UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

Commission File Number 1-183

Registrant, State of Incorporation, Address and Telephone Number

HERSHEY FOODS CORPORATION

(a Delaware Corporation)

100 Crystal A Drive

Hershey, Pennsylvania 17033
(717) 534-6799

I.R.S. Employer Identification Number **23-0691590**

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

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

Securities registered pursuant to Section 12(g) of the Act: **Class B Common Stock, one dollar par value**

(Title of Class)

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

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

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

Common Stock, one dollar par value — $5,814,108,373 as of February 27, 2003.

Class B Common Stock, one dollar par value — $7,565,445 as of February 27, 2003. While the Class B Common Stock is not listed for public trading on any exchange or market system, shares of that class are convertible into shares of Common Stock at any time on a share-for-share basis. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on February 27, 2003.

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

Common Stock, one dollar par value — 102,132,277 shares, as of February 27, 2003.

Class B Common Stock, one dollar par value — 30,422,308 shares, as of February 27, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Annual Report to Stockholders for the year ended December 31, 2002 is included as Appendix A to the Corporation's Proxy Statement for the Corporation's 2003 Annual Meeting of Stockholders (the "Proxy Statement") and is incorporated by reference into Part II and filed as Exhibit 13 hereto. Portions of the Proxy Statement are incorporated by reference herein into Part III.

PART I

Item 1. BUSINESS

Hershey Foods Corporation and its subsidiaries (the "Corporation") are engaged in the manufacture, distribution and sale of confectionery and grocery products. The Corporation was organized under the laws of the State of Delaware on October 24, 1927, as a successor to a business founded in 1894 by Milton S. Hershey.

In June 2002, the Corporation completed the sale of a group of the Corporation's non-chocolate confectionery candy brands to Farley's & Sathers Candy Company, Inc. for $12.0 million in cash as part of its business realignment initiatives. Included in the transaction were the *HEIDE*, *JUJYFRUITS*, *WUNDERBEANS* and *AMAZIN' FRUIT* trademarked confectionery brands as well as the rights to sell *CHUCKLES* branded products, under license.

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

The Corporation manufactures confectionery products in a variety of packaged forms and markets them under more than 50 brands. The different packaged forms include various arrangements of the same bar products, such as boxes, trays and bags, as well as a variety of different sizes and weights of the same bar products, such as snack size, standard, king size, large and giant bars. Among the principal confectionery products in the United States are: *HERSHEY'S COOKIES 'N' CREME* candy bars, *HERSHEY'S HUGS* chocolates, *HERSHEY'S KISSES* chocolates, *HERSHEY'S KISSES* chocolates with almonds, *HERSHEY'S* chocolate bars, *HERSHEY'S* chocolate bars with almonds, *HERSHEY'S MINIATURES* chocolate bars, *HERSHEY'S NUGGETS* chocolates, *COOL BLAST* mints, *FAST BREAK* candy bars, *ICE BREAKERS* mints and chewing gum, *JOLLY RANCHER* candy, *KIT KAT* and *KIT KAT BIG KAT* wafer bars, *KRACKEL* chocolate bars, *MR. GOODBAR* chocolate bars, *REESE'S NUTRAGEOUS* candy bars, *REESE'S* peanut butter cups, *REESE'S PIECES* candies, *REESESTICKS* wafer bars, *SPECIAL DARK* chocolate bars and *SYMPHONY* chocolate bars. Other confectionery products include: *HERSHEY'S BITES* candies, *HERSHEY'S* classic caramels, *ALMOND JOY* candy bars, *BREATH SAVERS* mints, *BUBBLE YUM* bubble gum, *CARAMELLO* candy bars, *CAREFREE, CAREFREE KOOLERZ and FRUIT STRIPE* chewing gums, *GOOD & PLENTY* candy, *HEATH* toffee bars, *MILK DUDS* candy, *MOUNDS* candy bars, *PAYDAY* candy bars, *POT OF GOLD* boxed chocolates, *RAIN-BLO* gumballs, *ROLO* caramels in milk chocolate, *SKOR* toffee bars, *SUPER BUBBLE* bubble gum, *TASTETATIONS* candy, *TWIZZLERS* candy, *WHATCHAMACALLIT* candy bars, *WHOPPERS* malted milk balls, *YORK* peppermint pattie candy, *5TH AVENUE* candy bars and *ZERO* candy bars.

The Corporation also manufactures and/or markets grocery products in the baking, beverage, peanut butter and toppings categories. Principal products in the United States include *HERSHEY'S*, *REESE'S* and *HEATH* baking pieces, *HERSHEY'S* chocolate milk mix, *HERSHEY'S* cocoa, *HERSHEY'S CHOCOLATE SHOPPE* ice cream toppings, *HERSHEY'S HOT COCOA COLLECTION* hot cocoa mix, *HERSHEY'S* syrup and *REESE'S* peanut butter. *HERSHEY'S* chocolate and strawberry flavored milks are produced and sold under license by various dairies throughout the United States, using milk mixes manufactured by the Corporation. Baking and various other products are produced and sold under the *HERSHEY'S* and *REESE'S* brand names by third parties that have been granted licenses by the Corporation to use these trademarks.

Principal products in Canada include *CHIPITS* chocolate chips, *GLOSETTE* chocolate-covered raisins, peanuts and almonds, *OH HENRY!* candy bars, *POT OF GOLD* boxed chocolates, *REESE PEANUT BUTTER CUPS* candy and *TWIZZLERS* candy. The Corporation also manufactures, imports, markets, sells and distributes chocolate products in Mexico under the *HERSHEY'S* brand name.

The Corporation has license agreements with several companies to manufacture and/or sell products worldwide. Among the more significant are agreements with affiliated companies of Cadbury Schweppes p.l.c. to manufacture and/or market and distribute *YORK*, *PETER PAUL ALMOND JOY* and *PETER PAUL MOUNDS* confectionery products worldwide as well as *CADBURY* and *CARAMELLO* confectionery products in the United States. The Corporation's rights under these agreements are extendible on a long-term basis at the Corporation's option. The license for *CADBURY* and *CARAMELLO* products is subject to a minimum sales requirement that the Corporation exceeded in 2002. The Corporation also has an agreement with Societe des Produits Nestle SA, which licenses the

Corporation to manufacture and distribute *KIT KAT* and *ROLO* confectionery products in the United States. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option, subject to certain conditions, including minimum unit volume sales. In 2002, the minimum volume requirements were exceeded. The Corporation has an agreement with an affiliate of Huhtamäki Oy ("Huhtamaki") pursuant to which it licenses the use of certain trademarks, including *GOOD & PLENTY, HEATH, JOLLY RANCHER, MILK DUDS, PAYDAY* and *WHOPPERS* for confectionery products worldwide. The Corporation's rights under this agreement are extendible on a long-term basis at the Corporation's option.

The Corporation's products are sold primarily to grocery wholesalers, chain grocery stores, candy distributors, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, concessionaires and food distributors by full-time sales representatives, food brokers and part-time retail sales merchandisers throughout the United States, Canada and Mexico. The Corporation believes its products are sold in over 2 million retail outlets in North America. In 2002, sales to Wal-Mart Stores, Inc. and subsidiaries amounted to approximately 21 percent of the Corporation's total net sales.

The Corporation manufactures, imports, markets, sells and distributes chocolate products in Brazil under the HERSHEY'S brand name. Additional products in Brazil include *IO-IO* hazelnut crème items and chocolate and confectionery products sold under the *VISCONTI* brand name. In China, Japan, Korea and the Philippines, the Corporation imports and/or markets selected confectionery and grocery products. The Corporation also markets confectionery and grocery products in over 90 countries worldwide.

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

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

From time to time, the Corporation has changed the prices and weights of its products to accommodate changes in manufacturing costs, the competitive environment and profit objectives, while at the same time maintaining consumer value. The Corporation implemented an increase in the wholesale price of its domestic standard size, king size, variety pack, 6-pack and 10-pack lines effective January 1, 2003. The standard size increase was approximately 11 percent. The effect of all the increases translates into an approximate 3 percent increase over the entire domestic product line. The last standard candy bar price increase was implemented by the Corporation in December 1995.

The most significant raw material used in the production of the Corporation's chocolate products is cocoa beans. This commodity is imported principally from Far Eastern, West African and South American equatorial regions. West Africa accounts for approximately 70 percent of the world's crop. Cocoa beans are not uniform, and the various grades and varieties reflect the diverse agricultural practices and natural conditions found in the many growing areas. The Corporation buys a mix of cocoa beans and cocoa products to meet its manufacturing requirements.

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

Cocoa Futures Contract Prices
(cents per pound)

	1998	1999	2000	2001	2002
Annual Average................	72.7	48.8	37.9	47.1	76.9
High...............................	78.3	62.7	40.1	57.9	96.7
Low................................	65.5	39.6	34.4	41.5	60.3

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Cocoa market prices rose sharply during 2002 and this increase accelerated following a rebellion in the world's largest cocoa producing country, the Ivory Coast. Continued civil unrest in the Ivory Coast could result in further cocoa price increases. The Corporation's costs during 2003 and beyond will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans. The Corporation's costs for cocoa will increase substantially in 2004; however, the Corporation expects to achieve its long-term goals for growth and profitability by a combination of possible price increases and/or product weight changes, improved sales mix, supply chain cost reductions and strict control of other costs to offset potential cost increases and respond to changes in the competitive environment.

The Farm Security and Rural Investment Act of 2002, which is a six-year farm bill, impacts the prices of sugar, corn, peanuts and milk because it sets price support levels for these commodities.

The price of sugar, the Corporation's second most important commodity for its domestic chocolate and confectionery products, is subject to price supports under the above referenced farm legislation. Due to import quotas and duties imposed to support the price of sugar established by that legislation, sugar prices paid by United States users are currently substantially higher than prices on the world sugar market. The average wholesale list price of refined sugar, F.O.B. Northeast, has remained in a range of 25 ¢ to 32 ¢ per pound for the past ten years. U.S. peanut prices declined approximately 25 percent during the fourth quarter of 2002 due to a decrease in price support levels. Almond prices remained near normal levels throughout 2002. Milk prices decreased in 2002 as a result of increasing milk production. The Corporation believes that the supply of raw materials is adequate to meet its manufacturing requirements.

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

The primary effect on liquidity from using futures contracts is associated with margin requirements for futures contracts related to cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products. Cash outflows and inflows result from original margins which are "good faith deposits" established by futures exchanges to ensure that market participants will meet their contractual financial obligations. Additionally, variation margin payments and receipts are required when the value of open positions is adjusted to reflect daily price movements. The magnitude of such cash inflows and outflows is dependent upon price coverage levels and the volatility of the markets. Cash flows related to margin requirements were significant during 2002 as a result of unusual volatility in market prices, but historically, have not been material to the Corporation's total working capital requirements.

The Corporation manages the purchase of forward and futures contracts by developing and monitoring procurement strategies for each of its major commodities. These procurement strategies, including the use of futures contracts to hedge the pricing of cocoa, sugar, corn sweeteners, natural gas, transportation costs and certain dairy products, are directly linked to the overall planning and management of the Corporation's business, since the cost of raw materials, energy and transportation accounts for a significant portion of cost of sales. Procurement strategies with regard to cocoa, sugar and other major raw material requirements, energy requirements and transportation costs are developed by the analysis of fundamentals, including weather and crop analysis, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences, and by discussions with market analysts,

brokers and dealers. Procurement strategies are determined, implemented and monitored on a regular basis by senior management. Procurement activities for all major commodities are also reported to the Board of Directors on a regular basis.

Competition

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

Trademarks

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

Backlog of Orders

The Corporation manufactures primarily for stock and fills customer orders from finished goods inventories. While at any given time there may be some backlog of orders, such backlog is not material in respect to total annual sales, nor are the changes from time to time significant, aside from the third quarter of 1999 when a significant backlog of orders resulted from customer service and order fulfillment problems encountered during the start-up of new business systems and processes.

Research and Development

The Corporation engages in a variety of research activities. These principally involve development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Information concerning the Corporation's research and development expense is contained in Note 1 of the Corporation's Annual Report to Stockholders included as Appendix A to the Proxy Statement, which information is incorporated herein by reference and filed as Exhibit 13 hereto.

Regulation

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

Environmental Considerations

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

Employees

As of December 31, 2002, the Corporation had approximately 13,700 full-time and 1,700 part-time employees, of whom approximately 5,600 were covered by collective bargaining agreements. A reduction of approximately 500 full-time employees occurred during 2002 as a result of a voluntary work force reduction program. A collective bargaining agreement covering approximately 3,000 employees at two of the Corporation's principal plants in Hershey, Pennsylvania expired in November 2001. On February 27, 2002, the employees voted not to ratify a new contract offer, despite recommendations by their union negotiating committee and executive board to approve the new contract. On April 17, 2002, the employees voted again not to ratify an amended contract offer following the rejection of that offer by the union negotiating committee. The Corporation and union representatives continued negotiations with the assistance of a federal mediator, but no settlement was reached and the employees went on strike beginning April 26, 2002. The strike ended on June 6, 2002, when the employees voted to ratify a new contract, with employees returning to work beginning on June 8, 2002. The work stoppage did not have a material impact on the Corporation's results of operations for 2002. The Corporation considers its employee relations to be good.

Financial Information by Geographic Area

Information concerning the Corporation's geographic segments is contained in Note 18 of the Corporation's Annual Report to Stockholders included as Appendix A to the Proxy Statement, which information is incorporated herein by reference and filed as Exhibit 13 hereto.

Available Information

The Corporation makes its periodic and current reports electronically available, free of charge, on its Internet site as soon as reasonably practicable after such material is filed with the Securities and Exchange Commission. You may access this information at the Corporation's Internet site (http://www.hersheys.com).

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 that, 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 "intend," "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; customer and consumer response to selling price increases; changes in governmental laws and regulations, including taxes; market demand for new and existing products; changes in raw material and other costs; pension cost factors, such as actuarial assumptions and employee retirement decisions; and the Corporation's ability to implement improvements to and reduce costs associated with the Corporation's supply chain.

Item 2. PROPERTIES

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

UNITED STATES

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

CANADA

Smiths Falls, Ontario - confectionery and grocery products

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

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

Item 3. LEGAL PROCEEDINGS

In January 1999, the Corporation received a Notice of Proposed Deficiency (Notice) from the Internal Revenue Service (IRS) related to the years 1989 through 1996. The Notice pertained to the Corporate Owned Life Insurance (COLI) program that was implemented by the Corporation in 1989. The IRS disallowed the interest expense deductions associated with the underlying life insurance policies. The total deficiency of $61.2 million, including interest, was paid to the IRS in September 2000 to eliminate further accruing of interest. Effective October 1, 2001, the Corporation negotiated a settlement with the IRS regarding the Notice. The resulting Closing Agreement with the IRS limited the COLI interest expense deductions for all applicable tax years and resulted in the surrender of all insurance

policies, thereby ending the COLI program. The settlement is a complete resolution of all federal and state tax aspects of this program. The Corporation has no other material pending legal proceedings, other than ordinary routine litigation incidental to its business.

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

Not applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY

Information concerning the principal United States trading market for, market prices of and dividends on the Corporation’s Common Stock and Class B Common Stock, and the approximate number of stockholders, may be found in the section entitled “Market Prices and Dividends” on page A-20 of the Corporation’s Annual Report to Stockholders included as Appendix A to the Proxy Statement, incorporated herein by reference and filed as Exhibit 13 hereto.

Item 6. SELECTED FINANCIAL DATA

The following information, for the five years ended December 31, 2002, found in the section entitled “Six-Year Consolidated Financial Summary” on page A-59 of the Corporation’s Annual Report to Stockholders included as Appendix A to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto: Net Sales; Net Income; Earnings Per Share - Basic and - Diluted; Dividends Paid on Common Stock (and related Per Share amounts); Dividends Paid on Class B Common Stock (and related Per Share amounts); Long-term Portion of Debt; and Total Assets.

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

The section entitled “Management’s Discussion and Analysis,” found on pages A-1 through A-22 of the Corporation’s Annual Report to Stockholders included as Appendix A to the Proxy Statement, is incorporated herein by reference and filed as Exhibit 13 hereto.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited consolidated financial statements of the Corporation and its subsidiaries are found at the indicated pages in the Corporation’s Annual Report to Stockholders included as Appendix A to the Proxy Statement, and such financial statements, along with the Independent Auditors’ Report thereon, are incorporated herein by reference and filed as Exhibit 13 hereto.

1. Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000. (Page A - 23)
2. Consolidated Balance Sheets as of December 31, 2002 and 2001. (Page A - 24)
3. Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000. (Page A - 25)
4. Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000. (Page A - 26)
5. Notes to Consolidated Financial Statements (Pages A-27 through A-55), including "Quarterly Data (Unaudited)." (Page A - 55)
6. Independent Auditors' Report. (Page A - 57)
7. Report of Predecessor Auditor (Arthur Andersen LLP). (Page A - 58)

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

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Executive Officers of the Corporation as of February 27, 2003

Name	Age	Positions Held During the Last Five Years
R. H. Lenny (1)	51	Chairman of the Board, President and Chief Executive Officer (2002); President and Chief Executive Officer (2001)
M. K. Arline	50	Senior Vice President, Human Resources and Corporate Affairs (2002); Senior Vice President, Human Resources (2002); Vice President, Human Resources (2001); Vice President, Quality and Regulatory Compliance (1999); Director, Quality and Regulatory Compliance (1997)
F. Cerminara	54	Senior Vice President, Chief Financial Officer (2001); Vice President, Chief Financial Officer and Treasurer (2000); Vice President, Procurement (1994)
B. H. Snyder	55	General Counsel, Secretary, and Senior Vice President, International (2002); Senior Vice President - Public Affairs, General Counsel and Secretary (2002); Vice President and Assistant General Counsel (2000); Assistant General Counsel (1993)
D. J. West (2)	39	Senior Vice President, Sales (2002); Senior Vice President, Business Planning and Development (2002); Vice President, Business Planning and Development (2001)
R. Brace	59	Vice President, Operations and Technology (2002); Vice President, Conversion and Procurement (2000); Senior Vice President, Operations (1999); Vice President, Operations (1997)
G. F. Davis (3)	54	Vice President, Chief Information Officer (2000)
D. N. Eshleman	48	Vice President, Strategy and Innovation (2002); Vice President Marketing, Brand Integration (2002); Vice President Marketing, New Products (2000); Vice President Marketing, Grocery Products (1999); Vice President Marketing, Hershey Pasta and Grocery Division (1996)
D. W. Tacka	49	Vice President, Corporate Controller and Chief Accounting Officer (2000); Corporate Controller and Chief Accounting Officer (1995)

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

(1) Mr. Lenny was elected President and Chief Executive Officer effective March 12, 2001. Prior to joining the Corporation he was Group Vice President, Kraft Foods, Inc. and President, Nabisco Biscuit and Snacks (2001); President, Nabisco Biscuit Company (1998).

(2) Mr. West was elected Vice President, Business Planning and Development effective May 30, 2001. Prior to joining the Corporation he was Senior Vice President Finance, Kraft Foods – Nabisco Biscuit, Confectionery and Snacks (2001); Senior Vice President and Chief Financial Officer, Nabisco Biscuit Company (1999); Vice President, Strategic Planning, Nabisco Holdings Corporation (1998).

(3) Mr. Davis was elected Vice President, Chief Information Officer effective December 14, 2000. Prior to joining the Corporation Mr. Davis was Vice President – Global Infrastructure Services, Computer Sciences Corporation (2000); Director – Global Infrastructure Services, Computer Sciences Corporation (1999); Executive Director – Global Infrastructure and Financial Systems, Pratt and Whitney (1998).

Executive Officers are generally elected each year at the organization meeting of the Board of Directors in April.

Reporting of any inadvertent late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth in the section of the Proxy Statement entitled “Section 16(a) Beneficial Ownership Reporting Compliance.” This information is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information concerning compensation of each of the named executive officers, including those persons who held the position of Chief Executive Officer of the Corporation during 2002, and compensation of directors, is set forth in the sections entitled “2002 Executive Compensation” and “Directors’ Compensation” in the Proxy Statement. This information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) Information concerning ownership of the Corporation’s voting securities by certain beneficial owners, individual nominees for director and by executive officers, including the Chief Executive Officer and the four most highly compensated executive officers other than the Chief Executive Officer, is set forth in the section “Voting Securities” in the Proxy Statement. This information is incorporated herein by reference.

(b) The following table provides information about the Corporation’s common stock that may be issued under equity compensation plans as of December 31, 2002:

EQUITY COMPENSATION PLAN INFORMATION

	(a)	(b)	(c)
			Number of securities

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders (1)	6,514,229	$52.84	7,608,693
Equity compensation plans not approved by security holders (2)	450,333	$54.82	1,193,036
Total	6,964,562	$52.97	8,801,729

(1) Column (a) includes stock options granted under the stockholder-approved Key Employee Incentive Plan (KEIP). The securities available for future issuance in column (c) are not allocated to any specific type of award under the KEIP, but are available generally for future awards of stock options, performance stock units ("PSUs"), restricted stock units ("RSUs") and dividend equivalent units on RSUs granted under the KEIP.

(2) Column (a) includes 219,633 stock options granted under the Hershey Foods Corporation Broad Based Stock Option Plan, also referred to as HSY Growth. HSY Growth provided all eligible employees with a one-time grant of 100 non-qualified stock options that were granted outside of the KEIP under a separate registration statement. Under HSY Growth over 1,235,700 stock options were granted on January 7, 1997 with an exercise price of $44.50, which equates to 100% of the fair market value of the Corporation's Common Stock on the date of grant. The stock options vested at the end of five years and had a maximum term of ten years from the date of grant. Column (c) includes 1,092,700 HSY Growth stock options remaining available for future issuance.

Column (a) also includes 230,700 stock options granted to R.H. Lenny outside of the KEIP under a separate registration statement. All of the options available for issuance under the registration statement have been granted. The stock options were granted on March 12, 2001 with an exercise price of $64.65, which equates to 100% of the fair market value of the Corporation's Common Stock on the date of grant (determined as the closing price on the business day immediately preceding the date the stock options were granted). The stock options are subject to a four-year step vesting requirement of 25% per year and have a ten-year term.

Column (c) also includes 100,336 shares remaining available for future issuance under the Directors' Compensation Plan. The Directors' Compensation Plan is designed to attract and retain qualified non-employee directors and to align the interests of non-employee directors with those of the stockholders by paying a portion of their compensation in units representing shares of Common Stock. Directors who are employees of the Corporation receive no remuneration for their services as directors. RSUs are granted quarterly to each director on the first day of January, April, July, and October on the basis of the number of shares of Common Stock, valued at the average closing price on the New York Stock Exchange of the Common Stock on the last three trading days preceding the grant, equal to $10,000. While the value of the annual RSU grant is targeted at $40,000, the actual value of the grant may be higher or lower depending upon the performance of the Common Stock following the grant dates. A director's RSUs will vest and be distributed upon his or her retirement from the Board. Directors may elect to receive all or a portion of their retainer in cash or Common Stock, although committee chair fees are paid only in cash. A director may defer receipt of the retainer and committee chair fees until his or her retirement from the Board.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Item 14. 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.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Item 15(a)(1): Financial Statements

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

Item 15(a)(2): Financial Statement Schedule

The following consolidated financial statement schedule of the Corporation and its subsidiaries for the years ended December 31, 2002, 2001 and 2000 is filed herewith on the indicated page in response to Item 15(d):

Schedule II — Valuation and Qualifying Accounts (Page 18)

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

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

Item 15(a)(3): Exhibits

The following items are attached or incorporated by reference in response to Item 15(c):

(3) Articles of Incorporation and By-laws

The Corporation’s Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Corporation’s Quarterly Report on Form 10-Q for the quarter ended April 3, 1988. The By-laws, as amended and restated as of December 1, 1998, are incorporated by reference from Exhibit 3 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

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

a. Stockholder Protection Rights Agreement between Hershey Foods Corporation and Mellon Investor Services LLC, as Rights Agent, dated December 14, 2000, is incorporated by reference from Exhibit 4.1 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

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

1) 6.7% Notes due 2005

2) 6.95% Notes due 2007

3) 6.95% Notes due 2012

4) 8.8% Debentures due 2021

5) 7.2% Debentures due 2027

6) Other Obligations

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

(10) Material contracts

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

reference from Exhibit 19 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 1990.

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

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

d. The Amended and Restated 364-Day Credit Agreement among Hershey Foods Corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof, and Citibank, N.A. as administrative agent, Bank of America, N.A. as syndication agent, and Salomon Smith Barney Inc. and Banc America Securities LLC, as joint lead arrangers and joint book managers, incorporated by reference from Exhibit 10.1 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001, was amended and renewed as of November 26, 2002, pursuant to the agreement attached hereto and filed as Exhibit 10.1.

e. The Amended and Restated Five-Year Credit Agreement among Hershey Foods Corporation, the banks, financial institutions and other institutional lenders listed on the signature pages thereof, and Citibank, N.A. as administrative agent, Bank of America, N.A. as syndication agent, and Salomon Smith Barney Inc. and Banc America Securities LLC, as joint lead arrangers and joint book managers, is incorporated by reference from Exhibit 10.2 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

f. Trademark and Technology License Agreement between Huhtamaki and Hershey Foods Corporation dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Corporation’s Current Report on Form 8-K dated February 26, 1997. This agreement was assigned by the Corporation to its wholly owned subsidiary, Hershey Chocolate & Confectionery Corporation. The agreement was amended and restated in 1999 and the Amended and Restated Trademark and Technology License Agreement is incorporated by reference from Exhibit 10.2 to the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

Executive Compensation Plans and Management Contracts

g. Hershey Foods Corporation’s Amended and Restated Key Employee Incentive Plan is incorporated by reference from Exhibit 10.1 to the Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 29, 2002.

h. Hershey Foods Corporation’s Amended and Restated Deferred Compensation Plan is incorporated by reference from Exhibit 10.2 to the Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 29, 2002.

i. Hershey Foods Corporation’s Amended and Restated Supplemental Executive Retirement Plan is incorporated by reference from Exhibit 10.3 to the Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 29, 2002.

j. Hershey Foods Corporation's Amended and Restated Directors' Compensation Plan is attached hereto and filed as Exhibit 10.2.

k. Hershey Foods Corporation’s Executive Benefits Protection Plan (Group 3A), as amended, covering certain of its executive officers, is incorporated by reference from Exhibit 10.4 to the Corporation’s quarterly report on Form 10-Q for the quarter ended September 29, 2002.

l. The Separation Agreement and General Release entered into effective December 6, 2002 between Hershey Foods Corporation and Wynn A. Willard is attached hereto and filed as Exhibit 10.3.

m. The Executive Employment Agreement between Hershey Foods Corporation and Richard H. Lenny, dated March 12, 2001, is incorporated by reference from Exhibit 10.2 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended April 1, 2001.

Broad Based Equity Compensation Plans

n. Hershey Foods Corporation's Broad Based Stock Option Plan, as amended, is attached hereto and filed as Exhibit 10.4.

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

A computation of ratio of earnings to fixed charges for the fiscal years ended December 31, 2002, 2001, 2000, 1999 and 1998 is attached hereto and filed as Exhibit 12.

(13) Annual report to security holders

The Corporation’s Annual Report to Stockholders is included as Appendix A to the Proxy Statement and is attached hereto and filed as Exhibit 13.

(21) Subsidiaries of the Registrant

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

(23) Independent Auditors' Consent

The consent dated March 26, 2003 to the incorporation of reports of the Corporation’s Independent Auditors is attached hereto and filed as Exhibit 23.

(99) Additional exhibit

The Certification of Richard H. Lenny, Chief Executive Officer, and Frank Cerminara, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, accompanies this report and is furnished as Exhibit 99.

Item 15(b): Reports on Form 8-K

A Current Report on Form 8-K was furnished to the SEC on February 11, 2003, in connection with the Corporation’s announcement that 2003 pension expense was expected to be $12 million higher than previously disclosed.

A Current Report on Form 8-K was furnished to the SEC on January 29, 2003, in connection with the Corporation’s announcement of sales and earnings for the fourth quarter and full year ended December 31, 2002.

