

**CONSISTENCY** IN OUR STRATEGY



**TRUST** IN OUR FUTURE



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## CORPORATE PROFILE

Grupo Herdez is one of the leading companies in the processed food sector in Mexico, with a significant presence in the U.S.A. and Canada. Due to more than 90 years of experience in the market, Herdez has positioned itself as a highly prestigious company, acknowledged by the high quality of its food products.

The Company produces and sells more than 1,000 products under the following brands: Herdez, Del Fuerte, McCormick, Doña María, Barilla, Yemina, Vesta, Nair, Embasa, La Victoria, Chi-Chi's, Búfalo, La Gloria, Carlota, Blasón, and Hormel, among others. In addition, it distributes and sells Kikkoman soy sauce and Ocean Spray cranberry drinks.

Despite the difficult and changing environment, Grupo Herdez continues solid, strong and reliable.

During recent years we have obtained sustained increases in sales and profitability. We have tested our ability to make successful alliances and at the end of the year we started the activities of the latest one which will be the platform for the Group's future growth.

With more than 1,000 leading products in their markets, 5 strategic alliances and ongoing major investments in infrastructure, Grupo Herdez has followed a consistent strategy –executed with excellence– in order to lay the foundations to continue building its future with confidence.

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## MISSION

The mission of Grupo Herdez is to make available to consumers, particularly in Mexico and the United States, quality food and beverages, under brands with growing prestige and value.

## VALUES

### Honesty

Our conduct is correct, because we handle with responsibility and transparency the resources entrusted and we show absolute respect for the property of others (moral honesty), because we clearly state what we think and believe (intellectual honesty) and because we comply with the Company's standards and principles and always bear in mind the consequences of our actions (moral honesty).

### Results Driven

We honor our commitments and whenever possible we surpass them; we are always trying to find better ways to do things, bearing in mind that we are accountable for ensuring that the results obtained from our activities contribute and add value to the processes in which we participate.

## VISION

Grupo Herdez wants to consolidate, grow and position itself as a leader organization in the food and beverages sector, to be acknowledged by the quality of its products and the effectiveness of its efforts focused on ensuring that its consumers needs and expectations are met, in a framework of competitive service and attention, under strict profitability criteria, strategic potential, and social responsibility.

### Team Work

We are a team working to reach the objectives we share adding talent and commitment; we are open to different opinions, knowledge and skills because collaboration, respect and mutual support are the bases of our relationships.

TRUST is generated by our behavior which is aligned to the values of Grupo Herdez; it is the result of honest conduct, of focusing on results and team work and at the same time this links the three values and hence forms a coherent group and meaningful set.

The above is reflected in the quality of the products and services derived from our work, and therefore, in the opinion of our clients and consumers.

### La Victoria

Home-style and hot sauces, "enchiladas" sauces and hot peppers.

### Hormel

Hormel canned meats, Spam and canned meats such as pates, deviled hams and sausages.

### Solo Doña María

Chicken bouillon and chicken bouillon with tomato, both granulated and in cubes.

### Ocean Spray Distribution

Cranberry-based products.

### Chi-Chi's

Home-style sauces, hot peppers, tortillas, hard tortillas and tortilla chips, microwave meals, dips and seasoning spices.

### Del Fuerte

Tomato puree, vegetables, home-style sauces and mushrooms.



# BRANDS AND PRODUCTS

## Blasón

Coffee beans, roasted and ground.

## Embasa

Ketchup style sauce, home-style sauces, sliced and nachos jalapeno peppers, serrano and chipotle hot peppers.

## Doña María

Mole paste, green mole, pipian and adobo sauces, ready to serve dishes, sauces for stews and tender cactus.

## Búfalo

Hot and home-style sauces and olives.

## Barilla, Yemina and Vesta

Pasta in different presentations and Italian style sauces for pasta.

## La Gloria

Gelatines and edible corn oil.

## Kikkoman Distribution

Variety of soy and Teriyaki sauces.

## Festin

Fruit beverages.

## Herdez

Home-style sauces, canned tuna, mushrooms, vegetables, juices and nectars, canned fruits, 8-vegetables juice, tomato puree and beverages.

## Nair

Canned tuna

## McCormick

Mayonnaise, dressings, mustards, marmalades, spices and teas.

## Carlota

Bee honey, corn syrup for infants and maple syrup.

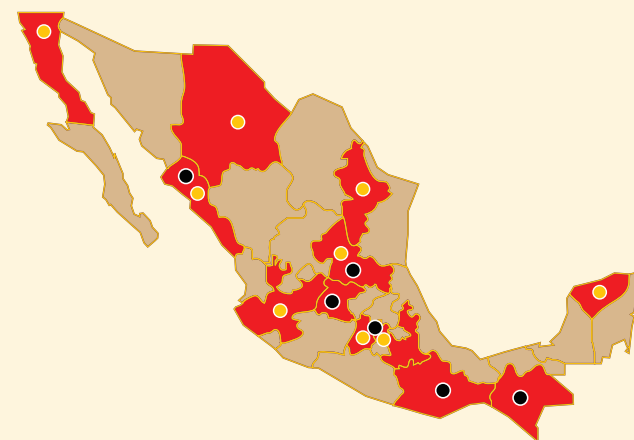


# FINANCIAL HIGHLIGHTS

Amounts expressed in nominal million pesos  
(except per share information and financial ratios)

## GRUPO HERDEZ

	2009	2008	Change %
Net Sales	8,265.6	7,247.2	14.1%
Domestic Sales	7,413.9	6,503.1	14.0%
Foreign Sales	851.7	744.1	14.5%
Gross Profit	2,978.1	2,423.8	22.9%
Gross Margin	36.0%	33.4%	2.6
EBITDA	1,404.9	976.9	43.8%
Percent of Sales	17.0%	13.5%	3.5
Operating Income	1,284.4	863.2	48.8%
Operating Margin	15.5%	11.9%	3.6
Majority Net Income	746.1	582.5	28.1%
Percent of Sales	9.0%	8.0%	1.0
Total Assets	6,009.1	5,471.0	9.8%
Total Liabilities	2,280.3	2,361.5	(3.4%)
Consolidated Equity	3,728.8	3,109.5	19.9%
Capital Expenditures	366.8	92.6	299.6%
Bank Debt	1,182.0	1,284.1	(8.0%)
Bank Debt/EBITDA (times)	0.8	1.3	(0.5)
Bank Debt/Consolidated Equity (times)	0.32	0.41	(0.1)
Return on Capital Employed before taxes	27.6%	21.6%	6.0
Return on Equity	28.0%	26.4%	1.6
Year end outstanding shares (million)	427.5	428.3	(0.2%)
Net Income per share	1.75	1.36	28.7%
Dividen per share	0.50	0.50	0.0%
Year end stock price	17.5	12.5	40.0%

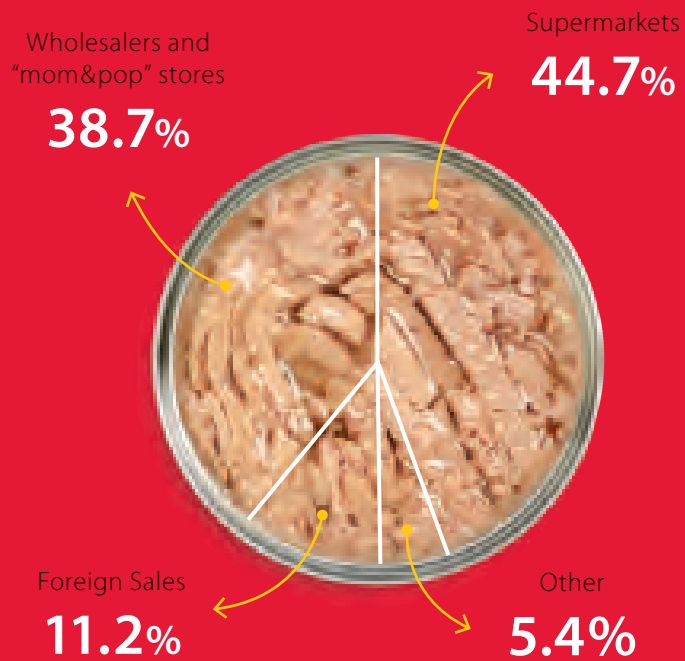


### 9 CeDis

Tijuana, Baja California  
Chihuahua, Chihuahua  
Monterrey, Nuevo León  
San Luis Potosí, San Luis Potosí  
Guadalajara, Jalisco  
Mérida, Yucatán  
Los Mochis, Sinaloa  
Tepozotlán, State of Mexico  
Teoloyucan, State of Mexico

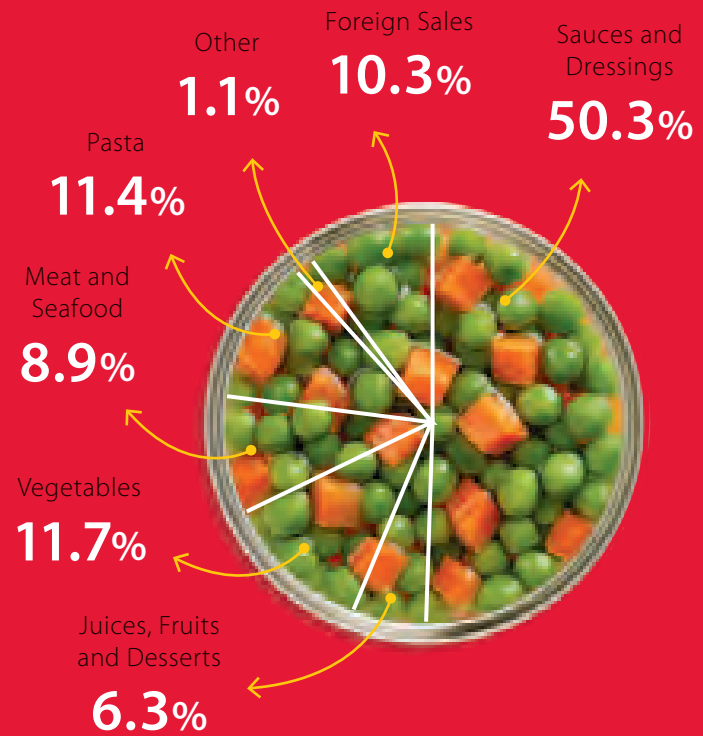
### 10 Plants:

Mexico City  
San Luis Potosí, San Luis Potosí (3)  
Puerto Chiapas, Chiapas  
Guanajuato, Guanajuato  
Los Mochis, Sinaloa (3)  
Oaxaca, Oaxaca



**SALES MIX IN CASES  
BY DISTRIBUTION CHANNEL (%)**

Includes Herdez Del Fuerte's sales at a 100%



**SALES MIX BY PRODUCT  
SEGMENTS (%)**

Includes Herdez Del Fuerte's sales at a 50%

# MESSAGE TO OUR SHAREHOLDERS



## Dear Shareholders:

In the economic arena the year 2009 shall be remembered as one of the most complicated years the world has ever faced. The problem that affected all countries had major effects in Mexico, especially on its economic growth and the generation of new jobs.

For Grupo Herdez, 2009 was an unprecedented year.

**We decidedly and actively faced the economic crisis and the result of our actions is that we grew, achieved efficiencies, invested in fixed assets, formed a new alliance and we even increased the number of jobs in our organization; thus the number of the collaborators working with us increased.**

We are very pleased with the results obtained by the Company and the achievements made by all the companies in the Group. Success has always encouraged us to raise the bar and set higher goals and this occasion was no exception.

In 2009 company sales increased to \$8,265.6 million pesos, 14.1% higher than the 2008 sales. The cost of sales as a percentage of sales decreased more than two percentage points due to three fundamental reasons:

1. A significant operating improvement that includes the Herdez Del Fuerte synergies.
2. More stability in prices of raw materials during the second half of the year.

3. An efficient price policy.

Thus, gross profit amounted to \$2,978.1 million, or 22.9% higher than in 2008.

The significant gross margin improvement together with greater efficiency in general expenses, generated an increase in the operating margin of more than three percentage points, from 11.9% in 2008 to 15.5% in 2009.

Operating income and EBITDA increased 48.8% and 43.8% respectively and the latter amounted to \$1,404.9 million. Net majority income amounted to \$746.1 million, 28.1% higher than in 2008.

The financial situation is the most solid the Company has had in recent years. Bank credits less cash available as of December 31, 2009 totaled \$757.8 million that is 29.3 per cent less than the 2008 net bank debt, after investing \$367.0 million in fixed assets and making a \$359.0 million dividend payment.

The net banking debt represented 0.54 times the EBITDA flow generated in 2009, an all-time low ratio in the history of the Company.

The return on investments for you, our shareholders –without considering non-recurrent benefits– was 24.4% versus 19.2% obtained in 2008. Therefore, the return on income before taxes increased from 21.6 to 27.6 per cent thanks to the improved operating results obtained and the reduction of our banking debt.

The following are the most relevant items that took place in 2009:



- The consolidation of the tuna operation process carried out in Puerto Chiapas.
- The creation of MegaMex Foods, LLC as a growth platform in the U.S.
- The initiation of the Teoloyucan distribution center construction.
- The acquisition of the Litoplast label plant.
- The redesign of the supply chain.
- A 10% increase in our labor force, an achievement that stands out if we consider the current economic situation.

On the other hand, I am pleased to report that during the first months of this year, Grupo Herdez obtained the "Entrepreneurial 2010 Excellence" Award granted by the members of Asociación Nacional de Tiendas de Autoservicio y Departamentales A.C. (National Association of Retail and Departments Stores, or ANTAD). For the second consecutive year, we also obtained the Socially Responsible Company Award granted by CEMEFI. Both awards invite us to continue working in exceeding our clients' expectations and supporting in an active and responsible way the sustainability of the communities in which we participate.

In this vein, our commitment with society and with our environment is obvious with the expansion of the "Herdez Nutre" community involvement program to two more

states of the Mexican Republic. Our objective is now set on reducing malnutrition in the states of Chiapas and San Luis Potosí. I invite you to know more about our activities with underprivileged communities mentioned in our Social Responsibility report.

