

annual report 2002

preparing
something
tasty



Vision

To be a group that endures the pass of time by generating profits and increasing market share, through the trust placed in the ability of its people and the capacity of its organization.

Mission

To serve for the benefit of Grupo Herdez, shareholders, and society, by searching for the perfection that manages to globally expand each one of our brands and products' leading position, so as to always earn a profit in every transaction.

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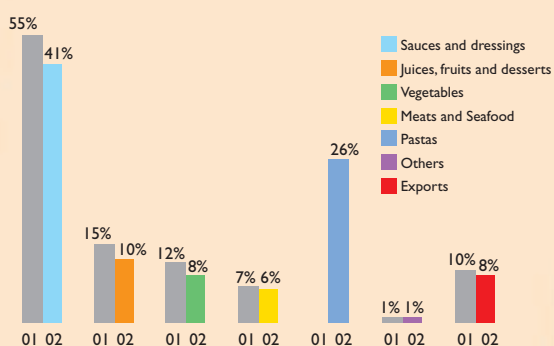
Relevant Financial Information

Expressed in thousands of constant pesos as of December 31st, 2002

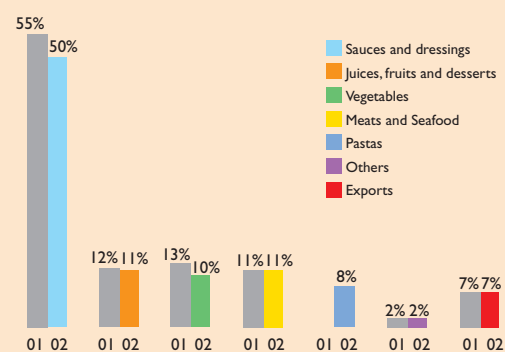
Grupo Herdez

	2002	2001	2000
Sales in number of cases	37,566	26,232	25,222
Increase vs. previous year	43.21%	4.00%	2.41%
Net Sales	4,566,580	4,139,884	4,308,793
Increase vs. previous year	10.31%	-3.92%	-0.89%
Cost of Sales	2,600,782	2,323,458	2,412,215
As a percentage of sales	56.95%	56.12%	55.98%
Gross Income	1,965,798	1,816,426	1,896,578
As a percentage of sales	43.05%	43.88%	44.02%
Operating Expenses	1,473,568	1,362,528	1,313,628
As a percentage of sales	32.27%	32.91%	30.49%
Operating Income	492,230	453,898	582,950
Operating Margin	10.78%	10.96%	13.53%
Increase vs. previous year	8.45%	-22.14%	12.10%
Earnings before taxes, dep. & amort. (EBITDA)	608,484	558,548	680,765
As a percentage of sales	13.32%	13.49%	15.80%
Integral Cost of Financing	129,313	80,716	111,312
Income before taxes & profit sharing	362,917	373,182	471,638
As a percentage of sales	7.95%	9.01%	10.95%
Consolidated Net Income	278,256	256,859	314,582
Consolidated Net Margin	6.09%	6.20%	7.30%
Net Income of Majority Shareholders	142,052	138,900	190,485
Net Margin	3.11%	3.40%	4.42%
Increase vs. previous year	2.27%	-27.08%	-1.80%
Permanent Investments	1,859,969	1,889,884	1,900,903
Total Assets	4,372,104	4,064,863	4,088,123
Total Liabilities	2,299,783	2,059,732	2,029,957
Bank Loans	1,359,364	1,165,213	1,177,878
Total Equity	2,072,321	2,005,131	2,058,166
Other Financial Information			
EBITDA/Net Interests (times)	5.30	4.53	4.33
Resources provided by (used in) operations	151,832	281,239	470,653
Resources provided by (used in) financing activities	67,878	-240,841	-86,082
Resources provided by (used in) investing activities	-114,338	-124,232	-209,574
Shares outstanding at end of period (millions)	422,046	422,556	424,471
Dividends per share	0.150	0.165	0.165
EPS	0.34	0.33	0.45

