

We are
experience
in motion

2016 INTEGRATED ANNUAL REPORT



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Mission, vision and values

Mission

To place quality foods and beverages within the reach of consumers, under brands of growing prestige and value.

Vision

Grupo Herdez aims to consolidate, grow and position itself as a leading company in the food and beverage industry, recognized for the quality of its products and the effectiveness of its efforts in satisfying consumers' needs and expectations, within a framework of optimal consumer care and service, under strict profitability criteria, strategic potential and sustainability.

Values

- Honesty
- Achievement focus
- Teamwork
- Trust



Corporate profile

We are leaders in the processed food sector and one of the major players in the ice cream category in Mexico, and in the Mexican food segment in the United States.

We participate in a wide range of categories, including burritos, canned vegetables, guacamole, home-style salsa, honey, ice cream, jam, ketchup, mayonnaise, mole, mustard, organic food, pasta, spices, tea, tomato purée and tuna.

We sell our products through a portfolio of exceptional brands, which include: Aires de Campo®, Barilla®, Búfalo®, Chi-Chi's®, Del Fuerte®, Don Miguel®, Doña María®, Embasa®, Helados Nestlé®, Herdez®, La Victoria®, McCormick®, Nutrisa®, Wholly Guacamole® and Yemina®.

In addition, we have distribution agreements in Mexico for Kikkoman®, Ocean Spray® y Reynolds®.

Infrastructure

Our infrastructure has 16 plants (13 in Mexico, 1 in the United States, 1 in Chile and 1 in Peru), 22 distribution centers (21 in Mexico and 1 in the United States), 8 tuna vessels, 496 Nutrisa Stores and we are more than 9,100 employees.

Our Company was founded in 1914 and has been a part of the Mexican Stock Exchange since 1991 under the ticker HERDEZ* with the OTC GUZBY (ADR Level 1).

Board of Directors

Proprietary Directors

Héctor Hernández-Pons Torres

Chairman, [M] 1991

Enrique Hernández-Pons Torres

Vice-Chairman, [M] 1991

Flora Hernández-Pons de Merino [M] 2004

Independent Directors

Carlos Autrey Maza [M] 1991

Enrique Castillo Sánchez Mejorada [M] 1991

José Roberto Danel Díaz [M] 2003

Eduardo Ortiz Tirado Serrano [M] 2003

Luis Rebollar Corona [M] 2004

José Manuel Rincón Gallardo [M] 2005

Responsible of Corporate Governance

José Roberto Danel Díaz

Responsible of Labor Practices

Eduardo Ortiz Tirado Serrano

Responsible of Environmental Practices

Luis Rebollar Corona

Audit Committee

José Roberto Danel Díaz

Chairman

Carlos Autrey Maza

Eduardo Ortiz Tirado Serrano

José Manuel Rincón Gallardo [EF]

Corporate Practices Committee

José Roberto Danel Díaz

Chairman

Héctor Hernández-Pons Torres

Enrique Hernández-Pons Torres

Luis Rebollar Corona

José Manuel Rincón Gallardo [EF]

[M] *Member since*

[EF] *Financial Expert*

Management Team

Héctor Hernández-Pons Torres

Chief Executive Officer

Enrique Hernández-Pons Torres

Deputy Chief Executive Officer

Gerardo Canavati Miguel

Chief Financial Officer

Andrea Francesco del Rizzo

Commercial Director

Peter Martín Flook

Helados Nestlé Director

Pedro Gracia-Medrano Murrieta

Human Resources Director

Enrique Hernández-Pons Méndez

Aires de Campo Director

Estuardo Lárraga Martínez

Supply Chain Director

Alejandro Martínez Gallardo y de Pourtales

Associated Companies Business Unit Director

Óscar Nafarrate Salum

Process and IT Director

Juan Rodríguez Del Collado

Food Service Director

Corporate Governance

The Board of Directors is the Group's highest governing body. The Chairman of the Board is also the Chief Executive Officer. [GRI 102-23](#)

The ratification process of Board members is carried out by means of a vote taken by the Shareholders at the Annual Meeting. To be selected, Board members must meet the following requirements: i) professional training in economic-administrative sciences, preferably with a master's degree in those areas; ii) twenty years' minimum professional experience in consumer companies and/or the finance sector; iii) experience as a board member in manufacturing industry companies and/or the finance sector; and iv) belong to business organizations. [GRI 102-24](#)

The Board meets at least quarterly and has intermediate bodies in charge of monitoring the management and execution of the Company's objectives. During the Board meetings, a sustaina-

bility performance report is presented, which includes environmental performance and quality of life indicators for collaborators. [GRI 102-26](#) [GRI 102-29](#) [GRI 102-31](#)

In accordance with Company bylaws, the remuneration received by Board members is three 50-peso gold coins (Centenarios) or their equivalent for attending each meeting; this remuneration is not dependent on the Group's profits. GRI 102-35 The Corporate Practices Committee is responsible for validating the remuneration of the Company's senior executives, including the Chief Executive Officer. [GRI 102-36](#)

To avoid conflicts of interest, each Board member signs a declaration that guarantees the absence of conflicts, and each Committee has regulations that establish its functions and relationship with the Board of Directors. [GRI 102-25](#) [GRI 102-22](#)

GOVERNING BODIES	WOMEN			MEN		
	UNDER 30 YEARS	30 TO 50 YEARS	OVER 50 YEARS	UNDER 30 YEARS	30 TO 50 YEARS	OVER 50 YEARS
Board of Directors	-	-	1	-	-	8
Audit Committee	-	-	-	-	-	4
Corporate Practices Committee	-	-	-	-	-	5
Risk Committee	-	-	-	-	-	7
Working Group on Ethics at Transparency	-	-	-	-	-	6

ATTENDANCE AT BOARD MEETINGS				
	1T16	2T16	3T16	4T16
Date of meeting	21-Apr-16	21-Jul-16	20-Oct-16	23-Feb-17
% attendance	88%	88%	77%	88%

Message from the Chairman of the Board of Directors

Dear Grupo Herdez shareholders,

Relevant events around the world full of surprises and jolts were part of 2016, first with Brexit and ending in the results of the United States elections, in addition to terrorist acts, government crises in Spain and Brazil, the death of Fidel Castro, among many others. It was a time of turbulent change that created the ideal environment for disinformation, uncertainty and hasty decision-making.

Given this context, Grupo Herdez opted for well-founded information as well as a clear-headed and prudent decision-making, while reinforcing our strengths, focused on preserving our reputation, and above all, moving forward on our plans. This factors help explain our achievements this year.

Results

In 2016, we achieved a new record: Grupo Herdez's net sales increased by \$1,824 million, or 11.2%, reaching \$18,180 million. Putting these figures into perspective, \$1,824 million is equivalent to 70% of annual sales of the Frozen segment. The best performing categories in the Preserves segment were: canned vegetables, home-style salsas, marmalades, mole sauce, pasta and tomato purée.

Grupo Herdez in motion

What this means is we are seeking a balance between market share and profitability. When our margin is compromised by cost increases, we partially transfer the effect to the market in order to remain competitive.

Gross margin declined by only 1.6 percentage points due to the implementation of a series of initiatives to streamline the supply chain, which offset increases in the cost of raw materials and packaging materials as a result of the rising value of the dollar.

Consolidated net income was \$1,593 million, an increase of 23.2 percent. This figure is higher than the previous year reflecting the impairment charge on long-term assets.

EBITDA operating cash flow remained unchanged compared to the previous cycle, while net profit reached \$717 million.

MegaMex

Our business in the United States is also on the move: MegaMex profits grew 37.7%. As if that were not enough, I am proud to share with you three recognitions we received during 2016. The first recognition was the Editor's Choice by the Progressive Grocer magazine for our Herdez® Guacamole Sauce, for its innovation, flavor, functionality and value. The second recognition was for our Don Miguel® The Bomb Chipotle Chicken Burrito which was listed as a purchase recommendation in the Convenience Store Decisions magazine. In November, the Progressive Grocer magazine once again recognized MegaMex with the Captain award in the Ethnic Food category.



