Hershey Foods Corporation

Proxy Statement and 2003 Annual Report to Stockholders

March 12, 2004

To Our Fellow Stockholders:

I'm pleased to report on a healthier Hershey Foods, a company which now is on track and on trend.

Last year, 2003, reflected continued progress behind our value-enhancing strategy. In 2001, we began to capitalize on the significant strengths within Hershey Foods while addressing the barriers to growth. During this time, we restructured our cost base to enable increased investment in our brand-building and selling capabilities.

This combination has resulted in solid market-share growth, as well as the achievement of top-tier financial performance. Equally important, we have an organization that's energized and committed to delivering superior value to our stockholders. Clearly, we are on track. Moving forward, we are on trend. We compete within the very attractive $60-billion snack market *and* have a competitively-advantaged business system well-positioned to capture significant future growth opportunities.

On Track

2003 Results

Hershey Foods delivered balanced, sustainable performance in 2003. Through a combination of improving top-line performance, market-share expansion and continued productivity gains, income for the year, excluding items affecting comparability, was $474.7 million or $3.59 per share-diluted, an increase of 13% vs. 2002*. This financial performance marked the third consecutive year of double-digit gains in earnings per share and is significantly improved compared with the prior period:

	1996-2000 CAGR	2001	2002	2003
EPS Growth (excluding items affecting comparability)*	5%	14%	12%	13%

* Please see the chart following this letter for a reconciliation of income and earnings per share-diluted before cumulative effect of accounting change as reported under GAAP to income and per share amounts excluding items affecting comparability.

2003 Highlights

Profitable Organic Growth

Consolidated net sales increased by 1%. We made significant progress in the key areas that represent both a source of competitive advantage and long-term marketplace potential. The first of these areas is our scale brands.

These brands, which contribute close to two-thirds of our retail sales, achieved a 6% increase in retail growth, gaining market share. A combination of value-added new items (*Sugar Free* and several Limited Edition varieties), superior advertising, and solid retail execution are positioning these brands for accelerating momentum.

The second such area of emphasis is "instant consumables," or single-serve items. This packaging format delivers superior taste *and* the convenience demanded by today's consumer. In 2003, instant consumables delivered 8% growth in retail takeaway.

We also continue to do well in the higher-margin Convenience Store channel, our third area of emphasis. This retail segment accounts for 17% of our wholesale sales and is growing. In 2003, our retail takeaway increased by 9%, resulting in a 0.9 point market-share gain in this channel. This follows a 10% increase in 2002, clear evidence that we're building growth on top of growth in this segment.

One of our major challenges in 2003 was to successfully implement the price increase that took effect in January. New product innovation and targeted retail programs, supported by strong in-store execution, combined to increase our leadership position in the largest, most-profitable chocolate segment (+6% growth and +0.2 share point gain). We achieved these results despite aggressive competitive activity that followed the price increase.

As with most businesses, we didn't achieve all of our goals for the year. Certain areas of our U.S. portfolio must improve. While we are the leader in the non-chocolate segment and have terrific brands (*Jolly Rancher* candy, *Twizzlers* candy, *PayDay* candy bar), we've yet to fully unlock their growth potential. This is a very different segment from chocolate confectionery, both from a consumer and customer standpoint. Our marketing initiatives must therefore reflect a different approach. Fortunately, good work is underway in the non-chocolate segment, particularly in the area of new products. We fully expect 2004 to be a much-improved year for these important brands.

Our business results were mixed outside the United States. Both Hershey Canada and Hershey Mexico (70% of our International sales) had a very strong year, with solid increases in sales, market share and income. The major area of weakness was in the Far East where several external factors such as the weak economy and the SARS epidemic contributed to the shortfall. Hershey International, while small overall, can and must be a source of predictable, profitable growth for the Company.

The rationalization of non-strategic, low-profitability items, while affecting the growth rate in reported sales, has been a key initiative in improving the long-term vitality of our portfolio. While this program is scheduled to be completed in 2004, we will remain disciplined about eliminating items that limit our potential for profitable growth.