A Current Report on Form 8-K was furnished to the SEC on January 2, 2003, in connection with the Corporation’s announcement that J. Robert Hillier resigned from the Company’s Board of Directors effective December 31, 2002.

A Current Report on Form 8-K was furnished to the SEC on December 12, 2002, in connection with the Corporation's announcement (i) that its Board of Directors had approved an authorization to acquire, from time to time in open market or through privately negotiated transactions, up to $500 million of the Corporation's Common Stock; and (ii) that it had contributed $150 million from free cash flow to its domestic pension plans in order to improve the funded status of the plans in view of the weak stock market performance during 2002.

A Current Report on Form 8-K was furnished to the SEC on December 10, 2002, in connection with the Corporation's announcement that Wynn A. Willard would resign as Senior Vice President, Chief Marketing Officer effective December 31, 2002.

A Current Report on Form 8-K was furnished to the SEC on December 9, 2002, in connection with the Corporation's announcement that it would hold a meeting with analysts in Hershey, Pennsylvania on December 13, 2002.

A Current Report on Form 8-K was furnished to the SEC on November 12, 2002, in connection with the Corporation's announcement that Richard H. Lenny, Chief Executive Officer of Hershey Foods Corporation (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. §1350.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 26 th day of March, 2003.

HERSHEY FOODS CORPORATION
(Registrant)

By: /s/ F. CERMINARA

F. Cerminara
Senior Vice President, Chief Financial Officer

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

Signature	Title	Date
/s/ R. H. LENNY (R. H. Lenny)	Chief Executive Officer and Director	March 26, 2003
/s/ F. CERMINARA (F. Cerminara)	Chief Financial Officer	March 26, 2003
/s/ D. W. TACKA (D. W. Tacka)	Chief Accounting Officer	March 26, 2003
/s/J. A. BOSCIA (J. A. Boscia)	Director	March 26, 2003
/s/ R. H. CAMPBELL (R. H. Campbell)	Director	March 26, 2003
/s/ G. P. COUGHLAN (G. P. Coughlan)	Director	March 26, 2003
/s/ B. G. HILL (B. G. Hill)	Director	March 26, 2003
/s/ J. C. JAMISON (J. C. Jamison)	Director	March 26, 2003

Signature	Title	Date

/s/ M. J. MCDONALD	Director	March 26, 2003
(M. J. McDonald)		
/s/ J. M. PIETRUSKI	Director	March 26, 2003
(J. M. Pietruski)		

CERTIFICATION

I, Richard H. Lenny, certify that:

1. I have reviewed this annual report on Form 10-K of Hershey Foods Corporation;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the “Evaluation Date”); and

   c) presented in this annual 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 annual report whether 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: March 26, 2003

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

CERTIFICATION

I, Frank Cerminara, certify that:

1. I have reviewed this annual report on Form 10-K of Hershey Foods Corporation;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the “Evaluation Date”); and

c) presented in this annual 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 annual report whether 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: March 26, 2003

/s/ FRANK CERMINARA
Frank Cerminara
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Hershey Foods Corporation:

Under date of January 29, 2003, we reported on the consolidated balance sheet of Hershey Foods Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended, which are included in Hershey Foods Corporation's Proxy Statement for its 2003 Annual Meeting of Stockholders incorporated by reference in this Form 10-K. In connection with our audit of the aforementioned consolidated financial statements, we also audited the schedule listed on page 18 in Item 15(a)(2). This financial statement schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/KPMG LLP

New York, New York
January 29, 2003

REPORT OF PREDECESSOR AUDITOR (ARTHUR ANDERSEN LLP)

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. This report applies to supplemental Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2001 and December 31, 2000.

To Hershey Foods Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Hershey Foods Corporation's Proxy Statement for its 2002 Annual Meeting of Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 22, 2002. Our audit was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedule listed on page 15 in Item 14(a)(2) is the responsibility of the Corporation's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ARTHUR ANDERSEN LLP

New York, New York
January 22, 2002

Schedule II

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2002, 2001 and 2000

(in thousands of dollars)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts (a)	Deductions from Reserves	Balance at End of Period
Year Ended December 31,2002:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply:					
Accounts Receivable - Trade	$ 15,958	$ 6,414	$ 3,023	$ (8,871)	$16,524
Year Ended December 31,2001:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply:					
Accounts Receivable - Trade	$ 16,004	$ 8,450	$ 3,299	$ (11,795)	$15,958
Year Ended December 31,2000:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply:					
Accounts Receivable - Trade	$ 16,941	$ 8,531	$ 1,362	$ (10,830)	$16,004

(a) Includes recoveries of amounts previously written off.

EXHIBIT 10.1

EXECUTION COPY

AMENDED AND RESTATED 364-DAY CREDIT AGREEMENT

Dated as of November 26, 2002

HERSHEY FOODS CORPORATION, a Delaware corporation (the "COMPANY"), the banks, financial institutions and other institutional lenders (collectively, the "INITIAL LENDERS") party hereto, CITIBANK, N.A., as administrative agent (together with any successor thereto appointed pursuant to Article VII of the Existing Credit Agreement referred to below, the "AGENT") for the Lenders (as defined in the Existing Credit Agreement referred to below), BANK OF AMERICA, N.A., as syndication agent, and SALOMON SMITH BARNEY INC. and BANC OF AMERICA SECURITIES LLC, as joint lead arrangers and joint book managers, hereby agree as follows:

PRELIMINARY STATEMENTS

(1) The Company is party to an Amended and Restated 364-Day Credit Agreement dated as of November 27, 2001 (as amended, supplemented or otherwise modified from time to time to (but not including) the date of this Amendment and Restatement, the "EXISTING CREDIT AGREEMENT") with the banks, financial institutions and other institutional lenders party thereto and Citibank, N.A., as Agent for the Lenders and such other lenders. Capitalized terms not otherwise defined in this Amendment and Restatement shall have the same meanings as specified in the Existing Credit Agreement.

(2) The parties to this Amendment and Restatement desire to amend the Existing Credit Agreement as set forth herein and to restate the Existing Credit Agreement in its entirety to read as set forth in the Existing Credit Agreement with the following amendments.

(3) The Company has requested that the Lenders agree to extend credit to it from time to time in an aggregate principal amount of up to $200,000,000 for general corporate purposes of the Company and its Subsidiaries not otherwise prohibited under the terms of this Amendment and Restatement. The Lenders have indicated their willingness to agree to extend credit to the Company from time to time in such amount on the terms and conditions of this Amendment and Restatement.

SECTION 1. AMENDMENTS TO THE EXISTING CREDIT AGREEMENT. The Existing Credit Agreement is, effective as of the date of this Amendment and Restatement and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) Section 1.01 is hereby amended by deleting the definitions of "Applicable Margin", "Lenders" and "Termination Date" set forth therein and replacing them, respectively, with the following new definitions thereof:

"APPLICABLE MARGIN" means (a) for Base Rate Advances, 0% per annum and (b) for Eurodollar Rate Advances, as of any date, a percentage per annum determined by reference to the Level in effect on such date as set forth below:

Level	Applicable Margin for Eurodollar Rate Advances Prior to the Termination Date	Applicable Margin for Eurodollar Rate Advances On and After the Termination Date
Level 1	0.150%	0.400%
Level 2	0.190%	0.440%
Level 3	0.280%	0.530%
Level 4	0.370%	0.620%
Level 5	0.445%	0.695%
Level 6	0.600%	0.850%

"LENDERS" means, collectively, each of the banks, financial institutions and other institutional lenders listed on Schedule I hereto, each Assuming Lender that shall become a party hereto pursuant to Section 2.05(c) and each Eligible Assignee that shall become a party hereto pursuant to Section 9.07.

"TERMINATION DATE" means the earlier of (a) November 25, 2003 or, if the Termination Date is extended pursuant to Section 2.18(a), the date to which the Termination Date is extended pursuant to Section 2.18(a), and (b) the date of termination in whole of the Commitments pursuant to Section 2.05(a), 2.05(b) or 6.01.

(b) Section 2.01(a) is amended by replacing the words "the signature pages hereof" with the words "Schedule I hereto".

(c) Section 4.01(e) is amended (i) by replacing the date "December 31, 2000" with the date "December 31, 2001" and (ii) by replacing the date "July 1, 2001" with the date "June 30, 2002".

(d) Schedule I is deleted in its entirety and replaced with Schedule I to this Amendment and Restatement.

SECTION 2. CONDITIONS OF EFFECTIVENESS OF THIS AMENDMENT AND RESTATEMENT. This Amendment and Restatement shall become effective as of the date first above written (the "RESTATEMENT EFFECTIVE DATE") when and only if:

(a) The Agent shall have received counterparts of this Amendment and Restatement executed by the Company and all of the Initial Lenders or, as to any of the Initial Lenders, advice satisfactory to the Agent that such Initial Lender has executed this Amendment and Restatement.

(b) On the Restatement Effective Date, the following statements shall be true and the Agent shall have received for the account of each Lender a certificate signed by a duly authorized officer of the Company, dated the Restatement Effective Date, stating that:

(i) The representations and warranties of the Company contained in Section 4.01 of the Existing Credit Agreement, as amended hereby, are correct on and as of the Restatement Effective Date, and

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

(c) The Agent shall have received on or before the Restatement Effective Date the following, each dated such date and (unless otherwise specified below) in form and substance satisfactory to the Agent and in sufficient copies for each Initial Lender:

(i) The Revolving Credit Notes of the Company to the order of the Lenders, respectively, to the extent requested by any Lender pursuant to Section 2.19 of the Existing Credit Agreement.

(ii) Certified copies of the resolutions of the Board of Directors of the Company approving this Amendment and Restatement (including the Commitment Increase contemplated by Section 2.05(c) of the Existing Credit Agreement) and the Notes of the Company, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and Restatement and such Notes.

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

(iv) A favorable opinion of Burton H. Snyder, Senior Vice President and General Counsel of the Company, substantially in the form of Exhibit H to the Existing Credit Agreement but with such modifications as are required to address the Existing Credit Agreement, as amended by this Amendment and Restatement in form and substance reasonably satisfactory to the Initial Lenders.

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

(vi) Such other approvals, opinions or documents as any Lender, through the Agent, may reasonably request prior to the Effective Date.

SECTION 3. REFERENCE TO AND EFFECT ON THE EXISTING CREDIT AGREEMENT AND THE NOTES. (a) On and after the effectiveness of this Amendment and Restatement, each reference in the Existing Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Existing Credit Agreement, shall mean and be a reference to the Existing Credit Agreement, as amended by this Amendment and Restatement.

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

(c) Without limiting any of the other provisions of the Existing Credit Agreement, as amended by this Amendment and Restatement, any references in the Existing Credit Agreement to the phrases "on the date hereof", "on the date of this Agreement" or words of similar import shall mean and be a reference to the Restatement Effective Date.

SECTION 4. COSTS AND EXPENSES. The Company agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment and Restatement, the Notes and the other documents to be delivered hereunder (including, without limitation, the reasonable and documented fees and expenses of counsel for the Agent with respect hereto and thereto) in accordance with the terms of Section 9.04 of the Existing Credit Agreement.

SECTION 5. EXECUTION IN COUNTERPARTS. This Amendment and Restatement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment and Restatement by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment and Restatement.

SECTION 6. GOVERNING LAW. This Amendment and Restatement shall be governed by, and construed in accordance with, the laws of the State of New York.

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

HERSHEY FOODS CORPORATION

By: /s/ Frank Cerminara

Title: Senior Vice President, Chief Financial Officer

By: /s/ R. Montgomery Garrabrant

Title: Vice President and Treasurer

CITIBANK, N.A.,
as Administrative Agent

By: /s/ Robert J. Kane

Title: Director and Vice President

LENDERS

CITIBANK, N.A.

By: /s/ Robert J. Kane

Title: Director and Vice President

BANK OF AMERICA, N.A.

By: /s/ Bill Sweeney

Title: Managing Director

UBS AG, STAMFORD BRANCH

By: /s/ Luke Goldsworthy

Title: Associate Director

By: /s/ Wilfred V. Saint

Title: Associate Director

MELLON BANK, N.A.

By: /s/ Donald Cassidy

Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Robert J. Giannone

Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ William W. McGinty

Title: Director

By: /s/ Thomas A. Foley

Title: Vice President

CIBC, INC.

By: /s/ Dominic J. Sorresso

Title: Executive Director

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ George M. Scott

Title: Vice President

BANCO POPULAR DE PUERTO RICO

By: /s/ Hector J. Gonzalez

Title: Vice President

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ Leo E. Pagarigan

Title: Senior Vice President

SCHEDULE I TO THE AMENDMENT AND RESTATEMENT

COMMITMENTS AND APPLICABLE LENDING OFFICES

Name of Initial Lender	Commitment	Domestic Lending Office	Eurodollar Lending Office
BANCO POPULAR DE PUERTO RICO, NEW YORK BRANCH	$10,000,000	7 West 51st - 2nd Floor New York, NY 10019 Attn: Hector J. Gonzalez T: (212) 445-1988 F: (212) 245-4677	7 West 51st - 2nd Floor New York, NY 10019 Attn: Hector J. Gonzalez T: (212) 445-1988 F: (212) 245-4677
BANK OF AMERICA, N.A.	$40,000,000	901 Main Street, 14th Floor Dallas, TX 75202 Attn: Sam Brown T: (214) 209-9262 F: (214) 290-9519	901 Main Street, 14th Floor Dallas, TX 75202 Attn: Sam Brown T: (214) 209-9262 F: (214) 290-9519
CIBC, Inc.	$10,000,000	425 Lexington Avenue New York, NY 10017 Attn: Dominic Sorresso T: (212) 856-4133 F: (212) 856-3991	11 Madison Avenue 20th Floor New York, NY 10017 Attn: Judy Dornkowski T: (212) 856-3509 F: (212) 885-4995
CITIBANK, N.A.	$40,000,000	Two Penns Way New Castle, DE 19720 Attn: T: (302) F: (302)	Two Penns Way New Castle, DE 19720 Attn: T: (302) F: (302)
DEUTSCHE BANK AG, NEW YORK BRANCH	$10,000,000	90 Hudson Street, Mailstop JCY05-0511 Jersey City, NJ 07302 Attn: Carmen L. Melendez T: (201) 593-2224 F: (201)-593-2313/2314	90 Hudson Street, Mailstop JCY05-0511 Jersey City, NJ 07302 Attn: Carmen L. Melendez T: (201) 593-2224 F: (201)-593-2313/2314
MELLON BANK, N.A.	$25,000,000	3 Mellon Bank Center, 12th Floor Pittsburgh, PA 15259 Attn: Sannford M. Richards T: 412-234-8285 F: 412-209-6118	3 Mellon Bank Center, 12th Floor Pittsburgh, PA 15259 Attn: Sannford M. Richards T: 412-234-8285 F: 412-209-6118
PNC BANK, NATIONAL ASSOCIATION	$10,000,000	1600 Market Street MS F2 F07021 5 Philadelphia, PA 19103 Attn: Robert F. Giannone T: (215) 585-7630 F: (215) 585-6987	1600 Market Street MS F2 F07021 5 Philadelphia, PA 19103 Attn: Robert F. Giannone T: (215) 585-7630 F: (215) 585-6987

SUMITOMO MITSUI BANKING CORPORATION	$10,000,000	277 Park Avenue New York, NY 10172 Attn: Tracey Watson T: (212) 224-4393 F: (212) 224-5197	277 Park Avenue New York, NY 10172 Attn: Tracey Watson T: (212) 224-4393 F: (212) 224-5197
UBS AG, STAMFORD BRANCH	$35,000,000	677 Washington Blvd. Stamford, CT 06901 Attn: Johny Villard T: (203) 719-3845 F: (203) 719-3888	677 Washington Blvd. Stamford, CT 06901 Attn: Johny Villard T: (203) 719-3845 F: (203) 719-3888
WACHOVIA BANK, NATIONAL ASSOCIATION	$10,000,000	301 South College Street, CP-17 Charlotte, NC 28288-1183 Attn: Dianne Taylor T: 704-715-1876 F: 704-383-7999	301 South College Street, CP-17 Charlotte, NC 28288-1183 Attn: Dianne Taylor T: 704-715-1876 F: 704-383-7999
TOTAL OF COMMITMENTS	$200,000,000		

HERSHEY FOODS CORPORATION

DIRECTORS' COMPENSATION PLAN

(Amended and Restated as of December 3, 2002)

1

PURPOSE

The purposes of the Directors' Compensation Plan ("Plan") are to provide Directors of Hershey Foods Corporation ("Corporation") with payment alternatives for the retainer and fees payable for services as members of the Board of Directors ("Board") of the Corporation or as a chair of any committee thereof (together, "Director Fees"), to provide Directors the opportunity to elect to receive all or a portion of the retainer in Deferred Stock Units ("DSUs"), each representing an obligation of the Corporation to issue one share of Common Stock of the Corporation, $1.00 par value per share ("Common Stock"), and to promote the identification of interests between such Directors and the stockholders of the Corporation by paying a portion of each Director's compensation in Restricted Stock Units ("RSUs"), each RSU representing an obligation of the Corporation to issue one share of Common Stock.

2

ELIGIBILITY

Any Director of the Corporation who is not an employee of the Corporation or any of its subsidiaries shall be eligible to participate in the Plan. Except as the context may otherwise require, references in this Plan to a "Director" shall mean only those directors of the Company who are participants in the Plan.

3

PAYMENT

(a) DIRECTOR FEES. A Director shall be entitled to Director Fees, in such amounts as shall be determined by the Board, for services on the Board and as a chair of any committee of the Board. Directors may elect to have all or any portion of the cash retainer paid in shares of Common Stock. Fees payable for services as a chair of any committee of the Board shall be payable currently only in cash. Any shares of Common Stock payable under this Section 3(a) shall be paid by the issuance to the Director of a number of shares of Common Stock equal to the cash amount of the retainer so payable divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof. Any fractional share of Common Stock resulting from such payment shall be rounded to the nearest whole share. The Corporation shall issue share certificates to the Director for the shares of Common Stock acquired or, if requested in writing by the Director and permitted under such plan, the shares acquired shall be added to the Director's account under the Corporation's Automatic Dividend Reinvestment Plan. As of the date on which the part or whole of the retainer is payable in shares of Common Stock, the Director shall be a stockholder of the Corporation with respect to such shares. Unless otherwise elected in Section 4, any remaining Director Fees shall be payable in cash.

(b) RESTRICTED STOCK UNITS. A Director shall also be entitled to receive RSUs, in such amounts as shall be determined by the Board, for services on the Board. Beginning October 1, 2001 and thereafter, unless otherwise directed by the Board, RSUs having a value of $10,000 (or such other amount as the Board shall from time to time determine) shall be awarded to each Director on the first day of October, January, April, and July. The number of full and fractional RSUs so awarded shall be determined by dividing $10,000 (or such other amount) by the average of the per share closing price of the Common Stock on the New York Stock Exchange as published in THE WALL STREET JOURNAL (or such other reliable publication as the Board or its delegates may determine) for the last three trading days of the month preceding the date of the award. Directors whose membership on the Board commences after October 1, 2001 on a day which is not the first day of any January, April, July or October, shall be awarded a pro rata number of RSU's with respect to the quarter during which the Director joined the Board equal to the number of RSUs awarded to each Director who was a member of the Board on the first day of the applicable quarter, multiplied by a fraction, the numerator of which equals the number of days remaining in the quarter after the first day on which such Director became a member of the Board, and the denominator being the total number of days in the quarter. A Restricted Stock Unit Account shall be established on the books of the Corporation in the name of each Director. During the period of the Director's membership on the Board, the Director's Restricted Stock Unit Account shall be subject to credits, adjustment and substitution to reflect any dividend or other distribution on the outstanding Common Stock or any split or consolidation or other change affecting the Common Stock. Any such credit, adjustment or substitution shall be made in a manner similar to that set forth in Section 6(a) and 6(b) with respect to Deferred Stock Compensation Accounts. RSUs awarded pursuant to the Plan shall vest upon termination of the Director's membership on the Board by reason of retirement, death or disability, or such other circumstances as the Board, in its sole discretion, shall at any time determine (provided that a termination of a Director's membership on the Board following a Change in Control (as defined in the Corporation's Executive Benefits Protection Plan (Group 3A), the "EBPP") shall be considered a retirement for this purpose). RSUs not vested upon or in connection with the Director's termination of membership on the Board, as aforesaid, shall be forfeited as of the date of such termination. The balance of the Director's Restricted Stock Unit Account which becomes vested shall be paid in a lump sum in accordance with Section 7. If payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based upon the average of the per share closing price of the Common Stock in the New York Stock Exchange as published in THE WALL STREET JOURNAL (or such other reliable publication as the Board or its delegates may determine) for the three trading days immediately preceding the date of payment. The Corporation shall issue share certificates to the Director, or the Director's designated beneficiary, for the shares of Common Stock represented by the Director's vested RSUs, or if requested in writing by the Director and permitted under such plan, the shares to be distributed shall be added to the Director's account under the Corporation's Automatic Dividend

Reinvestment Plan. As of the date on which the Director is entitled to receive payment of shares of Common Stock, a Director shall be a stockholder of the Corporation with respect to such shares.

4

ELECTIONS

(a) DIRECTOR FEE PAYMENT ALTERNATIVES. A Director may elect any one of the following alternatives with respect to payment of Director Fees:

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

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

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

(4) a combination of (2) and (3).

(b) FILING AND EFFECTIVENESS OF ELECTIONS. The election by a Director to receive payment of Director Fees other than as set forth in Section 4(a)(1) on the date on which the Director Fees are otherwise payable is made by filing with the Secretary of the Corporation a Notice of Election in the form prescribed by the Corporation (an "Election"). In order to be effective for any calendar year, an Election must be received by the Secretary of the Corporation on or before December 31 of the preceding calendar year, except that if a Director files a Notice of Election on or before 30 days subsequent to the Director's initial election to the office of Director, the Election shall be effective on the date of filing with respect to Director Fees payable for any portion of the calendar year which remains at the date of such filing. An Election may not be modified or terminated after the beginning of a calendar year for which it is effective. Unless modified or terminated by filing a new Notice of Election on or before December 31 immediately preceding the calendar year for which such modification or termination is effective, an Election shall be effective for and apply to Director Fees payable for each subsequent calendar year. Director Fees earned at any time for which an Election is not effective shall be paid as set forth in Section 4(a)(1) on the date when the Director Fees are otherwise payable. Any Election shall terminate on the date a Director ceases to be a member of the Board.

(c) CASH DEFERRAL ELECTIONS. Director Fees deferred pursuant to a Cash Deferral Election shall be deferred and paid as provided in Sections 5 and 7.

(d) STOCK DEFERRAL ELECTIONS. Director Fees deferred pursuant to a Stock Deferral Election shall be deferred and paid as provided in Sections 6 and 7.

DEFERRED CASH COMPENSATION ACCOUNT

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

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

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

(2) DEEMED INVESTMENT ELECTIONS.

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

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

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

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

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

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

(c) MANNER OF PAYMENT. The balance of a Director's Deferred Cash Compensation Account will be paid to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Cash Deferral Election. A Director may elect at the time of filing the Notice of Election for a Cash Deferral Election to receive payment of the Director Fees in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed ten years following the Payment Commencement Date, as described in Section 7 hereof. The amount of any installment shall be determined by multiplying (i) the balance in the Director's Deferred Cash Compensation Account on the date of such installment by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments (including the installment payment then being determined). The balance of the Deferred Cash Compensation Account shall be appropriately reduced on the date of payment to the Director or the Director's designated beneficiary to reflect the installment payment made hereunder. Amounts held pending distribution pursuant to this Section 5(c) shall continue to be credited with the earnings, gains or losses as described in Section 5(b) hereof.

DEFERRED STOCK COMPENSATION ACCOUNT

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

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

(c) MANNER OF PAYMENT. The balance of a Director's Deferred Stock Compensation Account will be paid in shares of Common Stock to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Stock Deferral Election. A Director may elect at the time of filing of the Notice of Election for a Stock Deferral Election to receive payment of the shares of Common Stock credited to the Director's Deferred Stock Compensation Account in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed ten years following the Payment Commencement

Date as described in Section 7 hereof. The number of shares of Common Stock distributed in each installment shall be determined by multiplying (i) the number of DSUs credited to such Director's Deferred Stock Compensation Account on the date of payment of such installment, by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments (including the installment payment then being determined) and by rounding such result down to the nearest whole number of shares. The balance of the number of DSUs credited to such Director's Deferred Stock Compensation Account shall be appropriately reduced in accordance with this Section 6(c) to reflect the installment payments made hereunder. DSUs remaining in a Deferred Stock Compensation Account pending distribution of shares of Common Stock pursuant to this Section 6(c) shall continue to be credited with respect to dividends or distributions paid on the Common Stock pursuant to Section 6(a) hereof and shall be subject to adjustment pursuant to Section 6(b) hereof. If a lump sum payment or the final installment payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based on the Fair Market Value of a share of Common Stock, as defined in Section 12 hereof, on the date immediately preceding the date of such payment. The Corporation shall issue share certificates to the Director, or the Director's designated beneficiary, for the shares of Common Stock distributed hereunder, or if requested in writing by the Director and permitted under such plan, the shares to be distributed shall be added to the Director's account under the Corporation's Automatic Dividend Reinvestment Plan. As of the date on which the Director is entitled to receive payment of shares of Common Stock, a Director shall be a stockholder of the Corporation with respect to such shares.

7

PAYMENT COMMENCEMENT DATE

Payment of amounts in a Restricted Stock Unit Account (if vested), Deferred Cash Compensation Account or a Deferred Stock Compensation Account shall commence on the first business day next succeeding the 89th day following the day on which the Director ceases to be a member of the Board for any reason, including death or disability. Pursuant to procedures substantially similar to those contemplated under section 2.1.3 of the EBPP as in effect on the date hereof, the Committee on Directors and Corporate Governance of the Board may provide for the accelerated payment of Deferred Cash Compensation Accounts and Deferred Stock Compensation Accounts in one lump sum in connection with a Change in Control notwithstanding any other payment options previously selected by a Director under his or her Cash Deferral Elections and Stock Deferral Elections.

8

BENEFICIARY DESIGNATION

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

9

NON-ALIENABILITY OF BENEFITS

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

10

NATURE OF ACCOUNTS

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

11

ADMINISTRATION OF PLAN; HARDSHIP WITHDRAWAL

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

12

FAIR MARKET VALUE

Fair Market Value of the Common Stock ("Fair Market Value") shall be the average of the closing price for all trading dates for the applicable period covered by a payment. The applicable period for a quarterly payment or credit shall be the three calendar months immediately preceding the calendar month during which the day on which the payment or credit is being made. The applicable period for a payment relating to a period other than a quarter shall be determined under similar principles. The closing price of the Common Stock for each day within the applicable period shall be as quoted in THE WALL STREET JOURNAL (or in such other reliable publication as the Board or its delegate, in its discretion, may determine to rely upon).

13

SECURITIES LAWS; ISSUANCE OF SHARES

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

14

GOVERNING LAW

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

15

EFFECTIVE DATE; AMENDMENT AND TERMINATION

The Plan was adopted by the Board on December 4, 1996, and became effective as of January 1, 1997. The Plan was amended and restated effective October 2, 2001 and December 3, 2002. The Board may amend or terminate the Plan at any time, provided that no such amendment or termination shall adversely affect rights with respect to amounts or shares then credited to any Deferred Cash Compensation Account or Deferred Stock Compensation Account.

AUTHORIZED SHARES

An aggregate of 150,000 shares of Common Stock is authorized for issuance hereunder.

HERSHEY FOODS CORPORATION

By: /s/ Masrcella K. Arline

Marcella K. Arline,
Senior Vice President, Human Resources and
Corporate Affairs

Exhibit 10.3

CONFIDENTIAL SEPARATION AGREEMENT AND GENERAL RELEASE

This Confidential Separation Agreement and General Release (the "Agreement") is made as of the 6th day of December, 2002 (the "Effective Date"), by and between Hershey Foods Corporation, a Delaware corporation (the "Company"), and Wynn A. Willard ("Employee"), and together with the Company, (the "Parties").