Frozen Foods

Innovation is thriving in Helados Nestlé®. The new Emperador® sandwich surpassed sales expectations, and Danesa 33® positioned itself among young people as a renewed brand.

The growth of Helados Nestlé® in the direct distribution channel was 14.5 percent.



Regarding Nutrisa®, our actions focused on profitability. We closed stores that were not generating cash, streamlined the product portfolio, implemented promotions to generate traffic, and reorganized senior management. These measures will enable us to resume growth in a more orderly, sustained and profitable manner.

Financial Situation

From a financial standpoint, the Company's consolidated cost-bearing debt less cash to EBITDA ratio was 2.3 times as of December 31, 2016.

Resources generated were allocated to two main areas:

- An investment in fixed assets of \$985 million.
- A dividend payments of \$961 million.

Consolidated shareholders' equity increased 5.2 percent, while the yield on majority capital increased from 6.0 percent to 10.2 percent.

Investment in Fixed Assets

Out of the \$985 million investment in fixed assets, we could highlight the new distribution center in Los Mochis, the expansion of the salsa production capacity in San Luis Potosí, and the new freezers for Helados Nestlé.

Kudos to our People

Our people are also on the move. The work done by the marketing team to further connect with consumers has been fabulous. The strategy to listen, integrate and speak to them in their own language has breathed new life into our brands. Today our consumers actively participate in sharing recipes, creating designs for lithographed containers, and many other initiatives.

We were selected as a best food supplier by Sam's Club, and I am proud to share that Walmart Mexico and Central America named Grupo Herdez the best supplier of the year. My highest commendation to the entire marketing team.

Sustainability

Saber Nutrir® taught one million hours of food education in 459 elementary schools across the country. The program also built 219 productive projects that allowed more than 400 families from rural communities in the states of Estado de Mexico and Chiapas to improve their nutrition, and develop skills to boost the local economy, while also improving their eating habits to promote food safety. This year's results bring the total hours taught to five million since the program began.

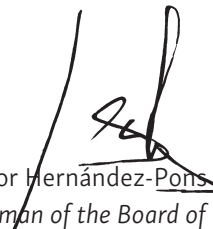
Regarding the environment, we were able to reduce the intensity of emissions by production unit by 12.3% thanks to the use of wind energy.

I would like to close this message by expressing my deepest thanks to the 9,177 employees at Grupo Herdez, for their enthusiasm and dedication to delivering results; to you, our shareholders for your confidence; to our suppliers for their support, and of course, to the millions of people who every day choose and enjoy our products.

We view the future with optimism and serenity. We will remain vigilant in order to continue making well-grounded decisions under the current global market uncertainties. We will invest and work hard to continue to grow, and remain relevant among consumers.

We are experience in motion.

Sincerely



Héctor Hernández-Pons Torres
Chairman of the Board of Directors and Chief Executive Officer

Financial Highlights 2016

	2016	2015	Var. (%)
NET SALES	18,180	16,356	11.2
Core Business	14,431	13,139	9.8
Frozen	2,592	2,139	21.1
Exports	1,158	1,079	7.3
Cost of Goods Sold	10,929	9,577	14.1
GROSS PROFIT	7,252	6,779	7.0
Core Business	5,483	5,206	5.3
Frozen	1,642	1,440	14.0
Exports	127	133	(4.5)
Sales, General & Administrative Expenses	4,945	4,290	15.3
Other Expenses, net	57	(452) [1]	N.A.
EBIT	2,363	2,036	16.1
Core Business	2,378	2,435	(2.3)
Frozen	(61)	(452)	(86.5)
Exports	46	53	-13.2
EQUITY INVESTMENTS IN ASSOCIATES	599	446	34.3
MegaMex	577	418	38.0
Others	22	28	-21.4
CONSOLIDATED NET INCOME	1,593	1,293	23.2
MAJORITY NET INCOME	717	389	84.3
EBITDA [2]	2,816	2,887	-2.5
Core Business	2,634	2,668	-1.3
Frozen	103	136	-24.3
Exports	79	83	-4.8
Total Assets	26,348	24,405	8.0
Total Liabilities	11,720	10,498	11.6
Total Debt	7,475	7,261	2.9
Total Shareholders Equity	14,628	13,907	5.2
Majority Shareholders Equity	7,348	6,745	8.9
CAPEX	872	1,039	-16.1
CASH FLOW FROM OPERATIONS			
RGO (RGO) [3]	1,385	2,109	-34.3
LEVERAGE RATIOS			
Net Debt/Consolidated EBITDA (times)	2.3	2.0	
Net Debt/Total Shareholders Equity (times)	0.46	0.63	
RETURN ON EQUITY			
Adjusted ROE [4]	13.2%	7.9%	
Return on Capital (ROE) [5]	10.2%	6.0%	
Return on Invested Capital (ROIC) [6]	11.7%	10.5%	
STOCK EXCHANGE INFORMATION			
Price per Share at Year End	37.66	44.77	
Total Shares Outstanding at Year End (millions)	432	432	

1. Includes the non-cash impairment charge of Ps. 450 million in 2015, due to the recognition of a loss in Nutrisa's goodwill

2. EBITDA Earnings Before Interest, Taxes, Depreciation, Amortization and other non-cash items

3. Excludes corporate debt

4. Cash Flow from Operations = Consolidated Net Income + Other non-cash items + Working Capital

5. ROE = Majority Net Income/Average Majority Shareholders' Equity

6. Adjusted for the elimination of the reasonable value of Herdez Del Fuerte as a result of the application of IFRS10 and IFRS3

7. ROIC = Operating Income/Average (Shareholders' Equity + Debt)

Experience that grows

More than a hundred years' experience has enabled us to strengthen our brands and build the Company's success. During 2016, we prioritized shelf redesign, the optimization of shopping experience, execution of pricing strategy and pushing sales floor displays. These actions allowed us to continue to build on our leadership and grow market share in most categories of the portfolio.

As a result of these and other initiatives, the Core Business grew 9.9%, derived from the price increases implemented during the year and the healthy performance of sales volumes. The most noteworthy categories were: mayonnaise, mole, pasta, tomato purée and home-style salsas.

The initiatives that most benefitted this segment of the business were: i) the use of digital platforms to create consumer experiences; ii) a communication strategy targeted to our young audiences; and iii) consumer engagement in the creation of products and packaging.



Consumer experience on digital platforms

The Herdez® “Momentos para Crear” digital experience gave participants the opportunity to create new designs for Herdez® canned vegetables, mushrooms, salsas and soups. Consumers responded well to the initiative, registering over 5,000 designs and more than 20 million hits on different digital media. The winning designs were printed on cans and were available at points of sale for eight weeks.

The contest also included the design of articles to encourage the reuse of cans, with options such as lamps, pencil holders, among others, in an effort to steer our consumers towards habits of responsible consumption. This trend will remain in 2017, with the installation of intelligent can collecting machines; the collected cans will be used to construct water heaters in marginalized communities.

The Herdez® “Presume tu Salsa” initiative was run in Baja California Norte, Baja California Sur, Nayarit, Sinaloa and Sonora to find the best home-made salsas from the culinary experience of Mexicans, and select one to become the new Herdez® salsa. This movement brought together hundreds of participants who showcased their salsas on the digital platform <https://presume-tusalsa.com>. In 2017, we will launch the winning salsa nationwide and continue our tour of the country in search of new salsa varieties, to strengthen our leadership in this category.

Thanks to this and other initiatives, Herdez® achieved a growth of 4% in young homes (with women under 34 years) and an increased market share in the supermarket channel.

