

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

**FORM 10-Q**

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

For the quarterly period ended **September 29, 2002**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-183

**HERSHEY FOODS CORPORATION**

100 Crystal A Drive  
Hershey, PA 17033

Registrant's telephone number: 717-534-6799

State of Incorporation  
**Delaware**

IRS Employer Identification No.  
**23-0691590**

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

Yes  No

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

Common Stock, \$1 par value - 105,720,354 shares, as of October 25, 2002. Class B Common Stock, \$1 par value - 30,422,308 shares, as of October 25, 2002.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements (Unaudited)**

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

	<b>For the Three Months Ended</b>	
	<b>September 29, 2002</b>	<b>September 30, 2001</b>
	<b>-----</b>	<b>-----</b>
<b>Net Sales</b>	<b>\$1,152,321</b>	<b>\$1,178,909</b>
	<b>-----</b>	<b>-----</b>
<b>Costs and Expenses:</b>		
Cost of sales	717,197	753,403
Selling, marketing and administrative	218,052	216,519
Business realignment charge, net	8,536	-
Gain on sale of business	-	(19,237)
	<b>-----</b>	<b>-----</b>
Total costs and expenses	943,785	950,685
	<b>-----</b>	<b>-----</b>
<b>Income before Interest and Income Taxes</b>	<b>208,536</b>	<b>228,224</b>
Interest expense, net	14,120	18,147
	<b>-----</b>	<b>-----</b>

<b>Income before Income Taxes</b>	194,416	210,077
Provision for income taxes	71,351	89,315
<b>Net Income</b>	<u>\$ 123,065</u>	<u>\$ 120,762</u>
<b>Net Income Per Share-Basic</b>	<u>\$ .90</u>	<u>\$ .89</u>
<b>Net Income Per Share-Diluted</b>	<u>\$ .89</u>	<u>\$ .88</u>
<b>Average Shares Outstanding-Basic</b>	<u>137,179</u>	<u>135,869</u>
<b>Average Shares Outstanding-Diluted</b>	<u>138,346</u>	<u>137,213</u>
<b>Cash Dividends Paid per Share:</b>		
Common Stock	<u>\$ .3275</u>	<u>\$ .3025</u>
Class B Common Stock	<u>\$ .2950</u>	<u>\$ .2725</u>

The accompanying notes are an integral part of these statements.

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

	For the Nine Months Ended	
	September 29, 2002	September 30, 2001
<b>Net Sales</b>	\$ 2,964,289	\$ 2,984,237
<b>Costs and Expenses:</b>		
Cost of sales	1,851,212	\$1,908,616
Selling, marketing and administrative	616,668	622,927
Business realignment charge, net	19,274	-
Gain on sale of business	-	(19,237)
Total costs and expenses	2,487,154	2,512,306
<b>Income before Interest and Income Taxes</b>	477,135	471,931
Interest expense, net	45,448	52,371
<b>Income before Income Taxes</b>	431,687	419,560
Provision for income taxes	158,429	167,453
<b>Net Income</b>	<u>\$ 273,258</u>	<u>\$ 252,107</u>
<b>Net Income Per Share-Basic</b>	<u>\$ 2.00</u>	<u>\$ 1.85</u>
<b>Net Income Per Share-Diluted</b>	<u>\$ 1.98</u>	<u>\$ 1.83</u>
<b>Average Shares Outstanding-Basic</b>	<u>136,923</u>	<u>136,343</u>
<b>Average Shares Outstanding-Diluted</b>	<u>138,165</u>	<u>137,768</u>
<b>Cash Dividends Paid per Share:</b>		
Common Stock	<u>\$ .9325</u>	<u>\$ .8625</u>
Class B Common Stock	<u>\$ .8400</u>	<u>\$ .7775</u>

The accompanying notes are an integral part of these statements.

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ASSETS	2002 -----	2001 -----
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 119,860	\$ 134,147
Accounts receivable - trade	676,847	361,726
Inventories	593,231	512,134
Deferred income taxes	-	96,939
Prepaid expenses and other	69,031	62,595
	-----	-----
Total current assets	1,458,969	1,167,541
	-----	-----
<b>Property, Plant and Equipment, at cost</b>	2,931,809	2,900,756
Less-accumulated depreciation and amortization	(1,455,749)	(1,365,855)
	-----	-----
Net property, plant and equipment	1,476,060	1,534,901
	-----	-----
<b>Goodwill</b>	378,035	388,702
<b>Other Intangibles</b>	40,022	40,426
<b>Other Assets</b>	92,951	115,860
	-----	-----
Total assets	\$ 3,446,037	\$ 3,247,430
	=====	=====

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities:</b>		
Accounts payable	\$ 131,607	\$ 133,049
Accrued liabilities	398,301	462,901
Accrued income taxes	75,545	2,568
Short-term debt	8,182	7,005
Current portion of long-term debt	350	921
	-----	-----
Total current liabilities	613,985	606,444
<b>Long-term Debt</b>	868,491	876,972
<b>Other Long-term Liabilities</b>	370,939	361,041
<b>Deferred Income Taxes</b>	222,522	255,769
	-----	-----
Total liabilities	2,075,937	2,100,226
	-----	-----
<b>Stockholders' Equity:</b>		
Preferred Stock, shares issued: none in 2002 and 2001	---	---
Common Stock, shares issued: 149,526,564 in 2002 and 149,517,064 in 2001	149,526	149,516
Class B Common Stock, shares issued: 30,424,308 in 2002 and 30,433,808 in 2001	30,424	30,434
Additional paid-in capital	186	3,263
Unearned ESOP compensation	(13,572)	(15,967)
Retained earnings	2,903,792	2,755,333
Treasury-Common Stock shares at cost: 43,580,410 in 2002 and 44,311,870 in 2001	(1,668,052)	(1,689,243)
Accumulated other comprehensive loss	(32,204)	(86,132)
	-----	-----
Total stockholders' equity	1,370,100	1,147,204
	-----	-----
Total liabilities and stockholders' equity	\$ 3,446,037	\$ 3,247,430
	=====	=====

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

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

	For the Nine Months Ended -----	
	September 29, 2002 ----	September 30, 2001 ----
<b>Cash Flows Provided from (Used by) Operating Activities</b>		
Net Income	\$ 273,258	\$ 252,107
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	137,454	141,699
Deferred income taxes	(2,385)	10,415
Business realignment initiatives	19,274	-

Gain on sale of business, net of tax of \$18,134	-	(1,103)
Changes in assets and liabilities, net of effects from business acquisition and divestitures:		
Accounts receivable - trade	(315,121)	(168,729)
Inventories	(75,197)	(127,659)
Accounts payable	(1,442)	13,766
Other assets and liabilities	136,960	163,249
	-----	-----
Net Cash Flows Provided from Operating Activities	172,801	283,745
	-----	-----
<b>Cash Flows Provided from (Used by) Investing Activities</b>		
Capital additions	(74,451)	(114,608)
Capitalized software additions	(6,964)	(6,003)
Business acquisition	-	(17,143)
Proceeds from business divestiture	12,000	59,900
Other, net	28,907	16,661
	-----	-----
Net Cash Flows (Used by) Investing Activities	(40,508)	(61,193)
	-----	-----
<b>Cash Flows Provided from (Used by) Financing Activities</b>		
Net increase (decrease) in short-term debt	1,177	(20,391)
Long-term borrowings	-	354
Repayment of long-term debt	(9,169)	(578)
Cash dividends paid	(124,799)	(114,597)
Exercise of stock options	84,328	21,509
Incentive plan transactions	(98,117)	(51,328)
Repurchase of Common Stock	-	(40,322)
	-----	-----
Net Cash Flows (Used by) Financing Activities	(146,580)	(205,353)
	-----	-----
(Decrease) Increase in Cash and Cash Equivalents	(14,287)	17,199
Cash and Cash Equivalents, beginning of period	134,147	31,969
	-----	-----
Cash and Cash Equivalents, end of period	\$ 119,860	\$ 49,168
	=====	=====

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Interest Paid	\$ 57,000	\$ 63,105
	=====	=====
Income Taxes Paid	\$ 32,449	\$ 53,818
	=====	=====

The accompanying notes are an integral part of these statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Hershey Foods Corporation and its subsidiaries (the "Corporation") after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 29, 2002, are not necessarily indicative of the results that may be expected for the year ending December 31, 2002, because of the seasonal effects of the Corporation's business. For more information, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

Certain reclassifications have been made to prior year amounts to conform to the 2002 presentation. In accordance with final consensus reached on various EITF Issues regarding the reporting of certain sales incentives, costs totaling \$126.1 million and \$301.0 million for the three months and nine months ended September 30, 2001, respectively, previously reported in selling, marketing and administrative expense, have been reclassified as a reduction to net sales. In addition, certain freight billings totaling \$.8 million and \$1.9 million for the three months and nine months ended September 30, 2001, respectively, previously reported in cost of sales have been reclassified as an increase to net sales.

### 2. BUSINESS REALIGNMENT INITIATIVES

In late October 2001, the Corporation's Board of Directors approved a plan to improve the efficiency and profitability of the Corporation's operations. The plan included asset management improvements, product line rationalization, supply chain efficiency improvements, and a voluntary work force reduction program (collectively, "the business realignment initiatives"). The major

components of the plan will be completed by the end of 2002. For more information on the business realignment initiatives recorded in the fourth quarter of 2001, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

During the first six months of 2002, a charge to cost of sales and net business realignment charges were recorded totaling \$11.5 million before tax (\$7.3 million after-tax or \$.05 per share-diluted). The total included a charge to cost of sales of \$.8 million associated with the relocation of manufacturing equipment and a net business realignment charge of \$10.7 million. Components of the net \$10.7 million pre-tax charge for these initiatives included a \$14.9 million charge relating to pension settlement costs associated with the voluntary work force reduction program ("VWRP"), a \$.1 million charge relating to product line rationalization, and a \$.1 million charge relating to supply chain efficiency improvements, partially offset by a \$4.4 million favorable adjustment relating to the sale of a group of Hershey's non-chocolate confectionery candy brands to Farley's and Sathers Candy Company, Inc. (the "Farley's and Sathers sale") for \$12.0 million in cash.

During the third quarter of 2002, a charge to cost of sales and business realignment charges were recorded totaling \$9.1 million before tax (\$5.8 million after-tax or \$.04 per share-diluted). The total included a charge to cost of sales of \$.6 million associated with the relocation of manufacturing equipment and a business realignment charge of \$8.5 million relating to pension settlement costs associated with the VWRP.

Additional charges totaling approximately \$15.0 million to \$25.0 million before tax, are expected to be recorded, as incurred, in the fourth quarter of 2002, primarily related to additional pension settlement costs resulting from the VWRP and expenses associated with the relocation of manufacturing equipment. Pension settlement costs will vary depending upon pension cost factors, such as actuarial assumptions, returns on pension plan assets and employee retirement decisions. Total costs associated with the business realignment initiatives are expected to be in the range of \$310.0 million, as announced in January 2002, to \$320.0 million.

### **Asset Management Improvements**

During the first six months of 2002, cash payments totaling \$1.8 million for equipment removal relating to outsourcing the manufacture of certain ingredients were recorded against the liability for business realignment initiatives. Also during the first six months of 2002, asset write-offs totaling \$1.8 million relating to outsourcing the manufacture of certain ingredients were recorded against the reserve for asset impairment write-downs associated

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with the business realignment initiatives which is included as part of accumulated depreciation. During the third quarter of 2002, cash payments totaling \$.2 million for equipment removal relating to outsourcing the manufacture of certain ingredients were recorded against the liability for business realignment initiatives.

### **Product Line Rationalization**

During the first six months of 2002, a net pre-tax charge of \$.1 million was recorded, as incurred, resulting in an increase to the liability for business realignment initiatives relating to the realignment of the Corporation's sales organizations. Additionally, cash payments totaling \$1.9 million, primarily for severance and broker termination fees associated with exiting certain businesses, and a non-cash write-off of \$8.5 million associated with exiting the Corporation's aseptically packaged drink business were recorded against the liability for business realignment initiatives. Asset write-offs during the first six months of 2002 totaling \$1.2 million, net of proceeds, relating to the Farley's and Sathers sale were recorded against the reserve for asset impairment write-downs associated with the business realignment initiatives. In addition, the Farley's and Sathers sale resulted in a reduction of goodwill in the amount of \$7.1 million and a \$4.4 million favorable adjustment which was included in the net business realignment charge. Net sales associated with businesses to be sold or exited as part of the business realignment initiatives were approximately \$12.8 million and \$18.6 million during the first six months of 2002 and 2001, respectively.

During the third quarter of 2002, cash payments totaling \$2.0 million, primarily for maintenance of properties prior to sale and severance, and \$.4 million of non-cash write-offs for inventory and spare parts were recorded against the liability for business realignment initiatives. Employee terminations during the third quarter were primarily related to the Farley's and Sathers sale which resulted in the closure of a manufacturing plant. During the first nine months of 2002, 139 employees were terminated and involuntary employee termination benefits paid were approximately \$1.2 million. There were no net sales associated with businesses to be sold or exited as part of the business realignment initiatives in the third quarter of 2002, however, sales in the third quarter of 2001 were \$10.9 million.

### **Supply Chain Efficiency Improvements**

During the first six months of 2002, a net pre-tax charge of \$.1 million was credited to the liability for business realignment initiatives relating to the closure of the Palmyra, Pennsylvania plant and cash payments totaling \$1.1 million relating primarily to the closure of the Palmyra, Pennsylvania plant and a distribution center in Oakdale, California were recorded against the liability. Asset write-offs during the first six months of 2002 totaling \$8.0 million relating to closure of the three manufacturing plants were recorded against the reserve for asset impairment write-downs associated with the business realignment initiatives.

During the third quarter of 2002, cash payments totaling \$.1 million relating primarily to the closure of the three manufacturing plants were recorded against the liability for business realignment initiatives. During the third quarter of 2002, asset write-offs totaling \$.6 million, net of proceeds from the sale of equipment of \$.5 million, relating to closure of the three manufacturing plants were recorded against the reserve for asset impairment write-downs associated with the business realignment initiatives. During the

first nine months of 2002, 288 employees were terminated and involuntary employee termination benefits paid were approximately \$0.9 million.

### Voluntary Work Force Reduction Program

During the first six months of 2002, cash payments totaling \$7.2 million relating to the enhanced mutual separation program of the Corporation's VWRP and administrative expenses were recorded against the liability for business realignment initiatives. In addition, a net pre-tax charge of \$14.9 million was credited to pension benefit liabilities during the first six months of 2002 relating to pension settlement costs associated with departing employees electing a lump sum payment of their pension benefit under the early retirement program of the VWRP. Payments of pension and certain supplemental benefits were made from the assets of the Corporation's pension plan for salaried employees.

During the third quarter of 2002, cash payments totaling \$0.8 million relating to the enhanced mutual separation program of the Corporation's VWRP and administrative expenses were recorded against the liability for business realignment initiatives. In addition, a net pre-tax charge of \$8.5 million was credited to pension benefit liabilities during the third quarter of 2002 relating to pension settlement costs associated with departing employees electing a lump sum payment of their pension benefit under the early retirement program of the VWRP. Payments of pension and certain supplemental benefits were made from the assets of the Corporation's pension plan for salaried employees. As of September 29, 2002, a reduction of approximately 500 employees has resulted from the VWRP.

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The following tables summarize the charges for certain business realignment initiatives in the fourth quarter of 2001 and the related activities completed through September 29, 2002:

<b>Accrued Liabilities</b>	<b>Balance 12/31/01</b>	<b>New charges 1st Qtr 2002</b>	<b>2002 Six-Months YTD Utilization</b>	<b>2002 3rd Qtr Utilization</b>	<b>Balance 9/29/02</b>
-----					
(In thousands of dollars)					
Asset management improvements	\$ 2,700	\$ -	\$ (1,768)	\$ (247)	\$ 685
Product line rationalization	15,529	115	(10,416)	(2,409)	2,819
Supply chain efficiency improvements	8,300	100	(1,107)	(105)	7,188
Voluntary work force reduction program	8,860	-	(7,191)	(787)	882
	-----	-----	-----	-----	-----
<b>Total</b>	<b>\$ 35,389</b>	<b>\$ 215</b>	<b>\$(20,482)</b>	<b>\$ (3,548)</b>	<b>\$11,574</b>
	=====	=====	=====	=====	=====

New charges during the first quarter of 2002 related to realignment of the Corporation's sales organizations and termination benefits. Cash payments totaling \$12.0 million and a non-cash write-off of \$8.5 million associated with exiting certain businesses were recorded against the liability during the first six months of 2002. The cash payments related primarily to enhanced mutual separation program ("EMSP") severance payments, outsourcing the manufacture of certain ingredients, VWRP administrative expenses, supply chain efficiency improvements, the realignment of the Corporation's sales organizations and other expenses associated with exiting certain businesses.

