOR to a fixed rate of 6.1%. The interest rate swap agreements qualify as cash flow hedges and the notional amounts, interest rates and terms of the swap agreements are consistent with the underlying operating lease agreements they are intended to hedge and, therefore, there is no hedge ineffectiveness. Gains or losses on the interest rate swap agreements are included in other comprehensive income and are recognized in cost of sales as part of shipping and distribution expense in the same period as the hedged rental payments affect earnings.

The fair value of the interest rate swap agreements was determined based upon the quoted market price for the same or similar financial instruments and was included on the Consolidated Balance Sheet as Other Long-term Liabilities, with the offset reflected in Accumulated Other Comprehensive Loss, net of income taxes. The Corporation's risk related to the interest rate swap agreements is limited to the cost of replacing the agreements at prevailing market rates.

Foreign Exchange Forward Contracts

The Corporation enters into foreign exchange forward contracts to hedge transactions primarily related to firm commitments to purchase equipment, certain raw materials and finished goods denominated in foreign currencies, and to hedge payment of intercompany transactions with its non-domestic subsidiaries. These contracts reduce currency risk from exchange rate movements. Foreign currency price risks are hedged generally for periods from 3 to 24 months.

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments. Since there is a direct relationship between the foreign currency derivatives and the foreign currency denomination of the transactions, foreign currency derivatives are highly effective in hedging cash flows related to transactions denominated in the corresponding foreign currencies. These contracts meet the criteria for cash flow hedge accounting treatment and, accordingly, gains or losses are included in other comprehensive income and are recognized in cost of sales or selling, marketing and administrative expense in the same period that the hedged items affect earnings.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and was included on the Consolidated Balance Sheet as Accrued Liabilities with the offset reflected in Accumulated Other Comprehensive Loss, net of income taxes.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas and certain dairy products for anticipated manufacturing requirements, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Commodity price risks are hedged generally for periods from 3 to 24 months. Commodities futures contracts meet the hedge criteria and are accounted for as cash flow hedges. Accordingly, gains and losses are included in other comprehensive income and are recognized ratably in cost of sales in the same period that the hedged raw material manufacturing requirements are recorded in cost of sales.

In order to qualify as a hedge of commodity price risk, it must be demonstrated that the changes in fair value of the commodities futures contracts are highly effective in hedging price risks associated with commodity purchases for manufacturing requirements. The assessment of hedge effectiveness for commodities futures is performed on a quarterly basis by calculating the change in switch values relative to open commodities futures contracts being held and the number of futures contracts needed to price raw material purchases for anticipated manufacturing requirements. Effectiveness is also monitored by tracking changes in basis differentials as discussed below. The prices of commodities futures contracts reflect delivery to the same locations where the Corporation takes delivery of the physical commodities and, therefore, there is no ineffectiveness resulting from differences in location between the derivative and the hedged item. Commodities futures contracts have been deemed to be highly effective in hedging price risks associated with corresponding raw material purchases for manufacturing requirements.

Because of the rollover strategy used for commodities futures contracts, which is required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing requirements as futures contracts are switched from nearby contract positions to contract positions in which they are required to fix the price of raw material purchases for manufacturing requirements. Hedge ineffectiveness may also result from variability in basis differentials associated with the purchase of raw materials for manufacturing requirements. Hedge ineffectiveness is measured on a quarterly basis and the ineffective portion of gains or losses on commodities futures is recorded currently in cost of sales in accordance with SFAS No. 133, as amended.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts are made on a daily basis and are included in Accumulated Other Comprehensive Loss, net of income taxes, on the Consolidated Balance Sheet. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials and energy requirements in the future. Futures contracts being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated manufacturing requirements for each commodity. Physical commodity forward purchase contracts meet the SFAS No. 133 definition of "normal purchases and sales" and therefore are not considered derivative instruments.

5. COMPREHENSIVE INCOME

Comprehensive income consisted of the following:

	For the Three Months Ended	
	April 1, 2001	April 2, 2000
	(in thousands of dollars)	
Net income	\$ 78,906	\$ 71,180
Other comprehensive income (loss):		
Foreign currency translation adjustments	(7,243)	606
Gains on cash flow hedging derivatives, net of a tax provision of \$40,285	66,291	---
Add: Reclassification adjustments, net of a tax provision of \$2,570	4,230	---
Other comprehensive income	63,278	606
Comprehensive income	\$ 142,184	\$ 71,786

Reclassification adjustments from accumulated other comprehensive income to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. The amount of gains on cash flow hedging derivatives recognized in cost of sales as a result of hedge ineffectiveness was approximately \$.8 million before tax. No gains or losses were reclassified immediately from accumulated other comprehensive income into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur. There were no components of gains or losses on cash flow hedging derivatives that were recognized immediately in income because such components were excluded from the assessment of hedge effectiveness.

On the Consolidated Balance Sheet as of April 1, 2001, Accumulated Other Comprehensive Loss of \$63.1 million, net of income taxes, principally reflected foreign currency translation adjustments. The amount of accumulated other comprehensive gains from cash flow hedging derivatives as of April 1, 2001 was \$.9 million, net of income taxes. As of April 1, 2001, the amount of losses on cash flow hedging derivatives, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months was approximately \$10.1 million after tax.

6. INVENTORIES

The majority of inventories are valued under the last-in, first-out (LIFO) method. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Inventories were as follows:

	<u>April 1, 2001</u>	<u>December 31, 2000</u>
	(in thousands of dollars)	
Raw materials	\$ 272,700	\$ 263,658
Goods in process	47,028	47,866
Finished goods	334,312	338,749
	-----	-----
Inventories at FIFO	654,040	650,273
Adjustment to LIFO	(29,235)	(45,100)
	-----	-----
Total inventories	\$ 624,805	\$ 605,173
	=====	=====

7. LONG-TERM DEBT

In August 1997, the Corporation filed a Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to \$500 million of additional debt securities. As of April 1, 2001, \$250 million of debt securities remained available for issuance under the August 1997 Registration Statement.

8. 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 April 1, 2001 and December 31, 2000, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was \$878.1 million as of April 1, 2001, compared to a fair value of \$938.4 million, based on quoted market prices for the same or similar debt issues.

As of April 1, 2001, the Corporation had foreign exchange forward contracts maturing in 2001 and 2002 to purchase \$30.8 million in foreign currency, primarily British sterling and euros, and to sell \$7.5 million in foreign currency, primarily Japanese yen, at contracted forward rates.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of April 1, 2001, the fair value of foreign exchange forward contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate of 6.1%.

Any interest rate differential on interest rate swap agreements is recognized as an adjustment to interest expense over the term of each agreement. As of April 1, 2001, the fair value of interest rate swap agreements approximated the contract value. The Corporation's risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

9. PENDING ACCOUNTING PRONOUNCEMENTS

In May 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus on EITF Issue No. 00-14, "*Accounting for Coupons, Rebates and Discounts*," requiring the reporting of certain sales incentives such as consumer coupon redemption costs and off-invoice allowances as a reduction of net sales. In November 2000, the EITF delayed implementation of this change until the quarter ended June 30, 2001. A further delay until the quarter ended March 31, 2002 was announced in April 2001. Consumer coupon redemption expense and off-invoice allowances currently being reported in selling, marketing, and administrative expense will be recorded as a reduction of net sales on the effective date of the consensus.

-9-

Consumer coupon redemption costs are expensed and recognized at the offer date and measured based on expected utilization. Off-invoice allowances are expensed and recognized as incurred. During the first quarter, these costs and allowances amounted to \$8.2 million and \$30.3 million in 2001 and 2000, respectively, and are included in selling, marketing and administrative expenses in the Consolidated Statements of Income.

In April 2001, a final consensus was reached on Issue No. 00-25 "*Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer*", which is effective for the quarter ended March 31, 2002. The Corporation's marketing performance funds and cooperative advertising programs are covered by this issue and the total potential impact of such reclassifications has not yet been determined. Similar to the consumer coupon redemption costs and off-invoice allowances in EITF Issue 00-14, marketing performance funds and cooperative advertising currently being reported in selling, marketing and administrative expense may be recorded as a reduction of net sales on the effective date of the consensus.

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

- Issue No. 00-21 "*Accounting for Revenue Arrangements with Multiple Deliverables*"; and
- Issue No. 00-22 "*Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future.*"

Final consensus has not yet been reached on these Issues, although further discussion is planned. The Corporation offers sales incentives to its customers and consumers in the ordinary course of business that are covered by these Issues. When consensus is reached, certain costs historically recorded in selling, marketing and administrative expense, may be reclassified as a reduction to net sales. These changes will not affect the Corporation's financial position or net income. Upon adoption, prior period amounts will be reclassified to conform with the new requirements.

10. SHARE REPURCHASES

In October 1999, the Corporation's Board of Directors approved a share repurchase program authorizing the repurchase of up to \$200 million of the Corporation's Common Stock. Under this program, a total of 1,711,986 shares of Common Stock was purchased during 2000. As of April 1, 2001, a total of 43,223,356 shares were held as Treasury Stock and \$124.5 million remained available for repurchases of Common Stock under the repurchase program.

-10-

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations - First Quarter 2001 vs. First Quarter 2000

Consolidated net sales for the first quarter increased from \$993.1 million in 2000 to \$1,080.3 million in 2001, an increase of 9% from the prior year. The higher sales primarily reflected incremental sales from the newly acquired mint and gum businesses and from the introduction of new confectionery products.

The consolidated gross margin increased from 39.1% in 2000 to 41.0% in 2001. The increase in gross margin primarily reflected decreased costs for freight, distribution and warehousing, and certain major raw materials, primarily cocoa. Selling, marketing and administrative expenses increased by 18% in 2001, primarily reflecting marketing and selling expenditures for the mint and gum businesses, and increased marketing and selling expenditures for core confectionery brands. Selling, marketing and administrative costs in 2000 included a one-time gain of \$7.3 million arising from the sale of certain corporate aircraft.

Net interest expense in the first quarter of 2001 was \$.2 million less than the comparable period of 2000.

Net income for the first quarter was \$78.9 million compared to \$71.2 million in 2000, and net income per share - diluted was \$.57 per share compared to \$.51 per share in the prior year. Prior year net income included an after-tax gain of \$4.5 million, or \$0.03 per share - diluted, on the sale of certain corporate aircraft.

Liquidity and Capital Resources

Historically, the Corporation's major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer months, generally have been met by issuing commercial paper. During the first quarter of 2001, the Corporation's cash and cash equivalents decreased by \$5.7 million. Cash provided from operations was sufficient to reduce short-term debt by \$208.0 million, fund a \$75.0 million contribution to the Corporation's domestic pension plans, and pay cash dividends of \$37.4 million. Changes in cash flows provided from (used by) inventories and other assets and liabilities exclude the impact of adjustments required by the adoption of SFAS No. 133. Cash provided from other assets and liabilities of \$104.8 million, primarily reflected commodities transactions.

The ratio of current assets to current liabilities was 2.0:1 as of April 1, 2001, and 1.7:1 as of December 31, 2000. The Corporation's capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 43% as of April 1, 2001, and 49% as of December 31, 2000.

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

Safe Harbor Statement

The nature of the Corporation's operations and the environment in which it operates subject it to changing economic, competitive, regulatory and technological conditions, risks and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Corporation notes the following factors which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. Many of the forward-looking statements contained in this document may be identified by the use of forward-looking words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential," among others. Factors which could cause results to differ include, but are not limited to: changes in the confectionery and grocery business environment, including actions of competitors and changes in consumer preferences; changes in governmental laws and regulations, including taxes; market demand for new and existing products; changes in raw material costs; and the Corporation's ability to implement improvements and to reduce costs associated with the Corporation's distribution operations.

-11-

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The potential loss in fair value of foreign exchange forward contracts and interest rate swap agreements resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of April 1, 2001. The market risk resulting from a hypothetical adverse market price movement of ten percent associated with the estimated average fair value of net commodity positions decreased from \$3.0 million as of December 31, 2000, to \$1.5 million as of April 1, 2001. Market risk represents 10% of the estimated average fair value of net commodity positions at four dates prior to the end of each period.

-12-

PART II - OTHER INFORMATION

Items 2, 3 and 5 have been omitted as not applicable.

Item 1 - Legal Proceedings

In January 1999, the Corporation received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The Notice pertained to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS disallowed the interest expense deductions associated with the underlying life insurance policies. The total deficiency of \$61.2 million, including interest, was paid to the IRS in September 2000 to eliminate further accruing of interest. The Corporation may be subject to additional assessments for federal taxes and interest for years 1997 and 1998 and for state taxes and interest for 1989 through 1998. The Corporation believes that it has fully complied with tax law as it relates to its COLI program, has filed for the refund of amounts paid and will continue to seek favorable resolution of this matter. The Corporation has no other material pending legal proceedings, other than ordinary routine litigation incidental to its business.