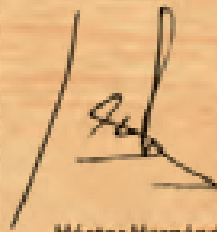
Throughout the last five years, the transformation of Grupo Herdez has been so dynamic and thorough that it made us establish high magnitude alliances and develop a market strategy that emphasizes innovation, besides from setting very strong bases to continue giving good results in the future.

This transformation would be meaningless if not oriented to guarantee the preference of our clients and consumers, and impossible without the effort of all our collaborators and the endless trust of our partners and shareholders.

During these five years, we have been consistent in the way we think, in the messages given inside and outside the organization, and above all, we have been consistent in our actions.

Consistency that generates trust.

Sincerely yours,



**Héctor Hernández-Pons Torres**  
Chairman and Chief Executive Officer





The market leadership of Grupo Herdez and the skills to make strategic alliances and increase the efficiency of its operations has generated consistent cash flows in the Company. These results will allow us to continue our sound growth.



# SOUND GROWTH

**During the last five years, Grupo Herdez has reported a solid compounded average growth rate of 6.3% in sales and 18.7% in EBITDA. This performance was maintained throughout 2009 despite the economic contraction and totaled \$8,266 million pesos in sales and \$1,405 million pesos in EBITDA.**

These results were obtained due to the strengths of the Group, the consistency in executing the strategy and the overwhelming proof of the confidence of our clients and consumers.

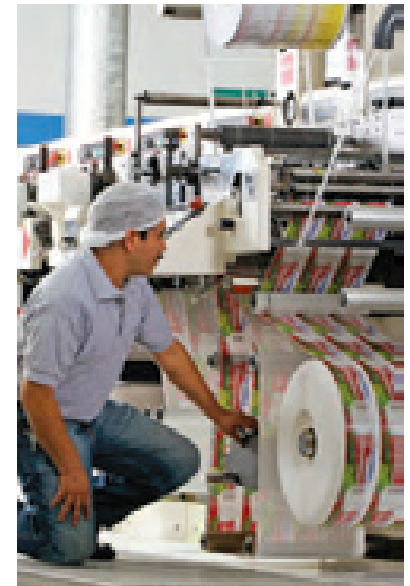
The redesign of the supply chain processes was implemented and tools were installed to obtain an integral demand plan for the Company, and this allowed us to optimize working capital investments, thus maximizing the service level to our clients.

The technical department worked in the Quality and Innocuousness System for the entire supply chain, namely: suppliers, co-packers, plants, distribution centers, transportation, clients and consumers.

At the end of 2009, Litoplas was acquired as part of the cost control on packaging materials. This is a company engaged in printing labels and with it Grupo Herdez increases the vertical integration by adding to the PET container blowing, the production of tinplate cans and the manufacture of plastic caps that are currently being produced.

## ***Litoplas, S.A. de C.V.***

*The Litoplas packaging conversion company, engaged in manufacturing labels, was acquired. With sales increases above 16% in 2009, we expect to service new clients and invest in new technologies and printing equipment.*





With a diversified portfolio of high recognized products and brands, such as: **Herdez**, **Del Fuerte**, **Doña María**, **Embasa**, **La Victoria** and **Chi-Chi's**, MegaMex will have an extensive geographic coverage in the United States.

# CONSOLIDATING ALLIANCES



**During 2009, we continued consolidating the strategic alliance between Herdez and Del Fuerte; an example of the broad experience and consistent strategy of Grupo Herdez.**

We obtained savings in costs and expenses by economy of scales, concentrating the production of vegetables in La Corona Plant and consolidating the tuna operation process in Chiapas. In Santa Rosa, we optimized the operations of the ingredients and packaging materials warehouse and additionally, we built a warehouse for tomato paste and diced tomato.

We redesigned the supply chain in logistics and distribution and closed 4 centers –one of them was the Puebla Distribution Center in 2009– to integrate

the remaining facilities to the Group's distribution network. In addition, we began the construction of the Teoloyucan facilities.

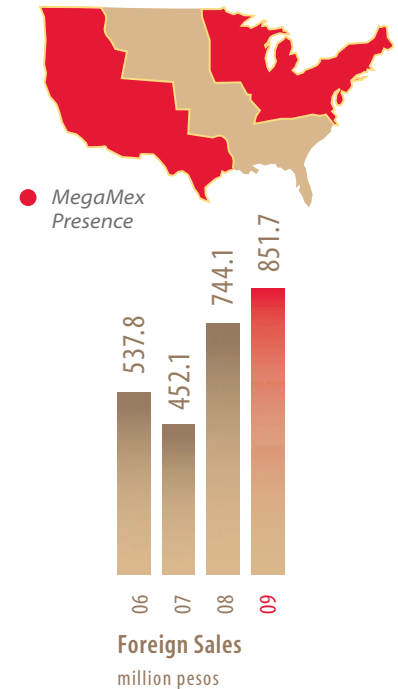
The organizational structure was transformed to make it leaner and savings from economies of scale were obtained in personnel from supervision levels, promotion, service to retail chains and key accounts, sales managers and call-centers.

In capitalizing our experience in strategic alliances, towards the end of the year we announced the beginning of operations of MegaMex Foods, LLC. This alliance extends the prevailing business between Herdez Del Fuerte and Hormel Foods Corporation and will be the growth platform for our international revenues.

MegaMex as an autonomous entity includes an independent management team with headquarters in Chino, California and will optimize its operation by leveraging the main strengths of both companies such as production, research and development and the supply chain.

## **MegaMex Foods, LLC**

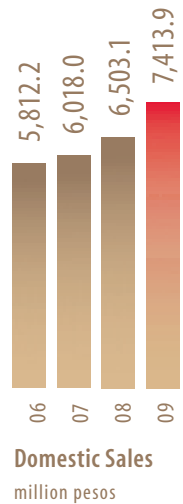
*The Herdez and La Victoria brands have broad presence in the west coast and southern part of the United States while Chi-Chi's is very strong in the northeast and Great Lakes markets.*





We increased the market share of several brands, such as Herdez, standing out the record sales and operating income of the home-style sauces, which added value both to the business and to the brand.

# STRENGTHENING OUR LEADERSHIP



**With clear growth and profitability objectives, Grupo Herdez is redefining its portfolio of products and designing new marketing plans.**

We have more than 1,000 products that consistently hold leadership positions in their corresponding markets and we are permanently developing new options and lines of products to anticipate and respond to the changing consumers' preferences, being supported by efficiencies in the supply chain and on distribution channels.

Internal projects were carried out, allowing us to fine tune the product segments and brands we should focus on, in order to concentrate more accurately in future proposals based on what the target consumers appraise and value.

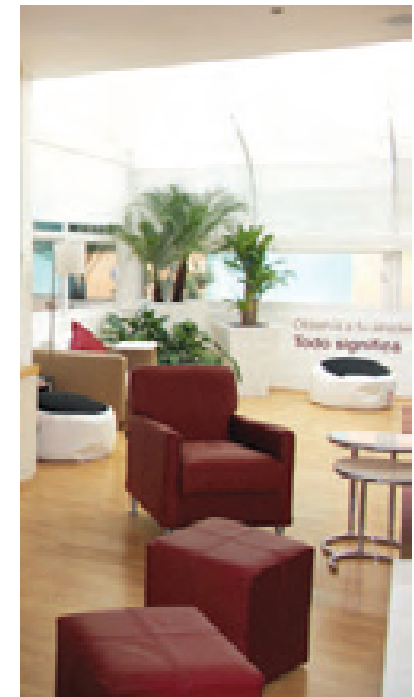
McCormick reached record market share levels and, to a great extent, this was due to the continuity of efforts for the different launchings generated at the end of 2008, which consolidated in 2009 in the Mexican market.

The Embasa ketchup closed the year with strong sales increases, and it became the preferred option of Mexican consumers.

In Grupo Herdez one of the growth axes is based on innovation, in the development of new formulations that offer consumers tailored taste options and easy handling and storage packaging. During 2009 the new products launched were: fresh hot pepper sauce, iron fortified canned tuna, new presentations of sauces and pasta sauces, low fat mayonnaise, dressings and gourmet dressings, Natural Solutions™ teas and spices in new packages.

## **Innovation**

*Resources were allocated to better understand what consumers are expecting from our products and to define with them future brand proposals.*



During 2009 several strategies to capture and process tuna fish were implemented: **an additional ship was acquired and the production and storage capacity of the product was increased.**





# GETTING READY FOR THE FUTURE



During recent years we have consistently invested in strengthening the platform on which we shall base our future growth; both in the infrastructure that will allow us to make available to our consumers the products they demand and prefer, as well as operative improvements that encompass from on-going personnel training, to the capture of synergies that are translated into competitive advantages.

Victor Cruz Perales  
"Promoter of the Year 2009"

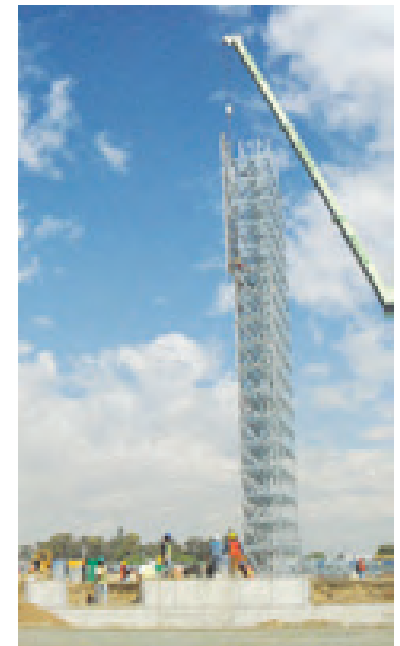
We started the construction of the Teoloyucan Distribution Center, which will reduce 82% the platform doors, 40% the equipment and 49% the storage area. This new distribution center will represent lower costs, synergies in processes and an optimum operation technique, which is a combination of automated storage and replacement system in order to have a "just-in-time" operation.

We continued with the integration of the production processes in the vegetables, home-style sauces, and tomato puree lines.

In order to increase the efficiency in the tuna fish operation and meet the market demand, in 2009 we acquired the Bonnie tuna vessel, we expanded the freezing warehouse to cover the closed season cycles and the volume increases, and we built the remote tinplate can plant.

## Teoloyucan Distribution Center

*This distribution center will allow the consolidation of operations of three centers into a single facility, providing us with high flexibility for business expansion and for the handling of products.*





Social Responsibility has been and will continue to be part of the philosophy of Grupo Herdez. Therefore through nutrition and education as the main support causes, we shall continue working to positively impact society.

# STRETCHING OUT OUR LINKS



**Socially Responsible Company**  
For second consecutive year, Grupo Herdez received the Socially Responsible Company award at the beginning of 2010. This very important recognition ratifies the commitment and the constant participation of the Company in social programs and initiatives, and also the responsible actions taken with all our stakeholders.

**Herdez Nutre**  
Amongst the projects implemented in 2009 Herdez Nutre stood out, program which extended its activities to two more states in the country: San Luis Potosí and Chiapas. At the same time we progressed in our objective of creating a direct link between our consumers and the Herdez vocation of nourishment and being socially responsible.

As part of the activities related to the Environment, Entrepreneurial ethics and Quality of life in the Company, the ethics code was updated, campaigns to reduce electric power consumption and wastewater treatment in the plants were promoted, we continued hiring handicapped personnel and –for the first year– the “Live Better” comprehensive program was implemented in order to improve the eating and physical activity habits of workers at the Company.

**Herdez Foundation**  
In complying with its mission to promote food research and development, the Herdez Foundation carried out activities to strengthen social, cultural and education areas: The Mexican Gastronomy Library gave service to 3,258 users, while the Museum “La Galería Nuestra Cocina Duque de Herdez” (Our Kitchen Duke of Herdez Gallery) received 17,921 visitors. In addition gastronomy, nutrition and rescue of our culinary traditions workshops, courses and conferences were carried out.

*For more information see the report of Grupo Herdez on Social Responsibility and Sustainability.*



*Mexican Gastronomy Library*

**Our People**  
Regarding the development of personnel, the institutional competences –which are part of the philosophic framework of the Company– as well as the performance competences were implemented. Both are valuable tools for the development and growth of the key executives of the organization.

As an employer and regardless of the economic situation that the country faced, Grupo Herdez did not reduce, but rather increased work positions.

# SUMMARY

## OF ACTIVITIES

### Herdez Del Fuerte

Herdez Del Fuerte carried out several activities that generated sales increases and the expansion of the operating income:

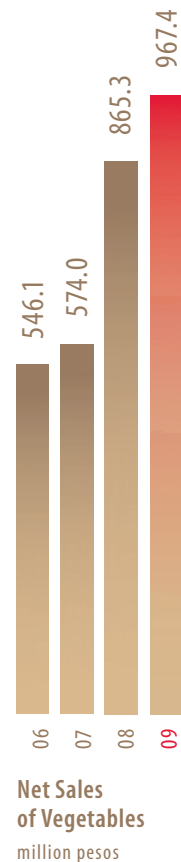
1. We continued to consolidate the operations in the vegetables, tuna and home-style sauces manufacturing lines;
2. We acquired a 1,000 ton capacity vessel, in order to increase our own supply of tuna fish;
3. We started the concentration project for the distribution centers in order to consolidate logistic and operation synergies;
4. In October, Herdez del Fuerte announced the beginning of operations of MegaMex Foods, LLC.; the joint-venture which will distribute and sell food products in the United States.

Regarding the activities of the brands, Herdez launched new packaging for the vegetables product line in the northern part of Mexico, and reached sales records in home-style sauces for the North American market.