Close communication

During the year, McCormick® was a clear example of our experience in motion, strengthening the connection with our consumers through the traditional “Póngale lo sabroso” jingle, but adapted to today’s music trends. The strategy implemented in 2016 enabled us to reinforce the leadership of McCormick® both in market share and brand recall. We are currently enriching the mayonnaise category with two new flavor launches: bacon and habanero, giving the consumer more options to add the best taste to their dishes.

In Del Fuerte®, we boosted our national leadership in the tomato purée category with the relaunch of the iconic “Estaban los tomatitos” jingle, with which we also improved brand health indicators: attractiveness, intention to purchase, market share and satisfaction. This pushed the growth of Del Fuerte® to the top of the category both in supermarkets and wholesale.



In the case of Búfalo®, we strengthened positioning in the spicy salsas category across all channels through presence on social networks, electronic music festivals and live transmissions through Periscope. All these actions

revitalized our connection with young people, the brand’s major consumers.

We drove the momentum of Embasa® with a new image and the rescue of the brand’s emotional values, allowing us to increase shelf impact and intention to buy. The strategy was supported by the “Pasa la receta Embasa®” campaign, which consisted of registering products to participate in a television program with a recipe that included Embasa® ketchup sauce. As a result, the brand surpassed the growth of the category in the wholesale channel.

A true cultural movement has taken place in MegaMex to consolidate the spirit of the “Juntos” (Together) vision, thanks to a collective opening effort in which the best ideas prevail and align to achieve the best results

Performing particularly well was the Herdez® brand, whose indisputable leadership has positioned it solidly among Mexican millennial consumers with Mexican heritage. Herdez® has the experience and potential to become a source of cultural pride among the Mexican-American population, a potential we are exploiting to the full.

Our salsa category in the United States grew 16%, led by guacamole salsa, which positioned us as the fastest-growing salsa brand north of the border. In fact, Herdez® Guacamole Salsa won the “2016 Editors Pick” award of Progressive Grocer magazine. In addition, the Chi-Chi’s® and La Victoria® brands helped growth with higher than expected sales performance.

Packaging co-creation

In addition to the co-creation initiatives at Herdez®, McCormick® renewed its iconic mayonnaise jars with practical and fun decorations, encouraging our consumers to recycle and reuse.

This year, we also sought efficient and profitable movement, which we achieved by streamlining operations and investing in fixed assets.



Investment in Fixed Assets

In Grupo Herdez, we are experience in motion. We continually make investments to improve our systems, operate more efficiently and thus increase our profitability. In 2016, our most important investments were as follows:

The implementation of the Siebel Trade Promotion Management tool, for the traceability and optimization of promotions, which meant important savings on discounts during the year.

The operation of the Manufacturing Execution System tool, which has allowed us to increase Overall Equipment Effectiveness (OEE), the leading indicator for measuring productivity as it evaluates quality, performance and availability.

Furthermore, in 2016 we finished construction of the warehouse and the logistics and technological equipment for the Los Mochis Distribution Center, which will enable us to store 100% of the Sinaloa plants' production, build crop inventories to leverage opportunities in the cost of raw materials, and serve customers and consumers in the Pacific and Northwest areas more efficiently.

We also acquired and installed equipment for the salsas line, to increase installed capacity in order to make production more efficient and cover demand, especially in the United States market.



Operating efficiencies

After the merging of the Los Mochis, Sinaloa plants in 2015, we improved the yield of the main raw materials, while the vegetables plant increased its production indices by more than 20%.

We continued our implementation of the World Class Manufacturing (WCM) system, begun in 2014; the tool improves competitiveness and brings world class standards within reach. In

2016, this system allowed us to reduce operating losses and achieve a positive impact on transformation cost.

Thus, our business management combines the experience and momentum of a company that evolves and rejuvenates every day.

We are innovative motion

Grupo Herdez has made innovation a strategic pillar of growth. All our launches are designed to respond to the changing needs of our consumers

During 2016, we rolled out an approach that would give us insight into customer needs, enabling us to develop profitable products that exceed their expectations. We also continued to strengthen our sales channels. In this way, Grupo Herdez put innovative products on the table of increasingly more Mexican families.

Among the highlights of the year's launches:



The implementation of the McCormick® global strategy with the Grill Mates brand, through which we incorporated seven varieties of chicken, fish, meat and vegetable seasonings into our portfolio.

The launch of three new flavors of McCormick® squeeze mustard: Dijon, honey and pepper.



In the pasta category, the launch of: Yemina + Energía®, Barilla sin Gluten®, Barilla Pronto®, and Barilla Minis®, which highlight the benefits of pasta and offer alternatives to overcome barriers to consumption. These initiatives achieved a market share value of 2% in just six months.



Furthermore, this innovative movement led us to venture into the snack category, through an alliance with Cinépolis®, the world's leading cinema chain, with whom we launched microwave popcorn under the "Sabén a Cine" concept, bringing the authentic flavor of the movies right into the consumer's home.





Aires de Campo®, the leading marketer of Mexican organic products, launched preserves and other sugar-free spreads, cajeta (goat milk syrup), herbal teas, Mexican quinoa, sausages and chicken burgers, as well as free-range brown eggs. With these launches, Aires de Campo® continued to strengthen its leadership and comply with the most rigorous certifications in organic production, as well as meeting fair trade parameters, a hallmark of the brand.



Meanwhile, in Don Miguel® we achieved a double-digit sales growth over the previous year, thanks to an increase in distribution through the price club channel and the launch of Hotzie, Chimi, The Bomb® Chipotle Chicken burrito, among other products. In fact, this last product won the “Likeliness to Buy Award” from Convenience Store Decisions magazine.



Our innovative movement also focuses on positioning Nutrisa® as a store that invites consumers to enjoy their own creations. During the year, we introduced six new soft ice cream flavors, four hard ice cream flavors and three new ice popsicles, as well as establishing alliances with Nestlé® and Ricolino® for seasonal toppings.



In addition, we launched eight new products, including dehydrated snacks, protein bars, super foods and personal care products, all with properties or ingredients that promote health and wellness. Such attributes differentiate us from the competition and are key to our leadership among consumers.





With Wholly Guacamole®, we contributed to the innovative movement of MegaMex®; once again we were able to rise to the top of the category, thanks to customer programs and new products such as the sriracha, margarita and chipotle lime versions. In addition, the mini version was recognized as the healthiest snack by Self magazine, and Wholly Guacamole® received the “Grocery Headquarters Trailblazer Award” for 2016.



Nestlé® ice cream leveraged its experience to strengthen its leadership among children and adolescents. An important part of growth was the consolidation of Pelapop® as an anchor for the youth and fun segments. As well as making it more fun, we incorporated elements that reduce calories and sugars per portion.

With the introduction of the ice cream sandwich under the Emperador® brand, which achieved its estimated yearly sales figures in just three months, we strengthened our leadership in the young adults segment. Mega® also experienced healthy growth, thanks to its new 60 ml size with less than 200 calories.



Development of sales channels

The year's solid results were possible thanks to the strengthened organizational structure of the marketing area, standardized and efficient execution, and strict rendering of accounts.

We formed a team dedicated to negotiation with supermarket and price club channels, enabling us to increase the market share of our brands. The Nestlé® ice cream wholesale points of sale were integrated into the national marketing area, which improved the effectiveness of the routes and increased the number of outlets visited.

Our experience in the wholesale channel allowed us to focus on better serving customer needs, with regional negotiations and specific requirements in each location. In the supermarket channel, we directed efforts to shelf redesign and optimizing the in-store shopping experience, elements which underpinned annual performance.

An example of shelf redesign and shopping experience was the development of assembled displays with consumption ideas in the pasta category, which increased sell-out by 74%. Similarly, in-store cooking classes doubled Barilla® sales. In addition, we made close contact with end consumers with the sale of dishes from our food truck and through the sale of pastas on e-commerce platforms.