Item 4 - Submission of Matters to a Vote of Security Holders

Hershey Foods Corporation's Annual Meeting of Stockholders was held on April 24, 2001. The following directors were elected by the holders of Common Stock and Class B Common Stock, voting together without regard to class:

Name	Votes For	Votes Withheld
C. McCollister Everts, M.D.	395,776,041	4,494,642
J. Robert Hillier	396,268,752	4,001,931
Bonnie G. Hill	396,379,847	3,890,836
John C. Jamison	396,255,655	4,015,028
Richard H. Lenny	396,424,465	3,846,218
John M. Pietruski	393,713,382	6,557,301
Kenneth L. Wolfe	386,000,560	14,270,123

The following directors were elected by the holders of the Common Stock voting as a class:

Name	Votes For	Votes Withheld
Robert H. Campbell	92,739,620	3,986,283
Mackey J. McDonald	92,735,178	3,990,725

Holders of the Common Stock and the Class B Common Stock voting together approved the appointment of Arthur Andersen LLP as independent auditors for 2001. Stockholders cast 395,577,794 votes FOR the appointment, 4,159,758 votes AGAINST the appointment and ABSTAINED from casting 533,131 votes on the appointment of accountants.

Holders of the Common Stock and the Class B Common Stock voting together rejected the proposal requesting that a review and report of the Corporation's sales of genetically engineered (GE) food products be undertaken and compiled by the Board of Directors, with the goal of establishing an action plan and timeline to eliminate GE ingredients from the Corporation's products within 24 months. Stockholders cast 373,701,967 AGAINST the proposal, 8,503,083 votes FOR the proposal and ABSTAINED from casting 4,081,857 votes on the proposal.

No other matters were submitted for stockholder action.

-13-

Item 6 - Exhibits and Reports on Form 8-K

a) Exhibits

The following items are attached and incorporated herein by reference:

Exhibit 10.1 - Key Employee Incentive Plan, as amended by the Corporation's Board of Directors on February 6, 2001.

Exhibit 10.2 - Executive Employment Agreement between Hershey Foods Corporation and Richard H. Lenny, dated March 12, 2001.

Exhibit 12 - Statement showing computation of ratio of earnings to fixed charges for the quarters ended April 1, 2001 and April 2, 2000.

b) Reports on Form 8-K

A report on Form 8-K was filed March 12, 2001 announcing that Richard H. Lenny had been elected President and Chief Executive Officer, and that Kenneth L. Wolfe would continue in his capacity as Chairman of the Board of Directors for a period of up to one year.

-14-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HERSHEY FOODS CORPORATION
(Registrant)

Frank Cerminara
Vice President,
Chief Financial Officer and Treasurer

Date May 10, 2001

/s/ David W. Tacka

David W. Tacka
Vice President, Corporate Controller and
Chief Accounting Officer

-15-

EXHIBIT INDEX

Exhibit 10.1 Key Employee Incentive Plan
Exhibit 10.2 Executive Employment Agreement
Exhibit 12 Computation of Ratio of Earnings to Fixed Charges

-16-

HERSHEY FOODS CORPORATION
KEY EMPLOYEE INCENTIVE PLAN

1. ESTABLISHMENT AND PURPOSE

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

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

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

2. STOCK SUBJECT TO THE PLAN

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

1

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

3. ADMINISTRATION

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

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

4. FAIR MARKET VALUE

As used in the Plan (unless a different method of calculation is required by applicable law, and except as otherwise specifically provided in any Plan provision), "Fair Market Value" on or as of any date shall mean (i) the closing price of the Common Stock as reported in the New York Stock Exchange Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for

2

the New York Stock Exchange trading day immediately preceding such date, or if there are no sales on such date, on the next preceding day on which there were sales, or (ii) in the event that the Common Stock is no longer listed for trading on the New York Stock Exchange, an amount determined in accordance with standards adopted by the Committee.

5. ELIGIBILITY AND PARTICIPATION

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

6. ANNUAL INCENTIVE PROGRAM

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

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

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

improvements in financial ratings, regulatory compliance, achievement of balance sheet or income statement objectives, or any other objective goals established by the Committee (the "Performance Factors").

- (c) The maximum amount any participant can receive as an AIP Award for any calendar year shall not exceed \$2,100,000.
- (d) AIP Awards as earned under the terms of the Plan shall be paid in cash and may exceed or be less than the contingent target grants, subject nevertheless to the maximum award limit set forth in subparagraph (c) above. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

7. LONG-TERM INCENTIVE PROGRAM

The LTIP consists of the following four components:

I. PERFORMANCE STOCK UNITS

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

- (a) Awards actually earned by and paid to holders of Performance Stock Units ("PSU Awards") will be based upon achievement of performance goals over performance cycles as approved by the Committee. Such performance cycles each shall cover such period of time, not exceeding five years, as the Committee from time to time shall determine.
- (b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants and the granting of Performance Stock Units; to select from among those eligible the employees to receive PSU Awards; to review and certify the achievement of performance goals; to designate levels of awards to be earned in relation to levels of achievement of performance goals; to adopt such financial and nonfinancial performance or other criteria for the payment of PSU Awards as it may determine from time to time; to make awards; and to establish such other measures as may be necessary to the objectives of the Plan. The performance goals established by the Committee may be based on one or more of the Performance Factors.

(c) Payments of PSU Awards shall be made in shares of Common Stock or partly in cash as the Committee in its sole discretion shall determine and shall be charged against the shares available under the LTIP portion of the Plan as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share. In any case in which actual payment of a PSU Award is deferred as provided below, a charge will be made against the available shares for the number of shares equivalent to the dollar amount of the deferred PSU Award.

(d) PSU Awards as earned under the terms of the Plan may exceed or be less than the contingent target grants. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

(e) The maximum amount a participant can receive as a PSU Award in any calendar year is \$2,430,000.

II. STOCK OPTIONS

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

(a) The exercise price per share with respect to each Option shall be determined by the Committee in its sole discretion, but shall not be less than 100% of the Fair Market Value of the Common Stock as of the date of the grant of the Option.

(b) Options granted under the Plan shall be exercisable, in such installments and for such periods, as shall be provided by the Committee at the time of granting, but in no event shall any Option granted extend for a period in excess of ten years from the date of grant.

(c) The maximum number of shares of Common Stock covered by Options granted to a participant for any calendar year shall not exceed 250,000.

(d) Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which grantees of Options must be employed, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; and (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time.

- (e) Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee.
- (f) The purchase price upon exercise of any Option shall be paid in full by making payment (i) in cash; (ii) in whole or in part by the delivery of a certificate or certificates of shares of Common Stock of the Corporation, valued at its then Fair Market Value; or (iii) by a combination of (i) and (ii).
- (g) Notwithstanding subparagraph (e) above, any optionee may make payment of the Option price through a simultaneous exercise of his or her Option and sale of the shares thereby acquired pursuant to a brokerage arrangement approved in advance by the Committee to assure its conformity with the terms and conditions of the Plan.
- (h) The Committee may require the surrender of outstanding Options as a condition to the grant of new Options.
- (i) Notwithstanding any other provision of the Plan or of any Option agreement between the Corporation and an employee, upon the occurrence of a Change in Control, each outstanding Option held by a participant who is an employee of the Corporation or any Subsidiary Corporation or who retired while employed by the Corporation or any Subsidiary Corporation shall become fully vested and exercisable notwithstanding any vesting schedule or installment schedule relating to the exercisability of such Option contained in the applicable Option agreement or otherwise established at the time of grant of the Option.
- (j) For purposes of this Plan, a "Change in Control" means:
 - (1) Individuals who, on June 8, 1999, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to June 8, 1999, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Corporation in which such person is named as nominee for director, without written objection to such nomination) shall be an Incumbent Director; PROVIDED, HOWEVER, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest (as described in Rule 14a-11 under the Exchange Act) ("Election Contest") or other actual or threatened solicitation of proxies or consents by or on behalf of any person (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Section 13(d)(3) and 14(d)(2) of the Exchange Act) ("Person") other than the Board ("Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and PROVIDED FURTHER, HOWEVER, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the

election of directors (the "Outstanding Corporation Voting Power") shall be deemed to be an Incumbent Director; or

- (2) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Corporation representing 25% or more of either (i) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Corporation (the "Outstanding Corporation Stock") or (ii) the Outstanding Corporation Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Corporation Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Corporation by any of the following entities shall not by itself constitute such a Change in Control hereunder: (i) the Hershey Trust; (ii) any trust established by the Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation or by any Subsidiary Corporation for the benefit of the Corporation and/or its employees or those of a Subsidiary Corporation; (iii) any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any Subsidiary Corporation; (iv) the Corporation or any Subsidiary Corporation or (v) any underwriter temporarily holding securities pursuant to an offering of such securities; or
- (3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business combination (a "Business Combination") if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

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

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

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

- (1) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (i) an offer made to the Hershey Trust to purchase any number of its shares in the Corporation such that if the Hershey Trust accepted such offer and sold such number of shares in the Corporation the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power, (ii) an offering by the Hershey Trust of any number of its shares in the Corporation for sale such that if such sale were consummated the Hershey Trust would no longer have more than 50% of the Outstanding Corporation Voting Power or (iii) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or
- (2) The Board approves a transaction described in subsection (2), (3) or (4) of the definition of a Change in Control contained in subparagraph (j) of Paragraph 7II hereof.

- (1) In the event that a transaction which would constitute a Change in Control if approved by the stockholders of the Corporation is to be submitted to such stockholders for their approval, each participant who is an employee and who holds an Option granted under the Plan at the time scheduled for the taking of such vote, whether or not then exercisable, shall have the right to receive a notice at least ten (10) business days prior to the date on which such vote is to be taken. Such notice shall set forth the date on which such vote of stockholders is to be taken, a description of the transaction being

proposed to stockholders for such approval, a description of the provisions of subparagraph (i) of Paragraph 7II of the Plan and a description of the impact thereof on such participant in the event that such stockholder approval is obtained. Such notice shall also set forth the manner in which and price at which all Options then held by each such participant could be exercised upon the obtaining of such stockholder approval.

III. STOCK APPRECIATION RIGHTS

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

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

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

IV. RESTRICTED STOCK UNITS

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

- (a) Each Restricted Stock Unit shall be equivalent in value to a share of Common Stock.

- (b) Vesting of each grant of Restricted Stock Units shall require the holder to remain in the employment of the Corporation or a Subsidiary Corporation for a prescribed period (a "Restriction Period"). The Committee shall determine the Restriction Period or Periods which shall apply to the shares of Common Stock covered by each grant of Restricted Stock Units. Except as otherwise determined by the Committee and provided in the written instrument granting the Restricted Stock Units, and except as otherwise provided in Paragraph 8, all Restricted Stock Units granted to a participant under the Plan shall terminate upon termination of the participant's employment with the Corporation or any Subsidiary Corporation before the end of the Restriction Period or Periods applicable to such Restricted Stock Units, and in such event the holder shall not be entitled to receive any payment with respect to those Restricted Stock Units. The Committee may also, in its sole discretion, establish other terms and conditions for the vesting of Restricted Stock Units, including conditioning vesting on the achievement of one or more of the Performance Factors. Notwithstanding any other provisions of the Plan or of any written instrument granting Restricted Stock Units, upon the occurrence of a Change in Control as defined in subparagraph (j) of Paragraph 7II hereof, all restrictions on Restricted Stock Units held by a participant who is an employee of the Corporation or any Subsidiary Corporation shall lapse.

- (c) Upon expiration of the Restriction Period or Periods applicable to each grant of Restricted Stock Units, the holder shall, without payment on his part, be entitled to receive payment in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such grant upon such expiration. Such payment may be made in cash, in shares of Common Stock equal to the number of Restricted Stock Units with respect to which such payment is made, or in any combination thereof, as the Committee in its sole discretion shall determine. Any payment in cash shall reduce the number of shares of Common Stock available under the Plan as provided in Paragraph 2, to the extent of the number of Restricted Stock Units to which such payment relates. Further upon such expiration, the holder shall be entitled to receive

a cash payment in an amount equal to each cash dividend the Corporation would have paid to such holder during the term of those Restricted Stock Units as if the holder had been the owner of record of the shares of Common Stock covered by such Restricted Stock Units on the record date for the payment of such dividend.

- (d) In lieu of receiving payment at the time of expiration of the Restriction Period or Periods, payment of all or any portion may be deferred by the participant with the approval of the Committee.
- (e) The maximum number of shares of Common Stock as to which Restricted Stock Units may be granted to a participant for any calendar year shall not exceed 50,000.

8. TERMINATION OF EMPLOYMENT

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

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

determination), or if a participant should die or (except as to Restricted Stock Units) retire while employed by the Corporation or any of its Subsidiary Corporations, then the participant or, as the case may be, the person or persons to whom the participant's interest under the Plan shall pass by will or by the laws of descent and distribution (the "Estate"), shall have the following rights:

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

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

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

9. ADDITIONAL REQUIREMENTS

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

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

10. NONTRANSFERABILITY

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

11. DISCLAIMER OF RIGHTS

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

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

12. STOCK ADJUSTMENTS

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

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

13. TAXES

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

14. EFFECTIVE DATE AND TERMINATION OF PLAN

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

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

15. PRIOR PLAN

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

16. APPLICATION OF FUNDS

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

17. NO OBLIGATION TO EXERCISE OPTION OR SAR

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

18. AMENDMENT

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

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of March 12, 2001 (the "Effective Date"), between Hershey Foods Corporation, a Delaware corporation together with its successors and assigns permitted under this Agreement ("Employer"), and Richard H. Lenny (the "Executive").