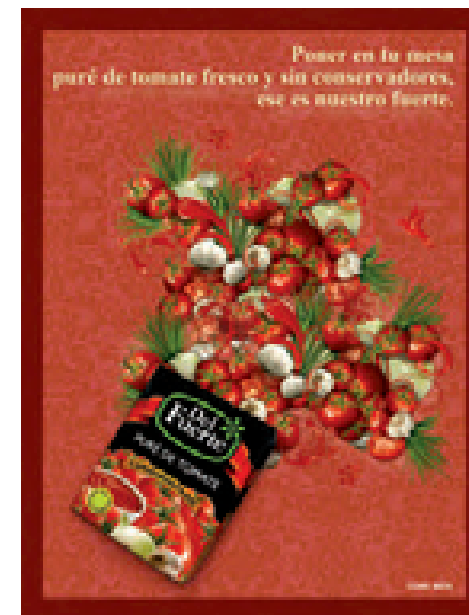
Del Fuerte increased its sales basically driven by the good results obtained from tomato puree.

Doña María closed the year with a 5% sales increase thanks to several efforts such as the "Surprise them" advertising campaign launched at the end of the year to show consumers the broad range of dishes that can be prepared with mole sauce.

In order to be closer to consumers and increase the consumption base, Blasón coffee carried out activities to increase distribution and was present in several cultural events with tasting events and giving information on the coffee culture.



**9%**  
Increase in  
the sales volume



### Del Fuerte Tomato Puree

Sales in cases of tomato puree increased 9%, supported by the communication campaign "Del Fuerte Natural Origin".

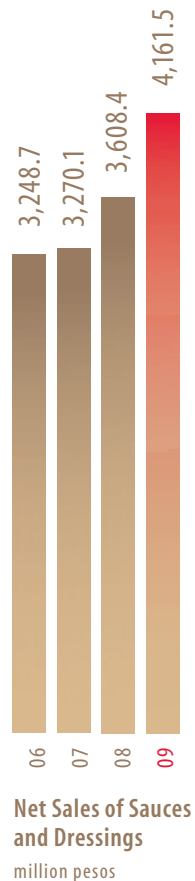


**8%**  
Market share

**McCormick Salad Dressings**

After only one year of its introduction in the market, the McCormick salad dressing product line had an 8% market share, representing one of the three preferred brands in this category.

Source: AC Nielsen



**McCormick de México**

During 2009, distribution efforts and significant marketing campaigns helped the McCormick Salad Dressings in the classic and gourmet lines –both supported by the well known Mexican Chef Monica Patiño– to become the third player in this category, as it increased 8 percentage points its participation in volume. Moreover, these gourmet dressings were given the “Stellar Package” award by the Mexican Packing and Packaging Association.

At the end of 2008 new flavors in the tea category were launched –including a variety of green teas– products which were very well accepted by consumers; and which now represent a significant part of the McCormick tea business. In addition and to continue these efforts, during 2009 a functional tea line was launched (Buenas Noches, Balance

Integral, Ligereza Natural, En Forma y Con Antioxidantes Naturales) which has been exported to the United States of America.

Regarding the spices business, at the end of 2009 the new sachet presentation was launched in order to access consumers that have different needs for the use of spices. We expect to consolidate these products in the market in 2010.

Being aware of the needs and trends of healthy food in the market, McCormick had previously introduced the new Low Fat Mayonnaise, product which was able to capitalize its sales during the year. In addition, in our dressings and mustard business starting in August 2009, we renewed all our lines of squeezable packing to attract new consumers who are concerned about the convenience and consumer-friendly packaging of our products.

Amongst the most relevant activities carried out by Barilla during the year, the labels and the presentation for the pasta sauces were redesigned and the production of 4 varieties of sauces, which were previously imported from the United States, was started in Mexico.

Barilla Piccolini consolidated in the modern trade channel thanks to added value promotions offered to consumers, which focused on promoting pasta consumption as the main course.

Yemina had a new advertising campaign under the strategy of communicating one on one benefits, and concentrated its advertisement investment in the northern area of the country.

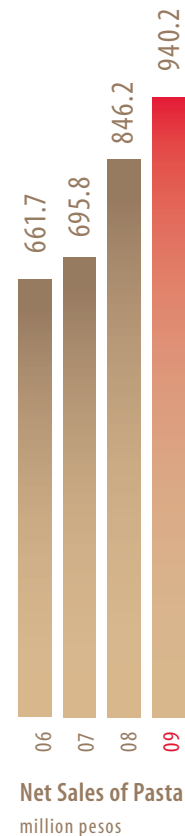
Continuing with the quality management system, the production of the pasta plant was integrated to the supply chain,

and simultaneously work teams were able to make savings in expenses and improvements in working capital by reducing the packing material inventory.

**Herdez Del Fuerte Trading**

During 2009 the commercial structure was consolidated to improve customer service, focused on developing joint strategies to expand and improve the distribution of products in the various market channels.

In addition, the Category Management department was reinforced to give more and better attention to the categories where different projects are being developed. The momentum in various channels was maintained through the Trade Marketing area, which distributed the products of the Group to a larger number of clients and consumers.



**No.1**  
Market leader in pasta  
in the modern trade channel

**Barilla, Yemina and Vesta**

We are number one in supermarket stores with our three pasta brands. During 2009 Barilla decided to enter to new pasta categories for children with products such as Piccolini, which due to its high protein and carbohydrate content is an excellent healthy food option for children.

Source: AC Nielsen

# 27%

Increase  
in volume sales



### Ocean Spray

*Ocean Spray has posted double-digit growths in sales since its launching in Mexico in 2007, with a 94% distribution in the main supermarket chain stores in the country.*



### Food Service

Despite the economic crisis, the swine-flu and the anti-tobacco law –three factors that significantly reduced consumption outside home and occupation in hotels during the first semester of 2009– in Herdez Food Service we continued to create solutions for our clients, especially with institutional sizes to provide value to our clients.

At the beginning of 2010 the “Herdez Food Service” Innovation and Culinary Center was inaugurated in order to have continuous research and development for setting trends in food and nutrition. This center will offer specialized teaching in the use and handling of all the portfolio of products of Grupo Herdez through its state-of-the-art equipped kitchen.

### Ocean Spray Distribution

Ocean Spray continued with advertising campaigns through mass media, as well as tastings, sampling at the point of sales and posters in bus stops, buses and bulletin boards, and also posters in supermarket stores to communicate the double health benefits that cranberry provides.

Ocean Spray continued with the permanent Public Relations campaign focused on consumers, opinion leaders and media.

**Hormel Alimentos**

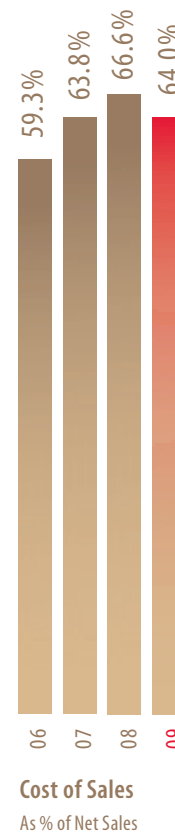
During 2009 the momentum on Hormel meats continued through support given at the point of sales with demo personnel and through combined offers.

The Solo Doña María chicken bouillon was fully aligned to the Doña Maria brand strategy with commercials on TV, billboards and magazines and also tastings and sampling at the points of sale.

**Kikkoman Distribution**

During 2009 one of the most relevant activities of the brand was the introduction of the Ponzu soy sauce, which is naturally fermented and seasoned with citrus fruits in order to highlight and emphasize the flavor of any dish.

Support for the Kikkoman sauces was maintained through the “Kikkoman invites you to the movies” promotion, tastings at the point of sales and a recipe book gift with all the presentations of the brand in order for the consumer to identify the use of soy sauce with all kinds of dishes and not only with those related to oriental cuisine.



**12%**

**Increase in volume sales**



**Food Service**

Food Service increased 12% its sales in tonnage during 2009 thanks to products such as mayonnaise in institutional size bag; one of the main products for this channel.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Net Sales

Total sales showed a 14.1% growth totaling \$8,265.6 million pesos in 2009, compared to \$7,247.2 million obtained in 2008.

Domestic sales grew 14.0% due to volume increases and to better price negotiations, standing out the following segments: "Sauces and Dressings" grew 15.3% derived from an increase in mayonnaise and ketchup sauces, while "Meat and Seafood" grew 15.7% driven by extraordinary tuna fish sales made during the Lent period. "Vegetables" and "Pasta" also reported solid performance in values by increasing 11.8% and 11.1% respectively.

Export sales increased 14.5% from January through December 2009, mainly benefited from the strengthening of the dollar versus the peso.

Total volume sales reached 48.0 million cases, which represented a 3.3% increase. In domestic terms, sales increased 4.9% from 41.9 million cases in 2008 to 43.9 million cases in 2009. "Vegetables" grew 8.0% due to the solid performance of the Del Fuerte tomato puree and the Herdez vegetables, while "Sauces and Dressings" increased 7.5% due to the reasons mentioned previously.

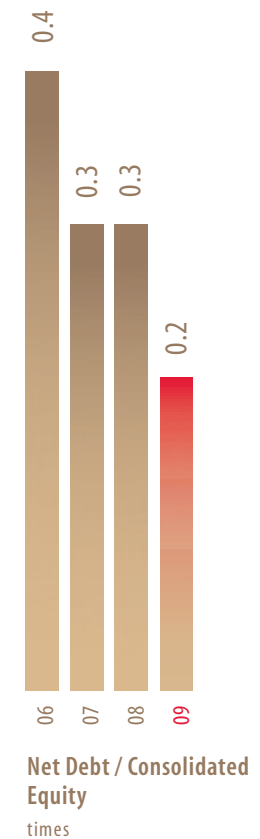
Conversely, export sales decreased 11.0%. This performance can be attributed to two factors: 1) the integration of MegaMex Foods, LLC.; association which began operations in October 2009 and therefore the sales figures in the fourth quarter are not entirely comparable, and 2) compliance with some export standards which although caused delays in the shipment of the products to the United States, did not impact sales to end customers.

## Cost of Sales

During 2009, the cost of sales as a percentage of sales decreased 2.6 percentage points from 66.6% to 64.0%, as a consequence of three main factors:

1. Greater stability in the prices of some raw materials such as vegetable oils and wheat semolina, as of the second semester of the year.
2. Greater efficiencies in the supply chain, including operating savings derived from the Herdez Del Fuerte integration;
3. Greater efficiency in the price policy.

Expenses represented 20.5% of sales, which represented one percentage point less than the previous year; reflecting the absorption of fixed operating expenses.



### Operating Income and EBITDA

As a result of the mentioned above, operating income from January through December 2009 had a sound 48.8% increase, totaling \$1,284.4 million. This was translated into a 3.6 percentage point expansion in the operating margin which reached a 15.5%.

In addition, the EBITDA operating flow reached \$1,404.9 million pesos, increasing 43.8% during 2009, or a 3.5 percentage points increase in the margin to represent 17.0% over net sales.

### Comprehensive Financing Result

The comprehensive financing cost in 2009 was \$115.7 million, in comparison with \$113.5 million registered in 2008. A reduction in net interest payments was registered due to the lower Company's debt level, offsetting an exchange loss derived from the appreciation of the dollar. Therefore, the integral financing cost increased only 1.9% versus the same period of the prior year.

### Net Income Before Discontinued Operations and Minority Interest

Net consolidated income before discontinued operations totaled \$1,009.0 million, or a 34.2% increase versus the 2008 net consolidated income. This figure includes revenues of \$96.9 million recorded in "other income" which are basically derived from the net gain obtained from the contribution of Herdez Corporation shares for the creation of MegaMex Foods, LLC.

### Discontinued Operations

During the year \$9.2 million pesos were registered as "Discontinued Operations", or \$7.7 million more than the amount recorded in 2008, due to the relocation of the tuna fish operations from the Mazatlan to the Chiapas plant.

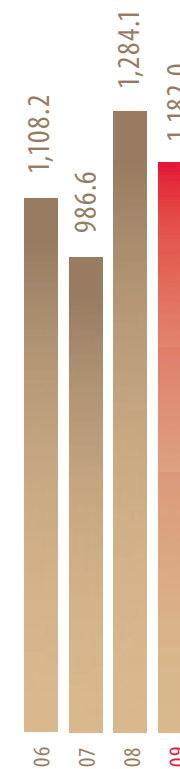
### Net Income

Net consolidated income reached \$998.8 million, which represented a 33.2% increase, while minority interest increased 50.8% totaling \$253.7 million. Therefore, net income for Grupo Herdez shareholders was \$746.1 million, or a 28.1% increase versus the income registered in 2008.

### Net Cash Flows from Operating Activities

Net consolidated cash flows from operating activities in 2009 totaled \$1,181.5 million, \$940.3 million more than in 2008, period when a lower income before taxes was recorded and higher working capital requirements were made.

Net capital expenditures in 2009 amounted to \$366.8 million pesos, being the most representative investments the increase in tuna fishing capacity and cold storage expansion in the Chiapas Plant, the construction in process of the "Teoloyucan" Distribution Center and the acquisition of Litoplas S.A. de C.V., company engaged in the manufacturing of labels.



**Bank Debt**  
Nominal million pesos of each year

The Company paid \$214.0 million as dividends to the majority shareholders with charge to accumulated earnings, while the minority shareholders of Grupo Herdez received \$145.0 million.

### Financial Structure

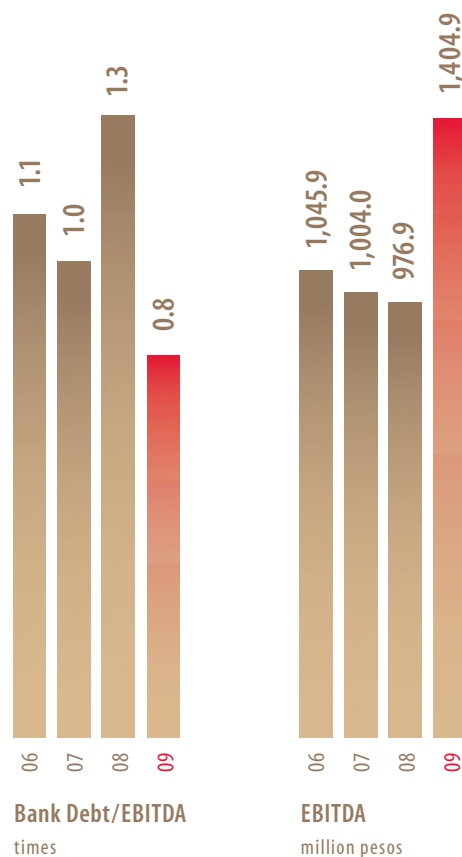
As of December 31, 2009 the consolidated bank debt totaled \$1,182.0 million, a \$102.1 million decrease or 8.0%. The Company reported a ratio of interest-bearing liabilities to 12m-EBITDA of 0.8 times in comparison to 1.3 times during the previous year.