We reinforced our leadership in the institutional channel with synergies with major customers, ongoing training of the sales force and the success of the advertising concept "It's a pleasure to serve you," all of which contributed to an 18% growth in sales.

The McCormick® TeaTrucks initiative helped consolidate our leadership in the tea category with tastings in high-traffic areas such as supermarkets, shopping malls, concerts, offices, parks and universities. Meanwhile, for Nestlé® ice cream, the traditional channel grew to double digits, thanks to a more robust and efficient portfolio, while the relaunch of Danesa 33® in the supermarket channel, with new flavor combinations and formats, was also a successful strategy.



Nutrisa® Integration

During 2016, we incorporated Nutrisa® into the structure of Grupo Herdez and identified the following strategic priorities:

i) make decisions based on profitability and brand building; ii) target efforts towards customer care and preferences; iii) the efficient use of resources; iv) tighten relations with franchisees; v) improve corporate service to stores, and vi) optimize organizational structure.

i) The main actions for improving in-store profitability were:
-We raised the price of yogurt ice cream nationwide, based on a price elasticity analysis.
-We slimmed-down promotions.
-We stimulated store traffic.
With these changes, gross margin grew significantly at year-end.

ii) We focused on consumer preferences with the following actions:
-We launched seasonal flavors in yogurt ice cream, traditional ice cream and ice popsicles, as well as toppings in synergy with Hershey's®, Nestlé®, Ricolino®, and other brands.
-We strengthened our commercial portfolio with snacks, food supplements and super foods. Under the Nutrisa® brand, we targeted efforts to the launch of products with functional properties and ingredients, enabling us to bolster our position in the health and well-being segment.

iii) In the efficient use of resources:

- We reduced capital invested in openings. We leaned towards strategic openings and franchising.
- We prioritized the use of means to generate traffic and optimized advertising spending.

iv) We tightened relations with franchisees:

- We strengthened communication channels.
- We optimized the franchise service model, which has improved quality standards and sales.

v) We improved corporate services to stores:

- We streamlined the hiring process of store personnel.

vi) We optimized organizational structure:

- We optimized organizational structure by integration the areas of Administration and Finances, Logistics, Human Resources and Systems into Grupo Herdez.



Risk Management

For Grupo Herdez, risk management means using our experience to identify and manage risks and adapt to an ever-changing environment, thus improving our capacity to respond.

During 2016, we focused on mitigating the impact of cost increases due to the appreciation of the dollar and rising interest rates.

We also worked on various fronts:

i) to incorporate the operations of the Frozen segment into the strategic supply area to better leverage the scale of the Company;

ii) to implement the World Class Manufacturing (WCM) methodology to standardize and increase operating efficiency;

iii) to improve the cost of transformation thanks to the consolidation of the Los Mochis plants; and

iv) to improve the forecast review process to enable us to react more effectively to changes in the environment.

We also strengthened the Internal Auditing area and control processes.



We are sustainable movement

Our sustainability strategy enables us to generate value for the business and concentrate efforts on relevant actions to the benefit of our stakeholders. This strategy is based on four fundamental pillars:



Quality of life

Our employees are a vital part of the Grupo Herdez movement. Which is why the Company's strategic priorities are having professional and trained personnel, a sense of belonging and equity, and promoting opportunities to motivate positive changes in our workforce.

We promote equality in our workforce through our Gender Equity Policy. The salary for each category or vacant position is established with no distinction for gender. Currently, 41% of the workforce are women. [GRI 102-8](#)

We know that experience and training go hand in hand. During the year, we invested \$8.4 million in training, allowing us to increase training time by 28% to a total of 142,451 man-hours, an annual average of 15.5 hours per employee. [GRI 404-1](#)

We regularly assess 100% of our employees using a variety of approaches, including adherence to profile, achievement of objectives and production indices. [GRI 404-3](#)

To give continuity to our ongoing leadership training plan, our courses in 2016 included: i) Principles and Qualities of Genuine Leadership; ii) Emotion Management; and iii) Collaborating for an Impeccable Service, with an average participation of 80% of our leaders. We have achieved this through the 36 certified internal brigade members.

Aware of the safety, health and environmental risks that may affect our employees, we have an Environmental, Safety and Hygiene Control Area (CASH, for its initials in Spanish), whose objectives are to safeguard personal integrity and installations, contribute to the well-being of personnel, maintain and improve the safety and environmental culture, and ensure operating continuity.

Diagnosis of the occupational health program



To this end, since 2014 we have been working on nine phases companywide: 1. Situational awareness diagnosis; 2. Strengthen leaders, CASH; 3. Diagnosis of the occupational health program; 4. Tools training, CASH; 5. Behavior-based safety training; 6. Development of health signals; 7. UPS standardization, CASH; 8. CASH community with support from each location, and 9. Integrated occupational medicine program.

At the close of 2016, 70% of sites had finished phase 6, and the goal for 2017 is to complete the nine phases in all sites.

The accident rate during the year was 1.90, while the rate of days lost to accidents was 37.18.

YEAR	GENDER	ACCIDENTS	ACCIDENT RATE*	DAYS LOST TO ACCIDENTS	RATE OF DAYS LOST TO ACCIDENTS**
2016	Female	101	2.14	2,164	45.84
	Male	117	1.74	2,094	31.11
	TOTAL	218	1.90	4,258	37.18

The number of accidents is based on IMSS's Single Self-Calculation System, which includes work-related accidents, occupational diseases and relapses. Its scope is limited to those indicators managed by the Company, which are calculated based on the methodology of Global Reporting Initiative versión G4, as follows:

(*) The accident rate expresses the number of accidents in 2016 in relation to the total man-hours worked per 200,000.

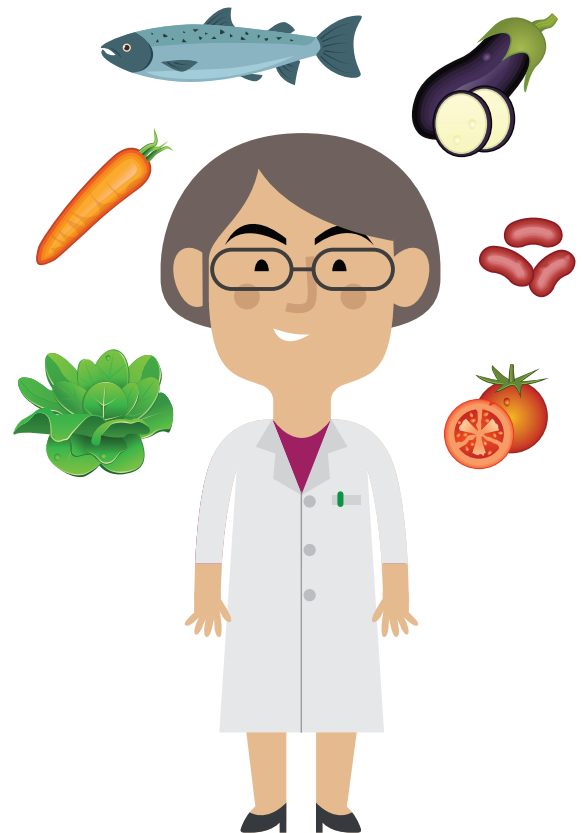
(**) The rate of days lost is expressed by comparing the total days lost with the total man-hours worked per 200,000.

The 200,000 factor is the result of 50 working weeks of 40 hours per 100 employees. By using this factor, the resulting rate is linked to the number of workers, not the number of hours.

In compliance with environmental, safety and hygiene control standards, we have Clean Industry and Safe Industry certifications, Quality Certification, Civil Protection Certification and certification from the National Water Commission.

One of the activities implemented to promote a healthy lifestyle among employees was the Healthy Eating Program, through which we gave 2,207 nutritional consultations during the year in Mexico City, the State of Mexico and San Luis Potosí. These were attended by 200 employees on a monthly basis who altogether lost 1,351 kilos in the year.