WHEREAS, effective December 6, 2002, and continuing through and including December 31, 2002, Employee will be retained as an employee of the Company on paid leave of absence; and

WHEREAS, effective January 1, 2003, Employee will be retained as an employee of the Company on unpaid leave of absence until the Separation Date, as hereinafter defined, whereupon Employee's employment with the Company shall terminate (the "Separation"); and

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

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

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

1. ACKNOWLEDGMENT OF SEPARATION. The Parties acknowledge and agree that the Separation shall be effective (the "Separation Date") as of the earliest of (i) Employee's date of death; (ii) in the event Employee breaches any of his covenants, agreements or obligations hereunder, the date the Company provides notice of such breach to Employee; and (iii) December 31, 2004.

2. RESIGNATION FROM COMPANY OFFICES. Effective on the Effective Date, Employee hereby voluntarily resigns from all of his positions and offices with the Company and its subsidiaries, including, without limitation, Senior Vice President and Chief Marketing Officer and each office he may occupy of any subsidiary of the Company.

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

4. LEAVE OF ABSENCE.

4.1 Employee shall be placed on a paid leave of absence commencing on the Effective Date and continuing until December 31, 2002. This period shall be known as the "Paid Leave of Absence Period". During the Paid Leave of Absence Period, Employee's employment with the Company, including Employee's right to receive compensation and benefits, shall continue on the same basis and under the same terms as existed immediately prior to the Effective Date, except that Employee shall (i) have no assigned duties and shall perform no services for the Company, and (ii) shall be ineligible for coverage under the Company's short-term and long-term disability programs.

4.2 Employee shall be placed on an unpaid leave of absence commencing January 1, 2003 and continuing until the Separation Date. This period shall be known as the "Unpaid Leave of Absence Period." The following conditions shall apply during the Unpaid Leave of Absence Period:

4.2.1 On January 10, 2003, the Company shall pay to Employee in a lump-sum an amount equal to two-times the sum of Employee's 2002 base salary and 2002 contingent target grant (scored on the basis of 100% achievement of the Company's objectives and Employee's personal objectives for 2002 and calculated on the basis of Employee's 2002 base salary and target percentage) under the Annual Incentive Program ("AIP") of the Company's Key Employee Incentive Plan ("KEIP"). This payment shall be subject to customary withholding.

4.2.2 Except as provided for below and in Section 4.3, Employee shall continue to be eligible to receive the following, and only the following, employment benefits and participate in or receive benefits under the following, and only the following, programs and benefit plans (in accordance with the terms and conditions of the programs and benefit plans of the Company, including, without limitation, such terms and conditions permitting the Company to amend or terminate such programs and benefit plans) applicable to Employee immediately prior to the Effective Date:

(a) the Company's medical (including dental and vision) benefits programs, excluding however the retiree medical program;

(b) the Company's life insurance program at three-times his base salary;

(c) the Hershey Foods Corporation Deferred Compensation Plan ("DCP");

(d) the Hershey Foods Corporation Retirement Plan ("HRA"); and

(e) the Hershey Foods Corporation Employee Savings Stock Investment and Ownership Plan ("ESSIOP").

From and after Employee's Separation Date, he shall not be entitled to any payments or benefits of any kind from the Company under this Section 4.2, and any vested rights under the DCP, the HRA and the ESSIOP, shall be determined by the terms and conditions of these plans respectively.

4.3 Notwithstanding the foregoing, the parties agree:

4.3.1 Employee shall not be eligible to accrue, earn or participate in salary adjustments after the Effective Date;

4.3.2 Employee shall not be eligible to receive any employment benefits or participate in or receive any payments or benefits under any programs or benefit plans not listed in Section 4.2 (in particular, Employee shall not, effective immediately, be eligible for any benefits under any Company employee benefit protection program, including its Executive Benefits Protection Plans, whether Group 2, 3 or 3A, its Severance Benefits Plan and its Supplemental Executive Retirement Plan);

4.3.3 Upon the Effective Date, all Employee's coverage under the Company's short-term and long-term disability plans shall cease;

4.3.4 Employee shall not be permitted to contribute to a medical reimbursement account or dependent care assistance account under the Company's flex benefits plan for any period after December 31, 2002; and

4.3.5 Employee shall not be eligible to make contributions to, and the Company shall make no matching contribution to, the Employee's ESSIOP account from and after the commencement of the Unpaid Leave of Absence Period.

4.4 Employee shall not participate in any part of the Long -Term Incentive Program ("LTIP") of the KEIP during 2003 or any subsequent year and any outstanding contingent target grants of Performance Stock Units granted to Employee prior to December 31, 2002 are hereby cancelled.

4.5 Except as provided in the immediately following sentence, presentation of a draft of this Agreement to Employee on December 11, 2002 for his consideration constitutes notice of termination of employment for purposes of Section 8(a) of the KEIP. If Employee executes this Agreement on or before December 20, 2002, presentation on December 11, 2002 of a draft of this Agreement to Employee for his consideration shall not constitute a notice of termination of employment for purposes of Section 8(a) of the KEIP. Whether Employee has received a notice of termination of employment for purposes of Section 8(a) the KEIP can be determined only upon the occurrence or non-occurrence of certain events following the presentation of this Agreement to Employee for his consideration. Employee, therefore, shall not be permitted to exercise any currently outstanding Options granted to him previously under the KEIP unless and until this Agreement becomes effective and enforceable. If this Agreement becomes effective and enforceable, then from and after the Effective Date and through and including his Separation Date, Employee shall be considered to be an active employee for purposes of any Options granted to him previously under KEIP during any years prior to 2003 and may exercise any such Options in accordance with the provisions of KEIP (and the terms and conditions applicable to any such Options established at the time such Options were granted or subsequently) at any time prior to his Separation Date.

4.6 Provided that a notice of termination under the KEIP is not in effect pursuant to Section 4.5 above, Employee's rights with respect to restricted stock units ("RSUs") granted to Employee prior to 2003 shall continue to vest in accordance with the KEIP and the terms and conditions applicable to such grants. Any RSUs that have not vested on or before the Separation Date shall terminate.

4.7 Employee shall be eligible to receive an award, if any, of his contingent target grant for 2002 under the AIP of KEIP subject to the terms and conditions of the KEIP and the contingent target grant. Employee shall not be entitled to participate in or receive any benefits under the AIP of KEIP for 2003 or any subsequent year. Payment of award, if any, will be made on or before March 15, 2003.

4.8 During the Leave of Absence Period, Employee shall have no assigned duties and shall perform no services for the Company.

4.9 Except as provided for in Section 6 below, employee shall be free to seek and accept other employment after the Effective Date.

4.10 In the event Employee commences other employment during the Leave of Absence Period, Employee shall immediately notify the Company in writing at 100 Crystal A Drive, Hershey, PA, Attn: Vice President, Total Compensation, of his new employment and his benefit coverage shall terminate as of the effective date of the new employment.

4.11 Employee shall not be subject to the minimum stockholding requirements for Company executives or KEIP participants.

4.12 The Company will provide for the continuation of comparable financial advisory services by Regent Atlantic Capital through December 31, 2002, tax preparation services for the tax year ending December 31, 2002 and outplacement services pursuant to a Company-approved executive outplacement program through Drake Beam Morin, Inc. for twelve (12) months beginning January 1, 2003.

5. SEPARATION AND COBRA RIGHTS. Effective as of the earlier of the Separation Date or benefit coverage cessation, as required by the continuation coverage provisions of Section 4980B of the U. S. Internal Revenue Code of 1986, as amended ("THE CODE"), Employee shall be offered the opportunity to elect continuation coverage under the group medical plan of the Company ("COBRA COVERAGE"). The Company shall provide Employee with the appropriate COBRA

coverage notice and election form for this purpose. Employee shall notify the Company within two weeks of any change in his circumstances that would warrant discontinuation of his COBRA coverage and benefits (including but not limited to Employee's receipt of group medical and dental benefits from any other employer). The existence and duration of Employee's rights and/or the COBRA rights of any of Employee's eligible dependents shall be determined in accordance with Section 4980B of the Code.

6. CONFIDENTIAL, PROPRIETARY AND PRIVILEGED INFORMATION; NON-COMPETITION. The parties agree the terms and conditions of that certain Long-Term Incentive Program Participation Agreement and Mutual Agreement to Arbitrate Claims by and between the Company and Employee executed by Employee August 21, 2001 ("Participation and Arbitration Agreement"), a copy of which is attached hereto, are incorporated herein by reference and made a part hereof as if fully set forth herein. Notwithstanding any provisions to the contrary in the Participation and Arbitration Agreement, the terms and conditions thereof shall remain in effect for three years after Employee's Separation Date regardless of whether Employee is eligible or not to receive benefits under the SERP.

7. GENERAL RELEASE AND WAIVER BY EMPLOYEE.

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

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

7.1.2 any and all claims in tort or contract, and any and all claims alleging breach of an express or implied, or oral or written, contract, policy manual or employee handbook;

7.1.3 any alleged misrepresentation, coercion, duress, defamation, interference with contract, intentional or negligent infliction of emotional distress, sexual harassment, negligence or wrongful discharge; or

7.1.4 any federal, state or local statute, ordinance or regulation, including but not limited to the Fair Labor Standards Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964, the Americans With Disabilities Act, the Family and Medical Leave Act, and the Pennsylvania Human Relations Act.

7.2 Employee acknowledges and agrees that other than to seek the Company's performance under this Agreement he is waiving all rights to sue or obtain equitable, remedial or punitive relief from any or all Releasees of any kind whatsoever, including, without limitation, reinstatement, back pay, front pay, attorneys' fees and any form of injunctive relief. Employee acknowledges and agrees that this waiver and release is an essential and material term of this Agreement. Employee further acknowledges and agrees that he will not assert any breach of any agreement, plan, or right referred to herein based on any action or inaction of the Releasees prior to the date hereof.

7.3 Employee understands and intends that this SECTION 7 constitutes a general release, and that no reference therein to a specific form of claim, statute or type of relief is intended to limit the scope of such general release and waiver; provided, however, notwithstanding any other provision of this Section 7, the provisions of this Section 7 shall not apply to any rights Employee may have under the Age Discrimination in Employment Act of 1967, as amended.

7.4 Employee expressly waives all rights afforded by any statute which limits the effect of a release with respect to unknown claims. Employee understands the significance of his release of unknown claims and his waiver of statutory protection against a release of unknown claims.

7.5 Employee agrees that he will not be entitled to or accept any benefit from any claim or proceeding within the scope of this SECTION 7 general release that is filed or instigated by him or on his behalf with any agency, court or other government entity.

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

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

9. NO DISPARAGING REMARKS. Employee hereby covenants to each of the Releasees and agrees that he shall not, directly or indirectly, within or without the Company, make or solicit or encourage others to make or solicit any disparaging or negative remarks concerning the Releasees (as defined in SECTION 7 of this Agreement), or any of their products, services, businesses or activities. Employee understands that, in addition to the consequences such breach may have under other provisions of this Agreement, his breach of this SECTION 9 and the Company's delivery to him of notice of such breach shall result in his Separation; shall eliminate his entitlement to any subsequent payment or benefits under this Agreement including, without limitation, to further exercise any Options under the KEIP; and shall subject him to liability for any damages arising from such remarks. The Company hereby represents that, as of the date of its execution of this Agreement as set forth on the signature page hereof, neither Richard H. Lenny, Chairman, President and Chief Executive Officer, nor Burton H. Snyder, General Counsel, Secretary and Senior Vice President, International, had actual knowledge of any violation by Employee of this Section 9.

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

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

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

13. REMEDIES. In the event that Employee has breached any of his covenants, agreements or obligations under this Agreement, the Company shall notify Employee in writing at his home address as shown in the Company's records of the reason for such determination. The notice shall be sent via hand delivery or overnight courier. Employee hereby acknowledges and affirms that in the event of any breach by Employee of any of his covenants, agreements and obligations hereunder, Employee's Separation shall be effective as of the day the Company provides notice thereof. Employee further hereby acknowledges and affirms that in the event of such breach monetary damages would be inadequate to compensate the Releasees or any of them. Accordingly, in addition to other remedies which may be available to the Releasees hereunder or otherwise at law or in equity, any Releasee shall be entitled to specifically enforce such covenants, obligations and restrictions through injunctive and/or equitable relief, in each case without the posting of any bond or other security with respect thereto. Should any provision hereof be adjudged to any extent invalid by any court or tribunal of competent jurisdiction, each provision shall be deemed modified to the minimum extent necessary to render it enforceable.

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

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

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

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

officer, director or stockholder, on the one hand, and the Employee, on the other hand.

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

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

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

21. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

22. SUCCESSORS AND ASSIGNS. The Parties' obligations hereunder shall be binding upon their heirs, personal representatives, successors and assigns. The Parties' rights and the rights of the other Releasees shall inure to the benefit of, and be enforceable by, any of the Parties' and Releasees' respective heirs, personal representatives, successors and assigns.

23. AMENDMENTS AND WAIVERS. No amendment or waiver shall be binding upon any party hereto unless consented to in writing by such party.

24. HEADINGS. The headings of the Sections and subsections hereof are for purposes of convenience only, and shall not be deemed to amend, modify, expand, limit or in any way affect the meaning of any of the provisions hereof.

25. WAIVER OF JURY TRIAL. Each of the Parties hereby waives its rights to a jury trial of any claim or cause of action based upon or arising out of this Agreement or any dealings between the Parties relating to the subject matter hereof to the extent the resolution of such matter is not governed by the Participation and Arbitration Agreement. Each of the Parties also waives any bond or surety or security upon such bond which might, but for this waiver, be required of the other party. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this Agreement, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. EACH OF THE PARTIES ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO THIS AGREEMENT, THAT EACH HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND

THAT EACH WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. Each of the Parties further represents and warrants that he or it knowingly and voluntarily waives his or its jury trial rights. This waiver may not be modified orally, but only in writing, and the waiver shall apply to any subsequent amendments, renewals, supplements or modifications to this agreement. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

* * * * *

IN WITNESS WHEREOF, the Parties have executed this Confidential Separation Agreement and General Release effective as of the date of the first signature affixed below or as otherwise provided in this Agreement.

READ CAREFULLY BEFORE SIGNING

I have read this Confidential Separation Agreement and General Release. I understand that by executing this Confidential Separation Agreement and General Release I will relinquish any right or demand, other than those created by or otherwise set forth in this Agreement, I may have against the Releasees or any of them.

DATED: 12/20/02 /s/ Wynn A. Willard

Wynn A. Willard

HERSHEY FOODS CORPORATION

DATED: 12/20/02 By: /s/ Burton H. Snyder

General Counsel, Secretary
and Senior Vice President,
International

HERSHEY FOODS CORPORATION

Long-Term Incentive Program Participation Agreement

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

1. PARTICIPATION.

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

2. CONFIDENTIALITY.

I acknowledge that due to the nature of my employment and the position of trust that I hold with Hershey, I will have special access to, learn, be provided with, and in some cases will prepare and create for Hershey, trade secrets and other confidential and proprietary information relating to Hershey's business, including, but not limited to, information about Hershey's manufacturing processes; manuals, recipes and ingredient percentages; engineering drawings; product and process research and development; new product information; cost information; supplier data; strategic business information; marketing, financial and business development information, plans, forecasts, reports and budgets; customer information; new product strategies, plans and project activities; and acquisition and divestiture strategies, plans and project activities. I acknowledge and agree that such information, whether or not in written form, is the exclusive property of Hershey, that it has been and will continue to be of critical importance to the business of Hershey, and that the disclosure of it to, or use by, competitors or others will cause Hershey substantial and irreparable harm. Accordingly, I will not, either during my employment or at any time after the termination (whether voluntary or involuntary) of my employment with Hershey, use, reproduce or disclose any trade secrets or other confidential information relating to the business of Hershey which is not generally available to the public, except as may be specially authorized and necessary in discharging my assigned duties as an employee of Hershey. I understand and agree that my obligations under this Agreement shall be in addition to, rather than in lieu of, any obligations I may already have under any Confidentiality Agreement or other agreement with Hershey relating to confidential information or under any applicable statute or at common law.

3. UNFAIR COMPETITION.

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

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

4. SURVIVAL OF OBLIGATIONS.

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

5. ARBITRATION AND MEDIATION.

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

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

6. SAVINGS CLAUSE AND SEVERABILITY.

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

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

c. Without limiting the foregoing, I also specifically agree that if any part of the Mutual Agreement to Arbitrate Claims is determined to be invalid or unenforceable for any reason, then the invalid or unenforceable portion shall be severed and the agreement to submit any claim to binding arbitration shall be interpreted and enforced as if the invalid or unenforceable portion did not appear.

7. MISCELLANEOUS.

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

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

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

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

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

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

Long-Term Incentive Program Participation Agreement

Mutual Agreement To Arbitrate Claims

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

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

A. CLAIMS COVERED BY THE ARBITRATION AGREEMENT.

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

B. CLAIMS NOT COVERED BY THE ARBITRATION AGREEMENT.

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

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

C. REQUIRED NOTICE OF ALL CLAIMS.

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

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

D. REPRESENTATION.

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

E. DISCOVERY.

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

F. DESIGNATION OF WITNESSES.

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

G. SUBPOENAS.

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

H. ARBITRATION PROCEDURES.

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

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

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

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

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

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

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

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

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

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

I. ARBITRATION FEES AND COSTS.

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

J. EXCLUSIVITY, WAIVER AND BINDING EFFECT.

The procedure set out in this Arbitration Agreement is the exclusive procedure for resolving claims covered hereunder. The resolution of any claim covered by this Arbitration Agreement pursuant to the procedure set out herein shall be final and binding on the parties to the fullest extent permitted by law. Both I and the Company expressly waive any right to resolve any claim covered by this Arbitration Agreement through any other means, including by filing a lawsuit in court for trial by the court or before a jury. Both I and the Company are precluded from bringing or raising in court or before another forum any claim which could have been brought or raised hereunder, unless the right to pursue a statutory claim or remedy is expressly preserved by law. Neither I nor the Company shall seek to enjoin any proceeding hereunder on the basis that any award resulting therefrom would not be enforceable.

K. INTERSTATE COMMERCE.

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

L. CONSIDERATION.

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

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

Long-Term Incentive Program Participant

/s/ Wynn A. Willard

(Signature)

Wynn A. Willard

Name (Print)

Date: August 21, 2001

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

/s/ Robert M. Reese

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

Date: July 24, 2001

Exhibit 10.4

HERSHEY FOODS CORPORATION

Broad Based Stock Option Plan

(Amended and Restated as of August 19, 2002)

1. ESTABLISHMENT AND PURPOSE

The purpose of the Broad Based Stock Option Plan (the "Plan") is to provide to participating employees of Hershey Foods Corporation (the "Corporation") and its subsidiaries (as defined below), upon whose efforts the Corporation is dependent for the successful conduct of its business, an incentive to continue and increase their efforts as employees and to remain in the employ of the Corporation and its subsidiaries. To accomplish this purpose, the Corporation's Board of Directors ("Board") has authorized the Compensation and Executive Organization Committee of the Board (the "Committee") to grant, from time to time in its sole discretion and in accordance with the Plan, options ("Options") to purchase shares of the Corporation's Common Stock, $1.00 par value (the "Common Stock").

2. STOCK SUBJECT TO THE PLAN

The aggregate number of shares of Common Stock for which Options may be granted pursuant to this Plan is two million (2,000,000), subject to adjustment in accordance with Paragraph 11 below. The shares of Common Stock issued upon exercise of Options granted under this Plan may be either authorized but unissued shares, treasury shares held by the Corporation or any direct or indirect subsidiary thereof, or shares acquired by the Corporation through open market purchases (whether made before or after the exercise of the Options) or otherwise. In addition to the shares of Common Stock actually issued or distributed upon exercise of Options granted under the Plan, there shall be deemed to have been issued a number of shares equal to the number of shares of Common Stock in respect of which optionees utilize the manner of exercise of, and payment for, Options as provided in Paragraph 5(e)(iii) of the Plan. If, for any reason, any Option granted under the Plan expires or terminates or is forfeited or surrendered, the number of shares of Common Stock for which such Option was granted shall be disregarded in determining whether the aggregate number of shares of Common Stock for which Options may be granted has been reached.

3. ADMINISTRATION

The Plan shall be administered by the Committee or any successor committee appointed by the Board. The Committee may adopt such rules and regulations as it deems useful in governing its affairs. Any action of the Committee with respect to the administration of the Plan shall be taken by majority vote at a Committee meeting or written consent of all Committee members.

Subject to the terms and conditions of the Plan, the Committee shall have authority: (i) to construe and interpret Plan provisions; (ii) to define the terms used in the Plan; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to determine the terms, conditions, form and amount of grants, including conditions upon and provisions for vesting, exercise and acceleration of any grants; and (v) 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.

Any dispute or disagreement which shall arise under, as a result of, or in any way relate to the interpretation, construction or administration of the Plan or the Options granted hereunder shall be determined in all cases by the procedures established by the Plan, as amended or supplemented by the Committee. All disputes or disagreements shall be initially submitted to the Vice President of Human Resources of the Corporation for resolution. The Participant or his legal representative or beneficiary will submit to the Vice President of Human Resources a summary of the dispute and all materials supporting his or her position on the matter. The Corporation will also submit materials to support its position on the matter. The Vice President of Human Resources shall render a decision in writing within thirty (30) days of the receipt of the submissions by both parties. Participant or the Corporation may appeal the decision of the Vice President of Human Resources to the Committee, but such appeal must be submitted to the Committee within fifteen (15) calendar days of the decision by the Vice President of Human Resources. The Committee will review the material submitted by the parties to the Vice President of Human Resources and any additional material the parties may wish to submit to support their position. The Committee will render its decision in writing by the later of forty-five (45) calendar days of its receipt of the submissions by both parties or the next regularly scheduled meeting of the Committee following the receipt of the submissions. The decision by the Committee shall be final, binding and conclusive for all purposes.

4. ELIGIBILITY AND PARTICIPATION

With regard to the initial grant of Options under the Plan to be made by the Committee at its January 7, 1997 meeting (the "Initial Grant"), the following employees are eligible to participate in the Plan: (i) employees of the Corporation; (ii) employees of any U.S., Canadian, or Mexican wholly-owned subsidiary, and employees of Hershey Japan Company, Ltd, a subsidiary of Hershey International Ltd., Hershey Corporation ZAO, a subsidiary of Hershey Holding Corporation, and employees of the Corporation's representative offices in Russia and China (each called a "Subsidiary Corporation" and collectively called the "Subsidiary Corporations"), provided they were full-time employees of the Corporation or a Subsidiary Corporation on December 3, 1996. Full-time employees who were on paid or unpaid leave of absence, layoff, or disability on December 3, 1996 are eligible to participate in the Initial Grant provided they performed at least one hour of work for the Corporation during 1996. In addition to the employees described in the first two sentences of this Paragraph 4, an employee of the Corporation on December 3, 1996 shall be eligible for participation in the Initial Grant if such individual performed at least one hour of work for the Corporation, or any Subsidiary Corporation, as an employee in 1996 and in five (5) of the six (6) years 1990 through 1995. Notwithstanding any other provision of this Paragraph 4, no individual who (i) as of December 3, 1996 was a temporary employee (as defined in the Corporation's Human Resources Policy Manual) of the Corporation; (ii) as of December 3, 1996 was a leased employee (as hereinafter defined); or (iii) on January 7, 1997 is eligible to receive a stock option grant under the Corporation's Key Employee Incentive Plan ("KEIP") shall be eligible for participation in the Initial Grant. For purposes of the Initial Grant, a "leased employee" shall be defined as an employee of an entity other than the Corporation, or any Subsidiary Corporation, who performs services for the Corporation, or any Subsidiary Corporation, on a short- or long-term basis and who, in the performance of such services, may (but need not) be under the primary direction or control of the Corporation, or any Subsidiary Corporation. Persons who would otherwise be classified as "leased employees" under Section 414(n) of the Internal Revenue Code of 1986, or any successor provision, shall, without limitation of the immediately preceding sentence and for purposes of the Initial Grant, be deemed "leased employees."

In the event that the Committee elects, in its sole discretion, to grant Options at any time following the Initial Grant, it shall prescribe eligibility criteria for each such grant at the time of the grant, provided however, that in each such case, temporary employees, leased employees, and employees who on the date of the grant are eligible to receive stock options under the Corporation's KEIP shall not be eligible to participate in the grant.

Any employee meeting the eligibility criteria established pursuant to this Paragraph 4 for the Initial Grant or any subsequent grant, or the estate of such employee if deceased, shall, for the purposes of such grant, be hereinafter referred to as a "Participant."

5. TERMS OF GRANT

The Initial Grant and any other option grants which may be made by the Committee shall be subject to the following terms and conditions, as well as such additional consistent terms and conditions as the Committee may establish at the time of such grant:

(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. 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.

(b) Options granted under the Plan shall be exercisable 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 (10) years from the date of grant.

(c) Unless otherwise provided by the Committee, no Option granted hereunder may be exercised during the first five (5) years after the date of grant by the Committee.

(d) Exercise of an Option shall be accomplished in the form and manner established by the Committee.

(e) The purchase price upon exercise of any Option shall be paid in full by the Participant to the Corporation by making payment either (i) in cash, or (ii) in a simultaneous exercise of the 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, or (iii) by a combination of (i) and (ii).

6. VESTING

(a) All Options granted under this Plan shall have a five (5) year vesting requirement and shall be subject to such other vesting terms and conditions as the Committee shall prescribe in the grant. With regard to the Initial Grant a Participant must (i) perform at least one hour of work for the Corporation or a Subsidiary Corporation during each of the years 1997 through 2001 and (ii) be a full-time or part-time employee of the Corporation or a Subsidiary Corporation or a Chocolate World Flex Force Employee (as defined in the Human Resources Policy Manual) on January 6, 2002 in order to satisfy this vesting requirement. Participants who retire under a retirement plan of the Corporation or terminate employment after attaining age 55 ("retire" or "retirement"), die or become disabled on or after December 4, 1996, but before the close of business on January 6, 2002, shall not forfeit their Options under the Initial Grant, but shall maintain such rights in the Options to the extent set forth in Paragraph 7(b) below.

(b) Notwithstanding any other provision of the Plan or of the terms and conditions of any grant of Options hereunder, upon the occurrence of a Change in Control, each outstanding and unexpired Option held by a Participant who is an employee of the Corporation or any Subsidiary Corporation or who retired, died or became disabled 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 established at the time of the grant of the Option.

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

(1) Individuals who, on December 3, 1996, 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 December 3, 1996, 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.

(d) 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 (c) of Paragraph 6 hereof.

(e) 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 (b) of Paragraph 6 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.

7. TERMINATION OF EMPLOYMENT

Upon termination of the employment with the Corporation of any Participant, such Participant's rights with respect to any Options granted under this Plan shall be as follows:

(a) In the event that the participant is terminated or discharged by the Corporation for any reason, except as to and the extent provided otherwise by the Committee in writing and except as provided below after the occurrence of a Change in Control, 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 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 7(a). This Paragraph 7(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 therein, 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's employment with the Corporation terminates as a result of his or her becoming disabled (in which event termination will be deemed to occur on the date of such determination), or as a result of retirement or death, Participant or his or her estate shall continue to be a Participant in the Plan and may, for a period of up to five (5) years from the date of disability, death or retirement, exercise such Options pursuant to the terms of this Plan. With regard to the Initial Grant, any Participant whose employment with the Corporation terminates in a manner described in this Paragraph 7(b) during the period beginning December 4, 1996, and ending with the close of business on January 31, 1997, shall have the right to exercise Options which have vested under the Plan until the close of trading on the New York Stock Exchange on January 31, 2002. Any provision of this Paragraph 7(b) to the contrary notwithstanding, no Option granted pursuant to this Plan shall be capable of being exercised prior to its becoming vested, or following its expiration date.

(c) In the event that a Participant resigns from employment with the Corporation, 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. A Participant's transfer to a non-participating Subsidiary Corporation shall also not be deemed a termination of employment for purposes of this section. The sale of a participating or non-participating Subsidiary Corporation shall, unless the Committee determines otherwise, be deemed a termination of the Participant's employment under paragraph 7(c) above and employees of such subsidiary shall no longer be deemed eligible to participate in the Plan and must exercise their Options (if vested) prior to the sale. Options which are not vested at the time of sale will be terminated. Any provision of this Paragraph 7(d) to the contrary notwithstanding, with respect to the Initial Grant, any Participant who, on the date of the sale of a participating or non-participating Subsidiary Corporation, has attained the age of 55, died or become disabled while employed by the Corporation, shall be deemed to have terminated their employment pursuant to Paragraph 7(b), and shall continue to be Participants under the Plan in accordance with that paragraph.

