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

FORM 10-K

(MARK ONE)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

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

REGISTRANT, STATE OF INCORPORATION,
ADDRESS AND TELEPHONE NUMBER

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

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

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

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

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

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

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

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

Common Stock, one dollar par value -- $5,935,504,658 as of March 1, 1999.

Class B Common Stock, one dollar par value -- $8,718,311 as of March 1, 1999. While the Class B Common Stock is not listed for public trading on any exchange or market system, shares of that class are convertible into shares of Common Stock at any time on a share-for-share basis. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on March 1, 1999.

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

Common Stock, one dollar par value -- 109,262,899 shares, as of March 1, 1999.

Class B Common Stock, one dollar par value -- 30,446,908 shares, as of March 1, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 1998 are included in Appendix A to the Corporation's Proxy Statement for the Corporation's 1999 Annual Meeting of Stockholders and are incorporated by reference into Part II and are filed as Exhibit 13 hereto. Portions of the Proxy Statement are incorporated by reference herein into Part III.

PART I

ITEM 1.BUSINESS

Hershey Foods Corporation and its subsidiaries (the "Corporation") are engaged in the manufacture, distribution and sale of consumer food products. The Corporation produces and distributes a broad line of chocolate and non-chocolate confectionery, and grocery products.

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

In January 1999, the Corporation completed the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction included the AMERICAN BEAUTY, IDEAL BY SAN GIORGIO, LIGHT `N FLUFFY, MRS. WEISS, P&R, RONZONI, SAN GIORGIO and SKINNER pasta brands along with six manufacturing plants. The Corporation retained a 6% minority interest in the business.

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

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

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

The Corporation's products are sold primarily to grocery wholesalers, chain grocery stores, candy distributors, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, concessionaires and food distributors by full-time sales representatives, food brokers and part-time retail sales merchandisers throughout the United States, Canada and Mexico. The Corporation believes its products are sold in over 2 million retail outlets in North America. In 1998, sales to Wal-Mart Stores, Inc. and Subsidiaries amounted to approximately 14% of the Corporation's total net sales.

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

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

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

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

The most significant raw material used in the production of the Corporation's chocolate products is cocoa beans. This commodity is imported principally from West African, South American and Far Eastern equatorial regions. West Africa accounts for approximately 65% of the world's crop. Cocoa beans are not uniform, and the various grades and varieties reflect the diverse agricultural practices and natural conditions found in the many growing areas. The Corporation buys a mix of cocoa beans to meet its manufacturing requirements.

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

COCOA FUTURES CONTRACT PRICES
(CENTS PER POUND)

	1994	1995	1996	1997	1998
Annual Average.....	59.1	61.2	62.1	70.0	72.7
High...............	66.1	64.1	64.4	77.2	78.3
Low................	51.3	58.3	57.4	59.1	65.5

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

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

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

Peanut prices remained near recent historical levels throughout 1998.

Dairy prices reached historic highs in 1998, reflecting generally poor weather which adversely affected production and strong demand for cheese and butter.

Almond prices remained at relatively high levels throughout 1998 as a result of poor weather in California and Europe.

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

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

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

The Corporation has license agreements with several companies to manufacture and/or sell products worldwide. Among the more significant are agreements with affiliated companies of Cadbury Schweppes p.l.c. to manufacture and/or market and distribute YORK, PETER PAUL ALMOND JOY and PETER PAUL MOUNDS confectionery products worldwide as well as CADBURY and CARAMELLO confectionery products in the United States. The Corporation's rights under these agreements are extendible on a long-term basis at the Corporation's option. The license for CADBURY and CARAMELLO products is subject to a minimum sales requirement which the Corporation exceeded in 1998. The Corporation also has an agreement with Societe des Produits Nestle SA, which licenses the Corporation to manufacture and distribute KIT KAT and ROLO confectionery products in the United States. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option, subject to certain conditions, including minimum unit volume sales. In 1998, the minimum volume requirements were exceeded. The Corporation has an agreement with an affiliate of Huhtamaki Oy (Huhtamaki) pursuant to which it licenses the use of certain trademarks, including GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY and WHOPPERS confectionery products in the North, Central and South American regions. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option.

YEAR 2000 ISSUES

Year 2000 issues associated with information systems relate to the way dates are recorded and computed in many computer systems. These year 2000 issues could have an impact upon the Corporation's information technology (IT) and non-IT systems. Non-IT systems include embedded technology such as microcontrollers which are integral to the operation of most machinery and equipment. Additionally, year 2000 issues could have a similar impact on the Corporation's major business partners, including both customers and suppliers. While it is not currently possible to estimate the total impact of a failure of either the Corporation or its major business partners or suppliers to complete their year 2000 remediation in a timely manner, the Corporation has determined that it could suffer significant adverse financial consequences as a result of such failure.

Awareness and assessment of year 2000 issues regarding major business applications software and other significant IT systems began in 1990. A formal program to address year 2000 issues associated with IT systems was established in late 1995. In early 1998, a team was established with representatives from all major functional areas of the Corporation which assumed overall responsibility for ensuring that remediation of both IT and non-IT systems will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. The Corporation expects that remediation of these systems will be essentially completed by the third quarter of 1999.

In late 1996, the Corporation approved a project to implement an enterprise-wide integrated information system to improve process efficiencies in all of the major functional areas of the Corporation, enabling the Corporation to provide better service to its customers. This system will replace most of the transaction systems and applications supporting operations of the Corporation. In addition to improving efficiency and customer service, another benefit of this system is that it is year 2000 compliant and will address year 2000 issues for approximately 80% of the Corporation's business applications software. As of December 31, 1998, approximately $62.1 million of capitalized software and hardware and $6.9 million of expenses have been incurred for this project. As of December 31, 1998, spending for implementation of this system was approximately 65% complete, with full implementation expected by the third quarter of 1999. Total commitments for this system and subsequently identified enhancements are expected to be approximately $110 million which will be financed with cash provided from operations and short-term borrowings.

The Corporation's mainframe, network and desktop hardware and software have recently been upgraded and are substantially year 2000 compliant. The Corporation is in the process of remediating year 2000 compliance issues associated with legacy information systems not being replaced by the integrated information system project, including process automation and factory management systems. During late 1998, the Corporation undertook an extensive review of its year 2000 remediation program. As a result of this review, the Corporation has undertaken additional testing to confirm its year 2000 compliance, but is otherwise maintaining its current program of remediation. As of December 31, 1998, remediation of both IT and non-IT systems was approximately 60% complete, reflecting the latest estimate of testing and work requirements to be performed. The total cost of remediation of IT and non-IT systems is expected to be in the range of $6.0 million to $8.0 million.

The Corporation is also in the process of assessing year 2000 remediation issues relating to its major business partners. All of the Corporation's major customers have been contacted regarding year 2000 issues related to electronic data interchange. The Corporation is also in the process of contacting its major suppliers of ingredients, packaging, facilities, logistics and financial services with regard to year 2000 issues. Because of the uncertainties associated with assessing the ability of major business partners to complete the remediation of their systems in time to prevent operational difficulties, the Corporation will continue to contact and/or visit major customers and suppliers to gain assurances that no significant adverse consequences will result due to their failure to complete remediation of their systems.

Year 2000 remediation, conversion, validation and implementation is continuing and, at the present time, it is expected that remediation to both the Corporation's IT and non-IT systems and those of major business partners will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. However, contingency plans are being developed, including possible increases in raw material and finished goods inventory levels, and the identification of alternate vendors and suppliers. Additional contingency plans, to the extent feasible, will be developed for any potential failures resulting from year 2000 issues.

COMPETITION

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

TRADEMARKS

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

BACKLOG OF ORDERS

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

RESEARCH AND DEVELOPMENT

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

REGULATION

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

ENVIRONMENTAL CONSIDERATIONS

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

EMPLOYEES

As of December 31, 1998, the Corporation had approximately 14,700 full-time and 1,500 part-time employees, of whom approximately 6,800 were covered by collective bargaining agreements. In January 1999, a reduction of approximately 900 full-time and 30 part-time employees resulted from the completion of the sale of the pasta business. The Corporation considers its employee relations to be good.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Information concerning the Corporation's geographic segments is contained in Footnote 15 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement for its 1999 Annual Meeting of Stockholders (the "Proxy Statement"), which information is incorporated herein by reference and filed as Exhibit 13 hereto.

SAFE HARBOR STATEMENT

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

ITEM 2. PROPERTIES

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

UNITED STATES

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

CANADA

- Smiths Falls, Ontario - confectionery and grocery products

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

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

ITEM 3. LEGAL PROCEEDINGS

In January 1999, the Corporation received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The most significant issue pertains to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS proposed the disallowance of interest expense deductions associated with the underlying life insurance policies. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program. The Corporation expects to file a protest of the proposed deficiency with the Appeals section of the IRS in early 1999 and intends to vigorously defend its position on this matter. The Corporation has no other material pending legal proceedings, other than ordinary routine litigation incidental to its business.

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

Not applicable.

PART II

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

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

ITEM 6. SELECTED FINANCIAL DATA

The following information, for the five years ended December 31, 1998, found in the section "Eleven-Year Consolidated Financial Summary" on pages A-35 through A-37 of the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis included in Appendix A to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto: Net Sales; Income from Continuing Operations Before Accounting Changes; Income Per Share from Continuing Operations Before Accounting Changes - Basic (excluding Notes h, i and j); Dividends Paid on Common Stock (and related Per Share amounts); Dividends Paid on Class B Common Stock (and related Per Share amounts); Long-term Portion of Debt; and Total Assets.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

1. Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996. (Page A-12)

2. Consolidated Balance Sheets as of December 31, 1998 and 1997. (Page A-13)

3. Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996. (Page A-14)

4. Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996. (Page A-15)

5. Notes to Consolidated Financial Statements (Pages A-16 through A-32), including "Quarterly Data (Unaudited)." (Page A-32)

6. Report of Independent Public Accountants. (Page A-34)

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

EXECUTIVE OFFICERS OF THE CORPORATION AS OF MARCH 1, 1999

NAME	AGE	POSITIONS HELD DURING THE LAST FIVE YEARS
K. L. Wolfe.......	60	Chairman of the Board and Chief Executive Officer (1993)
J. P. Viviano.....	60	Vice Chairman of the Board (1999); President and Chief Operating Officer (1993)
M. F. Pasquale....	51	Senior Vice President, Confectionery and Grocery (1999); President, Hershey Chocolate North America (1995); President, Hershey Chocolate U.S.A. (1994)
W. F. Christ	58	Senior Vice President, Chief Financial Officer and Treasurer (1997); Senior Vice President and Chief Financial Officer (1994)
R. Brace	55	Senior Vice President, Operations (1999); Vice President, Operations (1997); Vice President, Manufacturing, Hershey Chocolate North America (1995); Vice President, Manufacturing, Hershey Chocolate U.S.A. (1987)
R. M. Reese	49	Senior Vice President - Public Affairs, General Counsel and Secretary (1999); Vice President, General Counsel and Secretary (1995); Vice President and General Counsel (1992)
J. R. Canavan (1).	51	Vice President, Human Resources (1999)
D. W. Tacka.......	45	Corporate Controller and Chief Accounting Officer (1995); Vice President, Finance and Administration, Hershey Pasta Group, part of the former Hershey Pasta and Grocery Group for which a 94% majority interest was sold in 1999 (1989)

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

(1) Mr. Canavan was elected Vice President, Human Resources effective January 1, 1999. Prior to joining the Corporation he was Vice President, Staffing, IBM United States Corporation in New York (1998) and Vice President, Human Resources, IBM North America (1993).

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

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

ITEM 11 EXECUTIVE COMPENSATION

Information concerning compensation of the five most highly-compensated executive officers, including the Chairman of the Board and Chief Executive Officer, of the Corporation individually, and compensation of directors, is set forth in the sections "1998 Executive Compensation" and "Directors' Compensation" in the Proxy Statement. This information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

ITEM 14(a)(1): FINANCIAL STATEMENTS

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

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

The following consolidated financial statement schedule of the Corporation and its subsidiaries for the years ended December 31, 1998, 1997 and 1996 is filed herewith on the indicated page in response to Item 14(d):

Schedule II -- Valuation and Qualifying Accounts (Page 15)

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

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

ITEM 14(a)(3): EXHIBITS

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

(3) Articles of Incorporation and By-laws

The Corporation's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended April 3, 1988. The By-laws, as amended and restated as of December 1, 1998, are attached hereto as Exhibit 3.