The program is personalized and free of charge and gives employees eating and exercise plans to improve their quality of life and develop healthier life styles. [GRI IP-4](#)



Transparency

In Grupo Herdez our actions are in strict adherence to our Code of Ethics, which is mandatory for all collaborators and extends to external advisors and service providers.

To ensure that our operations are performed in strict adherence to the Code, employees have access to an anonymous complaint system with three formal channels of communication:

Anonymous grievance system

- Mail boxes in certain locations
- E-mail: confianza@herdez.com, etica@nutrisa.com
- Toll-free line 01 800 CONFIANZA (01 800 266 342 692) or (Nutrisa 01800 312 98 32)

These means are available 24 hours a day, 365 days a year. The line managers, directors and Legal, Human Resources and Internal Audit areas are responsible for evaluating complaints and allegations.

During the year, we received twenty complaints and twenty-seven allegations, 91% of which have been resolved, while the remaining 9% are under investigation at the close of this report.

For each incident, a record is generated of the corrective action, which may consist of a warning or even dismissal for breach of the Code of Ethics. [GRI 102-17](#)

In 2016, nineteen employees were dismissed for corruption-related incidents. [GRI 205-3](#)

Two training courses were also given, one on the prevention of money-laundering and terrorism financing, and another on illegal payments and saying no to bribes. [GRI 205-2](#)

Our Human Rights Policy is also in force, whereby we adhere to the fundamental Conventions of the International Labor Organization and reject all forms of forced or compulsory labor and child labor. [GRI 409-1](#)



Supply chain

We look for suppliers who share our sustainable movement. As far as our supply chain, the Agricultural Supply area works with our suppliers and agricultural producers and operates under the Manual of Good Agricultural Practices, which includes elements that ensure good sanitary practices, the use of personal protection equipment, and the use of permitted agrochemicals. Our agricultural auditors are responsible for the evaluation of environmental conditions (water and soil analysis) and give constant advice on irrigation technology and crop care.

In order to reduce crop risks, we also encourage alliances with neighboring producers. For example, all producers in the area must register modifications of neighboring crops, to avoid alterations in the soils and/or the appearance of pests.

We are currently working on the development of the Agricultural Sustainability Program, which contains hygienic conditions, recommendations for transportation and crop workers' exposure to chemicals; compliance with the program will be required by all suppliers and agricultural producers. [GRI 103](#)

In support of the local economy, 95% of our packaging material and 88% of raw materials come from local producers. [GRI 204-1](#)

We evaluate our suppliers on social, environmental and human rights criteria on an ongoing basis. During 2016, 44% of new suppliers responded to the evaluation indicators and we reiterated our commitment to the creation of a sustainable supply chain through the Code of Conduct for Suppliers, with which compliance is mandatory in each of our contracts.

[GRI 308-1](#) [GRI 308-2](#) [GRI 414-1](#) [GRI 414-2](#)



Community engagement

An important part of this movement is improving the quality of life of the communities where we operate. We implement projects that drive the local economy, improve eating habits and promote food safety. During 2016, we invested 2.6% of Consolidated Net Income in community development programs.

The Saber Nutrir® program, which focuses on improving nutrition in Mexico, reflects our experience with food and is present in 75% of the states where our plants and distribution centers are located. [GRI IP-2](#)

We introduce productive projects in communities in the Mazahua zone of the State of Mexico and in Tapachula, Chiapas to fight poverty-driven nutrition problems. We also offer training and continuous monitoring for the development and care of those projects to maintain their benefits.

We monitor the program's success through a twice-yearly follow-up of the nutritional status of the children whose families have benefited. In the year, 71% remained stable, 19% improved and 10% worsened.

The Germplasm Bank, located in the Mazahua community, managed to collect an additional 145 regional seeds and plants, bringing the total to 200. This project develops new capacities in the community and protects the cultural and natural heritage of the Mazahua communities.

Under the Padrinos Saber Nutrir program, we provided food supplements to fifty children, achieving the recovery of twenty-nine children with malnutrition and nineteen children with anemia.

Compared to the first nutritional evaluation in 2014, the percentage of undernourished children fell from 18% to 11%, and those who were overweight or obese from 23% to 17%, while the percentage of adequately nourished children rose from 59% to 72%.

Early stimulation sessions and the treatment and monitoring of the nutritional status of children who were found to have some degree of malnutrition were provided at the early stimulation centers in Tapachula, Chiapas.

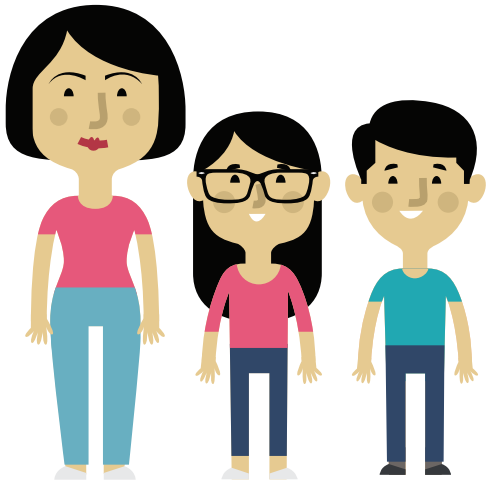
In addition, during the annual volunteer day, 283 hours of work were provided to install ten productive projects and plant a thousand trees, equivalent to one hectare of reforested land.

We were able to give one million more hours of food education to children, teachers and parents in 459 elementary schools in ten states around Mexico.



Results 2016 Saber Nutrir®

In support of the initiative to provide food education to children, in 2016 Saber Nutrir® visited the Papalote children’s museum with the Cocinemos juntos (Let’s cook together) exhibition, in which children and parents learn about the importance of healthy cooking and eating as a family. [GRI IP-3](#)



Saber Nutrir® in Communities

- 23 populations
- 395 families
- 1975 beneficiaries
- 219 projects built
- 50 children sponsored
- 34 children recovered from malnutrition
- 19 children recovered from anemia
- 3 early stimulation centers
- 1 Germplasm bank with 145 regional seeds and plants

Saber Nutrir® in Schools

- 459 elementary
- 374,167 beneficiaries (children, parents and teachers)
- 1,003,086 hours of food education given

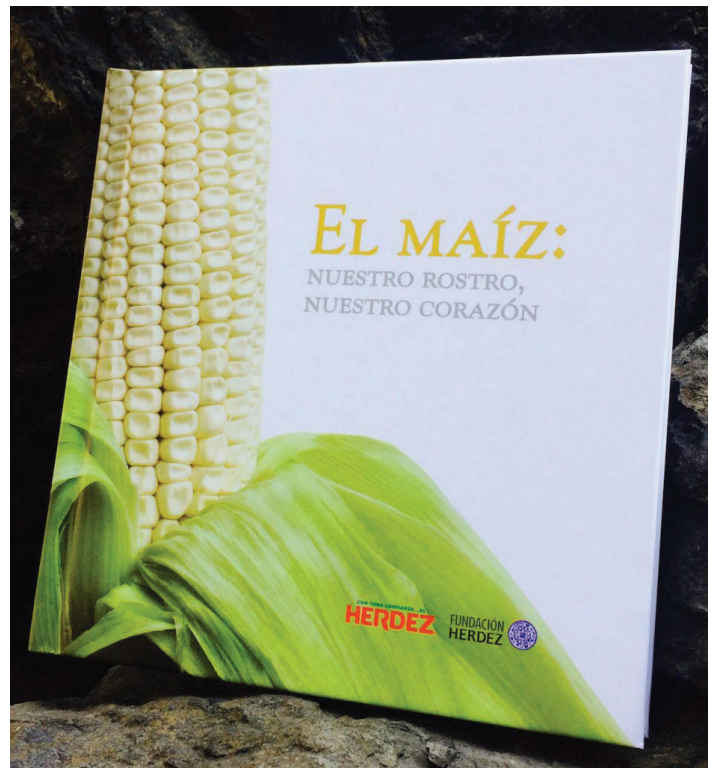
Herdez Foundation

Through the Herdez Foundation, we preserve Mexican cuisine and reexamine basic foods based on anthropological, social, historic and industrial research.