(e) The Committee shall be authorized to make all determinations and calculations required by this Paragraph 7, 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.

8. Additional Requirements

No Options 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 Option, if such exercise and/or sale would, in the opinion of counsel for the Corporation, violate the Securities Act of 1933, as amended (or other federal or state statutes, or foreign statutes having similar requirements), or exceed daily volume limitations imposed by the Corporation from time to time on sales of Common Stock. Each Option shall be subject to the further requirement that, if at any time the Committee shall determine in its discretion that the listing or qualification of the shares relating or subject to such Option 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 Option or the distribution or the issue of shares thereunder, such Option 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.

A Participant's interest in Options granted under this Plan may be subject to restrictions or other special rules as to grant, exercise, resale or other disposition and to such other provisions as may be appropriate to comply with federal, state and/or foreign securities and other applicable laws and stock exchange requirements, and the grant or exercise of any Option or entitlement to payment thereunder may be contingent upon receipt from the Participant (or any other person permitted by this Plan to exercise any Option 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.

9. NONTRANSFERABILITY

Options granted under this Plan to a Participant 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.

10. DISCLAIMER OF RIGHTS

No provision in the Plan or any Options 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 Options, unless and until such shares have been issued to him or her.

11. 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 each share theretofore appropriated or thereafter subject or which may become subject to Options, 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 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 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 Options 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.

12. 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 upon the exercise of an Option may, by notice to the Corporation, elect to have such withholding satisfied by a reduction of the number of shares otherwise so deliverable, 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 of such shares on the date of such taxable event.

13. EFFECTIVE DATE AND TERMINATION OF PLAN

The Plan shall become effective upon adoption by the Board. The Board at any time may terminate the Plan, but such termination shall not alter or impair any of the rights or obligations under any grant of Options theretofore made under the Plan unless the affected Participant shall so consent.

14. 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.

15. NO OBLIGATION TO EXERCISE OPTION

The granting of an Option shall impose no obligation upon the Participant to exercise such Option.

16. AMENDMENT

The Board, 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.

IN WITNESS WHEREOF, the Corporation has caused this Broad Based Stock Option Plan to be amended and restated as of the 19th day of August, 2002.

HERSHEY FOODS CORPORATION

By: /s/ Marcella K. Arline

Marcella K. Arline,
Vice President, Human Resources

HERSHEY FOODS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
For the Years Ended December 31, 2002, 2001, 2000, 1999 and 1998
(in thousands of dollars except for ratios)

(Unaudited)

	2002	2001	2000	1999	1998
Earnings:					
Income from continuing operations before income taxes	$637,565(a)	$343,541(b)	$546,639	$727,874(c)	$557,006
Add (Deduct):					
Interest on indebtedness	64,398	71,470	80,956	77,300	88,648
Portion of rents representative of the interest factor (d)	15,467	15,451	13,585	15,162	13,197
Amortization of debt expense	457	464	489	486	462
Amortization of capitalized interest	4,018	4,228	325	3,884	3,856
Earnings as adjusted	$721,905	$435,154	$641,994	$824,706	$663,169
Fixed Charges:					
Interest on indebtedness	$ 64,398	$ 71,470	$ 80,956	$ 77,300	$ 88,648
Portion of rents representative of the interest factor (d)	15,467	15,451	13,585	15,162	13,197
Amortization of debt expense	457	464	489	486	462
Capitalized interest	1,144	1,498	145	1,214	2,547
Total fixed charges	$ 81,466	$ 88,883	$ 95,175	$ 94,162	$104,854
Ratio of earnings to fixed charges	8.86	4.90	6.75	8.76	6.32

NOTES:

(a) Includes total charges for business realignment initiatives of $34.0 million before tax and costs related to the potential sale of the Corporation of $17.2 million before tax.

(b) Includes total charges for business realignment initiatives of $278.4 million before tax.

(c) Includes a gain on the sale of the Corporation's pasta business of $243.8 million.

(d) Portion of rents representative of the interest factor consists of all rental expense pertaining to off - balance sheet operating lease arrangements and one - third of rental expense for other operating leases.

Appendix A

Annual Report to Stockholders

HERSHEY FOODS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Hershey Foods Corporation and its subsidiaries (the "Corporation") are engaged in the manufacture, distribution and sale of confectionery and grocery products. The Corporation was organized under the laws of the State of Delaware on October 24, 1927, as a successor to a business founded in 1894 by Milton S. Hershey.

RESULTS OF OPERATIONS

Net Sales

Net sales decreased $16.9 million from 2001 to 2002, primarily as a result of increased promotion costs and returns, discounts, and allowances, the divestiture of the *Heide* brands in 2002 and the *Luden's* throat drop business in 2001, and the timing of sales related to the gum and mint business acquired from Nabisco Inc. ("Nabisco"), which resulted in incremental sales in 2001 compared with 2002. A sluggish retail environment, characterized by the bankruptcies and store closings of certain customers, also contributed to the lower sales. Sales were also lower in several international markets, particularly Canada and Brazil. These sales decreases were partially offset by volume increases of key confectionery brands, including new products and line extensions, and selected confectionery selling price increases, as well as incremental sales from the Visagis acquisition, the Brazilian chocolate and confectionery business acquired in July, 2001.

In December 2002, the Corporation announced an increase of 11% in the price of standard-size candy bars effective January 1, 2003, representing an average increase of approximately 3% over the entire domestic product line. A buy-in prior to the January 1, 2003 price increase resulted in an approximate 1% to 2% increase in fourth quarter, 2002 sales.

Net sales rose $316.8 million, or 8%, from 2000 to 2001. The increase in 2001 was primarily due to incremental sales from the mint and gum business acquired from Nabisco in December 2000 and increases in sales of base confectionery and grocery products, primarily resulting from the introduction of new confectionery products, selected confectionery selling price increases in the United States, and increased international exports. These increases were partially offset by lower sales resulting from higher promotional allowances, the divestiture of the *Luden's* throat drops business and the impact of unfavorable foreign currency exchange rates.

Cost of Sales

Cost of sales decreased $107.5 million, or 4%, from 2001 to 2002. Cost of sales in 2002 included $6.4 million of costs primarily related to the relocation of equipment associated with the Corporation's business realignment initiatives. Cost of sales in 2001 included $50.1 million associated with business realignment initiatives recorded in the fourth quarter of that year. Excluding costs related to the business realignment initiatives in both years, cost of sales decreased $63.8 million from 2001 to 2002, primarily as a result of lower costs for certain major raw materials, primarily cocoa, milk and packaging materials and reduced supply chain costs, particularly related to shipping and distribution.

Gross margin increased from 35.5% in 2001 to 37.8% in 2002. Gross margin in 2001 was negatively impacted 1.2 percentage points from the inclusion in cost of sales of a charge of $50.1 million associated with business realignment initiatives recorded during the fourth quarter of that year. Gross margin in 2002 was reduced by .2 percentage points from business realignment charges of $6.4 million recorded in cost of sales during the year. Excluding the impact of the business realignment initiatives in both years, the increase in gross margin from 36.7% in 2001 to 38.0% in 2002 primarily reflected decreased costs for certain major raw materials, higher profitability resulting from the mix of confectionery items sold in 2002 compared with sales in 2001 and the impact of supply chain efficiencies. These increases in gross margin were partially offset by higher promotion

costs and returns, discounts, and allowances, which were higher as a percent of sales compared to the prior year. Gross margin was also unfavorably impacted in 2002 by poor profitability in the Corporation's Canadian and Brazilian businesses.

Cost of sales increased $197.4 million, or 8%, from 2000 to 2001. Cost of sales in 2001 included a charge of $50.1 million associated with business realignment initiatives recorded during the fourth quarter. The $50.1 million charge to cost of sales resulted from the reduction of raw material inventories, principally cocoa beans and cocoa butter, no longer required to support operations as a result of outsourcing the manufacturing of certain ingredients. Excluding the impact of the business realignment initiatives, cost of sales increased $147.3 million, primarily reflecting higher costs associated with increased sales volume, partially offset by lower costs for freight, distribution and warehousing, as well as improved supply chain efficiencies including decreased costs for the disposal of aged finished goods inventory and obsolete packaging.

Gross margin increased from 35.3% in 2000 to 35.5% in 2001. Gross margin in 2001 was negatively impacted 1.2 percentage points from the inclusion in cost of sales of a charge of $50.1 million associated with business realignment initiatives recorded during the fourth quarter. Excluding the impact of the business realignment initiatives, the increase in gross margin to 36.7% in 2001 resulted from lower costs for freight, distribution and warehousing, as well as improved supply chain efficiencies, including decreased costs for the disposal of aged finished goods inventory and obsolete packaging. Selected confectionery selling price increases and the profitability of the mint and gum business acquired from Nabisco also contributed to the higher gross margin in 2001. The impact of these items was partially offset by higher manufacturing costs, primarily related to higher labor rates and employee benefits costs, as well as start-up costs associated with the installation of new manufacturing equipment.

Selling, Marketing and Administrative

Selling, marketing and administrative expenses decreased by $13.6 million, or 1.6% in 2002, primarily as a result of savings from the business realignment initiatives and the elimination of goodwill amortization in 2002, offset by $17.2 million of expenses incurred to explore the possible sale of the Corporation, as discussed below. Excluding incremental expenses incurred to explore the Corporation's sale in 2002 and the impact of the amortization of intangibles in 2001, selling, marketing, and administrative expenses decreased $16.0 million, or 2%, from 2001 to 2002. The decrease in 2002 primarily reflected lower advertising, depreciation and administrative expenses, partially offset by higher expenses associated with increased consumer marketing programs and selling activities.

On July 25, 2002, the Corporation confirmed that the Hershey Trust Company, as Trustee for the Benefit of Milton Hershey School (the "Milton Hershey School Trust") which controls 77.6% 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 informed the Corporation that it had elected not to sell its controlling interest and requested that the process to explore a sale be terminated.

Selling, marketing and administrative expenses increased $120.4 million, or 17%, from 2000 to 2001, primarily reflecting selling, marketing and administrative expenditures for the newly acquired mint and gum business, increased administrative expenses primarily resulting from higher staffing levels to support sales activity in North America and international businesses, increased marketing expenses and higher incentive compensation expense. Selling, marketing and administrative costs in 2000 included a one-time gain of $7.3 million arising from the sale of certain corporate aircraft.

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"). Total costs for the business realignment initiatives were $312.4 million compared to the $310.0 million announced in January 2002. The increased costs related primarily to higher pension settlement costs associated with the voluntary work force reduction program ("VWRP") which were recorded as incurred, and more than offset the impact of the greater than expected proceeds from the sale of certain assets.

During 2002, charges to cost of sales and business realignment and asset impairments were recorded totaling $34.0 million before tax. The total included a charge to cost of sales of $6.4 million associated with the relocation of manufacturing equipment and a net business realignment and asset impairments charge of $27.6 million. Components of the net $27.6 million pre-tax charge included a $28.8 million charge for pension settlement losses resulting from the VWRP, a $3.0 million charge for pension curtailment losses and special termination benefits resulting from manufacturing plant closures, a $.1 million charge relating to involuntary termination benefits and a $.1 million charge relating to the realignment of the domestic sales organization, partially offset by a $4.4 million favorable adjustment reflecting higher than estimated proceeds from the sale of certain assets.

During the fourth quarter of 2001, charges to cost of sales and business realignment and asset impairments were recorded totaling $278.4 million before tax. The total included a charge to cost of sales of $50.1 million associated with raw material inventory reductions and a business realignment and asset impairments charge of $228.3 million. Components of the $228.3 million pre-tax charge included $175.2 million for business realignment charges and $53.1 million for asset impairment charges. The $175.2 million for business realignment charges included $139.8 million for enhanced pension and other post-retirement benefits associated with the VWRP and $35.4 million for other costs associated with the business realignment initiatives. The $53.1 million for asset impairment charges included $45.3 million for fixed asset impairments and $7.8 million for goodwill impairment.

These initiatives are expected to generate $75 million to $80 million of annual savings when fully implemented and contributed savings of approximately $38.0 million in 2002. As of December 31, 2002, there have been no significant changes to the estimated savings for the business realignment initiatives. The major components of these initiatives were completed as of December 31, 2002. Remaining transactions primarily pertain to the sale of certain real estate associated with the closure of facilities, as discussed below, and possible pension settlement costs related to employee retirement decisions.

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 2002, sales offices were closed as planned and the use of certain sales brokers was discontinued which resulted in an additional charge of $.1 million. During the second quarter, the sale of a group of the Corporation's non-chocolate confectionery candy brands to Farley's & Sathers Candy Company, Inc. (the "sale of certain confectionery brands to Farley's & Sathers") was completed. Included in the transaction were the *Heide*, *Jujyfruits*, *Wunderbeans* and *Amazin' Fruit* trademarked confectionery brands, as well as the rights to sell *Chuckles* branded products, under license. Proceeds of $12.0 million associated with the sale of certain confectionery brands to Farley's & Sathers exceeded the 2001 estimates which resulted in a $4.4 million favorable adjustment. Also during the second quarter, the Corporation discontinued and subsequently licensed the sale of its aseptically packaged drink products in the United States. Net sales for these brands were $11.6 million, $34.2 million and $38.3 million in 2002,

2001 and 2000, respectively. The sale of certain confectionery brands to Farley's & Sathers resulted in the closure of a manufacturing facility in New Brunswick, New Jersey which was being held for sale as of December 31, 2002. An additional charge of $.7 million relating to pension curtailment losses and special termination benefits associated with the closure of the facility was recorded in 2002.

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 of $.1 million were recorded, as incurred, relating to retention payments. During the second quarter, operations utilizing the distribution center in Oakdale, California ceased. The manufacturing facilities in Denver, Colorado and Pennsburg, Pennsylvania were closed in the fourth quarter of 2002. An additional charge of $2.3 million relating to pension curtailment losses and special termination benefits associated with the facility closures was recorded in 2002. The Denver, Colorado facility was being held for sale and the Pennsburg, Pennsylvania facility was idle and being held for possible future use as of December 31, 2002.

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 2002 as a result of the VWRP. Additional pension settlement costs of $28.8 million were recorded in 2002, principally associated with lump sum payments of pension benefits.

The following table summarizes the charges for certain business realignment initiatives recorded in the fourth quarter of 2001 and the related activities completed during 2002:

Accrued Liabilities	**Balance 12/31/01**	**2002 Utilization**	**New charges during 2002**	**Balance 12/31/02**
In thousands of dollars				
Asset management improvements	$ 2,700	$ (2,700)	$ —	$ —
Product line rationalization	15,529	(15,644)	115	—
Supply chain efficiency improvements	8,300	(8,400)	100	—
Voluntary work force reduction program	8,860	(8,860)	—	—
Total	$35,389	$(35,604)	$215	$ —

New charges during 2002 related to realignment of the Corporation’s sales organizations and termination benefits. Utilization recorded against the liability in 2002 reflected cash payments totaling $25.7 million and non-cash write-offs of $9.9 million associated primarily with exiting certain businesses. The cash payments related primarily to severance payments associated with the enhanced mutual separation program and plant closures, outsourcing the manufacture of certain ingredients, VWRP administrative expenses, the realignment of the Corporation’s sales organizations and other expenses associated with exiting certain businesses and maintaining properties prior to sale.

Gain on Sale of Business

In September 2001, the Corporation completed the sale of the *Luden’s* throat drops business to Pharmacia Consumer Healthcare, a unit of Pharmacia Corporation. Included in the sale were the trademarks and manufacturing equipment for the throat drops business. In the third quarter of 2001, the Corporation received cash proceeds of $59.9 million and recorded a gain of $19.2 million before tax, $1.1 million after tax, as a result of the transaction. A higher gain for tax purposes reflected the low tax basis of the intangible assets included in the sale, resulting in taxes on the gain of

$18.1 million. Net sales for the *Luden’s* throat drops business were $8.9 million and $20.7 million in 2001 and 2000, respectively.

Interest Expense, Net

Net interest expense for 2002 was $8.4 million below the prior year, primarily as a result of a decrease in short-term interest expense due to reduced average short-term borrowings. Net interest expense for 2001 was $6.9 million below 2000 reflecting a decrease in short-term interest expense due to a decrease in average short-term borrowing rates and reduced average short-term borrowings.

Income Taxes

The Corporation’s effective income tax rate was 36.7% in 2002, 39.7% in 2001, and 38.8% in 2000. Excluding the income tax benefit associated with charges pertaining to the business realignment initiatives and the income tax provision associated with the gain on the sale of the *Luden’s* throat drops business, the effective income tax rate was 37.3% in 2001. The decrease in the effective income tax rate of .6 percentage points in 2002 primarily reflected the impact of the elimination of the amortization of intangibles effective January 1, 2002. The decrease of 1.5 percentage points from 2000 to 2001 was primarily due to the lower tax rate on the mint and gum business acquired in December 2000.

Net Income

Net income increased $196.4 million from 2001 to 2002. Excluding the after-tax effect of the business realignment initiatives in 2002 and 2001, the after-tax effect of incremental expenses to explore the possible sale of the Corporation in 2002 and the after-tax gain on the sale of the *Luden’s* throat drops business in 2001, net income increased $44.5 million or 11%.

Net income decreased $127.4 million, or 38%, from 2000 to 2001. Excluding the after-tax gain on the sale of the *Luden’s* throat drops business and the after-tax effect of the business realignment initiatives recorded in 2001, as well as the after-tax gain on sale of corporate aircraft in 2000, net income increased $47.8 million, or 14%, from

2000 to 2001. Net income reflecting the elimination of the amortization of intangibles would have been higher by $13.6 million and $13.5 million in 2001 and 2000, respectively.

Comparable net income reflecting the elimination of the amortization of intangibles as a percent of net sales was: 10.6% in 2002, excluding the after-tax effect of the business realignment initiatives and incremental expenses to explore the possible sale of the Corporation; 9.5% in 2001, excluding the after-tax gain on the sale of the *Luden's* throat drops business and the after-tax effect of the business realignment initiatives; and 9.0% in 2000, excluding the after-tax gain on the sale of corporate aircraft.

FINANCIAL CONDITION

The Corporation's financial condition remained strong during 2002. The 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 December 31, 2002, and 44% as of December 31, 2001. The ratio of current assets to current liabilities was 2.3:1 as of December 31, 2002, and 1.9:1 as of December 31, 2001.

In June 2002, the Corporation completed the sale of certain confectionery brands to Farley's & Sathers for $12.0 million in cash as part of its business realignment initiatives. Included in the transaction were the *Heide, Jujyfruits, Wunderbeans* and *Amazin' Fruit* trademarked confectionery brands, as well as the rights to sell *Chuckles* branded products, under license.

In September 2001, the Corporation completed the sale of the *Luden's* throat drops business to Pharmacia Consumer Healthcare, a unit of Pharmacia Corporation. Included in the sale were the trademarks and manufacturing equipment for the throat drops business. Under a supply agreement with Pharmacia, the Corporation agreed to manufacture *Luden's* throat drops for up to 19 months

after the date of sale. Under a separate services agreement, the Corporation agreed to continue to sell, warehouse and distribute *Luden's* throat drops through March 2002. In the third quarter of 2001, the Corporation received cash proceeds of $59.9 million and recorded a gain of $19.2 million before tax, $1.1 million or $.01 per share-diluted after tax, as a result of the transaction.

In July 2001, the Corporation's Brazilian subsidiary, Hershey do Brasil, acquired the chocolate and confectionery business of Visagis for $17.1 million. This business had sales of approximately $20 million in 2000. Included in the acquisition were the *IO-IO* brand of hazelnut creme items and the chocolate and confectionery products sold under the *Visconti* brand. Also included in the purchase were a manufacturing plant and confectionery equipment in Sao Roque, Brazil. Had the results of the acquisition been included in the consolidated results for the full year of 2001 and for 2000, the effect would not have been material.

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

Assets

Total assets increased $233.1 million, or 7%, as of December 31, 2002, primarily as a result of higher cash and cash equivalents, prepaid expenses and other current assets, and other non-current assets, partially offset by lower deferred income taxes, inventories, property, plant, and equipment, and goodwill.

Current assets increased by $96.1 million, or 8%, principally reflecting increased cash and cash equivalents, prepaid expenses and other current assets, substantially offset by a decrease in deferred income taxes. The increase in cash and cash equivalents reflected strong cash flows from operations during the year, offset by contributions of $308.1 million to the Corporation's pension plans. Prepaid expenses and other current assets reflected higher prepaid pension expense associated with the funding of pension plans during the year and increased original margin balances for commodity futures. The elimination of current deferred income taxes resulted primarily from the significant liability related to the tax effect on other comprehensive income associated with the gains on commodity futures contracts during the year.

Property, plant and equipment was lower than the prior year primarily due to depreciation expense of $155.4 million and the retirement of property, plant and equipment of $19.0 million, partially offset by capital additions of $132.7 million. The decrease in goodwill primarily reflected the impact of the sale of certain confectionery brands to Farley's & Sathers and foreign currency translation. The increase in other non-current assets primarily resulted from the pension plan funding during the year.

Liabilities

Total liabilities increased by $8.6 million, as of December 31, 2002, primarily reflecting a reduction in accrued liabilities, partially offset by an increase in deferred income taxes. The decrease in accrued liabilities was principally the result of lower pension liabilities resulting from the funding in 2002 and a decrease in enhanced employee benefits and other liabilities associated with business realignment initiatives recorded in the fourth quarter of 2001. The increase in total current and non-current deferred income taxes was primarily associated with the impact of the tax effect on other comprehensive income and the pension funding, respectively.

Capital Structure

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

In December 2000, the Corporation's Board of Directors unanimously adopted a Stockholder Protection Rights Agreement ("Rights Agreement"). The Rights Agreement was supported by the Corporation's largest stockholder, the Milton Hershey School Trust. This action was not in response to any specific effort to acquire control of the Corporation. Under the Rights Agreement, the Corporation's Board of Directors declared a dividend of one right ("Right") for each outstanding share of Common Stock and Class B Stock payable to stockholders of record at the close of business on December 26, 2000. The Rights will at no time have voting power or receive dividends. The issuance of the Rights has no dilutive effect, will not affect reported earnings per share, is not taxable and will not change the manner in which the Corporation's Common Stock is traded. The Rights Agreement is discussed further in Note 15 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

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

Over the past three years, cash provided from operating activities exceeded cash requirements for dividend payments, capital expenditures and capitalized software additions, share repurchases, incentive plan transactions and business acquisitions by $177.1 million. Also during the period, the Corporation made contributions to its pension plans of $490.7 million. Total debt decreased during the period by $209.9 million, reflecting reduced short-term borrowings and the repayment of long-term debt. Cash and cash equivalents increased by $179.7 million during the period.

The Corporation anticipates that capital expenditures and capitalized software additions will be in the range of $150 million to $200 million per annum during the next several years as a result of continued efficiency improvements in existing facilities and capacity expansion to support sales growth and new products, along with continued improvement and enhancements of computer software. As of December 31, 2002, the Corporation's principal capital commitments included manufacturing capacity expansion to support sales growth and new products, modernization and efficiency improvements and selected enhancements of computer software.

Contributions totaling $308.1 million were made to the pension plans during 2002 primarily to improve the funded status as a result of negative returns on pension plan assets during the year. 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. An additional contribution of $95.0 million was made in December 2001 to fund payments related to the early retirement program implemented in the fourth quarter of that year.

Under share repurchase programs which began in 1993, a total of 19,600,982 shares of Common Stock have been repurchased for approximately $830.0 million, including purchases from the Milton Hershey School Trust of 4,000,000 shares for $103.1 million in 1993 and 1,579,779 shares for $100.0 million in 1999. Of the shares repurchased, 528,000 shares were retired and 7,571,170 shares were reissued to satisfy stock options obligations, Supplemental Retirement Contributions and

employee stock ownership trust ("ESOP") obligations. Of the shares reissued, 6,228,387 shares were repurchased in the open market to replace the reissued shares. Additionally, the Corporation has purchased a total of 28,000,536 shares of its Common Stock to be held as Treasury Stock from the Milton Hershey School Trust for $1.0 billion in privately negotiated transactions. As of December 31, 2002, a total of 45,730,735 shares were held as Treasury Stock. The share repurchase program approved by the Corporation's Board of Directors in October 1999 for $200 million was completed in December 2002. Also in December 2002, the Corporation's Board of Directors approved an authorization to acquire, from time to time in open market or through privately negotiated transactions, up to $500 million of its Common Stock. This authorization is expected to be completed within approximately 12 months, subject to trading liquidity, and will be funded by cash provided from operations and short-term borrowings.

In March 1997, the Corporation issued $150 million of 6.95% Notes under a November 1993 Form S-3 Registration Statement. In August 1997, the Corporation filed another Form S-3 Registration Statement under which it could offer, on a delayed or continuous basis, up to $500 million of additional debt securities. Also in August 1997, the Corporation issued $150 million of 6.95% Notes due 2012 and $250 million of 7.2% Debentures due 2027 under the November 1993 and August 1997 Registration Statements. Proceeds from the debt issuance were used to repay a portion of the short-term borrowings associated with the purchase of Common Stock from the Milton Hershey School Trust. As of December 31, 2001, $250 million of debt securities remained available for issuance under the August 1997 Registration Statement. Proceeds from any offering of the $250 million of debt securities available under the shelf registration may be used for general corporate requirements, which include reducing existing commercial paper borrowings, financing capital additions and share repurchases, and funding future business acquisitions and working capital requirements.

As of December 31, 2002, the Corporation maintained short-term and long-term committed credit facilities with a syndicate of banks in the amount of $400 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation may increase the credit facilities to $1.0 billion with the concurrence of the banks. In November 2002, the short-term credit facility agreement was renewed with a credit limit of $200 million expiring in November 2003. The long-term committed credit facility agreement with a $200 million credit limit will expire in November 2006. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions. The Corporation also had lines of credit with domestic and international commercial banks of $21.0 million and $21.7 million as of December 31, 2002 and 2001, respectively.

The Corporation negotiated a settlement with the Internal Revenue Service (“IRS”) of its Corporate Owned Life Insurance (“COLI”) program effective October 1, 2001. The resulting Closing Agreement with the IRS limited the COLI interest expense deductions for all applicable tax years and resulted in the surrender of all insurance policies, thereby ending the COLI program. The settlement was a complete resolution of all federal and state tax aspects of this program.

Cash Flow Activities

Over the past three years, cash from operating activities provided approximately $1.8 billion. Over this period, cash used by or provided from accounts receivable and inventories has tended to fluctuate as a result of sales during December and inventory management practices. Cash provided from inventories was principally associated with a reduction of raw material inventories in December 2001 as part of the Corporation’s business realignment initiatives. The change in cash required for or provided from other assets and liabilities between the years was primarily related to hedging transactions, the timing of payments for accrued liabilities, including income taxes, and variations in the funded status of pension plans.

Investing activities included capital additions, capitalized software additions, business acquisitions and divestitures. Capital additions during the past three years included the purchase of manufacturing equipment, and expansion and modernization of existing facilities. Capitalized

software additions over the past three years were associated primarily with the ongoing enhancement of information systems.

In June 2002, the Corporation completed the sale of certain confectionery brands to Farley’s & Sathers for $12.0 million in cash as part of its business realignment initiatives.

In July 2001, the Corporation’s Brazilian subsidiary, Hershey do Brasil, acquired the chocolate and confectionery business of Visagis for $17.1 million. In September 2001, the *Luden’s* throat drops business was sold for $59.9 million in cash. The acquisition of Nabisco’s mint and gum business for $135.0 million was completed in 2000.

Financing activities included debt borrowings and repayments, payments of dividends, the exercise of stock options, incentive plan transactions, and the repurchase of Common Stock. During the past three years, short-term borrowings in the form of commercial paper or bank borrowings were used to purchase Nabisco’s mint and gum business, fund seasonal working capital requirements, and finance share repurchase programs. During the past three years, a total of 4,261,484 shares of Common Stock have been repurchased for $224.4 million. Cash used for incentive plan transactions of $274.7 million during the past three years was partially offset by cash received from the exercise of stock options of $141.1 million. Cash used by incentive plan transactions reflected purchases of the Corporation’s Common Stock in the open market to replace treasury stock issued for stock options exercises.