Sales mix in cases
percentage

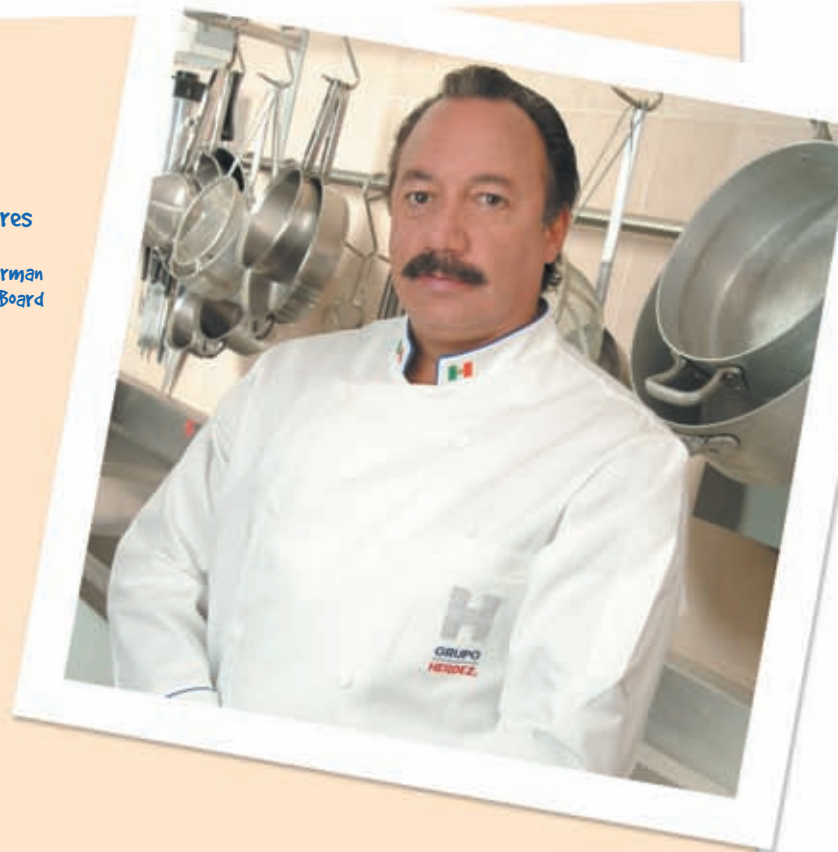


Sales mix in pesos
percentage



Enrique Hernández-Pons Torres

President and Chairman
of the Board



Preparing the future

In the year 2002, the disappointing performance exhibited by key economic indicators, in Mexico and around the world, caused a decline in the rate of consumption.

In spite of a business climate that remained unrelentingly difficult, in our country and abroad, Grupo Herdez continued to implement its expansion plans and strategies. The association with Barilla, in the pastas market, propelled us to achieve the largest sales increase in the history of the Grupo. Net sales during the year 2002 reached 4,567 million pesos, for an increase of 10% in real terms, compared to the year 2001, while in terms of cases sold, sales increased by more than 43%, from 26.2 million to 37.5 million cases sold.

Excluding Barilla, total sales as measured by the number of cases sold, rose by 6%, twice the amount achieved in the last two years. This increase reflected favorable results achieved by the seafood line, and the new presentations of mayonnaise, chicken bouillon, and teas, among others.

Operating income grew 8.4% in real terms, increasing from \$454 million to \$492 million pesos, while the operating margin declined slightly, due to higher costs paid for raw and packaging materials, as well as higher distribution costs resulting from the increase in cases sold. On the other hand, operating expenses, amounting to 32.3% of sales, declined by 0.6 percentage points, compared to 32.9% in the year 2001.

Operating cash flow (EBITDA) increased by \$50 million pesos, from \$559 million to \$609 million pesos, for an increase of 9% in real terms.

Net income of \$142 million pesos, increased by \$3 million pesos, in spite of a foreign exchange loss totaling \$43 million pesos.

We restructured our bank debt, reducing our short-term debt to 25% of total debt, versus 43% in the previous year, and the dollar denominated debt to 25% of total debt, compared to 39% at the closing of the year 2001.