1. TERM. Subject to earlier termination as provided herein, Employer hereby agrees to employ and continue in its employ the Executive, and the Executive hereby accepts such employment and agrees to remain in the employ of Employer, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date; provided, however, that commencing on the day following the Effective Date and each day thereafter, the term of the Executive's employment under this Agreement shall be extended automatically for one (1) additional day, creating a new three-year term commencing as of each day until such date on which either the Board of Directors of Employer (the "Board"), on behalf of Employer, or the Executive gives written notice to the other, in accordance with Section 16(b), below, that such automatic extension of the Executive's employment under this Agreement shall cease, in which event, as of the effective date of such notice, the term of employment shall become a fixed three-year term. Any such notice shall be effective immediately upon delivery. The term of the Executive's employment as provided in this Section 1 shall be hereinafter referred to as the "Term."

2. DUTIES.

(a) EXECUTIVE'S POSITIONS AND TITLES. Commencing on the Effective Date, the Executive's positions and titles shall be President and Chief Executive Officer of Employer. At or prior to Employer's 2002 annual meeting of stockholders, tentatively scheduled for April 2002, the Executive shall be elected to the additional office of Chairman of the Board in accordance with, and subject to the provisions of, Section 2(d) hereof.

(b) EXECUTIVE'S DUTIES. Executive shall report directly to the Board. As Chief Executive Officer of Employer, Executive shall have active and general supervision and management over the business and affairs of Employer and shall have full power and authority to act for all purposes for and in the name of Employer in all matters except where action of the Board is required by law, the By-laws of Employer, or resolutions of the Board.

(c) BUSINESS TIME. The Executive agrees to devote substantially all of his business time to the business and affairs of Employer and to use his best reasonable efforts to perform faithfully and efficiently the duties and responsibilities assigned to the Executive hereunder, subject to periods of vacation and sick leave to which he is entitled and subject to the understanding that for the period from the Effective Date to April 3, 2001 the Executive shall be in a transition period during which his time spent on the business and affairs of Employer shall be subject to his personal and other business schedules. Notwithstanding the foregoing, Executive may serve on civic or charitable boards or committees and manage his personal investments and affairs to the extent such activities do not interfere with the performance of his duties and responsibilities hereunder. After consultation with the Board or the Compensation

and Executive Organization Committee (the "Compensation Committee") thereof as to appropriateness with regard to the Executive's duties and responsibilities to Employer, the Executive may also serve on corporate boards of directors of corporations which do not compete, as described in Section 11(b), with Employer. In no event during the Term will Executive invest in any business which competes with Employer; provided, that nothing in this Agreement shall be construed to prohibit the Executive from investing in up to 2% of the stock of any corporation the stock of which is listed on a national securities exchange or on the Nasdaq National Market quotation system.

(d) BOARD SERVICE. Upon the Effective Date, the Executive will be appointed as a member of the Board. Provided that the Executive's employment with Employer has not previously been terminated, the Executive will be nominated for election as a member of the Board at Employer's 2001 annual meeting of the stockholders and at each subsequent annual meeting of stockholders during the Term. If so appointed and elected, the Executive agrees that: (i) he will serve as a member of the Board and (ii) after Employer's 2002 annual meeting of the Stockholders, or if sooner elected by the Board, he will serve as Chairman of the Board.

3. COMPENSATION AND BENEFITS.

(a) BASE SALARY. During the Term, the Executive shall receive a base salary ("Base Salary"), paid in accordance with the normal payroll practices of Employer, at an annual rate of \$750,000. The Base Salary shall be reviewed from time to time in accordance with Employer's policies and practices, but no less frequently than once annually and may be increased, but not decreased, at any time and from time to time by action of the Board or the Compensation Committee.

(b) ANNUAL BONUS PROGRAMS. In addition to the Base Salary, the Executive shall be eligible to participate throughout the Term in such annual bonus plans and programs ("Annual Bonus Programs"), as may be in effect from time to time in accordance with Employer's compensation practices and the terms and provisions of any such plans or programs, such as Employer's Annual Incentive Program (the "AIP") of the Key Employee Incentive Plan (the "KEIP"); provided that the Executive's eligibility for and participation in each Annual Bonus Program shall be at a level and on terms and conditions consistent with those for other senior executives of Employer. If the Executive achieves his target performance goals, as determined by the Compensation Committee on an annual basis, the Executive shall have a target annual bonus under such Annual Bonus Programs equal to eighty percent (80%) of Base Salary, and a maximum annual bonus equal to one hundred sixty percent (160%) of Base Salary. Unless Executive's employment is terminated for Cause or by the Executive without Good Reason prior to the normal annual bonus payment date for the 2001 year under Employer's compensation practices, Executive shall receive an annual bonus for such year equal to at least the target annual bonus of \$600,000.

(c) LONG TERM INCENTIVE PROGRAMS. In addition to the Base Salary and participation in the Annual Bonus Programs, the Executive shall be eligible to participate throughout the Term in such long term bonus plans and programs including, without limitation, stock option, restricted stock unit, performance stock unit and other similar programs ("Long Term Bonus Programs"), as may be in effect from time to time in accordance with Employer's

compensation practices and the terms and provisions of any such plans or programs, such as Employer's Long Term Incentive Program (the "LTIP") of the KEIP; provided that the Executive's participation in each Long Term Bonus Program shall be at a level and on terms and conditions consistent with participation by other senior executives of Employer. Executive's LTIP target bonus for the 2001-2003 performance cycle shall have a present value equal to two hundred percent (200%) of Base Salary and shall be determined at such times and in such manner as is consistent with the treatment of other senior executives of Employer and with the provisions of the LTIP.

(d) INITIAL EQUITY BASED INCENTIVE COMPENSATION.

(i) INITIAL OPTION GRANTS.

(A) Executive shall be awarded on the Effective Date grants of ten-year options ("Initial Option Grant") to purchase 400,000 shares of the common stock of Employer (one for 169,300 shares and one for 230,700 shares) in accordance with the forms of stock option agreement attached as Exhibits A-1 and A-2 hereto.

(B) Executive shall be awarded: (I) on the Effective Date, a grant of ten-year options to purchase 25,000 shares of common stock and (II) during 2002, at such time as is consistent with the treatment of other senior executives of Employer, a grant of ten-year options to purchase 50,000 shares of common stock. Such options shall be granted in accordance with the policies and practices of Employer as in effect from time to time with respect to stock options granted to other senior executives of Employer under the LTIP.

(ii) INITIAL RESTRICTED STOCK UNIT GRANTS. In recognition of certain compensation forfeited as a result of Executive's resignation from his prior employment, the Executive shall be awarded deferrable restricted stock units ("Initial Restricted Stock Unit Grant"), vesting 50% of such units on each of the first and second anniversaries of the Effective Date, in accordance with the forms of restricted stock unit award attached hereto as Exhibits B-1 and B-2. 50,000 of the units will be awarded on the Effective Date and the remainder will be awarded on January 2, 2002. If the Executive's employment under this Agreement terminates before January 1, 2002 for any reason other than termination by Employer for Cause or by the Executive without Good Reason, the Fair Market Value (as defined in the KEIP) determined as of the Date of Termination of the remaining shares underlying the restricted stock units which would have been awarded on January 2, 2002 will be paid to the Executive in cash immediately following the Date of Termination. The aggregate number of restricted stock units to be awarded pursuant to this Section 3(d)(ii) shall be determined by reference to the fair market value of the forfeited compensation and the Employer's common stock determined by reference to closing prices as reported in the New York Stock Exchange Composite Transactions Report for March 9, 2001.

(e) OTHER INCENTIVE PLANS. During the Term, the Executive shall be eligible to participate, subject to the terms and conditions thereof, in all incentive plans and programs,

including, but not limited to, such cash and deferred bonus programs as may be in effect from time to time with respect to senior executives employed by Employer on as favorable a basis as provided to other similarly situated senior executives so as to reflect the Executive's responsibilities.

(f) DEFERRAL OF NON-DEDUCTIBLE COMPENSATION.

(i) The Executive agrees that all compensation, except the Initial Option Grant, the Initial Restricted Stock Unit Grant, and his guaranteed 2001 minimum bonus under the Annual Bonus Program, shall be subject to Employer's compensation deferral policy which requires that the Executive defer receipt of compensation in excess of \$1 million that is not deductible for federal income tax purposes in any given taxable year to the taxable year in which such compensation would be deductible by Employer (unless Executive has elected to continue deferral to a later date under an applicable deferred compensation plan).

(ii) The Initial Option Grant, the Initial Restricted Stock Unit Grant, and Executive's guaranteed 2001 minimum target bonus under the Annual Bonus Program shall not be subject to such Employer compensation deferral policy, except as Employer and Executive agree at least 180 days prior to the date any such amount becomes due and payable to Executive, to defer such payment in accordance with such policy.

(g) SUPPLEMENTAL RETIREMENT BENEFIT. The Executive shall participate in Employer's Amended and Restated (1999) Supplemental Executive Retirement Plan, as amended from time to time (the "SERP Program"). The terms and conditions of the SERP Program shall govern any supplemental retirement benefit accrued by the Executive, except as set forth below:

(i) ACCRUAL OF SUPPLEMENTAL RETIREMENT BENEFIT.

(A) For the period commencing on the Effective Date and ending on the Executive's 55th birthday, the supplemental retirement benefit shall accrue based on 37.5% multiplied by a fraction, the numerator of which shall be the number of full and fractional years of service from the Effective Date to the date in question and the denominator of which shall be 5.82. For purposes of this Section 3(g)(i), a year of service shall mean 365 days commencing on the Effective Date and each anniversary thereof.

(B) For the period commencing on the Executive's 55th birthday and ending on his 60th birthday, the supplemental retirement benefit shall accrue at the rate of 3.5% for each year of service commencing on his 55th birthday, with pro-rata accrual for a fractional year of employment.

(C) The accrual percentages as determined pursuant to paragraphs (A) and (B) of this Section 3(g)(i) above shall apply in lieu of the accrual percentages set forth in Sections 4.a.(1) and 4.b.(1) of the SERP Program and, accordingly, shall be multiplied by the Executive's Final Average

Compensation (as defined in the SERP Program) to determine the supplemental retirement benefit pursuant to this Section 3(g)(i).

(ii) VESTING; ELIGIBILITY. Executive shall at all times be fully vested in his accrued supplemental retirement benefit and shall be deemed to have satisfied all requirements for eligibility for such benefit; provided, however, that, in the event of the termination of Executive's employment prior to his 55th birthday either (A) by Employer for Cause or (B) by the Executive without Good Reason, the Executive shall not be entitled any supplemental retirement benefit under the SERP Program.

(iii) OFFSET. For purposes of the offset provided for in Section 4.a.(2) and 4.b.(2), as applicable, of the SERP Program, the offset for any defined benefit pension plan maintained by the Executive's prior employers shall be determined by multiplying any such defined benefit receivable by the Executive from any prior employer by a fraction, the numerator of which is the percentage of his Final Average Compensation which had accrued under Section 3(g)(i) above as of the Date of Termination (as hereinafter defined) and the denominator of which is 55%, provided, however, that such fraction shall never be greater than 1.

(iv) COORDINATION WITH EXECUTIVE BENEFITS PROTECTION PLAN ("EBPP"). In the event of a Change in Control as defined in the EBPP, the Executive shall be credited with an additional three years of service as provided under the EBPP, which shall be credited in the manner described in Section 3(g)(i) above and added to the actual credited service determined in accordance with paragraphs (A) and (B) of Section 3(g)(i) above, and in no event shall such additional service be diminished by actual credited service subsequent to the Change in Control; provided that in no event shall the aggregate number of years of service credited for purposes of Section 3(g)(i) above exceed 10.82. Such additional service shall be added first to actual service pursuant to paragraph (A) of Section 3(g)(i) until the sum of all years of credited service equals 5.82 and then any such additional service remaining shall be added as service under paragraph (B) of Section 3(g)(i) above, for purposes of determining the supplemental retirement benefit under Section 3(g).

(v) Anything to the contrary notwithstanding, if for any reason Executive's supplemental retirement entitlements under the SERP Program, as may be enhanced in accordance with the EBPP, are less than the benefit provided pursuant to this Section 3(g) based on the SERP Program and the EBPP as in effect on the Effective Date, whether due to amendment or termination of either or both of those plans, then to the extent of such difference he shall be provided such benefit under this Section 3(g) as if there had been no such amendment or termination of either of those plans.

(h) OTHER PENSION AND WELFARE BENEFIT PLANS. During the Term, the Executive and/or the Executive's dependents, as the case may be, shall be eligible to participate in all pension and similar benefit plans (qualified, non-qualified and supplemental), profit sharing, ESOP, 401(k), medical and dental, disability, group and/or executive life, accidental death and travel accident insurance, and all similar benefit plans and programs of Employer, subject to the

terms and conditions thereof, as in effect from time to time with respect to senior executives employed by Employer so as to reflect the Executive's responsibilities.

(i) PERQUISITES. During the Term, the Executive shall be entitled to participate in perquisite programs, as such are made available to senior executives of Employer.

(j) EXPENSES. During the Term, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in accordance with the policies and practices of Employer as in effect from time to time. Employer will pay all reasonable professional expenses up to a maximum of \$50,000 incurred by the Executive in connection with the negotiation and preparation of this Agreement.

(k) VACATION. During the Term, the Executive shall be entitled to paid vacation in accordance with the policies and practices of Employer as in effect from time to time with respect to senior executives employed by Employer, but in no event shall such vacation time be less than five weeks per calendar year.

(l) CERTAIN AMENDMENTS. Nothing herein shall be construed to prevent Employer from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to receive compensation and benefits consistent with Sections 3(a) through (k).