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

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

a. 6.7% Notes due 2005

b. 6.95% Notes due 2007

c. 6.95% Notes due 2012

d. 8.8% Debentures due 2021

e. 7.2% Debentures due 2027

f. Other Obligations

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

(10) Material contracts

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

b. Peter Paul/York Domestic Trademark & Technology License Agreement between Hershey Foods Corporation and Cadbury Schweppes Inc. (now CBI Holdings, Inc.) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Corporation's Current Report on Form 8-K dated September 8, 1988. This agreement was assigned by the Corporation to its wholly owned subsidiary, Homestead, Inc., effective January 1, 1998.

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

d. 364-Day Credit Agreement among Hershey Foods Corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof, and Citibank, N.A. as administrative agent bank and Citicorp Securities, Inc. and BA Securities, Inc. as co-syndication agents, is incorporated by reference from Exhibit 10.1 to the Corporation's Current Report on Form 8-K dated January 29, 1996. The 364-Day Credit Agreement was renewed in late 1998.

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

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

Executive Compensation Plans

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

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

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

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

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

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

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

A computation of ratio of earnings to fixed charges for the years ended December 31, 1998, 1997, 1996, 1995 and 1994 is filed as Exhibit 12 hereto.

(13) Annual report to security holders

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

(21) Subsidiaries of the Registrant

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

(23) Consent of Independent Public Accountants

The consent to the incorporation of reports of the Corporation's Independent Public Accountants dated January 29, 1999, is filed as Exhibit 23 hereto.

SIGNATURES

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

HERSHEY FOODS CORPORATION
(Registrant)

Date: March 15, 1999 By /s/ W. F. CHRIST

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

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

SIGNATURE	TITLE	DATE
K. L. WOLFE (K. L. Wolfe)	Chief Executive Officer and Director	March 15, 1999
W. F. CHRIST (W. F. Christ)	Chief Financial Officer and Treasurer	March 15, 1999
D. W. TACKA (D. W. Tacka)	Chief Accounting Officer	March 15, 1999
J. P. VIVIANO (J. P. Viviano)	Director	March 15, 1999
M. F. PASQUALE (M. F. Pasquale)	Director	March 15, 1999
W. H. ALEXANDER (W. H. Alexander)	Director	March 15, 1999
R. H. CAMPBELL (R. H. Campbell)	Director	March 15, 1999
C. M. EVARTS, M.D. (C. M. Evarts, M.D.)	Director	March 15, 1999
B. GUITON HILL (B. Guiton Hill)	Director	March 15, 1999

SIGNATURE	TITLE	DATE
J. C. JAMISON --------------------- (J. C. Jamison)	Director	March 15, 1999
A. Z. LOREN -------------------- (A. Z. Loren)	Director	March 15, 1999
M. J. MCDONALD --------------------- (M. J. McDonald)	Director	March 15, 1999
J. M. PIETRUSKI --------------------- (J. M. Pietruski)	Director	March 15, 1999
V. A. SARNI --------------------- (V. A. Sarni)	Director	March 15, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To Hershey Foods Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Hershey Foods Corporation's Proxy Statement for its 1999 Annual Meeting of Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 29, 1999. Our audit was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedule listed on page 9 in Item 14(a)(2) is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York
January 29, 1999

Schedule II

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(in thousands of dollars)

Description	Balance at Beginning of Period	ADDITIONS Charged to Costs and Expenses	ADDITIONS Charged to Other Accounts (a)	Deductions from Reserves	Balance at End of Period
Year Ended December 31, 1998: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable - Trade-------	$ 15,843	$ 5,540	$ (210)	$ (1,232)	$ 19,941
Year Ended December 31, 1997: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade--------	$ 14,059	$ 2,623	$ 522	$ (1,361)	$ 15,843
Year Ended December 31, 1996: Reserves deducted in the balance sheet from the assets to which they apply:					
Accounts Receivable -Trade--------	$ 14,801	$ 1,238	$ 298	$ (2,278)	$ 14,059

(a)Includes recoveries of amounts previously written off.

Exhibit 3

BY-LAWS

OF

HERSHEY FOODS CORPORATION

Incorporated October 24, 1927
Under the Laws of the
State of Delaware

Corporate Headquarters
100 Crystal A Drive
Hershey, Pennsylvania 17033

Amended and Restated by the
Board of Directors as of
December 1, 1998

TABLE OF CONTENTS

TABLE OF CONTENTS

BY-LAWS

OF

HERSHEY FOODS CORPORATION

ARTICLE I - STOCKHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of stockholders shall be held for the election of directors at such date, time and place, either within or without the State of Delaware, as may be designated by resolution of the Board of Directors. Any other proper business may be transacted at the annual meeting.

Section 2. SPECIAL MEETINGS. A special meeting of stockholders may be called by the Board of Directors, the Executive Committee of the Board of Directors, or by stockholders holding in the aggregate at least twenty-five percent of the outstanding votes entitled to be cast by holders of the Common Stock and the Class B Common Stock voting together without regard to class on the date such meeting is called.

Section 3. QUORUM AND REQUIRED VOTE. At any meeting of stockholders at which any action is to be taken (including the election of directors) by the vote of the holders of the Common Stock and the Class B Common Stock voting together without regard to class in accordance with the provisions of the Restated Certificate of Incorporation, the presence in person or by proxy of the holders of a majority of the votes entitled to be cast by both such classes at the meeting shall constitute a quorum. With respect to the taking of any action (including, with respect to the Common Stock, the election of directors) as to which either the Common Stock or the Class B Common Stock is entitled to vote separately as a class pursuant to the provisions of the Restated Certificate of Incorporation, the presence in person or by proxy of the holders of a majority of the votes entitled to be cast by such class voting separately as a class at the meeting shall constitute a quorum. Except as to the election of directors, at every such meeting at which a quorum is present for the taking of any action, a majority of the votes present or represented shall be necessary to take such action with the Common Stock and the Class B Common Stock voting together without regard to class or separately as a class or classes as are prescribed by the provisions of the Restated Certificate of Incorporation. With respect to the election of directors, the persons receiving the greatest number of votes, in descending order, shall be elected for the positions to be filled. The absence of a quorum as provided for herein for the taking of any one or more action(s) shall not prevent the taking of any other action for which a quorum is present, but the presence of a quorum for the taking of any one or more action(s) shall not authorize the taking of any other action for which a quorum is not present.

Section 4. CONDUCT OF MEETINGS. The Board of Directors and/or the chair of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and, in the case of the chair of the meeting to do all such acts as are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chair of the meeting, may include, without limitation: (a) the setting of the business for the meeting and the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to the stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chair shall permit; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; (e) not requiring motions or seconding of motions and deeming directors nominated, or proposals made, by or under the authority of the Board of Directors to be properly before the meeting without further action; and (f) limitations and restrictions as to the content of and the time allotted, if any, to questions or comments by participants. Meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

Section 5. NOTICE OF STOCKHOLDER BUSINESS. At any meeting of the stockholders, only such business, including proposals to be voted on (but excluding the nomination and election of directors, which are covered in Section 2 of Article III of these By-Laws) shall be conducted as shall have been properly brought before the meeting. To be properly brought before the meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) brought before the meeting by or at the direction of the Board of Directors or by a stockholder or stockholders holding, in the aggregate, at least twenty-five percent (25%) of the outstanding votes entitled to be cast by holders of the Common Stock and Class B Common Stock voting together without regard to class, or (c) properly requested to be brought before the meeting by a stockholder. For business to be properly requested to be brought before a meeting by a stockholder pursuant to (c) above, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, such written notice must be delivered to or mailed and received at the principal executive offices of the Corporation (1) with respect to business to be conducted at an annual meeting of stockholders, not later than the close of business on the 90th day or earlier than the close of business on the 120th day prior to the anniversary of the date of the immediately preceding annual meeting, and (2) with respect to business to be conducted at a special meeting of stockholders, not later than the close of business on the fifteenth (15th) day following the day on which notice of such meeting was mailed to stockholders. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the meeting: (i) the name and address of such stockholder; (ii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder; (iii) a brief description of the business or proposal desired to be brought before the meeting and the reasons for conducting such at the meeting; (iv) any material interest of the stockholder in such business or proposal; and (v) such other information regarding such business or proposal as would be required to be included in a proxy statement pursuant to the rules of the Securities and Exchange Commission regardless of whether such other business or proposal may be included in any such proxy statement. No business shall be conducted at any meeting of stockholders except that which has been brought before such meeting in strict compliance with the terms and procedures of this Section.

ARTICLE II - STOCK

Section 1. STOCK CERTIFICATES. The shares of the Corporation shall be represented by certificates or shall be uncertificated. Each registered holder of shares, upon request to the Corporation, shall be provided a certificate of stock, representing the number of shares owned by such holder. Absent a specific request for such a certificate by the registered owner or transferee thereof, all shares shall be uncertificated upon the original issuance thereof by the Corporation or upon the surrender of the certificate representing such shares to the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form as shall be approved by the Board of Directors. They shall be signed by or have engraved thereon a facsimile signature of the Chief Executive Officer and the Secretary or an Assistant Secretary, certifying the number and class of the Corporation's shares held by such stockholder.

Section 2. TRANSFER AGENTS AND REGISTRARS. The Board of Directors may, in its discretion, appoint responsible banks or trust companies or other appropriately qualified institutions to act as Transfer Agents and Registrars of the stock of the Corporation; and, upon such appointments being made, no stock certificate shall be valid until countersigned by one of such Transfer Agents and registered by one of such Registrars. Where any such certificate is registered with the manual signature of a Registrar, the countersignature of a Transfer Agent may be a facsimile or engraved, stamped or printed. The Board of Directors may also make such additional rules and regulations as it may deem expedient concerning the issue, transfer and registration of uncertificated shares or certificates for shares of the capital stock of the Corporation.

Section 3. TRANSFER OF STOCK. Shares of stock may be transferred by delivery of the certificates therefore, accompanied by an assignment in writing on the back of the certificates or by written power of attorney to sell, assign and transfer the same, signed by the record holder thereof , upon receipt of proper transfer instructions from the owner of uncertificated shares, or upon the escheat of said shares under the laws of any state of the United States. In no event shall a transfer of shares affect the right of the Corporation to pay any dividend upon the stock to the holder of record thereof for all purposes, and no transfer shall be valid, except between the parties thereto, until such transfer shall have been made upon the books of the Corporation.

Section 4. LOST CERTIFICATES. In case any certificate of stock shall be lost, stolen or destroyed, the Board of Directors, in its discretion, may authorize the issue of, or provide for the manner of issuing an uncertificated share, or if requested by such holder, a substitute share certificate in place of the certificate so lost, stolen or destroyed; provided, that, in each such case, the applicant for a substitute certificate shall furnish to the Corporation and to such of its

Transfer Agents and Registrars as may require the same evidence to their satisfaction, in their discretion, of the loss, theft or destruction of such certificate and of the ownership thereof, and also such security or indemnity as may be required by them.

Section 5. RECORD DATE. The Board of Directors may fix a record date for the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof; to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock; or for the purpose of any other lawful action. The record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and the record date shall not be more than sixty (60) days prior to the date of such meeting or such action, or, with respect to any such meeting, less than ten (10) days before the date of such meeting. Only stockholders of record on the record date shall be entitled to notice of and to vote at such meeting, or to receive such dividends or rights, or to exercise such rights, as the case may be. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. The Board of Directors may fix a record date for the purpose of determining the stockholders entitled to consent to corporate action in writing without a meeting, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors.

Section 6. DIVIDENDS. The Board of Directors may declare and pay such dividends upon the shares of the Corporation's capital stock out of the surplus of the Corporation as it may deem expedient and as the condition of the Corporation shall warrant.

ARTICLE III - BOARD OF DIRECTORS

Section 1. NUMBER AND TERM OF OFFICE. The Board of Directors shall have the power by resolution to fix the number of directors and from time to time to increase or decrease the number of directors. Each director shall continue in office until his or her successor shall have been elected and qualified, or until his or her earlier resignation or removal.