In 2016, the Foundation participated as a member of the Teletón Friends Club Museum Network for the care of people with disabilities, while in Milan, Italy, the book *El Maíz, nuestro rostro, nuestro corazón* (Maize, our face, our heart) was published.

During the year, the Herdez Foundation museum received more than 8,000 visitors, and the Interpretation Center was the venue for twelve academic events attended by 794 people.

We delivered 163,017 boxes of products to the Mexican Food Bank through the monthly food donation program. [GRI IP-3](#)



Environment

One of our priority strategies is moving towards the efficient use of natural resources and the reduction of our ecological footprint with sustainable actions that protect the environment and reduce environmental impact. In 2016, and for the third consecutive year, Grupo Herdez figured among the top positions in Forbes Mexico's list of "40 Companies with High Environmental Commitment" for our efforts to reduce environmental impact and carbon dioxide emissions (CO2e).

Water

Water is one of the most important resources in our production processes, and we make every effort to reduce our consumption.

We have three installations for rainwater capture and storage, two in Cuautitlán (McCormick Distribution Center and Plant) and one in San Luis Potosí (el Duque Industrial Complex). We recycle and/or reuse 3.3% of the total volume of water captured, equivalent to 55,568 m³. [GRI 303-3](#)

WATER	2014	2015	2016
Annual consumption m ³ /Ton produced	3.0	3.1	3.1
Annual reduction/increase	-23%	3%	0%

Emissions

We were able to reduce the intensity of emissions by production unit by 12.3% compared to the previous year. This reduction is due to increased electricity consumption from the wind farm and the increase in tons produced during 2016. [GRI 305-4](#)

	PERIOD	2014	2015	2016
EMISSIONS	Annual emissions Ton CO ₂ e/Ton produced	0.24	0.21	0.19%
	Annual reduction/increase	50%	-7%	-12%



Waste

In our efforts to use natural resources efficiently in our production processes, we reduce and recycle our waste as much as possible, reincorporating it into new production chains. In the year, we recycled 76% of the waste produced. [GRI 306-2](#)

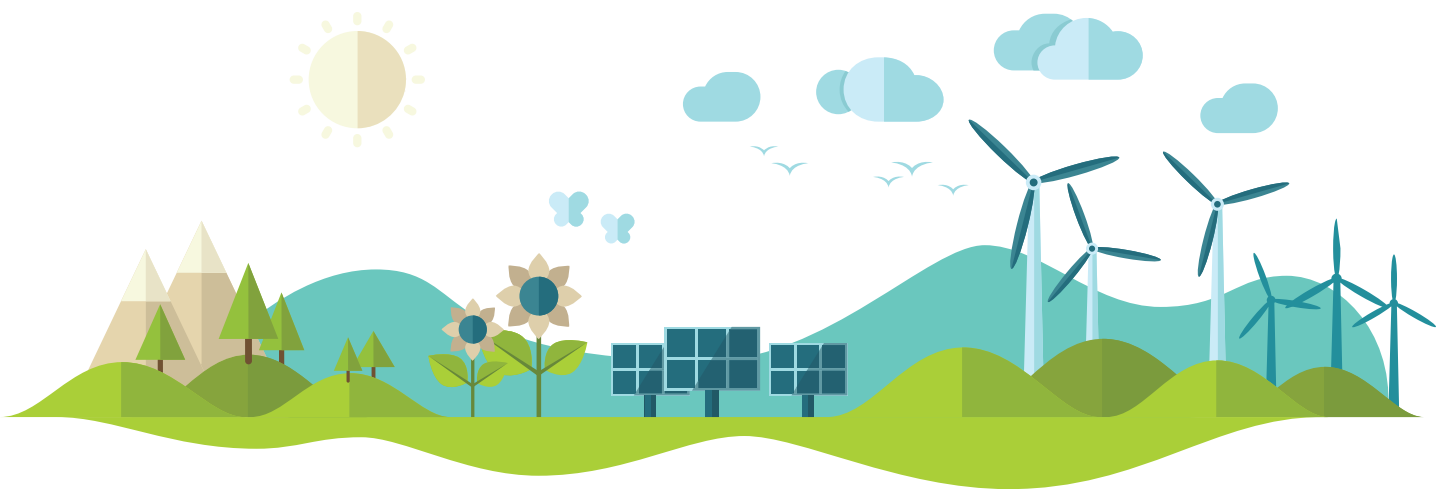
WASTE	2014	2015	2016
Waste generated/Ton product	0.09	0.07	0.08
Annual reduction/increase	-10%	-22%	14%
Recycled waste	42%	55%	76%

Energy

Our commitment is to consume as little energy as we can, increase the use of clean energy and prioritize the use of those energies which cause the least environmental impact.

PERIOD	2014	2015	2016
Annual consumption Kw/H/Ton produced	149.5	149.4	153.0
Annual reduction/increase	-.9%	-.06%	2.4%
Annual consumption Kw/H (Clean sources)	15,959,316	19,503,276	31,086,801
Annual growth rate	24%	30%	40%

The increased consumption of clean energy is due to the inclusion of the Nestlé Ice Cream plant and an improved supply to the San Luis Potosí, Chiapas and Santa Rosa Tomatoes plants. [GRI 302-1](#)



Grupo Herdez in support of Sustainable Development Goals

Our planet faces enormous economic, social and environmental challenges. . To confront them, in September 2015, the United Nations identified seventeen new Sustainable Development Goals (SDG) to define world priorities until 2030.

These goals are a call to action for governments, companies and civil society to carry out actions aimed at their achievement.

In Grupo Herdez, we move our projects and actions towards four of the goals: zero hunger, affordable and clean energy, decent work and economic growth, and climate action.



Goal 2, Zero Hunger

Through our Saber Nutrir® program, we ensure access to healthy, nutritious and sufficient food all year round, fight malnutrition in children and increase rural infrastructure.

The Germplasm Bank, installed in the Mazahua region, helps to maintain the genetic diversity of regional seeds and plants. In addition, our agricultural practices ensure the sustainability of food production systems, promoting the maintenance of ecosystems. [GRI IP-2](#) [GRI IP-3](#)



Goal 7, Affordable and Clean Energy

By using wind energy in our operations during the year, 40% of our electricity consumption came from clean sources. The goal for 2017 is to increase the number of sites powered by clean energy. [GRI 302-3](#) [GRI 305-4](#)



Goal 8, Decent Work and Economic Growth

Through Human Rights and Gender Equity policies, the Code of Conduct for employees and suppliers, and training and nutritional counseling programs, we promote equal pay for equal work for men and women, increased productivity, entrepreneurship, creativity and innovation, as well as protecting labor rights, eradicating forced and child labor and promoting a safe and secure working environment for all workers. [GRI 308-1](#) [GRI 308-2](#) [GRI 414-1](#) [GRI 408-1](#) [GRI 409-1](#)



Goal 13, Climate Action

Through the different environmental care actions such as rainwater capture, water recycling, waste recycling and the application of our Environmental Policy, we were able to reduce CO2e emissions by 2,100 tons. [GRI 303-1](#) [GRI 303-3](#)



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Informe de Verificación Limitada Independiente del Informe Anual Integrado de Grupo Herdez, S.A.B. de C.V. correspondiente al ejercicio 2016

Al Consejo de Administración de Grupo Herdez:

Alcance del trabajo

Hemos efectuado una verificación limitada independiente de los contenidos de información y de los datos presentados en el *Informe Anual Integrado* de Grupo Herdez correspondiente al ejercicio 2016.