(m) RELOCATION EXPENSES. From April 2001 through the earlier of December 31, 2001 or his relocation to permanent housing, the Executive shall be reimbursed for reasonable living expenses in the Hershey, Pennsylvania area, including apartment and furniture rental. Employer will pay all costs of relocation of the Executive and his family to the Hershey, Pennsylvania area in accordance with Employer's relocation policy for transferred employees. The reimbursement of expenses pursuant to this Section 3(m) shall be provided on a tax grossed-up basis as provided in the policy.

(n) MINIMUM STOCK OWNERSHIP. Executive shall be subject to, and shall comply with, the stock ownership guidelines of Employer.

(o) INITIAL PURCHASE OF STOCK. The Executive shall purchase from Employer and Employer shall cause to be sold to Executive for his own account 3,000 shares of Employer's common stock at the fair market value (as defined under the KEIP) of the common stock of Employer on the Effective Date.

4. TERMINATION.

(a) DISABILITY. Either the Executive or Employer may terminate Executive's employment, after having established the Executive's Disability, by giving notice of his or its intention to terminate the Executive's employment, and the Executive's employment with Employer shall terminate effective on the 90th day after such notice (the "Disability Effective Date"). For purposes of this Agreement, the Executive's "Disability" shall occur and shall be deemed to have occurred only in the event that the Executive suffers a disability due to illness or injury which substantially and materially limits the Executive from performing each of the essential functions of the Executive's job, even with reasonable accommodation, for a continuing

period of 180 days, and he becomes entitled to receive disability benefits under the long-term disability plan offered by Employer to its exempt employees.

(b) CAUSE.

(i) Employer may terminate the Executive's employment for Cause, if "Cause" as defined below exists. For purposes of this Agreement, "Cause" means with respect to the Executive:

(A) Executive's willful and continued gross neglect of duties with the Company (other than any such occurrence resulting from incapacity due to physical or mental illness), after a written demand is delivered to him by the Board which specifically identifies the manner in which the Board believes that the Executive has been in gross neglect of his duties; or

(B) Executive's being guilty of willfully committing a felony or other serious crime under any Federal, state or local law of the United States or Executive's gross misconduct which, in either case, is materially and demonstrably injurious to the Company.

(ii) For purposes of this Section 4(b), no act or failure to act, on the part of the Executive, shall be considered willful unless it is done, or omitted to be done, by him in bad faith and without reasonable belief that his action or omission was in the best interests of the Company. A termination for Cause shall not take effect unless the provisions of this subclause (ii) are complied with. The Executive shall be given written notice by the Board of the intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Board's learning of such act or acts or failure or failures to act. The Executive shall have ten calendar days after the date that such written notice has been given to the Executive in which to cure such conduct. If he fails to cure such conduct, the Executive shall then be entitled to a hearing before the Board, and, thereafter, upon a determination by affirmative vote of no fewer than three-quarters of the members of the Board that Cause exists, he shall be terminated for Cause.

(c) GOOD REASON.

(i) The Executive may terminate the Executive's employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means any of the following actions by the Employer without Executive's written consent:

(A) The assignment to the Executive of any duties inconsistent with his position (including status, offices, titles and reporting relationships), authority, duties or responsibilities, all as in effect immediately following the Effective Date, or any other action by Employer which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose any action not taken in bad faith and which is remedied by Employer promptly after receipt of notice thereof given by the Executive;

(B) The failure to elect the Executive to the additional office of Chairman of the Board at or prior to the 2002 annual meeting of stockholders;

(C) Any material breach by Employer of a material provision of this Agreement, including, without limitation, a reduction in Executive's Base Salary or target bonus opportunity or failure to provide incentive opportunities as provided in Section 3(c), and excluding for this purpose any action, or failure to act, not taken in bad faith and which is remedied by Employer promptly after receipt of notice thereof given by the Executive;

(D) Any termination of the EBPP or the amendment of the EBPP that eliminates or reduces Executive's benefits thereunder in connection with a Change in Control (as defined under the EBPP) without substituting a plan or arrangement that provides Executive equivalent or more favorable benefits in connection with a Change in Control than provided under the EBPP, immediately prior to such amendment or termination, excluding for this purpose any action, or failure to act, not taken in bad faith and which is remedied by Employer promptly after receipt of notice thereof by the Executive;

(E) Employer's requiring the Executive to be based at any office or location that is more than 50 miles from his office or location in Hershey, Pennsylvania, as of the Effective Date;

(F) Employer's giving notice to the Executive to stop further operation of the evergreen feature described in Section 1, above; or

(G) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of Employer within 15 days after a merger, consolidation, sale or similar transaction.

(ii) A termination for Good Reason shall not take effect unless the provisions of this subclause (ii) are satisfied. Executive shall give Employer written notice of his intention to terminate his employment for Good Reason, such notice: (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Good Reason is based and (B) to be given within 90 days of the Executive's learning of such act or acts or failure or failures to act. Employer shall have ten calendar days after the date that such written notice has been given by the Executive in which to cure such conduct. If Employer fails to cure such conduct, Executive shall be deemed to have terminated his employment for Good Reason.

(d) TERMINATION BY EXECUTIVE WITHOUT GOOD REASON. Executive may, at any time without Good Reason, by at least 30 days' prior notice, voluntarily terminate this Agreement without liability. Executive's voluntary termination is not a breach of this Agreement.

(e) NOTICE OF TERMINATION. Any termination of the Executive's employment by Employer for Disability, for or without Cause or by the Executive for Disability or for or without Good Reason shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 16(b). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and (iii) specifies the Date of Termination (defined below).

(f) DATE OF TERMINATION. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice of Termination), or the date of Executive's death, as the case may be; provided that (i) if the Executive's employment is terminated by Employer for any reason other than Cause or Disability, the Date of Termination is the date on which Employer notifies the Executive of such termination; (ii) if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date; and (iii) if the Executive's employment is terminated by the Executive without Good Reason, the Date of Termination is the date thirty (30) days after the giving of the Notice of Termination, unless the parties otherwise agree in writing.

5. OBLIGATIONS OF EMPLOYER UPON TERMINATION. The Executive's entitlements upon termination of employment are set forth below. Except to the extent otherwise provided in this Agreement, all benefits, including, without limitation, stock option grants, restricted stock units and awards under the Long Term Bonus Programs, shall be subject to the terms and conditions of the plan or arrangement under which such benefits accrue, are granted or are awarded. For purposes of this Section 5, the term "Accrued Obligations" shall mean, as of the Date of Termination, (i) the Executive's full Base Salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, to the extent not theretofore paid, (ii) the amount of any bonus, incentive compensation, deferred compensation (including, but not limited to, any supplemental retirement benefits) and other cash compensation earned (and not forfeited hereunder) by the Executive as of the Date of Termination to the extent not theretofore paid and (iii) any vacation pay, expense reimbursements and other cash entitlements accrued by the Executive as of the Date of Termination to the extent not theretofore paid. For purposes of determining an Accrued Obligation under this Section 5, amounts shall be deemed to accrue ratably over the period during which they are earned (and not forfeited hereunder), but no discretionary compensation shall be deemed earned or accrued until it is specifically approved by the Board in accordance with the applicable plan, program or policy.

(a) DEATH. If the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations by Employer to the Executive's legal representatives under this Agreement, except as set forth in this Section 5(a) or as contained in an applicable Employer plan or program which takes effect at the date of his death, but in no event shall Employer's obligations be less than those provided by this Agreement.

(i) From and after the Date of Termination, the Executive's surviving spouse, other named beneficiaries or other legal representatives, as the case may be, shall

be entitled to receive those benefits payable to them under the provisions of any applicable Employer plan or program and as provided for under Section 3(g), above, including, without limitation, any benefits commencing immediately upon the Executive's death;

(ii) On the Date of Termination, all options to purchase stock of Employer theretofore granted to the Executive and not exercised by the Executive shall be exercisable in accordance with the terms of the applicable stock option agreement between Employer and the Executive;

(iii) On the Date of Termination, all restricted stock units granted by Employer to the Executive prior to the Date of Termination which had not vested prior to such date shall become fully vested, nonforfeitable, and payable in accordance with the terms of the applicable grant award or agreement between Employer and the Executive; and

(iv) Promptly following the Date of Termination, Employer shall pay the Executive's legal representatives a lump sum in cash equal to the sum of (A) a pro-rata bonus for year of termination, based on the target bonus, and (B) the Accrued Obligations not theretofore paid.

(b) DISABILITY. If the Executive's employment is terminated by reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date:

(i) Disability benefits, if any, at least equal to those then provided by Employer to disabled executives and their families;

(ii) Supplemental executive retirement benefits in accordance with Section 3(g) of this Agreement which incorporates Section 4.c. of the SERP Program;

(iii) On the Date of Termination, all options to purchase stock of Employer theretofore granted to the Executive and not exercised by the Executive shall be exercisable in accordance with the terms of the applicable stock option agreement between Employer and the Executive;

(iv) On the Date of Termination, all restricted stock units granted by Employer to the Executive prior to the Date of Termination which had not vested prior to such date shall become fully vested, nonforfeitable, and payable in accordance with the terms of the applicable grant award or agreement between Employer and the Executive; and

(v) Promptly following the Date of Termination, Employer shall pay the Executive a lump sum in cash equal to the sum of (A) a pro-rata bonus for the year of termination, based on the target bonus, and (B) the Accrued Obligations not theretofore paid.

(c) CAUSE/OTHER THAN FOR GOOD REASON. If the Executive's employment is terminated for Cause by Employer or if the Executive terminates the Executive's employment without Good Reason, Employer shall pay the Executive all Accrued Obligations. All unexercised stock options and all unpaid restricted stock units and other equity incentive compensation awards theretofore granted to the Executive, including, without limitation, the Initial Option Grant, and the Initial Restricted Stock Unit Grant, shall be exercisable or forfeited, as the case may be, in accordance with the applicable agreement or award between Employer and the Executive.

(d) OTHER THAN FOR CAUSE, DEATH OR DISABILITY; GOOD REASON. If Employer terminates the Executive's employment other than for Cause, Death or Disability or the Executive terminates the Executive's employment for Good Reason:

(i) Employer shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (I) a pro-rata bonus for the year of termination, based on the target bonus, and (II) Executive's Accrued Obligations not theretofore paid;

(B) two times the sum of: (I) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given, or in effect immediately prior to any reduction thereof in violation of this Agreement, and (II) the AIP bonus at target for the year in which such termination occurs.

(ii) Executive shall be entitled to such other incentive compensation, including, without limitation, the Initial Option Grant and the Initial Restricted Stock Unit Grant, in accordance with the terms of such grant or award agreement between Employer and the Executive.

(iii) Executive shall be entitled to receive supplemental executive retirement benefits in accordance with Section 3(g) of this Agreement.

(iv) Employer shall provide to the Executive at Employer's expense the health and welfare benefits (or, if such benefits are not available, the value thereof) specified in Section 3(h) to which Executive is entitled as of the Date of Termination for two (2) years following the Date of Termination, provided that such benefits shall be reduced by any similar benefits, on a benefit-by-benefit and coverage-by-coverage basis, provided by a subsequent employer; provided further that (A) with respect to any benefit to be provided on an insured basis, such value shall be the present value of the premiums expected to be paid for such coverage, and with respect to other benefits, such value shall be the present value of the expected net cost to Employer of providing such benefits and (B) from and after the Date of Termination, Executive shall not become entitled to any additional awards under any plans, practices, policies or programs of the Company.

6. CHANGE IN CONTROL. In the event of a Change in Control (as defined in the EBPP), the rights and obligations of Employer and the Executive, including, without limitation, rights and obligations upon termination of Executive's employment, shall be governed by the EBPP

subject to the following provisions of this Section 6. If any item of compensation or benefit is provided under this Agreement, or under any other plan, agreement, program or arrangement of Employer (other than the EBPP) which is more favorable to Executive than the corresponding item of compensation or benefit under the EBPP, or if an item of compensation or benefit is provided under this Agreement, or under such other plan, agreement, program or arrangement, but not under the EBPP, such item of compensation or benefit shall be provided in accordance with the terms of this Agreement or such other plan, agreement, program or arrangement. In no event, however, shall Executive be entitled to duplication as to any item of compensation or benefit that is provided under both this Agreement (or such other plan, agreement, program or arrangement) and the EBPP. 7. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Employer and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreement with Employer or any of its affiliated companies. Except as otherwise provided herein, amounts and benefits which are vested benefits or which the Executive is otherwise entitled to receive under any plan, program, agreement or arrangement of Employer at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

8. NO SET OFF; NO MITIGATION. Except as provided herein, Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

9. ARBITRATION OF DISPUTES. As a condition to participation in the LTIP, the Executive agrees to execute the Long-Term Incentive Program Participation Agreement (the "Participation Agreement"), which agreement includes a Mutual Agreement to Arbitrate Claims. Executive and Employer agree that such agreement to arbitrate shall govern disputes hereunder.

10. ENTIRE AGREEMENT. The Executive acknowledges and agrees that this Agreement includes the entire agreement and understanding between the parties with respect to the subject matter hereof, including the termination of the Executive's employment during the Term and all amounts to which the Executive shall be entitled whether during the Term or thereafter. The Executive also acknowledges and agrees that the Executive's right to receive severance pay and other benefits pursuant to Section 5(d) (i) (B) of this Agreement (but not any other compensation or benefits including, without limitation, the supplemental retirement benefit as provided in Section 3(g) and incentive awards which shall be determined in accordance with the terms of the applicable plan or award) is contingent upon the Executive's compliance with the covenants set forth in Section 11 of this Agreement.