Cash payments totaling \$3.1 million and a non-cash write-off of \$0.4 million associated with exiting certain businesses were recorded against the liability in the third quarter. The cash payments related primarily to the maintenance of properties prior to sale, severance payments resulting from the Farley's and Sathers sale, EMSP severance payments and outsourcing the manufacture of certain ingredients.

<b>Asset Impairment Write-down</b>	<b>Balance 12/31/01</b>	<b>2002 Six-Months YTD Utilization</b>	<b>2002 3rd Qtr Utilization</b>	<b>Balance 9/29/02</b>
-----				
(In thousands of dollars)				
Asset management improvements	\$ 2,600	\$ (1,844)	\$ -	\$ 756
Product line rationalization	5,000	(1,201)	42	3,841
Supply chain efficiency improvements	37,700	(8,033)	(620)	29,047
	-----	-----	-----	-----
<b>Total</b>	<b>\$ 45,300</b>	<b>\$(11,078)</b>	<b>\$ (578)</b>	<b>\$33,644</b>
	=====	=====	=====	=====

Asset write-offs of \$11.1 million were recorded against the reserve during the first six months of 2002 associated with the outsourcing of manufacturing for certain ingredients, the Farley's and Sathers sale and the closure of manufacturing facilities. Asset write-offs of \$0.6 million, net of proceeds of \$0.6 million from the sale of equipment, were recorded in the third quarter, associated with the closure of the manufacturing facilities. This reserve was included as part of accumulated depreciation.

### 3. INTEREST EXPENSE

Interest expense, net consisted of the following:

	For the Nine Months Ended	
	September 29, 2002	September 30, 2001
	(in thousands of dollars)	
Interest expense	\$ 48,968	\$ 55,666
Interest income	(2,776)	(1,862)
Capitalized interest	(744)	(1,433)
Interest expense, net	\$ 45,448	\$ 52,371

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### 4. NET INCOME PER SHARE

A total of 43,580,410 shares were held as Treasury Stock as of September 29, 2002.

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

	For the Three Months Ended		For the Nine Months Ended	
	9/29/02	9/30/01	9/29/02	9/30/01
	(in thousands of dollars except per share amounts)			
Net income	\$ 123,065	\$ 120,762	\$ 273,258	\$ 252,107
Weighted-average shares-basic	137,179	135,869	136,923	136,343
Effect of dilutive securities:				
Employee stock options	1,076	1,285	1,151	1,366
Performance and restricted stock units	91	59	91	59
Weighted-average shares - diluted	138,346	137,213	138,165	137,768
Net income per share - basic	\$ 0.90	\$ 0.89	\$ 2.00	\$ 1.85
Net income per share-diluted	\$ 0.89	\$ 0.88	\$ 1.98	\$ 1.83

Employee stock options for 1,833,705 shares for the three months and nine months ended September 29, 2002, and 1,957,150 shares and 1,963,950 shares for the three months and nine months ended September 30, 2001, respectively, were anti-dilutive and were excluded from the earnings per share calculation.

### 5. GOODWILL AND OTHER INTANGIBLE ASSETS

The Corporation adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") as of July 1, 2001, and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") as of January 1, 2002. The reassessment of the useful lives of intangible assets acquired on or before June 30, 2001 was completed during the first quarter of 2002. Amortization of goodwill resulting from business acquisitions of \$388.7 million was discontinued as of January 1, 2002. Other intangible assets totaling \$40.4 million as of January 1, 2002 primarily consisted of trademarks and patents obtained through business acquisitions. The useful lives of trademarks were determined to be indefinite and, therefore, amortization of these assets was discontinued as of January 1, 2002. Patents valued at a total of \$9.0 million are being amortized over their remaining legal lives of approximately eighteen years.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the first quarter of 2002. No impairment of assets was determined as a result of these tests. A reconciliation of reported net income to net income adjusted to reflect the impact of the discontinuance of the amortization of goodwill and other intangible assets for the three months and nine months ended September 30, 2001 is as follows:

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	9/29/02	9/30/01	9/29/02	9/30/01
	(in thousands of dollars except per share amounts)			
<b>Reported net income:</b>	\$ 123,065	\$ 120,762	\$ 273,258	\$ 252,107
Add back: Goodwill amortization		3,232		8,794
Add back: Trademark amortization		436		1,161
Adjusted net income	\$ 123,065	\$ 124,430	\$ 273,258	\$ 262,062
<b>Basic earnings per share:</b>				
Reported net income	\$ .90	\$ .89	\$ 2.00	\$ 1.85
Goodwill amortization		.02		.06
Trademark amortization		.01		.01
Adjusted net income	\$ .90	\$ .92	\$ 2.00	\$ 1.92
<b>Diluted earnings per share:</b>				
Reported net income	\$ .89	\$ .88	\$ 1.98	\$ 1.83
Goodwill amortization		.02		.06
Trademark amortization		.01		.01
Adjusted net income	\$ .89	\$ .91	\$ 1.98	\$ 1.90

## 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. All derivative instruments currently utilized by the Corporation, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, are designated as cash flow hedges. For more information, refer to the consolidated financial statements and notes included in the Corporation's 2001 Annual Report on Form 10-K.

## 7. COMPREHENSIVE INCOME

Comprehensive income consisted of the following:

	For the Three Months Ended		For the Nine Months Ended	
	9/29/02	9/30/01	9/29/02	9/30/01
	(in thousands of dollars)			
Net income	\$ 123,065	\$ 120,762	\$ 273,258	\$ 252,107
Other comprehensive income (loss):				
Foreign currency translation adjustments	(15,098)	(10,200)	(17,210)	(10,391)
Minimum pension liability adjustments, net of tax	(30,727)	-	(43,132)	-
Gains on cash flow hedging derivatives, net of tax	69,827	8,424	128,133	49,253
Add: Reclassification adjustments, net of tax	(6,900)	5,267	(13,863)	13,982
Other comprehensive income	17,102	3,491	53,928	52,844
Comprehensive income	\$ 140,167	\$ 124,253	\$ 327,186	\$ 304,951

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Reclassification adjustments from accumulated other comprehensive income to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. Pre-tax losses on cash flow hedging derivatives recognized in cost of sales as a result of hedge ineffectiveness were approximately \$.7 million for the three months September 29, 2002, with pre-tax gains of approximately \$.4 million recognized for the nine months ended September 29, 2002. Pre-tax net gains on cash flow hedging derivatives recognized in cost of sales as a result of hedge ineffectiveness were approximately \$1.0 million and \$.8 million for the three months and nine months ended September 30, 2001, respectively. No gains or losses on cash flow hedging derivatives were reclassified from accumulated other comprehensive income (loss) into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur. There were no components of gains or losses on cash flow hedging derivatives that were recognized in income because such components were excluded from the assessment of hedge effectiveness.

The components of accumulated other comprehensive income (loss) as shown on the Consolidated Balance Sheets are as follows:

Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustments	Gains (Losses) on Cash Flow Hedging Derivatives	Reclassification Adjustments	Accumulated Other Comprehensive Income (Loss)
--	---------------------------------------	---	------------------------------	---



(In thousands of dollars)

Balance as of 12/31/01	\$(62,545)	\$(35,135)	\$ 11,548	\$ -	\$(86,132)
Current period credit (charge), gross	(17,210)	(72,007)	202,248	(21,900)	91,131
Income tax benefit (expense)	-	28,875	(74,115)	8,037	(37,203)
	-----	-----	-----	-----	-----
Balance as of 9/29/02	\$(79,755)	\$(78,267)	\$139,681	\$(13,863)	\$(32,204)
	=====	=====	=====	=====	=====

As of September 29, 2002, the amount of net after-tax gains on cash flow hedging derivatives, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months were approximately \$54.0 million, compared to net after-tax losses on cash flow hedging derivatives to be reclassified into earnings in the next twelve months of \$6.3 million as of September 30, 2001.

## 8. INVENTORIES

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

	September 29, 2002	December 31, 2001
	-----	-----
	(in thousands of dollars)	
Raw materials	\$ 195,969	\$ 160,343
Goods in process	56,646	51,184
Finished goods	392,994	354,100
	-----	-----
Inventories at FIFO	645,609	565,627
Adjustment to LIFO	(52,378)	(53,493)
	-----	-----
Total inventories	\$ 593,231	\$ 512,134
	=====	=====

The increase in raw material inventories as of September 29, 2002, reflected the seasonal timing of deliveries to support manufacturing requirements. Raw material inventories were \$196.0 million as of September 29, 2002 compared to \$284.8 million as of September 30, 2001, reflecting the impact of the Corporation's business realignment initiatives implemented in the fourth quarter of 2001.

## 9. LONG-TERM DEBT

In August 1997, the Corporation filed a Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to \$500 million of additional debt securities. As of September 29, 2002, \$250 million of debt securities remained available for issuance under the August 1997 Registration Statement.

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## 10. 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 September 29, 2002 and December 31, 2001, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, was \$868.8 million as of September 29, 2002, compared to a fair value of \$1,017.0 million, based on quoted market prices for the same or similar debt issues.

As of September 29, 2002, the Corporation had foreign exchange forward contracts maturing in 2002, 2003 and 2004 to purchase \$53.0 million in foreign currency, primarily British sterling and euros, and to sell \$23.8 million in foreign currency, primarily Japanese yen, at contracted forward rates.

The fair value of foreign exchange forward contracts is estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of September 29, 2002, the fair value of foreign exchange forward contracts approximated the contract value. The Corporation does not hold or issue financial instruments for trading purposes.

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively convert interest-rate-contingent rental payments on certain operating leases from a variable to a fixed rate of 6.1%. Any interest rate differential on interest rate swap agreements is recognized as an adjustment to interest expense over the term of each agreement. The fair value of interest rate swap agreements was a liability of \$8.0 million and \$2.7 million as of September 29, 2002 and December 31, 2001, respectively. The Corporation's risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates.

## 11. SHARE REPURCHASES

In October 1999, the Corporation's Board of Directors approved a share repurchase program authorizing the repurchase of up to \$200 million of the Corporation's Common Stock. Under this program, a total of 2,388,586 shares of Common Stock was purchased through September 29, 2002. As of September 29, 2002, a total of 43,580,410 shares were held as Treasury Stock and \$84.2 million remained available for repurchases of Common Stock under the repurchase program.

## 12. OTHER MATTERS

On July 25, 2002, the Corporation confirmed that the Milton Hershey School Trust, which controls 77% of the combined voting power of the Corporation's Common Stock and Class B Common Stock, had informed the Corporation that it had decided to diversify its holdings and in this regard wanted Hershey Foods to explore a sale of the entire Corporation. On September 17, 2002, the Milton Hershey School Trust instructed the Corporation to terminate the sale process. Selling, marketing and administrative expenses for the three months and nine months ended September 29, 2002, included expenses of approximately \$17.3 million associated with the exploration of the sale of the Corporation.

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

### Results of Operations - Third Quarter 2002 vs. Third Quarter 2001

Consolidated net sales for the third quarter decreased from \$1,178.9 million in 2001 to \$1,152.3 million in 2002. The decrease from the prior year was a result of higher promotional allowances, returns, discounts, and allowances as well as the rationalization of certain under-performing brands, including the divestiture of *Heide* brands in May 2002, the discontinuance and subsequent licensing of the Corporation's aseptically packaged drink products in the United States, and the divestiture of the *Luden's* throat drop business in September 2001. Sluggishness in several international markets, specifically Canada and Brazil, also contributed to the lower sales in the quarter. These factors which resulted in lower sales were partially offset by increased sales of key confectionery brands in the United States, including new products and line extensions, and selected confectionery selling price increases.

The consolidated gross margin increased from 36.1% in 2001 to 37.8% in 2002. The increase reflected decreased costs for certain major raw materials, primarily cocoa and peanuts, and packaging materials, a more profitable sales mix and selected confectionery selling price increases. The impact of these items was partially offset by higher promotional spending, and returns, discounts, and allowances, which were higher as a percent of sales compared to the prior year. Selling, marketing and administrative expenses increased by 1% in 2002, primarily reflecting the impact of \$17.3 million of expenses related to the exploration of the sale of the Corporation. Excluding the impact of these expenses in 2002 and goodwill amortization in 2001, selling, marketing and administrative costs were 6% lower in 2002. The reduction was due primarily to lower marketing spending as well as lower salary expense associated with reduced staffing resulting from the Corporation's voluntary work force reduction program.

Net interest expense in the third quarter of 2002 was \$4.0 million less than the comparable period of 2001, primarily reflecting a decrease in short-term interest expense due to reduced average short-term borrowings and lower average short-term borrowing rates.

Net income for the third quarter increased \$2.3 million, or 2%, from 2001 to 2002, and net income per share - diluted increased \$.01, or 1%. Excluding the after-tax effect of the business realignment initiatives and expenses related to the exploration of sale recorded in 2002, as well as the after-tax effect of goodwill amortization and the gain on the sale of the *Luden's* business in 2001, net income for the third quarter increased \$16.5 million, or 13%, from 2001 to 2002, and net income per share - diluted increased \$.11, or 12%.

### Results of Operations - First Nine Months 2002 vs. First Nine Months 2001

Consolidated net sales for the first nine months decreased from \$2,984.2 million in 2001 to \$2,964.3 million in 2002. The sales decrease primarily reflected higher promotion allowances and returns, discounts, and allowances, the rationalization of certain under-performing brands, including the divestitures of the *Heide* brands in May 2002 and the *Luden's* throat drop business in September 2001, and the timing of the acquisition of the Nabisco Inc. gum and mint business which resulted in incremental sales in the first nine months of 2001 compared to the same period of 2002. These decreases were partially offset by increases in sales of key confectionery brands in the United States, including new products and line extensions, and selected confectionery selling price increases, as well as incremental sales from *Visagis*, the Brazilian chocolate and confectionery business acquired in July 2001.

The consolidated gross margin increased from 36.0% in 2001 to 37.5% in 2002. The increase in gross margin primarily reflected decreased costs for certain major raw materials, primarily cocoa, milk, and peanuts, and packaging materials, higher profitability resulting from the mix of confectionery items sold in 2002 compared with sales in 2001 and selected confectionery selling price increases. These increases in gross margin were partially offset by higher promotion allowances and returns, discounts, and allowances, both of which were higher as a percent of sales compared to the prior year. Selling, marketing and administrative expenses decreased by 1% in 2002, primarily as a result of savings from the business realignment initiatives and the elimination of goodwill amortization in 2002, offset by \$17.3 million of expenses incurred to explore the sale of the Corporation. Excluding the impact of goodwill amortization in 2001 and the expenses incurred to explore the Corporation's sale, selling, marketing, and administrative expenses in 2002 were 2% lower than 2001.

Net interest expense in the first nine months of 2002 was \$6.9 million less than the comparable period of 2001, primarily reflecting a decrease in short-term interest expense due to reduced average short-term borrowings and lower average short-term borrowing rates.

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Net income for the first nine months of 2002 was \$273.3 million compared to \$252.1 million in 2001 and net income per share-diluted was \$1.98 per share compared to \$1.83 per share in the prior year. Excluding the after-tax effect of the business realignment initiatives and costs related to the exploration of the sale of the Corporation recorded in 2002, as well as the after-tax effect of goodwill amortization and the gain on the sale of the Luden's business in 2001, net income for the first nine months increased \$36.3 million, or 14%, from 2001 to 2002 and net income per share - diluted increased \$.26, or 14%.

### **Business Realignment Initiatives**

In late October 2001, the Corporation's Board of Directors approved a plan to improve the efficiency and profitability of the Corporation's operations. The plan included asset management improvements, product line rationalization, supply chain efficiency improvements and a voluntary work force reduction program ("VWRP"). As of September 29, 2002, the total estimated costs for the business realignment initiatives are expected to be in a range of \$310.0 million, as announced in January 2002, to \$320.0 million, as higher pension settlement costs associated with the VWRP which are recorded as incurred, are expected to more than offset the impact of the greater than expected proceeds from the sale of certain assets. A favorable adjustment of \$4.4 million resulting from the greater than expected proceeds was recorded during the second quarter and included in the net business realignment charge. As of September 29, 2002, there have been no significant changes to the estimated savings for the business realignment initiatives. The major components of these initiatives remain on schedule for completion by the end of 2002.