El alcance de la información revisada incluye:

- **Plantas:** Planta de Alimentos Deshidratados del Bajío, Planta Barilla, Planta Chiapas, Planta El Duque, Planta Herdez Celaya, Planta Industrias, Planta Lagos de Moreno, Planta México, Planta Nutrisa, Planta Revolución, Planta Santa Rosa, Planta Santa Rosa Vegetales.
- **Tiendas Nutrisa**
- **Ocho buques atuneros**
- **Centros de Distribución:** Chalco, Cuautitlán, Culiacán, Chiapas, Guadalajara, Mérida, Lagos de Moreno, Los Mochis, Monterrey, San Luis Potosí y Tijuana.
- **Oficinas:** Corporativo Cinco, San Bartolo, La Marquesa y Nutrisa.

La preparación de este informe es responsabilidad de la Administración de Grupo Herdez. Asimismo, la Administración de Grupo Herdez también es responsable de la información y las afirmaciones contenidas en el mismo, de la definición del alcance del Informe y de la gestión y control de los sistemas de información que hayan proporcionado la información reportada.

Nuestro trabajo ha sido efectuado de acuerdo con la Norma Internacional para Trabajos de Aseguramiento ISAE 3000, emitida por el *International Auditing and Assurance Standards Board (IAASB)* del *International Federation of Accountants (IFAC)*. Estas normas exigen que planifiquemos y realicemos nuestro trabajo de forma que obtengamos una seguridad limitada sobre si el Informe está exento de errores

materiales y que cumplamos las exigencias éticas, incluyendo las de independencia incluidas en el Código Ético del *International Ethics Standards Board for Accountants (IESBA)*.

Nuestra responsabilidad

Nuestra responsabilidad es emitir un informe de verificación limitada independiente basado en los procedimientos aplicados en nuestra revisión.

Estándares y procedimientos de verificación

Hemos llevado a cabo nuestro trabajo de revisión tomando en consideración la Guía GRI Standards del Global Reporting Initiative para la elaboración de Informes de Sustentabilidad de acuerdo a la opción de conformidad esencial.

Las revisiones efectuadas abarcan el ejercicio 2016, tomando en consideración la congruencia de los datos reportados en el informe del ejercicio 2015.

En este marco de revisión, realizamos visitas a la oficina corporativa y a la planta de Barilla en San Luis Potosí.

Los procedimientos de verificación efectuados se centraron en lo siguiente:

- Entrevistas con las personas responsables de la información para el entendimiento de las actividades realizadas y los procesos utilizados para la recopilación de información.
- Revisión de la adecuación de la estructura y contenidos del Informe a lo señalado en la Guía GRI Standards del GRI.
- Entendimiento de los procesos utilizados para la compilación y consolidación de los datos cuantitativos y cualitativos, así como la trazabilidad de los mismos.

- Revisión de la documentación soporte, por medio de análisis y re-cálculos, así como muestreos para tener mayor certidumbre de los indicadores reportados.

Los contenidos básicos generales y los contenidos básicos específicos verificados fueron:

102-8	102-41	303-3	406-1
102-9	204-1	305-1	416-1
102-17	205-1	305-2	416-2
102-18	205-2	305-5	417-1
102-20	205-3	305-7	417-2
102-22	206-1	306-1	417-3
102-24	301-1	306-2	419-1
102-25	302-1	401-1	
102-35	302-4	403-2	
102-36	303-1	404-2	

Cabe mencionar que el alcance de esta revisión es sustancialmente inferior al de un trabajo de seguridad razonable. Por lo tanto, la seguridad proporcionada también es menor. El presente Informe en ningún caso puede entenderse como un informe de auditoría.

Conclusiones

Sujetos a las limitaciones de alcance señaladas anteriormente y basados en nuestro trabajo descrito en este informe de verificación limitada independiente del *Informe Anual Integrado de Grupo Herdez* correspondiente al ejercicio 2016, y con el alcance indicado, concluimos que:

- No se ha puesto de manifiesto ningún aspecto que nos haga creer que el Informe no haya sido preparado según la Guía para la elaboración de Memorias de Sustentabilidad del Global Reporting Initiative (GRI) versión GRI Standards.
- No se ha puesto de manifiesto ningún aspecto que nos haga creer que el resto de la información e indicadores incluidos en el informe adjunto contenga errores significativos.

Oportunidades de mejora

Adicionalmente, hemos detectado oportunidades de mejora en el proceso de preparación del Informe de Sustentabilidad de Grupo Herdez, las cuales se detallan en el informe de recomendaciones entregado a la Administración de Grupo Herdez. Estas no modifican las conclusiones expresadas en el presente informe. Las recomendaciones más significativas son:

- Fortalecer la interacción entre los responsables de la información y el equipo encargado de la elaboración del informe con el fin aumentar la calidad y la homogenización de la información reportada.
- Considerar la transición del informe de sustentabilidad de la opción de conformidad esencial hacia la opción exhaustiva.
- Considerar el incremento del nivel de verificación de un nivel limitado a un nivel razonable de acuerdo con la Norma ISAE3000.

Este informe ha sido preparado exclusivamente en interés del Consejo de Administración de Grupo Herdez, S.A.B. de C.V., de acuerdo con los términos de nuestra Carta Compromiso.

Mancera, S.C.
Integrante de
Ernst & Young Global Limited

Saúl García Arreguín
Socio

Ciudad de México a 03 de abril de 2017

Board of Directors' Corporate Practices Committee

February 23, 2017

Board of Directors Grupo Herdez, S.A.B. de C.V.

I am pleased to present herewith the Annual Report on the activities of the Board of Directors' Corporate Practices Committee corresponding to 2016 fiscal year, as provided in Article 43, Section I of the Securities Market Law.

In developing our work, we have observed the regulations contained in the Securities Market Law, the General Rules Applicable to Securities Issuers and Other Participants of the Securities Market, the Mexican Stock Exchange Internal Rules, the Corporate Best Practices Code's recommendations, the Committee Rules and the Annual Program with the issues to be considered.

During the reporting period, the Committee punctually held the called meetings, an agenda based on the issues to be discussed and the respective minutes were prepared for each meeting. The meetings were attended by the designated directors and invitees.

A report was submitted to the Board of Directors with the issues discussed in every meeting of the Committee.

The relevant issues discussed, which in turn were recommended for approval to the Board of Directors, were as follows:

1. We have learned the policies for designation and for integral compensation of the Chief Executive Officer and other relevant executives.

2. We have learned about the mechanism to measure and disclose the observations on the performance of the relevant executives. During the year, the performance of the relevant executives was considered to be adequate, having been determined on the basis of the established policies.

3. We have learned about the integral remuneration package of the Chief Executive Officer and other relevant executives.

4. We have analyzed the external auditor Report on operations with related persons, as part of the agreed procedures referred to in the applicable standard. In this report, it was concluded that: i) no situations were observed indicating that transactions performed with persons or related parties were other than the business line; ii) transactions have been found to be duly recorded in the accounting records; iii) results are consistent with those obtained by third parties in comparable transactions under similar circumstances.

Such transactions have included sales fees and services, export sales, finished product and materials sale, maquila, freight services, fuels, interests, real estate and transportation equipment leasing, storage, administrative services, personnel services, and other, amounting to a total of 3,953 million pesos.

5. There were no exemptions granted to allow a director, a relevant executive, or an individual with decision-making power to take advantage for his/her own benefit, or in favor of any third party from business opportunities corresponding to the society or to the legal entities under its control, or over which they have significant influence.

The Nutrisa's franchises granted to related persons are in agreement with the policies approved by the Board of Directors.

6. Management of derivative financial instruments, which is mainly focused on certain raw materials coverage, is being carried out in accordance with the policies that have been approved and established by the Board of Directors.

Sincerely,

C.P. Roberto Danel Díaz
Chairman of the Corporate Practices Committee

Board of Directors' Audit Committee

February 23, 2017

Board of Directors of Grupo Herdez, S.A.B. de C.V.