Gross Margin Improvement

This past year marked the third consecutive year of very strong margin expansion. Improved price realization and sales mix, combined with supply chain productivity, contributed 110 basis points to gross margin expansion in 2003, building upon solid gains from the same factors in 2002 (+130 basis points) and 2001 (+140 basis points).

Our supply chain deserves special mention both in its contribution to improved gross margins and in its role as a major source of competitive advantage for Hershey Foods. From Research and Development on through Logistics, we have superb people and capabilities that yield a cost-effective and flexible supply chain. All areas—from raw materials and packaging savings to in-plant productivity initiatives to continued improvements within our logistics area—contributed in 2003 while delivering higher levels of customer service.

Organizational Effectiveness

Of equal, if not greater, importance to the success of 2003 was the progress we made with our organization. It's thanks to the over 13,000 people who *are* Hershey Foods that we were able to deliver upon our commitment to win both with our consumers and our customers. Not a day goes by that I don't witness this commitment first-hand.

Two major organizational initiatives took place during the year. The first was the restructuring of our U.S. sales force. Building upon Hershey Foods' long-standing reputation as a superior selling organization, we moved quickly and decisively to create a field sales structure that now reflects the ongoing consolidation of our customer base. This new structure created numerous opportunities for advancement for our sales personnel. By removing two layers of field sales management, we were able to reinvest the savings in store-level coverage (up 29% since 2002), a key advantage for our Company. Equally important was the investment in new information and selling capabilities. Winning at retail now requires both superior selling *and* superior store-level execution capabilities. I'm very encouraged by our progress to date.

The second major organizational change was the creation of the U.S. Snack Group in the second half of 2003. This group will enable us to aggressively enter the appropriate snack market adjacencies. We're off to a great start, with several new initiatives already announced for introduction in 2004.

Building our strategic and leadership capabilities continues throughout the organization. One exciting new effort is the KISS program (Knowledge and Insights for Strategic Success), launched in 2003 and currently being rolled out to all management levels. KISS utilizes a common framework for assessing business issues and developing sound business plans, and is designed to strengthen Hershey Foods' strategic thinking capabilities.

A strong indication of organization effectiveness is overall expense control. Despite significant increases in medical costs, pension expenses, etc., all areas of the Company delivered disciplined cost management during 2003. Our employees clearly were up to the challenge, understanding that general and administrative expenses must increase at a lower rate than sales if we are to continue to invest in our business over the long term.

Management and Board Changes

Two key management additions were made in 2003. Thomas K. Hernquist joined the Company in April 2003 as Senior Vice President and Chief Marketing Officer. Tom brings to Hershey Foods a broad base of marketing and general management experience across a large number of snack categories. His impact already can be seen in his commitment to building superior marketing capabilities within the Company and in major new product launches both in our core confectionery business and snack market adjacencies.

John P. Bilbrey joined the Company as Senior Vice President, President Hershey International in late 2003. JP has extensive international experience with major consumer products companies and brings a wealth of practical "marketplace knowledge" to this challenging area.

John C. Jamison, a director since 1974, has decided to retire from Hershey Foods' Board of Directors. John, one of the longest-serving Board members in the Company's history, has served our stockholders exceptionally well over the past 30 years. No one understands the Hershey culture and its relationship both with Wall Street and the Hershey community better than does John. To say that he will be missed is woefully inadequate. His dedication to our Company and its stockholders has set an exceptionally high standard for us all. John has served as Chair of the Audit Committee and has been a member of the Executive Committee since January 2002.

We were fortunate to add three new directors in 2003. Robert F. Cavanaugh joined the Board on October 7, 2003, and serves on the Audit Committee and the Compensation and Executive Organization Committee. Harriet Edelman joined the Board on April 22, 2003, and serves on the Audit Committee and the Compensation and Executive Organization Committee. Marie J. Toulantis also joined on April 22, 2003, and serves on the Audit Committee and the Committee on Directors and Corporate Governance. All three of our new directors bring significant experience and capabilities to the Hershey Foods Board.