Section 2. DIRECTOR NOMINATIONS. Nominations for the election of directors, whether by vote of the Common Stock and the Class B Common Stock voting together without regard to class or of the Common Stock voting as a separate class, may be made by (a) the Board of Directors, (b) the Committee on Directors and Corporate Governance or other committee appointed by the Board of Directors, (c) a stockholder or stockholders holding at least twenty-five percent (25%) of the outstanding votes entitled to be cast by holders of the Common Stock and Class B Common Stock voting together without regard to class, or (d) any stockholder entitled to vote for the election of directors at a meeting of stockholders. Any stockholder entitled to vote for the election of directors at a meeting of stockholders may nominate one or more persons for election as director(s) as provided for in (d) above only if written notice of such stockholder's intent to make such nomination or nominations has been timely given to the Secretary of the Corporation. To be timely, such written notice must be delivered to or mailed and received at the principal executive offices of the Corporation (1) with respect to an election to be held at an annual meeting of stockholders, not later than the close of business on the 90th day or earlier than the close of business on the 120th day prior to the anniversary of the date of the immediately preceding annual meeting, and (2) with respect to an election to be held at a special meeting of stockholders for the election of directors, not later than the close of business on the fifteenth (15th) day following the date on which notice of such meeting was mailed to stockholders. Each such notice shall set forth: (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder and the reason or reasons for such nomination or nominations; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement pursuant to the rules of the Securities and Exchange Commission regardless of whether such nomination or nominations may be included in any such proxy statement; and (v) the written consent of each nominee to serve as a director of the Corporation if so elected. No nominations for director shall be considered at a meeting of stockholders except those made in strict compliance with terms and procedures of this Section.

Section 3. BOARD GOVERNANCE. The Board of Directors and the Committee on Directors and Corporate Governance of the Board shall each have the authority and power to adopt rules, and determine the standards for, governance of the Board and its standing and special committees and to set standards for the performance of directors' duties.

Section 4. STATED MEETINGS. The Board of Directors may by resolution appoint in advance the time and place for holding stated meetings of the Board, and such stated meetings may be held at the time and place so appointed without the giving of any notice. In case the day appointed for a stated meeting shall fall on a legal holiday, such meeting shall be held on the next following business day, not a legal holiday, at the same hour.

Section 5. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held whenever called by the Chairman or a Vice Chairman of the Board of Directors or by the Chief Executive Officer or by one-sixth (calculated to the nearest whole number) of the total number of directors constituting the Board of Directors. Notice of any such meeting, setting forth the time and place of the meeting, shall be mailed to each director, addressed to him or her at his or her residence or usual place of business, not later than the second day before the day on which the meeting is to be held, or shall be sent to him or her at such place by telefacsimile, or be delivered personally, or by telephone or other oral means, not later than the day before the day on which the meeting is to be held. Except as may be indicated in the notice thereof, any and all business may be transacted at any special meeting.

Section 6. NOTICE OF MEETINGS. Notice of any meeting of the Board of Directors or of any committee need not be given to any director if waived by him or her whether before or after such meeting, or if he or she shall be present at the meeting, and any meeting of the Board of Directors or of any committee shall be a legal meeting without any notice thereof having been given, if all the members shall be present.

Section 7. PARTICIPATION BY CONFERENCE TELEPHONE. Members of the Board of Directors or of any committee may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 8. QUORUM AND MANNER OF ACTING. A majority of the total number of directors constituting the Board of Directors at the time of any meeting shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. DIRECTORS' FEES. The Board of Directors shall have authority to determine the amount and form of compensation which shall be paid to its members.

ARTICLE IV - COMMITTEES OF THE BOARD OF DIRECTORS

Section 1. STANDING COMMITTEES. The standing committees of the Board of Directors shall be the Audit Committee, the Compensation and Executive Organization Committee, the Committee on Directors and Corporate Governance, and the Executive Committee. The charter setting out the powers and duties of each standing committee shall be set by resolution of the Board.

Section 2. OTHER COMMITTEES. The Board of Directors may appoint other committees for such general or special purposes and for such terms as may be established by the Board, and the Board may delegate to any such committees such powers and duties of the Board as the Board may in its discretion determine.

Section 3. COMMITTEES, MEETINGS, QUORUM AND MANNER OF ACTING. Stated and special meetings of the standing and other committees of the Board of Directors shall be held and notice thereof given in the same manner provided for meetings of the Board. The provisions of these By-laws relating to the determination of a quorum, the manner of acting, and participation by conference telephone at meetings of the Board shall apply to the standing and other committees of the Board.

ARTICLE V - OFFICERS

Section 1. STATED AND OTHER OFFICERS. The stated officers of the Corporation shall be the following, one or more of which positions may be filled or left vacant at the discretion of the Board of Directors (provided the requirements of the Delaware General Corporation Law relating to officers are complied with): the Chairman of the Board of Directors; the Chief Executive Officer; the Vice Chairman or Vice Chairmen of the Board of Directors; the President; the Chief Operating Officer; Senior Vice President(s); Executive Vice President(s); Vice President(s); Division President(s); the Chief Financial Officer; the General Counsel; the Controller; the Chief Accounting Officer; the Secretary; and the Treasurer. More than one office may be held by the same person. The Board of Directors or the Executive Committee of the Board of Directors may also appoint such other officers and agents as may be necessary or advisable in the conduct of the business and affairs of the Corporation.

Section 2. TERM OF OFFICE. The stated officers shall hold office for such terms as the Board of Directors may designate, and if not so designated, until their respective successors are elected and qualified or their earlier resignation or removal. Other officers shall hold office for such terms as the Board of Directors or Executive Committee may determine.

Section 3. REMOVAL OF OFFICERS. Any stated officer may be removed at any time, either with or without cause, by the Board of Directors, and any other officer may be removed at any time, either with or without cause, by the Board of Directors or the Executive Committee.

Section 4. VACANCIES. A vacancy in any stated officer position may be filled by the Board of Directors and a vacancy in any other officer position may be filled by the Board of Directors or the Executive Committee.

Section 5. CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall preside, when present, at all meetings of the stockholders and of the Board of Directors. He shall have such other powers and perform such other duties as may from time to time be assigned or required by the Board of Directors.

Section 6. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have active and general supervision and management over the business and affairs of the Corporation and shall have full power and authority to act for all purposes for and in the name of the Corporation in all matters except where action of the Board is required by law, these By-laws, or resolutions of the Board. In the case of the Chief Executive Officer being unavailable to perform the duties of office for periods of short duration, the Chief Executive Officer shall have the authority to designate who shall act as Chief Executive Officer for such period; failing such designation, the Chief Operating Officer, if any, shall act as Chief Executive Officer for such period.

Section 7. OTHER OFFICERS. The other officers of the Corporation shall have such powers and perform such duties as may from time to time be assigned or required by the Board of Directors, the Executive Committee, the Chief Executive Officer, or their superior or as is customary and usual for the position.

Section 8. COMPENSATION. The compensation of the stated officers of the Corporation shall be fixed, or the method for doing so shall be provided for, by the Board of Directors.

ARTICLE VI - INDEMNIFICATION

Section 1. GENERAL. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by the Delaware General Corporation Law as it presently exists or may be hereafter amended from time to time, any person who was or is made or is threatened to be made a party or is otherwise involved in any threatened, pending or completed action, suit, arbitration, alternative dispute resolution mechanism or proceeding, whether civil, criminal, administrative or investigative ("Proceeding") by reason of the fact that such person, or a person for whom such person is the legal representative, is or was

(a) a director or officer of the Corporation or its subsidiaries, or

(b) a director, officer or employee of the Corporation and is or was serving at the request of the Corporation through designation by the Chief Executive Officer as a director, officer, employee, agent or fiduciary of another corporation or of a partnership, joint venture, trust, nonprofit entity or other enterprise, including service with respect to employee benefit plans,

against all liability and loss suffered and expenses (including attorneys' fees), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by such person or on such person's behalf in connection with any such Proceeding. However, except as provided for in Section 4 of this Article, the Corporation shall be required to indemnify a person in connection with a Proceeding (or part thereof) initiated by such person only if the Proceeding (or part thereof) was or is authorized by the Board of Directors of the Corporation.

Section 2. ADVANCEMENT OF EXPENSES. The Corporation shall pay the reasonable expenses (including attorneys' fees) as and when incurred by a director or officer of the Corporation in connection with any Proceeding described in Section 1 of this Article in advance of its final disposition, provided, however, that such payment shall be made only upon a receipt of an undertaking by the director or officer to repay all expenses (including attorneys' fees) advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Article or otherwise. Payment of such expenses (including attorneys' fees) incurred by employees of the Corporation designated by the Chief Executive Officer in accordance with Section 1 of this Article may be made by the Board of Directors in its discretion upon such terms and conditions, if any, as it deems appropriate.

Section 3. RIGHTS NOT EXCLUSIVE. The rights conferred on any person by this Article shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation, these 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 a person who has ceased to be a director, officer or employee described in Section 1 and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 4. CLAIMS. If a claim by a director, officer or employee described in Section 1 for indemnification or advancement of expenses under this Article is not paid in full within thirty days after a written claim therefor has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid in full all costs and expenses (including attorneys' fees) of prosecuting such claim. In any such action, the Corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or advancement of expenses under applicable law and this Article.

Section 5. LIMITATION ON INDEMNIFICATION. The Corporation's obligation to indemnify or advance expenses under this Article to a person who is or was serving at the request of the Corporation (as provided for in Section 1) as a director, officer, employee, agent or fiduciary of any other corporation, partnership, joint venture, trust, nonprofit entity, employee benefit plan or other enterprise shall be secondary and supplemental to any indemnification obligation of such corporation, partnership, joint venture, trust, nonprofit entity, employee benefit plan or other enterprise, and any amounts otherwise payable under this Article shall be reduced by the amount such person is entitled to pursuant to such other indemnification.

Section 6. AMENDMENT OR REPEAL. Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to or at the time of such repeal or modification.

ARTICLE VII - EMERGENCY CONDITIONS

Section 1. BOARD OF DIRECTORS. During any emergency resulting from an attack on the United States or on a locality in which the Corporation conducts its business or customarily holds meetings of its Board of Directors or its stockholders or during a nuclear or atomic disaster or during the existence of any catastrophe, or other similar emergency condition (any of the foregoing is hereinafter referred to as an "Emergency Condition"), as a result of which a quorum of the Board of Directors cannot readily be convened for action (including by telephone), then in addition to any director or directors who are able and available, the elected officers of the Corporation, as and in the order designated in advance by the Chief Executive Officer of the Corporation and approved by the Board of Directors, who are able and available, shall be deemed for all purposes to be directors to the extent required to constitute a quorum for any meeting of the Board of Directors during such Emergency Condition, notwithstanding any limitations or other provisions contained in the Restated Certificate of Incorporation, these By-laws or resolutions of the Board of Directors in effect at the time of the Emergency Condition.

Section 2. CHIEF EXECUTIVE OFFICER. If as a result of any Emergency Condition or due to his incapacitation, the Chief Executive Officer is unable or unavailable to act, then until the Chief Executive Officer becomes able and available to act or a new Chief Executive Officer is elected by the Board of Directors, the officer of the Corporation, as and in the order designated in advance by the Chief Executive Officer of the Corporation and approved by the Board of Directors, who is able and available to act shall act as Chief Executive Officer of the Corporation.

Section 3. NOTICE OF MEETINGS. During an Emergency Condition or during any time in which the Chief Executive Officer becomes unable or unavailable to act, a meeting of the Board of Directors may be called by the Chairman of the Board or the Chair of the Committee on Directors and Corporate Governance. If neither is able and available, then a meeting of the Board of Directors may be called by any director, and if none are able and available to do so, by any elected officer of the Corporation. Such meeting shall be called by notice of the time and place given to such of the directors, or officers serving as directors in accordance with this Article, as it may be feasible to reach at the time and by such means (including electronic) as may be feasible at the time.

Section 4. POWERS DURING AN EMERGENCY CONDITION. During an Emergency Condition, the Board of Directors (including those serving as directors pursuant to Section 1 above) may take any acts in good faith deemed necessary and in the best interests of the Corporation, including, but not limited to, changing the head office or designating several alternative head offices or regional offices of the Corporation, or providing for and from time to time modifying lines of succession in the event that during any such Emergency Condition any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties.

Section 5. LIABILITY. No officer or director shall be liable for any act taken in accordance with this Article during an Emergency Condition, except for willful misconduct.

Section 6. EFFECTIVENESS OF OTHER BY-LAWS. To the extent not inconsistent with the provisions of this Article, the other By-laws of the Corporation shall remain in effect during any Emergency Condition.

ARTICLE VIII - AMENDMENTS

These By-laws may be amended or repealed, in whole or in part, and new By-laws may be adopted, either by the affirmative vote of a majority of the votes entitled to be cast by the holders of the Common Stock and the Class B Common Stock voting together without regard to class, given at any meeting of stockholders or by a consent, or by the affirmative vote of two-thirds (calculated to the nearest whole number) of the total number of directors constituting the Board of Directors, given at any meeting of directors or by a consent.