I am pleased to present herewith the Annual Report on the activities of the Board of Directors' Audit Committee for the 2016 fiscal year, in accordance with the provisions of Article 43, Section II of the Securities Market Law.

In the development of our work, we have taken into consideration the regulations contained in the Securities Market Law, the General Rules Applicable to Securities Issuers and other Participants of the Securities Market, and in the Mexican Stock Exchange Internal Rules, the Best Corporate Practices Code's recommendations, and the provisions of the Audit Committee Rules, as well as the Annual Program issues to be considered.

During the reporting period, the Committee punctually held the meetings as scheduled, the Agenda with the issues to be discussed at each meeting was in turn prepared, and the respective minutes were also prepared. The meetings were attended by the designated directors and invitees.

A Report was submitted to the Board of Directors with the issues discussed in every meeting of the Committee.

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

1. The Reported Financial Statements as of December 31, 2015, with consolidated figures and their respective Notes were duly analyzed.

Considering its relative significance, the information of the subsidiary Herdez Del Fuerte, S.A. de C.V. which includes the operation of Megamex Foods, LLC and its subsidiaries in the United States of America, as well as that of the subsidiary Alimentos Benefits, S. A. de C.V. were also analyzed.

In accordance with the regulations of the National Banking and Securities Commission, the financial information has been prepared and submitted under the financial information international standards, and the audit was carried out in compliance with the international auditing standards.

2. We have learned about the document "Communication with those charged with governance" which based on ISA 260 International Standard on Auditing has been issued by the society's external auditor, with the information required to be known by the Audit Committee.
3. We have analyzed the Report on the Internal Control Assessment performed by the society's external auditor, during the normal course of its revision for the 2016 fiscal year audit.

The report indicates that certain audit procedures have been applied to the internal controls in regard to determined areas in order to identify controls, control design and implementation, operative efficacy testing and the conclusion in regard to the audit purpose. It is mentioned that coming out from its work, no differences were identified that would have made it necessary to substantially modify the originally planned audit approach. We have learned about improvement areas and follow up has been given to their implementation.

4. We have learned about the 2016 Quarterly Financial Statements, and we have issued our recommendation for its submission to the Mexican Stock Exchange.
5. We have analyzed and approved the Work Plan of the Internal Audit area for the 2016 fiscal year. Due follow up has been done to its development, and we have learned about its findings and the implementation of its recommendations.

6. The new International Financial Reporting Standards used during the 2016 fiscal year, as well as those already in force, were consistently applied with no significant effects.
7. We have assessed the performance of the external audit firm KPMG Cardenas Dosal, which has been considered as satisfactory and in accordance with the criteria established in the services contract. Likewise, the partner in charge of the audit, in due time has confirmed their professional and economic independence.

In this manner, confirmation of the firm KPMG Cárdenas Dosal as the external auditor of the society and its subsidiaries for the 2016 fiscal year was recommended, with exception made of Herdez Del Fuerte, S.A. de C.V., and its subsidiaries, as well as McCormick de México, S.A. de C.V., which external auditors are other firms.

Nevertheless, being significant components, the external auditor of the society has been involved in their audits' conducting.

8. Additional services to those of auditing provided by the society's external audit firm, were related to transfer prices, local contributions, tax advisory and social security report, for a total amount of 8.9 million pesos.

9. We have learned and assessed the activities of the Risks Committee, including the mechanisms implemented by the Chief Executive Office for the identification, analysis, management and control of the strategic risks to which the society is subject to, as well as the established criteria for their appropriate disclosure.
10. In each and every meeting we have been informed about the complaints received due to lack of observance of the Ethics Code, the way in which they have been addressed and the protection given to the informants.
11. We have learned about and follow up has been given to the outstanding tax and legal matters, as well as to the adequate implementation of the Securities Market regulatory authorities provisions, and the Shareholders' and the Board of Directors' resolutions.

Sincerely,

C.P. Roberto Danel Díaz
Chairman of the Audit Committee

Management's Discussion and Analysis of Results

Overview of performance in the year

In 2016, Grupo Herdez achieved a double-digit growth of 11.2% in net sales.

In the Preserves segment, the results were driven by a balanced combination of pricing and volume performance with most of the sales channels outperforming.

In the Frozen division, Helados Nestlé® continued to report double-digit growth while Nutrisa® reported a sequential improvement towards the end of the year.

At MegaMex, whose results are registered in the Equity Investment in Associates line, we registered a 37.9% growth, when compared with 2015.

Net Sales

Consolidated net sales totaled MXN 18,180 million in 2016, an 11.2% growth over the year ago period. In Mexico core, sales rose 9.8% to MXN 14,431 million, on a balanced combination of pricing and volume performance with commercial execution, optimized shopping experience at the point of sale, adequate pricing strategies and manufacturing efficiencies driving solid performance in the most important categories of the portfolio, including home-style salsas, mole, mayonnaise, pasta and tomato purée.

The Frozen division rose 21.1% to MXN 2,591 million mainly due to an optimized product portfolio, growth in all sales channels, new products and two additional months of sales at Helados Nestlé when compared to 2015.

Exports grew 7.3% affected by the inventory adjustments registered in the fourth quarter.

Gross Profit

Consolidated gross margin in the year was 39.9%, a decline of 1.6 percentage points compared to 2015, as a result of the impact of higher dollar-denominated costs that was partially offset by pricing actions implemented throughout the year.

Sales, General and Administrative Expenses (SG&A)

Consolidated SG&A as a proportion of net sales was 27.2%, compared to 26.2% registered in the year ago period. This is the result of 60 basis points increase in the Preserves division, mainly due to higher advertising and sales expenses. It is important to highlight that at the Frozen division, SG&A as a proportion of sales remained practically flat, as a result of higher advertising and distribution expenses at Helados Nestlé®, that were offset by the significant reduction of SG&A towards the end of the year at Nutrisa.

Earnings before Interest and Taxes (EBIT)

Consolidated EBIT totaled MXN 2,363 million with a margin of 13.0%, 60 basis points higher than in 2015. Excluding the impact of the write-off registered in 2015, EBIT margin would have declined 2.2 percentage points mainly due to gross margin pressure.

Comprehensive Financial Result

The Company registered a net financing cost of Ps. 465 million, practically unchanged when compared to 2015 benefited by the foreign exchange gain registered in the year.

Consolidated Net Income

Consolidated net income was MXN 1,593 million with a margin of 8.8%, 90 basis points higher than in 2015. Excluding the effect of the write-off, consolidated net income would have lowered 8.6%.

Majority Net Income

Majority net income was MXN 717 million with a margin of 3.9%, 1.5 percentage points higher than in 2015. Excluding the write-off, majority net income for the year would have decreased 14.5%, with a margin contraction of 1.2 percentage points.

Earnings before Interest, Taxes, Depreciation, Amortization and other non-cash items (EBITDA)

EBITDA totaled MXN 2,816 million, 2.5% lower than in the same period of last year. The margin declined 2.2 percentage points to 15.5% reflecting consolidated gross margin pressure and lower margins at the Frozen division.

Capital Expenditures (CAPEX)

Net CAPEX totaled MXN 985 million. Funds were mainly allocated to ongoing investments in the distribution center in Los Mochis, Sinaloa, new freezers for Helados Nestlé®, new stores at Nutrisa®, and the expansion of the salsa line in San Luis Potosí.

Cash Flow from Operations

Cash flow from operations totaled MXN 1,385 million.

Financial Structure

At December 31, 2016, the Company's consolidated cash position totaled MXN 920 million. Interest-bearing liabilities were MXN 7,475 million, while excluding corporate debt was MXN 6,035 million.

Consolidated net debt to EBITDA was 2.3 times while net debt to consolidated stockholders' equity was 0.46 times.

After year end, the Company secured derivative financial instruments to increase the fixed rate portion of the debt, that currently accounts for 89% of the total.

WE ARE EXPERIENCE IN MOTION