The Grupo's new organizational structure, consisting of business units, continues to operate and perform with increasing efficiency, focusing on the expansion of our leadership and profitability.

We trust our productivity and constant improvement programs will enable us to offset the higher costs observed in some raw and packaging materials.

Based on our expectations for a prosperous future with consistent growth, we, at Grupo Herdez, are making preparations. For example, during the month of July 2002, we acquired an industrial complex in the city of San Luis Potosí, which included approximately 20 thousand square meters of already built facilities, and 183 thousand square

meters of land. This location will house the facilities of the new industrial complex "Duque de Herdez", which will include the following installations:

- The plant, Barilla México S.A. de C.V., for the manufacture and production of pastas under the Barilla, Yemina, and Vesta brands.
- A new manufacturing plant for the McCormick de México products, as we aim to increase production capacity.
- A new Macro Distribution Center of over 20 thousand square meters, to improve the level of service to our customers, particularly those located in the center and north of the country.
- A new Research and Development Center, and a new Training Center.

The investment in this industrial complex is expected to surpass \$35 million dollars for a period of approximately 3 years, all of which will be provided by Grupo Herdez in conjunction with its partners.

On May 22, 2002, Grupo Herdez and Nacional Financiera came to an agreement known as "Cadenas Productivas" (Productive Chains). Through this agreement, a significant number of the Grupo's suppliers will be able to discount their trade receivables electronically, thereby providing them with an efficient system of financing at competitive rates. This system will also enable us to ensure the supply of some of our raw materials.

Mindful of our position as a global and proudly Mexican company, and consistent with our long-term vision, Herdez continues opening new markets, both at home and abroad. Proof of our commitment to this vision was the introduction, in Great Britain, of our new "Doña María" products under the "Mex Mex" concept, the introductions of new home style sauce presentations for the domestic market and "Almejito", a clam juice with tomato, the introduction of individual fruit portions in syrup, and the fruit drink "Festín" for children, among others.

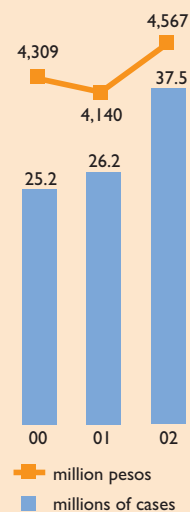
Given the significant challenges and opportunities the year 2003 brings, we intend to maintain our growth through the consolidation of our present product lines, continuous product innovation, with a particular emphasis on research and development, the expansion of our markets, internal and external, and most definitely by pursuing greater operating efficiencies and excellence in service.

As always, our sincere gratitude to our staff for their effort and dedication; to our shareholders, clients, and suppliers, our thanks for their support; and to our partners McCormick, Hormel, and Barilla, our profound appreciation for their trust.

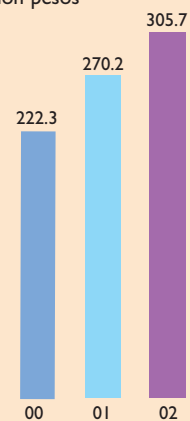
TODAY, TOMORROW AND ALWAYS
WITH ALL CONFIDENCE IS...HERDEZ.

Enrique Hernández-Pons T.
President

Total Sales



Exports million pesos



Preparing high growth

In the year 2002, total sales for the Associated Companies, including exports, increased 78.3% in cases and 18.4% in value.

During the year, we consolidated our strategic association with Barilla Alimentare S.p.A., a world leader company in the production of pastas and, as Grupo Herdez, known for its high quality products. In addition, we acquired the Yemina and Vesta pasta brands, both of which command a strong presence in the domestic market. Through this purchase, we opened a new window for future growth, and facilitated access to consumers that traditionally had not been reached.

We acquired a track of land in San Luis Potosi, where the industrial complex "Duque de Herdez" will be built. Plans for this complex include the construction of the Barilla plant, which will become the supplier for our three pasta brands and sauces. In addition, in an effort to increase installed capacity and efficiency, all of McCormick's production lines, currently located at a plant in the same

city, will be relocated to a new McCormick plant to be built at this complex.