Asset management improvements included the decision to outsource the manufacture of certain ingredients and the related removal and disposal of machinery and equipment related to the manufacture of these ingredients. As a result of this outsourcing, the Corporation was able to significantly reduce raw material inventories, primarily cocoa beans and cocoa butter, in the fourth quarter of 2001. The remaining portion of the project was substantially completed during the first quarter of 2002.

Product line rationalization plans included the sale or exit of certain businesses, the discontinuance of certain non-chocolate confectionery products and the realignment of the Corporation's sales organizations. Costs associated with the realignment of the sales organizations related primarily to sales office closings and terminating the use of certain sales brokers. During the first nine months of 2002, sales offices were closed as planned and the use of certain sales brokers was discontinued. During the second quarter, the sale of a group of Hershey's non-chocolate confectionery candy brands to Farley's & Sathers Candy Company, Inc. was completed. Included in the transaction were the HEIDE<sup>®</sup>, JUJYFRUITS<sup>®</sup>, WUNDERBEANS<sup>®</sup> and AMAZIN' FRUIT<sup>®</sup> trademarked confectionery brands, as well as the rights to sell CHUCKLES<sup>®</sup> branded products, under license. Also, during the second quarter the Corporation discontinued and subsequently licensed the sale of its aseptically packaged drink products in the United States. Sales associated with these brands during the first six months and third quarter of 2002 are included in Note 2.

To improve supply chain efficiency and profitability, three manufacturing facilities, a distribution center and certain other facilities were planned to be closed. These included manufacturing facilities in Denver, Colorado; Pennsburg, Pennsylvania; and Palmyra, Pennsylvania and a distribution center and certain minor facilities located in Oakdale, California. During the first quarter of 2002, the manufacturing facility in Palmyra, Pennsylvania was closed and additional costs were recorded, as incurred, relating to retention payments. In addition, asset disposals relating to the closure of the three manufacturing plants were begun. During the second quarter, operations utilizing the distribution center in Oakdale, California ceased. Asset write-offs relating to the closure of the three manufacturing plants continued during the third quarter.

In October 2001, the Corporation offered the VWRP to certain eligible employees in the United States, Canada and Puerto Rico in order to reduce staffing levels and improve profitability. The VWRP consisted of an early retirement program which provided enhanced pension, post-retirement and certain supplemental benefits and an enhanced mutual separation program which provided increased severance and temporary medical benefits. A reduction of approximately 500 employees occurred during the first nine months of 2002 as a result of the VWRP. Additional pension settlement costs of \$8.6 million, \$6.4 million and \$8.5 million before tax were recorded in the first, second and third quarters, respectively, of 2002, principally associated with lump sum payments of pension benefits.

### **Liquidity and Capital Resources**

Historically, the Corporation's major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer months, generally have been met by issuing commercial paper. During the first nine months of 2002, the Corporation's cash and cash equivalents decreased by \$14.3 million. Also

during the period, the Corporation contributed \$129.7 million to its domestic pension plans. Cash provided from operations, cash on hand at the beginning of the period and proceeds from a business divestiture was substantially sufficient to fund dividend payments of \$124.8 million and \$74.5 million of capital expenditures. Cash provided from other assets and liabilities of \$137.0 million, primarily reflected commodities transactions and an increase in accrued income taxes, partially offset by contributions to the Corporation's domestic pension plans and decreases in accrued liabilities. Cash provided from other assets and liabilities in 2001 of \$163.2 million was principally the result of commodities transactions and an increase in accrued income taxes, partially offset by a pension plan contribution.

In order to improve the funded status of the Corporation's domestic pension plans, a contribution of \$75.0 million was made in February 2001. Additional contributions of \$95.0 million, \$75.0 million and \$54.7 million were made in December 2001 and in March and June 2002, respectively, to fund payments related to the early retirement program and to improve the funded status. These contributions were funded by cash from operations. Depending upon the market performance of pension plan assets, the Corporation anticipates additional contributions of \$75.0 million to \$100.0 million during the fourth quarter of 2002.

The ratio of current assets to current liabilities was 2.4:1 as of September 29, 2002, and 1.9:1 as of December 31, 2001. The Corporation's capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) was 39% as of September 29, 2002, and 44% as of December 31, 2001.

### **Other Matters**

On July 25, 2002, the Corporation confirmed that the Milton Hershey School Trust, which controls 77% of the combined voting power of the Corporation's Common Stock and Class B Common Stock, had informed the Corporation that it had decided to diversify its holdings and in this regard wanted Hershey Foods to explore a sale of the entire Corporation. On September 17, 2002, the Milton Hershey School Trust instructed the Corporation to terminate the sale process.

### **Safe Harbor Statement**

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

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### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

The potential loss in fair value of foreign exchange forward contracts and interest rate swap agreements resulting from a hypothetical near-term adverse change in market rates of ten percent increased from \$.3 million as of December 31, 2001, to \$.5 million as of September 29, 2002. The market risk resulting from a hypothetical adverse market price movement of ten percent associated with the estimated average fair value of net commodity positions decreased from \$4.7 million as of December 31, 2001, to \$1.1 million as of September 29, 2002. Market risk represents 10% of the estimated average fair value of net commodity positions at four dates prior to the end of each period.

### **Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90 days prior to the filing date of this report, the Corporation conducted an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective. There have been no significant changes in the Corporation's internal controls or in other factors which could significantly affect internal controls subsequent to the date of the evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Corporation's reports filed under the Exchange Act is accumulated and communicated to management, including the Corporation's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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Items 1 through 5 have been omitted as not applicable.

**Item 6 - Exhibits and Reports on Form 8-K**

a) Exhibits

The following items are attached and incorporated herein by reference:

Exhibit 10.1 - Amended and Restated Key Employee Incentive Plan.

Exhibit 10.2 - Amended and Restated Deferred Compensation Plan.

Exhibit 10.3 - Amended and Restated Supplemental Executive Retirement Plan.

Exhibit 10.4 - Executive Benefits Protection Plan (Group 3A).

Exhibit 12 - Statement showing computation of ratio of earnings to fixed charges for the nine months ended September 29, 2002 and September 30, 2001.

b) Reports on Form 8-K

A report on Form 8-K was filed on July 25, 2002, confirming that the Milton Hershey School Trust, which controls 77% of the voting power of the Corporation's Common Stock, informed the Corporation that it had decided to diversify its holdings and in this regard wanted Hershey Foods to explore a sale of the entire Corporation.

A report on Form 8-K was furnished on August 7, 2002, stating that Richard H. Lenny, Chief Executive Officer of the Corporation and Frank Cerminara, Chief Financial Officer of the Corporation, each furnished to the Securities and Exchange Commission personal certifications pursuant to 18 U.S.C. Section 1350.

A report on Form 8-K was furnished on August 8, 2002, stating that the Corporation issued a press release recommending that its stockholders reject an unsolicited, below-market mini tender offer made by TRC Capital Corporation for up to 1.64% of Hershey Foods Corporation's outstanding shares.

A report on Form 8-K was furnished on August 13, 2002, to include sworn statements filed by Richard H. Lenny, Chief Executive Officer of the Corporation and Frank Cerminara, Chief Financial Officer of the Corporation, pursuant to the Commission's order under Section 21(a) (1) of the Securities Exchange Act of 1934 No. 4-460.

A report on Form 8-K was filed on September 18, 2002, confirming that the Milton Hershey School Trust's Board of Directors had voted to instruct the Corporation to terminate the sale process that was initiated at the direction of the Trust.

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**SIGNATURES**

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

**HERSHEY FOODS CORPORATION  
(Registrant)**

Date November 12, 2002

/s/ Frank Cerminara  
Frank Cerminara  
Senior Vice President,  
Chief Financial Officer

Date November 12, 2002

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

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**CERTIFICATION**

I, Richard H. Lenny, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hershey Foods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Richard H. Lenny  
Richard H. Lenny  
Chief Executive Officer

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**CERTIFICATION**

I, Frank Cerminara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hershey Foods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Frank Cerminara  
Frank Cerminara  
Chief Financial Officer

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#### EXHIBIT INDEX

Exhibit 10.1	Amended and Restated Key Employee Incentive Plan
Exhibit 10.2	Amended and Restated Deferred Compensation Plan
Exhibit 10.3	Amended and Restated Supplemental Executive Retirement Plan
Exhibit 10.4	Executive Benefits Protection Plan (Group 3A)
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges

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## HERSHEY FOODS CORPORATION

## KEY EMPLOYEE INCENTIVE PLAN

(Amended and Restated as of August 19, 2002)

## 1. ESTABLISHMENT AND PURPOSE

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

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

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

## 2. STOCK SUBJECT TO THE PLAN

The aggregate number of shares of the Corporation's common stock, \$1.00 par value per share (the "Common Stock") that may be issued under the Plan pursuant to awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) is 19,000,000 (inclusive of shares that are the subject of awards outstanding as of February 13, 2002 and shares issued pursuant to awards under this Plan prior to such date). The shares of Common Stock issued under this Plan may be either authorized but unissued shares, treasury shares held by the Corporation or any direct or indirect subsidiary thereof, or shares acquired by the Corporation through open market purchases or otherwise. The number of shares of Common Stock that are the subject of any awards outstanding on or after February 13, 2002 that are forfeited or terminated, surrendered, expire unexercised, are settled in cash in lieu of Common Stock or are exercised or settled in a manner such that some or all of the shares covered by the award are not issued or are exchanged for awards that do not involve Common Stock, shall again

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immediately become available for issuance as awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate.

## 3. ADMINISTRATION

The Plan shall be administered by the Compensation and Executive Organization Committee (the "Committee"), or any successor committee, appointed by and consisting solely of members of the Board of Directors (the "Board") of the Corporation, each of whom qualifies as both a "nonemployee director" within the meaning of Rule 16b-3 or its successor under the Securities Exchange Act of 1934 (the "Exchange Act") and an "outside director" within the meaning of Section 162(m) of the Code. Committee members shall not be eligible to participate in the Plan. The Board may from time to time remove and appoint members of the Committee in substitution for, or in addition to, members previously appointed and may fill vacancies, however caused, in the Committee. The Committee may adopt such rules and regulations as it deems useful in governing its affairs. To the extent provided by resolution of the Board, the Committee may authorize the Chief Executive Officer of the Corporation and other senior officers of the Corporation to designate officers and employees to be recipients of awards, to determine the terms, conditions, form and amount of any such awards, and to take such other actions which the Committee is authorized to



take under this Plan, provided that the Committee may not delegate to any person the authority to grant awards to, or take other action with respect to, participants who at the time of such awards or action are subject to Section 16 of the Exchange Act or are "covered employees" as defined in Section 162(m) of the Code. Any action of the Committee with respect to the administration of the Plan shall be taken by majority vote at a Committee meeting or written consent of all Committee members.

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

4. FAIR MARKET VALUE

As used in the Plan (unless a different method of calculation is required by applicable law, and except as otherwise specifically provided in any Plan provision), "Fair Market Value"

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

5. ELIGIBILITY AND PARTICIPATION

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

6. ANNUAL INCENTIVE PROGRAM

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

- (a) Awards actually earned by and paid to AIP participants ("AIP Awards") will be based primarily upon achievement of Performance Goals (as defined in Section 9 below) over a one-year performance cycle as approved by the Committee.
- (b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target grants; to select from among those eligible the employees to receive awards; to review and certify the achievement of Performance Goals; to designate levels of awards to be earned in relation to levels of achievement of Performance Goals; to adopt such financial and nonfinancial performance or other criteria for the payment of awards as it may

determine from time to time; to make awards; and to establish such other measures as may be necessary to achieve the objectives of the Plan. The financial or non-financial Performance Goals established by the Committee may be based upon one or more Performance Factors (as defined in Section 9 below).

- (c) The maximum amount any participant can receive as an AIP Award for any calendar year shall not exceed \$3,000,000.
- (d) AIP Awards as earned under the terms of the Plan shall be paid in cash and may exceed or be less than the contingent target grants, subject nevertheless to the maximum award limit set forth in subparagraph (c) above. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.

## 7. LONG-TERM INCENTIVE PROGRAM

The LTIP consists of the following four components:

### I. Performance Stock Units

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

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

- (c) Payments of PSU Awards shall be made in shares of Common Stock or partly in cash as the Committee in its sole discretion shall determine and shall be charged against the shares available under the LTIP portion of the Plan as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.
- (d) PSU Awards as earned under the terms of the Plan may exceed or be less than the contingent target grants. Payment shall normally be made as soon as possible following the close of the year, but payment of all or any portion may be deferred by participants with the approval of the Committee.
- (e) The maximum number of PSUs a participant can receive as a PSU Award in any calendar year is 75,000.

## II. Stock Options

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

- (a) The exercise price per share with respect to each Option shall be determined by the Committee in its sole discretion, but shall not be less than 100% of the Fair Market Value of the Common Stock as of the date of the grant of the Option.
- (b) Options granted under the Plan shall be exercisable, in such installments and for such periods, as shall be provided by the Committee at the time of granting, but in no event shall any Option granted extend for a period in excess of ten years from the date of grant.
- (c) The maximum number of shares of Common Stock covered by Options granted to a participant for any calendar year shall not exceed 500,000.
- (d) Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which grantees of Options must be employed, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; and (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time.
- (e) Exercise of an Option shall be by written notice stating the election to exercise in the form and manner determined by the Committee.

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

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

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

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

### III. Stock Appreciation Rights

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant SARs to employees eligible to participate in the Plan. SARs may, but need not be evidenced by an

agreement executed by the Corporation and the holder, and shall be subject to such terms and conditions consistent with the Plan as the Committee shall impose from time to time, including the following:

- (a) SARs may, but need not, relate to Options granted under the Plan, as the Committee shall determine from time to time. In no event shall any SARs granted extend for a period in excess of ten years from the date of grant.
- (b) A holder shall exercise his or her SARs by giving written notice of such exercise in the form and manner determined by the Committee, and the date upon which such written notice is received by the Corporation shall be the exercise date for the SARs.
- (c) A holder of SARs shall be entitled to receive upon exercise the excess of the Fair Market Value of a share of Common Stock at the time of exercise over the Fair Market Value of a share at the time the SARs were granted, multiplied by the number of shares with respect to which the SARs relate.
- (d) In the sole discretion of the Committee, the amount payable to the holder upon exercise of SARs may be paid either in Common Stock or in cash or in a combination thereof. To the extent paid in Common Stock, the value of the Common Stock that shall be distributed shall be the Fair Market Value of a share of Common Stock upon exercise of the SARs as provided in Paragraph 2; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.
- (e) In the sole discretion of the Committee, SARs related to specific Options may be exercisable only upon surrender of all or a portion of the related Option, or may be exercisable, in whole or in part, only at such times and to the extent that the related Option is exercisable, and the number of shares purchasable pursuant to the related Option may be reduced to the extent of the number of shares with respect to which the SARs are exercised.
- (f) In lieu of receiving payment at the time of exercise of SARs, payment of all or any portion may be deferred by the participant with the approval of the Committee.
- (g) The maximum number of SARs granted to a participant during any calendar year shall not exceed 500,000.