11. EXECUTIVE'S COVENANTS.

(a) Executive acknowledges that due to the nature of his employment and the position of trust that he will hold with Employer, he will have special access to, learn, be provided with, and in some cases will prepare and create for Employer, trade secrets and other confidential and proprietary information relating to Employer's business, including, but not limited to, information about Employer's manufacturing processes; manuals, recipes and ingredient percentages; engineering drawings; product and process research and development; new product information; cost information; supplier data; strategic business information; marketing, financial and business development information, plans, forecasts, reports and budgets; customer information; new product strategies, plans and project activities; and acquisition and divestiture strategies, plans and project activities. Executive acknowledges and agrees that such information, whether or not in written form, is the exclusive property of Employer, that it has been and will continue to be of critical importance to the business of Employer, and that the disclosure of it to, or use by, competitors and others will cause Employer substantial and irreparable harm. Accordingly, Executive will not, either during his employment or at any time after the termination (whether voluntary or involuntary) of his employment with Employer, use, reproduce or disclose any trade secrets or other confidential information relating to the business of Employer which is not generally available to the public. Notwithstanding the foregoing provisions of this Section 11(a), the Executive may disclose or use any such information (i) as such disclosure or use may be required or appropriate in the course of his employment with Employer, (ii) when required by a court of law, by any governmental agency having supervisory authority over the business of Employer or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction, or (iii) with the prior written consent of Employer. Executive understands and agrees that his obligations under this Agreement shall be in addition to, rather than in lieu of, any obligations Executive may have under any confidentiality agreement or other agreement with Employer relating to confidential information or under any applicable statute or at common law.

(b) Executive shall be subject to and bound by all terms and conditions of the Participation Agreement as may be in effect for senior executive officers of Employer from time to time, including, without limitation, the noncompetition restrictions, all of which are incorporated herein by reference; provided, however, that in the event the Participation Agreement shall be amended with respect to the Employer's senior executive officers generally to require a noncompetition restriction that is less favorable to Executive than as shall be required on the Effective Date, such amendment shall be disregarded and such requirement or requirements of the Participation Agreement as in effect on the Effective Date shall apply to Executive.

(c) The Executive agrees that for a period commencing on the termination of his employment and ending on the earlier of: (i) 12 months after the last date on which the Executive receives any payments or benefits under this Agreement or (ii) three years after the termination of Executive's employment, the Executive will not knowingly participate in recruiting any of Employer's employees or in the solicitation of Employer's employees, and the Executive will not communicate, except in the case of a reference described in the last sentence of this paragraph, to any other person or entity about the nature, quality or quantity of work, or any special knowledge or personal characteristics, of any person employed by Employer. If the

Executive should wish to discuss possible employment with any then-current employee of Employer during the period set forth above, the Executive may request written permission to do so from the senior human resources officer of Employer who may, in his/her discretion, grant a written exception to the no solicitation covenant set forth immediately above; provided, however, the Executive shall not discuss any such employment possibility with any such employee prior to such permission. Nothing herein shall prevent Executive from giving a reference, when requested, on behalf of an employee.

12. INDEMNIFICATION.

(a) Employer agrees that if the Executive is made a party to or involved in, or is threatened to be made a party to or otherwise to be involved in, any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of Employer or is or was serving at the request of Employer as a director, officer, member, employee or agent of another corporation, limited liability corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by Employer against any and all liabilities, losses, expenses, judgments, penalties, fines and amounts reasonably paid in settlement in connection therewith, and shall be advanced reasonable expenses (including attorneys' fees) as and when incurred in connection therewith, to the fullest extent legally permitted or authorized by Employer's by-laws or, if greater, by the laws of the State of Delaware, as may be in effect from time to time. The rights conferred on Executive by this Section 12(a) shall not be exclusive of any other rights which Executive may have or hereafter acquire under any statute, the by-laws, agreement, vote of stockholders or disinterested directors, or otherwise. The indemnification and advancement of expenses provided for by this Article shall continue as to Executive after he ceases to be a director, officer or employee and shall inure to the benefit of his heirs, executors and administrators.

(b) For the Term and thereafter, Executive shall be covered by any directors' and officers' liability policy maintained by Employer from time to time.

13. SUCCESSORS.

(a) This Agreement is personal to the Executive and, without the prior written consent of Employer, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Employer and its successors. It shall not be assignable by Employer or its successors except in connection with the sale or other disposition of all or substantially all the assets or business of Employer. Employer shall require any successor to all or substantially all of the business and/or assets of Employer, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive,

expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Employer would be required to perform if no such succession had taken place.

14. AMENDMENT; WAIVER. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by the Executive and Employer. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

15. CERTAIN ADDITIONAL COVENANTS.

(a) The Executive agrees that, prior to the Effective Date, he will undergo a physical examination performed by a physician selected by the Executive which is reasonably satisfactory to Employer and provide the results of such examination to Employer.

(b) Employer represents and warrants to the Executive that to the best of its knowledge:

(i) the execution of this Agreement and the provision of all benefits and grants provided herein have been duly authorized by Employer, including action of the Board and Compensation Committee;

(ii) the execution, delivery and performance of this Agreement by Employer does not and will not violate any law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of Employer; and

(iii) upon the execution and delivery of this Agreement by the Executive, this Agreement shall be the valid and binding obligation of Employer, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(c) The Executive represents and warrants to Employer that to the best of his knowledge:

(i) the execution, delivery and performance of this Agreement by the Executive does not and will not conflict with, breach or violate any contract, agreement, instrument, order, judgment or decree to which the Executive is a party or by which the Executive is bound;

(ii) the Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other person or entity that would interfere with the execution, delivery and performance of this Agreement by the Executive; and

(iii) upon the execution, delivery and performance of this Agreement by Employer, this Agreement shall be the valid and binding obligation of the Executive, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

16. MISCELLANEOUS.

(a) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return receipt requested, postage prepaid or by a nationally recognized courier service such as Federal Express; shall be deemed delivered upon actual receipt; and shall be addressed as follows:

IF TO EMPLOYER:

Hershey Foods Corporation
100 Crystal A Drive
Hershey, Pennsylvania 17033
ATT: Richard C. Dreyfuss

IF TO EXECUTIVE:

Richard H. Lenny
100 Crystal A Drive
Hershey, Pennsylvania 17033

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

(d) Employer may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Executive Employment Agreement as of the date first set forth above.

EXECUTIVE:
Richard H. Lenny

EMPLOYER:
Hershey Foods Corporation,
a Delaware corporation

By: -----
Kenneth L. Wolfe
Chairman and Chief Executive Officer

ATTEST:

Robert M. Reese
Secretary

2001 NONQUALIFIED STOCK OPTION AGREEMENT

1. The Hershey Foods Corporation (the "Employer") hereby grants to Richard H. Lenny ("Optionee"), effective March 12, 2001 (the "Grant Date"), an option to purchase 169,300 shares of the Employer's Common Stock (the "Options") at a price of \$64.65 per share (the "Exercise Price"), purchasable as set forth herein. The Options shall be governed by the terms and conditions in this Stock Option Agreement and the Employer's Key Employee Incentive Plan (the "Plan"). Unless otherwise indicated, all capitalized terms not defined in this Stock Option Agreement shall have the meanings ascribed to such terms in the Executive Employment Agreement between Optionee and the Employer dated as of March 12, 2001 (the "Employment Agreement").

2. The Options shall not be exercisable until vested. The Options shall be exercisable during the period March 12, 2002, through March 12, 2011 (the "Exercise Period"), subject to the vesting schedule described in the next sentence and the provisions regarding termination set forth in paragraphs 3 and 4 below and, to the extent not inconsistent with the terms and conditions of this Stock Option Agreement, in the Plan. Twenty-five percent (25%) of the total Options granted to Optionee on the Grant Date ("Total Grant") will become vested on the first anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the second anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the third anniversary of the Grant Date; and an additional twenty-five percent (25%) of the Total Grant will become vested on the fourth anniversary of the Grant Date. During the Exercise Period, vested Options may be exercised in whole or in part, on one or more than one occasion, provided that the Options must be exercised for a minimum of 100 shares on any one occasion, or for the remaining number of shares covered by the Options if less than such minimum. The Options may be exercised in accordance with any method applicable to options granted under the Plan and the purchase price of any shares as to which the Options shall be exercised shall be paid in full at the time of such exercise in the manner provided in the Plan.

3. In the event Optionee's employment with the Employer is terminated for any reason other than the occurrence of an event described in paragraph 4 below, whether voluntarily or involuntarily, the Options shall terminate immediately upon the Date of Termination and may not be exercised after such date.

4. In the event of a Change in Control (as defined in the Plan as of the date of this Stock Option Agreement), any unvested Options shall be fully vested and exercisable immediately prior to such Change in Control. Upon the occurrence of Optionee's death, Disability, retirement, or termination of Optionee's employment by the Employer without Cause or by Optionee for Good Reason, the Options shall continue to vest in accordance with paragraph 2 above and remain exercisable and Optionee (or his estate or personal representative in the case of death or Disability, as the case may be) shall have five (5) years from the Date of Termination to exercise the Options, provided that the Compensation and Executive Organization Committee of the Board of Directors (the "Committee") shall retain its discretion to extend such five (5)

year period. In no event, however, shall any post-termination exercise period extend beyond March 12, 2011. For purposes of the Plan, any termination of Optionee's employment by the Employer without Cause shall be deemed a resignation by Optionee and, in the event of a termination by the Employer without Cause or Optionee for Good Reason, the provisions of this paragraph 4 shall be the Committee's determination as to Optionee's rights or interests to the Options under the Plan.

5. The Options shall be exercisable by written notice given to the Employer substantially in one of the forms provided by the Law Department, or by such other method as shall be established by the Employer from time to time. If written notice is required to be given to the Employer for the exercise of Options (which is the method of exercise utilized by the Employer on the Grant Date), each such notice shall:

- a. state the election to exercise the Options and the number of shares to be exercised,
- b. be signed by the person exercising the Options and, in the event that the Options are being exercised by any person other than Optionee, be accompanied by proof of the right of such person to exercise the Options, and
- c. be accompanied by payment in full as provided in Sections 7II(f) and (g) of the Plan.

For so long as written notice to the Employer is required for the exercise of Options, the date of the exercise of the Options with respect to any particular shares shall be the date on which such written notice, proof (if required), and payment shall have been delivered to the Employer.

6. This grant of Options is subject to the employee minimum stockholding requirements established by the Committee in effect on the date hereof and as the same may be modified from time to time by the Committee. In the event Optionee has not satisfied the employee minimum stockholding requirement then in effect or then applicable to Optionee, Optionee shall be restricted in his ability to receive cash from such exercise and sale of the shares thereby acquired to the extent and on the terms provided for in the then applicable minimum stockholding requirements. The terms and conditions of the employee minimum stockholding requirements are subject to change at the discretion of the Committee.

7. Except to the extent the Plan provides otherwise, the Options may not be assigned, transferred, pledged or hypothecated in any way whether by operation of law or otherwise by Optionee and the Options shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Options or the rights or benefits, under this Stock Option Agreement, and the levy of any execution, attachment or similar process upon such Options, or such rights and benefits shall be null and void and without effect.

8. Any dispute or disagreement arising out of or relating to this Stock Option Agreement shall be resolved by binding arbitration in accordance with Section 9 of the Employment Agreement. Notwithstanding the foregoing, any dispute or disagreement which

shall arise under, as a result of, or in any way relate to the interpretation, construction or administration of the Plan shall be determined in all cases and for all purposes by the Committee, or any successor committee, and any such determination shall be final, binding and conclusive for all purposes.

9. All shares issued upon exercise of any Option shall be duly authorized and when issued upon such exercise, shall be (a) validly issued, fully paid and non-assessable, (b) registered for sale, and for resale, by Optionee under Federal and state securities laws and shall remain registered so long as the shares may not be freely sold in the absence of such registration and (c) listed, or otherwise qualified, for trading in the United States on each national securities exchange or national securities market system on which the Common Stock is listed or qualified.

10. Subject to the provisions of this Stock Option Agreement, including, without limitation, paragraph 9 above, in selling the Employer's Common Stock (the "Shares") upon Optionee's exercise of his Options and delivering such Shares to Optionee, the Employer is fulfilling in full its contractual obligation to Optionee by making such transfer, and the Employer shall have no further obligations or duties with respect thereto and is discharged and released from the same. Other than in respect to the Exercise Price, the Employer makes no representations to Optionee regarding the market price of the Shares or the information which is available to Optionee regarding the Shares of the Employer.