Net consolidated bank debt totaled \$757.8 million, or 29.3% lower than the debt reported in 2008. This reflected both an increase in cash as well as a reduction in the banking liabilities of the Group. The Company reported a net debt-to-stockholders' equity of 0.20 times versus 0.34 times obtained in the previous year.

It is especially relevant to mention that the return on the majority stockholders equity of 28.0% decreases to 24.4% due to the elimination of non-recurrent benefits, as compared to the 19.2% obtained in 2008. Therefore, the pre-tax return on invested capital increased from 21.6% in 2008 to 27.6% in 2009.

### Stockholders' Equity

During 2009 the majority stockholders' equity totaled \$2,921.2 million pesos or 21.3% more than the amount reported in 2008 due to the increase in income. Consequently, the book value per share increased from \$5.62 in 2008 to \$6.83 in 2009 with 427.5 million shares outstanding as of December 31.



# BOARD OF DIRECTORS AND MANAGEMENT TEAM



Sitting: (Left to right)  
Eduardo Ortíz Tirado Serrano, Enrique Hernández-Pons Torres,  
Héctor Hernández-Pons Torres, Flora Hernández-Pons de Merino,  
José Roberto Danel Díaz.

Standing: (Left to right)  
Ernesto Ramos Ortíz, Luis Rebollar Corona, Carlos Autrey Maza,  
Enrique Castillo Sánchez Mejorada, José Manuel Rincón Gallardo.

## BOARD OF DIRECTORS

### Patrimonial, Related Directors

Héctor Hernández-Pons Torres

*Chairman of the Board*

Enrique Hernández-Pons Torres

*Vice-Chairman of the Board*

Flora Hernández-Pons de Merino

### Independent Directors

Enrique Castillo Sánchez Mejorada

Carlos Autrey Maza

Eduardo Ortíz Tirado Serrano

José Roberto Danel Díaz

José Manuel Rincón Gallardo

Luis Rebollar Corona

### Secretary of the Board (not member)

Ernesto Ramos Ortíz

### Audit Committee

José Roberto Danel Díaz

*President*

Eduardo Ortíz Tirado Serrano

Carlos Autrey Maza

José Manuel Rincón Gallardo

### Corporate Practices Committee

José Roberto Danel Díaz

*President*

Héctor Hernández-Pons Torres

Enrique Hernández-Pons Torres

José Manuel Rincón Gallardo

Luis Rebollar Corona

## SENIOR MANAGEMENT

### President and Chief Executive Officer

Héctor Hernández-Pons Torres

### Vice-President, General and International Business Director

Enrique Hernández-Pons Torres

### Chief Financial Officer and Planning Director

Gerardo F. Canavati Miguel

### Supply Chain Director

Alberto Garza Cabañas

### Sales Director

Roberto González Rosas

### Human Resources Director

Pedro G. Gracia-Medrano Murrieta

### Associated Companies Business Unit Director

Alejandro Martínez-Gallardo y de Pourtales

### Administrative Director

Ernesto Ramos Ortíz

### Food Service Director

José Juan Rodríguez del Collado

### Market Strategy Director

Andrés González-Cuevas Sevilla

# AUDIT COMMITTEE REPORT

March 19, 2010

Mr. Hector Hernandez-Pons Torres  
Chairman of the Board of Directors  
Grupo Herdez, S.A.B. de C.V.  
Monte Pelvoux 215, 5th Floor  
Mexico, D.F. 11000

Dear Mr. Hernandez-Pons:

I am herein presenting the Annual Report on the activities of the Board of Directors' Audit Committee for the 2009 fiscal year, referred to in Article 43, Section II of the Securities Market Law.

In the development our work, we have taken into consideration the Securities Market Law regulations, the General Rules Applicable to Securities Issuers and other Participants of the Securities Market, the Best Corporate Practices Code's recommendations, and the Audit Committee Rules.

During the reported period, the Committee punctually held the meetings as scheduled, an agenda was prepared based on the issues to be discussed at each meeting, and the corresponding minutes were also prepared. The meetings were attended by the designated directors and invitees.

Relevant issues discussed and favorably recommended for approval of the Board of Directors, as appropriate, were the following:

1. The Reported Consolidated Financial Statements for the year ended on December 31, 2008, and their respective Notes were duly analyzed.

Due to its relative significance, similar information of the subsidiary Herdez Del Fuerte, S.A. de C.V. was analyzed.

2. We have learned about the Letter of Observations from the society's external auditor and follow up was carried out during the year.
3. The internal control assessment performed by the society's external auditor during the normal course of the revision was analyzed; said assessment has indicated that in accordance to applied audit standards, the level of trust deposited in internal control has been rated as high, and that the Group is operating within the framework of established policies. Improvement areas were identified and due follow up has been given to their implementation.
4. The internal audit area work plan was analyzed, a follow up has been done to the development of its work and to the implementation of observations.
5. The new financial information standards used during the fiscal year, as well as those already in force, were consistently applied with no significant effects.

6. We have learned about the Plan prepared by the company for converging in 2012 with the international financial reporting standards (IFRS) and due follow up has been done in this aspect.

7. The performance of the external audit firm has been assessed, having been considered as satisfactory and in accordance with the criteria established in the contract. Likewise, work carried out by the partner in charge of the audit, who has in due time has confirmed his professional and economic independence, has been acknowledged.

Consequently, confirmation of the external audit firm and its designation at the subsidiary Herdez Del Fuerte, S.A. de C.V. has been recommended.

8. In addition to the external audit, other services provided by the external auditors firm have included fiscal advisory, transfer pricing survey, report on IMSS and convergence with IFRS for a total amount of 3.5 million pesos.

9. We have learned about the main risks to which the society is subject to, as well as the mechanisms already implemented for its identification, administration, control and adequate disclosure.

10. We have learned about and follow up has been given to the outstanding fiscal and legal matters, as well as to the adequate implementation of the Securities Market Law provisions, and the Shareholders' and Board of Directors' meetings resolutions.

11. Complementary, at the Committee's meeting held on February 18, 2010, the Reported Consolidated Financial Statements for the year ended on December 31, 2009, were analyzed as well as their respective Notes, and the Letter of Observations of the society's external auditor.

All matters were widely discussed, with no situations to report out of the normal operation of the society.

Complete information related to the aforementioned issues is available upon request.

Attentively,



Roberto Danel  
Chairman of the Audit Committee

# CORPORATE PRACTICES COMMITTEE REPORT

March 19, 2010

Mr. Hector Hernandez-Pons Torres  
Chairman of the Board of Directors  
Grupo Herdez, S.A.B. de C.V.  
Monte Pelvoux 215, 5th Floor  
Mexico, D.F. 11000

Dear Mr. Hernandez-Pons:

I am herein presenting the Annual Report of the activities of the Board of Director's Corporate Practices Committee, carried out during the 2009 fiscal year, referred to in Article 43, Section I of the Securities Market Law.

In the development of our work, we have considered the Securities Market Law regulations, the Corporate Best Practices Code's recommendations, and the Corporate Practices Committee Rules.

The Committee punctually held the meetings as scheduled, an agenda was prepared based on the issues to be discussed in each meeting and the corresponding minutes were also prepared. The meetings were attended by the designated directors and invitees.

The relevant issues discussed and recommended for approval to the Board of Directors', as appropriate, were as follows:

1. We have learned the detailed policies for designation and integral compensation of the Chief Executive Officer and other relevant executive officers.
2. The performance of the relevant executive officers was considered to be adequate, having been determined on the basis of the established policies.
3. The integral remuneration package of the Chief Executive Officer and other relevant executive officers amounted to 92 million pesos.
4. The external auditor report on operations with related parties was analyzed, having revealed that the transactions were carried out at market value, that they were done for business purposes, and that they have been adequately recorded.

Such transactions have included leasing, administrative and sales services, freights, products purchasing, royalties, interests, personal services, and other for a total amount of 936 million pesos.

5. No exemption was granted by the Board of Directors to allow a director, a relevant executive officer or an individual with decision-making power, to take advantage for his own benefit or in favor of any third party, from business opportunities corresponding to the society or to a legal entity under their control, or in which may have a significant influence.
6. On 26 October 2009, the company announced to the securities market that, through Herdez Del Fuerte, S.A. de C.V., the association with Hormel Foods Corporation had been completed for the beginning of operations of the new joint venture MegaMex Foods, LLC., which will commercialize foods within the United States.

All matters were extensively discussed, with no situations to report out of the normal operations of the society.

Complete information in regard to the aforementioned issues is available upon request.

Attentively,



*Chairman of the Corporate Practices Committee*

# CONSOLIDATED FINANCIAL STATEMENTS

Grupo Herdez, S.A.B. de C.V. and Subsidiaries

December 31, 2009 and 2008

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- 34. CONSOLIDATED STATEMENT OF CASH FLOWS
- 35. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# REPORT OF INDEPENDENT AUDITORS

(Translated from original issued in Spanish)

Tlalnepantla, Mex., February 18, 2010



To the Stockholders of  
Grupo Herdez, S. A. B. de C. V.

We have audited the consolidated balance sheets of Grupo Herdez, S. A. B. de C. V. and subsidiaries at December 31, 2009 and 2008, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of Company'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 Mexico. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with Mexican Financial Reporting Standards (NIF for their acronym in Spanish). An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards 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 aforementioned financial statements present fairly, in all material respects, the consolidated financial position of Grupo Herdez, S. A. B. de C. V. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended, in conformity with NIF.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'JPurón', written over a horizontal line.

José Ignacio Toussaint Purón  
*Audit Partner*



# CONSOLIDATED BALANCE SHEETS

Grupo Herdez, S.A.B. de C.V. and Subsidiaries  
(Amounts stated in thousands of Mexican pesos)

	December 31	
	2009	2008
<b>● Assets</b>		
CURRENT ASSETS:		
Cash and investments at terms under one year	Ps 424,197	Ps 211,585
Trade accounts receivable, net of allowance for doubtful accounts of Ps19,065 in 2009 and Ps19,472 in 2008	744,628	772,744
Other accounts receivable	20,627	79,009
Value added tax and income tax recoverable	145,227	170,502
Related parties (Note 5)	888,120	640,548
	1,798,602	1,662,803
Inventories (Note 6)	936,094	972,624
Other current assets (Note 4)	98,816	92,163
Total current assets	3,257,709	2,939,175
PROPERTY, MACHINERY AND EQUIPMENT - Net (Note 7)	1,634,576	1,453,419
INVESTMENT IN ASSOCIATED COMPANIES (Note 9)	98,895	124,987
INTANGIBLE ASSETS (Note 8)	1,017,952	953,311
	Ps 6,009,132	Ps 5,470,892
<b>● Liabilities and Stockholders' Equity</b>		
CURRENT LIABILITIES:		
Bank loans (Notes 10 and 18)	Ps 1,173,644	Ps 544,695
Suppliers	463,534	595,610
Other accounts payable and accrued expenses	162,911	150,229
Income tax payable	149,414	95,109
Employees' statutory profit sharing payable	12,654	5,195
	1,962,157	1,390,838
LONG-TERM LIABILITIES:		
Bank loans (Note 10)	8,400	739,444
Long-term debt (Note 10)	125,000	134,261
Deferred taxes (Note 14)	102,349	81,472
Tax deferred in tax consolidation (Note 14)	62,648	
Retirement benefits (Note 12)	19,719	15,424
	318,116	970,601
Total liabilities	2,280,273	2,361,439
STOCKHOLDERS' EQUITY (Note 13):		
Capital stock	961,048	961,897
Reserve for purchase of shares	219,504	229,471
Retained earnings	1,501,510	969,428
Premium on the subscription of shares	220,959	220,959
Cumulative translation adjustment	18,195	25,660
Majority stockholders' investment in the controlling equity	2,921,216	2,407,415
Non controlling equity	807,643	702,038
	3,728,859	3,109,453
SUBSEQUENT EVENT (Note 18)		
	Ps 6,009,132	Ps 5,470,892



Héctor Hernández Pons Torres  
General Director



Ernesto Ramos Ortiz  
Administration and  
Corporate Practices Director

The accompanying nineteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 18, 2010 by the undersigned officers.

# CONSOLIDATED STATEMENT OF INCOME

Grupo Herdez, S.A.B. de C.V. and Subsidiaries.  
(Amounts stated in thousands of Mexican pesos)

	Year ended December 31	
	<b>2009</b>	<b>2008</b>
Net sales	Ps 8,265,640	Ps 7,247,174
Cost of sales	5,287,533	4,823,403
Gross profit	2,978,107	2,423,771
Operating expenses:		
Selling	1,151,468	1,009,975
Management	218,878	209,732
Advertising	323,354	340,883
	1,693,700	1,560,590
Operating income	1,284,407	863,181
Other income - Net (Note 15)	96,855	157,527
Comprehensive financing result:		
Interest paid - Net	95,958	119,310
Exchange loss (gain) - Net	19,712	(5,854)
	115,670	113,456
Equity share in earnings of associated companies	43,810	24,175
Earnings before income tax	1,309,402	931,427
Income tax (Note 14)	300,431	177,917
Earnings before discontinued operations	1,008,971	753,510
Net discontinued operations (Note 17)	(9,153)	(2,842)
Consolidated net income for the year	Ps 999,818	Ps 750,668
Net income corresponding to non controlling equity	Ps 253,691	Ps 168,158
Net income corresponding to holding company stockholders	Ps 746,127	Ps 582,510
Net income per common shares (Note 2n.):		
Before discontinued operations	Ps 2.360	Ps 1.759
Of discontinued operations	Ps (0.021)	Ps (0.007)
Net income per share corresponding to holding company stockholders	Ps 1.745	Ps 1.360



Héctor Hernández Pons Torres  
General Director



Ernesto Ramos Ortiz  
Administration and  
Corporate Practices Director

The accompanying nineteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 18, 2010 by the undersigned officers.

# CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Grupo Herdez, S.A.B. de C.V. and Subsidiaries.  
For the two years ended December 31, 2009  
(Amounts stated in thousands of Mexican pesos)

	Capital stock	Reserve for the purchase of shares	Retained earnings	Premium on the subscription of shares	Cumulative translation adjustment	Non-controlling equity
Balances at January 1, 2008	Ps 961,912	Ps 229,680	Ps 601,097 <sup>(1)</sup>	Ps 220,959		Ps 610,697
Capital decrease from repurchase of shares	(31)	31				
Repurchase of outstanding shares		(442)				
Capital increase from placement of shares	16	(16)				
Placement of shares		218				
Payment of dividends			(214,179)			(110,000)
Changes in non-controlling equity						11,711
Comprehensive income 2008 (Note 2I.)			582,510		Ps 25,660	189,630
Balances at December 31, 2008	961,897	229,471	969,428 <sup>(1)</sup>	220,959	25,660	702,038
Capital decrease from repurchase of shares	(890)	890				
Repurchase of outstanding shares		(11,474)				
Capital increase from placement of shares	41	(41)				
Placement of shares		658				
Payment of dividends			(214,045)			(145,000)
Comprehensive income (Note 2I.)			746,127		(7,465)	250,605
<b>Balances at December 31, 2009</b>	<b>Ps 961,048</b>	<b>Ps 219,504</b>	<b>Ps 1,501,510<sup>(1)</sup></b>	<b>Ps 220,959</b>	<b>Ps 18,195</b>	<b>Ps 807,643</b>

<sup>(1)</sup> Includes Ps141,861 of the legal reserve in both years.



Héctor Hernández Pons Torres  
General Director



Ernesto Ramos Ortiz  
Administration and  
Corporate Practices Director

The accompanying nineteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 18, 2010 by the undersigned officers.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Grupo Herdez, S.A.B. de C.V. and Subsidiaries.  
(Amounts stated in thousands of Mexican pesos)

	Year ended December 31	
	2009	2008
<b>● Operations:</b>		
Earnings before income tax	Ps 1,309,402	Ps 931,427
Items related to investment activities:		
Discontinued operations	(9,153)	(2,842)
Depreciation	120,445	113,754
Loss on sale of fixed assets	4,245	5,472
Net pension cost	17,191	15,978
Interest earned	(33,965)	(32,749)
Equity share in earnings of associated companies	(43,810)	(24,175)
Other income without cash flow	22,636	(208,474)
Items related to financing activities:		
Interest expense	129,923	152,059
Subtotal of items related to investment and financing activities	1,516,914	950,450
Increase in accounts receivable	(64,794)	(762,047)
Decrease (increase) in inventories	48,320	(134,993)
Decrease in other assets	26,586	24,833
(Decrease) increase in suppliers	(140,990)	209,430
(Decrease) increase in other accounts payable	(25,831)	154,997
Income tax paid	(178,745)	(201,465)
Net cash flows from operating activities	1,181,460	241,205
<b>● Investment activities:</b>		
Business acquired	(176,793)	(44,000)
Collected interests	33,480	31,439
Acquisitions of property, machinery and equipment	(296,075)	(101,618)
Collections on sale of property, machinery and equipment	101,840	47,576
Net cash flows from investment activities	(337,548)	(66,603)
Cash surplus to be used in financing activities	843,912	174,602
<b>● Financing activities:</b>		
Long-term loans (paid) received	(139,806)	377,519
Interests paid	(121,633)	(141,857)
Dividends paid	(359,045)	(324,179)
Repurchase of shares	(10,816)	(224)
Net cash flows from financing activities	(631,300)	(88,741)
Net increase of cash and other cash equivalents	212,612	85,861
Cash and cash equivalents at beginning of year	211,585	125,724
Cash and cash equivalents at end of year	Ps 424,197	Ps 211,585



Héctor Hernández Pons Torres  
General Director



Ernesto Ramos Ortiz  
Administration and  
Corporate Practices Director

The accompanying nineteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 18, 2010 by the undersigned officers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Grupo Herdez, S.A.B. de C.V. and Subsidiaries.

December 31, 2009 and 2008

(Amounts stated in thousands of Mexican pesos, except exchange rates)

## ● NOTE 1 COMPANY ACTIVITIES AND BASES FOR PRESENTATION:

Grupo Herdez, S.A.B. de C.V. and its subsidiaries are mainly engaged in the manufacture, purchase, distribution and commercialization of canned and bottled food products, as well as of pasta, in Mexico and with significant presence in the United States of America (U.S.) and Canada. The Company produces and sells products pertaining to the following brands: Herdez Del Fuerte, McCormick, Doña María, Barilla, Yemina, Vesta, Nair, Embasa, La Victoria, Búfalo, La Gloria, Carlota, Blasón, Hormel, Sólo Doña María, Solomate Doña María, Kikkoman and Ocean Spray, among others. For these purposes, Grupo Herdez, S.A.B. de C.V. and subsidiaries have forged alliances with leading companies worldwide, such as: McCormick and Company Inc., Hormel Foods Corp., Barilla GeR Fratelli S.p.A. and Grupo KUO, S.A.B. de C.V. for the creation of Herdez del Fuerte, S.A. de C.V. (Herdez del Fuerte).

### a. Creation of Megamex in 2009

Through a number of agreements entered into on October 26, 2009, Herdez del Fuerte, an associated company, and Hormel Foods Corporation (Hormel) formalized their association in a joint venture, thus creating Megamex Foods, L.L.C. (Megamex) to be engaged in the production, sale and distribution of food products (prepared food and Mexican style salsa, tortillas, vegetables and canned tuna fish) in the U.S. Said company was incorporated in the state of California in the U.S.

The transaction was conducted through the contribution of the joint venture that both groups had in the U.S. denominated Herdez Corporation, the operation conducted by Herdez through its subsidiary, Authentic Specialty Foods, also located in the U.S., and the contribution of the businesses of certain commercial brands related to Mexican foods, mainly salsas, operated by Hormel.

In making the contributions of the businesses as a whole, the difference in fair value resulted in a cash payment by Hormel, that generated a profit of Ps149,735. See Note 15.

Megamex began operations on October 26, 2009 and as from that date, results thereof are included in the financial statements of Herdez del Fuerte by the proportional consolidation method.

### b. Creation of Herdez del Fuerte in 2008

As from January 1, 2008, Grupher and KUO formalized their association in a joint venture denominated Herdez del Fuerte, S.A. de C.V.

As a result of the contribution made by the businesses and companies to the joint venture, Grupher recorded a net gain of Ps212,708. See Note 15.

In addition, the contributions made by KUO generated goodwill for Grupher of Ps691,792. See Note 8.

### c. Basis for consolidation

The consolidated financial statements at December 31, 2009 and 2008 include those pertaining to Grupher and the subsidiaries mentioned below. All balances and transactions among them have been eliminated in consolidation.

The subsidiaries are consolidated at 100%, except for Herdez del Fuerte, which is consolidated in proportion to its interest, as control is exercised jointly.

Company	Percentage of shareholding		Activity
	2009	2008	
<b>Food:</b>			
Herdez del Fuerte and subsidiaries	50%	50%	Gathering, manufacturing, commercialization and distribution of food products.
McCormick de México, S.A. de C.V. (McCormick)	50%	50%	Preparation and packaging of food products.
Barilla México, S.A. de C.V. (Barilla México)	50%	50%	Purchase, importation, sale and distribution of all types of pasta.
Hormel Alimentos, S.A. de C.V. (Hormel Alimentos)	50%	50%	Purchase, sale, production, distribution, importation and exportation of all types of foods products.
Sociedad de Desarrollo Agrícola H.P., S.A. de C.V. (SDA)	100%	100%	All types of agricultural, livestock, agroindustrial and forestry activities.
<b>Services:</b>			
Herport, S.A. de C.V. (Herport)	50%	50%	Shipping company engaged in the exploitation of fishing vessels.
Herdez Europa	97%	97%	Distributor.
Litoplas, S.A. de C.V. (Litoplas)	100%	–	Purchase-sale of all types of plastic articles, sale and contract manufacturing of lithography products and plastic arts.
Seramano, S.A. de C.V. (Seramano)	100%	–	Rendering of personnel services in the technical, administrative and accounting areas.
Herdez Capital, S.A. de C.V. SOFOM, E.N.R. (Herdez Capital)	75%	–	Loan granting, capital lease operations.

Company	Percentage of shareholding		Activity
	2009	2008	
<b>Real Estate group:</b>			
Alimentos HP, S.A. de C.V. (Alimentos)	100%	100%	Leasing of property, machinery and equipment to group companies.
Comercial de Finanzas Netesa, S.A. de C.V. (Netesa)	100%	100%	Real estate company.
Quicolor de México, S.A. de C.V. (Quicolor)	100%	100%	Real estate company.
Promotora Hercal, S.A. de C.V. (Hercal)	100%	100%	Real estate company.
Herpons Continental, S.A. de C.V. (Herpons Co.)	100%	–	Leasing of real property and storage services provided to group companies.
<b>Merged in 2009:</b>			
Hermarcas, S.A. de C.V. (Hermarcas)	–	100%	Administrative and organizational advisory services (merged into Grupher).
Arpons, S.A. de C.V. (Arpons)	–	100%	Currently idle (merged into Netesa).
Inmobiliaria Enna, S.A. de C.V. (Enna)	–	100%	Real estate company (merged into Netesa).
Yavaros Industrial, S.A. de C.V. (Yavaros)	–	100%	Up to November 23, 2007, date of sale of its assets and liabilities, this company was mainly engaged in fishing activities, stockpiling and industrialization of agricultural products, processing and commercialization of sea and agricultural products.

#### d. Basis of preparation

The accompanying consolidated financial statements at December 31, 2009 and 2008 are in compliance with the provisions of Mexican Financial Reporting Standards (NIF, for its acronym in Spanish) to ensure fair presentation of the Company's financial position. The Company prepared its statements of income under the classification criterion based on the nature of the items thereof, whose main characteristic is that it separates the cost of sales from other costs and expenses. Additionally, for a better analysis of its income position, the Company has considered it necessary to show the operating income separately in the statement of income, which is a common disclosure practice in the industry to which the Company belongs.

According with the guidelines of NIF B-10 "Effects of inflation" (NIF B-10), the Mexican economy is currently in a non-inflationary environment, as cumulative inflation has remained below 26% in the past three years (threshold for an economy to be considered non-inflationary). Therefore, as of January 1, 2008, recognition of the effects of inflation on the financial information is no longer required (disconnection from inflationary accounting). Consequently, the figures contained in the accompanying financial statements at December 31, 2009 and 2008 are stated in historical Mexican pesos, modified by the cumulative effects of inflation on the financial information recognized up to December 31, 2007.

The inflation rates are as shown below:

	December 31	
	2009	2008
Year's inflation	3.57%	6.53%
Cumulative inflation of the past three years	14.48%	15.01%

In accordance with the provisions of the NIF B-15: investment in foreign subsidiaries are identified as foreign operations, and were converted to the reporting currency as described in Note 2p.

#### e. New NIFs effective as of January 1, 2009

Beginning on January 1, 2009 the following NIF issued by the Mexican Financial Reporting Standards Board (CINIF for its acronym in Spanish), have been adopted by the Company, without significant effects, for the preparation of these financial statements. The accounting policies are disclosed in the Note 2.

NIF B-7 "Business acquisitions"

NIF B-8 "Consolidated and combined financial statements"

NIF C-7 "Investment in associated companies and other permanent investments"

NIF C-8 "Intangible assets"

NIF D-8 "Share-based payments"

#### f. International Financial Reporting Standards

In January 2009, the National Banking and Securities Commission published the changes to the Sole Circular for Issuers, making it mandatory to present financial statements prepared as per International Financial Reporting Standards (IFRS) as from 2012, and allowing for early adoption of these changes. Accordingly, the Company has established and initiated the procedures that allow it to comply with said requirement on a prompt basis. At the date of issuance of these financial statements, it has not been determined whether or not adoption of IFRS could generate an important effect on the Company's consolidated financial statements.

#### g. Authorization of financial statements

The accompanying consolidated financial statements and notes thereto were authorized for issuance on February 18, 2010 by Héctor Hernández Pons Torres and Ernesto Ramos Ortiz.

● **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Following is a summary of the most significant accounting policies, which have been consistently applied in the reporting years, unless otherwise indicated.

NIF require the use of certain critical accounting estimates in the preparation of the financial statements. Also, Management judgment is required in the process of determining the Company's accounting policies.

**a. Derivative financial instruments**

All derivative financial instruments classified as for trading or market risk hedging are recognized in the balance sheet as assets and/or liabilities at their fair value.

Fair value is determined based on recognized market prices and, when not traded in a public market, are determined on the basis of valuation techniques accepted in the financial environment.

Changes to the fair value of derivative financial instruments are recognized in comprehensive financing cost, except when they are contracted for hedging risks and comply with all hedging requirements, designation thereof is documented at the outset of the hedging transaction, describing the purpose, primary position, risks to be hedged, types of derivatives and measurement of effectiveness of the relationship, characteristics, accounting recognition and the manner by which the effectiveness is to be measured, applicable to said operations.

In fair value hedging, both the derivative instrument and the hedged item are valued at fair value and the valuation fluctuations are recorded in the income statement in the same line item as the position they hedge; in cash flow hedging the effective portion is temporarily located in comprehensive income in stockholders' equity and reclassified to income when the position they are hedging has an impact on income, the ineffective portion is immediately recognized in the income statement.