The table on the next page shows the brands and product lines managed by the Associated Companies. Based on independent market studies, many of these products are leaders, occupying the first and/or second place in the domestic market. The table also summarizes the product introductions realized during 2002, such as the mayonnaise with Chilpotles and the Dijon mustard, which achieved very favorable results in sales participation for the same year. Hormel contributed with a variety of food products designed to offer the consumer alternative options that are convenient and practical. Similarly, Kikkoman presented new dressings with different flavors, while Solo and Solomate introduced a new line of diced bouillons.

We implemented extensive market research studies that will be used to design aggressive marketing campaigns, intended to differentiate our brands' and products' attributes. These campaigns will be carried out through



Alejandro
Martínez-Gallardo
Executive Director,
Associated Companies

Ingredients:

- Successful strategic partnerships with international leading companies
- Investment of US \$30 million in a new industrial complex in San Luis Potosi
- Introduction of new products and presentations
- Presence of McCormick products in the US and other markets

Preparation:

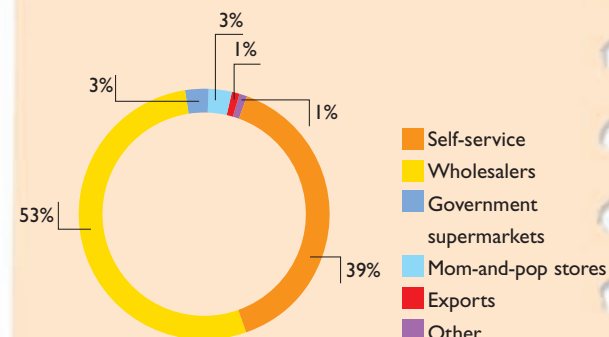
Take Grupo Herdez's experience and knowledge to form partnerships with other leading companies, add new product lines and presentations to attract more consumers, support with new production lines and increases in operating efficiency. Mix quality, consistency, price, confidence, variety, promotion, and publicity, to encourage purchase of your products. Strengthen brand image in order to increase consumer loyalty, while constantly refreshing and modernizing your product image based on your taste tests. Dispense yourself with leadership in all categories.





Distribution channels

The chart below shows the distribution channels used to reach our consumers.



McCormick

Barilla, Yemina and Vesta

Hormel

Solo and Solomate

Kikkoman

Product Lines

Mayonnaise
Dressings
Marmalades
Mustards
Spices
Teas

Pastas
in a variety of
presentations
Pasta sauces

Spam
Meat with potatoes
Sausage
Chili with meat
Herdez meats
Various

Chicken bouillon
Chicken bouillon
with tomato

Soy sauce

Market position⁽¹⁾

Mayonnaise #1
Mustards #1
Marmalades #1
Species #1

Pastas #2

Canned meats #1

Granulated
chicken bouillon #3

Soy sauce #2

New Products

Mayonnaise
with chilpotle
Dijon Mustard

Smoked spam
Chili without beans
Diced smoked spam
Diced turkey
Pasta with meat
beef and chicken
Meatloaf with
chilpotle
Deviled spam with
chilpotle and
jalapeño

Bouillon, diced line

Sweet and sour
sauce
Teriyaki baste
and glaze sauce
Teriyaki roasted
garlic sauce

(1) Market position according to Grupo Herdez's estimates

various mediums such as national television and radio, billboards, and local cinema. In addition, in order to maintain an up-to-date knowledge base on our consumers' uses, habits, and customs, we performed focused studies in various cities to determine their preferences and needs in order to adjust our product lines to meet customers' expectations, and clearly highlight the differences. We implemented promotions, discounts, sales, and points of sales promotions, to encourage sales growth and support the leadership of our products.

Capital investments

Associated Companies realized important investments in 2002, reflecting mostly the Company's incursion into the pastas market – a new business line. The amount invested equaled \$220 million pesos, amount used to acquire the Yemina and Vesta brands, including their equipment and inventory, to purchase the land in San Luis Potosi, and to begin the construction of the pasta plant. Additionally, resources were spent for the improvement of the production processes at the plants in Mexico City and San Luis Potosi.