#### IV. Restricted Stock Units

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



contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

- (a) Each Restricted Stock Unit shall be equivalent in value to a share of Common Stock.
- (b) Vesting of each grant of Restricted Stock Units shall require the holder to remain in the employment of the Corporation or a Subsidiary Corporation for a prescribed period (a "Restriction Period"). The Committee shall determine the Restriction Period or Periods which shall apply to the shares of Common Stock covered by each grant of Restricted Stock Units. Except as otherwise determined by the Committee and provided in the written instrument granting the Restricted Stock Units, and except as otherwise provided in Paragraph 8, all Restricted Stock Units granted to a participant under the Plan shall terminate upon termination of the participant's employment with the Corporation or any Subsidiary Corporation before the end of the Restriction Period or Periods applicable to such Restricted Stock Units, and in such event the holder shall not be entitled to receive any payment with respect to those Restricted Stock Units. The Committee may also, in its sole discretion, establish other terms and conditions for the vesting of Restricted Stock Units, including conditioning vesting on the achievement of one or more of the Performance Factors. Notwithstanding any other provisions of the Plan or of any written instrument granting Restricted Stock Units, upon the occurrence of a Change in Control as defined in subparagraph (j) of Paragraph 7II hereof, all restrictions on Restricted Stock Units held by a participant who is an employee of the Corporation or any Subsidiary Corporation shall lapse.
- (c) Upon expiration of the Restriction Period or Periods applicable to each grant of Restricted Stock Units, the holder shall, without payment on his part, be entitled to receive payment in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such grant upon such expiration. Such payment may be made in cash, in shares of Common Stock equal to the number of Restricted Stock Units with respect to which such payment is made, or in any combination thereof, as the Committee in its sole discretion shall determine. Further upon such expiration, the holder shall be entitled to receive a cash payment in an amount equal to each cash dividend the Corporation would have paid to such holder during the term of those Restricted Stock Units as if the holder had been the owner of record of the shares of Common Stock covered by such Restricted Stock Units on the record date for the payment of such dividend.
- (d) In lieu of receiving payment at the time of expiration of the Restriction Period or Periods, payment of all or any portion may be deferred by the participant with the approval of the Committee.
- (e) The maximum number of shares of Common Stock as to which Restricted Stock Units may be granted to a participant for any calendar year shall not exceed 75,000.

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## 8. TERMINATION OF EMPLOYMENT

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

- (a) In the event that the participant is terminated or discharged by the Corporation for any reason, except as and to the extent provided otherwise by the Committee in writing and except as provided below after the occurrence of a Change in Control (as defined in subparagraph (j) of Paragraph 7II hereof), the participant's rights and interests under the Plan shall immediately terminate upon notice of termination of employment.

Upon the occurrence of a Potential Change in Control (as defined in subparagraph (k) of Paragraph 7II hereof) and for a period of one (1) year thereafter, the following special provision and notice requirement shall be applicable in the event of the termination of the employment of any participant holding an Option under the Plan: (i) in no event may a notice of termination of employment be issued to such a participant unless at least ten (10) business days prior to the effective date of such termination, the participant is provided with a written notice of intent to terminate the participant's employment

which sets forth in reasonable detail the reason for such intent to terminate, the date on which such termination is to be effective, and a description of the participant's rights under this Plan and under the agreements granting such Option or Options, including the fact that no such Option may be exercised after such termination has become effective and the manner, extent and price at which all Options then held by such participant may be exercised; and (ii) such notice of intent to terminate a participant's employment shall not be considered a "notice of termination of employment" for purposes of the first sentence of this Paragraph 8(a). This Paragraph 8(a) is intended only to provide for a requirement of notice to terminate upon the occurrence of the events set forth herein and shall not be construed to create an obligation of continued employment or a contract of employment in any manner or to otherwise affect or limit the Corporation's ability to terminate the employment of any participant holding an Option under the Plan.

Upon the occurrence of a Change in Control and for a period of two (2) years thereafter, in the event of the termination of a participant's employment by the Corporation for any reason other than for Cause (as defined below) or by the participant for Good Reason (as defined below), such participant shall have one (1) year from the date of termination of employment to exercise such Option or until the date of expiration of the Option, if earlier. In addition, all restrictions and limitations on the exercise of such Option or the sale of shares of Common Stock purchased pursuant to exercise of an Option relating to minimum stockholding requirements shall immediately terminate upon the occurrence of a Change in Control.

For purposes of this Plan, "Cause" means, with respect to a participant who is covered under the Hershey Foods Corporation Employee Benefits Protection Plan (Group 2),

the Hershey Foods Corporation Executive Benefits Protection Plan (Group 3), or the Hershey Foods Corporation Executive Benefits Protection Plan (Group 3A), "cause" as defined in the plan applicable to such participant, and with respect to all other participants, means (a) the willful and continued failure of an employee to substantially perform the employee's duties with the Corporation (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the employee by the employee's supervisor which specifically identifies the manner in which the employee's supervisor believes that the employee has not substantially performed the employee's duties; or (b) the willful engaging by the employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation. For purposes of the preceding clauses (a) and (b), no act or failure to act, on the part of the employee, shall be considered "willful" unless it is done, or omitted to be done, by the employee in bad faith or without reasonable belief that the employee's action or omission was in the best interests of the Corporation. Any act, or failure to act, based upon the instructions or with the approval of a senior officer of the Corporation or the employee's superior or based upon the advice of counsel for the Corporation shall be conclusively presumed to be done, or omitted to be done, by the employee in good faith and in the best interests of the Corporation.

For purposes of this Plan, "Good Reason" means, with respect to a participant who is covered under the Hershey Foods Corporation Employee Benefits Protection Plan (Group 2), the Hershey Foods Corporation Executive Benefits Protection Plan (Group 3), or the Hershey Foods Corporation Executive Benefits Protection Plan (Group 3A), "good reason" as defined in the plan applicable to such participant, and with respect to all other participants, means "good reason" as defined in the Hershey Foods Corporation Amended and Restated Severance Benefits Plan as in effect immediately prior to the Change in Control.

- (b) If a participant terminates employment with the Corporation as the result, in the sole judgment of the Committee, of his or her becoming totally disabled (in which event termination will be deemed to occur on the date the Committee makes such determination), or if a participant should die or (except as to Restricted Stock Units) retire while employed by the Corporation or any of its Subsidiary Corporations, then the participant or, as the case may be, the person or persons to whom the participant's interest under the Plan shall pass by will or by the laws of descent and distribution (the "Estate"), shall have the following rights:
  - (i) the grantee of a contingent AIP grant or the Estate shall be entitled to receive payment of an AIP award as, and to the extent, determined by the Committee;
  - (ii) if the holder of Performance Stock Units shall have been employed for at least two-thirds of the related performance cycle prior to the date of termination or death, then, except as otherwise provided in the written instrument (if any) evidencing the Performance Stock Units, and subject to any further adjustments the Committee may make in its absolute discretion, the participant or the Estate shall be entitled to receive payment of a PSU Award upon the expiration of the related performance

cycle, provided that such award shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of the beginning of each such performance cycle and the date of termination or death, and the denominator of which shall be the number of full and partial calendar months from the date of the beginning of the performance cycle to the end of the said performance cycle;

- (iii) except as otherwise provided in the terms and conditions of the stock option or SAR grant, the holder or the Estate shall be entitled to exercise (provided any vesting requirement has been satisfied as of the date of exercise) any Option or SAR for a period of five years (three years in the case of options or SARs granted prior to 1997) from such date of death, total disability or retirement, or for such longer period as the Committee may determine in the case of financial hardship or other unusual circumstances (subject to the maximum exercise period for Options and SARs specified in Paragraph 7II(b) and 7III(a) hereof, respectively);
- (iv) except as otherwise provided in the written instrument evidencing the Restricted Stock Units, upon death or termination due to total disability the holder or the Estate shall be entitled to receive payment in respect of the Restricted Stock Units, provided that such Units shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of grant of such Units and the date of death or termination, and the denominator of which shall be the number of full and partial calendar months from the date of the grant to the end of the Restriction Period. Upon retirement, the participant's rights with respect to Restricted Stock Units shall immediately terminate.
- (c) In the event of resignation by the participant, the participant's rights and interests under the Plan shall immediately terminate upon such resignation; provided, however, that the Committee shall have the absolute discretion to review the reasons and circumstances of the resignation and to determine whether, alternatively, and to what extent, if any, the participant may continue to hold any rights or interests under the Plan.
- (d) A transfer of a participant's employment without an intervening period from the Corporation to a Subsidiary Corporation or vice versa, or from one Subsidiary Corporation to another, shall not be deemed a termination of employment.
- (e) The Committee shall be authorized to make all determinations and calculations required by this Paragraph 8, including any determinations necessary to establish the reason for terminations of employment for purposes of the Plan, which determinations and calculations shall be conclusive and binding on any affected participants and Estates.

9. PERFORMANCE FACTORS; ADDITIONAL REQUIREMENTS

Without limiting the type or number of awards that may be made under this Plan, an award may be in the form of a performance-based award intended to comply as "performance-based" compensation under Section 162(m) of the Code (such award a "Performance Award"). A Performance Award shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective performance goals ("Performance Goals") established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates and (y) the elapse of 25% of the period of service (as established in good faith at the time the Performance Goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. A Performance Goal may be based on one or more of the following business criteria: earnings per share, return on net assets, market share, control of costs, net sales, cash flow, return on invested capital, economic value-added measures, sales growth, earnings growth, stock price, return on equity, financial ratings, regulatory compliance, achievement of balance sheet or income statement objectives, or other financial, accounting or quantitative objectives established by the Committee (collectively, the "Performance Factors"). Performance Factors may be particular to a participant or the division, line of business or other unit in which the participant works, or the Corporation generally, or may be absolute in their terms or measured against or in relationship to the performance of a peer group or other external or internal measure. A Performance Goal may, but need not be, based upon a change or an increase or positive result under a particular Performance Factor and could include, for example, maintaining the status quo, limiting economic losses, or a relative comparison of performance to the performance of a peer group or other external or internal measure (measured, in each case, by reference to specific Performance Factors). A Performance Goal may include or exclude items to measure specific objectives, including, without limitation, extraordinary or other non-recurring items, acquisitions and divestitures, internal restructuring and reorganizations, accounting charges and effects of accounting changes. In interpreting Plan provisions applicable to Performance Goals and Performance Awards applicable to awards to employees who are "covered employees" under Section 162(m) of the Code, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulations Section 1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals to any such "covered employee", the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards made pursuant to this Plan shall be determined by the Committee.

No Performance Stock Units, Options, SARs or Restricted Stock Units (hereinafter collectively an "Interest") granted pursuant to the Plan shall be exercisable or realized in whole or in part, and the Corporation shall not be obligated to sell, distribute or issue any shares subject to any such Interest, if such exercise and sale would, in the opinion of

counsel for the Corporation, violate the Securities Act of 1933, as amended (or other Federal or state statutes having similar requirements). Each Interest shall be subject to the further requirement that, if at any time the Board of Directors shall determine in its discretion that the listing or qualification of the shares relating or subject to such Interest under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Interest or the distribution or issue of shares thereunder, such Interest may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Board of Directors.

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

#### 10. NONTRANSFERABILITY

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

#### 11. DISCLAIMER OF RIGHTS

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

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

## 12. STOCK ADJUSTMENTS

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

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

## 13. TAXES

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

14. EFFECTIVE DATE AND TERMINATION OF PLAN

The Plan as amended and restated herein shall become effective upon adoption by the Board of Directors of the Corporation.

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

15. APPLICATION OF FUNDS

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

16. AMENDMENT

The Board of Directors by majority vote, at any time and from time to time, may amend the Plan in such respects as it shall deem advisable, to conform to any change in any applicable law or in any other respect; provided that any such amendment shall not adversely alter or impair any of the rights or obligations under any contingent target AIP grants, Performance Stock Units, Options, SARs or Restricted Stock Units theretofore granted under the Plan unless the affected participant shall so consent. Notwithstanding the foregoing, the Plan may not be terminated or amended in a manner adverse to the interests of any participant (without the consent of the participant) either: (a) after a Potential Change in Control occurs and for one (1) year following the cessation of a Potential Change in Control, or (b) for a two-year period beginning as of the date of a Change in Control (the "Coverage Period"). Upon the expiration of the Coverage Period, subparagraph (1) of Paragraph 7II of the Plan and Paragraph 8 (a) of the Plan may not be amended in any manner that would adversely affect any participant without the consent of the participant.

IN WITNESS WHEREOF, the Corporation has caused this Key Employee Incentive Plan to be amended and restated as of the 19th day of August, 2002.

/s/Marcella K. Arline  
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Marcella K. Arline  
Vice President, Human Resources



HERSHEY FOODS CORPORATION  
DEFERRED COMPENSATION PLAN

(AMENDED AND RESTATED AS OF AUGUST 19, 2002)

This Deferred Compensation Plan (the "Plan") allows participants in the following programs of Hershey Foods Corporation's Key Employee Incentive Plan to defer receipt of all or part of their awards: (1) cash awards under the Annual Incentive Program (the "AIP"); (2) the cash equivalent or Common Stock of Hershey Foods Corporation (the "Company") representing performance stock unit ("PSU") awards under the Long Term Incentive Program ("LTIP"); and (3) awards of Common Stock of the Company pursuant to Restricted Stock Unit ("RSU") awards under the LTIP granted on or after January 1, 2001. The Plan is intended to benefit those key executives of Hershey Foods Corporation and subsidiaries as specified in the AIP and LTIP who participate in the AIP or LTIP, to secure their goodwill, loyalty and achievement, and to help attract and retain highly qualified executives.

The Compensation and Executive Organization Committee of the Company's Board of Directors has established certain minimum stockholding requirements for employees who are eligible to receive awards under the LTIP. The Committee may, in its discretion, allow credit towards such requirement for Company Common Stock constructively invested by such employee pursuant to a vested PSU or vested RSU deferred under this Plan. Dividends previously earned, as well as future dividends earned on deferred PSU awards and deferred RSU awards, are eligible for deferral under the Plan.

ARTICLE I  
DEFINITIONS

The following definitions apply to this Plan:

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

1.2 AIP. "AIP" means the Annual Incentive Program, and any similar or successor plan or program, of the Company's Key Employee Incentive Plan and annual incentives awarded under the Company's Sales Incentive Plan and any successor or replacement plan thereof.

1.3 BOARD. "Board" or "Board of Directors" means the Board of Directors of the Company.

1.4 CHANGE IN CONTROL. "Change in Control" means a Change in Control as such term is defined under the Company's Executive Benefits Protection Plan (Group 3A).

1.5 COMMITTEE OR COMPENSATION COMMITTEE. "Committee" or "Compensation Committee" means the Compensation and Executive Organization Committee of the Board or any successor committee having similar authority.

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

1.7 COMPANY COMMON STOCK OR COMMON STOCK. "Company Common Stock" or "Common Stock" means the common stock of the Company.

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

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

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

1.11 EBPP means, with respect to a Participant, the Company's Employee Benefits Protection Plan (Group 2), Executive Benefits Protection Plan (Group 3), Executive Benefits Protection Plan (Group 3A), or Severance and Benefits Plan (Amended and Restated) as applicable to such Participant.

1.12 INVESTMENT OPTIONS. "Investment Options" means the following investment options which are to be used as earnings indices as described in Section 2.2:

1. Hershey Fixed Income Fund
2. American Express Cash Management Fund

3. American Express Trust Equity Index Fund I
4. Company Common Stock

Except as hereafter provided with respect to a Participant's constructive investment in Company Common Stock: (a) the Investment Options are chosen by the Plan Administrator and are subject to change from time to time as the Plan Administrator, in its sole discretion, deems necessary or appropriate, and (b) no provision of this Plan shall be construed as giving any Participant an interest in any of these Investment Options nor shall any provision require that the Company make any investment in any such funds. Investment Options, other than the Company Common Stock Investment Option, may be added, modified or deleted from time to time in the discretion of the Plan Administrator; provided, however, that after the occurrence of a Change in Control, the Plan Administrator shall not alter any Investment Option in effect immediately prior to the Change in Control unless the Investment Options provided are substantially the same as those provided to participants in the Company's tax-qualified retirement plan having the most investment options available for selection by participants.

1.13 LTIP. "LTIP" means the Long Term Incentive Program of the Company's Key Employee Incentive Plan (the "KEIP") and any similar or successor plan or program.

1.14 PARTICIPANT. "Participant" means an employee of the Company who is eligible to participate in the AIP or LTIP, who meets the eligibility criteria for participation in this Plan

established by the Plan Administrator from time to time, and who elects to participate in this Plan by filing a Deferral Election as provided in Article II.

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

1.16 PLAN ADMINISTRATOR. "Plan Administrator" means the Employee Benefits Committee of the Company, or any successor committee having similar authority, or such other individual or committee as may be determined by the Committee from time to time.

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

1.18 PSU. "PSU" means performance stock units granted under the LTIP.

1.19 RSU. "RSU" means restricted stock units granted under the LTIP.

1.20 RETIREMENT. "Retirement" means termination of employment with the Company after becoming eligible for retirement under the Company's Retirement Plan.