11. The Employer represents and warrants that (a) it is fully authorized by its Board or the Committee (and of any person or body whose action is required) to enter into this Stock Option Agreement and to perform its obligations under it, (b) the execution, delivery and performance of this Stock Option Agreement by the Employer does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Employer or any agreement among holders of its shares and (c) upon the execution and delivery of this Stock Option Agreement by the Employer and Optionee, this Stock Option Agreement shall be the valid and binding obligation of the Employer, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

12. Optionee may be restricted by the Employer, based on the reasonable determination of its counsel, from exercising any of the Options to the extent necessary to comply with insider trading or other provisions of federal or state securities laws. In the event of any such restriction (other than one due to insider trading issues), the Employer shall take all such action as may be necessary or appropriate to eliminate such restriction at the earliest practicable date. In the event Optionee attempts to exercise any of the Options on or prior to March 12, 2011, and is restricted from doing so under this paragraph 12 until after March 12, 2011, Optionee shall be deemed to have exercised such Options on March 12, 2011 unless Optionee shall be rescinded such exercise prior to the elimination of such restriction.

13. The Options shall be subject to adjustment (including, without limitation, as to the number of shares of Common Stock covered by the Options) pursuant to Section 12 of the Plan in connection with the occurrence of any of the events described in Section 12 of the Plan following the Date of Grant.

14. All notices and other communications relating to this Stock Option Agreement shall be given as provided in Section 16(b) of the Employment Agreement.

15. a. This Stock Option Agreement is personal to Optionee and, except as otherwise provided in paragraph 7 above, shall not be assignable by Optionee otherwise than by will or the laws of descent and distribution, without the prior written consent of the Employer. This Stock Option Agreement shall inure to the benefit of and be enforceable by Optionee's legal representatives.

b. This Stock Option shall inure to the benefit of and be binding upon the Employer and its successors. It shall not be assignable except in connection with the sale or other disposition of all or substantially all of the assets or business of the Employer.

16. This Stock Option Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by Optionee and the Employer. No provision of this Stock Option Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

17. The grant of Options and all terms and conditions related thereto, including those of the Plan, shall be governed by the laws of the Commonwealth of Pennsylvania, without reference to principles of conflict of laws. In the event there is a conflict between the Plan as from time to time in effect and the terms and conditions in this Stock Option Agreement, this Stock Option Agreement shall govern unless the terms and conditions of the Plan are more favorable to Optionee. If such terms and conditions are more favorable to Optionee, then the Employer and Optionee agree that this Stock Option Agreement is amended to the extent necessary to enable Optionee to gain the benefit of the more favorable terms and conditions of the Plan.

18. This Stock Option Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be effective for all purposes.

Hershey Foods Corporation

By: -----
Name: Kenneth L. Wolfe
Title: Chairman and Chief Executive Officer

Accepted:

OPTIONEE

Richard H. Lenny

2001 NONQUALIFIED STOCK OPTION AGREEMENT

1. The Hershey Foods Corporation (the "Employer") hereby grants to Richard H. Lenny ("Optionee"), effective March 12, 2001 (the "Grant Date"), an option to purchase 230,700 shares of the Employer's Common Stock (the "Options") at a price of \$64.65 per share (the "Exercise Price"), purchasable as set forth herein. Optionee accepts that such Options shall be granted outside the Employer's Key Employee Incentive Plan (the "Plan"). The Options shall be governed by the terms and conditions in this Stock Option Agreement and, to the extent not inconsistent with the terms and conditions hereunder, in accordance with the terms and conditions of the Plan as if the Options were granted under the Plan. References herein to the Plan refer to such terms and conditions as incorporated herein. Unless otherwise indicated, all capitalized terms not defined in this Stock Option Agreement shall have the meanings ascribed to such terms in the Executive Employment Agreement between Optionee and the Employer dated as of March 12, 2001 (the "Employment Agreement").

2. The Options shall not be exercisable until vested. The Options shall be exercisable during the period March 12, 2002 through March 12, 2011 (the "Exercise Period"), subject to the vesting schedule described in the next sentence and the provisions regarding termination set forth in paragraphs 3 and 4 below and, to the extent not inconsistent with the terms and conditions of this Stock Option Agreement, in the Plan. Twenty-five percent (25%) of the total Options granted to Optionee on the Grant Date ("Total Grant") will become vested on the first anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the second anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the third anniversary of the Grant Date; and an additional twenty-five percent (25%) of the Total Grant will become vested on the fourth anniversary of the Grant Date. During the Exercise Period, vested Options may be exercised in whole or in part, on one or more than one occasion, provided that the Options must be exercised for a minimum of 100 shares on any one occasion, or for the remaining number of shares covered by the Options if less than such minimum. The Options may be exercised in accordance with any method applicable to options granted under the Plan and the purchase price of any shares as to which the Options shall be exercised shall be paid in full at the time of such exercise in the manner provided in the Plan.

3. In the event Optionee's employment with the Employer is terminated for any reason other than the occurrence of an event described in paragraph 4 below, whether voluntarily or involuntarily, the Options shall terminate immediately upon the Date of Termination and may not be exercised after such date.

4. In the event of a Change in Control (as defined in the Plan as of the date of this Stock Option Agreement), any unvested Options shall be fully vested and exercisable immediately prior to such Change in Control. Upon the occurrence of Optionee's death, Disability, retirement or termination of Optionee's employment by the Employer without Cause or by Optionee for Good Reason, the Options shall continue to vest in accordance with paragraph 2 above and remain exercisable and Optionee (or his estate or personal representative in the case of death or Disability, as the case may be) shall have five (5) years from the Date of Termination

to exercise the Options, PROVIDED that the Compensation and Executive Organization Committee of the Board of Directors (the "Committee") shall retain its discretion to extend such five (5) year period. In no event, however, shall any post-termination exercise period extend beyond March 12, 2011.

5. The Options shall be exercisable by written notice given to the Employer substantially in one of the forms provided by the Law Department, or by such other method as shall be established by the Employer from time to time. If written notice is required to be given to the Employer for the exercise of Options (which is the method of exercise utilized by the Employer on the Grant Date), each such notice shall:

- a. state the election to exercise the Options and the number of shares to be exercised,
- b. be signed by the person exercising the Options and, in the event that the Options are being exercised by any person other than Optionee, be accompanied by proof of the right of such person to exercise the Options, and
- c. be accompanied by payment in full as provided in Sections 7II(f) and (g) of the Plan.

For so long as written notice to the Employer is required for the exercise of Options, the date of the exercise of the Options with respect to any particular shares shall be the date on which such written notice, proof (if required), and payment shall have been delivered to the Employer.

6. This grant of Options is subject to the employee minimum stockholding requirements established by the Committee in effect on the date hereof and as the same may be modified from time to time by the Committee. In the event Optionee has not satisfied the employee minimum stockholding requirement then in effect or then applicable to Optionee, Optionee shall be restricted in his or her ability to receive cash from such exercise and sale of the shares thereby acquired to the extent and on the terms provided for in the then applicable minimum stockholding requirements. The terms and conditions of the employee minimum stockholding requirements are subject to change at the discretion of the Committee.

7. Except to the extent that the Plan provides otherwise, the Options may not be assigned, transferred, pledged or hypothecated in any way whether by operation of law or otherwise by Optionee and the Options shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Options, or the rights or benefits, under this Stock Option Agreement and the levy of any execution, attachment or similar process upon such Options or such rights and benefits shall be null and void and without effect.

8. Any dispute or disagreement arising out of or relating to this Stock Option Agreement shall be resolved by binding arbitration in accordance with Section 9 of the Employment Agreement. Notwithstanding the foregoing, any dispute or disagreement which shall arise under, as a result of, or in any way relate to the interpretation, construction or administration of the Plan shall be determined in all cases and for all purposes by the Committee,

or any successor committee, and any such determination shall be final, binding and conclusive for all purposes.

9. The Employer shall at all times reserve, out of its authorized and unissued shares, a number of shares sufficient to provide for the exercise in full of the Options. All shares issued upon exercise of any Option shall be duly authorized and, when issued upon such exercise, shall be (a) validly issued, fully paid and non-assessable, (b) registered for sale, and for resale, by Optionee under Federal and state securities laws and shall remain registered so long as the shares may not be freely sold in the absence of such registration and (c) listed, or otherwise qualified, for trading in the United States on each national securities exchange or national securities market system on which the Common Stock is listed or qualified.

10. Subject to the provisions of this Stock Option Agreement, including, without limitation, paragraph 9 above, in selling the Employer's Common Stock (the "Shares") upon Optionee's exercise of his Options and delivering such Shares to Optionee, the Employer is fulfilling in full its contractual obligation to Optionee by making such transfer, and the Employer shall have no further obligations or duties with respect thereto and is discharged and released from the same. Other than in respect to the Exercise Price, the Employer makes no representations to Optionee regarding the market price of the Shares or the information which is available to Optionee regarding the Shares of the Employer.

11. The Employer represents and warrants that (a) it is fully authorized by its Board or the Committee (and of any person or body whose action is required) to enter into this Stock Option Agreement and to perform its obligations under it, (b) the execution, delivery and performance of this Stock Option Agreement by the Employer does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Employer or any agreement among holders of its shares and (c) upon the execution and delivery of this Stock Option Agreement by the Employer and Optionee, this Stock Option Agreement shall be the valid and binding obligation of the Employer, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

12. Optionee may be restricted by the Employer, based on the reasonable determination of its counsel, from exercising any of the Options to the extent necessary to comply with insider trading or other provisions of federal or state securities laws. In the event of any such restriction (other than one due to insider trading issues), the Employer shall take all such action as may be necessary or appropriate to eliminate such restriction at the earliest practicable date. In the event Optionee attempts to exercise any of the Options on or prior to March 12, 2011, and is restricted from doing so under this paragraph 12 until after March 12, 2011, Optionee shall be deemed to have exercised such Options on March 12, 2011 unless Optionee shall be rescinded such exercise prior to the elimination of such restriction.

13. The Options shall be subject to adjustment (including, without limitation, as to the number of shares of Common Stock covered by the Options) pursuant to Section 12 of the Plan in connection with the occurrence of any of the events described in Section 12 of the Plan following the Date of Grant.

14. All notices and other communications relating to this Stock Option Agreement shall be given as provided in Section 16(b) of the Employment Agreement.

15. a. This Stock Option Agreement is personal to Optionee and, except as otherwise provided in paragraph 7 above, shall not be assignable by Optionee otherwise than by will or the laws of descent and distribution, without the prior written consent of the Employer. This Stock Option Agreement shall inure to the benefit of and be enforceable by Optionee's legal representatives.

b. This Stock Option shall inure to the benefit of and be binding upon the Employer and its successors. It shall not be assignable except in connection with the sale or other disposition of all or substantially all of the assets or business of the Employer.

16. This Stock Option Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by Optionee and the Employer. No provision of this Stock Option Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

17. The grant of Options and all terms and conditions related thereto, including those of the Plan, shall be governed by the laws of the Commonwealth of Pennsylvania, without reference to principles of conflict of laws. In the event there is a conflict between the Plan as from time to time in effect and the terms and conditions in this Stock Option Agreement, this Stock Option Agreement shall govern unless the terms and conditions of the Plan are more favorable to Optionee. If such terms and conditions are more favorable to Optionee, then the Employer and Optionee agree that this Stock Option Agreement is amended to the extent necessary to enable Optionee to gain the benefit of the more favorable terms and conditions of the Plan.

16. This Stock Option Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be effective for all purposes.

Hershey Foods Corporation

By: _____
Name: Kenneth L. Wolfe
Title: Chairman and Chief Executive Officer

Accepted:

OPTIONEE

Richard H. Lenny

HERSHEY FOODS CORPORATION
KEY EMPLOYEE INCENTIVE PLAN

In recognition of your essential role in the continuing realization of Hershey's goals of sustained growth, you have been granted a Restricted Stock Unit Award under the Hershey Foods Corporation Key Employee Incentive Plan, representing the right, subject to restrictions, to acquire shares of Hershey Common Stock as follows:

NUMBER OF SHARES	50,000
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This grant is made pursuant to the Restricted Stock Unit Award Agreement dated as of March 12, 2001, between Hershey and you, which Agreement is attached hereto and made a part hereof.

HERSHEY FOODS CORPORATION KEY EMPLOYEE INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement (herein called the "Agreement") is made and entered into as of March 12, 2001, by and between Hershey Foods Corporation, a Delaware corporation (the "Company"), and Richard H. Lenny ("Employee"). The Restricted Stock Unit Award (as defined below) is governed by this Agreement and, subject to Paragraph 13(b), below, the Hershey Foods Corporation Key Employee Incentive Plan (the "Plan"). Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

1. AWARD OF RESTRICTED STOCK UNIT AWARD. In order to encourage Employee's contribution to the successful performance of the Company, and in consideration of the covenants and promises of Employee herein contained, the Company hereby awards to Employee as of the date first written above (the "Date of Grant"), pursuant to the terms of the Plan, a Restricted Stock Unit Award representing the right to acquire 50,000 shares of Common Stock, subject to the conditions, restrictions and limitations set forth below and in the Plan (the "Restricted Stock Unit Award"). Employee hereby acknowledges and accepts such grant and agrees to acquire the Restricted Stock Unit Award and the shares of Common Stock covered thereby upon such terms and subject to such conditions, restrictions and limitations, subject to Paragraph 13(b), below.

2. VESTING.

(a) Subject to the termination of the Restricted Stock Unit Award pursuant to Paragraph 3, below, or the acceleration of the vesting of the Units covered pursuant to Paragraphs 2(b) and 2(c), below, on the first and second Annual Vesting Dates (as hereinafter defined) following the Date of Grant, Employee shall become vested in fifty percent (50%) of the total number of Units covered by the Restricted Stock Unit Award, and such Units shall become Vested Units (as hereinafter defined).