Off-Balance Sheet Arrangements, Contractual Obligations and Contingent Liabilities and Commitments

The following table summarizes the Corporation’s contractual cash obligations by year:

	Payments Due by Year (In thousands of dollars)						
Contractual Obligations	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**	**Total**
Unconditional Purchase Obligations	$806,300	$481,900	$134,600	$ 6,000	$ 6,000	$ 8,200	$1,443,000
Non-cancelable Operating	17,617	17,331	17,157	14,562	10,750	18,361	95,778

Leases							
Long-term Debt	16,989	636	201,639	142	150,144	499,239	868,789
Total Obligations	$840,906	$499,867	$353,396	$20,704	$166,894	$525,800	$2,407,567

In entering into these contractual obligations, the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation's risk is limited to replacing the contracts at prevailing market rates. The Corporation does not expect any significant losses as a result of counterparty defaults.

The Corporation has entered into certain obligations for the purchase of raw materials. Purchase obligations primarily reflect forward contracts for the purchase of raw materials from third-party brokers and dealers to minimize the effect of future price fluctuations. Total obligations for each year are comprised of fixed price contracts for the purchase of commodities and unpriced contracts which have been valued using market prices as of December 31, 2002. The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. However, the variability of such costs is mitigated to the extent of the Corporation's futures price cover for those periods. Accordingly, increases or decreases in market prices will be offset by gains or losses on commodity futures contracts to the extent that the unpriced contracts are hedged as of December 31, 2002 and in future periods. These obligations are satisfied by taking delivery of the specific commodities for use in the manufacture of finished goods. For each of the three years in the period ended December 31, 2002, such obligations were fully satisfied by taking delivery of and making payment for the specific commodities.

The Corporation has entered into three off-balance sheet arrangements for the leasing of certain warehouse and distribution facilities. These off-balance sheet arrangements enabled the Corporation to lease these facilities under more favorable terms than other leasing alternatives. The operating lease arrangements are with special purpose trusts ("SPTs") whereby the Corporation leases warehouse and distribution facilities in Redlands, California; Atlanta, Georgia; and Hershey, Pennsylvania, as discussed below. The SPTs were formed to facilitate the acquisition and subsequent leasing of the facilities to the Corporation. The SPTs financed the acquisition of the facilities by issuing notes and equity certificates to independent third-party financial institutions. The independent third-party financial institution which holds the equity certificates is the owner of the SPTs. The owner of the SPTs has made substantive residual equity capital investments in excess of 3% which will be at risk during the entire term of each lease. Accordingly, the Corporation is not permitted to consolidate the SPTs because all of the conditions for consolidation have not been met. Aside from the residual guarantees and instrument guarantees associated with the individual leasing arrangements, as discussed below, the Corporation has provided no other guarantees or capitalization of these entities. The obligations in connection with these leases have not been collateralized by the Corporation. The Corporation has no obligations with respect to refinancing of the lessor's debt, would incur no significant penalties which would result in the reasonable assurance of continuation of the leases and has no significant guarantees in addition to the residual and instrument guarantees discussed below. There are no other material commitments or contingent liabilities associated with the leasing arrangements. The Corporation's transactions with the SPTs are limited to the operating lease agreements and the associated rent expense is included in cost of sales in the Consolidated Statements of Income. The Corporation does not anticipate entering into any other arrangements involving special purpose entities.

The leases include substantial residual guarantees by the Corporation for a significant amount of the financing and options to purchase the facilities at original cost. Pursuant to instrument guarantees, in the event of a default under the lease agreements, the Corporation guaranteed to the note holders and certificate holders payment in an amount equal to all sums then due under the leases.

In December 2000, the Corporation entered into an operating lease agreement with the owner of the warehouse and distribution facility in Redlands, California. The lease term was approximately ten years, with occupancy to begin upon completion of the facility. The lease agreement contained an option for the Corporation to purchase the facility. In January 2002, the Corporation assigned its right to purchase the facility to an SPT that in turn purchased the completed facility and leased it to the Corporation under a new operating lease agreement. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. The cost incurred by the SPT to acquire the facility, including land, was $40.1 million.

In October 2000, the Corporation entered into an operating lease agreement with an SPT for the leasing of a warehouse and distribution facility near Atlanta, Georgia. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. The cost incurred by the SPT to acquire the facility, including land, was $18.2 million.

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

There are no penalties or other disincentives under the lease agreements if the Corporation decides not to renew any of the three leases. The terms for each renewal period under each of the three lease arrangements are identical to the initial terms and do not represent bargain lease terms.

If the Corporation were to exercise its options to purchase the three facilities at original cost at the end of the respective initial lease terms, the Corporation could purchase the facilities for a total of approximately $120.0 million, $79.9 million for the Pennsylvania and Georgia facilities in 2005, and $40.1 million for the California facility in 2007. If the Corporation chooses not to renew the leases

or purchase the assets at the end of the lease terms, the Corporation is obligated under the residual guarantees for approximately $103.2 million in total for the three leases. Additionally, the Corporation is obligated to re-market each property on the lessor’s behalf and, upon sale, distribute a portion of the proceeds to the note holders and certificate holders up to an amount equal to the remaining debt and equity certificates and to pay closing costs. If the Corporation chooses not to renew or purchase the assets at the end of the lease terms, the Corporation does not anticipate a material disruption to operations, since such facilities are not unique, facilities with similar racking and storage capabilities are available in each of the areas where the facilities are located, there are no significant leasehold improvements that would be impaired, there would be no adverse tax consequences, the financing of replacement facilities would not be material to the Corporation’s cash flows and costs related to relocation would not be significant to income.

The facility located near Hershey, Pennsylvania was constructed on land owned by the Corporation. The Corporation entered into a ground lease with the lessor, an SPT. The initial term of the ground lease extends to the date that is the later of (i) the date the facility lease is no longer in effect, or (ii) the date when the Corporation satisifies the residual guarantee associated with the lease. An additional term for the ground lease begins upon the end of the initial ground lease term and ends upon the later of the date all sums required to be paid under the lease agreement are paid in full and the 75th anniversary of the ground lease commencement date. If the Corporation chooses not to renew the building lease or purchase the building, it must re-market the building on the lessor’s behalf subject to the ground lease, which will continue in force until the earlier of the date all sums required to be paid under the lease agreement are paid in full and the 75th anniversary of the ground lease inception date. The lease of the warehouse and distribution facility does not include any provisions which would require the Corporation to sell the land to the SPT.

In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46, *“Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.”* This Interpretation addresses consolidation by business enterprises of special-purpose entities (SPEs) to which the usual condition for consolidation described in Accounting Research Bulletin No. 51, *“Consolidated Financial Statements,”* does not apply because the SPEs have no voting interests or otherwise are not subject to control through ownership of voting interests.

The Interpretation is effective for calendar year companies beginning in the third quarter of 2003 and it is reasonably possible that the Interpretation will require the consolidation of the Corporation’s three off-balance sheet arrangements with SPTs for the leasing of certain warehouse and distribution facilities as described in Note 4, Commitments. The consolidation of these entities will result in an increase to property, plant and equipment of approximately $120.0 million, with a corresponding increase to long-term debt and minority interest. The consolidation of these entities will also result in an increase to depreciation expense of approximately $5.0 million on an annual basis.

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

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

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

SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation, including interest rate swaps, foreign exchange contracts and commodities futures contracts, are designated and accounted for as cash flow hedges. The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6 to the Consolidated Financial Statements, Derivative Instruments and Hedging Activities.

The information below summarizes the Corporation's market risks associated with long-term debt and derivative instruments outstanding as of December 31, 2002. This information should be read in conjunction with Note 1, Note 6 and Note 8 to the Consolidated Financial Statements.

Long-Term Debt

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt, including the current portion, as of December 31, 2002. The fair value of long-term debt was determined based upon quoted market prices for the same or similar debt issues.

	Maturity Date (In thousands of dollars except for rates)							
	2003	**2004**	**2005**	**2006**	**2007**	**Thereafter**	**Total**	**Fair Value**
Long-term Debt	$16,989	$636	$201,639	$142	$150,144	$499,239	$868,789	$1,005,943
Fixed Rate	2.0%	5.8%	6.7%	2.0%	6.9%	7.4%	7.1%	

The fair value of long-term debt increased $48.2 million from the prior year as a result of a decrease in interest rates for the same or similar debt instruments as of December 31, 2002.

Interest Rate Swaps

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively converted variable-interest-rate rental payments on certain operating leases from a variable to a fixed rate of 6.1%. The fair value of interest rate swaps is defined as the difference in the present values of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. The fair value of the swap agreements is calculated quarterly based upon the quoted market price for the same or similar financial instruments. The fair value of the interest rate swap agreements was a liability of $7.1 million and $2.7 million as of December 31, 2002 and 2001, respectively. The potential loss in fair value of interest rate swaps resulting from a hypothetical near-term adverse change in market

rates of ten percent was $.7 million and $.3 million as of December 31, 2002 and 2001, respectively. The Corporation's risk related to the interest rate swap agreements is limited to the cost of replacing the agreements at prevailing market rates.

Foreign Exchange Contracts

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

Foreign exchange forward contracts are intended to be and are effective as hedges of firm, identifiable, foreign currency commitments. Prior to January 1, 2001, the Corporation accounted for foreign exchange forward contracts in accordance with Statement of Financial Accounting Standards No. 52, "*Foreign Currency Translation*," and accordingly, gains and losses were deferred and accounted for as part of the underlying transactions.

As of January 1, 2001, the Corporation accounted for foreign exchange forward contracts under SFAS No. 133, as amended. Foreign exchange forward contracts are designated as cash flow hedging derivatives and the fair value of such contracts is recorded on the Consolidated Balance Sheets as either an asset or liability. Gains and losses on these contracts are recorded as a component of other comprehensive income and are reclassified into earnings in the same period during which the hedged transaction affects earnings.

As of December 31, 2002, the Corporation had foreign exchange forward contracts maturing primarily in 2003 and 2004 to purchase $45.1 million in foreign currency, primarily British sterling and euros, and to sell $17.2 million in foreign currency, primarily Japanese yen, at contracted forward rates.

As of December 31, 2001, the Corporation had foreign exchange forward contracts maturing primarily in 2002 and 2003 to purchase $24.3 million in foreign currency, primarily British sterling and euros, and to sell $12.2 million in foreign currency, primarily Japanese yen, at contracted forward rates.

The fair value of foreign exchange contracts is defined as the amount of the difference between contracted and current market foreign currency exchange rates as of the end of the period. On a quarterly basis, the fair value of foreign exchange contracts is estimated by obtaining market quotes for future contracts with similar terms, adjusted where necessary for maturity differences. As of December 31, 2002, the fair value of foreign exchange forward contracts was an asset of $3.1 million. As of December 31, 2001, the fair value of foreign exchange forward contracts was a liability of $.3 million. The potential loss in fair value of foreign exchange contracts resulting from a hypothetical near-term adverse change in market rates of ten percent was $.3 million and less than $.1 million as of December 31, 2002 and 2001, respectively. The Corporation's risk related to the foreign exchange contracts is limited to the cost of replacing the contracts at prevailing market rates.

Commodity Price Risk Management

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

to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

The cost of cocoa beans and the prices for the related commodity futures contracts historically have been subject to wide fluctuations attributable to a variety of factors, including the effect of weather on crop yield, other imbalances between supply and demand, currency exchange rates, political unrest in producing countries and speculative influences. Cocoa prices in 2002 rose sharply following a rebellion in the world's largest cocoa producing country, the Ivory Coast. Continued civil unrest could result in further price increases in 2003. The Corporation's costs during 2003 will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply and demand for specific varieties and grades of cocoa beans.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products for anticipated manufacturing requirements and to hedge transportation costs, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Prior to January 1, 2001, accounting for commodities futures contracts was in accordance with Statement of Financial Accounting Standards No. 80, "*Accounting for Futures Contracts.*" Futures contracts met the hedge criteria and were accounted for as hedges. Accordingly, gains and losses were deferred and recognized in cost of sales as part of the product cost.

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts (unrealized gains and losses) are made on a daily basis and prior to January 1, 2001, were included in prepaid expenses and other current assets or accrued liabilities on the Consolidated Balance Sheets. As of January 1, 2001, the Corporation accounted for commodities futures contracts under SFAS No. 133, as amended, and accordingly, cash transfers are reported as a component of other comprehensive income. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials, energy requirements and transportation costs in the future. Futures being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated purchases.

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

For the years ended December 31,	**2002**		**2001**	
In millions of dollars	**Fair Value**	**Market Risk (Hypothetical 10% Change)**	**Fair Value**	**Market Risk (Hypothetical 10% Change)**

Highest long position	$ 72.3	$7.2	$(15.1)	$ 1.5
Lowest long position	(30.1)	3.0	(96.9)	9.7
Average position (long)	23.8	2.4	(46.7)	4.7

The increase in fair values from 2001 to 2002 primarily reflected an increase in net commodity positions in 2002. The negative positions primarily resulted as unpriced physical forward contract futures requirements exceeded the amount of commodities futures being held at certain points in time during the years.

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

USE OF ESTIMATES AND OTHER CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Significant accounting policies employed by the Corporation, including the use of estimates, are presented in the Notes to Consolidated Financial Statements.

Critical accounting estimates involved in applying the Corporation's accounting policies are those that require management to make assumptions about matters that are highly uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, and would have a material impact on the presentation of the Corporation's financial condition, changes in financial condition or results of operations. The Corporation's most critical accounting estimates, discussed below, pertain to accounting policies for accounts receivable—trade, accrued liabilities and pension and other post-retirement benefit plans.

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers that satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. Accounts Receivable—Trade, as shown on the Consolidated Balance Sheets, were net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the financial statements, assessments of collectibility based on historical trends and an evaluation of the impact of current and projected economic conditions. The Corporation monitors the collectibility of its accounts receivable on an ongoing basis by analyzing the aging of its accounts receivable, assessing the credit worthiness of its customers and evaluating the impact of reasonably likely changes in economic conditions that may impact credit risks. Estimates with regard to the collectibility of accounts receivable are reasonably likely to change in the future.

Over the three year period ended December 31, 2002, the Corporation recorded expense averaging approximately $2.4 million per year for potential uncollectible accounts. Write-offs of uncollectible accounts, net of recoveries, averaged approximately $3.0 million over the same period. The provision for uncollectible accounts is recognized as selling, marketing and administrative expense on the Consolidated Statements of Income. Over the past three years, the allowance for doubtful accounts has ranged from 2% to 3% of gross accounts receivable. If reasonably possible near-term changes in the most material assumptions were made with regard to the collectibility of accounts receivable, the amounts by which the annual provision would have changed would range from a reduction in expense of approximately $2.6 million to an increase in expense of approximately $1.5 million. Changes in estimates for future uncollectible accounts receivable would not have a material impact on the Corporation's liquidity or capital resources.

Accrued Liabilities

Accrued liabilities requiring the most difficult or subjective judgments include liabilities associated with marketing promotion programs and potentially unsaleable products. The Corporation utilizes numerous trade promotions and consumer coupon programs. The costs of such programs are recognized as a reduction to net sales with the recording of a corresponding accrued liability based

on estimates at the time of product shipment or coupon release. The accrued liability for marketing promotions is determined through analysis of programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. The estimated costs of these programs are reasonably likely to change in the future as a result of changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products. Promotional costs were $461.6 million, $423.0 million and $400.6 million in 2002, 2001 and 2000, respectively. Reasonably possible near-term changes in the most material assumptions regarding the cost of promotional programs would have resulted in changes ranging from a reduction in such costs of approximately $13.7 million to an increase in costs of approximately $12.0 million, with an increase or decrease to net sales and operating income within that range. Over the last three years, actual promotion costs have not deviated from the estimated amounts by more than 4%. Changes in estimates related to the cost of promotion programs would not have a material impact on the Corporation's liquidity or capital resources.

At the time of sale, the Corporation estimates a cost for the possibility that products will become aged or unsaleable in the future. The estimated cost is included as a reduction to net sales. A related accrued liability is determined using statistical analysis that incorporates historical sales trends, seasonal timing and sales patterns, and product movement at retail. Changes in estimates for costs associated with unsaleable products may change as a result of inventory levels in the distribution channel, current economic trends, changes in consumer demand, the introduction of new products and changes in trends of seasonal sales in response to promotion programs. Over the three-year period ended December 31, 2002, costs associated with aged or unsaleable products have amounted to approximately 2% of gross sales. Reasonably possible near-term changes in the most material assumptions regarding the estimates of such costs would have increased or decreased net sales and operating income in a range from $.5 million to $1.0 million. In each of the years in the three-year period ended December 31, 2002, actual costs have not deviated from the Corporation's estimates by more than 2%. Reasonably possible near-term changes in the estimates of costs associated with unsaleable products would not have a material impact on the Corporation's liquidity or capital resources.

Pension and Other Post-Retirement Benefit Plans

The Corporation's policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 and federal income tax laws, respectively. Non-domestic pension liabilities are funded in accordance with applicable local laws and regulations. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. Short-term and long-term liabilities associated with benefit plans are primarily determined based on actuarial calculations. These calculations are made considering payroll and employee data, including age and years of service, along with actuarial assumptions at the date of the financial statements. The Corporation takes into consideration long-term projections with regard to economic conditions, including interest rates, return on assets and the rate of increase in compensation levels. With regard to liabilities associated with other post-retirement benefit plans that provide health care and life insurance, the Corporation takes into consideration the long-term annual rate of increase in the per capita cost of the covered benefits. In compliance with the provisions of Statement of Financial Accounting Standards No. 87, *"Employers' Accounting for Pensions,"* and Statement of Financial Accounting Standards No. 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions,"* the discount rate assumption is reviewed and may be revised annually. The expected long-term rate of return on assets assumption ("asset return assumption") for funded plans is by its nature of a longer duration and would be revised only when long-term asset return projections demonstrate that need.

Net periodic pension benefits costs for the Corporate sponsored plans were $29.8 million, $20.4 million and $14.4 million, respectively, in 2002, 2001 and 2000. For 2003, net periodic pension benefits cost is expected to increase primarily due to higher recognized net actuarial losses. Actuarial gains and losses may arise when actual experience differs from assumed experience or when the actuarial assumptions used to value the plan's obligations are revised from time to time. The

Corporation's policy is to amortize only unrecognized net actuarial gains/losses in excess of 10% of the respective plan's projected benefit obligation, or fair market value of assets, if greater. The estimated recognized net actuarial loss component of net periodic pension benefits cost for 2003 is $15.0 million based on the December 31, 2002 unrecognized net actuarial loss presented in Note 13, Pension and Other Post-Retirement Benefits Plans, of $305.5 million and an amortization period of primarily fifteen years, the average remaining service period of active employees expected to receive benefits under the plans ("average remaining service period"). Changes to the assumed rates of participant termination, disability and retirement would impact the average remaining service period. An increase in these rates would decrease the average remaining service period and a decrease in these rates would have the opposite effect. However, changes to these assumed rates are not anticipated at this time. The 2002 recognized net actuarial loss component of net periodic pension benefits cost was $4.4 million. Projections beyond 2003 are dependent on a variety of factors such as changes to the discount rate and the actual return on pension plan assets.

For 2002, the Corporation used a discount rate assumption of 7.0% in the calculation of net periodic pension benefits cost for all plans, except for a domestic plan which used 6.5% after August 31, 2002 due to the calculation of a settlement loss on that date. The settlement also required plan assets and obligations to be valued with updated assumptions as of that date for the calculation of net periodic pension benefits cost for the period from August 31, 2002 through December 31, 2002. For 2001 and 2000, a discount rate assumption of 7.5% was used in the calculation of net periodic pension benefits cost. The use of a different discount rate assumption can significantly impact net periodic pension benefits cost. A one percentage point decrease in the discount rate assumption would have increased 2002 net periodic pension benefits cost by $6.9 million and a one percentage point increase in the discount rate assumption would have decreased 2002 net periodic pension benefits cost by $4.4 million. The Corporation's discount rate represents the estimated rate at which pension benefits could be effectively settled. In order to estimate this rate, the Corporation considers the yields of several high-quality fixed income investments including 30 year AA and A Corporate bonds as well as the yield of the Merrill Lynch index for 10+ year high quality Corporate bonds.

The Corporation reduced its discount rate assumption to 6.3% for valuing obligations as of December 31, 2002 from 7.0% as of December 31, 2001, due to the declining interest rate environment. A one percentage point decrease in the discount rate assumption would have increased the December 31, 2002 pension benefits obligations by $89.6 million and a one percentage point increase in the discount rate assumption would have decreased the December 31, 2002 pension benefits obligations by $75.4 million.

For 2002, 2001 and 2000, an asset return assumption of 9.5% was used in the calculation of net periodic pension benefits cost and the expected return on plan assets component of net periodic pension benefits cost was based on the fair market value of pension plan assets. The use of a different asset return assumption can significantly impact net periodic pension benefits cost. A one percentage point decrease in the asset return assumption would have increased 2002 net periodic pension benefits cost by $6.2 million and a one percentage point increase in the asset return assumption would have decreased 2002 net periodic pension benefits cost by $6.2 million.

The Corporation’s pension asset investment policies specify ranges of pension asset allocation percentages for each asset class. The ranges for the domestic pension plans were as follows: large-capitalization domestic equities, 40%–55%; small/mid-capitalization domestic equities, 10%–20%; international equities, 5%–15%; fixed income investments, 15%–35%; and cash, 0%–5%. As of December 31, 2002, the actual allocations were within the ranges, except for fixed income investments which were slightly below the minimum point of the range and cash which was approximately 18% of plan assets. During December 2002, $150 million was contributed to the domestic pension plans which was not yet invested into one of the asset classes as of December 31, 2002. The level of volatility in pension plan asset returns is expected to be in line with the overall volatility of the markets and weightings within the asset classes disclosed.

The Corporation will be reducing the asset return assumption for 2003 to 8.5% based on an assessment of expected average asset returns for each asset class over the next 10 years utilizing outside investment manager projections. The geometric average asset return assumptions for the asset classes were as follows: large-capitalization domestic equities, 8.9%; small/mid-capitalization domestic equities, 9.9%; international equities, 9.4%; and fixed income investments, 6.5%. The historical geometric average return over the 15 years prior to December 31, 2002 was approximately 8.9%. Actual asset losses during 2002 and 2001 were approximately (13.1)% and (5.8)%, respectively.

For 2002 and 2001, the Corporation had no minimum funding requirements for the domestic plans and minimum funding requirements for the non-domestic plans were not material. However, the Corporation made contributions of $308.1 million in 2002 and $172.3 million in 2001 to improve the funded status. These contributions were fully tax deductible. A one percentage point change in the discount rate or asset return assumptions would not have changed the 2002 minimum funding requirements for the domestic plans. For 2003, there will be no minimum funding requirements for the domestic plans and minimum funding requirements for the non-domestic plans will not be material. However, the Corporation may choose to make contributions in 2003 to improve the funded status.

Other post-retirement benefits costs relate primarily to health care and life insurance benefits. Net periodic other post-retirement benefits costs for the Corporate sponsored plans were $23.7 million, $21.8 million and $15.0 million in 2002, 2001 and 2000, respectively. For the calculation of net periodic other post-retirement benefits cost, discount rate assumptions of 7.0%, 7.5% and 7.5% were used for 2002, 2001 and 2000, respectively. The use of a different discount rate assumption can significantly impact net periodic other post-retirement benefits costs. A one percentage point decrease in the discount rate assumption would have increased 2002 net periodic other post-retirement benefits costs by $2.6 million and a one percentage point increase in the discount rate assumption would have decreased 2002 net periodic other post-retirement benefits costs by $2.1 million.

The Corporation used discount rate assumptions of 6.3% and 7.0% to value the other post-retirement benefits obligations as of December 31, 2002 and 2001, respectively. A one percentage point decrease in the discount rate assumption would have increased the December 31, 2002 other post-retirement benefits obligations by $36.9 million and a one percentage point increase in the discount rate assumption would have decreased the December 31, 2002 other post-retirement benefits obligations by $30.9 million.

Other critical accounting policies employed by the Corporation include the following:

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. Through December 31, 2001, goodwill resulting from business acquisitions was amortized over 40 years. 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.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in

a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the other intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the first quarter of 2002 and the annual impairment tests were performed in the fourth quarter of 2002. No impairment of assets was determined as a result of these tests.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products for anticipated manufacturing requirements and to hedge transportation costs, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Prior to January 1, 2001, accounting for commodities futures contracts was in accordance with Statement of Financial Accounting Standards No. 80, "*Accounting for Futures Contracts.*" Futures contracts met the hedge criteria and were accounted for as hedges. Accordingly, gains and losses were deferred and recognized in cost of sales as part of the product cost.

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

The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation, including commodities futures contracts, are designated and accounted for as cash flow hedges. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activities.

Net after-tax gains on cash flow hedging derivatives reflected in comprehensive income were $106.7 million for 2002. Net after-tax losses on cash flow hedging derivatives reflected in comprehensive income were $7.8 million for 2001. Net gains and losses on cash flow hedging derivatives were primarily associated with commodities futures contracts. Reclassification adjustments from accumulated other comprehensive income (loss) to income, for gains or losses on cash flow hedging derivatives, were reflected

in cost of sales. Reclassification of gains of $17.9 million for 2002 and losses of $19.3 million for 2001 were associated with commodities futures contracts. Gains on commodities futures contracts recognized in cost of sales as a result of hedge ineffectiveness were approximately $1.5 million and $1.7 million before tax for the years ended December 31, 2002 and 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 amount of net 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 was approximately $54.5 million and $6.2 million after tax as of December 31, 2002 and 2001, respectively, which were principally associated with commodities futures contracts.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Stock were $167.8 million in 2002 and $154.8 million in 2001. The annual dividend rate on the Common Stock in 2002 was $1.31 per share, an increase of 8% over the 2001 rate of $1.21 per share. The 2002 dividend increase represented the 28th consecutive year of Common Stock dividend increases.

On February 12, 2003, the Corporation's Board of Directors declared a quarterly dividend of $.3275 per share of Common Stock payable on March 14, 2003, to stockholders of record as of February 25, 2003. It is the Corporation's 293rd consecutive Common Stock dividend. A quarterly dividend of $.295 per share of Class B Stock also was declared.

Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange ("NYSE") under the ticker symbol "HSY." Approximately 211.2 million shares of the Corporation's Common Stock were traded during 2002. The Class B Stock is not publicly traded.

The closing price of the Common Stock on December 31, 2002, was $67.44. There were 38,754 stockholders of record of the Common Stock and the Class B Stock as of December 31, 2002.

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

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2002				
1st Quarter	**$ .3025**	**$ .2725**	**$72.49**	**$65.92**
2nd Quarter	**.3025**	**.2725**	**72.14**	**62.13**
3rd Quarter	**.3275**	**.2950**	**79.49**	**56.45**
4th Quarter	**.3275**	**.2950**	**67.99**	**61.22**
Total	**$1.2600**	**$1.1350**		
2001				
1st Quarter	$ .2800	$ .2525	$70.15	$55.13
2nd Quarter	.2800	.2525	69.58	58.55
3rd Quarter	.3025	.2725	66.45	58.70
4th Quarter	.3025	.2725	68.62	60.40
Total	$1.1650	$1.0500		

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

RETURN MEASURES

Operating Return on Average Stockholders' Equity

The Corporation's operating return on average stockholders' equity was 34.6% in 2002. Over the most recent six-year period, the return has ranged from 28.9% in 1999 to 37.6% in 1998. For the purpose of calculating operating return on average stockholders' equity, earnings is defined as net income adjusted to reflect the impact of the elimination of the amortization of intangibles for all years and excluding the after-tax effect of incremental expenses to explore the possible sale of the Corporation in 2002, the after-tax effect of the business realignment initiatives in 2002 and 2001, and the after-tax gains on the sale of the *Luden's* throat drops business in 2001, the sale of corporate aircraft in 2000, and the sale of the pasta business in 1999.