**b. Permanent investments in associated companies**

Permanent investments in associated companies are valued by the equity method, which consists of adjusting the acquisition value of the shares, determined based on the purchase method, with respect to proportional portion of the comprehensive income or loss and the distribution of the equity reimbursement profits subsequent to the acquisition date.

Losses in associated companies are recognized in the corresponding proportion, as follows: a) in permanent investments, until reaches zero; b) if there is any surplus after applying the matters described in point a) above, it is recognized in asset items until they reach zero; c) any surplus is recognized as a liability for the legal obligations or assumed on behalf of the associated company; and d) the holding company recognizes no loss surpluses, if any.

**c. Inventories**

At December 31, 2009 and 2008, inventories are expressed at their historical cost, determined by the first-in first-out method. In addition, the cost of sales recognized at the historical cost of purchases and production of inventories, determined by the valuation method described above. Values so determined do not exceed market value.

The allowance for obsolete and/or slow moving inventory is determined based on studies conducted by Company Management and is sufficient to absorb any related loss.

Agricultural production in process corresponds to expenses incurred during the cultivation to harvest period at their historical costs. Values so determined do not exceed their net realization value.

**d. Property, machinery and equipment**

Property, machinery and equipment, including financial-leasing acquisitions, are stated as follows: i) acquisitions subsequent to January 1, 2008 at their historical cost, and ii) acquisitions up to December 31, 2007 of domestic origin at their restated value determined by applying factors derived from the National Consumer Price Index (NCPI) to their acquisition cost, up to December 31, 2007.

Depreciation is calculated by the straight-line method based on the useful lives of the assets, estimated by Company Management, and applied to the values of property, machinery and equipment. See Note 7.

Property, machinery and equipment are subject to annual impairment testing, only when signs of impairment are identified. Consequently, said items are stated at their modified historical cost, less accumulated depreciation and, if applicable, impairment losses. See Note 7.

Property, machinery and equipment intended for sale are valued at the lesser of their book value or at their net realization value. Said long-lived assets are not subject to depreciation. See Note 7.

**e. Intangible assets**

Intangible assets are recognized in the balance sheet when they meet the following conditions: are identifiable, provide future economic benefits and the Company has control over such benefits. Intangible assets are classified as follows: i) definite life: those which are amortized systematically, based on the best estimate of their useful life determined on the basis of expected future economic benefits, and are subject to impairment testing as signs thereof are identified, and ii) indefinite useful life, which are not amortized, but subject to annual impairment testing. See Note 8.

These intangible assets, either acquired or developed, are stated as follows: i) as of January 1, 2008, at their historical cost, and ii) up to December 31, 2007, at indexed values determined through the application factors derived from the NCPI to their acquisition costs up to that date. Consequently, these assets are stated at their modified historical cost, less the corresponding accumulated amortization and, if any, impairment losses.

**f. Goodwill**

Goodwill is considered as indefinite life and represents the cost of subsidiaries' shares in excess of the fair value of the net assets acquired and its value is subject to annual impairment testing. This item is stated as follows: i) as of January 1, 2008 at its historical cost, and ii) up to December 31, 2007, at its indexed net value determined by applying factors derived from the NCPI to its costs. Accordingly, goodwill is stated at its modified historical costs, less impairment losses, if any.

**g. Liability provisions**

Liabilities and liability provisions represent present obligations arising from past events, likely to require the use of economic resources to settle the obligation. These provisions have been recorded according to Management's best estimate.

**h. Deferred Income Tax (IT)**

Deferred IT is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred tax on all temporary differences between the book and tax values of assets and liabilities to be materialized over time, at the rates established in the tax provisions in effect at the date of the financial statements. The Company recognized deferred IT, as its financial and tax projections show that the Company will essentially pay IT in the future. See Note 14.

**i. Deferred Employees' Statutory Profit Sharing (ESPS)**

Deferred ESPS is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred ESPS for all differences between the book and ESPS value of assets and liabilities, in which payment or recovery thereof is likely.

At December 31, 2009 and 2008, the Company has recorded no effect of deferred ESPS, which is debtor in nature and the amount thereof is not considered to be important in the context of the accompanying consolidated financial statements.

ESPS currently payable is shown in the income statements under other income and expenses. See Note 15.

**j. Employee benefits**

Employee benefits granted by the Company to its employees, including defined benefit plans (or defined contribution plans) are described as follows:

Direct benefits (salaries, overtime, vacations, holidays and paid leave of absence, among others) are applied to income as they arise and the related liabilities are stated at their nominal value, due to their short-term nature. Absences payable under legal or contractual provisions are noncumulative.

Employee benefits upon termination of employment for reasons other than restructuring (severance, seniority premium, bonuses, special compensation or resignation, etc.), as well as retirement benefits (pensions, seniority premium and indemnities, etc.) are recorded based on actuarial studies conducted by independent experts by the projected unit credit method.

The net cost for the period of each benefit plan is recognized as an operating expense in the year in which it becomes payable, which includes, among other items, amortization of the labor cost of past services and prior years' actuarial gains (losses). See Note 12.

Items still unamortized at December 31, 2007, known as transition liabilities, which include the labor cost of past services and unamortized actuarial gains (losses), are amortized as of January 1, 2008, over a five-year period, rather than the estimated working lifetime of employees (12 years up to 2008). This change gave rise to an additional charge to income for the 2008 period of Ps4,291.

At December 31, 2009 and 2008, the breakdown of the personnel benefit plans is described in Note 12.

**k. Stockholders' equity**

Capital stock, the reserve for the purchase of shares, the legal reserve, the premium on the subscription of shares and retained earnings are expressed as follows: i) movements as of January 1, 2008, at their historical cost, and ii) movements before January 1, 2008, at their indexed values determined by applying factors derive from the NCPI to their restated values of up to December 31, 2007. Accordingly, the different stockholders equity items are stated at their modified historical cost.

The net premium on the placement of shares represents the the payment on the subscription of shares in excess of the par value thereof.

**l. Comprehensive income**

Comprehensive income is comprised of net income and the effects of conversion, which are reflected in stockholders' equity and do not constitutes capital contributions, reductions and/or distributions. The comprehensive income for 2009 and 2008 is expressed in historical pesos.

**m. Revenue recognition**

Income from the sale of goods is recognized in the income statement when the overall following requirements are met: a) the risks and benefits of the goods have been transferred to the buyer and no significant control thereon is retained, b) the revenue, costs incurred or to be incurred are reliably determined and c) the Company is likely to receive economic benefits from the sale.

The allowance for doubtful accounts, rebates and discounts is recognized based on studies conducted by Management and is considered to be sufficient to absorb losses, rebates, discounts and reimbursements, as per Company policies.

**n. Earning per share**

Earnings per basic ordinary share before and after discontinued operations are the result of dividing net income for the year by the weighted average of the current shares during 2009 and 2008, of Ps427,509,963 and Ps428,358,363, respectively.



#### **o. Exchange gain**

Transactions in foreign currencies are initially recorded in the recording currency, applying the exchange rates prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in such currencies are translated at the exchange rate prevailing on the balance sheet date. Exchange gains or losses arising from fluctuations in exchange rates between the transaction and settlement dates, or valuation at the period close, are applied to income, as a component of the Comprehensive Financing Result (RIF, for its acronym in Spanish), except for exchange differences, which are capitalized along with other components of the RIF, as part of the cost of ratable assets.

#### **p. Foreign currency transactions**

The financial statements of foreign subsidiaries (foreign currency transactions) maintain the same recording and functional currency. Therefore, said figures served as the basis to convert the financial information of foreign operations to the Company's reporting currency, considering a non-inflationary environment, as shown below:

- i. The balances at December 31, 2009 and 2008 shown for assets and liabilities stated in the recording currency were translated at the closing exchange rate of Ps13.04 and Ps13.77 to the US dollar, respectively.
- ii. Stockholders' equity at December 31, 2007 was translated applying the exchange rate at that date and movements in 2009 and 2008 were translated at the historical exchange rate.
- iii. Revenue, costs and expenses of 2009 and 2008 were translated at the historical exchange rate was of Ps13.51 and Ps11.14 to the US dollar, respectively.
- iv. In light of the above, a conversion effect was recognized in stockholders' equity.

#### **q. Information per segment**

The Standard B-5 "Financial information by segments" of NIF, requires that the Company analyze its organizational structure and its reporting system for the purpose of identifying segments. With respect to the years presented, the Company has operated the following business segments: domestic and foreign.

These segments are managed independently, since the goods they handle and the markets they serve are different. Their activities are performed through different subsidiaries. Operations between operating segments are recorded at market value.

Revenue by segment is shown according to the manner by which Management analyzes, directs and controls the business and operating income. See Note 11.

#### **r. Barter transactions**

At December 31, 2009 and 2008, Gruper's individual financial statements show an account receivable arising from barter transactions ("Trade Credits"), conducted in foreign currency. These operations are conducted with independent third parties and at the closing of said periods, show a balance of Ps3,655 and Ps77,501, respectively.

#### **s. Joint ventures**

The contributions made to the joint ventures were initially recorded at fair value as per IFRS 31 "Interest in Joint Ventures", to be applied on a supplementary basis for NIF purposes.

#### **● NOTE 3 FOREIGN CURRENCY POSITION:**

- a. At December 31, 2009 and 2008, the Company and its subsidiaries had the following monetary assets and liabilities in US dollars:

	Consolidated	
	2009	2008
Assets	Dls. 25,542	Dls. 12,944
Liabilities	(20,935)	(23,031)
Net long (short) position	Dls. 4,607	(Dls. 10,087)

At December 31, 2009 and 2008, the exchange rate was Ps13.04 and Ps13.77 to the dollar, respectively. At February 18, 2010, date of issuance of the audited financial statements, the exchange rate had not varied significantly.

In October 2008, the Mexican peso suffered a devaluation against foreign currencies; as regards the US dollar, the exchange rate slipped approximately 25% with respect to the exchange rate at January 1, 2008. As a result, the Company incurred a consolidated exchange loss of Ps845 at December 31, shown in the income statement in the RIF.

At December 31, 2009 and 2008, the Company and its subsidiaries had contracted no hedging against exchange risks, except for McCormick, which at December 31, 2009, maintained hedging instruments to protect against exchange risks, as described in Note 4.

- b. Following is a summary of the main operations conducted by the subsidiaries (excluding the acquisition or sale of machinery and equipment for own use), along with income and expenses in thousands of dollars:

	Year ended December 31,	
	2009	2008
Exported merchandise	Dls. 71,532	Dls. 67,507
Importations of finished products	(22,315)	(33,453)
Royalties and technical service expenses	(12,129)	(12,569)
Net	Dls. 37,088	Dls. 21,485

● **NOTE 4 DERIVATE FINANCIAL INSTRUMENTS:**

The Company's activities expose it to a number of different financial risks: market risk (including exchange-rate risks, cash flow and fair value, interest rate risks and price risks), credit risk and liquidity risk. The risk management general program considers the unpredictability of the financial markets and seeks to minimize the potential negative effects on the group's financial performance. The group uses derivative financial instruments to hedge against risk exposure.

Financial risk management is handled by the finance department, as per the policies approved by the Board of Directors. The entity identifies, assesses and hedges the financial risks in close co-operation with its subsidiaries. The Board has approved written general policies in connection with the financial risk management, as well as policies for specific risks, such as exchange rate, interest rate and credit for the use of trading and/or hedging derivative financial instruments and of non-derivative financial instruments for the investment of treasury surplus.

Following is the open position at December 31, 2009 and 2008 pertaining to hedging financial instruments, as well as the effects of the transactions with financial instruments conducted in the periods ended December 31, 2009 and 2008:

	2009	2008
<b>Comprehensive income</b>		
Open exchange rate hedge agreements	Ps (121)	
Open hedge agreements for the purchase of soy oil	(4,733)	
Deferred IT pertaining to derivative financial instruments intended for hedging	1,432	
<b>Trial balance accounts</b>		
Assets arising from futures for the purchase of soy oil	23,274	
Assets arising from exchange rate hedge agreements	210,721	
Investments in derivative financial instruments	21,716	Ps 85,831
Liabilities arising from exchange rate hedge agreements	210,600	
Liabilities arising from futures for the purchase of soy oil		49,367
<b>Cost of sales</b>		
Change in fair value of futures for the purchase of soy oil	(48,616)	(7,012)
Comprehensive financing income		
Open futures for the purchase of soy oil (not for hedging purposes)	(18,541)	

As part of the strategy for soy oil price hedging (the main raw material), during 2009 and 2008, McCormick, a subsidiary, used derivative financial instruments to reduce the risk of price fluctuations. At December 31, 2009 and 2008, the related balances included in "Other current assets" are as follows:

	2009	2008
Investments in financial instruments	Ps 21,716	Ps 85,831
Fair value of derivative financial instruments	23,274	(49,367)
Net value of financial instruments	Ps 44,990	Ps 36,464

The total amounts of hedge agreements for the purchase of soy oil in effect at December 31, 2009 and 2008 are as follows:

**At December 31, 2009**

Notional amount (Dls.)	Notional amount pesos	Dates			Fair value	
		Starting	Maturity	Position	(Dls.)	Pesos
Dls.12,403	Ps161,814	Various	Various	Long	Dls. 1,781	Ps 23,274

**At December 31, 2008**

Notional amount (Dls.)	Notional amount pesos	Dates			Fair value	
		Starting	Maturity	Position	(Dls.)	Pesos
Dls.10,368	Ps142,820	Various	Various	Long	(Dls. 3,582)	(Ps 49,367)

For the period ended December 31, 2009, the Company recorded a Ps48,616 benefit in the cost of sales, stemming from financial instruments contracted in 2008, realized during 2009. Due to the fact that these financial instruments were intended to hedge the price of soy oil. Company management considered that recording this amount in the cost of sales reflects the hedge effect more clearly. As required in Interpretation to NIF 6 "Timeliness in formal designation of hedging", the Company documented the efficiency of derivative financial instruments at a date subsequent to contracting thereof, as a result of which those instruments were recorded as for hedging purposes.