EXHIBIT 12

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, 1996, 1995, AND 1994
(in thousands of dollars except for ratios)
(Unaudited)

	1998	1997	1996	1995	1994
Earnings:					
Income from continuing operations before income taxes and accounting changes	$ 557,006	$ 553,955	$ 479,737(a)	$ 465,953	$ 333,138(c)
Add (Deduct):					
Interest on indebtedness	88,648	79,138	52,036	47,568	37,249
Portion of rents representative of the interest factor(d)	13,197	10,592	8,618	8,176	8,556
Amortization of debt expense	462	412	234	97	64
Amortization of capitalized interest	3,856	3,496	3,359	3,183	2,958
Earnings as adjusted	$ 663,169	$ 647,593	$ 543,984	$ 524,977	$ 381,965
Fixed Charges:					
Interest on indebtedness	$ 88,648	$ 79,138	$ 52,036	$ 47,568	$ 37,249
Portion of rents representative of the interest factor(d)	13,197	10,592	8,618	8,176	8,556
Amortization of debt expense	462	412	234	97	64
Capitalized interest	2,547	1,883	1,534	1,957	3,009
Total fixed charges	$ 104,854	$ 92,025	$ 62,422	$ 57,798	$ 48,878
Ratio of earnings to fixed charges	6.32	7.04	8.71	9.08	7.81

NOTES:

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

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

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

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

Appendix A

Consolidated Financial Statements and Management's Discussion and Analysis

HERSHEY FOODS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Corporation achieved record sales and income levels in 1998, following a record performance in 1997. Results over the two-year period reflected a strategic acquisition and several divestitures, along with a significant contribution from the introduction of new confectionery products and solid growth from existing confectionery and grocery brands. Sales increases during the period were offset somewhat by lower sales of pasta products, a higher level of confectionery unsalables and the impact of currency exchange rates in the Canadian and Mexican markets.

Net sales during the two-year period increased at a compound annual rate of 5% and net income also increased at a compound annual rate of 5%, excluding the loss on disposal of businesses in 1996. The increase in net income over the period reflected the growth in sales, partially offset by lower gross margin and higher selling, marketing and administrative expenses.

The following acquisition and divestitures occurred during the period:

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

- December 1998--The announcement that the Corporation had signed a definitive agreement providing for the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction was completed in January 1999 and included the AMERICAN BEAUTY, IDEAL BY SAN GIORGIO, LIGHT 'N FLUFFY, MRS. WEISS, P&R, RONZONI, SAN GIORGIO and SKINNER pasta brands along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded an after-tax gain of approximately $165.0 million or $1.13 per share--diluted as a result of the transaction.

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

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

Net Sales

Net sales rose $133.4 million or 3% in 1998 and $312.9 million in 1997, an increase of 8%. The increase in 1998 was primarily a result of incremental sales from the introduction of new confectionery products and increased sales volume for existing confectionery and grocery products in North America. These increases were offset somewhat by a decline in sales in the Corporation's Asian and Russian markets and the impact of currency exchange rates in the Canadian and Mexican markets, in addition to higher levels of confectionery unsalables and lower sales of pasta products. The increase in

1997 was primarily due to incremental sales from the Leaf acquisition, increased sales of existing confectionery items and the introduction of new confectionery products. These increases were offset somewhat by lower sales resulting from the divestiture of the Gubor and Sperlari businesses and a decline in sales of pasta and grocery products.

Costs and Expenses

Cost of sales as a percent of net sales increased from 57.7% in 1996 to 57.9% in 1997, and to 59.2% in 1998. The decrease in gross margin in 1998 was principally the result of higher costs for certain major raw materials, primarily milk and cocoa, labor and overhead, higher shipping and distribution costs and the mix of non-chocolate and chocolate confectionery items sold in 1998 compared to 1997. These cost increases were partially offset by lower costs for certain raw materials and improved manufacturing efficiencies, including significant improvements in plants acquired with the Leaf business. The decrease in gross margin in 1997 was primarily the result of the lower margin associated with the Leaf business and higher costs associated with certain new products and seasonal items, partially offset by lower costs for certain major raw materials, primarily milk and semolina, and the favorable impact of the Gubor and Sperlari divestitures.

Selling, marketing and administrative costs decreased by 1% in 1998, as reduced marketing expenses for existing brands, lower selling expenses in international markets and lower administrative expenses were only partially offset by higher marketing expenses associated with the introduction of new products. Selling, marketing and administrative expenses increased by 5% in 1997, as a result of incremental expenses associated with the Leaf business and increased marketing expenses related to the introduction of new products, partially offset by decreases resulting from the Gubor and Sperlari divestitures and reduced marketing spending for existing brands.

Interest Expense, Net

Net interest expense in 1998 exceeded the prior year by $9.4 million, primarily as a result of increased borrowings associated with the purchase of Common Stock from the Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), partially offset by lower interest expense reflecting reduced average short-term borrowings.

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

Provision for Income Taxes

The Corporation's effective income tax rate was 43.1%, 39.3% and 38.8% in 1996, 1997 and 1998, respectively. The rate decreased from 39.3% in 1997 to 38.8% in 1998 primarily due to changes in the mix of the Corporation's income among various tax jurisdictions. The rate decreased in 1997 compared to 1996 primarily due to the lack of any tax benefit associated with the 1996 loss on disposal of businesses and the lower 1997 effective state income tax rate.

Net Income

Net income increased $4.6 million or 1% in 1998, following an increase of $63.1 million or 23% in 1997. Excluding the loss on the disposal of the Gubor and Sperlari businesses in 1996, 1997 income increased $27.7 million or 9%. Net income as a percent of net sales was 7.7% in 1998, 7.8% in 1997 and 6.8% in 1996. Income as a percent of net sales excluding the loss on the sale of the Gubor and Sperlari businesses was 7.7% in 1996.

FINANCIAL POSITION

The Corporation's financial position remained strong during 1998. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 54% as of December 31, 1998, and 60% as of December 31, 1997. The higher capitalization ratio in 1997 primarily reflected the additional borrowings to finance the purchase of Common Stock and the related decrease in stockholders' equity as a result of the additional treasury stock. The ratio of current assets to current liabilities was 1.4:1 as of December 31, 1998, and 1.3:1 as of December 31, 1997.

Assets

Total assets increased $112.9 million or 3% as of December 31, 1998, primarily as a result of increases in accounts receivable and other current and non-current assets.

Current assets increased by $99.2 million or 10% reflecting increased accounts receivable and higher prepaid expenses and other current assets. The increase in accounts receivable was primarily the result of the timing and payment terms associated with sales occurring toward the end of the year and the increase in prepaid expenses and other current assets was principally associated with commodities transactions. These increases were offset somewhat by lower deferred income taxes and reduced inventory levels.

Property, plant and equipment was slightly lower than the prior year as capital additions of $161.3 million were more than offset by depreciation expense of $138.5 million and the retirement and translation of fixed assets of $23.0 million. The increase in other non-current assets was primarily associated with the capitalization of software.

Liabilities

Total liabilities decreased by $76.6 million or 3% as of December 31, 1998, primarily due to a decrease in debt and lower accrued liabilities, partially offset by higher deferred income taxes. The increase in short-term debt of $113.5 million reflected the reclassification of commercial paper borrowings of $150.0 million which were classified as long-term debt as of December 31, 1997, partially offset by a reduction in short-term borrowings of $36.5 million in 1998. As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999. Accrued liabilities decreased by $77.1 million primarily reflecting commodities transactions and reduced accruals for marketing programs and integration costs related to the Leaf acquisition.

Stockholders' Equity

Total stockholders' equity increased by 22% in 1998, as net income exceeded dividends paid. Total stockholders' equity has increased at a compound annual rate of less than 1% over the past ten years reflecting the $1.3 billion of Common Stock repurchased since 1993.

Capital Structure

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

LIQUIDITY

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

Over the past three years, cash requirements for share repurchases, capital expenditures, capitalized software additions, business acquisitions and dividend payments exceeded cash provided from operating activities and proceeds from business divestitures by $449.5 million. Total debt, including debt assumed, increased during the period by $454.4 million. Cash and cash equivalents increased by $6.7 million during the period.

The Corporation anticipates that capital expenditures will be in the range of $150 million to $170 million per annum during the next several years as a result of continued modernization of existing facilities and capacity expansion to support new products and line extensions. As of December 31, 1998, the Corporation's principal capital commitments included manufacturing capacity expansion and modernization.

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

Under share repurchase programs which began in 1993, a total of 9,861,119 shares of Common Stock have been repurchased for approximately $287.5 million. Of the shares repurchased, 528,000 shares were retired, 529,498 shares were reissued to satisfy stock options obligations and the remaining 8,803,621 shares were held as Treasury Stock as of December 31, 1998. Additionally, the Corporation has purchased a total of 28,000,536 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $1.0 billion. As of December 31, 1998, a total of 36,804,157 shares were held as Treasury Stock and $112.5 million remained available for repurchases of Common Stock under a program approved by the Corporation's Board of Directors in February 1996. In February 1999, the Corporation purchased approximately 2.0 million shares, completing the 1996 repurchase program. Also in February, the Corporation's Board of Directors approved an additional share repurchase program authorizing the repurchase of up to $230 million of the Corporation's Common Stock of which $100.0 million was used to purchase approximately 1.6 million shares of Common Stock from the Milton Hershey School Trust.

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

In August 1997, the Corporation filed another Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. Also in August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust. As of December 31, 1998, $250 million of debt securities remained available for issuance under the August 1997 Registration

Statement. Proceeds from any offering of the $250 million of debt securities available under the shelf registration may be used for general corporate requirements which include reducing existing commercial paper borrowings, financing capital additions, and funding future business acquisitions and working capital requirements.

In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million with options to increase borrowings by $1.0 billion with the concurrence of the banks. Lines of credit previously maintained by the Corporation were significantly reduced when the credit facility agreements became effective. Of the total committed credit facility, $200 million was for a renewable 364-day term and $400 million was effective for a five-year term. In December 1998, the short-term credit facility agreement was renewed for a total of $177 million. The long-term committed credit facility agreement was amended and renewed in December 1997 and will expire in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. The Corporation also had lines of credit with domestic and international commercial banks of $23.0 million and $20.7 million as of December 31, 1998 and 1997, respectively.

Cash Flow Activities

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

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

Financing activities included debt borrowings and repayments, payment of dividends, the exercise of stock options, incentive plan transactions and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to fund seasonal working capital requirements, business acquisitions, share repurchase programs and purchases of Common Stock from the Milton Hershey School Trust. The proceeds from the issuance of long-term debt were used to reduce short-term borrowings. During the past three years, a total of 11,909,849 shares of Common Stock has been repurchased for $589.9 million. Cash requirements for incentive plan transactions were $103.2 million during the past three years, partially offset by cash received from the exercise of stock options of $55.8 million.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

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

The information below summarizes the Corporation's market risks associated with long-term debt and derivative instruments outstanding as of December 31, 1998. This information should be read in conjunction with Note 1, Note 5, Note 7, and Note 8 to the Consolidated Financial Statements.

Long-Term Debt

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt as of December 31, 1998. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

	Maturity Date (In thousands of dollars except for rates)							
	1999	2000	2001	2002	2003	There-after	Total	Fair Value
Long-term Debt	$89	$2,203	$203	$194	$17,133	$859,370	$879,192	$1,002,275
Fixed Rate	2.0%	6.4%	2.0%	2.0%	4.4%	7.2%	7.1%	

Interest Rate Swaps

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt, principally commercial paper borrowings or bank loans with an original maturity of three months or less, to fixed rate debt. As of December 31, 1998 and 1997, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million and $150.0 million with maturities through September 1999 and September 1998, respectively. As of December 31, 1998 and 1997, interest rates payable were at a weighted average fixed rate of 6.3%. As of December 31, 1998 and 1997, interest rates receivable of 5.2% and 5.7%, respectively, were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates. The potential loss in fair value of interest rate swaps resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1998 and 1997.

Foreign Exchange Contracts

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

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

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

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

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 1998 and 1997, the fair value of foreign exchange forward contracts approximated the contract value. The potential loss in fair value of foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was not material as of December 31, 1998 and 1997.