(b) In all events, Employee shall become vested in all Units not yet vested under this Agreement, and such Units shall become Vested Units, no later than the earliest of (i) the second Annual Vesting Date following the Date of Grant, (ii) the Date of Termination (as hereinafter defined) upon Employee's Disability (as hereinafter defined), death, retirement or termination of Employee's employment by the Company without Cause (as hereinafter defined) or by Employee for Good Reason (as hereinafter defined) or (iii) upon the occurrence of a Change in Control (as is defined in the Plan as in effect as of the date of this Agreement). For purposes of the Plan, any termination of Employee's employment by the Company without Cause shall be deemed a resignation by Employee and, in the event of a termination by the Company without Cause or Employee for Good Reason, the provisions of this Paragraph 2(b) shall be the Compensation and Executive Organization Committee's (the "Committee") determination as to Employee's rights to or interests in the Units under the Plan.

(c) Notwithstanding the provisions of Paragraphs 2(a) and 2(b), above, and Paragraph 3, below, Employee shall become vested in any or all Units covered by the Restricted Stock Unit Award at an earlier date than provided in Paragraphs 2(a) and 2(b), above, and Paragraph 3, below, if the Committee expressly so determines, in its sole discretion.

3. EFFECT OF CERTAIN EVENTS. If Employee's employment with the Company is terminated by the Company for Cause or by Employee without Good Reason prior to the first date upon which all shares covered by the Restricted Stock Unit Award shall have become Vested Units pursuant to Paragraph 2 above, then the Restricted Stock Unit Award and Employee's right to receive shares hereunder (other than as to Units which are Vested Units at the Date of Termination) shall terminate, without any payment of consideration by the Company to Employee, unless expressly determined otherwise by the Committee, in its sole discretion.

4. RESTRICTIONS ON TRANSFER. The Restricted Stock Unit Award granted hereunder to Employee may not be sold, assigned, transferred, pledged or otherwise encumbered, whether voluntarily or involuntarily, by operation of law or otherwise. No right or benefit under this Agreement shall be subject to transfer, anticipation, alienation, sale, assignment, pledge, encumbrance or charge, whether voluntary, involuntary, by operation of law or otherwise, and any attempt to transfer, anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void.

5. DELIVERY OF SHARES.

(a) Except to the extent delivery has been deferred under an applicable deferred compensation plan of the Company, not less than thirty (30) days and not more than forty (40) days after each of the first two Annual Vesting Dates, the Company shall deliver to Employee one (1) share of Common Stock for each Unit which became a Vested Unit on the immediately preceding Annual Vesting Date.

(b) Within ten (10) days after the Units shall become Vested Units pursuant to Paragraph 2(b)(ii) or (iii), above, the Company shall deliver to Employee one (1) share of Common Stock for each Unit covered by the Restricted Stock Unit Award which has become a Vested Unit but only with respect to which a share of Common Stock has not yet been delivered.

6. WITHHOLDING TAX REQUIREMENTS. Except to the extent delivery has been deferred under an applicable deferred compensation plan of the Company, prior to the date on which shares of Common Stock are to be delivered pursuant to Paragraph 5, above, the Company shall deliver to Employee a notice specifying such amounts as Employee is required to pay to satisfy applicable tax withholding requirements. In the event that the Company does not exercise its right to withhold shares of stock at the time of vesting to cover such tax withholding requirements as provided in the Plan, Employee hereby agrees that Employee shall either: (i) deliver to the Company by the due date specified in such notice a check equal to the amount set forth in such notice, or (ii) direct the Company to withhold, at the time of delivery of shares pursuant to Paragraph 5, above, an appropriate number of shares to satisfy the applicable tax withholding requirements (with such shares valued based on their Fair Market Value on the day the Company delivers the shares pursuant to Paragraph 5, above), or (iii) make other appropriate arrangements acceptable to or required by the Company to satisfy such tax withholding requirements. Failure by Employee to comply with the foregoing shall entitle the Committee, in its sole discretion, to authorize the sale of a sufficient number of shares of Common Stock owned by Employee in order to satisfy such withholding requirements. Upon the payment of any dividend equivalents payable pursuant to Paragraph 10 hereof, Employee agrees that the

Company shall be entitled to deduct therefrom such amounts as are necessary to satisfy applicable tax withholding requirements.

7. SALE AND ISSUANCE OF COMMON STOCK. Employee agrees that Employee shall not sell Award Shares, and that the Company shall not be obligated to deliver any shares of Common Stock if counsel to the Company reasonably determines that such sale or delivery would violate any applicable law rule or regulation of any governmental authority or any applicable rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Common Stock is listed or quoted. In the event of any such restriction (other than one due to insider trading issues), the Company shall take all such action as may be necessary or appropriate to eliminate such restriction at the earliest practicable date. All Award Shares, when issued, shall be duly authorized and shall be (a) validly issued, fully paid and nonassessable, (b) registered for sale, and for resale, by Employee under Federal and state securities laws and shall remain registered so long as the shares may not be freely sold in the absence of such registration and (c) listed, or otherwise qualified, for trading in the United States on each national securities exchange or national securities market system on which the Common Stock is listed or qualified.

8. LIMITATION OF RIGHTS. Nothing contained in this Agreement or the Plan, and no action of the Company with respect hereto, shall confer or be construed to confer on Employee any right to continue in the employment or service of the Company, or affect the right of the Company to terminate the employment or service of Employee at any time for any reason.

9. PREREQUISITES TO BENEFITS. Neither Employee nor any person claiming through Employee shall have any right or interest in the Units awarded hereunder, unless and until all of the terms, conditions and provisions of this Agreement and the Plan, as amended hereby, which affect Employee or such other person shall have been complied with as specified herein.

10. NO RIGHTS AS A STOCKHOLDER PRIOR TO DELIVERY, PAYMENT OF DIVIDEND EQUIVALENTS; ADJUSTMENT. Employee shall not have any right, title or interest in, or be entitled to vote or receive distributions in respect of, or otherwise be considered the owner of, any of the shares of Common Stock covered by the Restricted Stock Unit Award, except to the extent that such shares are Award Shares. Notwithstanding the foregoing, upon the Units becoming Vested Units pursuant to Paragraph 2, above, Employee shall be entitled to receive a cash payment in an amount equal to each cash dividend the Company would have paid to Employee during the term of the Units as if Employee had been the owner of record of the shares of Common Stock covered by such Units on the record date for the payment of such dividend. In lieu of receiving such payment at the time of such Units becoming Vested Units, all or any portion of such payment may be deferred by Employee pursuant to an applicable deferred compensation plan with the approval of the Committee. The Restricted Stock Unit Award shall be subject to adjustment (including, without limitation, as to the number of shares of Common Stock covered by the Award) pursuant to Section 12 of the Plan in connection with the occurrence of any of the events described in Section 12 of the Plan following the Date of Grant.

11. COMPANY REPRESENTATIONS. The Company represents and warrants that (a) it is fully authorized by its Board or the Committee (and of any person or body whose action is required) to enter into this Agreement and to perform its obligations under it, (b) the execution,

delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Company or any agreement among holders of its shares and (c) upon the execution and delivery of this Agreement by the Company and Employee, this Agreement shall be the valid and binding obligation of the Company, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

12. CERTAIN DEFINITIONS. For purposes of this Agreement, the following additional definitions shall be applicable:

"Annual Vesting Date" shall mean with respect to any year, beginning with 2002, March 12.

"Award Shares" shall mean shares of Common Stock covered by the Restricted Stock Unit Award which have been delivered pursuant to Paragraph 5, above.

"Cause" shall have the same meaning as in the Employment Agreement.

"Date of Termination" shall have the same meaning as in the Employment Agreement.

"Disability" shall have the same meaning as in the Employment Agreement.

"Employment Agreement" shall mean the Executive Employment Agreement dated as of March 12, 2001, between the Company and Employee.

"Good Reason" shall have the same meaning as in the Employment Agreement.

A "Unit" covered by the Restricted Stock Unit Award shall mean the right to receive, pursuant to the terms of this Agreement, a share of Common Stock, and any other amount or property payable with respect thereto, covered by the Restricted Stock Unit Award.

"Vested Units" shall mean units corresponding to shares of Common Stock covered by the Restricted Stock Unit Award which at the time in question have become Vested Units pursuant to Paragraph 2 hereof.

13. MISCELLANEOUS PROVISIONS. For purposes of this Agreement, the following miscellaneous provisions shall be applicable:

(a) RECEIPT AND REVIEW OF PLAN AND PROSPECTUS. Employee acknowledges receipt of a copy of the Plan, together with the Prospectus relating thereto and to the Common Stock. Employee further acknowledges notice of the terms, conditions, restrictions and limitations contained in the Plan, and acknowledges the restrictions set forth in this Agreement.

(b) CONFLICTS. This Agreement amends and modifies the Plan. The Company and Employee agree to be bound by all of the terms, conditions, restrictions and limitations of the Plan, as amended and modified by this Agreement. The Company and Employee agree that the Plan may be amended from time to time in accordance with the terms thereof, but no such

amendment shall, without Employee's consent, adversely affect the rights specifically granted Employee hereunder or under the Plan. In the event there is a conflict between the Plan and the terms and conditions in this Agreement, this Agreement shall govern unless the terms and conditions of the Plan are more favorable to Employee. If such terms and conditions are more favorable to Employee, then the Company and Employee agree that this Agreement is amended to the extent necessary to enable Employee to gain the benefit of the more favorable terms and conditions of the Plan.

(c) SUCCESSORS.

(i) This Agreement is personal to Employee and, except as otherwise provided in Paragraph 4 above, shall not be assignable by Employee otherwise than by will or the laws of descent and distribution, without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by Employee's legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon Company and its successors. It shall not be assignable except in connection with the sale or other disposition of all or substantially all the assets or business of the Company.

(d) NOTICE. All notices and other communications relating to this Agreement shall be given as provided in Section 16(b) of the Employment Agreement.

(e) SEVERABILITY. If any provision of this Agreement for any reason should be found by any court of competent jurisdiction to be invalid, illegal or unenforceable, in whole or in part, such declaration shall not affect the validity, legality or enforceability of any remaining provision or portion thereof, which remaining provision or portion thereof shall remain in full force and effect as if this Agreement had been adopted with the invalid, illegal or unenforceable provision or portion thereof eliminated.

(f) HEADINGS. The headings, captions and arrangements utilized in this Agreement shall not be construed to limit or modify the terms or meaning of this Agreement.

(g) EQUITABLE RELIEF. Any dispute or disagreement arising out of or relating to this Agreement shall be resolved by binding arbitration in accordance with Section 9 of the Employment Agreement. Notwithstanding the foregoing, either party shall be entitled to enforce the terms and provisions of this Agreement by an action for injunction and/or specific performance, and any such action may be brought in any federal or state court located in the county where the Company has its principal business headquarters.

(h) GOVERNING LAW; JURISDICTION. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania without reference to conflict of laws principles. Subject to Paragraph 13(g), above, any action, suit or proceeding arising out of any claim against the Company pursuant to this Agreement shall be brought exclusively in the federal or state courts located in the state in which the Company has its principal business headquarters.

(i) DETERMINATIONS BY COMMITTEE. All references in this Agreement to determinations to be made by the Committee shall be deemed to include determinations by any person or persons to whom the Committee may delegate such authority in accordance with the rules adopted thereby.

(j) ENTIRE AGREEMENT; AMENDMENT OR WAIVER. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by Employee and the Company. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

(k) COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be effective for all purposes.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written by an officer of the Company and by Employee.

EMPLOYEE:

HERSHEY FOODS CORPORATION:

Richard H. Lenny _____

Name: Kenneth L. Wolfe
Its: Chairman and Chief Executive Officer

HERSHEY FOODS CORPORATION
KEY EMPLOYEE INCENTIVE PLAN

In recognition of your essential role in the continuing realization of Hershey's goals of sustained growth, you have been granted a Restricted Stock Unit Award under the Hershey Foods Corporation Key Employee Incentive Plan, representing the right, subject to restrictions, to acquire shares of Hershey Common Stock as follows:

NUMBER OF SHARES	15,542
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This grant is made pursuant to the Restricted Stock Unit Award Agreement dated as of January 2, 2002, between Hershey and you, which Agreement is attached hereto and made a part hereof.

HERSHEY FOODS CORPORATION KEY EMPLOYEE INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Restricted Stock Unit Award Agreement (herein called the "Agreement") is made and entered into as of January 2, 2002, by and between Hershey Foods Corporation, a Delaware corporation (the "Company"), and Richard H. Lenny ("Employee"). The Restricted Stock Unit Award (as defined below) is governed by this Agreement and, subject to Paragraph 13(b), below, the Hershey Foods Corporation Key Employee Incentive Plan (the "Plan"). Except as defined herein, capitalized terms shall have the same meanings ascribed to them under the Plan.

1. AWARD OF RESTRICTED STOCK UNIT AWARD. In order to encourage Employee's contribution to the successful performance of the Company, and in consideration of the covenants and promises of Employee herein contained, the Company hereby awards to Employee as of the date first written above (the "Date of Grant"), pursuant to the terms of the Plan, a Restricted Stock Unit Award representing the right to acquire 15,542 shares of Common Stock, subject to the conditions, restrictions and limitations set forth below and in the Plan (the "Restricted Stock Unit Award"). Employee hereby acknowledges and accepts such grant and agrees to acquire the Restricted Stock Unit Award and the shares of Common Stock covered thereby upon such terms and subject to such conditions, restrictions and limitations, subject to Paragraph 13(b), below.