**Exchange-rate derivative financial instruments**

In the purchase of its raw materials, the Company is exposed to fluctuations in the exchange rate of the Mexican peso to the US dollar, due to which the Board of Directors has approved a hedging strategy with forwards, with a view to minimizing the exchange risk for those transactions.

At December 31, 2009, the characteristics of the forwards designated as hedging are as follows:

Counterparty	Notional amount (Dls.)	Notional amount (Ps.)	Beginning date	Expiration date	Type of underlying asset	Fair value
Totals	Dls.16,000	Ps210,600	Various	Various	US dollar	Ps 121

● **NOTE 5 ANALYSIS OF BALANCES AND TRANSACTIONS WITH RELATED PARTIES:**

The principal net balances at December 31, 2009 and 2008 with subsidiaries and affiliates are as shown below:

	Year ending December 31	
	2009	2008
<b>Accounts receivable (payable):</b>		
Hechos con Amor, S.A. de C.V.	Ps (989)	Ps (3,394)
Herdez del Fuerte - proportional consolidated <sup>(1)</sup>	787,411	670,557
Herimex Corporation	3,118	3,118
McCormick and Company, Inc.	(18,078)	(30,538)
Herflot, S.A. de C.V.	(1,694)	(837)
Herflot Tijuana, S.A. de C.V.	650	182
Barilla Alimentare	(14,483)	(3,505)
Grupo KUO, S.A.B. de C.V.		7,003
Litoplas, S.A. de C.V.		286
Duque Jet, S.A. de C.V.	(1,124)	242
Herpons Continental, S.A. de C.V.		(848)
Desc Corporativo, S.A. de C.V.	(2,377)	(2,986)
Stafford de México, S.A. de C.V.	34,227	
Fábrica de Envases del Pacífico, S.A. de C.V.	100,503	
Other - Net	956	1,268
<b>Net receivable (payable)</b>	<b>Ps 888,120</b>	<b>Ps 640,548</b>

<sup>(1)</sup> Corresponding to net balances receivable from Herdez del Fuerte subsidiaries, in the 50% that corresponds to the non-consolidating proportion.

During the years ended December 31, 2009 and 2008, the Company carried out the following operations with related parties using prices equivalent to those used in operations conducted among independent third parties.

	Year ending December 31	
	2009	2008
<b>Transactions:</b>		
Interests earned	Ps 4,183	Ps 2,439
Interests paid	(28,995)	(25,079)
Service income	6,096	6,929
Corporate expenses	(58,250)	(53,183)
Leasing expenses	(63,135)	(61,525)
Administrative services	(21,362)	(33,277)
Freight services	(13,122)	(11,425)
Commissions on sales	(61,681)	
Purchase of labels and other materials	(487,897)	(71,606)
Other	(16,162)	
	<b>Ps (740,325)</b>	<b>Ps (246,727)</b>

During August and November 2009, Grupher acquired the overall shares of Seramano, S.A. de C.V. (Seramano), Herpons Continental, S.A. de C.V. (Herpons Co) and Litoplas, S.A. de C.V. (Litoplas), known as a whole as Grupo Colibrí. Due to the fact that the value of the assets and shares pertaining to the companies acquired is considered to have been determined at fair value, goodwill of Ps68,625 was recognized, arising from the difference between the purchase price of the shares and the value of the companies' net assets at the date of acquisition. This acquisition was made from a related party.

The total amount of the benefits granted to key managerial personnel or relevant directors is equivalent to that of similar operations conducted with other independent parties, as shown in Note 12 k.

● **NOTE 6 ANALYSIS OF INVENTORIES:**

	Year ending December 31	
	2009	2008
Finished products	Ps 577,939	Ps 607,157
Semi-finished and in-process products	2,699	21,101
Raw materials and packaging materials	246,437	224,958
Inventory held by contract manufacturers (maquiladores) and agents	70,715	90,546
Spare-parts warehouse	38,304	28,862
	<b>Ps 936,094</b>	<b>Ps 972,624</b>

● **NOTE 7 PROPERTY, MACHINERY AND EQUIPMENT:**

	Year ending December 31		Annual depreciation rate %
	2009	2008	
Buildings	Ps 854,931	Ps 836,133	3 and 5
Machinery and tools	1,594,741	1,563,047	7 and 10
Fishing equipment	456,189	449,483	6
Furniture and office equipment	62,574	66,013	8
Stowing and transportation equipment	58,161	58,129	10 and 25
Electronic data processing equipment	82,916	79,155	25
Other	4,911	4,911	
	<b>3,114,423</b>	<b>3,056,871</b>	
Accumulated depreciation	(1,737,975)	(1,716,165)	
	<b>1,376,448</b>	<b>1,340,706</b>	
Land	233,290	220,118	
Reserve for asset disposal <sup>(1)</sup>	(156,535)	(188,203)	
Construction in process, machinery in transit and advances to suppliers	181,373	80,798	
	<b>Ps1,634,576</b>	<b>Ps 1,453,419</b>	

<sup>(1)</sup> The reserve for asset disposals corresponds to the possible impairment from closing down the Veracruz and Ensenada plants, as well as to the transfer of operations from Mazatlán to Chiapas, as mentioned in Note 17, and includes estimations of the realization value of assets and real property available for sale.

At December 31, 2009 and 2008, Company property, machinery and equipment show no indication of impairment that would require additional adjustments to the reserves of Ps156,535 and Ps188,203, respectively.

● **NOTE 8 ANALYSIS OF OTHER INTANGIBLE ASSETS:**

At December 31, 2009 and 2008, other assets are comprised as shown below:

	Balance at December 31,	
	2009	2008
Trademarks and patents	Ps 176,378	Ps 173,051
Goodwill of subsidiaries:		
Grupo Colibrí	68,625	
Herdez del Fuerte	691,792	691,792
Barilla	71,523	71,523
	831,940	763,315
Other	9,634	16,945
	Ps 1,017,952	Ps 953,311

The reconciliation of the values of intangible assets at the beginning and end of the period is as follows:

	Investment
Balance at beginning of period	Ps 953,311
Plus:	
Patents and trademarks	3,328
Goodwill recognized in the period	68,625
Other	(7,312)
Balance at end of period	Ps 1,017,952

During the year ended December 31, 2009, these assets were not subject to amortization, and suffered no impairment adjustments.

● **NOTE 9 INVESTMENT IN ASSOCIATED COMPANIES:**

The investment in shares of subsidiary and associated companies at December 31, 2009 and 2008 is comprised as shown below:

	2009	2008
Associated companies of Grupher	Ps 98,852	Ps 96,187
Associated companies of subsidiaries	43	28,800
Total	Ps 98,895	Ps 124,987

**Merger of subsidiaries**

During 2009, the following two mergers took place: Hermarcas, S.A. de C.V. into Grupher and Arpons, S.A. de C.V., Inmobiliaria Enna, S.A. de C.V. and Yavaros Industrial, S.A. de C.V. into Comercial de Finanzas Netesa, S.A. de C.V. (Netesa). Due to the fact that the above were consolidated companies, these mergers had no effect on the accompanying consolidated financial statements, except for the Ps37,874 tax effect arising from withdrawal of subsidiaries from the tax consolidation regime.

● **NOTE 10 ANALYSIS OF BANK LOANS AND LONG-TERM DEBT:**

**Bank loans (See Note 18)**

Bank loans at December 31, 2009 are analyzed as shown below:

Maturity	Average rate	Amount
<b>2010</b>		
Mexican peso	8.51%	Ps 1,173,644
Short-term liabilities		1,173,644
<b>2011 and 2012</b>		
Mexican peso	9.41%	8,400
Long-term liabilities		8,400
Total		Ps 1,182,044

The main obligations to do and not to do are as follows:

- Not exceeding 2.75-times leverage (liabilities with cost/EBITDA).
- Reduce interest hedge (EBITDA/financing expenses) to less than 3.25 times.
- Not reduce capital stock to under Ps2,300,000.
- Grant any kind of loan or credit, secured or unsecured, except for those entered into with the borrower's subsidiaries and/or affiliates.

At December 31, 2009 and at the date of this report, there is no default that could modify loan conditions.

**Long-term liabilities**

At December 31, 2009, Herdez del Fuerte has a loan payable to Grupo KUO in the amount of Ps250,000 maturing on December 31, 2010, at the average interbank compensation interest rate (TIIE), plus four percentage points, generating no obligations to do and not to do. As a result of the proportional consolidation mentioned in Note 1, the Grupher balance sheet at December 31, 2009 shows a balance of Ps125,000 corresponding to 50% of said liability.

● **NOTE 11 FINANCIAL INFORMATION PER SEGMENT:**

The Company manages and evaluates its operation through fundamental economic operating segments, which are segmented geographically. These economic segments are managed and controlled independently.

Following is the condensed financial information on the geographic segments to be reported on:

	Figures in million of pesos					
	December 31			December 31		
	2009		Total	2008		Total
Mexico	U.S.	Mexico		U.S.		
Net sales	Ps 7,414	Ps 852	Ps 8,266	Ps 6,503	Ps 744	Ps 7,247
Operating income	1,152	132	1,284	774	89	863
Net profit	669	77	746	523	60	583
Depreciation and amortization	108	12	120	102	12	114
EBITDA	1,260	144	1,404	877	100	977
Total assets	5,390	619	6,009	4,909	562	5,471
Total liabilities	2,045	235	2,280	2,119	242	2,361

● **NOTE 12 EMPLOYEE BENEFITS:**

a. Following is a reconciliation between the initial and final balances of the present value of Defined Benefit Obligations (OBD for its acronym in Spanish):

	Pensions		Other benefits at retirement	
	2009	2008	2009	2008
	Ps	Ps	Ps	Ps
OBD at January 1, 2008	45,225	45,985	32,244	31,815
Plus (less):				
Labor cost of current service	2,860	2,613	4,111	3,851
Financial cost	3,944	3,665	2,629	2,417
Benefits paid	(2,816)	(2,574)	(3,956)	(4,152)
OBD at December 31	Ps 49,213	Ps 49,689	Ps 35,028	Ps 33,931

b. The value of acquired benefits obligations at December 31, 2009 and 2008 totaled Ps39,210 and Ps55,770, respectively.

c. Reconciliation of fair value of Plan Assets (PA).

Following is a reconciliation between the initial and final balances for 2009 and 2008, and the fair value of employee benefit PA:

	December 31	
	2009	2008
PA at January 1	Ps 33,774	Ps 33,282
Plus (less):		
Interest for the period	5,362	(351)
Company contributions	7,750	4,500
Benefits paid	(3,184)	(3,657)
PA at December 31	Ps 43,702	Ps 33,774

d. Reconciliation of Defined Benefit Obligations, Plan Assets and Net Projected Liability (NPL).

Following is a reconciliation between the present value of the OBD and the fair value of PA and NPL recognized in the balance sheet:

	December 31	
	2009	2008
<b>Labor liabilities:</b>		
OBD	Ps (83,609)	Ps (83,620)
<b>Less unamortized:</b>		
Actuarial (gains) losses	5,022	15,037
Transition liability	15,166	19,385
Market value of fund	43,702	33,774
NPL	Ps (19,719)	Ps (15,424)

e. Analysis of Periodic Pension Cost.

	December 31	
	2009	2008
Labor cost of current service	Ps 6,971	Ps 6,473
Financial cost	6,573	6,083
Expected yield of plan assets	(3,104)	(2,896)
Net amortization of transition liability and improvements to plan	4,590	4,885
Actuarial gain or loss - Net	2,161	1,433
Total	Ps 17,191	Ps 15,978

**f. Breakdown of Plan Assets.**

Following is a breakdown of the PA valued at fair value, their percentage with respect to total PA, as well as the value of the assets used by the entity included in PA.

At December 31, the breakdown of the PA of defined benefits is as follows:

	Retirement plan				Other benefits			
	2009	%	2008	%	2009	%	2008	%
Debt instruments	Ps 32,367	79	Ps 25,255	79	Ps 1,647	89	Ps 1,666	89
Capital instruments					30			
Variable rate	9,168	21	6,637	21	490	11	216	11
Fair value of PA	Ps 41,535	100	Ps 31,892	100	Ps 2,167	100	Ps 1,882	100

**g. Criteria to determine the rate of return of Plan Assets.**

The expected rate of return per type of PA is based on projections on historical market rates. The difference with respect to real rates is shown in the actuarial gains (losses) for the year.

**h. Main actuarial hypotheses.**

The main actuarial hypotheses used, stated in absolute terms, as well as discount rates, PA yields, salary increases and changes in indexes or other referred variables at December 31, are as shown below:

Item	Pensions		Other benefits	
	2009	2008	2009	2008
Discount rate	9.00%	8.75%	8.50%	8.20%
Expected rate of return on assets	9.75%	9.75%	9.75%	9.75%
Rate of salary increases	4.25%	4.25%	4.25%	4.25%

**i. Value of Defined Benefit Obligations, Plan Assets and plan position for the last two annual periods:**

The value of the OBD, the fair value of PA's, the plan position, as well as the experience adjustments for the last two years are as shown below:

Year	Retirement plan Historical values		
	OBD	PA	Plan position
2009	Ps 49,213	Ps 41,535	Ps 7,678
2008	49,689	31,892	17,797

Year	Other Benefits		
	OBD	PA	Plan position
2009	Ps 35,028	Ps 2,167	Ps 32,861
2008	33,931	1,882	32,049

**j. Reserve for contributions to the plan for the following period:**

It is estimated that for year 2010, payments to the employee benefit plans assets will be as follows:

Pensions and retirement	Ps 7,000
Other benefits at retirement	1,000
<b>Total</b>	<b>Ps 8,000</b>

**k. Benefits granted to key management personnel or relevant officers:**

Total benefits granted to key management personnel or relevant officers are as follows:

	December 31	
	2009	2008
Short and long-term direct benefits	Ps 12,500	Ps 11,500
Termination benefits	5,000	10,000
<b>Total</b>	<b>Ps 17,500</b>	<b>Ps 21,500</b>

● **NOTE 13 STOCKHOLDERS' EQUITY:**

In 2009 and 2008, the Company repurchased 889,400 and 31,400 shares, respectively, that were outstanding in the Mexican Stock Exchange in the amount of Ps11,474 and Ps442, respectively, generating a capital stock reduction at December 31, 2009 and 2008 of Ps890 and Ps31, respectively.