Foreign Exchange Options

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

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

Commodity Price Risk Management

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

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates and speculative influences. Cocoa prices have risen since 1992 due to demand exceeding production. Recently, prices have declined somewhat as the economic difficulties in eastern Europe, particularly

Russia and Southeast Asia, have negatively impacted demand. During 1999, these negative demand influences could continue to keep cocoa futures prices contained. The Corporation's costs during 1999 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Commodities Futures and Options Contracts

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

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

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

For the years ended December 31,	1998		1997	
In millions of dollars	Fair Value	Market Risk (Hypothetical 10% Change)	Fair Value	Market Risk (Hypothetical 10% Change)
Highest long position	$134.9	$13.5	$210.8	$21.1
Lowest long position	45.6	4.6	39.6	4.0
Average position (long)	76.3	7.6	96.2	9.6

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

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $129.0 million in 1998 and $121.5 million in 1997. The annual dividend rate on the Common Stock was $.96 per share, an increase of 9% over the 1997 rate of $.88 per share. The 1998 dividend represented the 24th consecutive year of Common Stock dividend increases.

On February 10, 1999, the Corporation's Board of Directors declared a quarterly dividend of $.24 per share of Common Stock payable on March 15, 1999, to stockholders of record as of February 24, 1999. It is the Corporation's 277th consecutive Common Stock dividend. A quarterly dividend of $.2175 per share of Class B Stock also was declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange (NYSE) under the ticker symbol "HSY." Approximately 79.0 million shares of the Corporation's Common Stock were traded during 1998. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 1998, was $62 3/16. There were 44,364 stockholders of record of the Common Stock and the Class B Stock as of December 31, 1998.

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

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1998				
1st Quarter	$ .22	$ .2000	$73 3/8	$59 11/16
2nd Quarter	.22	.2000	76 3/8	67 3/16
3rd Quarter	.24	.2175	72 5/16	60 1/2
4th Quarter	.24	.2175	75 13/16	60 3/4
Total	$ .92	$ .8350		
1997				
1st Quarter	$ .20	$ .1800	$52 7/8	$42 1/8
2nd Quarter	.20	.1800	58 5/8	48 3/8
3rd Quarter	.22	.2000	59 15/16	51 7/8
4th Quarter	.22	.2000	63 7/8	50 5/8
Total	$ .84	$ .7600		

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

RETURN MEASURES

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 36.0% in 1998. Over the most recent five-year period, the return has ranged from 18.5% in 1994 to 36.0% in 1998. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income, excluding the after-tax restructuring activities in 1994 and 1995, and the after-tax loss on the disposal of businesses in 1996.

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 17.4% in 1998. Over the most recent five-year period, the return has ranged from 15.6% in 1994 to 17.8% in 1996. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income, excluding the after-tax restructuring activities in 1994 and 1995, the after-tax loss on disposal of businesses in 1996, and the after-tax effect of interest on long-term debt.

YEAR 2000 ISSUES

Year 2000 issues associated with information systems relate to the way dates are recorded and computed in many computer systems. These year 2000 issues could have an impact upon the Corporation's information technology (IT) and non-IT systems. Non-IT systems include embedded technology such as microcontrollers which are integral to the operation of most machinery and equipment. Additionally, year 2000 issues could have a similar impact on the Corporation's major business partners, including both customers and suppliers. While it is not currently possible to estimate the total impact of a failure of either the Corporation or its major business partners or suppliers to complete their year 2000 remediation in a timely manner, the Corporation has determined that it could suffer significant adverse financial consequences as a result of such failure.

Awareness and assessment of year 2000 issues regarding major business applications software and other significant IT systems began in 1990. A formal program to address year 2000 issues associated with IT systems was established in late 1995. In early 1998, a team was established with representatives from all major functional areas of the Corporation which assumed overall responsibility for ensuring that remediation of both IT and non-IT systems will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. The Corporation expects that remediation of these systems will be essentially completed by the third quarter of 1999.

In late 1996, the Corporation approved a project to implement an enterprise-wide integrated information system to improve process efficiencies in all of the major functional areas of the Corporation, enabling the Corporation to provide better service to its customers. This system will replace most of the transaction systems and applications supporting operations of the Corporation. In addition to improving efficiency and customer service, another benefit of this system is that it is year 2000 compliant and will address year 2000 issues for approximately 80% of the Corporation's business applications software. As of December 31, 1998, approximately $62.1 million of capitalized software and hardware and $6.9 million of expenses have been incurred for this project. As of December 31, 1998, spending for implementation of this system was approximately 65% complete, with full implementation expected by the third quarter of 1999. Total commitments for this system and subsequently identified enhancements are expected to be approximately $110 million which will be financed with cash provided from operations and short-term borrowings.

The Corporation's mainframe, network and desktop hardware and software have recently been upgraded and are substantially year 2000 compliant. The Corporation is in the process of remediating year 2000 compliance issues associated with legacy information systems not being replaced by the integrated information system project, including process automation and factory management systems. During late 1998, the Corporation undertook an extensive review of its year 2000 remediation program. As a result of this review, the Corporation has undertaken additional testing to confirm its year 2000 compliance, but is otherwise maintaining its current program of remediation. As of December 31, 1998, remediation of both IT and non-IT systems was approximately 60% complete, reflecting the latest estimate of testing and work requirements to be performed. The total cost of remediation of IT and non-IT systems is expected to be in the range of $6.0 million to $8.0 million.

The Corporation is also in the process of assessing year 2000 remediation issues relating to its major business partners. All of the Corporation's major customers have been contacted regarding year 2000 issues related to electronic data interchange. The Corporation is also in the process of contacting its major suppliers of ingredients, packaging, facilities, logistics and financial services with regard to year 2000 issues. Because of the uncertainties associated with assessing the ability of major business partners to complete the remediation of their systems in time to prevent operational difficulties, the Corporation will continue to contact and/or visit major customers and suppliers to gain assurances that no significant adverse consequences will result due to their failure to complete remediation of their systems.

Year 2000 remediation, conversion, validation and implementation is continuing and, at the present time, it is expected that remediation to both the Corporation's IT and non-IT systems and those of major business partners will be completed in time to prevent material adverse consequences to the Corporation's business, operations or financial condition. However, contingency plans are being developed, including possible increases in raw material and finished goods inventory levels, and the identification of alternate vendors and suppliers. Additional contingency plans, to the extent feasible, will be developed for any potential failures resulting from year 2000 issues.

FORWARD LOOKING INFORMATION

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

Based upon preliminary information, potential financial results for the first quarter of 1999 may not compare favorably to the prior year's first quarter. Net sales are expected to be lower than in the prior year primarily reflecting the divestiture of the Corporation's pasta business in January 1999. Additionally, the timing of sales for seasonal and promoted items may result in lower confectionery and grocery sales compared to the first quarter of 1998. The divestiture of the Corporation's pasta business, higher amortization of capitalized software associated with the enterprise-wide integrated information system and an emphasis on expanding the distribution of the Corporation's products in new international markets will make the earnings comparison more difficult, considering a very strong first quarter of 1998.

HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,	1998	1997	1996
In thousands of dollars except per share amounts			
Net Sales	$ 4,435,615	$ 4,302,236	$ 3,989,308
Costs and Expenses:			
Cost of sales	2,625,057	2,488,896	2,302,089
Selling, marketing and administrative	1,167,895	1,183,130	1,124,087
Loss on disposal of businesses	--	--	35,352
Total costs and expenses	3,792,952	3,672,026	3,461,528
Income before Interest and Income Taxes	642,663	630,210	527,780
Interest expense, net	85,657	76,255	48,043
Income before Income Taxes	557,006	553,955	479,737
Provision for income taxes	216,118	217,704	206,551
Net Income	$ 340,888	$ 336,251	$ 273,186
Net Income Per Share--Basic	$ 2.38	$ 2.25	$ 1.77
Net Income Per Share--Diluted	$ 2.34	$ 2.23	$ 1.75
Cash Dividends Paid Per Share:			
Common Stock	$ .920	$ .840	$ .760
Class B Common Stock	.835	.760	.685

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

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31,	1998	1997
In thousands of dollars		
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,024	$ 54,237
Accounts receivable--trade	451,324	360,831
Inventories	493,249	505,525
Deferred income taxes	58,505	84,024
Prepaid expenses and other	91,864	30,197
Total current assets	1,133,966	1,034,814
Property, Plant and Equipment, Net	1,648,058	1,648,237
Intangibles Resulting from Business Acquisitions	530,464	551,849
Other Assets	91,610	56,336
Total assets	$ 3,404,098	$ 3,291,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 156,937	$ 146,932
Accrued liabilities	294,415	371,545
Accrued income taxes	17,475	19,692
Short-term debt	345,908	232,451
Current portion of long-term debt	89	25,095
Total current liabilities	814,824	795,715
Long-term Debt	879,103	1,029,136
Other Long-term Liabilities	346,769	346,500
Deferred Income Taxes	321,101	267,079
Total liabilities	2,361,797	2,438,430
Stockholders' Equity:		
Preferred Stock, shares issued: none in 1998 and 1997	--	--
Common Stock, shares issued: 149,502,964 in 1998 and 149,484,964 in 1997	149,503	149,485
Class B Common Stock, shares issued: 30,447,908 in 1998 and 30,465,908 in 1997	30,447	30,465
Additional paid-in capital	29,995	33,852
Unearned ESOP compensation	(25,548)	(28,741)
Retained earnings	2,189,693	1,977,849
Treasury--Common Stock shares, at cost: 36,804,157 in 1998 and 37,018,566 in 1997	(1,267,422)	(1,267,861)
Accumulated other comprehensive loss	(64,367)	(42,243)
Total stockholders' equity	1,042,301	852,806
Total liabilities and stockholders' equity	$ 3,404,098	$ 3,291,236

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	1998	1997	1996
In thousands of dollars			
Cash Flows Provided from (Used by) Operating Activities			
Net income	$ 340,888	$ 336,251	$ 273,186
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	158,161	152,750	133,476
Deferred income taxes	82,241	16,915	22,863
Loss on disposal of businesses	--	--	35,352
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable--trade	(90,493)	(68,479)	5,159
Inventories	12,276	(33,538)	(41,038)
Accounts payable	10,005	12,967	14,032
Other assets and liabilities	(124,118)	85,074	15,120
Other, net	745	4,018	5,593
Net Cash Provided from Operating Activities	389,705	505,958	463,743
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(161,328)	(172,939)	(159,433)
Capitalized software additions	(42,859)	(29,100)	--
Business acquisitions	--	--	(437,195)
Proceeds from divestitures	--	--	149,222
Other, net	9,284	21,368	9,333
Net Cash (Used by) Investing Activities	(194,903)	(180,671)	(438,073)
Cash Flows Provided from (Used by) Financing Activities			
Net change in short-term borrowings partially classified as long-term debt	(36,543)	(217,018)	210,929
Long-term borrowings	--	550,000	--
Repayment of long-term debt	(25,187)	(15,588)	(3,103)
Cash dividends paid	(129,044)	(121,546)	(114,763)
Exercise of stock options	19,368	14,397	22,049
Incentive plan transactions	(22,458)	(35,063)	(45,634)
Repurchase of Common Stock	(16,151)	(507,654)	(66,072)
Net Cash (Used by) Provided from Financing Activities	(210,015)	(332,472)	3,406
Increase (Decrease) in Cash and Cash Equivalents	(15,213)	(7,185)	29,076
Cash and Cash Equivalents as of January 1	54,237	61,422	32,346
Cash and Cash Equivalents as of December 31	$ 39,024	$ 54,237	$ 61,422
Interest Paid	$ 89,001	$ 64,937	$ 52,143
Income Taxes Paid	123,970	181,377	180,347