Preparing greater thrust

During 2002, total sales for the Herdez Companies, including exports, increased 4.6% in cases and declined 4.9% in value. Sales of juices, fruits and desserts, and vegetables dropped, reflecting a decline in consumption and price competition prevalent during the year.

In response to our customers' preferences and rising opportunities in new markets, we implemented the following:

- Introduced the Herdez traditional home-style sauces in glass bottles
- Penetrated the "ready to eat" food segment with the introduction of fruit cocktails and peaches in syrup, in individual servings

- Offered "Almejito", a product recently introduced, in glass bottles, in addition to the tetra pack and can presentations
- Redesigned the Doña Maria label in an effort to update its image

Introduced a new line of refreshing beverages under the Festín brand, targeting the children's market segment. This line is supported by a licensing agreement allowing the use of the Sesame Street characters, using a different and innovative packaging.

The table below shows the brands managed by the Herdez Companies, its corresponding line of products, the market positioning of the leading products, and the product introductions implemented in 2002.

Herdez	Carlota	Doña María	Búfalo	Festín
Product Lines				
Sauces Chilies Fruits Mushrooms Legumes Juices and nectars Vinegars	Honey Syrup Maple Syrup Corn syrup	Mole Beans Desserts Sauces	Sauces Olives Legumes	Juices Gelatins
Leadership position⁽¹⁾				
Canned sauces #1 Mushrooms #1 Legumes #1 Vegetable juice #1	Honey Syrup #1	Mole #1	Olives #2	
New products				
Sauces in glass bottles Fruit cocktails and peaches in syrup in individual servings Almejito in glass bottles		Renewal of image on mole related products		Juices

(1) Market position according to Grupo Herdez's estimates



Iñigo Dávila Fernández
Executive Director
Herdez Companies



According to market research, our products were positioned as the first and/or second, with a market share well above our closest competitors.

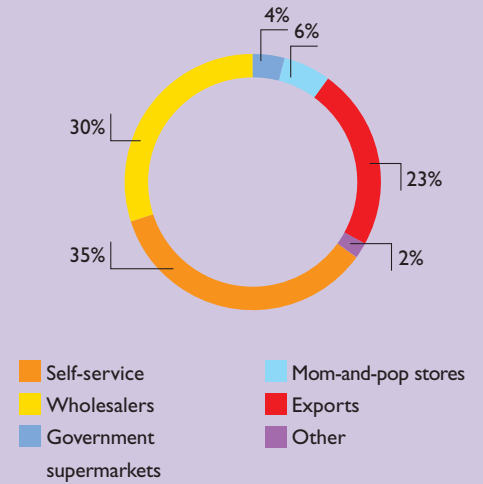
We developed advertising campaigns for national television and radio, billboards, and regional cinema. We offered seasonal promotions and discounts, in response to the needs of our clients and consumers. We provided sponsorships designed to position our brands in the young market segment, as was the case with the race "Serial Cart", event that attracted a significant number of spectators in Monterrey and Mexico City, and was widely covered by a variety of media communication.

Capital investments

We realized investments for \$76 million pesos for the benefit of the plants in Mexico City, Veracruz, and San Luis Potosi. These investments supported efficiency increases in the production and packaging lines, the installation of additional production lines for the new products under the Festin brand, as well as the maintenance and increase of installed capacity.

Distribution channels

The products marketed under the Herdez Companies' umbrella reach our consumers through the following distribution channels:



Ingredients:

- Excellent brand image and market leadership
- Variety of products and presentations
- Production capacity and sales distribution
- Strong institutional advertising image

Preparation:

Take the valuable brand image and strengthen its positioning and market leadership, through successful marketing campaigns, backed by product quality. Reduce costs and prices by planning strategic purchases, and by tapping the global markets, creating a diverse supply network. Promote your distribution channels, by developing strategies according to the customers' needs in their particular territories. Expand foreign market participation, where Mex-Mex food enjoys great preference, by offering a variety of products and presentations to reach new markets.