In addition, during 2009 and 2008, the Company placed 41,000 and 16,000 shares, respectively, which had been repurchased in prior years. These placements amounted to Ps658 and Ps218, respectively, generating a capital stock increase of Ps41 and Ps16, respectively.

The Company's subscribed and paid-in capital stock totaled Ps427,782, plus an increase of Ps533,266, to express the capital stock in modified historical pesos of December 31, 2009, and is represented by 427,509,963 common nominative shares, with no par value.

At the April 2009 Ordinary General Stockholders' Meeting, the stockholders agreed to decree dividends to the majority stockholders to be paid out from retained earnings in the amount of Ps214,045 and to the minority stockholders in the amount of Ps145,000 decreed at the April Ordinary General Stockholders Meeting.

At the April 2008 Ordinary General Stockholders' Meeting, the stockholders agreed to decree dividends to the majority stockholders to be paid out from retained earnings in the amount of Ps214,179, and to the minority stockholders in the amount of Ps110,000, decreed at the April Ordinary General Stockholders Meeting.

Dividends paid are not subject to IT if paid out from the After Tax Earnings Account (CUFIN for its acronym in Spanish) which balance at December 31, 2009 and 2008 amounting to Ps1,088,227 and Ps1,050,716, respectively, and will be taxed at a rate that fluctuates between 4.62% and 7.69% if paid out from the reinvested CUFIN. Dividends paid in excess of this account are taxable at a rate of 42.86%, if paid in 2010. The current tax is payable by the Company and may be credited against IT for the same year or the following two years or, if applicable, against the Flat Tax (FT) for the period. Dividends paid out from profits previously taxed for IT purposes are not subject to tax withholding or additional tax payment.

In the event of a capital reduction, the excess of stockholders' equity over capital contributions, totaling Ps1,299,817 and Ps1,255,014 at December 31, 2009 and 2008, respectively, is accorded the same tax treatment as dividends.

● **NOTE 14 INCOME TAX (IT) AND FLAT TAX (FT):**

**a. IT**

Book and tax results differ mainly due to items taxed or deducted over time, differently for book and tax purposes, due to recognition of the effects of inflation for tax purposes, as well as to items only affecting either book or tax results.

Based on its financial and tax projections, Company management determined that the tax to be paid in the future will be IT, and has therefore recognized deferred IT.

IT under the tax consolidation regime:

Grupher has authorization, granted by Ministry of Finance on December 30, 1992, to determine its IT under the tax consolidation regime, together with its direct and indirect subsidiaries in Mexico, as per the provisions of the IT Law.

In 2009, the Company determined a tax profit of Ps225,181 (consolidated tax loss of Ps544,081 in 2008), which exceeds that determined for FT purpose. Consolidated book and tax results differ mainly due to items taxed or deducted over time, differently for book and tax purposes, due to recognition of the effects of inflation for tax purposes, as well as to items only affecting either consolidated book or consolidated tax results.

On December 7, 2009, a decree was published amending, adding to and revoking a number provisions of the IT Law, as shown below:

- a. The IT rate applicable from 2010 to 2012 is 30%, 29% for 2013 and 28% as from 2014. At December 2009, the aforementioned rate change produced an increase to the deferred IT balance of Ps5,404, with the corresponding effect on income for the year, which was determined based on the expected reversal of temporary items at the rates in effect at that time.
- b. The possibility of using credits for the excess of deductions on taxable income for FT purposes (credit of tax loss for FT purposes) to reduce the IT payable is eliminated, although they can be credited against the FT base.
- c. The tax consolidation regime was modified to require that IT related to the tax consolidation benefits obtained as from 1999 be paid in installments during the period from the sixth to the tenth year following that in which said benefits were made use of.

The aforementioned tax consolidation benefits stem from:

- i. Tax losses used in tax consolidation that were not authorized on an individual basis by the controlled company that generated them.
- ii. Special consolidation items arising from operations conducted between the consolidating entities, and that generated benefits.
- iii. Losses from the sale of shares not yet deducted individually by the controlled company that generated those losses.
- iv. Dividends distributed by the consolidating controlled companies not paid out from the after tax earnings account (CUFIN) or reinvested CUFIN.

d. Differences between the consolidated CUFIN and the reinvested CUFIN and the balances of these same accounts pertaining to the Group's consolidated companies can give rise to income subject to IT.

In light of the above, at December 31, 2009, the Company recognized a liability corresponding to CUFIN differences of Ps61,924, to be paid as from 2014. Of this amount, Ps29,011 corresponds to the change in the aforementioned legislation. Management decided to reflect this amount in the statement of income.

e. At December 31, 2008, the Company had unamortized consolidated tax losses of Ps544,081 expiring in 2018. Due to the uncertainty regarding the recoverability of the corresponding benefits (approximately Ps152,342), management decided not to recognize said tax loss as a deferred tax asset until such time as the events allowing for its recovery take place.

During 2009, the Company amortized Ps225,181 of said losses, generating a tax benefit of Ps63,051. The balance still unamortized of Ps346,858 (tax effect of approximately Ps104,057) has been accorded the same tax treatment as in the prior year, due to the uncertainty of the possibilities of recovery.

f. Following is a reconciliation of tax-consolidation-related IT balances.

	IT liability
Initial balance at January 1, 2009	Ps 38,598
Increases:	
IT from differences in CUFIN and reinvested CUFIN	61,924
Decreases:	
Withdrawal from the tax consolidation regime of merged controlled companies	(37,874)
<b>Final balance at December 31, 2009</b>	<b>Ps 62,648</b>

The IT provision at 2009 and 2008 is analyzed as follows:

	2009		2008
IT currently payable	Ps 336,319	Ps	199,085
Deferred IT	(35,888)		(21,168)
<b>Total provision</b>	<b>Ps 300,431</b>	Ps	<b>177,917</b>

Following is a reconciliation between the current and effective IT rate:

	Year ending December 31	
	2009	2008
Income before tax and discontinued operations	Ps 1,309,402	Ps 931,427
IT at Statutory tax rate	28%	28%
IT at statutory rate	366,633	260,800
Plus (less) the effect of the following permanent items on IT:		
Non-deductible expenses	236	2,008
Effect on reserves	22,982	363
Annual inflation adjustment and other permanent items	(60,784)	(85,254)
Change in tax consolidation	29,011	
Effect of change in rate	5,404	
Tax loss amortization	(63,051)	
<b>IT at effective rate</b>	<b>Ps 300,431</b>	<b>Ps 177,917</b>
<b>Effective IT rate</b>	<b>23%</b>	<b>19%</b>

At December 31, 2009 and 2008, the main temporary differences on which deferred IT was recognized are analyzed as follows:

	December 31	
	2009	2008
Asset and liability provisions	Ps 14,132	Ps 16,354
Inventories	(245,259)	(294,850)
Fixed assets - Net	(302,450)	(289,998)
Prepaid expenses	(45,279)	3,467
Surplus in cost of shares	174,888	148,852
Royalties	14,081	5,516
Other	29,616	96,424
	(360,271)	(314,235)
<b>IT rate</b>	<b>29.5%</b>	<b>28%</b>
	(106,280)	(87,986)
Asset tax recoverable	4,343	6,926
Deferred tax	(101,937)	(81,060)
Deferred tax arising from reinvested tax profit	(412)	(412)
<b>Total deferred taxes</b>	<b>Ps (102,349)</b>	<b>Ps (81,472)</b>



**b.FT**

FT for the period is calculated at the 17% rate (16.5% for 2008) on the profit determined on a cash-flow basis. Said profit is determined by subtracting authorized deductions from total income arising from taxable operations. The so-called flat tax credits are subtracted from the foregoing result, as established in current legislation. As of 2010, the FT rate will be 17.5%. The effect of the rate change on temporary differences as of December 31, 2009 has been recognized in prior periods.

In accordance with the current tax legislation, the Company is required to pay the greater of IT and FT on an annual basis.

- **NOTE 15 ANALYSIS OF OTHER INCOME/EXPENSES:**

Other income/expenses incurred for the years ended December 31, 2009 and 2008 were as follows:

	December 31	
	2009	2008
Profit on the creation of Megamex (Note 1a.)	Ps 149,735	
Profit on sales of fixed assets - Net	26,107	
Net income in the creation of Herdez del Fuerte (Note 1b.)		Ps 212,708
Sale of waste materials	10,431	2,245
Other income	5,174	10,467
<b>Total other income</b>	<b>191,447</b>	<b>225,420</b>
Allowance for doubtful accounts	39,171	14,958
Employees' Statutory Profit Sharing	12,402	788
Restructuring expenses	22,730	24,290
Employee benefits transition liability	4,584	4,291
Loss on the sale of fixed assets - Net		5,472
Integration expenses	2,168	
Provision for assets no longer in use	9,382	
Other expenses	4,155	18,094
<b>Total expenses</b>	<b>94,592</b>	<b>67,893</b>
<b>Other income - Net</b>	<b>Ps 96,855</b>	<b>Ps 157,527</b>

- **NOTE 16 COLLATERAL GRANTED:**

At December 31, 2009 and 2008, Grupher and some of its subsidiaries granted collateral on loans obtained by other subsidiaries and affiliates of Ps447,222 and Ps326,667, respectively, one of which is consolidated at 50%.

- **NOTE 17 DISCONTINUED OPERATIONS:**

As a result of the steps taken by Grupher Management to streamline its operations and future economic results, certain operations were identified that were determined, after in-depth analysis, not to generate the results originally expected, as a result of which management decided to cancel said operations. The operations in question are shown in the statement of income as discontinued operations. Net IT items are shown as follows:

	2009 Period	2008 Period
Closing of Veracruz plant	Ps 1,285	Ps 1,348
Closing of Ensenada plant	2,554	2,599
Closing of Mazatlán plant	8,873	
<b>Total</b>	<b>12,712</b>	<b>3,947</b>
Income tax on discontinued item	(3,559)	(1,105)
<b>Discontinued operations</b>	<b>Ps 9,153</b>	<b>Ps 2,842</b>

The Veracruz and Ensenada plants' operations are being relocated to the San Luis Potosí plant. In addition, the Mazatlán plant operations are being relocated to Chiapas. These reserves include asset disposals, dismantling expenses and personnel layoff expenses.

- **NOTE 18 SUBSEQUENT EVENT:**

On January 5, 2010, Grupher obtained a new bank loan of Ps600 million to be used to replace short-term debt and for other corporate purposes. The loan is for a 10-year term with semiannual amortizations as from the eighth year.

- **NOTE 19 NEW ACCOUNTING PRONOUNCEMENTS:**

In December 2009, the CINIF issued a number of NIF and NIF interpretations (INIF), which became effective on January 1, 2010, except for INIF 18, into effect as from December 7, 2009, and NIF B-5 and B-9, in effect as from January 1, 2011. The NIF and INIF applicable to the Company are considered to have no significant effect on the Company's financial information.

**NIF B-5 "Financial information per segment"** establishes the general standards for disclosure of financial information per segment, and allows the user of said information to analyze the entity from the same perspective as that of management and to present more coherent information per segment in the financial statements. This standard is to supersede Statement B-5 "Financial information per segment", in effect up until December 31, 2010.

**NIF B-9 "Financial information at interim dates"** - establishes the standards for the determination and filing of financial information at interim dates for external use, which requires, among other matters, filing of statements of changes in stockholders' equity and of cash flows, which were not required under Statement B-9 "Financial information at interim dates", which is to become effective on December 31, 2010.

**NIF B-16 "Financial statements of non-profit entities"** - establishes the core financial statements to be issued by non-profit entities, and modifies the structure of the statement of activities and incorporates new terminology for this type of entity. This standard supersedes Statement B-16, Financial statement of non-profit entities in effect up to December 31, 2009.

**NIF C-1 "Cash and cash equivalents"** - establishes the standards with regard to the accounting treatment and disclosure of cash, restricted cash and available-for-sale investments, and incorporates new terminology for consistency thereof with other NIF issued previously. This standard supersedes Statement C-1 "Cash" in effect up to December 31, 2009.

**NIF E-2 "Donations received or granted by non-profit entities"** - establishes the standards for valuation, presentation and disclosure of contributions received or granted by non-profit entities. In addition, this standard establishes, among other changes, the accounting treatment to be accorded to works of art, treasures, collectors' items, goods arising from contributions received, etc., and incorporates new terminology for this type of entity. This standard supersedes Statement C-1 "Income and contributions received by non-profit entities, as well as contributions granted by said entities", in effect up to December 31, 2009.

**INIF 17 "Service concession agreements"** - eliminates the inconsistencies between NIF D-6 Capitalization of the comprehensive financing result and Statement D-7 "Agreements for construction and manufacturing of certain capital goods", with respect to the accounting treatment of the RIF with respect to recognition of an intangible asset during the construction phase, for service concession agreements.

**INIF 18 "Recognition of the effects of the 2010 Tax amendments on the taxes imposed on profits"** was issued in response to a number of queries raised by the preparers of financial information related to the effects of the 2010 Tax Amendments, specifically as concerns the changes established in the tax consolidation regime and the changes in the IT rates.



Héctor Hernández Pons Torres  
General Director



Ernesto Ramos Ortiz  
Administration and  
Corporate Practices Director

## ADDITIONAL INFORMATION

BMV Ticker Symbol: Herdez\*  
ADR Nivel 1  
25:1  
Market: OTC  
Symbol: GUZBY  
Cusip: 40050P109



HERDEZ

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