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands of dollars	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of January 1, 1996	$--	$ 74,734	$15,241	$47,732	$(35,128)	$1,694,696	$ (685,076)	$(29,240)	$ 1,082,959
Comprehensive income (loss)									
Net income						273,186			273,186
Other comprehensive income (loss):									
Foreign currency translation adjustments								(3,635)	(3,635)
Comprehensive income									269,551
Dividends:									
Common Stock, $.76 per share						(93,884)			(93,884)
Class B Common Stock, $.685 per share						(20,879)			(20,879)
Two-for-one stock split		74,736	15,239			(89,975)			--
Conversion of Class B Common Stock into Common Stock		2	(2)						--
Incentive plan transactions				(426)					(426)
Exercise of stock options				(5,391)			(8,547)		(13,938)
Employee stock ownership trust transactions				517	3,193				3,710
Repurchase of Common Stock							(66,072)		(66,072)
Balance as of December 31, 1996	--	149,472	30,478	42,432	(31,935)	1,763,144	(759,695)	(32,875)	1,161,021
Comprehensive income (loss)									
Net income						336,251			336,251
Other comprehensive income (loss):									
Foreign currency translation adjustments								(9,368)	(9,368)
Comprehensive income									326,883
Dividends:									
Common Stock, $.84 per share						(98,390)			(98,390)
Class B Common Stock, $.76 per share						(23,156)			(23,156)
Conversion of Class B Common Stock into Common Stock		13	(13)						--
Incentive plan transactions				(879)					(879)
Exercise of stock options				(8,200)			(512)		(8,712)
Employee stock ownership trust transactions				499	3,194				3,693
Repurchase of Common Stock							(507,654)		(507,654)
Balance as of December 31, 1997	--	149,485	30,465	33,852	(28,741)	1,977,849	(1,267,861)	(42,243)	852,806
Comprehensive income (loss)									
Net income						340,888			340,888
Other comprehensive									

income (loss):									
Foreign currency translation adjustments								(18,073)	(18,073)
Minimum pension liability adjustments, net of tax benefit								(4,051)	(4,051)
Comprehensive income									318,764
Dividends:									
Common Stock, $.92 per share						(103,616)			(103,616)
Class B Common Stock, $.835 per share						(25,428)			(25,428)
Conversion of Class B Common Stock into Common Stock		18	(18)						--
Incentive Plan transactions				(985)					(985)
Exercise of stock options				(3,375)			16,590		13,215
Employee stock ownership trust transactions				503	3,193				3,696
Repurchase of Common Stock							(16,151)		(16,151)
Balance as of December 31, 1998	$--	$149,503	$30,447	$29,995	$(25,548)	$2,189,693	$(1,267,422)	$(64,367)	$ 1,042,301

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements. Certain reclassifications have been made to prior year amounts to conform to the 1998 presentation. Unless otherwise indicated, all shares and per share information have been restated for the two-for-one stock split effective September 13, 1996.

Principles of Consolidation

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

Use of Estimates

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

Cash Equivalents

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

Commodities Futures and Options Contracts

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

Property, Plant and Equipment

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

Intangibles Resulting from Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill was $508.0 million and $527.6 million as of December 31, 1998 and 1997, respectively. Goodwill is amortized on a straight-line basis over 40 years. Other intangible assets are amortized on a straight-line basis over the estimated useful lives. The Corporation periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Corporation uses an estimate of the acquired business' undiscounted future cash flows compared to the related carrying amount of net assets, including goodwill, to determine if an impairment loss should be recognized.

Accumulated amortization of intangible assets resulting from business acquisitions was $132.3 million and $116.5 million as of December 31, 1998 and 1997, respectively.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS No. 130). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. SFAS No. 130 is effective for the Corporation's 1998 financial statements.

Results of operations for foreign entities are translated using the average exchange rates during the period. For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Currency Translation Adjustments."

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

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

Foreign Exchange Contracts

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

Foreign exchange forward contracts are intended and effective as hedges of firm, identifiable, foreign currency commitments and foreign exchange options contracts meet required hedge criteria for anticipated transactions. Accordingly, gains and losses are deferred and accounted for as part of the underlying transactions. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items which mature, are sold or terminated, or of anticipated transactions which are no longer likely to occur, are recorded currently in income. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any losses as a result of counterparty defaults.

License Agreements

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

Research and Development

The Corporation expenses research and development costs as incurred. Research and development expense was $28.6 million, $27.5 million and $26.1 million in 1998, 1997 and 1996, respectively.

Advertising

The Corporation expenses advertising costs as incurred. Advertising expense was $187.5 million, $202.4 million and $174.2 million in 1998, 1997 and 1996, respectively. Prepaid advertising as of December 31, 1998 and 1997, was $12.1 million and $2.0 million, respectively.

Computer Software

In 1997, the Corporation began capitalizing certain costs of computer software developed or obtained for internal use. The amount capitalized as of December 31, 1998 and 1997, was $69.3 million and $29.1 million, respectively. If such costs were capitalized in prior years, the effect would not have been material. Software assets are classified as other non-current assets and are amortized over periods up to five years. Accumulated amortization of capitalized software was $2.8 million and $.2 million as of December 31, 1998 and 1997, respectively.

2. ACQUISITION AND DIVESTITURES

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

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

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

For the year ended December 31,	1996
In thousands of dollars except per share amounts	(unaudited)
Net sales	$4,473,950
Net income	234,000
Net income per share--Basic	1.52
Net income per share--Diluted	1.50

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

In December 1998, the Corporation announced that it had signed a definitive agreement providing for the sale of a 94% majority interest of its U.S. pasta business to New World Pasta, LLC. The transaction was completed in January 1999, and included the AMERICAN BEAUTY, IDEAL BY SAN GIORGIO, LIGHT 'N FLUFFY, MRS. WEISS, P&R, RONZONI, SAN GIORGIO and SKINNER pasta brands, along with six manufacturing plants. In the first quarter of 1999, the Corporation received cash proceeds of $450.0 million, retained a 6% minority interest and recorded an after-tax gain of approximately $165.0 million or $1.13 per share--diluted as a result of the transaction. Net sales for the pasta business were $373.1 million, $386.2 million and $407.4 million for 1998, 1997 and 1996, respectively. Net income for the pasta business was $25.9 million, $25.2 million and $18.7 million for 1998, 1997 and 1996, respectively.

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

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

3. RENTAL AND LEASE COMMITMENTS

Rent expense was $39.6 million, $31.8 million and $25.3 million for 1998, 1997 and 1996, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, distribution facilities and transportation equipment. Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 1998, were: 1999, $13.3 million; 2000, $13.0 million; 2001, $12.7 million; 2002, $12.2 million; 2003, $9.3 million; 2004 and beyond, $46.8 million.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 133 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, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, but may be implemented as of the beginning of any fiscal quarter after issuance. Retroactive application is not permitted. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. Changes in accounting methods will be required for derivative instruments utilized by the Corporation to hedge commodity price, foreign currency exchange rate and interest rate risks. Such derivatives include commodity futures and options contracts, foreign exchange forward and options contracts and interest rate swaps.

The Corporation anticipates the adoption of SFAS No. 133 as of January 1, 2000. As of December 31, 1998, net deferred losses on derivatives of approximately $16.5 million after tax would have been reported as a component of other comprehensive loss and classified as accumulated other comprehensive loss on the consolidated balance sheets upon adoption of SFAS No. 133.

5. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 1998 and 1997, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was $879.2 million as of December 31, 1998, compared to a fair value of $1.0 billion based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was $904.2 million as of December 31, 1997, compared to a fair value of $961.0 million.

As of December 31, 1998, the Corporation had foreign exchange forward contracts maturing in 1999 and 2000 to purchase $10.5 million in foreign currency, primarily British sterling and Dutch gilders, and to sell $9.6 million in Japanese yen at contracted forward rates.

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

To hedge foreign currency exposure related to anticipated transactions associated with the purchase of certain raw materials and finished goods generally covering 3 to 24 months, the Corporation, from time to time, also purchases foreign exchange options which permit, but do not require, the Corporation to exchange foreign currencies at a future date with another party at a contracted exchange rate. No options were outstanding as of December 31, 1998. As of December 31, 1997, the Corporation had purchased foreign exchange options of $3.6 million, related to Swiss francs.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences, and the fair value of foreign exchange options is estimated using active market quotations. As of December 31, 1998 and 1997, the fair value of foreign exchange forward and options contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements to effectively convert a portion of its floating rate debt to fixed rate debt. As of December 31, 1998 and 1997, the Corporation had agreements outstanding with an aggregate notional amount of $75.0 million and $150.0 million with maturities through September 1999 and September 1998, respectively. As of December 31, 1998 and 1997, interest rates payable were at a weighted average fixed rate of 6.3%. As of December 31, 1998 and 1997, interest rates receivable of 5.2% and 5.7%, respectively, were based on 30-day commercial paper composite rates. Any interest rate differential on interest rate swaps is recognized as an adjustment to interest expense over the term of each agreement. The Corporation's risk related to swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

6. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	1998	1997	1996
In thousands of dollars			
Long-term debt and lease obligations	$67,538	$48,737	$30,818
Short-term debt	23,657	32,284	22,752
Capitalized interest	(2,547)	(1,883)	(1,534)
Interest expense, gross	88,648	79,138	52,036
Interest income	(2,991)	(2,883)	(3,993)
Interest expense, net	$85,657	$76,255	$48,043

7. SHORT-TERM DEBT

Generally, the Corporation's short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. In December 1995, the Corporation entered into committed credit facility agreements with a syndicate of banks under which it could borrow up to $600 million, with options to increase borrowings by $1.0 billion with the concurrence of the banks. Of the total committed credit facility, $200 million was for a renewable 364-day term and $400 million was effective for a five-year term. In December 1998, the short-term credit facility agreement was renewed for a total of $177 million. The long-term credit facility agreement was amended and renewed in December 1997 and will expire in December 2002. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt in accordance with the Corporation's intent and ability to refinance such obligations on a long-term basis. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999.

The Corporation also maintains lines of credit arrangements with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $23.0 million and $20.7 million as of December 31, 1998 and 1997, respectively, at the lending banks' prime commercial interest rates or lower. The Corporation had combined domestic commercial paper borrowings, including the portion classified as long-term debt as of December 31, 1997, and short-term foreign bank loans against its credit facilities and lines of credit of $345.9 million as of December 31, 1998, and $382.5 million as of December 31, 1997. The weighted average interest rates on short-term borrowings outstanding as of December 31, 1998 and 1997, were 5.2% and 5.7%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 1998 was less than .1% per annum of the commitment. The Corporation's credit facility agreements contain a financial covenant which requires that a specified interest and fixed charge ratio be maintained. These agreements are also subject to other representations and covenants which do not materially restrict the Corporation's activities. The Corporation is in compliance with all covenants included in the credit facility agreements. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which were included in accounts payable, were $57.0 million and $30.7 million as of December 31, 1998 and 1997, respectively.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31, In thousands of dollars	1998	1997
Commercial Paper at interest rates ranging from 5.64% to 6.55%	$ --	$ 150,000
Medium-term Notes, 8.875% due 1998	--	25,000
6.7% Notes due 2005	200,000	200,000
6.95% Notes due 2007	150,000	150,000
6.95% Notes due 2012	150,000	150,000
8.8% Debentures due 2021	100,000	100,000
7.2% Debentures due 2027	250,000	250,000
Other obligations, net of unamortized debt discount	29,192	29,231
Total long-term debt	879,192	1,054,231
Less--current portion	89	25,095
Long-term portion	$879,103	$1,029,136

As of December 31, 1997, $150.0 million of commercial paper borrowings were reclassified as long-term debt. A similar reclassification was not recorded as of December 31, 1998, because the Corporation intends to reduce commercial paper borrowings during 1999.

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

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

Aggregate annual maturities during the next five years are: 1999, $.1 million; 2000, $2.2 million; 2001, $.2 million; 2002, $.2 million; and 2003, $17.1 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

9. INCOME TAXES

The provision for income taxes was as follows:

For the years ended December 31,	1998	1997	1996
In thousands of dollars Current:			
Federal	$119,706	$177,145	$158,040
State	10,498	20,252	23,288
Foreign	3,673	3,392	2,360
Current provision for income taxes	133,877	200,789	183,688
Deferred:			
Federal	73,422	9,370	12,952
State	10,568	5,103	8,134
Foreign	(1,749)	2,442	1,777
Deferred provision for income taxes	82,241	16,915	22,863
Total provision for income taxes	$216,118	$217,704	$206,551

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

December 31,	1998	1997
In thousands of dollars Deferred tax assets:		
Post-retirement benefit obligations	$ 87,954	$ 91,706
Accrued expenses and other reserves	96,843	91,067
Accrued trade promotion reserves	28,118	30,905
Other	21,530	23,234
Total deferred tax assets	234,445	236,912
Deferred tax liabilities:		
Depreciation	308,074	302,675
Other	188,967	117,292
Total deferred tax liabilities	497,041	419,967
Net deferred tax liabilities	$262,596	$183,055
Included in:		
Current deferred tax assets, net	$ 58,505	$ 84,024
Non-current deferred tax liabilities, net	321,101	267,079
Net deferred tax liabilities	$262,596	$183,055

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

For the years ended December 31,	1998	1997	1996
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	3.0	3.4	4.7
Non-deductible acquisition costs	.9	.9	.6
Loss on disposal of businesses for which no tax benefit was provided	--	--	2.6
Other, net	(.1)	--	.2
Effective income tax rate	38.8%	39.3%	43.1%

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 most significant issue pertains to the Corporate Owned Life Insurance (COLI) program which was implemented by the Corporation in 1989. The IRS proposed the disallowance of interest expense deductions associated with the underlying life insurance policies. The Corporation believes that it has fully complied with the tax law as it relates to its COLI program. The Corporation expects to file a protest of the proposed deficiency with the Appeals section of the IRS in early 1999 and intends to vigorously defend its position on this matter.

10. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

Effective December 31, 1998, the Corporation adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pension and Other Post-Retirement Benefits (SFAS No. 132). The provisions of SFAS No. 132 revise employers' disclosures about pension and other post-retirement benefit plans. It does not change the measurement or recognition of these plans.

A summary of the changes in benefit obligations and plan assets as of December 31, 1998 and 1997 is presented below:

	Pension Benefits		Other Benefits	
December 31,	1998	1997	1998	1997
In thousands of dollars				
Change in benefits obligation				
Benefits obligation at beginning of year	$602,081	$503,528	$ 206,695	$ 176,301
Service cost	27,621	26,177	4,452	4,390
Interest cost	41,855	39,385	13,524	13,395
Amendments	(440)	9,840	(17,427)	967
Actuarial loss	72,944	32,325	54,698	18,332
Acquisition	--	26,560	(1,799)	1,677
Other	(2,440)	(1,587)	(228)	(154)
Benefits paid	(49,199)	(34,147)	(8,875)	(8,213)
Benefits obligation at end of year	692,422	602,081	251,040	206,695
Change in plan assets				
Fair value of plan assets at beginning of year	566,810	450,426	--	--
Actual return on plan assets	91,338	86,405	--	--
Acquisition	--	38,328	--	--
Employer contribution	20,634	26,855	8,875	8,213
Other	(1,542)	(1,057)	--	--
Benefits paid	(49,199)	(34,147)	(8,875)	(8,213)
Fair value of plan assets at end of year	628,041	566,810	--	--
Funded status	(64,381)	(35,271)	(251,040)	(206,695)
Unrecognized transition obligation	(91)	193	--	--
Unrecognized prior service cost	35,854	39,337	(33,202)	(25,685)
Unrecognized net actuarial loss (gain)	6,164	(27,318)	59,589	4,330
Intangible asset	(1,261)	(6,336)	--	--
Accumulated other comprehensive income	(6,750)	--	--	--
Prior service cost recognized due to curtailment	--	--	12,991	--
Unrecognized prior service cost due to amendment	--	--	(6,924)	--
(Accrued) benefits cost	$ (30,465)	$ (29,395)	$(218,586)	$(228,050)
Weighted-average assumptions				
Discount rate	6.40%	7.00%	6.40%	7.00%
Expected long-term rate of return on assets	9.50	9.50	N/A	N/A
Rate of increase in compensation levels	4.80	4.80	N/A	N/A

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999 and future years.

The Corporation's acquisition of the Leaf business in 1996 included its pension plan. The Leaf pension plan was merged into the Hershey Foods Corporation Retirement Plan as of December 31, 1997.

As of December 31, 1998, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $81.1 million, $66.9 million and $22.7 million, respectively.

As of December 31, 1997, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation and accumulated benefit obligation were $36.4 million and $34.9 million, respectively. As of December 31, 1997, there were no funded pension plans with accumulated benefit obligations in excess of plan assets.

A summary of the components of net periodic benefits cost for the years ended December 31, 1998 and 1997 is presented below:

	Pension Benefits		Other Benefits	
For the years ended December 31,	1998	1997	1998	1997
In thousands of dollars				
Components of net periodic benefits cost				
Service cost	$ 27,621	$ 26,177	$ 4,452	$ 4,390
Interest cost	41,855	39,385	13,524	13,395
Expected return on plan assets	(53,399)	(42,700)	--	--
Amortization of prior service cost	2,941	190	(2,986)	(2,252)
Recognized net actuarial loss (gain)	717	(1,652)	--	--
Other	--	--	9	6
Corporate sponsored plans	19,735	21,400	14,999	15,539
Multi-employer plans	1,571	1,627	--	--
Administrative expenses	796	864	--	--
Net periodic benefits cost	$ 22,102	$ 23,891	$14,999	$15,539

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory. Effective December 1998, for all eligible employees under age 45, the Corporation will provide annual contributions into the Employee Savings Stock Investment and Ownership Plan (ESSIOP) instead of providing coverage under the current retiree medical plan. This change resulted in the immediate recognition of a $13.0 million pre-tax gain which is not included above as a component of net periodic benefits cost. The changes apply to all U.S. full-time salaried employees, and all non-union hourly plant employees working outside of Hershey, PA.

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

	1 Percentage Point Increase	1 Percentage Point (Decrease)
In thousands of dollars		
Effect on total service and interest cost components	$ 940	$ (872)
Effect on post-retirement benefit obligation	12,935	(11,552)

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 1998, a minimum liability adjustment of $4.1 million, less allowable intangible assets, net of a deferred tax benefit of $2.7 million, was recorded as a component of other comprehensive loss and reported in accumulated other comprehensive loss as a component of stockholders' equity.

11. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust (ESOP) serves as the primary vehicle for contributions to its existing ESSIOP for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year 7.75% loan of $47.9 million from the Corporation. During 1998 and 1997, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 1998, the ESOP held 927,863 allocated shares and 1,273,400 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20 1/16 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 1998, 1997 and 1996 was $1.0 million, $1.4 million and $1.8 million, respectively. Dividends paid on unallocated ESOP shares were $1.2 million in 1998 and $1.3 million in 1997 and 1996. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

12. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 1998, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 1998, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 143,146,715 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 1998.

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

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

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1998, 1997 and 1996, a total of 18,000 shares, 13,000 shares and 2,000 shares, respectively, of Class B Stock were converted into Common Stock.

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School (Milton Hershey School Trust), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 14,531,294 shares of the Common Stock, and as Trustee for the benefit of Milton Hershey School, held 30,306,006 shares of the Class B Stock as of December 31, 1998, and was entitled to cast approximately 76% of the total votes of both classes of the Corporation's common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action which would result in the Milton Hershey School Trust not continuing to have voting control of the Corporation.

A total of 9,861,119 shares of Common Stock have been repurchased for approximately $287.5 million under share repurchase programs which were approved by the Corporation's Board of Directors in 1993 and 1996. Of the shares repurchased, 528,000 shares were retired, 529,498 shares were reissued to satisfy stock options obligations and the remaining 8,803,621 shares were held as Treasury Stock as of December 31, 1998. In August 1997, the Corporation purchased an additional

9,900,990 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $500.0 million. This was in addition to the 18,099,546 shares purchased from the Milton Hershey School Trust in August 1995 for $500.0 million. A total of 36,804,157 shares were held as Treasury Stock as of December 31, 1998.

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

For the year ended December 31, 1998	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share--Basic			
Net income	$340,888	143,446,421	$2.38
Effect of Dilutive Securities			
Stock options	--	2,008,355	
Performance stock units	--	106,968	
Restricted stock units	--	1,238	
Net Income per Share--Diluted			
Net income and assumed conversions	$340,888	145,562,982	$2.34

For the year ended December 31, 1997	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share--Basic			
Net income	$336,251	149,173,558	$2.25
Effect of Dilutive Securities			
Stock options	--	1,726,761	
Performance stock units	--	112,649	
Restricted stock units	--	3,389	
Net Income per Share--Diluted			
Net income and assumed conversions	$336,251	151,016,357	$2.23

For the year ended December 31, 1996	Income (Numerator)	Shares (Denominator)	Per-Share Amount
In thousands of dollars except shares and per share amounts			
Net Income per Share--Basic			
Net income	$273,186	154,333,549	$1.77
Effect of Dilutive Securities			
Stock options	--	1,270,177	
Performance stock units	--	84,697	
Restricted stock units	--	1,528	
Net Income per Share--Diluted			
Net income and assumed conversions	$273,186	155,689,951	$1.75

13. STOCK COMPENSATION PLAN

The long-term portion of the Key Employee Incentive Plan (KEIP), provides for grants of stock-based compensation awards to senior executives and key employees of one or more of the following: non-qualified stock options (fixed stock options), performance stock units, stock appreciation rights and restricted stock units. The KEIP also provides for the deferral of performance stock unit awards by participants. As of December 31, 1998, 15.3 million shares were authorized for grants under the long-term portion of the KEIP.

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

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

For the years ended December 31,		1998	1997	1996
In thousands of dollars except per share amounts				
Net income	As reported	$340,888	$336,251	$273,186
	Pro forma	329,621	330,710	266,517
Net income per share--				
Basic	As reported	$ 2.38	$ 2.25	$ 1.77
	Pro forma	2.30	2.22	1.73
Net income per share--				
Diluted	As reported	$ 2.34	$ 2.23	$ 1.75
	Pro forma	2.26	2.19	1.71

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yields of 1.6%, 1.9% and 2.4%, expected volatility of 21%, 20% and 20%, risk-free interest rates of 5.9%, 6.2% and 5.6%, and expected lives of 6.5, 5.7 and 7.5 years.

Fixed Stock Options

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

A summary of the status of the Corporation's fixed stock options as of December 31, 1998, 1997, and 1996, and changes during the years ending on those dates is presented below:

	1998		1997		1996	
Fixed Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	6,713,920	$31.73	5,902,220	$27.40	4,435,800	$22.54
Granted	1,739,050	$61.22	1,485,250	$44.64	2,619,200	$33.08
Exercised	(751,600)	$25.78	(656,350)	$21.94	(1,062,980)	$20.74
Forfeited	(36,100)	$52.61	(17,200)	$33.06	(89,800)	$31.92
Outstanding at end of year	7,665,270	$38.91	6,713,920	$31.73	5,902,220	$27.40
Options exercisable at year-end	4,480,670	$28.45	3,013,670	$24.38	3,670,020	$23.94
Weighted-average fair value of options granted during the year (per share)	$ 18.30		$ 11.66		$ 8.70	

The increase in the weighted-average fair value of options reflects higher grant prices and lower dividend yields.

The following table summarizes information about fixed stock options outstanding as of December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/98	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/98	Weighted-Average Exercise Price
$17 11/16-26 1/2	2,194,970	4.4	$23.63	2,194,970	$23.63
$33 1/16-44 1/2	3,728,050	7.4	$37.50	2,285,700	$33.07
$56 1/4-63 11/16	1,742,250	9.0	$61.17	--	
$17 11/16-63 11/16	7,665,270	6.9	$38.91	4,480,670	$28.45

Performance Stock Units

Under the long-term portion of the KEIP, each January the Corporation grants selected executives and other key employees performance stock units whose vesting is contingent upon the achievement of certain performance objectives. If at the end of three-year performance cycles, targets for financial measures of earnings per share, economic value added and free cash flow are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 150% of the targeted amounts. The compensation cost charged against income for the performance-based plan was $6.6 million, $9.1 million and $5.8 million for 1998, 1997, and 1996, respectively. The compensation cost associated with the long-term portion of the KEIP is recognized ratably over the three-year term based on the year-end market value of the stock. Performance stock units and restricted stock units granted for potential future distribution were as follows:

For the years ended December 31,	1998	1997	1996
Shares granted	48,150	95,250	86,000
Weighted-average fair value at date of grant	$ 61.54	$ 45.17	$ 33.56

Deferred performance stock units, deferred directors' fees and accumulated dividend amounts totaled 373,933 shares as of December 31, 1998.

No stock appreciation rights were outstanding as of December 31, 1998.

14. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts Receivable--Trade

In the normal course of business, the Corporation extends credit to customers which satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Receivables, as shown on the consolidated balance sheets, were net of allowances and anticipated discounts of $19.9 million and $15.8 million as of December 31, 1998 and 1997, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out (LIFO) method and the remaining inventories at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $342.9 million and $372.7 million as of December 31, 1998 and 1997, respectively, and all inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31,	1998	1997
In thousands of dollars		
Raw materials	$ 205,111	$ 223,702
Goods in process	38,420	36,015
Finished goods	340,442	334,639
Inventories at FIFO	583,973	594,356
Adjustment to LIFO	(90,724)	(88,831)
Total inventories	$ 493,249	$ 505,525

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $96.6 million and $144.0 million as of December 31, 1998 and 1997, respectively. Major classes of property, plant and equipment were as follows:

December 31,	1998	1997
In thousands of dollars		
Land	$ 30,871	$ 31,340
Buildings	541,181	540,729
Machinery and equipment	2,130,735	2,015,161
Property, plant and equipment, gross	2,702,787	2,587,230
Accumulated depreciation	(1,054,729)	(938,993)
Property, plant and equipment, net	$ 1,648,058	$ 1,648,237

Accrued Liabilities

Accrued liabilities were as follows:

December 31,	1998	1997
In thousands of dollars		
Payroll and other compensation	$ 87,666	$ 92,102
Advertising and promotion	67,916	86,184
Other	138,833	193,259
Total accrued liabilities	$ 294,415	$ 371,545

Other Long-term Liabilities

Other long-term liabilities were as follows:

December 31,	1998	1997
In thousands of dollars		
Accrued post-retirement benefits	$ 206,345	$ 216,901
Other	140,424	129,599
Total other long-term liabilities	$ 346,769	$ 346,500

15. SEGMENT INFORMATION

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

Net sales and long-lived assets of businesses outside of the United States were not significant. Sales to Wal-Mart Stores, Inc. and Subsidiaries exceeded 10% of total net sales and amounted to approximately $619.1 million, $529.6 million and $471.3 million in 1998, 1997 and 1996, respectively.

16. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

Year 1998	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$1,098,076	$880,399	$1,217,237	$1,239,903
Gross profit	445,736	357,684	510,632	496,506
Net income	75,433	47,965	107,533	109,957
Net income per share--Basic	.53	.33	.75	.77
Net income per share--Diluted(a)	.52	.33	.74	.76

Year 1997	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$1,002,469	$905,729	$1,151,610	$1,242,428
Gross profit	413,188	375,411	479,006	545,735
Net income	68,894	50,564	100,673	116,120
Net income per share--Basic(a)	.45	.33	.68	.81
Net income per share--Diluted(a)	.45	.33	.67	.80

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

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The financial statements have been audited by Arthur Andersen LLP, independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 28, 1998. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their audit was performed in accordance with generally accepted auditing standards which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998, appearing on pages A-12 through A-32. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

New York, New York
January 29, 1999

HERSHEY FOODS CORPORATION
ELEVEN-YEAR CONSOLIDATED FINANCIAL SUMMARY

All dollar and share amounts in thousands except market price and per share statistics

	10-Year Compound Growth Rate		1998	1997	1996
Summary of Operations(a)					
Net Sales	7.42%	$	4,435,615	4,302,236	3,989,308
Cost of Sales	7.06%	$	2,625,057	2,488,896	2,302,089
Selling, Marketing and Administrative	7.33%	$	1,167,895	1,183,130	1,124,087
Non-recurring Credits/(Charges)(m)		$	--	--	(35,352)
Interest Expense, Net	11.08%	$	85,657	76,255	48,043
Income Taxes	8.96%	$	216,118	217,704	206,551
Income from Continuing Operations Before Accounting Changes	8.96%	$	340,888	336,251	273,186
Net Cumulative Effect of Accounting Changes		$	--	--	--
Discontinued Operations		$	--	--	--
Net Income	4.77%	$	340,888	336,251	273,186
Income Per Share:(b)					
From Continuing Operations Before Accounting Changes					
--Basic	11.52%	$	2.38	2.25	1.77(h)
--Diluted	11.33%	$	2.34	2.23	1.75
Net Cumulative Effect of Accounting Changes --Basic and Diluted		$	--	--	--
Net Income--Basic	7.27%	$	2.38	2.25	1.77(h)
Net Income--Diluted	7.09%	$	2.34	2.23	1.75
Weighted Average Shares Outstanding--Basic(b)			143,446	149,174	154,334
Weighted Average Shares Outstanding--Diluted(b)			145,563	151,016	155,690
Dividends Paid on Common Stock	7.68%	$	103,616	98,390	93,884
Per Share(b)	10.80%	$	.920	.840	.760
Dividends Paid on Class B Common Stock	10.83%	$	25,428	23,156	20,879
Per Share(b)	10.87%	$	.835	.760	.685
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales			7.7%	7.8%	7.7%(c)
Depreciation	12.22%	$	138,489	135,016	119,443
Advertising	6.59%	$	187,505	202,408	174,199
Promotion	7.39%	$	469,709	451,580	429,208
Payroll	6.55%	$	563,045	524,827	491,677
Year-end Position and Statistics(a)					
Capital Additions	4.72%	$	161,328	172,939	159,433
Total Assets	6.79%	$	3,404,098	3,291,236	3,184,796
Long-term Portion of Debt	14.20%	$	879,103	1,029,136	655,289
Stockholders' Equity	.36%	$	1,042,301	852,806	1,161,021
Operating Return on Average Stockholders' Equity			36.0%	33.4%	27.5%
Operating Return on Average Invested Capital			17.4%	17.5%	17.8%
Full-time Employees			14,700	14,900	14,000
Stockholders' Data(b)					
Outstanding Shares of Common Stock and Class B Common Stock at Year-end			143,147	142,932	152,942
Market Price of Common Stock at Year-end	16.94%	$	62 3/16	61 15/16	43 3/4
Range During Year		$	76 3/8-59 11/16	63 7/8-42 1/8	51 3/4-31 15/16

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See Notes to the Eleven-Year Consolidated Financial Summary on page A-37.

	1995	1994	1993	1992	1991
Summary of Operations(a)					
Net Sales	3,690,667	3,606,271	3,488,249	3,219,805	2,899,165
Cost of Sales	2,126,274	2,097,556	1,995,502	1,833,388	1,694,404
Selling, Marketing and Administrative	1,053,758	1,034,115	1,035,519	958,189	814,459
Non-recurring Credits/(Charges)(m)	151	(106,105)	80,642	--	--
Interest Expense, Net	44,833	35,357	26,995	27,240	26,845
Income Taxes	184,034	148,919	213,642	158,390	143,929
Income from Continuing Operations Before Accounting Changes	281,919	184,219	297,233	242,598	219,528
Net Cumulative Effect of Accounting Changes	--	--	(103,908)	--	--
Discontinued Operations	--	--	--	--	--
Net Income	281,919	184,219	193,325	242,598	219,528
Income Per Share:(b)					
From Continuing Operations Before Accounting Changes					
--Basic	1.70(i)	1.06 (j)	1.65(k)	1.34	1.21
--Diluted	1.69	1.05	1.65	1.34	1.21
Net Cumulative Effect of Accounting Changes					
--Basic and Diluted	--	--	(.58)	--	--
Net Income--Basic	1.70(i)	1.06 (j)	1.07(k)	1.34	1.21
Net Income--Diluted	1.69	1.05	1.07	1.34	1.21
Weighted Average Shares Outstanding--Basic(b)	166,036	174,367	179,929	180,775	180,767
Weighted Average Shares Outstanding--Diluted(b)	166,721	174,740	180,495	181,160	181,112
Dividends Paid on Common Stock	91,190	89,660	84,711	77,174	70,426
Per Share(b)	.685	.625	.570	.515	.470
Dividends Paid on Class B Common Stock	18,900	17,301	15,788	14,270	12,975
Per Share(b)	.620	.5675	.5175	.4675	.425
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales	7.6%	7.3%(d)	7.4%(e)	7.5%	7.6%
Depreciation	119,438	114,821	100,124	84,434	72,735
Advertising	159,200	120,629	130,009	137,631	117,049
Promotion	402,454	419,164	444,546	398,577	325,465
Payroll	461,928	472,997	469,564	433,162	398,661
Year-end Position and Statistics(a)					
Capital Additions	140,626	138,711	211,621	249,795	226,071
Total Assets	2,830,623	2,890,981	2,855,091	2,672,909	2,341,822
Long-term Portion of Debt	357,034	157,227	165,757	174,273	282,933
Stockholders' Equity	1,082,959	1,441,100	1,412,344	1,465,279	1,335,251
Operating Return on Average Stockholders' Equity	22.2%	18.5%	17.8%	17.3%	17.0%
Operating Return on Average Invested Capital	17.1%	15.6%	15.0%	14.4%	13.8%
Full-time Employees	13,300	14,000	14,300	13,700	14,000
Stockholders' Data(b)					
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	154,532	173,470	175,226	180,373	180,373
Market Price of Common Stock at Year-end	32 1/2	24 3/16	24 1/2	23 1/2	22 3/16
Range During Year	33 15/16-24	26 3/4-20 9/16	27 15/16-21 3/4	24 3/16-19 1/8	22 1/4-17 9/16

	1990	1989	1988
Summary of Operations(a)			
Net Sales	2,715,609	2,420,988	2,168,048
Cost of Sales	1,588,360	1,455,612	1,326,458
Selling, Marketing and Administrative	776,668	655,040	575,515
Non-recurring Credits/(Charges)(m)	35,540	--	--
Interest Expense, Net	24,603	20,414	29,954
Income Taxes	145,636	118,868	91,615
Income from Continuing Operations Before Accounting Changes	215,882	171,054	144,506
Net Cumulative Effect of Accounting Changes	--	--	--
Discontinued Operations	--	--	69,443
Net Income	215,882	171,054	213,949
Income Per Share:(b)			
From Continuing Operations Before Accounting Changes			
--Basic	1.19(l)	.95	.80
--Diluted	1.19	.95	.80
Net Cumulative Effect of Accounting Changes			
--Basic and Diluted	--	--	--
Net Income--Basic	1.19(l)	.95	1.18
Net Income--Diluted	1.19	.95	1.18
Weighted Average Shares Outstanding--Basic(b)	180,766	180,824	180,981
Weighted Average Shares Outstanding--Diluted(b)	180,987	180,984	181,140
Dividends Paid on Common Stock	74,161(f)	55,431	49,433
Per Share(b)	.495(f)	.370	.330
Dividends Paid on Class B Common Stock	13,596(f)	10,161	9,097
Per Share(b)	.445(f)	.3325	.2975
Income from Continuing Operations Before Accounting Changes as a Percent of Net Sales	7.2%(g)	7.1%	6.7%
Depreciation	61,725	54,543	43,721
Advertising	146,297	121,182	99,082
Promotion	315,242	256,237	230,187
Payroll	372,780	340,129	298,483
Year-end Position and Statistics(a)			
Capital Additions	179,408	162,032	101,682
Total Assets	2,078,828	1,814,101	1,764,665
Long-term Portion of Debt	273,442	216,108	233,025
Stockholders' Equity	1,243,537	1,117,050	1,005,866
Operating Return on Average Stockholders' Equity	16.6%	16.1%	17.5%
Operating Return on Average Invested Capital	13.4%	13.2%	13.3%
Full-time Employees	12,700	11,800	12,100
Stockholders' Data(b)			
Outstanding Shares of Common Stock and Class B Common Stock at Year-end	180,373	180,373	180,373
Market Price of Common Stock at Year-end	18 3/4	17 15/16	13
Range During Year	19 13/16-14 1/8	18 7/16-12 3/8	14 5/16-10 15/16

Notes to the Eleven-Year Consolidated Financial Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

The following is a listing of Subsidiaries of the Corporation, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned. Certain subsidiaries are not listed since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 1998.

Name of Subsidiary	Jurisdiction of Incorporation
Christiana, Inc.	Delaware
Hershey Canada Inc.	Canada
Hershey Chocolate & Confectionery Corporation	Delaware
Hershey Chocolate of Virginia, Inc.	Delaware
Hershey Holding Corporation	Delaware
Hershey Pasta Group Winchester, Inc.	Delaware
Homestead, Inc.	Delaware

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 29, 1999, included or incorporated by reference in this Form 10-K for the year ended December 31, 1998, into the Corporation's previously filed Registration Statements on Forms S-8 and S-3, (File No. 333-25853, File No. 333-33507, File No. 33-45431, File No. 33-45556, and File No. 333-52509).

ARTHUR ANDERSEN LLP

New York, New York
March 15, 1999

This schedule contains summary financial information extracted from Hershey Foods Corporation's Consolidated Condensed Balance Sheet as of December 31, 1998 and Consolidated Statement of Income for the twelve months ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.

YEAR
DEC-31-1998
DEC-31-1998
39,024
0
451,324
0
493,249
1,133,966
2,702,787
1,054,729
3,404,098
814,824
879,103
0
0
179,950
862,351
3,404,098
4,435,615
4,435,615
2,625,057
3,792,952
0
0
85,657
557,006
216,118
340,888
0
0
0
340,888
2.38
2.34

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