Operating Return on Average Invested Capital

The Corporation's operating return on average invested capital was 19.7% in 2002. Over the most recent six-year period, the return has ranged from 15.4% in 1999 to 19.7% in 2002. Average invested capital consists of the annual average of beginning and ending balances of long-term debt, deferred income taxes and stockholders' equity. For the purpose of calculating operating return on average invested capital, earnings is defined as net income adjusted to reflect the impact of the elimination of the amortization of intangibles for all years and excluding the after-tax effect of incremental expenses to explore the possible sale of the Corporation in 2002, the after-tax effect of the business realignment initiatives in 2002 and 2001, the after-tax gains on the sale of the *Luden's* throat drops business in 2001, the sale of corporate aircraft in 2000, and the sale of the pasta business in 1999, and the after-tax effect of interest on long-term debt.

OUTLOOK

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

Going forward, the Corporation has set balanced long-term goals, including: three to four percent revenue growth; continued gross margin expansion; nine to eleven percent growth in earnings per share; improvement in returns on invested capital and continued market share gains. In December 2002, the Corporation announced an increase of approximately 11% in the price of standard-size candy bars effective January 1, 2003, representing an average increase of 3% over the entire domestic product line. Sales volume growth in 2003 is expected to be somewhat lower than the Corporation's long-term goal as a result of the price increase and sales growth in the first quarter of 2003 will be lower as a result of the buy-in in the fourth quarter of 2002.

The Corporation intends to make further gains in market share and to increase spending on brand building and selling capabilities in 2003. Results in 2003 will also benefit from cost savings generated from the business realignment initiatives and continued control of administrative costs.

The Corporation expects to expand margins in 2003, as the Corporation continues to increase sales in more profitable product lines and improve operating efficiencies throughout the supply chain. In addition, commodity costs are anticipated to be relatively stable in 2003 as a result of the Corporation's forward purchasing and hedging practices. The Corporation plans to achieve earnings per share growth of nine to eleven percent in 2003 from its operating performance and execution of its share repurchase program, as discussed below.

Profitability in future periods is affected by various factors, including sales volume, selling prices, raw material and logistics costs, manufacturing efficiencies and the mix of products sold in any period. Cocoa market prices rose sharply during 2002 and this increase accelerated following a rebellion in the world's largest cocoa producing country, the Ivory Coast. Continued civil unrest in the Ivory Coast could result in further cocoa price increases. The Corporation's costs during 2003 and beyond will not necessarily reflect market price fluctuations because of its forward purchasing practices, premiums and discounts reflective of relative values, varying delivery times, and supply

and demand for specific varieties and grades of cocoa beans. The Corporation's costs for cocoa will increase substantially in 2004; however, the Corporation expects to achieve its long-term goals for growth and profitability by a combination of price increases and/or product weight changes, improved sales mix, supply chain cost reductions and strict control of other costs to offset potential cost increases and respond to changes in the competitive environment.

The Corporation expects strong cash flows from operating activities in 2003. Net cash provided from operating activities is expected to exceed cash requirements for capital additions, capitalized software additions and anticipated dividend payments. The Corporation will continue to monitor the funded status of pension plans based on market performance and make future contributions as appropriate. The Corporation announced on December 12, 2002, that it is authorized to acquire up to $500 million of the Corporation's Common Stock in open market or through privately negotiated transactions. This authorization is expected to be completed within approximately 12 months, subject to trading liquidity, and will be funded by cash provided from operations and short-term borrowings.

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 that, 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 "intend," "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; customer and consumer response to selling price increases; changes in governmental laws and regulations, including taxes; market demand for new and existing products; changes in raw material and other costs; pension cost factors, such as actuarial assumptions and employee retirement decisions; and the Corporation's ability to implement improvements to and reduce costs associated with the Corporation's supply chain.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,	2002	2001	2000
In thousands of dollars except per share amounts			
Net Sales	**$4,120,317**	$4,137,217	$3,820,416
Costs and Expenses:			
Cost of sales	**2,561,052**	2,668,530	2,471,151
Selling, marketing and administrative	**833,426**	846,976	726,615
Business realignment and asset impairments	**27,552**	228,314	—
Gain on sale of business	**—**	(19,237)	—
Total costs and expenses	**3,422,030**	3,724,583	3,197,766
Income before Interest and Income Taxes	**698,287**	412,634	622,650
Interest expense, net	**60,722**	69,093	76,011
Income before Income Taxes	**637,565**	343,541	546,639
Provision for income taxes	**233,987**	136,385	212,096
Net Income	**$ 403,578**	$ 207,156	$ 334,543
Net Income Per Share—Basic	**$ 2.96**	$ 1.52	$ 2.44
Net Income Per Share—Diluted	**$ 2.93**	$ 1.50	$ 2.42
Cash Dividends Paid Per Share:			
Common Stock	**$ 1.260**	$ 1.165	$ 1.080
Class B Common Stock	**1.135**	1.050	.975

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

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31,	2002	2001
In thousands of dollars		
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 297,743**	$ 134,147
Accounts receivable—trade	**370,976**	361,726
Inventories	**503,291**	512,134
Deferred income taxes	**—**	96,939
Prepaid expenses and other	**91,608**	62,595
Total current assets	**1,263,618**	1,167,541
Property, Plant and Equipment, Net	**1,486,055**	1,534,901
Goodwill	**378,453**	388,702
Other Intangibles	**39,898**	40,426
Other Assets	**312,527**	115,860
Total assets	**$ 3,480,551**	$ 3,247,430
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 124,507**	$ 133,049
Accrued liabilities	**356,716**	462,901
Accrued income taxes	**12,731**	2,568
Deferred income taxes	**24,768**	—
Short-term debt	**11,135**	7,005
Current portion of long-term debt	**16,989**	921

Total current liabilities	**546,846**	606,444
Long-term Debt	**851,800**	876,972
Other Long-term Liabilities	**362,162**	361,041
Deferred Income Taxes	**348,040**	255,769
Total liabilities	**2,108,848**	2,100,226
Stockholders' Equity:		
Preferred Stock, shares issued: none in 2002 and 2001	**—**	—
Common Stock, shares issued: 149,528,564 in 2002 and 149,517,064 in 2001	**149,528**	149,516
Class B Common Stock, shares issued: 30,422,308 in 2002 and 30,433,808 in 2001	**30,422**	30,434
Additional paid-in capital	**593**	3,263
Unearned ESOP compensation	**(12,774)**	(15,967)
Retained earnings	**2,991,090**	2,755,333
Treasury—Common Stock shares, at cost: 45,730,735 in 2002 and 44,311,870 in 2001	**(1,808,227)**	(1,689,243)
Accumulated other comprehensive income (loss)	**21,071**	(86,132)
Total stockholders' equity	**1,371,703**	1,147,204
Total liabilities and stockholders' equity	**$ 3,480,551**	$ 3,247,430

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2002	2001	2000
In thousands of dollars			
Cash Flows Provided from (Used by) Operating Activities			
Net income	**$ 403,578**	$ 207,156	$ 334,543
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	**177,908**	190,494	175,964
Deferred income taxes	**137,817**	(49,342)	(16,400)
Gain on sale of business, net of tax of $18,134	**—**	(1,103)	—
Business realignment initiatives	**21,509**	171,852	—
Asset impairment write-downs	**—**	53,100	—
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	**(9,250)**	17,954	(26,930)
Inventories	**8,843**	94,405	28,029
Accounts payable	**(8,542)**	(16,183)	7,280
Other assets and liabilities	**(106,520)**	38,072	(90,277)
Net Cash Provided from Operating Activities	**625,343**	706,405	412,209
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	**(132,736)**	(160,105)	(138,333)
Capitalized software additions	**(11,836)**	(9,845)	(4,686)
Business acquisitions	**—**	(17,079)	(135,000)
Proceeds from divestitures	**12,000**	59,900	—
Other, net	**—**	3,142	6,206
Net Cash (Used by) Investing Activities	**(132,572)**	(123,987)	(271,813)
Cash Flows Provided from (Used by) Financing Activities			
Net change in short-term borrowings	**4,130**	(250,589)	48,428
Long-term borrowings	**304**	379	187
Repayment of long-term debt	**(9,578)**	(826)	(2,815)
Cash dividends paid	**(167,821)**	(154,750)	(144,891)
Exercise of stock options	**86,491**	30,210	24,376

Incentive plan transactions	**(158,507)**	(64,342)	(51,859)
Repurchase of Common Stock	**(84,194)**	(40,322)	(99,931)
Net Cash (Used by) Financing Activities	**(329,175)**	(480,240)	(226,505)
Increase (Decrease) in Cash and Cash Equivalents	**163,596**	102,178	(86,109)
Cash and Cash Equivalents as of January 1	**134,147**	31,969	118,078
Cash and Cash Equivalents as of December 31	**$ 297,743**	$ 134,147	$ 31,969
Interest Paid	**$ 64,343**	$ 72,043	$ 81,465
Income Taxes Paid	**57,495**	171,362	299,104

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

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned ESOP Compensation	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
In thousands of dollars									
Balance as of January 1, 2000	$ —	$149,507	$ 30,443	$ 30,079	$ (22,354)	$2,513,275	$(1,552,708)	$ (49,615)	$ 1,098,627
Net income						334,543			334,543
Other comprehensive (loss)								(7,101)	(7,101)
Comprehensive income									327,442
Dividends:									
Common Stock, $1.08 per share						(115,209)			(115,209)
Class B Common Stock, $.975 per share						(29,682)			(29,682)
Conversion of Class B Common Stock into Common Stock		1	(1)						—
Incentive plan transactions				(426)					(426)
Exercise of stock options				(16,728)			7,551		(9,177)
Employee stock ownership trust/benefits transactions				199	3,193				3,392
Repurchase of Common Stock							(99,931)		(99,931)
Balance as of December 31, 2000	—	149,508	30,442	13,124	(19,161)	2,702,927	(1,645,088)	(56,716)	1,175,036
Net income						207,156			207,156
Other comprehensive (loss)								(29,416)	(29,416)
Comprehensive income									177,740
Dividends:									
Common Stock, $1.165 per share						(122,790)			(122,790)
Class B Common Stock, $1.05 per share						(31,960)			(31,960)
Conversion of Class B Common Stock into Common Stock		8	(8)						—
Incentive plan transactions				1,062					1,062
Exercise of stock options				(11,863)			(3,833)		(15,696)
Employee stock ownership trust/benefits transactions				940	3,194				4,134
Repurchase of Common Stock							(40,322)		(40,322)
Balance as of December 31, 2001	—	149,516	30,434	3,263	(15,967)	2,755,333	(1,689,243)	(86,132)	1,147,204
Net income						**403,578**			**403,578**
Other comprehensive income								**107,203**	**107,203**
Comprehensive income									**510,781**
Dividends:									
Common Stock, $1.26 per share						**(133,285)**			**(133,285)**
Class B Common Stock, $1.135 per share						**(34,536)**			**(34,536)**
Conversion of Class B Common Stock into Common Stock		**12**	**(12)**						—
Incentive plan transactions				**(298)**					**(298)**
Exercise of stock options				**(3,517)**			**(34,790)**		**(38,307)**
Employee stock ownership trust/benefits transactions				**1,145**	**3,193**				**4,338**
Repurchase of Common Stock							**(84,194)**		**(84,194)**
Balance as of December 31, 2002	**$ —**	**$149,528**	**$ 30,422**	**$ 593**	**$ (12,774)**	**$2,991,090**	**$(1,808,227)**	**$ 21,071**	**$ 1,371,703**

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

HERSHEY FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in other notes to the consolidated financial statements.

Items Affecting Comparability

Certain reclassifications have been made to prior year amounts to conform to the 2002 presentation. During 2000 and 2001, the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF No. 01-9, *"Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products,"* was issued in November 2001 and codified earlier pronouncements. In accordance with EITF No. 01-9, certain consumer and trade promotion expenses, such as consumer coupon redemption expense, off-invoice allowances and various marketing performance funds previously reported in selling, marketing and administrative expense were reclassified as a reduction of net sales. Reclassifications for 2001 and 2000 were $423.0 million and $400.6 million, respectively. In addition, certain freight billings totaling $3.0 million for 2001, previously reported in cost of sales, were reclassified as an increase to net sales.

The consolidated financial statements include the impact of the Corporation's business realignment initiatives as described in Note 3. Cost of sales included charges resulting from the business realignment initiatives of $6.4 million and $50.1 million for the years ended December 31, 2002 and 2001, respectively. Additionally, selling, marketing and administrative expenses for the year ended December 31, 2002, included expenses of $17.2 million associated with the exploration of the potential sale of the Corporation.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Critical accounting estimates involved in applying the Corporation's accounting policies are those that require management to make assumptions about matters that are highly uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, and would have a material impact on the presentation of the Corporation's financial condition, changes in financial condition or results of operations. The Corporation's most critical accounting estimates pertain to accounting policies for accounts receivable—trade, accrued liabilities and pension and other post-retirement benefit plans.

Revenue Recognition

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

Cash Equivalents

Cash equivalents consist of highly liquid debt instruments, time deposits and money market funds with original maturities of three months or less. The fair value of cash and cash equivalents approximates the carrying amount.

Commodities Futures Contracts

In connection with the purchasing of cocoa, sugar, corn sweeteners, natural gas, fuel oil and certain dairy products for anticipated manufacturing requirements and to hedge transportation costs, the Corporation enters into commodities futures contracts as deemed appropriate to reduce the effect of price fluctuations. Prior to January 1, 2001, accounting for commodities futures contracts was in accordance with Statement of Financial Accounting Standards No. 80, "*Accounting for Futures Contracts.*" Futures contracts met the hedge criteria and were accounted for as hedges. Accordingly, gains and losses were deferred and recognized in cost of sales as part of the product cost.

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

The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation, including commodities futures contracts, are designated and accounted for as cash flow hedges. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activities.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvements. Maintenance and repair expenditures are charged to expense as incurred. Applicable interest charges incurred during the construction of new facilities and production lines are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives.

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated, in accordance with Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

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. Through December 31, 2001, goodwill resulting from business acquisitions was amortized over 40 years. 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.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the other intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

Goodwill was assigned to reporting units and transitional impairment tests were performed for goodwill and other intangible assets during the first quarter of 2002 and the annual impairment tests were performed in the fourth quarter of 2002. No impairment of assets was determined as a result of these tests.

Comprehensive Income

Comprehensive income (loss) is reported on the Consolidated Statements of Stockholders' Equity and accumulated other comprehensive income (loss) is reported on the Consolidated Balance Sheets. Additional information regarding comprehensive income is contained in Note 7, Comprehensive Income.

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

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

The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. Accordingly, gains and losses on cash flow hedging derivatives, to the extent effective, are included in other comprehensive income (loss) and reclassification adjustments are recorded as such gains and losses are ratably recorded in income in the same period as the hedged items affect earnings. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activities.

Foreign Exchange Contracts

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

Foreign exchange forward contracts are intended to be and are effective as hedges of firm, identifiable, foreign currency commitments. Prior to January 1, 2001, the Corporation accounted for foreign exchange forward contracts in accordance with Statement of Financial Accounting Standards No. 52, *"Foreign Currency Translation,"* and accordingly, gains and losses were deferred and accounted for as part of the underlying transactions. The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. Foreign exchange forward contracts are designated as cash flow hedging derivatives and the fair value of such contracts is recorded on the Consolidated Balance Sheets as either an asset or liability. Gains and losses on these contracts are recorded as a component of other comprehensive income and are reclassified into earnings in the same period during which the hedged transaction affects earnings. Additional information with regard to accounting policies for derivative instruments, including foreign exchange forward contracts, is contained in Note 6, Derivative Instruments and Hedging Activities.

License Agreements

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

Research and Development

The Corporation expenses research and development costs as incurred. Research and development expense was $23.4 million, $26.5 million and $25.4 million in 2002, 2001 and 2000, respectively.

Advertising

The Corporation expenses advertising costs as incurred. Advertising expense was $162.9 million, $187.2 million and $156.3 million in 2002, 2001 and 2000, respectively. Prepaid advertising as of December 31, 2002 and 2001, was $1.3 million and $4.0 million, respectively.

Computer Software

The Corporation capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Capitalized costs include only (1) external direct costs of materials and services consumed in developing or obtaining internal-use software, (2) payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project, and (3) interest costs incurred, when material, while developing internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

The unamortized amount of capitalized software as of December 31, 2002 and 2001, was $41.3 million and $51.6 million, respectively. Software costs are amortized using the straight-line method over the shorter of five years or the expected life of the software. Accumulated amortization of capitalized software was $78.4 million and $56.9 million as of December 31, 2002 and 2001, respectively.

The Corporation reviews the carrying value of software and development costs for impairment in accordance with its policy pertaining to the impairment of long-lived assets. Generally, measurement of impairment occurs when internal use computer software is not expected to provide substantive service potential, a significant change occurs in the extent or manner in which the software is used or is expected to be used, a significant change is made or will be made to the software program, or costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.

Employee Stock Options

As of December 31, 2002, the Corporation had two stock-based employee compensation plans, which are described more fully in Note 16, Stock Compensation Plans. The Corporation applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related Interpretations in accounting for those plans. No stock-based employee compensation expense is reflected in net income as all stock options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation,"* to stock-based employee compensation.

For the years ended December 31,	2002	2001	2000
In thousands of dollars except per share amounts			
Net income, as reported	**$403,578**	$207,156	$334,543
Deduct: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	**(12,421)**	(7,398)	(6,387)
Pro forma net income	**$391,157**	$199,758	$328,156
Earnings per share:			
Basic—as reported	**$ 2.96**	$ 1.52	$ 2.44
Basic—pro forma	**$ 2.86**	$ 1.47	$ 2.39
Diluted—as reported	**$ 2.93**	$ 1.50	$ 2.42
Diluted—pro forma	**$ 2.84**	$ 1.45	$ 2.37

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2002, 2001 and 2000, respectively: dividend yields of 1.9%, 2.2% and 1.8%; expected volatility of 28%, 28% and 27%; risk-free interest rates of 4.7%, 5.0% and 6.7%; and expected lives of 6.4 years, 6.4 years and 6.5 years.

New and Proposed Accounting Pronouncements

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* ("SFAS No. 144"). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a material effect on the Corporation's consolidated financial statements for 2002.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS No. 146"). The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34."* This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Corporation has no significant guarantees which would need to be recognized and measured under the Interpretation and no significant guarantees which meet the disclosure requirements as of December 31, 2002.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123"* ("SFAS No. 148"). SFAS No. 148 amends FASB Statement No. 123, *"Accounting for Stock-Based Compensation,"* ("SFAS No. 123") to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. Enhanced disclosures related to the accounting for stock-based employee compensation are provided in this Note 1 to the Consolidated Financial Statements under the heading Employee Stock Options.

In January 2003, the FASB issued Interpretation No. 46, *"Consolidation of Variable Interest Entities, an interpretation of ARB No. 51."* This Interpretation addresses consolidation by business enterprises of special-purpose entities (SPEs) to which the usual condition for consolidation described in Accounting Research Bulletin No. 51, *"Consolidated Financial Statements,"* does not apply because the SPEs have no voting interests or otherwise are not subject to control through ownership of voting interests.

The Interpretation is effective for calendar year companies beginning in the third quarter of 2003 and it is reasonably possible that the Interpretation will require the consolidation of the Corporation's three off-balance sheet arrangements with SPTs for the leasing of certain warehouse and distribution facilities as described in Note 4, Commitments. The consolidation of these entities will result in an increase to property, plant and equipment of approximately $120.0 million, with a corresponding increase to long-term debt and minority interest. The consolidation of these entities will also result in an increase to depreciation expense of approximately $5.0 million on an annual basis.

2. ACQUISITIONS AND DIVESTITURES

In June 2002, the Corporation completed the sale of a group of the Corporation's non-chocolate confectionery candy brands to Farley's & Sathers Candy Company, Inc. (the "sale of certain confectionery brands to Farley's & Sathers") for $12.0 million in cash as part of its business realignment initiatives. Included in the transaction were the *Heide*, *Jujyfruits, Wunderbeans* and *Amazin' Fruit* trademarked confectionery brands, as well as the rights to sell *Chuckles* branded products, under license.

In July 2001, the Corporation's Brazilian subsidiary, Hershey do Brasil, acquired the chocolate and confectionery business of Visagis for $17.1 million. This business had sales of approximately $20.0 million in 2000. Included in the acquisition were the *IO-IO* brand of hazelnut creme items and the chocolate and confectionery products sold under the *Visconti* brand. Also included in the purchase were a manufacturing plant and confectionery equipment in Sao Roque, Brazil.

In December 2000, the Corporation completed the purchase of the intense and breath freshener mints and gum business of Nabisco, Inc. ("Nabisco"). The Corporation paid $135.0 million to acquire the business, including *Ice Breakers* and *Breath Savers Cool Blasts* intense mints, *Breath Savers* mints,

and *Ice Breakers*, *Carefree*, *Stick*Free*, *Bubble Yum* and *Fruit Stripe* gums. Also included in the purchase were manufacturing machinery and equipment and a gum-manufacturing plant in Las Piedras, Puerto Rico.

In accordance with the purchase method of accounting, the purchase prices of the acquisitions were allocated to the underlying assets and liabilities at the dates of acquisition based on their estimated respective fair values. Total liabilities assumed were $31.0 million. Results subsequent to the dates of acquisition were included in the consolidated financial statements. Had the results of the acquisitions been included in the consolidated results for the periods prior to the acquisition dates, the effect would not have been material.

In September 2001, the Corporation completed the sale of the *Luden's* throat drops business to Pharmacia Consumer Healthcare, a unit of Pharmacia Corporation. Included in the sale were the trademarks and manufacturing equipment for the throat drops business. Under a supply agreement with Pharmacia, the Corporation agreed to manufacture *Luden's* throat drops for up to 19 months after the date of sale. Under a separate services agreement, the Corporation agreed to continue to sell, warehouse and distribute *Luden's* throat drops through March 2002. In the third quarter of 2001, the Corporation received cash proceeds of $59.9 million and recorded a gain of $19.2 million before tax, $1.1 million after tax, as a result of the transaction. A higher gain for tax purposes reflected the low tax basis of the intangible assets included in the sale, resulting in taxes on the gain of $18.1 million. Net sales for the *Luden's* throat drops business were $8.9 million and $20.7 million in 2001 and 2000, respectively.

3. 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 were completed during 2002. Remaining transactions primarily pertain to the sale of certain real estate associated with the closure of facilities, as discussed below, and possible pension settlement costs related to employee retirement decisions. The voluntary work force reduction program is also discussed in more detail below.

During 2002, charges to cost of sales and business realignment and asset impairments were recorded totaling $34.0 million before tax. The total included a charge to cost of sales of $6.4 million associated with the relocation of manufacturing equipment and a net business realignment and asset impairments charge of $27.6 million. Components of the net $27.6 million pre-tax charge included a $28.8 million charge for pension settlement losses resulting from the voluntary work force reduction program (“VWRP”), a $3.0 million charge for pension curtailment losses and special termination benefits resulting from manufacturing plant closures, a $.1 million charge relating to involuntary termination benefits and a $.1 million charge relating to the realignment of the domestic sales organization, partially offset by a $4.4 million favorable adjustment reflecting higher than estimated proceeds from the sale of certain assets.

During the fourth quarter of 2001, charges to cost of sales and business realignment and asset impairments were recorded totaling $278.4 million before tax. The total included a charge to cost of sales of $50.1 million associated with raw material inventory reductions and a business realignment and asset impairments charge of $228.3 million. Components of the $228.3 million pre-tax charge included $175.2 million for business realignment charges and $53.1 million for asset impairment charges. The $175.2 million for business realignment charges included $139.8 million for enhanced pension and other post-retirement benefits associated with the VWRP and $35.4 million which consisted of $5.0 million for involuntary termination benefits, $8.9 million for VWRP related voluntary separation benefits and administrative expenses, and $21.5 million for other costs associated with the business realignment initiatives described in more detail below. A liability for business realignment initiatives of $35.4 million was included in accrued liabilities as of December 31, 2001. The $53.1 million for asset impairment charges included $45.3 million for fixed

asset impairments and $7.8 million for goodwill impairment. The fixed asset impairments included $.3 million for land, $9.1 million for buildings and $35.9 million for machinery and equipment. In determining the fixed asset and goodwill impairment losses, fair value was estimated based on the expected sales proceeds.

These initiatives are expected to generate $75 million to $80 million of annual savings when fully implemented and contributed savings of approximately $38.0 million in 2002. As of December 31, 2002, there have been no significant changes to the estimated savings for the business realignment initiatives. Total costs associated with the business realignment initiatives were $312.4 million compared to the $310.0 million announced in January 2002. The increased costs related primarily to higher pension settlement losses resulting from the VWRP which reflected differences in actuarial assumptions, returns on pension plan assets and employee retirement decisions.

Asset Management Improvements

There were no additional 2002 business realignment and asset impairments charges recorded relating to asset management improvements. During 2002, cash payments totaling $2.7 million for equipment removal relating to outsourcing the manufacture of certain ingredients were recorded against the liability for business realignment initiatives. The 2001 charge to cost of sales of $50.1 million was a result of decisions to outsource the manufacture of certain ingredients and to significantly reduce the inventory levels of certain raw materials, primarily cocoa beans and cocoa butter. Also included in the charge was the impact of a decision to reduce raw material inventory levels for almonds and peanuts. The Corporation sold raw material inventories and delayed raw material deliveries during the fourth quarter of 2001. The 2001 pre-tax charge of $5.3 million, which was a component of the business realignment and asset impairments charge, included $2.7 million for equipment removal and $2.6 million relating to asset impairments.

Product Line Rationalization

During 2002, a 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. In addition, a pre-tax charge of $.7 million relating to pension curtailment losses and special termination benefits resulting from the closure of a manufacturing plant, as described below, was credited to pension benefit liabilities. Also during 2002, cash payments totaling $6.4 million, primarily for maintenance of properties prior to sale, severance and broker termination fees associated with exiting certain businesses were recorded against the liability for business realignment initiatives. Employee terminations were primarily related to the sale of certain confectionery brands to Farley’s & Sathers that resulted in the closure of a manufacturing facility in New Brunswick, New Jersey which was being held for sale as of December 31, 2002. During 2002, 142 employees were terminated and involuntary employee termination benefits paid were approximately $1.3 million. In addition, non-cash write-offs of $8.5 million associated with exiting the Corporation’s aseptically packaged drink business and $.7 million for inventory were also recorded against the liability for business realignment initiatives. Proceeds of $12.0 million for the sale of certain confectionery brands to Farley’s & Sathers exceeded the 2001 estimates which resulted in a $4.4 million favorable adjustment to the 2001 asset impairments charge for goodwill. Net sales associated with businesses sold or exited as part of the business realignment initiatives were approximately $11.6 million, $34.2 million and $38.3 million during 2002, 2001 and 2000 respectively.

The 2001 pre-tax charge of $28.3 million, which was a component of the business realignment and asset impairments charge, included $15.5 million relating to the sale or exit of certain businesses, the discontinuance of certain non-chocolate confectionery products and the realignment of the Corporation’s domestic and international sales organizations, $7.8 million relating to goodwill impairment and $5.0 million relating to fixed asset impairments.

Supply Chain Efficiency Improvements

During 2002, the manufacturing plant and facility closures occurred as planned. The manufacturing facility in Denver, Colorado was closed and the manufacturing equipment and machinery were sold or relocated for production at a contract manufacturer or other manufacturing plants. The Denver, Colorado plant had principally manufactured *Jolly Rancher* hard candy. The manufacturing facility in Pennsburg, Pennsylvania was closed and the production of *Pot of Gold* chocolates was moved to another manufacturing plant. A small manufacturing and packaging facility located in Palmyra, Pennsylvania, as well as a distribution center and certain minor facilities located in Oakdale, California were also closed. The Denver, Colorado facility is being held for sale and the Pennsburg, Pennsylvania facility is idle and is being held for possible future use.

During 2002, a pre-tax charge of $.1 million was credited to the liability for business realignment initiatives and a pre-tax charge of $2.3 million relating to pension curtailment losses and special termination benefits was credited to pension benefit liabilities. These charges resulted from the plant closures described above. Also during 2002, cash payments totaling $7.7 million relating to the plant and facility closures and non-cash write-offs of $.7 million for spare parts and supplies were recorded against the liability for business realignment initiatives. The cash payments included $3.8 million for the payment of involuntary employee termination benefits to 614 terminated employees associated with the plant and facility closures.