1.21 SERP. "SERP" means the Company's Amended and Restated (2002) Supplemental Executive Retirement Plan.

1.22 TRUST. "Trust" means the trust described in Section 7.2.

ARTICLE II  
DEFERRAL ELECTIONS: ACCOUNTS

2.1 ELECTION TO DEFER.

a. AIP AWARDS. A Participant may elect under the Plan to defer receipt of all or a portion of his or her anticipated bonus under the AIP. A Participant's election must be made no later than November 1st of the Plan Year in which the Participant renders the services which may result in the AIP bonus award.

b. PSU AWARDS. A Participant may elect under the Plan to defer receipt of all or a portion of the cash or Company Common Stock amount earned as a PSU award under the LTIP, provided that, unless the Committee has determined otherwise, an election to defer a cash PSU award under this Plan can only be made if the Participant has satisfied the minimum stockholding requirements established by the Board of Directors. A Participant's election to defer a PSU award, whether in cash or Company Common Stock, must be made at least sixty (60) days prior to the date the PSU award will be paid or, if earlier, by the December 31 preceding the date such PSU award will be paid.

c. RSU AWARDS. A Participant may elect under the Plan to defer receipt of all or a portion of the amount earned as an RSU award under the LTIP. A Participant's election must be made at least sixty (60) days prior to the date the RSU award will be paid or, if earlier, by the December 31 immediately preceding the date such RSU award will be paid. Upon the

occurrence of a Change in Control, all restrictions on a Participant's RSU award shall lapse pursuant to the terms of the KEIP.

d. CHANGE IN CONTROL ELECTION FOR EBPP PARTICIPANTS. For each Participant who is covered by an EBPP, the Company shall, on the later of (i) the first day of January of the year first following the year during which a Change in Control occurs and (ii) the one hundred twentieth (120th) day following such Change in Control, pay to him or her a lump sum cash payment equal to the amount of his or her Account if prior to such Change in Control, such Participant elects, in his or her sole discretion, to receive such lump sum cash payment at such time.

e. VESTED PENSION BENEFIT. If a Participant does not elect, pursuant to Section 2.4 of the EBPP applicable to him or her, to receive his or her Vested Pension Benefit (as such term is defined in such EBPP), such amount shall be deferred under the Plan in accordance with the terms of such EBPP.

f. PARTICIPANTS WHO ARE NOT EBPP PARTICIPANTS. Any Participant who is not a participant in any EBPP shall, upon the occurrence of a Change in Control, become fully vested in his or her Account; and for each such Participant the Company shall, on the later of (i) the first day of January of the year first following the year during which a Change in Control occurs and (ii) the one hundred twentieth (120th) day following such Change in Control, pay to him or her a lump sum cash payment equal to the amount of his or her Account if prior to such Change in Control, such Participant elects, in his or her sole discretion, to receive such lump sum cash payment at such time.

g. Any deferral election under this Section 2.1 shall be made on a form supplied by the Plan Administrator. The election to defer an AIP bonus, a PSU award or an RSU award is irrevocable except as specifically provided otherwise in this Plan.

## 2.2 ACCOUNTS.

a. ESTABLISHMENT OF ACCOUNTS. Except as provided in Section 7.2, any amounts deferred by a Participant will not be funded or set aside for future payment by the Company. Instead, an Account will be noted for the Participant on the Company's books. A Participant's Account will be credited with amounts deferred and with investment credits as provided in paragraph c. below. A separate Account will be established for each Deferral Election.

b. PARTICIPANTS AS UNSECURED CREDITORS. A Participant's entitlement to receive the amount reflected by his or her Accounts will be based solely on an unfunded unsecured unconditional promise to pay by the Company that is not assignable; however, except as provided in Section 7.6 below or under the terms of a Participant's RSU award, the Participant at all times will be fully vested in the Accounts.

c. INVESTMENT CREDITS TO ACCOUNTS. Subject to such limitations as may from time to time be required by law, imposed by the Plan Administrator or as set forth in paragraph (6) below, and subject to such operating rules and procedures as may be imposed from time to time by the Plan Administrator, each Participant may express to the Plan Administrator a

preference as to how the Participant's Accounts should be constructively invested among the Investment Options; provided that, following a Change in Control, any such preference expressed by a Participant (whether such preference is expressed prior to, or following, a Change in Control) shall be binding upon the Plan Administrator. Such preference shall designate the percentage of the Participant's Accounts which is requested to be constructively invested in each Investment Option.

(1) Any initial or subsequent expression of investment preference shall be in writing, on a form supplied by and filed with the Plan Administrator. Participants may change their investment preferences effective as of the beginning of each Plan Year, or more frequently if permitted in the discretion of the Plan Administrator; provided, however, that following a Change in Control, Participants shall be permitted to change their investment preferences at least as frequently as they could under procedures in effect immediately prior to the Change in Control.

(2) Except as set forth above following a Change in Control, all investment preferences shall be advisory only and shall not bind the Company or the Plan Administrator and the Company shall not be obligated to invest any funds in connection with this Plan. If, however, the Company chooses to invest any amount to provide for its liabilities under this Plan, the Plan Administrator shall have complete discretion as to investments and no Participant shall have any claim on such investments as a fund to provide benefits hereunder.

(3) From time to time, but not less frequently than each Determination Date, the Plan Administrator shall allocate the net earnings or losses of the Plan since the preceding Determination Date among the Accounts of Participants, and to the extent a Participant's Investment Option preferences are honored by the Plan Administrator, such net earnings or losses shall be allocated as though the Accounts had been invested in the Investment Option in accordance with the Participant's indicated preference. The "net earnings or losses" of the Plan shall be equal to the net increase or net decrease (taking into account any constructive dividends or interest thereon), as the case may be, in the value of a Participant's Accounts since the last Determination Date in accordance with the Participant's investment preferences or other such allocation of such net increase or net decrease in the value of funds constructively invested by the Plan Administrator and allocated to the Accounts of Participants hereunder.

(4) If the Plan Administrator receives an initial or revised investment preference which it deems to be incomplete, unclear or improper, the Participant's investment preference then in effect shall remain in effect (or, in the case of a deficiency in an initial investment preference, the Participant shall be deemed to have filed no investment preference) until the beginning of the next Plan Year, unless the Plan Administrator provides for, and permits the application of, corrective action prior thereto. If a Participant fails to file an effective investment preference, the Participant's Accounts will be constructively invested in the American Express Cash Management Fund (or such Investment Option designated by the Plan Administrator from time to time as a substitute for such Fund).

(5) If the Plan Administrator determines that the constructive value of an Account as of any date on which distributions are to be made differs materially from the constructive value of the Account on the prior Determination Date upon which the distribution is

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

(6) The foregoing provisions of this paragraph 2.2(c) to the contrary notwithstanding: (i) prior to a Change in Control, that portion of all deferred PSUs that is payable in Company Common Stock under the LTIP and all deferred RSUs shall be constructively invested in Company Common Stock; (ii) the Participant's Accounts shall be credited from time to time with the amount of any dividends declared and paid on such Company Common Stock, and shall be adjusted in connection with any stock dividend, split, reorganization, liquidation or other event which affects the number of shares of Common Stock represented by such PSUs and RSUs; and (iii) no other amounts deferred under this Plan shall be constructively invested in Company Common Stock. Following a Change in Control, no amounts deferred under this Plan shall be required to be constructively invested in Company Common Stock.

d. STATEMENT OF ACCOUNTS. Within a reasonable time after the end of each Plan Year, the Plan Administrator shall submit to each Participant a statement of the balance in his Accounts; provided, however, that following a Change in Control, such statement of Accounts shall be provided on at least a quarterly basis.

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

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

pursuant to this Section 2.4, they may not thereafter be returned to the Participant's deferral accounts under the prior deferral arrangement.

ARTICLE III  
DISTRIBUTION OF DEFERRALS

3.1 INITIAL ELECTION OF DISTRIBUTION OPTIONS IN DEFERRAL ELECTION.

a. A Participant must specify in each of his or her Deferral Elections when such Account will be distributed. Distribution may be made or begin in any future Plan Year or Years, but distributions must begin not later than the Plan Year following the calendar year in which the Participant attains age 70. The Participant may elect to receive amounts deferred in a lump sum or in up to ten substantially equal annual installments. A Participant may specify different distribution dates and forms of payment under each of his or her Deferral Elections. All amounts of a Participant's Accounts constructively invested in Company Common Stock shall be distributed in the form of Company Common Stock, except in the event a Change in Control occurs, in which case amounts constructively invested in Company Common Stock shall be dealt with in accordance with the terms of the EBPP applicable to such Participant. All other amounts shall be distributed in cash.

b. Any provision of this Plan to the contrary notwithstanding, all distributions hereunder shall be deferred until such time (but not beyond the occurrence of a Change in Control unless otherwise specified in a Participant's Deferral Election), in the discretion of the Committee, as such distribution would not be disallowed as a deduction under Section 162(m) of the Internal Revenue Code.

3.2 CHANGES IN DISTRIBUTION OPTIONS.

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

b. Any change in the deferral period or the payment schedule must be submitted to the Plan Administrator in writing, on a form provided by the Plan Administrator, at least twelve months, or such shorter period as the Plan Administrator may accept, but in no event later than the December 31, before the date payments were originally scheduled to begin. No change in the deferral period shall be permitted if such change would cause payments to begin after the Plan Year following the calendar year in which the Participant attains age 70.

3.3 PAYMENT OF DEFERRED AMOUNTS.

a. Upon the date elected by the Participant, the Company shall begin to pay to the Participant an amount equal to the total amount then credited to the Participant's Accounts. Such amount is to be paid either in one lump sum or in substantially equal annual installments over a period of years as previously elected by the Participant, which period shall be not more

than ten years. Each annual installment shall include investment credits on the remaining balance during the previous Plan Year until the Accounts shall have been paid in full. A Participant may continue to express investment preferences as provided in paragraph c of Section 2.2 during the period that an Account is being distributed.

b. If the Participant dies before payment in full of the amount standing to the Participant's credit in the Accounts, the unpaid balance may be paid in one lump sum or in substantially equal installments to the Participant's beneficiary over the remaining distribution period elected by the Participant. If the Participant dies before the beginning date of the deferred payment and did not indicate a specific method of distribution, then the Participant's designated beneficiary may petition the Plan Administrator regarding the method of distribution. In the absence of a designated beneficiary, the balance of the Accounts will be paid in a lump sum to the estate of the Participant as soon as possible.

c. If the Participant's employment is terminated for any reason other than Retirement, death or Disability before the elected payment date, then the Company, acting through the Plan Administrator, at its discretion, but subject to any limitations set forth in the EBPP applicable to such Participant (or any similar or successor plan or program) or any employment agreement to which the Participant is a party or is covered, at any time thereafter may:

(1) Immediately pay over any amounts credited to the Participant's Accounts to the Participant; provided, however, if such termination of employment occurs at any time following a Change in Control, the Company and the Plan Administrator may not pay over any amounts credited to a Participant's Accounts, unless prior to the occurrence of the Change in Control, such Participant made an election pursuant to which such Participant consented to receive an immediate payment of such Participant's Accounts in the event such Participant's employment is terminated following a Change in Control for any reason other than Retirement, death or Disability.

(2) Deposit any amounts credited to the Participant's Accounts in a grantor trust for the Company's benefit who will manage and pay over such amounts to the Participant in accordance with the terms of this Plan, with administrative costs in such event being charged to the Participant's Accounts; provided, however, that following a Change in Control, all such administrative costs shall be borne solely by the Company.

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

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



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

f. Subject to Section 3.1: (1) if a Participant elects to receive amounts deferred in a lump sum or in annual installments on a date prior to Retirement, such payments will commence or payment will be made in the month of January of the Plan Year selected by the Participant; (2) if the Participant elects to receive amounts deferred in a lump sum (other than amounts deferred as Common Stock for payment in a lump sum) or in annual installments after Retirement, such payments shall commence or payment shall be made in the month of January of the Plan Year following the calendar year in which the Participant retires; and (3) if a Participant elects to receive amounts deferred as Common Stock in a lump-sum after Retirement, such payment will be made in the month of January of the Plan Year following the calendar year in which the Participant retires, unless an earlier date is approved by the Plan Administrator upon application by the Participant.

g. Notwithstanding anything herein to the contrary, if, at any time, the Company determines (based on advice of tax counsel), by reason of legislation relating to, amendment of, or interpretation by a court or administrative body of, the provisions of the Internal Revenue Code of 1986, as amended, or any rules and regulations promulgated thereunder, that any amounts deferred by a Participant under this Plan shall be currently taxable, such Participant shall be entitled to elect to receive immediate payment of any such deferred amounts (without any reduction other than applicable tax withholding).

3.4 HARDSHIP DISTRIBUTIONS. The Compensation Committee may, in its discretion, accelerate payments to a Participant in an amount up to the AIP bonus or the cash portion of a PSU award previously deferred, together with investment credits to date, in the event of demonstrated severe financial hardship (or any similar circumstances under which a payment would be permitted without causing the imposition of federal income taxes on Participants' Accounts that have not been distributed, pursuant to Revenue Procedure 92-65 or any successor Revenue Procedure, Revenue Ruling, regulation or other applicable administrative determination issued by the Internal Revenue Service.) Any such payments made will be limited to the amount needed to meet the demonstrated financial need. A Participant seeking a financial hardship withdrawal from his or her Accounts must request a hearing with the Plan Administrator, who will gather facts and render a report to the Compensation Committee for a decision.

3.5 OTHER WITHDRAWALS: FORFEITURE PENALTY. A Participant may, by written request on a form provided by the Plan Administrator, withdraw all or any portion of any of his Accounts as of any Determination Date, provided that the Participant shall forfeit 10% of the amount withdrawn as a penalty.

3.6 WITHHOLDING. Any payments made pursuant to this Article III shall be subject to appropriate federal, state or local income tax withholdings. Any withholdings required in respect of a distribution of Company Common Stock shall be deducted from other cash amounts then distributed hereunder or, if none, from other cash compensation payable to Participant. If no other cash compensation is then payable to the Participant then, in the discretion of the Committee, such distribution of Company Common Stock shall be deferred until such time as

(a) such cash distribution or other compensation is payable to the Participant that can be withheld hereunder, or (b) the Participant deposits with the Company such amount of cash and/or directs the Company to withhold from such distribution such number of shares of Company Common Stock having a fair market value (as defined in the LTIP) equal to the amount required to satisfy such withholding tax obligation.

ARTICLE IV  
CLAIMS PROCEDURE

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

a. The following claims procedure is hereby established:

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

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

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

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

(5) The decision on review of a denied claim shall be made as follows. The decision on review shall be made by the Plan Administrator, which may in its discretion hold a hearing on the denied claim. The Plan Administrator shall make a decision promptly, and not later than sixty (60) days after receipt of the request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of the request for review. The decision on review shall be in writing and shall include specific reasons for the decisions, written in the manner calculated to be understood by the claimant, and

specific references to the pertinent Plan revisions on which the decision is based. The Plan Administrator shall have full discretion to decide the claim and its decision on review shall be final and binding on all parties.

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

ARTICLE V  
PLAN ADMINISTRATOR

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

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

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

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

ARTICLE VI  
AMENDMENT AND TERMINATION

6.1 AMENDMENT. The Committee may at any time amend the Plan in whole or in part. However, no amendment shall be effective to decrease or restrict any then existing Account or to change the Company's obligations under any then existing Deferral Election or as otherwise may be provided in an agreement entered into between the Company and the Participant prior to the date of such Deferral Election or the Company's Executive Benefits Protection Plan (or any similar or successor plan or program). After the occurrence of a Change in Control, no amendment to the Plan may be made to this Section 6.1 or to Sections 1.11, 2.2(c), 2.2(d), 3.1(b), 3.2, 3.3, 3.4, 3.5, 6.2, 7.6 or 7.9 that would adversely affect the rights of any Participant without the consent of such Participant, except for such changes that the Committee reasonably

determines, upon the advice of nationally recognized tax counsel, are necessary to fulfill the intent of the Plan to defer federal income taxation of Participants' Accounts until such Accounts are paid in accordance with the terms of the Plan.

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

ARTICLE VII  
MISCELLANEOUS

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

7.2 RABBI TRUST. The Company shall establish promptly a revocable trust to hold assets, subject to the claims of the Company's creditors in the event of the Company's insolvency, for the purpose of the payment of the benefits hereunder, which shall become irrevocable upon a Change in Control. The Company shall contribute to the Trust cash in such amounts and at such times as are specified in this Plan and in the applicable trust agreement. Upon the occurrence of a Change in Control, the Company shall contribute to a separate Trust account maintained for each Participant under the Trust, in cash, an amount equal to 100% of the value of each such Participant's Account, less any amount credited to such Participant's Trust account as of the date of such contribution. Amounts paid to Participants from the Trust shall discharge the obligations of the Company hereunder to the Participants to the extent of the payments so made.