Farming/Fishing Companies

Luis Garcés Benito
Executive Director
Farming/Fishing

Preparing efficiency and new products

Total sales for Farming/Fishing, including exports, increased 26.2% in cases and 22.2% in value in 2002.

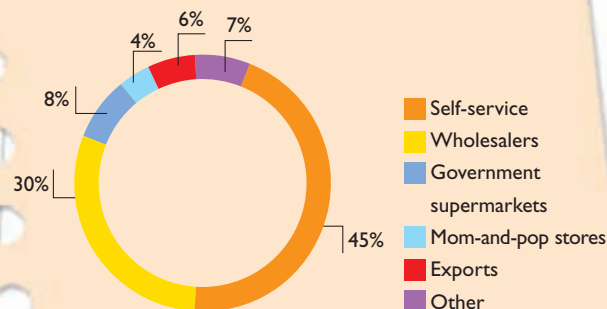
We have been consolidating the investments made in the last years. The benefits derived from these investments have been significant, including an important increase in installed capacity, an efficient infrastructure, and a fishing fleet that counts with the most advanced technology for a better performance of its activities, all of which guaranteed the supply of our sea products in 2002. In the same vein, we built an additional refrigeration chamber and integrated a remote can packaging plant in Chiapas, both of which are expected to contribute to a reduction in manufacturing costs.

The above translated into a gain of 3 percentage points in participation in the tuna market, positioning our brand among the top three most important tuna brands in the domestic market during 2002, while also achieving an important increase in the sales of sardines, both in the domestic and export markets.



Farming/Fishing Distribution Channels

The chart below shows the distribution channels used to reach our consumers.



During 2002, we installed equipment for the production of diced tomato bouillon, packaged in aseptic bags, used in the preparation of homemade sauces.

Capital investments

Important investments in this sector have been gradually consolidated, reducing the need for additional investments. In 2002, investments in this business unit totaled \$5 million pesos, amount used to automate plant processes, integrate the new refrigeration chamber, install water treatment plants, and to improve various processes.

Herdez	Yavaros
Product lines	
Tuna in water and in oil Specialties	Sardines Tomato paste
Market leadership⁽¹⁾	
Tuna #3	Yavaros Sardines #1
New Products	
	Diced tomato bouillon

(1) Market position according to Grupo Herdez's estimates

Ingredients:

- State of the art technology and excellent installations and infrastructure
- Self-sufficiency in processes and inputs
- Excellent quality vis-à-vis price

Preparation:

In order to penetrate new channels of distribution, develop new brands with competitive prices and excellent quality. Rely heavily on the most modern technology and readily available installed capacity, via the fishing vessels and production plants, to supply the growing domestic demand at competitive prices. Integrate your production processes to reduce manufacturing costs and improve profitability levels. Bring your products to new consumers abroad.



Preparing new markets beyond our frontiers



Emilio Mahuad Ganfus
Executive Director
of Foreign Markets

In spite of the economic difficulties and the uncertainty affecting all the world markets, we maintained our pace of growth.

We continued consolidating our image as a company that offers a wide variety of high quality products authentically Mexican, further differentiating our products from the competition by using the Mex-Mex concept.

In the year 2002, the United States of America maintained its position as our most important export market, receiving 88% of our exports, channeled through Herdez Corporation and McCormick Corporation. We refreshed our brands' image with new labels and presenta-

tions, and expanded our offerings with additional products.

Sales to Central America were similar to those in the previous year, with Guatemala and Costa Rica offering the most attractive growth potential.

In Europe, export sales in percentage terms were comparable to those in 2001. Products with the Doña Maria image were particularly salient in England and Spain.

In 2002, exports increased by 13.1% in pesos and 17.6% in volume.

Today our products have a presence in 24 countries in four continents.