Corporate Governance

Your Company, at both the Board and management levels, made significant progress in the area of corporate governance during 2003. In addition to the three new directors highlighted in the previous section, we established and filled the position of Deputy General Counsel and Chief Governance Officer. Susan M. Angele joined Hershey Foods in September 2003, bringing extensive food company legal experience. Susan will ensure on-going excellence in all governance matters.

The Board has complied with and in many instances exceeded the applicable requirements of the Sarbanes-Oxley Act, the rules of the Securities and Exchange Commission and the listing standards of the New York Stock Exchange. Our Board committees focusing on audit, directors (including nomination)/corporate governance and executive compensation/organization are composed exclusively of independent directors. Both our independent auditors and our internal audit group report directly to the Audit Committee. We've revised the charters for all Board-level committees as well as established the Hershey Foods corporate governance principles. These and related governance materials can be viewed on Hershey Foods' Internet website at www.hersheys.com.

To underscore that good corporate governance must extend beyond the Board level, we're implementing a new process to promote compliance with our Code of Ethical Business Conduct. The Code has been updated, now is available on the Hershey Foods Intranet and Internet website and will be communicated to all employees worldwide. All active salaried employees will be required to sign a statement acknowledging that they have read the Code, will comply with it and will report any Code violation. This new process will be implemented in the first half of 2004. The Company has long encouraged frank communication to foster compliance and, with Board approval, has established new Procedures for Submission and Handling of Complaints Regarding Compliance Matters. This also is available on the Hershey Foods Intranet and Internet website.

The capital structure of the Company was enhanced through the $500-million share repurchase program, of which 66% was completed in 2003. Taking advantage of both our strong cash flow from operations and the more favorable tax treatment for dividends, the Board increased the dividend rate by 21% in August 2003. This marks the 29^{th} consecutive year that the dividend has been increased.

The Board also implemented share ownership guidelines for directors and reaffirmed guidelines for key managers during the year, a move which further aligns the objectives of the Board and management with those of our stockholders.

On Trend

The past three years have built a sound foundation on which to grow. As we look to the future, there are three areas that will keep Hershey Foods on trend.

First is the attractive category in which we compete. Confectionery is the largest segment within the $60-billion snack market, representing 38% of total retail sales. In addition to its size, the confectionery category is #1 in household penetration, #1 in impulse purchases, #1 in terms of responsiveness to in-store merchandising and #1 in terms of conversion from awareness to purchase at the checkout aisle. Together, these make the category a very profitable one for our Company and for our retail customers.

The second area that will keep us on trend is our competitively-advantaged business. We have category-defining iconic brands with thirteen $100-million brands and great recognition within the snack market. Importantly, we've restored investment and vitality to these great brands over the past few years. The combination of both brand and portfolio scale provides strong leadership within the U.S. confectionery market. Our 29% market share is well above the competition and our broad retail distribution across multiple customer channels provides significant marketplace leverage. Further optimization of our manufacturing and logistics networks will facilitate better speed-to-market and an improving cost structure. Key to our success will be the selling capabilities that we're now putting in place. With the new sales structure less than a year old, we anticipate a significant step-up during 2004 in our ability to meet the ever-changing needs of our retail customers.

What will really keep Hershey Foods on trend is capturing transformational growth opportunities with consumers. We'll do this first, by building Hershey's leadership within our core confectionery business and second, by expanding our presence in the broader snack market. Within core confectionery, we're reshaping our portfolio to ensure that we're delivering the key consumer benefits of taste, convenience and better-for-you. Whether it be *Hershey's S'mores*, *Swoops* or our new *Kisses* filled with Caramel, we're adding value to our brand franchises and leveraging our asset base. In addition to new products, we'll continue to shift our brand/product mix to more profitable packaging types such as instant consumables and to the more profitable trade channels such as Convenience Stores. We're intent on building upon the success we've achieved over the past few years.