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

7.4 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof. The rights to all such amounts are expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony, or separate

maintenance owed by Participants or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency, except as required by law.

7.5 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Company and a Participant, and a Participant shall have no rights against the Company except as may otherwise be specifically provided herein. Moreover, nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge an employee at any time. This foregoing provisions of this Section 7.5 to the contrary notwithstanding, this Plan shall not diminish any rights or increase any obligations of a Participant or the Company under any employment agreement entered into by the Participant and the Company prior to such Participant's Deferral Election, or after such Deferral Election to the extent that such employment agreement specifically provides that it shall supersede any inconsistency with the terms of this Plan.

7.6 FORFEITURE OF BENEFITS. If a Participant's employment is terminated because of willful misfeasance or gross negligence in the performance of his or her duties, his or her right to benefits under this Plan shall, in the discretion of the Committee, be forfeited, and the Company shall have no further obligation hereunder to such Participant or his or her beneficiary(ies); provided, however, that notwithstanding any provision of the Plan, upon a Change in Control, a Participant's AIP benefits, PSU benefits, Vested Pension Benefit and RSU benefits deferred under the Plan (together, the "Deferred Benefits") shall vest and be payable pursuant to the provisions of Sections 2.1, 2.2 and 2.5 of the EBPP applicable to such Participant and Section 7.IV(b) of the KEIP, respectively, and such vested Deferred Benefits shall not be subject to forfeiture under this Section 7.6. If a Participant is not a participant under any EBPP or the KEIP, upon a Change in Control, Sections 2.1, 2.2 and 2.5 of the Employee Benefits Protection Plan (Group 2) and Section 7.IV(b) of the KEIP shall nevertheless apply to the Participant's Deferred Benefits and such Deferred Benefits shall not be subject to forfeiture under this Section 7.6.

7.7 TERMS. Use of the masculine, feminine and neuter pronouns in this Plan are intended to be interchangeable and use of the singular will include the plural, unless the context clearly indicates otherwise.

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

7.9 GOVERNING LAW. This Plan shall be governed by the laws of the United States and, to the extent not preempted thereby, the laws of Pennsylvania; provided, however, that after a Change in Control, any court or tribunal that adjudicates any dispute, controversy or claim arising between the Participants and the Committee, Plan Administrator, Company or any of their delegates or successors, relating to or concerning the provisions of this Plan, will apply a de novo standard of review to any determinations made by such person. Such de novo standard shall apply notwithstanding the grant of full discretion hereunder to any such person or characterization of any decision by such person as final, binding or conclusive on any party.

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

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

Employee Benefits Committee  
Hershey Foods Corporation  
100 Crystal A Drive  
Hershey, Pennsylvania 17033

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

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

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

IN WITNESS WHEREOF, the Company has caused this Deferred Compensation Plan to be amended and restated as of the 19th day of August, 2002.

HERSHEY FOODS CORPORATION

By: /s/ Marcella K. Arline

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Marcella K. Arline  
Senior Vice President, Human Resources

HERSHEY FOODS CORPORATION  
 AMENDED AND RESTATED (2002)  
 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

1. PURPOSE OF PLAN. The purpose of the Amended and Restated (2002) Supplemental Executive Retirement Plan, effective as of August 19, 2002 (hereinafter called the "Plan") is to obtain for Hershey Foods Corporation (hereinafter called the "Corporation") all of the benefits which flow from maintaining a strong management team by providing to executive and upper level management employees the means to continue their attained standard of living during retirement and by offering benefits that will assist in attracting executive and upper level management employees of outstanding ability. The Plan constitutes an amendment, restatement and continuation of the prior plan which was most recently restated as of January 1, 2002.

To the extent provided by law, the benefits provided hereunder with respect to any Participant who retired or whose employment with the Corporation terminated prior to August 6, 2002, will, except as otherwise specifically provided for herein, be governed in all respects by the terms of the plan document then in effect on the date of the Participant's retirement or other termination of employment.

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

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

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

b. "Committee" means the Compensation and Executive Organization Committee of the Board of Directors of the Corporation (the "Board") or other such person, persons or committees as the Board may prescribe from time to time.

Effective as of October 2, 2001, Committee shall also mean the Employee Benefits Committee of the Corporation, to which the Board has delegated certain duties with respect to the administration of the Corporation's employee benefit plans, or any successor

committee as designated by the Board.

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

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

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

Effective as of January 1, 2002, Early Retirement Date means the first day of any month following a Participant's termination of employment with the Corporation which is coincident with or following the earlier of (i) the date the Participant attains age fifty-five (55) or (ii) the date the Committee (in its sole discretion) deems the Participant to have attained age fifty-five (55) if such Participant terminated his or her employment with the Corporation under an early retirement plan, program or arrangement and prior to the Participant's Normal Retirement Date.

f. "Final Average Compensation" means the sum of (1) the highest annual average of a Vested Participant's basic salary paid or accrued

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

g. "GATT Interest Rate" means, for purposes of this Plan, for any specific month, the "applicable interest rate" as specified by the Commissioner of the Internal Revenue Service in Section 417(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code") (as such applicable interest rate is modified from time to time in revenue rulings, notices or other guidance, published in the Internal Revenue Service Bulletin), decreased by the percentage applicable to such month as set forth on Schedule I attached hereto.

h. "Lump Sum Interest Rate" means, as of any specific date, the sum of one-twelfth (1/12th) of each GATT Interest Rate for the twelve consecutive



months beginning with the thirteenth (13th) month preceding the month during which such date occurs.

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

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

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

l. "Retirement Plan" means the Corporation's Retirement Plan, amended and restated effective January 1, 1997, as in effect from time to time and any successor plan thereto.

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

n. "Years of Service", for purposes of this Plan, shall have the same meaning as provided in Section 1.59 of the Retirement Plan, as such section may be amended from time to time.

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

Notwithstanding anything in this Section to the contrary, with respect to a person who elected to participate in the Hershey Foods Corporation 2001 Early Retirement Plan (the "ERP") and who terminates his or her employment with the Corporation under the terms and conditions of the ERP (an "ERP Participant"), such person's age at the time of his

or her termination from employment shall be the greater of (y) such person's actual age or (z) age fifty-five (55) for purposes of determining such person's eligibility to receive a benefit under this Plan as set forth in subsection (i) of this Section.

4. RETIREMENT BENEFITS.

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

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

reduced by:

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

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

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

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

(1) for an ERP Participant, the product of:

(A) the benefit determined in accordance with Section 4.a. above;

and

(B) one (1) minus the product of (i) five-twelfths of a percent (5/12%), and (ii) the number of complete calendar months by which the Vested Participant's date of termination of employment precedes his sixtieth (60th) birthday. Notwithstanding anything in the preceding sentence to the contrary, with respect to an ERP Participant, the number of complete calendar months described in subsection 4b.(1)(B)(ii) shall not exceed sixty (60).

(2) for a Participant other than an ERP Participant:

(A) the product of three and two-thirds percent (3 2/3%) of his Final Average Compensation and his Years of Service not in excess of fifteen (15) Years of Service reduced by the sum of (B), (C) and (D), where (B), (C) and (D) equal:

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

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

(D) the product of (i) the difference between (A) and the sum of (B) and (C), (ii) five-twelfths of a percent (5/12%), and (iii) the number of complete calendar months by which the Vested Participant's date of termination of employment precedes his sixtieth (60th) birthday.

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

c. Disability Retirement Benefit. If an employee who is an active participant in the performance share unit portion of the KEIP suffers a Disability prior to his Normal Retirement Date and while employed by the Corporation, the period of his Disability will be recognized as Years of Service and as years of participation in the performance share

unit portion of the KEIP under the Plan. If such Disability continues to his Normal Retirement Date, for purposes of the Plan, he will retire on that date and will be entitled to a normal retirement benefit calculated in accordance with Section 4.a. commencing on that date. In calculating the benefit under Section 4.a., the Participant's Final Average Compensation shall be equal to his annual base compensation immediately prior to his Disability plus the average of his AIP earned during the three (3) years immediately prior to the commencement of his Disability.

d. Pre-Retirement Death Benefit. If a Participant dies before his employment by the Corporation terminates and qualifies as a Vested Participant on his date of death, his designated beneficiary(ies), or his estate if he has not designated any beneficiary or beneficiaries in accordance with procedures established by the Committee, shall receive within ten (10) days of the Vested Participant's death a death benefit equal to the lump sum present value of one hundred percent (100%) of the retirement benefit that would have been payable to the Vested Participant under Sections 4.a. or 4.b. (including the spousal survivor benefit payable pursuant to Section 4.e. with respect to any Vested Participant survived by a spouse) if he had retired on the date of his death. The lump sum present value of the retirement benefit shall be calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the sum of one-twelfth (1/12th) of each PBGC Interest Rate for the twelve (12) months immediately preceding the date of the Vested Participant's death; and (y) for each Vested Participant who first became a Vested Participant after January 1, 1998, (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's death (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's death. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the benefit described in this Section 4.d. with respect to each Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated due to his or her death on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

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

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

reduced by:

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

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

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

A lump sum cash payment, payable to the Vested Participant within ten (10) days after the Vested Participant's date of retirement (or the Vested Participant's date of termination of employment other than for Cause), equal to the actuarial present value of the Applicable Retirement Benefit, calculated using: (x) for each Vested Participant who was a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to one-twelfth (1/12th) of each PBGC Interest Rate for the twelve (12) months immediately preceding the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause), calculated in accordance with the Corporation's practices for determining retirement benefits; and (y) for each Vested Participant who first became a Vested Participant after January 1, 1998 (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Vested Participant's retirement (or the Vested Participant's date of termination of employment other than for Cause) (without regard to any other subparagraph of such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Vested Participant's retirement. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the Applicable Retirement Benefit for each Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

Any such election must be made by those Participants designated by the Committee from time to time at least two (2) years and by all other Participants at least one (1) year prior to the date that the Applicable Retirement Benefit payments would otherwise become payable. Notwithstanding anything in the preceding sentence to the contrary, any Vested Participant who was eligible for enhanced benefits under the ERP and terminates his or her employment with the Corporation under the terms and conditions of the ERP, shall, with the Committee's approval, be allowed to make such election at any time prior to the date that his or her Applicable Retirement Benefit payment would otherwise be payable.

#### 7. PAYMENT UPON CHANGE IN CONTROL

a. Any former employee or the surviving spouse of an employee or former employee who is receiving a benefit under Sections 4.a., 4.b., 4.d. or 4.e. hereof (or pursuant to the terms of any version of this Plan) at the time of a Change in Control (collectively or individually, "SERP Recipient") shall receive, in lieu of the future monthly retirement benefit (including the spousal survivor benefit in the case of a benefit under Section 4.a. or 4.b.) to which he is entitled (such future benefit payable to the SERP Recipient is herein referred to for purposes of this Section 7.a. as the "Future Retirement Benefit"), a lump sum cash payment, payable to the SERP Recipient, as applicable, within ten (10) days after a Change in Control (or such later date that is forty-five (45) days after the notice required by the following provisions of this Section 7.a. is provided to the applicable SERP Recipient), equal to the actuarial present value of his Future Retirement Benefit, calculated using: (x) for each SERP Recipient who was (or whose benefit is applicable to a Vested Participant who was) a Vested Participant on January 1, 1998, (i) the 83 GAM mortality tables; and (ii) an interest rate equal to the PBGC Interest Rate as of the date of the Change in Control; and (y) for each SERP Recipient who first became (or whose benefit is the result of a Vested Participant who first became) a Vested Participant after January 1, 1998, (i) the prevailing commissioner's standard mortality table (described in Section 807(d)(5)(A) of the Internal Revenue Code of 1986, as amended from time to time) used to determine reserves for group annuity contracts issued on the date of the Change in Control (without regard to any other subparagraph for such Section 807(d)(5)) that is prescribed by the Commissioner of the Internal Revenue Service in revenue rulings, notices, or other guidance published in the Internal Revenue Bulletin; and (ii) an interest rate equal to the Lump Sum Interest Rate as of the date of the Change in Control. Notwithstanding anything in this paragraph to the contrary, the lump sum cash value of the benefit described in this Section 7.a. for each SERP Recipient who was, or whose benefit is applicable to a Vested Participant who (A) was a Vested Participant as of January 1, 1998 and (B) whose employment with the Corporation terminated on or after January 1, 2002, shall be equal to the greater of the value of the lump sum cash payment calculated pursuant to the rates and factors set forth in subsections (x) or (y) of this paragraph.

Notwithstanding the foregoing, the provisions of this Section 7.a. shall not apply with respect to a SERP Recipient unless such SERP Recipient consents to the application of this Section 7.a. within thirty (30) days after the date the SERP Recipient receives written notice of the terms of this Section 7.a., as provided for by the following sentences. The Corporation shall provide each SERP Recipient with a written notice of the terms of this

Section 7.a. and the consent requirement contained herein not later than five (5) days after the earliest of (y) the date that the Corporation provides notice to its stockholders that a vote on a transaction which, if consummated, would constitute a Change in Control will be submitted to the Corporation's stockholders for approval, or (z) the occurrence of a Change in Control.

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

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

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

(3) The approval by the stockholders of the Corporation of any merger, reorganization, recapitalization, consolidation or other form of business

combination (a "Business Combination") if, following consummation of such BusinessCombination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities eligible to elect directors of (x) the surviving entity or entities (the "Surviving Corporation") or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Corporation; or

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

c. For purposes of Sections 7 and 10, a "Potential Change in Control" means:

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

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

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



mean any corporation controlled by the Corporation, directly or indirectly.

8. PAYMENT OF BENEFITS. Nothing contained in the Plan and no action taken pursuant to the provisions of the Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Corporation and any Participant, Vested Participant, spouse of a Participant or Vested Participant, or any other person. No person other than the Corporation shall by virtue of the provisions of the Plan have any interest in such assets. To the extent that any person acquires a right to receive payments from the Corporation under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Corporation. The right of any Vested Participant or any other person to the payment of benefits under the Plan shall not be assigned, transferred, pledged or encumbered; such payments and the right thereto are expressly declared to be non-assignable and nontransferable. No payments hereunder shall be subject to the claim of the creditors of any Vested Participant or of any other person entitled to payments hereunder. Any payments required to be made pursuant to the Plan to a person who is under a legal disability may be made by the Corporation to or for the benefit of such person in such of the following ways as the Committee shall determine:

- a. directly to such person.
- b. to the legal representative of such person.
- c. to a near relative of such person to be used for such person's benefit.
- d. directly in payment of expenses of support, maintenance or education of such person.

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

9. EFFECTIVE DATE OF PLAN. This Amended and Restated (2002) Supplemental Executive Retirement Plan shall be effective January 1, 2002 and Vested Participants who become eligible to retire under the Plan on or after that date shall be entitled to the benefits provided hereunder.

10. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN. The Board of Directors of the Corporation may, at any time, suspend or terminate the Plan. The Board, or its duly appointed delegee, if applicable, may also from time to time, amend the Plan in such respects as it may deem advisable in order that benefits provided hereunder may conform to any change in law or in other respects which the Board, or its delegee in accordance with the Board's delegation of authority thereto, deems to be in the best interest of the Corporation. No such suspension, termination or amendment of the Plan shall adversely affect any right of any person who is a Vested Participant at the time of such suspension, termination or amendment or his beneficiary(ies), estate or surviving spouse, as applicable, to receive benefits under the Plan in accordance with its provisions in effect immediately prior to such suspension, termination or amendment without the consent of such Vested Participant, beneficiary(ies), estate or surviving spouse. Any benefits payable under the terms of the Plan at the time of any suspension, termination or amendment of the Plan shall remain in effect according to their original terms, or such alternate terms as may be in the best interests of both parties and

agreed to by the Vested Participant or his beneficiaries, estate or surviving spouse, as applicable. Notwithstanding the foregoing, (a) the Plan may not be terminated or amended in any manner that is adverse to the interests of a Participant or the surviving spouse of a Participant without the consent of the Participant or surviving spouse, as applicable, either: (i) after a Potential Change in Control occurs and for one (1) year following the cessation of the Potential Change in Control, or (ii) for a two (2) year period beginning on the date of a Change in Control (the "Coverage Period"); and (b) no termination of this Plan or amendment hereof in a manner adverse to the interests of any Participant, or such Participant's surviving spouse, (without the consent of the Participant or surviving spouse) shall be effective if such termination or amendment occurs (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control. After the Coverage Period, the Plan may not be amended or terminated in any manner that would adversely affect the entitlement of a Participant or his surviving spouse (without the consent of the Participant or surviving spouse) to benefits that have accrued hereunder. For purposes of the immediately preceding two sentences of this Section 10, whether an employee of the Corporation qualifies as a Participant shall be determined at the time (a) the Coverage Period commences and any time thereafter or (b) his employment is terminated or the Plan is amended (i) at the request of a third party who has taken steps reasonably calculated to effect a Change of Control, or (ii) in connection with or in anticipation of a Change of Control.