The 2001 pre-tax charge of $46.0 million, which was a component of the business realignment and asset impairments charge, included $8.3 million relating to the closure of the facilities described above and $37.7 million for fixed asset impairments.

Voluntary Work Force Reduction Program

During 2002, a net pre-tax charge of $28.8 million was credited to pension benefit liabilities 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. Also during 2002, cash payments totaling $8.9 million relating to the enhanced mutual separation program of the VWRP and administrative expenses were recorded against the liability for business realignment initiatives. Payments of pension and certain supplemental benefits were made from the assets of the Corporation’s pension plan which includes primarily salaried employees. During 2002, a reduction of approximately 500 employees resulted from the VWRP.

The VWRP was offered to certain eligible employees in the United States, Canada and Puerto Rico in October 2001 in order to reduce staffing levels and improve profitability. The VWRP consisted of an early retirement program and an enhanced mutual separation program. The early retirement program was offered to approximately 1,200 eligible salaried employees who were born prior to January 1, 1954, and were employed by the Corporation prior to January 1, 1999. The early retirement program provided enhanced pension, post-retirement and certain supplemental benefits. The enhanced mutual separation program provided increased severance and temporary medical benefits. The 2001 pre-tax charge of $148.7 million, which was a component of the business realignment and asset impairments charge, consisted of $139.8 million for pension and other post-retirement special termination benefits and curtailment losses associated with the early retirement program and $8.9 million associated with the VWRP enhanced mutual separation program and administrative expenses.

The following table summarizes the charges for certain business realignment initiatives in the fourth quarter of 2001 and the related activities completed through December 31, 2002:

Accrued Liabilities	Balance 12/31/01	2002 Utilization	New charges during 2002	Balance 12/31/02
In thousands of dollars				
Asset management improvements	$ 2,700	$ (2,700)	$ —	$—
Product line rationalization	15,529	(15,644)	115	—
Supply chain efficiency improvements	8,300	(8,400)	100	—
Voluntary work force reduction program	8,860	(8,860)	—	—
Total	$35,389	$(35,604)	$215	$—

New charges during 2002 related to realignment of the Corporation’s sales organizations and termination benefits. Utilization recorded against the liability in 2002 reflected cash payments totaling $25.7 million and non-cash write-offs of $9.9 million associated primarily with exiting certain businesses. The cash payments related primarily to severance payments associated with the enhanced mutual separation program and plant closures, outsourcing the manufacture of certain ingredients, VWRP administrative expenses, the realignment of the Corporation’s sales organizations and other expenses associated with exiting certain businesses and maintaining properties prior to sale.

4. COMMITMENTS

Rent expense was $34.6 million, $37.3 million and $40.8 million for 2002, 2001 and 2000, respectively. Rent expense pertains to all operating leases, which were principally related to certain administrative buildings, warehouse and distribution facilities and transportation equipment.

The Corporation has entered into certain obligations for the purchase of raw materials. Purchase obligations primarily reflect forward contracts for the purchase of raw materials from third-party brokers and dealers to minimize the effect of future price fluctuations. Total obligations for each year are comprised of fixed price contracts for the purchase of commodities and unpriced contracts which have been valued using market prices as of December 31, 2002. The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. However, the variability of such costs is mitigated to the extent of the Corporation's futures price cover for those periods. Accordingly, increases or decreases in market prices will be offset by gains or losses on commodity futures contracts to the extent that the unpriced contracts are hedged as of December 31, 2002 and in future periods. These obligations are satisfied by taking delivery of the specific commodities for use in the manufacture of finished goods. For each of the three years in the period ended December 31, 2002, such obligations were fully satisfied by taking delivery of and making payment for the specific commodities.

The Corporation has entered into three off-balance sheet arrangements for the leasing of certain warehouse and distribution facilities. These off-balance sheet arrangements enabled the Corporation to lease these facilities under more favorable terms than other leasing alternatives. The operating lease arrangements are with special purpose trusts ("SPTs") whereby the Corporation leases warehouse and distribution facilities in Redlands, California; Atlanta, Georgia; and Hershey, Pennsylvania, as discussed below. The SPTs were formed to facilitate the acquisition and subsequent leasing of the facilities to the Corporation. The SPTs financed the acquisition of the facilities by issuing notes and equity certificates to independent third-party financial institutions. The independent third-party financial institution which holds the equity certificates is the owner of the SPTs. The owner of the SPTs has made substantive residual equity capital investments in excess of 3% which will be at risk during the entire term of each lease. Accordingly, the Corporation is not permitted to consolidate the SPTs because all of the conditions for consolidation have not been met. Aside from the residual guarantees and instrument guarantees associated with the individual leasing arrangements, as discussed below, the Corporation has provided no other guarantees or capitalization of these entities. The obligations in connection with these leases have not been

collateralized by the Corporation. The Corporation has no obligations with respect to refinancing of the lessor's debt, would incur no significant penalties which would result in the reasonable assurance of continuation of the leases and has no significant guarantees in addition to the residual and instrument guarantees, discussed below. There are no other material commitments or contingent liabilities associated with the leasing arrangements. The Corporation's transactions with the SPTs are limited to the operating lease agreements and the associated rent expense is included in cost of sales in the Consolidated Statements of Income.

The leases include substantial residual guarantees by the Corporation for a significant amount of the financing and options to purchase the facilities at original cost. Pursuant to instrument guarantees, in the event of a default under the lease agreements, the Corporation guaranteed to the note holders and certificate holders payment in an amount equal to all sums then due under the leases.

In December 2000, the Corporation entered into an operating lease agreement with the owner of the warehouse and distribution facility in Redlands, California. The lease term was approximately ten years, with occupancy to begin upon completion of the facility. The lease agreement contained an option for the Corporation to purchase the facility. In January 2002, the Corporation assigned its right to purchase the facility to an SPT that in turn purchased the completed facility and leased it to the Corporation under a new operating lease agreement. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. The cost incurred by the SPT to acquire the facility, including land, was $40.1 million.

In October 2000, the Corporation entered into an operating lease agreement with an SPT for the leasing of a warehouse and distribution facility near Atlanta, Georgia. The lease term is five years, with up to four renewal periods of five years each with the consent of the lessor. The cost incurred by the SPT to acquire the facility, including land, was $18.2 million.

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

There are no penalties or other disincentives under the lease agreements if the Corporation decides not to renew any of the three leases. The terms for each renewal period under each of the three lease arrangements are identical to the initial terms and do not represent bargain lease terms.

If the Corporation were to exercise its options to purchase the three facilities at original cost at the end of the respective initial lease terms, the Corporation could purchase the facilities for a total of approximately $120.0 million, $79.9 million for the Pennsylvania and Georgia facilities in 2005, and $40.1 million for the California facility in 2007. If the Corporation chooses not to renew the leases or purchase the assets at the end of the lease terms, the Corporation is obligated under the residual guarantees for approximately $103.2 million in total for the three leases. Additionally, the Corporation is obligated to re-market each property on the lessor's behalf and, upon sale, distribute a portion of the proceeds to the note holders and certificate holders up to an amount equal to the remaining debt and equity certificates and to pay closing costs. If the Corporation chooses not to renew or purchase the assets at the end of the lease terms, the Corporation does not anticipate a material disruption to operations, since such facilities are not unique, facilities with similar racking and storage capabilities are available in each of the areas where the facilities are located, there are no significant leasehold improvements that would be impaired, there would be no adverse tax consequences, the financing of replacement facilities would not be material to the Corporation's cash flows and costs related to relocation would not be significant to income.

The facility located near Hershey, Pennsylvania was constructed on land owned by the Corporation. The Corporation entered into a ground lease with the lessor, an SPT. The initial term of the ground lease extends to the date that is the later of (i) the date the facility lease is no longer in effect, or (ii) the date when the Corporation satisifies the residual guarantee associated with the lease. An

additional term for the ground lease begins upon the end of the initial ground lease term and ends upon the later of the date all sums required to be paid under the lease agreement are paid in full and the 75th anniversary of the ground lease commencement date. If the Corporation chooses not to renew the building lease or purchase the building, it must re-market the building on the lessor's behalf subject to the ground lease, which will continue in force until the earlier of the date all sums required to be paid under the lease agreement are paid in full and the 75th anniversary of the ground lease inception date. The lease of the warehouse and distribution facility does not include any provisions which would require the Corporation to sell the land to the SPT.

In January 2003, the FASB issued Interpretation No. 46, "*Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,*" as discussed in Note 1 under the heading New and Proposed Accounting Pronouncements. The Interpretation is effective for calendar year companies beginning in the third quarter of 2003 and it is reasonably possible that the Interpretation will require the consolidation of the Corporation's three off-balance sheet arrangements with SPTs for the leasing of certain warehouse and distribution facilities.

Future minimum rental payments under non-cancelable operating leases with a remaining term in excess of one year as of December 31, 2002, totaled $95.8 million (2003—$17.6 million; 2004—$17.3 million; 2005—$17.2 million; 2006—$14.6 million; 2007—$10.7 million; 2008 and beyond—$18.4 million).

As of December 31, 2002, the Corporation had entered into purchase agreements with various suppliers. Subject to the Corporation's quality standards being met, the purchase obligations covered by these agreements aggregated approximately $806.3 million in 2003, $481.9 million in 2004, $134.6 million in 2005, $6.0 million in 2006, $6.0 million in 2007 and $8.2 million in 2008 and beyond.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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 years ended December 31, 2001 and 2000 is as follows:

For the years ended December 31,	2002	2001	2000
In thousands of dollars except per share amounts			
Reported net income:	**$403,578**	$207,156	$334,543
Add back: Goodwill amortization		11,959	12,242
Add back: Trademark amortization		1,620	1,235
Adjusted net income	**$403,578**	$220,735	$348,020
Basic earnings per share:			
Reported net income	**$ 2.96**	$ 1.52	$ 2.44
Goodwill amortization		.09	.09
Trademark amortization		.01	.01
Adjusted net income	**$ 2.96**	$ 1.62	$ 2.54
Diluted earnings per share:			
Reported net income	**$ 2.93**	$ 1.50	$ 2.42
Goodwill amortization		.09	.09
Trademark amortization		.01	.01
Adjusted net income	**$ 2.93**	$ 1.60	$ 2.52

Accumulated amortization of intangible assets resulting from business acquisitions was $129.2 million and $131.0 million as of December 31, 2002 and 2001, respectively.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation adopted SFAS No. 133, as amended, as of January 1, 2001. SFAS No. 133, as amended, provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. All derivative instruments currently utilized by the Corporation are designated as cash flow hedges.

Objectives, Strategies and Accounting Policies Associated with Derivative Instruments

The Corporation utilizes certain derivative instruments, from time to time, including interest rate swaps, foreign currency forward exchange contracts and commodities futures contracts, to manage variability in cash flows associated with interest rate, currency exchange rate and commodity market price risk exposures. The interest rate swaps and foreign currency contracts are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. Commodities futures contracts are entered into for varying periods and are intended to be and are effective as hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs. If it is probable that hedged forecasted transactions will not occur either by the end of the originally specified time period or within an additional two-month period of time, derivative gains and losses reported in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets are immediately reclassified into earnings. Gains and losses on terminated derivatives designated as hedges are accounted for as part of the originally hedged transaction. Gains and losses on derivatives designated as hedges of items that mature or are sold or terminated, are recognized in income in the same period as the originally hedged transaction was anticipated to affect earnings. The Corporation utilizes derivative instruments as cash flow hedges and does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Corporation has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any significant losses as a result of counterparty defaults.

Interest Rate Swaps

In order to minimize its financing costs and to manage interest rate exposure, the Corporation, from time to time, enters into interest rate swap agreements. In February 2001, the Corporation entered into interest rate swap agreements that effectively converted variable-interest-rate rental payments on certain operating leases from a variable to a fixed rate. Rental payments on operating leases associated with the financing of construction of a warehouse and distribution facility near Hershey, Pennsylvania for $61.7 million and the financing of the purchase of a warehouse and distribution facility near Atlanta, Georgia for $18.2 million are variable based on the London Interbank Offered Rate (“LIBOR”). Such variable operating lease rental payments are forecasted transactions as defined by SFAS No. 133, as amended. The interest rate swap agreements effectively converted the variable-interest-rate rental payments on the operating leases from LIBOR to a fixed rate of 6.1%. Future changes in LIBOR are offset by changes in the value of the interest rate swap agreements, resulting in expense recognized in cost of sales at the fixed rate of 6.1%. The interest rate swap agreements qualify as cash flow hedges and the notional amounts, interest rates and terms of the swap agreements are consistent with the underlying operating lease agreements they are intended to hedge and, therefore, there is no hedge ineffectiveness. Gains and losses on the interest rate swap agreements are included in other comprehensive income and are recognized in cost of sales in the same period as the hedged rental payments affect earnings.

The fair value of the interest rate swap agreements was a liability of $7.1 million and $2.7 million as of December 31, 2002 and 2001, respectively, and was determined based upon the quoted market price for the same or similar financial instruments. The fair value of interest rate swap agreements was included on the Consolidated Balance Sheets as other long-term liabilities, with the offset reflected in accumulated other comprehensive income (loss), net of income taxes. Cash flows from interest rate swap agreements are classified as net cash provided from operating activities on the Consolidated Statements of Cash Flows. The Corporation’s risk related to the interest rate swap agreements is limited to the cost of replacing the agreements at prevailing market rates.

Foreign Exchange Forward Contracts

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

Foreign exchange forward contracts are intended to be and are effective as hedges of firm, identifiable, foreign currency commitments. Since there is a direct relationship between the foreign currency derivatives and the foreign currency denomination of the transactions, foreign currency derivatives are highly effective in hedging cash flows related to transactions denominated in the corresponding foreign currencies. These contracts meet the criteria for cash flow hedge accounting treatment and, accordingly, gains and losses are included in other comprehensive income and are recognized in cost of sales or selling, marketing and administrative expense in the same period that the hedged items affect earnings. In entering into these contracts the Corporation has assumed the risk which might arise from the possible inability of counterparties to meet the terms of their contracts. The Corporation does not expect any significant losses as a result of counterparty defaults.

The fair value of foreign exchange forward contracts was estimated by obtaining quotes for future contracts with similar terms, adjusted where necessary for maturity differences. The fair value of foreign exchange forward contracts was an asset of $3.1 million and a liability of $.3 million as of December 31, 2002 and 2001, respectively, included on the Consolidated Balance Sheets as other current assets and accrued liabilities, respectively, with the offsets reflected in accumulated other comprehensive income (loss), net of income taxes. Cash flows from foreign exchange forward contracts designated as hedges of foreign currency price risks associated with the purchase of equipment are classified as net cash flows (used by) provided from investing activities on the Consolidated Statements of Cash Flows. Cash flows from other foreign exchange forward contracts are classified as net cash provided from operating activities.

Commodities Futures Contracts

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

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

Because of the rollover strategy used for commodities futures contracts, which is required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing

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

Exchange traded futures contracts are used to fix the price of physical forward purchase contracts. Cash transfers reflecting changes in the value of futures contracts (unrealized gains and losses) are made on a daily basis and are included in accumulated other comprehensive income (loss), net of income taxes, on the Consolidated Balance Sheets. Such cash transfers will be offset by higher or lower cash requirements for payment of invoice prices of raw materials, energy requirements and transportation costs in the future. Cash flows from commodities futures contracts are classified as net cash provided from operating activities on the Consolidated Statements of Cash Flows. Futures contracts being held in excess of the amount required to fix the price of unpriced physical forward contracts are effective as hedges of anticipated manufacturing requirements for each commodity. Physical commodity forward purchase contracts meet the SFAS No. 133 definition of “normal purchases and sales” and, therefore, are not considered derivative instruments.

Net after-tax gains on cash flow hedging derivatives reflected in comprehensive income were $106.7 million for 2002. Net after-tax losses on cash flow hedging derivatives reflected in comprehensive income were $7.8 million for 2001. Net gains and losses on cash flow hedging derivatives were primarily associated with commodities futures contracts. Reclassification adjustments from accumulated other comprehensive income (loss) to income, for gains or losses on cash flow hedging derivatives, were reflected in cost of sales. Reclassification of gains of $17.9 million for 2002 and losses of $19.3 million for 2001 were associated with commodities futures contracts. Gains on commodities futures contracts recognized in cost of sales as a result of hedge ineffectiveness were approximately $1.5 million and $1.7 million before tax for the years ended December 31, 2002 and 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 amount of net 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 was approximately $54.5 million and $6.2 million after tax as of December 31, 2002 and 2001, respectively, which were principally associated with commodities futures contracts.

7. COMPREHENSIVE INCOME

Comprehensive income consisted of the following:

For the years ended December 31,	2002	2001	2000
In thousands of dollars			
Net income	**$403,578**	$207,156	$334,543
Other comprehensive income (loss):			
Foreign currency translation adjustments	**(16,530)**	(6,745)	(6,185)
Minimum pension liability adjustments, net of tax	**34,899**	(34,219)	(916)
Gains (Losses) on cash flow hedging derivatives, net of tax	**106,748**	(7,764)	—
Add: Reclassification adjustments, net of tax	**(17,914)**	19,312	—
Other comprehensive income (loss)	**107,203**	(29,416)	(7,101)
Comprehensive income	**$510,781**	$177,740	$327,442

Comprehensive income is included on the Consolidated Statements of Stockholders' Equity. 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 January 1, 2000	$(49,615)	$ —	$ —	$ —	$ (49,615)
Current period (charge), gross	(6,185)	(1,529)	—	—	(7,714)
Income tax benefit	—	613	—	—	613
Balance as of December 31, 2000	(55,800)	(916)	—	—	(56,716)
Transition adjustment (loss), net of a tax benefit of $41,756	—	—	(70,191)	—	(70,191)
Current period (charge) credit, gross	(6,745)	(57,127)	99,565	30,800	66,493
Income tax benefit (expense)	—	22,908	(37,138)	(11,488)	(25,718)
Balance as of December 31, 2001	(62,545)	(35,135)	(7,764)	19,312	(86,132)
Current period (charge) credit, gross	**(16,530)**	**58,261**	**168,463**	**(28,300)**	**181,894**
Income tax (expense) benefit	**—**	**(23,362)**	**(61,715)**	**10,386**	**(74,691)**
Balance as of December 31, 2002	**$(79,075)**	**$ (236)**	**$ 98,984**	**$ 1,398**	**$ 21,071**

8. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 2002 and 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 December 31, 2002, compared to a fair value of $1,005.9 million based on quoted market prices for the same or similar debt issues. The carrying value of long-term debt, including the current portion, was $877.9 million as of December 31, 2001, compared to a fair value of $957.8 million.

As of December 31, 2002, the Corporation had foreign exchange forward contracts maturing in 2003 and 2004 to purchase $45.1 million in foreign currency, primarily British sterling and euros, and to sell $17.2 million in foreign currency, primarily Japanese yen, at contracted forward rates.

As of December 31, 2001, the Corporation had foreign exchange forward contracts maturing in 2002 and 2003 to purchase $24.3 million in foreign currency, primarily British sterling and euros, and to sell $12.2 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 December 31, 2002, the fair value of foreign exchange forward contracts was an asset of $3.1 million. As of December 31, 2001, the fair value of foreign exchange forward contracts was a liability of $.3 million. 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 converted variable-interest-rate rental payments on certain operating leases from a variable to a fixed rate of 6.1%. The fair value of interest rate swap agreements was a liability of $7.1 million and $2.7 million as of December 31, 2002 and 2001, respectively.

9. INTEREST EXPENSE

Interest expense, net consisted of the following:

For the years ended December 31,	2002	2001	2000
In thousands of dollars			
Long-term debt and lease obligations	**$65,183**	$65,500	$64,681
Short-term debt	**359**	7,468	16,420
Capitalized interest	**(1,144)**	(1,498)	(145)
Interest expense, gross	**64,398**	71,470	80,956
Interest income	**(3,676)**	(2,377)	(4,945)
Interest expense, net	**$60,722**	$69,093	$76,011

10. SHORT-TERM DEBT

Generally, the Corporation’s short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. As of December 31, 2002, the Corporation maintained short-term and long-term committed credit facilities with a syndicate of banks in the amount of $400 million which could be borrowed directly or used to support the issuance of commercial paper. The Corporation may increase the credit facilities to $1.0 billion with the concurrence of the banks. In November 2002, the short-term credit facility agreement was renewed with a credit limit of $200 million expiring in November 2003. The long-term committed credit facility agreement with a credit limit of $200 million will expire in November 2006. The credit facilities may be used to fund general corporate requirements, to support commercial paper borrowings and, in certain instances, to finance future business acquisitions.

The Corporation also maintains lines of credit with domestic and international commercial banks, under which it could borrow in various currencies up to approximately $21.0 million and $21.7 million as of December 31, 2002 and 2001, respectively, at the lending banks’ prime commercial interest rates or lower.

The Corporation had short-term foreign bank loans against its credit facilities and lines of credit of $11.1 million and $7.0 million as of December 31, 2002 and 2001, respectively. The amount of the Corporation’s short-term borrowings peaked in December 2002 at $11.1 million. The weighted average interest rates on short-term borrowings outstanding as of December 31, 2002 and 2001, were 0.3% and 0.2%, respectively.

The credit facilities and lines of credit were supported by commitment fee arrangements. The average fee during 2002 was less than .2% per annum of the commitment. The Corporation’s credit facility agreements contain a financial covenant which requires that a specified income to interest ratio be maintained. These agreements are also subject to other representations and covenants which do not materially restrict the Corporation’s activities. The Corporation is in compliance with all covenants included in the credit facility agreements. There were no significant compensating balance agreements which legally restricted these funds.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions in certain accounts at several banks. The Corporation has the contractual right of offset for the accounts with overdrafts. Such overdrafts, which were reflected as a reduction to cash and cash equivalents, were $24.8 million and $26.5 million as of December 31, 2002 and 2001, respectively.

11. LONG-TERM DEBT

Long-term debt consisted of the following:

December 31,	2002	2001
In thousands of dollars		
6.7% Notes due 2005	**$200,000**	$200,000
6.95% Notes due 2007	**150,000**	150,000
6.95% Notes due 2012	**150,000**	150,000
8.8% Debentures due 2021	**100,000**	100,000
7.2% Debentures due 2027	**250,000**	250,000

Other obligations, net of unamortized debt discount	**18,789**	27,893
Total long-term debt	**868,789**	877,893
Less—current portion	**16,989**	921
Long-term portion	**$851,800**	$876,972

Aggregate annual maturities during the next five years are: 2003, $17.0 million; 2004, $.6 million; 2005, $201.6 million; 2006, $.1 million; and 2007, $150.1 million. The Corporation's debt is principally unsecured and of equal priority. None of the debt is convertible into stock of the Corporation. The Corporation is in compliance with all covenants included in the related debt agreements.

12. INCOME TAXES

Income before income taxes was as follows:

For the years ended December 31,	2002	2001	2000
In thousands of dollars			
Domestic	**$625,385**	$320,065	$536,002
Foreign	**12,180**	23,476	10,637
Income before income taxes	**$637,565**	$343,541	$546,639

The provision for income taxes was as follows:

For the years ended December 31,	2002	2001	2000
In thousands of dollars			
Current:			
Federal	**$ 84,312**	$160,182	$212,858
State	**11,801**	22,155	12,184
Foreign	**57**	3,390	3,454
Current provision for income taxes	**96,170**	185,727	228,496
Deferred:			
Federal	**119,752**	(41,293)	(28,108)
State	**14,115**	(7,120)	11,986
Foreign	**3,950**	(929)	(278)
Deferred income tax provision (benefit)	**137,817**	(49,342)	(16,400)
Total provision for income taxes	**$233,987**	$136,385	$212,096

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

December 31,	2002	2001
In thousands of dollars		
Deferred tax assets:		
Post-retirement benefit obligations	**$ 102,487**	$ 99,882
Accrued expenses and other reserves	**91,586**	141,719
Accrued trade promotion reserves	**11,377**	22,134
Other	**26,935**	18,868
Total deferred tax assets	**232,385**	282,603
Deferred tax liabilities:		
Depreciation	**220,694**	237,750
Other comprehensive income—cash flow hedging derivatives	**59,518**	6,870
Pension	**119,742**	17,867
Inventory	**37,208**	31,091
Other	**168,031**	147,855

Total deferred tax liabilities	**605,193**	441,433
Net deferred tax liabilities	**$ 372,808**	$ 158,830
Included in:		
Current deferred tax liabilities (assets), net	**$ 24,768**	$ (96,939)
Non-current deferred tax liabilities, net	**348,040**	255,769
Net deferred tax liabilities	**$ 372,808**	$ 158,830

Additional information on income tax benefits and expenses related to the components of accumulated other comprehensive income (loss) is provided in Note 7, Comprehensive Income.

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

For the years ended December 31,	2002	2001	2000
Federal statutory income tax rate	**35.0%**	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	**2.6**	3.4	3.5
Gain on sale of *Luden's* throat drops business	**—**	1.6	—
Non-deductible acquisition costs	**—**	.7	.8
Puerto Rico operations	**(1.0)**	(1.2)	—
Other, net	**.1**	.2	(.5)
Effective income tax rate	**36.7%**	39.7%	38.8%

Included with the purchase of the Nabisco gum and mint business in December 2000, was a U.S. Internal Revenue Code ("IRC") Section 936 company with a subsidiary operating in Las Piedras, Puerto Rico. The operating income of this subsidiary is subject to a lower income tax rate in both the United States and Puerto Rico. The U.S. IRC Section 936 incentive is scheduled to expire on December 31, 2005.

The gain on the sale of the *Luden's* throat drops business in 2001 primarily reflected the lower tax basis of the intangible assets included in the sale, resulting in a higher effective income tax rate.

Effective October 1, 2001, the Corporation negotiated a settlement with the Internal Revenue Service ("IRS") of Notices of Proposed Deficiency associated with its Corporate Owned Life Insurance ("COLI") program. The resulting Closing Agreement with the IRS limited the COLI interest expense deductions for all applicable tax years and resulted in the surrender of all insurance policies, thereby ending the COLI program. The settlement reflected the complete resolution of all federal and state tax aspects of the program.

13. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

A summary of the changes in benefit obligations and plan assets as of December 31, 2002 and 2001 is presented below:

	Pension Benefits		Other Benefits	
December 31,	2002	2001	2002	2001
In thousands of dollars				
Change in benefits obligation				
Benefits obligation at beginning of year	**$ 837,540**	$ 655,178	**$ 301,406**	$ 256,307
Service cost	**31,890**	30,093	**3,157**	3,434
Interest cost	**50,372**	48,239	**19,674**	17,829
Amendments	**2,528**	48	**—**	—
Actuarial loss	**75,207**	44,261	**21,551**	4,959
Special termination benefits	**809**	106,273	**—**	15,451
Settlements	**(141,546)**	—	**—**	—
Curtailment (gain) loss	**(1,060)**	1,451	**62**	17,594
Other	**1,665**	(2,110)	**33**	(249)
Benefits paid	**(41,241)**	(45,893)	**(16,999)**	(13,919)

Benefits obligation at end of year	**816,164**	837,540	**328,884**	301,406
Change in plan assets				
Fair value of plan assets at beginning of year	**687,151**	602,871	**—**	—
Actual return on plan assets	**(95,385)**	(40,437)	**—**	—
Employer contribution	**308,080**	172,327	**16,999**	13,919
Settlements paid	**(141,546)**	—	**—**	—
Other	**(171)**	(1,717)	**—**	—
Benefits paid	**(41,241)**	(45,893)	**(16,999)**	(13,919)
Fair value of plan assets at end of year	**716,888**	687,151	**—**	—
Funded status	**(99,276)**	(150,389)	**(328,884)**	(301,406)
Unrecognized transition asset	**270**	52	**—**	—
Unrecognized prior service cost	**39,533**	43,092	**(10,180)**	(14,722)
Unrecognized net actuarial loss	**305,520**	108,298	**84,231**	65,468
Intangible asset	**(738)**	(44,397)	**—**	—
Accumulated other comprehensive loss	**(394)**	(57,127)	**—**	—
Prior service cost recognized due to curtailment	**—**	—	**—**	2,228
Prepaid (Accrued) benefits cost	**$ 244,915**	$(100,471)	**$(254,833)**	$(248,432)
Weighted-average assumptions				
Discount rate	**6.3%**	7.0%	**6.3%**	7.0%
Expected long-term rate of return on assets	**9.5**	9.5	**N/A**	N/A
Rate of increase in compensation levels	**4.9**	4.9	**N/A**	N/A

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003 and future years.