Moving beyond core confectionery growth, we'll aggressively expand our presence within the broader snack market. While we have a 29% market share in the core confectionery market, we only have an 8% share in the broader snack market. There's clearly room to grow.

Our initial efforts are in the better-for-you snack and nutrition-bar segment. This segment measures $3.3 billion and has demonstrated consistent double-digit growth over the past five years. We see numerous opportunities to leverage our existing capabilities, with several new products planned for introduction in 2004. We've announced our *Hershey's 1 gram Sugar Carb* line and *Hershey's Smart Zone* bar line. Both are on-trend with consumers and represent a profitable growth business for our retail customers and for Hershey Foods. Our new product strategy, *in total*, provides incremental growth while also allowing us to de-emphasize the slower-growth segments within our existing portfolio.

We know that we must increase our productivity initiatives if we are to continue winning in the marketplace. In 2004, we face a significant increase in raw material costs, primarily cocoa, that will add to this challenge. However, we have hundreds of projects underway to ensure that we generate the necessary funds to invest in our brands and achieve balanced performance. Our employees know what's expected of them and will deliver.

In closing, we've made solid progress over the past three years, with 2003, in particular, coming in very strong. We've lowered our cost base, gained market share, and delivered superior financial performance. Hershey Foods clearly is on track. Now, our sights are firmly set on the future in terms of capturing the immense transformational growth opportunities I described above and delivering superior stockholder value over the long-term.

As I conclude my third year as CEO, I continue to be gratified and energized by the support across the Company for the path we've chosen. Certainly, there's a growing appreciation of the challenges that will confront us in this ever-changing marketplace. However, there's also an ever-greater resolve to ensure the long-term success of Hershey Foods. All in all, it makes for a winning combination.

R. H. Lenny

Richard H. Lenny
Chairman of the Board, President
and Chief Executive Officer

Safe Harbor Statement

Please refer to the Safe Harbor Statement on page A-24 for information about factors which could cause future results to differ materially from forward-looking statements, expectations and assumptions expressed or implied in this letter to stockholders or elsewhere in this publication.

Hershey Foods Corporation
Reconciliation of Items Affecting Comparability

For the years ended December 31,	1996		2000		2001		2002		2003	
In thousands of dollars except per share amounts		**Per Share-Diluted**		**Per Share-Diluted**		**Per Share-Diluted**		**Per Share-Diluted**		**Per Share-Diluted**
Income before cumulative effect of accounting change	$273,186	$1.75	$334,543	$ 2.42	$207,156	$ 1.50	$403,578	$2.93	$464,952	$ 3.52
Items affecting comparability after tax:										
Business realignment and asset impairments included in cost of sales	—	—	—	—	31,765	0.23	4,068	0.03	1,287	—
Costs to explore the sale of the Company included in selling, marketing and administrative expense	—	—	—	—	—	—	10,907	0.08	—	—
Gain on sale of airplane included in selling, marketing and administrative expense	—	—	(4,475)	(0.03)	—	—	—	—	—	—
Business realignment and asset impairments, net	—	—	—	—	140,085	1.02	17,441	0.13	14,201	0.11
(Gain) loss on sale of business	35,352	0.23	—	—	(1,103)	(0.01)	—	—	(5,706)	(0.04)
Elimination of amortization of goodwill and other intangible assets	12,443	0.08	13,477	0.10	13,579	0.10	—	—	—	—
Income excluding items affecting comparability	$320,981	$2.06	$343,545	$ 2.49	$391,482	$ 2.84	$435,994	$3.17	$474,734	$ 3.59
			1996-2000 CAGR	5%	Increase vs. prior yr.	14%	Increase vs. prior yr.	12%	Increase vs. prior yr.	13%