IN WITNESS WHEREOF, Hershey Foods Corporation has caused this Hershey Foods Corporation Amended and Restated (2002) Supplemental Executive Retirement Plan to be executed as of the 19th day of August, 2002.

HERSHEY FOODS CORPORATION

By: /s/Marcella K. Arline  
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Marcella K. Arline  
Senior Vice President, Human Resources

SCHEDULE I  
to  
AMENDED AND RESTATED (2002)  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

January 2001	1.310%	January 2003	0.385%
February 2001	1.272%	February 2003	0.347%
March 2001	1.233%	March 2003	0.308%
April 2001	1.195%	April 2003	0.270%
May 2001	1.156%	May 2003	0.231%
June 2001	1.118%	June 2003	0.193%
July 2001	1.079%	July 2003	0.154%
August 2001	1.041%	August 2003	0.116%
September 2001	1.002%	September 2003	0.077%
October 2001	0.964%	October 2003	0.039%
November 2001	0.925%	November 2003 and each	
December 2001	0.887%	succeeding month	0.000%
January 2002	0.848%		
February 2002	0.809%		
March 2002	0.771%		
April 2002	0.732%		
May 2002	0.694%		
June 2002	0.655%		
July 2002	0.617%		
August 2002	0.578%		
September 2002	0.540%		
October 2002	0.501%		
November 2002	0.463%		
December 2002	0.424%		

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

The Hershey Foods Corporation Executive Benefits Protection Plan (Group 3A), as set forth herein, is intended to help attract and retain qualified management employees and maintain a stable work environment by making provision for the protection of covered employees in connection with a Change in Control or Termination Without Cause as set forth herein.

ARTICLE 1  
DEFINITIONS

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

1.1 AIP means the Annual Incentive Program under the KEIP and annual (but not quarterly) incentives awarded under the Company's Sales Incentive Plan and any successor or replacement plan thereof.

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

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

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

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

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

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

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

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

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

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

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

1.5 BOARD means the Board of Directors of the Company.

1.6 CAUSE means with respect to an Executive:

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

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

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

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

1.8 CHANGE IN CONTROL means:

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

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

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

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

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

1.10 COMPANY means Hershey Foods Corporation, a Delaware corporation.

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

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

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

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

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

1.16 EFFECTIVE DATE means August 19, 2002.

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

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

1.19 GOOD REASON means with respect to an Executive:

1.19.1 the assignment to him of any duties inconsistent in any respect with his position (including status, offices, titles and reporting relationships), authority, duties or

responsibilities immediately prior to either the Potential Change in Control which precedes the Change in Control or the Change in Control or any other action by the Company which results in a diminution in any respect in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

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

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

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

1.19.5 the failure by the Company, without his consent, to pay to him any portion of his current compensation (including, but not limited to, any amounts the Executive is entitled to receive under Section 2.7 hereof), or to pay to him any portion of an installment of deferred compensation under any deferred compensation program of the Company within seven (7) days of the date such compensation is due;

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

1.19.7 the failure by the Company to continue to provide him with benefits substantially similar to those enjoyed by him under any of the Company's pension, life insurance, medical, health and accident, disability or other welfare plans in which he was participating at the time of either the Potential Change in Control preceding the Change in Control or the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive him of any material fringe benefit enjoyed by him at the time of such Potential Change in Control or Change in Control, or the failure by the Company to



provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of such Potential Change in Control or Change in Control;

1.19.8 any purported termination by the Company of his employment after a Change in Control otherwise than in accordance with the termination procedures of Article 4 hereof;

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

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

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

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

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

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

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

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

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

1.22.4 the cash value of either:

1.22.4.1 his 100% target PSU award for the year including his Date of Termination if he is eligible to receive a payment for a PSU award for such year; or

1.22.4.2 100% of the highest target for any of his outstanding PSU awards with an award cycle that includes his Date of Termination, if he is not eligible to receive a payment for a PSU award for the year during which his Date of Termination occurs.

For purposes of this Section 1.22, each such PSU award is valued at the higher of (i) the Transaction Value (as defined in Section 2.2.1.1 hereof) and (ii) the highest closing price of the Company's Common Stock on the New York Stock Exchange from the date of the Change in Control until the Executive's Date of Termination.

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

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

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

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

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

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

1.28.1 the Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of

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

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

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

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

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

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

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

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

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

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

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

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

1.39 SECTION 1.39 TERMINATION OF EMPLOYMENT means:

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

1.39.2 with respect to an Executive who is the Senior Vice President and Chief Financial Officer, the Senior Vice President, General Counsel and Secretary of the Company, the Senior Vice President, Business Planning and Development, or the Senior Vice President, Human Resources on the date on which a Change in Control occurs, the termination of his employment with the Company by him in his sole and complete discretion for any reason other than his death or Disability or by the Company for any reason at any time during the thirteenth (13th) calendar month of the Coverage Period and prior to the date he attains his Mandatory Retirement Age, if applicable.

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

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

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

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

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

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

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

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

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

2.2.1 each Executive shall have a vested and nonforfeitable right hereunder to receive in cash (as specified in Subsection 2.2.2) an amount equal to the sum of:

2.2.1.1 for the contingent target Performance Stock Unit ("PSU") grant, if any, made to him under the KEIP for the cycle ending in the year of the Change in Control, the greater of (x) the 100% target award amount and (y) the amount that would have been payable to him at the end of such award cycle based on the Company's actual performance through the date of the Change in Control and annualized, in each case valued at the higher of (i) the highest closing price of the Company's Common Stock on the New York Stock Exchange during the sixty (60) day period preceding and including the date of the Change in Control, and (ii) if the Change in Control involves a transaction in which an offer is made to purchase shares of Common Stock from the Company's stockholders, the price at which such offer is made (the higher of (i) and (ii) is herein referred to as the "Transaction Value") (the greater of (x) and (y) is herein referred to as the "Vested Current PSU Amount"); and

2.2.1.2 the value of all PSU Awards, as defined in the KEIP ("PSU Awards"), previously earned by the Executive for which payment has been deferred ("Deferred PSU Awards"), where, for purposes of calculating the value of the Executive's Deferred PSU Awards ("Vested Deferred PSU Amount") as of the date of payment to him (whether in accordance with his election as described in Subsection 2.2.3, his election as described in Subsection 3.4.3, or in the absence of any such election in accordance with his applicable Deferral Elections), all components of his Deferred PSU Awards that are denominated in shares of the Company's Common Stock shall be valued at the Transaction Value and investment credits shall be applied thereto and to all components of such Deferred PSU Awards that are not denominated in shares of the Company's Common Stock in accordance with the provisions of the Deferred Compensation Plan from the date of the Change in Control to the date of payment to the Executive in accordance with his selection of Investment Options as defined in the Deferred Compensation Plan.

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

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

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

2.3.1 each Executive who either is a participant in the SERP on the date of the Change in Control or was a participant in the SERP on the date of the Potential Change in Control preceding the Change in Control shall have a vested and nonforfeitable right hereunder to receive in cash an amount equal to the actuarial present value (as determined in accordance with Subsection 2.3.1.3 hereof) of the monthly retirement benefit (including the spousal survivor benefit) to which he and his spouse would be entitled under Section 4 of the SERP if he retired as of the date of the Change in Control, taking into account Subsections 2.3.1.1 and 2.3.1.2 hereof (the amount of such monthly retirement benefits for him and his spouse being herein referred to as such Executive's "SERP Benefit", the actuarial present value of such SERP Benefit being herein referred to as such Executive's "Vested Pension Benefit" and the Vested Pension Benefit plus all investment credits applied thereto in accordance with the provisions of Section 2.5 hereof being herein referred to as "Vested Pension Amount"), where:

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

occurs; (v) he shall be deemed to have been paid his Annual Base Salary for three (3) additional years (or such lesser number of years (including fractions) until he would attain Mandatory Retirement Age if applicable to him) which shall be considered to have been earned over such period of time during his last ten (10) years of employment with the Company for purposes of calculating "Final Average Compensation" in Section 2.f. of the SERP; (vi) he shall be deemed to have been paid his Annual Bonus for three (3) additional years (or such lesser number of years (including fractions) until he would attain Mandatory Retirement Age if applicable to him) which, together with his Vested Current Bonus Amount as determined pursuant to Section 2.1.1 shall be considered his AIP awards paid or accrued with respect to the last four consecutive calendar years (or such lesser number of calendar years (including fractions) as appropriate if limited by his Mandatory Retirement Age) during his last ten (10) years of employment with the Company for purposes of calculating "Final Average Compensation" in Section 2.f of the SERP; (vii) for the purposes of Section 2.f of the SERP (and not for the purposes of any other provision of the SERP), in the event he has not participated in the AIP portion of the KEIP (after taking into account the year during which the Change in Control occurs as to which he is entitled to his Vested Current Bonus Amount plus the number of years with respect to which he is deemed to have been paid his Annual Bonus as provided in Subsection 2.3.1.1 (vi) for five (5) consecutive years in his last ten (10) years of employment with the Company, he shall have his highest annual average AIP award be based on the average of his AIP awards paid or accrued over the sum of the number of years preceding the year during which the Change in Control occurs during which he has participated in the AIP portion of the KEIP plus the number of years with respect to which he is deemed to have been paid his Annual Bonus as provided in Subsection 2.3.1.1 (vi) plus the year during which the Change in Control occurs with respect to which he is entitled to his Vested Current Bonus Amount regardless of his actual years of participation in the AIP portion of the KEIP at the time of the Change in Control and regardless of the number of years such Executive has been employed by the Company at the time of the Change in Control; and (viii) for purposes of Section 4.b(2)(B) of the SERP, provided an Executive has at least one (1) Year of Service under the Hershey Pension Plan as of the date of the Change in Control, he shall be deemed to be vested in his accrued benefit under the Hershey Pension Plan as of the date of the Change in Control regardless of whether he is actually vested in such accrued benefit on such date;

2.3.1.2 if such Executive has not yet attained age fifty-five (55) (after increasing his age by three (3) years as provided in the preceding Subsection 2.3.1.1), he shall, upon the occurrence of the Change in Control be deemed nevertheless to have attained age fifty-five (55); provided, however, the reduction factor prescribed by clause (D) of Section 4.b(2) of the SERP shall still be given effect in calculating his SERP Benefit, with his age being increased by three (3) years as provided in Subsection 2.3.1.1 hereof; provided, further, that (i) for an Executive (other than the Chief Executive Officer of the Company) who has not yet attained age fifty (50) (before increasing his age by three (3) years as provided in the preceding Subsection 2.3.1.1) as of the date the Change in Control occurs, the reduction factor in clause (D) of Section 4.b(2) of the SERP shall be based on the number of complete calendar months by which the date the Change in Control occurs precedes his fifty-second (52nd) birthday and (ii) for an Executive (other than the Chief Executive Officer of the Company) who has attained age fifty (50) (before increasing his age by three (3) years as provided in the preceding Subsection 2.3.1.1) as of the

date the Change in Control occurs, the reduction factor in clause (D) of Section 4.b(2) of the SERP shall be zero percent (0%).

2.3.1.3 the actuarial present value of such Executive's SERP Benefit, as determined in accordance with the foregoing provisions of this Section 2.3, shall be determined using: (i) the 83 GAM mortality table blended 50/50 for males and females; (ii) an interest rate equal to 100% of the interest rate that would be used (as of the date of the Change in Control) by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination; (iii) the date of the Change in Control as the date on which payment of the Executive's SERP Benefit is to commence and as the date as of which the actuarial present value of such SERP Benefit is calculated; and (iv) the actual age of the Executive and his spouse (without regard to any adjustments made pursuant to Sections 2.3.1.1 or 2.3.1.2) as of the date of the Change in Control.

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

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

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



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

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

2.5 CONVERSION OF VESTED PENSION BENEFIT TO DEFERRED COMPENSATION PLAN ACCOUNT IN ABSENCE OF SECTION 2.4 ELECTION. In the event the Executive makes no election under Section 2.4 hereof, an amount equal to his Vested Pension Benefit shall be credited to him under the Deferred Compensation Plan and subject to the provisions of this Subsection 2.5, the provisions of the Deferred Compensation Plan shall apply thereto as if such amount were a Deferred AIP Award. Within ten (10) days of the Change in Control the Executive shall select one or more Investment Options as defined in the Deferred Compensation Plan to be effective with respect to such amount and thereafter may change his selection of such Investment Options in accordance with the provisions of the Deferred Compensation Plan. Investment credits shall be applied to the amount of his Vested Pension Benefit in accordance with the provisions of the Deferred Compensation Plan from the date of the Change in Control to the date of payment to the Executive in accordance with his selection of such Investment Options. If the Executive makes no election under Section 2.4 hereof and does not select one or more Investment Options as defined in the Deferred Compensation Plan within ten (10) days of the Change in Control in accordance with the provisions of the second sentence of this Section 2.5, investment credits shall be applied to the amount of his Vested Pension Benefit from the date of the Change in Control to the earlier of the date he makes a selection of Investment Options with respect thereto in accordance with the provisions of the Deferred Compensation Plan and the date of payment in accordance with the latest of his pre-Change in Control selections of Investment Options relating to his Deferred AIP Awards or Deferred PSU Awards, if any. If there are no such pre-Change in Control selections of Investment Options, then investment credits shall be applied in accordance with the provisions of the immediately preceding sentence by treating the Hershey Fixed Income Fund Investment Option under the Deferred Compensation Plan as his latest pre-Change in Control selection of Investment Options. Within ten (10) days of the Change in Control the Executive shall make a Deferral Election with respect to his Vested Pension Amount. If the Executive makes no election under Section 2.4 hereof and makes no Deferral Election within ten (10) days of the Change in Control in accordance with the immediately preceding sentence, then for purposes hereof he will be considered to have made a Deferral Election under the Deferred Compensation Plan to have his Vested Pension Amount paid to him, his designated beneficiaries or his estate, as applicable, in accordance with the latest of his pre-Change in Control Deferral Elections relating to his Deferred AIP Awards or Deferred PSU Awards, if any. If there are no such pre-Change in Control Deferral Elections, then for purposes hereof he will be considered to have made a Deferral Election under the Deferred Compensation Plan to have his Vested Pension

Amount paid to him, his designated beneficiaries or his estate, as applicable, on the first day of the month following his termination of employment by the Company. His Vested Pension Amount shall be paid to him in accordance with the Deferral Election described in the preceding three sentences, as applicable, or any subsequent Deferral Election with respect thereto permitted in accordance with the provisions of the Deferred Compensation Plan.

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

2.7 OTHER PSU GRANTS OUTSTANDING AS OF THE DATE OF A CHANGE IN CONTROL. An Executive shall be entitled to receive a lump sum cash payment with respect to each contingent target PSU grant that is outstanding as of the date of a Change in Control (and that is not otherwise paid out in whole or in part in accordance with the terms of Article 2 or Article 3 hereof) in an amount equal to the 100% target award amount of each such contingent target PSU grant valued at the higher of (i) the Transaction Value and (ii) the highest Closing price of the Company's Common Stock on the New York Stock Exchange from the date of the Change in Control until the end of the cycle, provided the Executive continues to be employed by the Company through the end of such cycle. In the event an Executive continues to be employed by the Company after expiration of the Coverage Period but such Executive's employment is terminated by the Company without Cause, by the Executive for Good Reason or terminates due to the Executive's death, Disability or retirement (on or after the date such Executive attains Mandatory Retirement Age) prior to the end of any applicable contingent target PSU cycle, such Executive (or his estate, as the case may be) shall be entitled to receive a lump sum cash payment with respect to each contingent target PSU grant that is outstanding as of the date of a Change in Control (and that has not otherwise been paid out in whole or in part in accordance with the terms of Article 2 or Article 3 hereof) in an amount equal to the sum of the product of (x) and (y), where (x) is an amount equal to the 100% target award amount of each such contingent target PSU grant valued at the higher of (i) the Transaction Value and (ii) the highest closing price of the Company's Common Stock on the New York Stock Exchange from the date of the Change in Control until the Date of Termination, and (y) is a fraction the numerator of which is the number of days from and including the first day of the award period applicable to such outstanding contingent target PSU grant that includes the Executive's Date of Termination until (and including) his Date of Termination and the denominator of which is the number of days in the award period applicable to such outstanding contingent target PSU grant. The payment provided for in this Section 2.7 with respect to each such contingent target PSU grant shall be made to an Executive by the fifth (5th) day following the first to occur of (a) the end of the cycle of such grant and (b) the Executive's Date of Termination.