Contributions totaling $308.1 million were made to the Corporation's pension plans during 2002 primarily to improve the funded status as a result of the poor market performance of pension plan

assets during the year. In February 2001, the Corporation made a $75.0 million contribution to its domestic pension plans to improve the funded status. In December 2001, the Corporation made a $95.0 million contribution to one of its domestic pension plans to fund anticipated payments related to the early retirement program.

The unrecognized net actuarial loss for pension benefits in 2002 and 2001 was due primarily to the actual return on plan assets being less than the expected return and reduced discount rate assumptions.

As of December 31, 2002, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $87.7 million, $73.2 million and $35.0 million, respectively. As of December 31, 2001, for pension plans with accumulated benefit obligations in excess of plan assets, the related projected benefit obligation, accumulated benefit obligation and the fair value of plan assets were $794.3 million, $750.9 million and $657.3 million, respectively. Included in the projected benefit obligation and accumulated benefit obligation amounts as of December 31, 2002, were $29.3 million and $27.1 million, respectively, for an unfunded supplemental executive retirement program, which is a non-qualified plan that provides certain senior executives defined pension benefits based on their age, service and total compensation. Included in the projected benefit obligation and accumulated benefit obligation amounts as of December 31, 2001, were $41.6 million and $40.4 million, respectively, primarily associated with the supplemental executive retirement program.

A minimum pension liability adjustment is required when the actuarial present value of accumulated plan benefits exceeds plan assets and accrued pension liabilities. In 2002, the reversal of a minimum liability adjustment of $58.3 million, net of deferred tax expense of $23.4 million, was recorded as a component of other comprehensive income (loss) and reported in accumulated other comprehensive income (loss) as a component of stockholders' equity. In 2001, a minimum liability adjustment of $57.1 million, net of a deferred tax benefit of $22.9 million, was recorded as a component of other comprehensive income (loss) and reported in accumulated other comprehensive income (loss) as a component of stockholders' equity.

A summary of the components of net periodic benefits cost for the years ended December 31, 2002, 2001 and 2000 is presented below:

	Pension Benefits			Other Benefits		
For the years ended December 31,	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
In thousands of dollars						
Components of net periodic benefits cost						

Service cost	**$ 31,890**	$ 30,093	$ 27,961	**$ 3,157**	$ 3,434	$ 3,184
Interest cost	**50,372**	48,239	45,710	**19,674**	17,829	14,056
Expected return on plan assets	**(60,443)**	(61,791)	(60,143)	**—**	—	—
Amortization of prior service cost	**3,906**	3,891	3,783	**(1,858)**	(2,168)	(2,165)
Amortization of unrecognized transition balance	**(326)**	(27)	(286)	**—**	—	—
Recognized net actuarial loss (gain)	**4,371**	—	(2,670)	**2,774**	2,761	—
Other	**—**	—	—	**—**	(80)	(41)
Corporate sponsored plans	**29,770**	20,405	14,355	**23,747**	21,776	15,034
Multi-employer plans	**483**	615	577	**—**	—	—
Administrative expenses	**423**	297	421	**—**	—	—
Net periodic benefits cost	**30,676**	21,317	15,353	**23,747**	21,776	15,034
Special termination benefits	**809**	106,273	—	**—**	15,451	—
Curtailment loss	**2,116**	2,802	—	**—**	15,366	—
Settlement loss	**30,118**	—	—	**—**	—	—
Total amount reflected in earnings	**$ 63,719**	$130,392	$ 15,353	**$23,747**	$52,593	$15,034

The Corporation has two post-retirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually, and the life insurance plan is non-contributory.

In conjunction with the business realignment initiatives announced on October 24, 2001, the Corporation offered an early retirement program to approximately 10% of its work force in the fourth quarter of 2001. The early retirement program gave eligible salaried employees an opportunity to retire with enhanced benefits related to the Corporation's pension and other post-retirement benefit plans. In general, eligible employees were born before January 1, 1954, and were hired before January 1, 1999. Pension benefits were enhanced by adding five additional years of age and service to eligible employees' retirement accounts, along with certain supplemental benefits. Retiree medical benefits were enhanced by adding five additional years to age and service formulas used to determine retiree contributions.

In 2002, pension settlement and curtailment losses and special termination benefits totaled $33.0 million. This amount related primarily to the non-cash costs for pension settlements associated with departing employees electing a lump sum payment of their pension benefit under the early retirement program and for pension curtailments and special termination benefits associated with the closure of three manufacturing facilities as part of the business realignment initiatives.

The total pre-tax charge for the VWRP recorded in the fourth quarter of 2001 was $148.7 million and was accrued based on actual employee acceptances. Improved pension benefits under the early retirement program of $109.1 million will be funded through payments from one of the Corporation's defined benefit pension plans. Enhanced retiree medical benefits of $30.8 million will be funded from operating cash flows. Additional costs for outplacement services and enhanced severance benefits under a voluntary mutual separation program of $8.8 million were funded from operating cash flows.

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

In thousands of dollars	1 Percentage Point Increase	1 Percentage Point (Decrease)
Effect on total service and interest cost components	$ 837	$ (657)
Effect on post-retirement benefit obligation	11,601	(10,192)

14. EMPLOYEE STOCK OWNERSHIP TRUST

The Corporation's employee stock ownership trust ("ESOP") serves as the primary vehicle for contributions to its existing Employee Savings Stock Investment and Ownership Plan for participating domestic salaried and hourly employees. The ESOP was funded by a 15-year, 7.75% loan of $47.9 million from the Corporation. During 2002 and 2001, the ESOP received a combination of dividends on unallocated shares and contributions from the Corporation equal to the amount required to meet its principal and interest payments under the loan. Simultaneously, the ESOP allocated to participants 159,176 shares of Common Stock each year. As of December 31, 2002, the ESOP held 1,060,575 allocated shares and 636,696 unallocated shares. All ESOP shares are considered outstanding for income per share computations.

The Corporation recognized net compensation expense equal to the shares allocated multiplied by the original cost of $20.06 per share less dividends received by the ESOP on unallocated shares. Compensation expense related to the ESOP for 2002, 2001 and 2000 was $.9 million, $1.6 million and $3.2 million, respectively. Dividends paid on unallocated ESOP shares for 2002, 2001 and 2000 were $.9 million, $1.0 million and $1.1 million, respectively.

Dividends paid on all ESOP shares are recorded as a reduction to retained earnings. The unearned ESOP compensation balance in stockholders' equity represented deferred compensation expense to be recognized by the Corporation in future years as additional shares are allocated to participants.

15. CAPITAL STOCK AND NET INCOME PER SHARE

As of December 31, 2002, the Corporation had 530,000,000 authorized shares of capital stock. Of this total, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock ("Class B Stock"), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share. As of December 31, 2002, a combined total of 179,950,872 shares of both classes of common stock had been issued of which 134,220,137 shares were outstanding. No shares of the Preferred Stock were issued or outstanding during the three-year period ended December 31, 2002.

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

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 2002, 2001 and 2000, a total of 11,500 shares, 8,050 shares and 2,050 shares, respectively, of Class B Stock were converted into Common Stock.

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

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

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

Further, at any time after a person or group acquires 15% or more (but less than 50%) of the Corporation's Common Stock or more than 35% of the voting power of all outstanding Common Stock and Class B Stock, the Corporation's Board of Directors may, at its option, exchange all (but not less than all) of the outstanding Preferred Stock (other than Rights held by the acquiring person or group)

for shares of Common Stock or Class B Stock, as applicable, at an exchange ratio of one share of Common Stock or Class B Stock for each one one-thousandth of a share of Preferred Stock.

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

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School ("Milton Hershey School Trust"), as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 12,705,697 shares of the Common Stock, and as Trustee for the benefit of Milton Hershey

School, held 30,306,006 shares of the Class B Stock as of December 31, 2002, and was entitled to cast approximately 77.3% of the total votes of both classes of the Corporation's common stock. The Milton Hershey School Trust must approve the issuance of shares of Common Stock or any other action which would result in the Milton Hershey School Trust not continuing to have voting control of the Corporation.

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

For the years ended December 31,	2002	2001	2000
Shares issued	**179,950,872**	179,950,872	179,950,872
Treasury shares at beginning of year	**(44,311,870)**	(43,669,284)	(41,491,253)
Stock repurchases:			
Repurchase programs	**(1,300,345)**	(676,600)	(2,284,539)
Stock options and benefits	**(2,422,385)**	(1,037,455)	(957,261)
Stock issuances:			
Stock options and benefits	**2,303,865**	1,071,469	1,063,769
Treasury shares at end of year	**(45,730,735)**	(44,311,870)	(43,669,284)
Net shares outstanding at end of year	**134,220,137**	135,639,002	136,281,588

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

For the years ended December 31,	2002	2001	2000
In thousands except per share amounts			
Net income	**$403,578**	$207,156	$334,543
Weighted-average shares—basic	**136,538**	136,245	137,326
Effect of dilutive securities:			
Employee stock options	**1,067**	1,379	1,016
Performance and restricted stock units	**109**	72	23
Weighted-average shares—diluted	**137,714**	137,696	138,365
Net income per share—basic	**$ 2.96**	$ 1.52	$ 2.44
Net income per share—diluted	**$ 2.93**	$ 1.50	$ 2.42

For the years ended December 31, 2002, 2001 and 2000, 1.9 million, 2.0 million and 5.5 million stock options, respectively, were not included in the diluted earnings per share calculation because the exercise price was higher than the average market price of the Common Stock for the year and, therefore, the effect would have been antidilutive.

16. STOCK COMPENSATION PLANS

The long-term portion of the Key Employee Incentive Plan ("Incentive Plan") provides for grants to senior executives and key employees of stock-based compensation awards of one or more of the following: non-qualified stock options ("fixed stock options"), performance stock units, stock appreciation rights and restricted stock units. The Incentive Plan also provides for the deferral of performance stock unit and restricted stock unit awards by participants. As of December 31, 2002, 19.0 million shares (inclusive of adjustments for stock splits) were authorized and approved by the Corporation's stockholders for grants under the long-term portion of the Incentive Plan.

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

Fixed Stock Options

The exercise price of each option equals the market price of the Corporation's Common Stock on the date of grant (determined as the closing price of the Common Stock on the New York Stock Exchange on the business day immediately preceding the date the stock options were granted). Each option has a maximum term of ten years. Options granted under the Incentive Plan prior to December 31, 1999, vest at the end of the second year after grant. In 2000, the terms and conditions of the grant were changed to provide for pro-rated vesting over four years for options granted subsequent to December 31, 1999. Options granted under the HSY Growth program have a term of ten years and vested on January 7, 2002.

A summary of the status of the Corporation's fixed stock options as of December 31, 2002, 2001 and 2000, and changes during the years ending on those dates is presented below:

	2002		2001		2000	
Fixed Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**8,006,561**	**$46.39**	8,298,665	$43.10	6,905,924	$40.23
Granted	**1,356,605**	**$69.33**	781,900	$62.43	2,403,400	$44.99
Exercised	**(2,184,592)**	**$39.53**	(921,043)	$30.22	(933,219)	$26.19
Forfeited	**(214,012)**	**$50.30**	(152,961)	$46.84	(77,440)	$49.81
Outstanding at end of year	**6,964,562**	**$52.97**	8,006,561	$46.39	8,298,665	$43.10
Options exercisable at year-end	**3,970,269**	**$48.37**	4,544,590	$44.73	4,655,855	$41.24
Weighted-average fair value of options granted during the year (per share)	**$ 20.96**		$ 18.58		$ 15.58	

The following table summarizes information about fixed stock options outstanding as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/02	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/02	Weighted-Average Exercise Price
$24.1875-37.625	**1,070,425**	**2.8**	**$32.01**	**1,070,425**	**$32.01**
$41.00-49.8125	**2,333,793**	**6.6**	**$44.92**	**1,230,702**	**$44.85**
$55.1875-72.07	**3,560,344**	**7.3**	**$64.55**	**1,669,142**	**$61.45**
$24.1875-72.07	**6,964,562**	**6.3**	**$52.97**	**3,970,269**	**$48.37**

Performance Stock Units and Restricted Stock Units

Under the long-term portion of the Incentive Plan, each January the Corporation grants selected executives and other key employees performance stock units whose vesting is contingent upon the achievement of certain performance objectives. If at the end of the applicable three-year performance cycle targets for financial measures are met, the full number of shares are awarded to the participants. The performance scores can range from 0% to 275% of the targeted amounts. Restricted stock units were awarded in 2001 and 2002 under the long-term portion of the Incentive Plan to certain executive officers and were also awarded quarterly to non-employee directors of the Corporation as part of the Directors' Compensation Plan. The compensation amount charged against income for performance and restricted stock units was $6.4 million, $6.6 million and $1.8 million for 2002, 2001 and 2000, respectively. The compensation cost associated with the performance stock units is recognized ratably over the three-year term based on the year-end market value of the stock. The compensation cost associated with employee restricted stock units is recognized over a specified restriction period based on the year-end market value of the stock. The compensation cost associated with non-employee director restricted stock units is recognized at the grant date and adjusted based on the year-end market value of the stock. Performance stock units and restricted stock units granted for potential future distribution were as follows:

For the years ended December 31,	2002	2001	2000
Shares granted	**60,615**	111,007	58,550
Weighted-average fair value at date of grant	**$ 66.80**	$ 62.66	$ 49.65

Deferred performance stock units, deferred restricted stock units, deferred directors' fees and accumulated dividend amounts totaled 320,939 shares as of December 31, 2002.

No stock appreciation rights were outstanding as of December 31, 2002.

17. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts Receivable—Trade

In the normal course of business, the Corporation extends credit to customers that satisfy pre-defined credit criteria. The Corporation believes that it has little concentration of credit risk due to the diversity of its customer base. As of December 31, 2002, Wal-Mart Stores, Inc. and subsidiaries accounted for approximately 21% of the Corporation's total accounts receivable. As of December 31, 2002, no other customer accounted for more than 10% of the Corporation's total accounts receivable. Receivables, as shown on the Consolidated Balance Sheets, were net of allowances and anticipated discounts of $16.5 million and $16.0 million as of December 31, 2002 and 2001, respectively.

Inventories

The Corporation values the majority of its inventories under the last-in, first-out ("LIFO") method and the remaining inventories at the lower of first-in, first-out ("FIFO") cost or market. Inventories

include material, labor and overhead. LIFO cost of inventories valued using the LIFO method was $334.4 million and $351.1 million as of December 31, 2002 and 2001, respectively, and inventories were stated at amounts that did not exceed realizable values. Total inventories were as follows:

December 31,	2002	2001
In thousands of dollars		
Raw materials	**$154,893**	$160,343
Goods in process	**53,814**	51,184
Finished goods	**347,677**	354,100
Inventories at FIFO	**556,384**	565,627
Adjustment to LIFO	**(53,093)**	(53,493)
Total inventories	**$503,291**	$512,134

Property, Plant and Equipment

Property, plant and equipment balances included construction in progress of $121.4 million and $101.8 million as of December 31, 2002 and 2001, respectively. Net write-downs of property, plant and equipment of $45.3 million were recorded as a result of asset impairments associated with the Corporation's business realignment initiatives recorded in the fourth quarter of 2001. These initiatives included plans to close several manufacturing facilities to improve supply chain efficiency and to sell certain businesses as part of product line rationalization programs. Major classes of property, plant and equipment were as follows:

December 31,	2002	2001
In thousands of dollars		
Land	**$ 54,181**	$ 54,177
Buildings	**537,473**	524,531
Machinery and equipment	**2,311,365**	2,276,748
Property, plant and equipment, gross	**2,903,019**	2,855,456
Accumulated depreciation	**(1,416,964)**	(1,320,555)
Property, plant and equipment, net	**$ 1,486,055**	$ 1,534,901

As of December 31, 2002, certain real estate with a net realizable value of $4.0 million was being held for sale. These assets were associated with the closure of facilities as part of the Corporation's business realignment initiatives.

Accrued Liabilities

Accrued liabilities were as follows:

December 31,	2002	2001
In thousands of dollars		
Payroll, compensation and benefits	**$119,478**	$188,452
Advertising and promotion	**143,130**	142,768
Business realignment initiatives	**—**	35,389
Other	**94,108**	96,292
Total accrued liabilities	**$356,716**	$462,901

Accrued liabilities for payroll, compensation and benefits were higher in 2001 than in 2002 primarily as a result of the recording in the fourth quarter of 2001 the enhanced benefits of the VWRP, which was part of the business realignment initiatives.

Other Long-term Liabilities

Other long-term liabilities were as follows:

December 31,	2002	2001
In thousands of dollars		
Accrued post-retirement benefits	**$234,545**	$232,675
Other	**127,617**	128,366
Total other long-term liabilities	**$362,162**	$361,041

18. SEGMENT INFORMATION

The Corporation operates as a single reportable segment, encompassing the manufacture, distribution and sale of confectionery and grocery products. The Corporation's four operating segments are comprised of geographic areas including the United States, Canada and Mexico, and the combination of the Corporation's other international operations. For purposes of segment reporting, the Corporation's North American operations, the United States, Canada and Mexico, have been aggregated in accordance with the criteria of Statement of Financial Accounting Standards No. 131, *"Disclosures about Segments of an Enterprise and Related Information."* The North American operations were aggregated on the basis of their similar economic characteristics and the similarity of their products and services, production processes, types or classes of customers for their products and services, methods used to distribute products, and the nature of the regulatory environments. The Corporation's other international operations were aggregated with its North American operations to form one reportable segment, since the other international operations combined share most of the aggregation criteria and represent less than 10% of consolidated revenues, operating profits and assets. Consolidated net sales represented primarily sales of confectionery products.

The Corporation's principal operations and markets are located in the United States. The Corporation manufactures, markets, sells and distributes confectionery and grocery products in Canada, Mexico and Brazil, imports and/or markets selected confectionery products in China, the Philippines, Japan and South Korea and markets confectionery products in over 90 countries worldwide. Net sales and long-lived assets of businesses outside of the United States were not significant.

Sales to Wal-Mart Stores, Inc. and subsidiaries exceeded 10% of total net sales and amounted to approximately $857.9 million, $777.7 million and $674.2 million in 2002, 2001 and 2000, respectively.

19. QUARTERLY DATA (Unaudited)

Summary quarterly results were as follows:

Year 2002	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	**$988,506**	**$823,462**	**$1,152,321**	**$1,156,028**
Gross profit	**364,482**	**313,471**	**435,124**	**446,188**
Net income	**87,045**	**63,148**	**123,065**	**130,320**
Net income per share—Basic	**.64**	**.46**	**.90**	**.96**
Net income per share—Diluted[(a)]	**.63**	**.46**	**.89**	**.96**

Year 2001	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$988,002	$817,326	$1,178,909	$1,152,980
Gross profit	350,048	300,068	425,506	393,065
Net income (loss)	78,906	52,439	120,762	(44,951)[(b)]
Net income (loss) per share—Basic	.58	.38	.89	(.33)
Net income (loss) per share—Diluted	.57	.38	.88	(.33)

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

(b) Net income (loss) for the fourth quarter and year 2001 included a total after-tax charge for the business realignment initiatives of $171.9 million. Net income (loss) per share was similarly impacted.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The 2002 financial statements have been audited by KPMG LLP, independent auditors, whose appointment was approved by the Corporation's Board of Directors on May 10, 2002, following dismissal on April 30, 2002 of Arthur Andersen LLP, the Corporation's former independent auditors. KPMG LLP's report expresses an opinion that the Corporation's 2002 financial statements are fairly stated in conformity with accounting principles generally accepted in the United States, and their report states that their audit was performed in accordance with auditing standards generally accepted in the United States which are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Hershey Foods Corporation:

We have audited the accompanying consolidated balance sheet of Hershey Foods Corporation and subsidiaries (the "Corporation") as of December 31, 2002, and the related consolidated statements of income, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying consolidated balance sheet of Hershey Foods Corporation and subsidiaries as of December 31, 2001, and the related consolidated statements of income, cash flows and stockholders' equity for the years ended December 31, 2001 and 2000, before the revisions described in Notes 1 and 5 to the consolidated financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 22, 2002.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the accompanying consolidated balance sheet of Hershey Foods Corporation and subsidiaries as of December 31, 2001, and the related consolidated statements of income, cash flows and stockholders' equity for the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. As described in Notes 1 and 5, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Corporation as of January 1, 2002. As described in Note 1, these financial statements have been revised to reflect reclassifications of certain consumer and trade promotional expenses as required by Emerging Issues Task Force No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products.* In our opinion, the disclosures and reclassifications for 2001 and 2000 as described in Notes 1 and 5 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Hershey Foods Corporation other than with respect to such disclosures and reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

/s/ KPMG LLP

New York, New York
January 29, 2003

REPORT OF PREDECESSOR AUDITOR (ARTHUR ANDERSEN LLP)

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. As discussed in Note 1, in 2002, the Corporation adopted the provisions of Emerging Issues Task Force Issue 01-9, *"Accounting for Consideration Given by a Vendor to a Customer"* which requires reclassification of certain consumer and trade promotional expenses in the 2001 and 2000 consolidated income statements. Also, in 2002, the Corporation adopted Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* (SFAS No. 142). Included in Notes 1 and 5 are transitional disclosures for 2001 and 2000 that are required by SFAS No. 142. The Arthur Andersen LLP report does not extend to these changes in the 2001 and 2000 consolidated financial statements. The adjustments to the 2001 and 2000 consolidated financial statements were reported on by KPMG LLP as stated in their report appearing herein.

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

We have audited the accompanying consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2001, appearing on pages A-16 through A-43. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

New York, New York
January 22, 2002

HERSHEY FOODS CORPORATION
SIX-YEAR CONSOLIDATED FINANCIAL SUMMARY
All dollar and share amounts in thousands except market price and per share statistics

	5-Year Compound Growth Rate	2002	2001	2000	1999	1998	1997
Summary of Operations							
Net Sales(a)	1.3%	$ **4,120,317**	4,137,217	3,820,416	3,586,183	3,974,832	3,853,344
Cost of Sales	0.6%	$ **2,561,052**	2,668,530	2,471,151	2,354,724	2,625,057	2,488,896
Selling, Marketing and Administrative(a)	2.6%	$ **833,426**	846,976	726,615	673,099	707,112	734,238
Business Realignment and Asset Impairments Charge		$ **27,552**	228,314	—	—	—	—
Gain on Sale of Businesses(b)		$ **—**	19,237	—	243,785	—	—
Interest Expense, Net	(4.5)%	$ **60,722**	69,093	76,011	74,271	85,657	76,255
Provision for Income Taxes	1.5%	$ **233,987**	136,385	212,096	267,564	216,118	217,704
Net Income	3.7%	$ **403,578**	207,156	334,543	460,310	340,888	336,251
Earnings Per Share:							
—Basic	5.6%	$ **2.96**	1.52	2.44	3.29	2.38	2.25
—Diluted	5.6%	$ **2.93**	1.50	2.42	3.26	2.34	2.23
Weighted Average							

Shares Outstanding:								
—Basic			**136,538**	136,245	137,326	140,031	143,446	149,174
—Diluted			**137,714**	137,696	138,365	141,300	145,563	151,016
Dividends Paid on Common Stock	6.3%	$	**133,285**	122,790	115,209	109,175	103,616	98,390
Per Share	8.4%	$	**1.26**	1.165	1.08	1.00	.92	.84
Dividends Paid on Class B Common Stock	8.3%	$	**34,536**	31,960	29,682	27,553	25,428	23,156
Per Share	8.4%	$	**1.135**	1.05	.975	.905	.835	.76
Net Income as a Percent of Net Sales(a) (c)			**10.6%**	9.5%	9.0%	8.6%	9.0%	9.1%
Depreciation	2.8%	$	**155,384**	153,493	140,168	135,574	138,489	135,016
Advertising(a)	(3.8)%	$	**162,874**	187,244	156,319	158,965	182,383	197,801
Consumer Promotions(a)	12.2%	$	**62,893**	53,450	46,615	35,380	31,521	35,419
Payroll	2.5%	$	**594,372**	614,197	557,342	534,854	563,045	524,827
Year-end Position and Statistics								
Capital Additions	(5.2)%	$	**132,736**	160,105	138,333	115,448	161,328	172,939
Capitalized Software Additions	(16.5)%	$	**11,836**	9,845	4,686	25,394	42,859	29,100
Total Assets	1.1%	$	**3,480,551**	3,247,430	3,447,764	3,346,652	3,404,098	3,291,236
Long-term Portion of Debt	(3.7)%	$	**851,800**	876,972	877,654	878,213	879,103	1,029,136
Stockholders' Equity	10.0%	$	**1,371,703**	1,147,204	1,175,036	1,098,627	1,042,301	852,806
Operating Return on Average Stockholders' Equity(c)			**34.6%**	33.7%	30.2%	28.9%	37.6%	35.0%
Operating Return on Average Invested Capital(c)			**19.7%**	18.7%	16.5%	15.4%	18.1%	18.3%
Full-time Employees			**13,700**	14,400	14,300	13,900	14,700	14,900
Stockholders' Data								
Outstanding Shares of Common Stock and Class B Common Stock at Year-end			**134,220**	135,639	136,282	138,460	143,147	142,932
Market Price of Common Stock at Year-end	1.7%	$	**67.44**	67.70	64.38	47.44	62.19	61.94
Range During Year			**$79.49-56.45**	70.15-55.13	66.44-37.75	64.88-45.75	76.38-59.69	63.88-42.13

(a) All years have been restated in accordance with final consensuses reached on various EITF issues regarding the reporting of certain sales incentives.

(b) Includes the gain on the sale of the *Luden's* throat drops business in 2001 and the gain on the sale of the Corporation's pasta business in 1999.

(c) Net Income as a Percent of Sales, Operating Return on Average Stockholders' Equity and Operating Return on Average Invested Capital have been calculated using Net Income, excluding the after-tax impacts of the elimination of amortization of intangibles for all years, the after-tax effect of the 2001 and 2002 Business Realignment Initiatives, the after-tax effect of incremental expenses to explore the possible sale of the Corporation in 2002, the 1999 and 2001 Gain on the Sale of Businesses and the 2000 gain on the sale of certain Corporate aircraft. Net Income as a Percent of Net Sales, as reported above was 9.8% in 2002, 5.0% in 2001, 8.8% in 2000, 12.8% in 1999, 8.6% in 1998 and 8.7% in 1997.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

The following is a listing of Subsidiaries of the Corporation, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned. Certain subsidiaries are not listed since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary as of December 31, 2002.

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

INDEPENDENT AUDITORS' CONSENT

The Board of Directors and Stockholders
Hershey Foods Corporation:

We consent to the incorporation by reference in the registration statements (File No. 333-25853, File No. 333-33507, File No. 33-45431, File No. 33-45556, and File No. 333-52509) on Forms S-8 and S-3 of Hershey Foods Corporation of our reports dated January 29, 2003, with respect to the consolidated balance sheet of Hershey Foods Corporation and subsidiaries as of December 31, 2002, the related consolidated statements of income, cash flows and stockholders' equity for the year then ended, and the related financial statement schedule, which reports appear in the December 31, 2002 Annual Report on Form 10-K of Hershey Foods Corporation.

Our report refers to our audit of the disclosures added and reclassifications that were applied to revise the 2001 and 2000 consolidated financial statements, as more fully described in Notes 1 and 5 to the consolidated financial statements. However, we were not engaged to audit, review or apply any procedures to the 2001 and 2000 consolidated financial statements other than with respect to such disclosures and reclassifications.

/s/KPMG LLP

New York, New York
March 26, 2003

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of Hershey Foods Corporation (the "Company") hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: March 26, 2003

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

Dated: March 26, 2003

/s/ Frank Cerminara
Frank Cerminara
Chief Financial Officer