2. VESTING.

(a) Subject to the termination of the Restricted Stock Unit Award pursuant to Paragraph 3, below, or the acceleration of the vesting of the Units covered pursuant to Paragraphs 2(b) and 2(c), below, on each of March 12, 2002, and March 12, 2003 (each, a "Vesting Date," and collectively, "Vesting Dates"), Employee shall become vested in fifty percent (50%) of the total number of Units covered by the Restricted Stock Unit Award, and such Units shall become Vested Units (as hereinafter defined).

(b) In all events, Employee shall become vested in all Units not yet vested under this Agreement, and such Units shall become Vested Units, no later than the earliest of (i) March 12, 2003, (ii) the Date of Termination (as hereinafter defined) upon Employee's Disability (as hereinafter defined), death, retirement or termination of Employee's employment by Company without Cause (as hereinafter defined) or by Employee for Good Reason (as hereinafter defined) or (iii) upon the occurrence of a Change in Control (as defined in the Plan as in effect as of the date of this Agreement). For purposes of the Plan, any termination of Employee's employment by the Company without Cause shall be deemed a resignation by Employee and, in the event of a termination by the Company without Cause or Employee for Good Reason, the provisions of this Paragraph 2(b) shall be the Compensation and Executive Organization Committee's (the "Committee") determination as to Employee's rights to or interests in the Units under the Plan.

(c) Notwithstanding the provisions of Paragraphs 2(a) and 2(b), above, and Paragraph 3, below, Employee shall become vested in any or all Units covered by the Restricted Stock Unit Award at an earlier date than provided in Paragraphs 2(a) and 2(b), above, and Paragraph 3, below, if the Committee expressly so determines, in its sole discretion.

3. EFFECT OF CERTAIN EVENTS. If Employee's employment with the Company is terminated by the Company for Cause or by Employee without Good Reason prior to the first date upon which all shares covered by the Restricted Stock Unit Award shall have become Vested Units pursuant to Paragraph 2 above, then the Restricted Stock Unit Award and Employee's right to receive shares hereunder (other than as to Units which are Vested Units at the Date of Termination) shall terminate, without any payment of consideration by the Company to Employee, unless expressly determined otherwise by the Committee, in its sole discretion.

4. RESTRICTIONS ON TRANSFER. The Restricted Stock Unit Award granted hereunder to Employee may not be sold, assigned, transferred, pledged or otherwise encumbered, whether voluntarily or involuntarily, by operation of law or otherwise. No right or benefit under this Agreement shall be subject to transfer, anticipation, alienation, sale, assignment, pledge, encumbrance or charge, whether voluntary, involuntary, by operation of law or otherwise, and any attempt to transfer, anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void.

5. DELIVERY OF SHARES.

(a) Except to the extent delivery has been deferred under an applicable deferred compensation plan of the Company, not less than thirty (30) days and not more than forty (40) days after each of the Vesting Dates, the Company shall deliver to Employee one (1) share of Common Stock for each Unit which became a Vested Unit on the immediately preceding Vesting Date.

(b) Within ten (10) days after the Units shall become Vested Units pursuant to Paragraph 2(b)(ii) or (iii), above, the Company shall deliver to Employee one (1) share of Common Stock for each Unit covered by the Restricted Stock Unit Award which has become a Vested Unit but only with respect to which a share of Common Stock has not yet been delivered.

6. WITHHOLDING TAX REQUIREMENTS. Except to the extent delivery has been deferred under an applicable deferred compensation plan of the Company, prior to the date on which shares of Common Stock are to be delivered pursuant to Paragraph 5, above, the Company shall deliver to Employee a notice specifying such amounts as Employee is required to pay to satisfy applicable tax withholding requirements. In the event that the Company does not exercise its right to withhold shares of stock at the time of vesting to cover such tax withholding requirements as provided in the Plan, Employee hereby agrees that Employee shall either: (i) deliver to the Company by the due date specified in such notice a check equal to the amount set forth in such notice, or (ii) direct the Company to withhold, at the time of delivery of shares pursuant to Paragraph 5, above, an appropriate number of shares to satisfy the applicable tax withholding requirements (with such shares valued based on their Fair Market Value on the date the Company delivers the shares pursuant to Paragraph 5, above) or (iii) make other appropriate arrangements acceptable to or required by the Company to satisfy such tax withholding requirements. Failure by Employee to comply with the foregoing shall entitle the Committee, in its sole discretion, to authorize the sale of a sufficient number of shares of Common Stock owned by Employee in order to satisfy such withholding requirements. Upon the payment of any dividend equivalents payable pursuant to Paragraph 10 hereof, Employee agrees that the

Company shall be entitled to deduct therefrom such amounts as are necessary to satisfy applicable tax withholding requirements.

7. SALE AND ISSUANCE OF COMMON STOCK. Employee agrees that Employee shall not sell Award Shares, and that the Company shall not be obligated to deliver any shares of Common Stock if counsel to the Company reasonably determines that such sale or delivery would violate any applicable law, rule or regulation of any governmental authority or any applicable rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Common Stock is listed or quoted. In the event of any such restriction (other than one due to insider trading issues), the Company shall take all such action as may be necessary or appropriate to eliminate such restriction at the earliest practicable date. All Award Shares, when issued, shall be duly authorized and shall be (a) validly issued, fully paid and nonassessable, (b) registered for sale, and for resale, by Employee under Federal and State securities laws and shall remain registered so long as the shares may not be freely sold in the absence of such registration and (c) listed, or otherwise qualified, for trading in the United States on each national securities exchange or national securities market system on which the Common Stock is listed or qualified.

8. LIMITATION OF RIGHTS. Nothing contained in this Agreement or the Plan, and no action of the Company with respect hereto, shall confer or be construed to confer on Employee any right to continue in the employment or service of the Company, or affect the right of the Company to terminate the employment or service of Employee at any time for any reason.

9. PREREQUISITES TO BENEFITS. Neither Employee nor any person claiming through Employee shall have any right or interest in the Units awarded hereunder, unless and until all of the terms, conditions and provisions of this Agreement and the Plan, as amended hereby, which affect Employee or such other person shall have been complied with as specified herein.

10. NO RIGHTS AS A STOCKHOLDER PRIOR TO DELIVERY, PAYMENT OF DIVIDEND EQUIVALENTS; ADJUSTMENT. Employee shall not have any right, title or interest in, or be entitled to vote or receive distributions in respect of, or otherwise be considered the owner of, any of the shares of Common Stock covered by the Restricted Stock Unit Award, except to the extent that such shares are Award Shares. Notwithstanding the foregoing, upon the Units becoming Vested Units pursuant to Paragraph 2, above, Employee shall be entitled to receive a cash payment in an amount equal to each cash dividend the Company would have paid to Employee during the term of the Units as if Employee had been the owner of record of the shares of Common Stock covered by such Units on the record date for the payment of such dividend. In lieu of receiving such payment at the time of such Units becoming Vested Units, all or any portion of such payment may be deferred by Employee pursuant to an applicable deferred compensation plan with the approval of the Committee. The Restricted Stock Unit Award shall be subject to adjustment (including, without limitation, as to the number of shares of Common Stock covered by the Award) pursuant to Section 12 of the Plan in connection with the occurrence of any of the events described in Section 12 of the Plan following the Date of Grant.

11. COMPANY REPRESENTATIONS. The Company represents and warrants that (a) it is fully authorized by its Board or the Committee (and of any person or body whose action is required) to enter into this Agreement and to perform its obligations under it, (b) the execution,

delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Company or any agreement among holders of its shares and (c) upon the execution and delivery of this Agreement by the Company and Employee, this Agreement shall be the valid and binding obligation of the Company, enforceable in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

12. CERTAIN DEFINITIONS. For purposes of this Agreement, the following additional definitions shall be applicable:

"Award Shares" shall mean shares of Common Stock covered by the Restricted Stock Unit Award which have been delivered pursuant to Paragraph 5, above.

"Cause" shall have the same meaning as in the Employment Agreement.

"Date of Termination" shall have the same meaning as in the Employment Agreement.

"Disability" shall have the same meaning as in the Employment Agreement.

"Employment Agreement" shall mean the Executive Employment Agreement dated as of March 12, 2001, between the Company and Employee.

"Good Reason" shall have the same meaning as in the Employment Agreement.

A "Unit" covered by the Restricted Stock Unit Award shall mean the right to receive, pursuant to the terms of this Agreement, a share of Common Stock, and any other amount or property payable with respect thereto, covered by the Restricted Stock Unit Award.

"Vested Units" shall mean units corresponding to shares of Common Stock covered by the Restricted Stock Unit Award which at the time in question have become Vested Units pursuant to Paragraph 2 hereof.

13. MISCELLANEOUS PROVISIONS. For purposes of this Agreement, the following miscellaneous provisions shall be applicable:

(a) RECEIPT AND REVIEW OF PLAN AND PROSPECTUS. Employee acknowledges receipt of a copy of the Plan, together with the Prospectus relating thereto and to the Common Stock. Employee further acknowledges notice of the terms, conditions, restrictions and limitations contained in the Plan, and acknowledges the restrictions set forth in this Agreement.

(b) CONFLICTS. This Agreement amends and modifies the Plan. The Company and Employee agree to be bound by all of the terms, conditions, restrictions and limitations of the Plan, as amended and modified by this Agreement. The Company and Employee agree that the Plan may be amended from time to time in accordance with the terms thereof, but no such amendment shall, without Employee's consent, adversely affect the rights specifically granted Employee hereunder or under the Plan. In the event there is a conflict between the Plan and the terms and conditions in this Agreement, this Agreement shall govern unless the terms and

conditions of the Plan are more favorable to Employee. If such terms and conditions are more favorable to Employee, then the Company and Employee agree that this Agreement is amended to the extent necessary to enable Employee to gain the benefit of the more favorable terms and conditions of the Plan.

(c) SUCCESSORS.

(i) This Agreement is personal to Employee and, except at otherwise provided in Paragraph 4 above, shall not be assignable by Employee otherwise than by will or the laws of descent and distribution, without the written consent of the Company. This Agreement shall inure to the benefit of and be enforceable by Employee's legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon Company and its successors. It shall not be assignable except in connection with the sale or other disposition of all or substantially all the assets or business of the Company.

(d) NOTICES. All notices and other communications relating to this Agreement shall be given as provided in Section 16(b) of the Employment Agreement.

(e) SEVERABILITY. If any provision of this Agreement for any reason should be found by any court of competent jurisdiction to be invalid, illegal or unenforceable, in whole or in part, such declaration shall not affect the validity, legality or enforceability of any remaining provision or portion thereof, which remaining provision or portion thereof shall remain in full force and effect as if this Agreement had been adopted with the invalid, illegal or unenforceable provision or portion thereof eliminated.

(f) HEADINGS. The headings, captions and arrangements utilized in this Agreement shall not be construed to limit or modify the terms or meaning of this Agreement.

(g) EQUITABLE RELIEF. Any dispute or disagreement arising out of or relating to this Agreement shall be resolved by binding arbitration in accordance with Section 9 of the Employment Agreement. Notwithstanding the foregoing, either party shall be entitled to enforce the terms and provisions of this Agreement by an action for injunction and/or specific performance, and any such action may be brought in any federal or state court located in the county where the Company has its principal business headquarters.

(h) GOVERNING LAW; JURISDICTION. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania without reference to conflict of laws principles. Subject to Paragraph 13(g), above, any action, suit or proceeding arising out of any claim against the Company pursuant to this Agreement shall be brought exclusively in the federal or state courts located in the state in which the Company has its principal business headquarters.

(i) DETERMINATIONS BY COMMITTEE. All references in this Agreement to determinations to be made by the Committee shall be deemed to include determinations by any person or persons to whom the Committee may delegate such authority in accordance with the rules adopted thereby.

(j) ENTIRE AGREEMENT; AMENDMENT OR WAIVER. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by Employee and the Company. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

(k) COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. Signatures delivered by facsimile shall be effective for all purposes.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written by an officer of the Company and by Employee.

EMPLOYEE:

HERSHEY FOODS CORPORATION:

Richard H. Lenny

Name:
Its:

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands of dollars except for ratios)
(Unaudited)

For the Three Months Ended

	April 1, 2001	April 2, 2000
	-----	-----
Earnings:		
Income before income taxes	\$ 126,859	\$ 116,688
Add (deduct):		
Interest on indebtedness	18,269	18,946
Portion of rents representative of the Interest factor (a)	3,649	3,847
Amortization of debt expense	116	122
Amortization of capitalized interest	1,055	1,059
	-----	-----
Earnings as adjusted	\$ 149,948	\$ 140,662
	=====	=====
Fixed Charges:		
Interest on indebtedness	\$ 18,269	\$ 18,946
Portion of rents representative of the Interest factor (a)	3,649	3,847
Amortization of debt expense	116	122
Capitalized interest	272	---
	-----	-----
Total fixed charges	\$ 22,306	\$ 22,915
	=====	=====
Ratio of earnings to fixed charges	6.72	6.14
	=====	=====

NOTE:

(a) Portion of rents representative of the interest factor consists of all rental expense pertaining to operating leases used to finance the purchase or construction of warehouse and distribution facilities, and one-third of rental expense for other operating leases.