ARTICLE 3  
EXECUTIVE BENEFITS AND RIGHTS  
UPON TERMINATION OF EMPLOYMENT

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

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

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

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

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

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

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

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

3.2 SEVERANCE BENEFITS. In addition to the payments provided for by Section 3.1 hereof, the Company shall pay or provide to an Executive the payments, benefits, and services described in Subsections 3.2.1 through 3.2.6 below (the "Severance Benefits") in accordance with such Subsections upon termination of his employment with the Company during the Coverage Period, if his termination of employment either (i) is a Section 1.39 Termination of Employment, or (ii) is (a) not by the Company for Cause, (b) not by reason of his death or Disability or after his Mandatory Retirement Age, if applicable, and (c) not by him without Good Reason.

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

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

3.2.3 OUTSTANDING AWARDS. Except to the extent the Company has previously paid or concurrently pays to him all or a portion of his Vested Current Bonus Amount and Vested Current PSU Amount as provided for herein, if an Executive's Date of Termination occurs within the Coverage Period, he shall be entitled to a lump sum cash payment with respect to each

outstanding contingent target AIP and PSU grant under the KEIP or any similar types of grants under any replacement plans or programs equal to the sum of:

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

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

Contingent target PSU grants under the KEIP or a similar type of grant under a replacement plan or program shall be valued at the higher of (i) the Transaction Value and (ii) the highest closing price of the Company's Common Stock on the New York Stock Exchange during the period running from the date of the Change in Control until the Executive's Date of Termination.

3.2.4 HERSHEY PENSION PLAN AND ESSIOP VESTING. An Executive who is a participant in the Hershey Pension Plan or the Hershey Foods Corporation Employee Savings Stock Investment and Ownership Plan (the "ESSIOP") shall, as of his Date of Termination, be fully vested in each of his accounts under the Hershey Pension Plan and ESSIOP. In the event that any amount under the Hershey Pension Plan and ESSIOP that vests pursuant to the preceding sentence cannot be paid to the Executive under the terms of the applicable plan, the Company shall pay such amount to the Executive under the terms of this Plan.

3.2.5 RELOCATION ALLOWANCE. In the event that an Executive relocates following his Date of Termination and during the Coverage Period at the request of a successor employer, the Company shall pay to him a relocation allowance of \$75,000; provided, however, that any such payment shall be reduced by any payments received by him from such successor employer for the purpose of reimbursing him for costs of relocation. The Company shall pay him such relocation allowance within five (5) business days after delivery of his written request and may

condition the payment of the relocation allowance upon his agreeing in writing to report to the Company any such payments from any successor employer and agreeing in writing to reimburse to the Company any amounts received from the Company pursuant to this Subsection 3.2.5 that should have been so reduced.

3.2.6 OUTPLACEMENT SERVICES. If an Executive becomes eligible to receive Severance Benefits, such Employee shall be entitled to receive outplacement services in accordance with the Corporation's outplacement services policy (as in effect immediately prior to the Change in Control) for up to one year following the Date of Termination and in an amount not to exceed \$35,000.

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

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

to reduce the amount of such state and local income taxes that would otherwise be deductible by him).

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

3.4 TIMING OF PAYMENTS. The payments provided for:

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

3.4.2 in Subsection 3.1.4 hereof shall be made to an Executive on the later of (i) the first day of January of the year first following the year during which his Date of Termination occurs and (ii) the one hundred twentieth (120th) day following his Date of Termination if prior to his Date of Termination he elects, in his sole discretion, to receive his previously unpaid Deferred AIP Awards at such time. In the event the Executive makes such election and the amount of the payment described in Subsection 3.1.4 cannot be finally determined on or before the later of such one hundred twentieth (120th) day or January 1, as applicable, the Company shall pay to the

Executive on such one hundred twentieth (120th) day or January 1, as applicable, an estimate, as determined in good faith by the Company, of the minimum amount of such payment and shall pay the remainder of such payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from such one hundred twentieth (120th) day or January 1, as applicable, to the payment of such remainder) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after such one hundred twentieth (120th) day or January 1, as applicable. In the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code from the one hundred twentieth (120th) day following the Date of Termination or January 1, as applicable, to the payment of such remainder). In the event the Executive makes no such election, his previously unpaid Deferred AIP Awards shall be paid in accordance with each of his applicable Deferral Elections;

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

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



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

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

#### ARTICLE 4 TERMINATION PROCEDURES AND COMPENSATION DURING DISPUTE

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

4.2 DATE OF TERMINATION. Date of Termination, (a) with respect to any purported termination of an Executive's employment after a Change in Control, shall mean (except as provided in Section 4.3 hereof) (i) if his employment is terminated by reason of his death, his date of death, (ii) if his employment is terminated for Disability, thirty (30) days after Notice of Intent

to Terminate is given (provided that he shall not have returned to the full-time performance of his duties during such thirty (30) day period), or (iii) if his employment is terminated for any other reason, the date specified in the Notice of Intent to Terminate (which (x) in the case of a termination by the Company, shall not be less than thirty (30) days, except in the case of a termination for Cause in which case it shall not be less than ten (10) days, provided that the Company may require him to not report to work during such ten (10) day period and (y) in the case of a termination by an Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Intent to Terminate is given), and (b) for purposes of Section 2.3 of this Plan and the definitions of the defined terms Annual Base Salary and Annual Bonus as used in such Section 2.3, shall mean the date a Change in Control occurs.

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

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

#### ARTICLE 5 PLAN ADMINISTRATION

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

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

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

## ARTICLE 6 CLAIMS

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

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

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

ARTICLE 7  
PLAN MODIFICATION OR TERMINATION

The Plan may be amended or terminated by resolution of the Board at any time; provided, however, that: (a) Schedule I hereto may be amended at any time and in any manner by resolution of the Compensation Committee of the Board upon recommendation of the Company's Chief Executive Officer; and (b) Schedule I hereto may be amended at any time by the Company's Chief Executive Officer to delete any one or more persons therefrom. Notwithstanding the foregoing: (a) the Plan may not be terminated or amended in a manner adverse to the interests of any Executive, without his consent (including the amendment of Schedule I hereto to delete him therefrom) (i) after a Potential Change in Control occurs and for one (1) year following the cessation of a Potential Change in Control, or (ii) for the two-year period following consummation of the transaction(s) resulting from or in the Change in Control; and (b) no termination of this Plan or amendment hereof in a manner adverse to the interests of any Executive, without his consent (including the amendment of Schedule I hereto to delete him therefrom), shall be effective if such termination or amendment occurs (i) at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (ii) in connection with or in anticipation of a Change in Control or Potential Change in Control. For this purpose, the cessation of a Potential Change in Control occurs if a Change in Control has not occurred within one year following the Potential Change in Control. In the event that the termination of this Plan by the Company or an amendment hereof in a manner adverse to the interests of any Executive (without his consent) occurs within six (6) months prior to a Potential Change in Control or a Change in Control, there shall be a presumption that the conditions of subclauses (i) and (ii) of clause (b) of the next preceding sentence shall have been met. Upon the expiration of the Coverage Period, the Plan may not be amended in any manner which would adversely affect the rights which any Executive has at that time to receive any and all payments or benefits pursuant to Articles 2, 3, and 4 by reason of a Change in Control which has theretofore occurred or by reason of a termination of his employment during the Coverage Period, and the Company's obligations to make such payments and provide such benefits shall survive any termination of the Plan.

ARTICLE 8  
MISCELLANEOUS

8.1 TERMINATIONS IN ANTICIPATION OF CHANGE IN CONTROL. An Executive's employment shall be deemed to have been terminated by the Company without Cause during the Coverage Period if his employment is terminated by the Company without Cause prior to a Change in Control or Potential Change in Control and such termination of employment (a) was at the request of a third party who had indicated an intention to take or had taken steps reasonably calculated to effect a Change in Control, or (b) otherwise arose in connection with or in anticipation of a Change in Control and (c) in either case, a Change in Control does occur which

may involve such third party (or a party competing with such third party to effectuate a Change in Control). An Executive shall be deemed to have terminated his employment for Good Reason during the Coverage Period if he terminates his employment with Good Reason prior to a Change in Control or Potential Change in Control if the circumstance or event which constitutes Good Reason (a) occurred at the request of a third party who had indicated an intention to take or had taken steps reasonably calculated to effect a Change in Control, or (b) otherwise arose in connection with or in anticipation of a Change in Control, and (c) in either case, a Change in Control does occur which may involve such third party (or a party competing with such third party to effectuate a Change in Control). In the event of a termination of employment described in this Section 8.1, the Executive shall be entitled to all payments and other benefits to which he would have been entitled had such termination occurred during the Coverage Period (other than salary pursuant to Subsection 3.1.1 hereof for any period after the actual date of termination) and he shall be entitled to an additional payment in an amount which shall compensate him to the extent that he was deprived by such termination of the opportunity prior to termination of employment to exercise any stock options granted to him under the KEIP (including any such stock options that were not exercisable at the time of his termination of employment) at the highest market price of the Company's Common Stock reached in connection with the Change in Control or Potential Change in Control if a Potential Change in Control shall occur and not be followed by a Change in Control within twelve (12) months of the Potential Change in Control. In the event that the termination of employment of an Executive as described in this Section 8.1 occurs following a Potential Change in Control or within six (6) months prior to a Change in Control, there shall be a presumption that clauses (a) and (b) of the first two sentences of this Section 8.1 shall have been met.

8.2 BURDEN. In any proceeding (regardless of who initiates such proceeding) in which the payment of Severance Benefits or other compensation or benefits under this Plan is at issue, (i) the burden of proof as to whether Cause exists for purposes of this Plan shall be upon the Company and (ii) in the event that the last sentence of Section 8.1 applies, the Company shall have the burden to prove, by clear and convincing evidence, that a termination of employment has not been made in anticipation of a Change in Control as contemplated by Section 8.1.

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

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

8.5 DEATH. This Plan shall inure to the benefit of and be enforceable by an Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees,

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

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

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

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

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

8.10 NO MITIGATION. The Company agrees that, if an Executive's employment by the Company is terminated during the Coverage Period, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to him by the Company pursuant to this Plan. Further, the amount of any payment or benefit provided for under this Plan (other than to the extent provided in Subsections 3.2.2 and 3.2.5) shall not be reduced by any compensation earned by him as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by him to the Company, or otherwise.

8.11 SUCCESSORS. In addition to any obligations imposed by law upon any successor to the Company, the Company shall be obligated to require any successor (whether direct or indirect, by purchase, merger, consolidation, operation of law, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such

succession shall entitle each Executive to compensation and benefits from the Company in the same amount and on the same terms as he would be entitled to hereunder if he were to terminate his employment for Good Reason during the Coverage Period.

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

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

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

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

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

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

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

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

ARTICLE 9  
TERMINATION WITHOUT CAUSE  
UNRELATED TO A POTENTIAL CHANGE IN  
CONTROL OR CHANGE IN CONTROL

9.1 Subject to the terms and conditions noted below, in the event Executive's employment with the Company is, or is deemed to be, terminated without cause (as defined below), regardless of whether a Potential Change in Control or Change in Control has occurred or is pending (such termination hereinafter is referred to as "Change in Status Event"); provided, however, any termination of an Executive's employment which results in such Executive being entitled to Severance Benefits pursuant to Section 3.2 shall not constitute a Change in Status Event and no Executive entitled to Severance Benefits pursuant to Section 3.2 shall in addition be entitled to the benefits provided for in this Section 9.1:

From and after the date of the Change in Status Event for a period of two years thereafter, the Company will continue Executive as an active employee on a paid leave of absence with benefit coverage, excluding disability coverage. Executive's base compensation during the paid leave of absence will equal his or her Annual Base Salary as defined in Section 1.2 (substituting "Change in Status Event" for "Change in Control") of Article 1 of this Group 3A Plan. Executive shall also remain a participant in the AIP during the paid leave of absence period and Executive's target percentage for AIP payment purposes will be that in effect just prior to the Change in Status Event, and Executive will be scored on the basis of the actual achievement of the Company's performance targets for AIP, but up to a maximum of 100%. Executive will additionally be entitled to payments for AIP and PSU grants for any previously deferred awards or any awards covering periods ending prior to the date of the Change in Status Event that have been earned but not yet paid prior to the date of the Change in Status Event.

9.1.1 During the above leave of absence: (a) Executive's stock options granted prior to the Change in Status Event will continue to vest in accordance with the vesting schedule(s) applicable under the terms of the grant(s), but (b) Executive will not be eligible to participate in or receive new grants or benefits under the LTIP and will not be eligible for participation in or the payment of benefits under the Executive Benefits Protection Plan (except for under this Article 9), the Employee Benefits Protection Plan, or the Severance Benefits Plan. If Executive meets the eligibility requirements of paragraph 3 of the Corporation's Supplemental Executive Retirement Plan (SERP) and elects to retire from employment with the Corporation during the leave of absence, Executive's paid leave of absence will cease and the Executive will be



treated for all purposes as a retiree in accordance with the terms of the SERP and the Corporation's other benefit plans.

9.2 Executive's voluntary resignation from the Company shall not constitute a Change in Status Event, and therefore will not entitle Executive to the benefits provided for in Section 9.1 above. In such event, Executive would be entitled to the benefits provided under the benefit plans of the Company to which Executive is entitled in accordance with the terms of those plans.

9.3 Termination of Executive's employment "without cause" for purposes of this Article 9 shall mean termination of employment by the Company not based on "cause" as defined in paragraph 2(a) of the SERP.

9.4 The severance arrangements of this Article 9 shall not be considered to constitute an employment contract. The terms and conditions of the Long-Term Incentive Program Participation Agreement and Mutual Agreement to Arbitrate Claims by and between Executive and the Company ("Participation and Arbitration Agreement"), are incorporated herein by reference and made a part hereof as if fully set forth herein. Notwithstanding any provisions to the contrary in the Participation and Arbitration Agreement, the terms and conditions thereof shall remain in effect for three years after Executive's Change in Status Event regardless of whether Executive is eligible or not to receive benefits under the SERP.

IN WITNESS WHEREOF, the Company has caused the Plan to be amended and restated as of the 19th day of August, 2002.

HERSHEY FOODS CORPORATION

By: /s/ Marcella K. Arline

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Marcella K. Arline

Senior Vice President, Human Resources

SCHEDULE I

EXECUTIVE BENEFITS PROTECTION PLAN  
GROUP 3A PARTICIPANTS

Chairman, President and Chief Executive Officer	R. H. Lenny
Senior Vice President, Human Resources	M. K. Arline
Vice President, Operations and Technology	R. Brace
Senior Vice President, Chief Financial Officer	F. Cerminara
Vice President, Chief Information Officer	G. F. Davis
Vice President, Chief Customer Officer	M. T. Matthews
Senior Vice President, General Counsel and Secretary	B. H. Snyder
Senior Vice President, Chief Marketing Officer	W. A. Willard
Senior Vice President, Business Planning and Development	D. J. West

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

For the Nine Months Ended  
September 29,      September 30,  
2002                      2001

**Earnings:**

Income before income taxes	\$ 431,687	\$ 419,560
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## Add (deduct):

Interest on indebtedness	48,224	54,233
Portion of rents representative of the interest factor (a)	11,133	11,506
Amortization of debt expense	345	348
Amortization of capitalized interest	3,055	3,165
	-----	-----
Earnings as adjusted	\$ 494,444	\$ 488,812
	=====	=====

**Fixed Charges:**

Interest on indebtedness	\$ 48,224	\$ 54,233
Portion of rents representative of the interest factor (a)	11,133	11,506
Amortization of debt expense	345	348
Capitalized interest	744	1,433
	-----	-----
Total fixed charges	\$ 60,446	\$ 67,520
	=====	=====

**Ratio of earnings to fixed charges**

	8.18	7.24
	=====	=====

## NOTE:

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