Ingredients:

- Authentic Mexican food of prime quality
- Successful strategic alliances
- Advantageous distributions
- New markets
- Enhanced brand positioning

Preparation:

Together with your partners, Hormel and McCormick, establish close relationships with the most important supermarkets chains in the United States. Invite them to visit your offices and facilities, and to taste your products so that they, in turn, offer them to their Hispanic consumers, who crave the flavors of their native foods, as well as to their Anglo-Saxon consumers. Promote and advertise your brand at the points of sale and at world-class events. Position your products as fine quality Mex-Mex products, authentically Mexican, and through your distributors, meet your demand in Europe, Canada, South America, Australia, and New Zealand.



Preparing greater presence in distribution channels

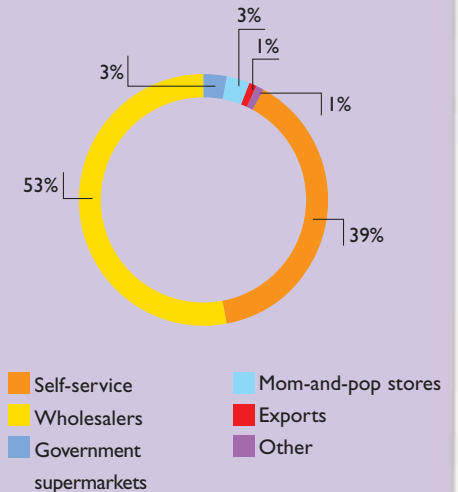
During the year 2002, we restructured the sales department in order to optimize service to our customers and increase operating efficiency. This plan called for the further segmentation of the domestic market into a larger number of territories, each individually managed by sales executives with significant experience in their regions. This new sales organization enabled us to:

- Work jointly with the self-service chains in the management of product categories, in order to maximize satisfaction to our consumers and minimize costs along the distribution chain
- Attain greater closeness with our wholesale customers in order to bring them support and information about our products, the competition, and the market
- Make the distribution routes known as the "Cosacos Wagons", more efficient and productive. These routes service the mom-and-pop stores directly, providing them with responsive service while increasing profitability
- Sign an agreement with Nestle Waters France for the distribution of bottled Perrier, the worldwide-known mineral water, initially in the Southeast of Mexico. The distribution of this product will help us develop the institutional distribution channel, thereby reaching a greater number of potential customers



Distribution channels

The chart below shows Grupo Herdez's total sales by cases for the year 2002.



Ingredients:

- An experienced sales and marketing team
- A portfolio of leading products and brands
- A team with the latest technology
- Efficient customer service

Preparation:

With your sales team, directly reach more than 17,000 customers. Service them according to their needs and regional characteristics, and offer them a collection of products of excellent quality, supported with the latest information and distribution technology. Support your customers by providing optimum product display, in terms of shelf space and location, by organizing events at the point of sales, by motivating them through competitions, and by perfecting service to the consumer. Mix all of the above to increase sales and profitability.



Preparing changes to satisfy our consumers

The year 2002 was characterized by a decline in consumption, domestically and internationally, causing significant competition in this sector; which contributes a small percentage to Grupo Herdez's total sales.

We are in the process of implementing market studies that will ultimately guide a re-engineering effort, which will encompass image, presentations, and products. Through this effort, we intend to make our products more appealing in order to attract additional consumers.



Lionel Camps Pérez
Executive Director
Hygiene and Personal Care

Every product in this sector will go through important changes in formulas and packaging, while their style and image will be modified to make them more modern and attractive, as we carve new market niches with a naturist bend. Additionally, we will increase our promotional efforts at the point of sales, and through mass communication channels.



Soften

Tami

Pons

Product lines

Creams
Nail polish remover
Deodorants
Makeup remover
Soaps

Soaps
Toothpaste
Mouthwash

Soaps

Corporate Services

The new alliances and acquisitions realized during the year could not have been possible without the Grupo's solid and well-structured financial position. Our strategy is to continue to generate growth for Grupo Herdez while maintaining those characteristics. Through the implementation of the economic value system, we have defined performance measures that guide us to achieve greater profits, and make decisions consistent with the creation of shareholder value.

We continue to invest in the latest technology to improve logistics and line communication among our distribution centers, as we strive to provide optimal attention to the points of sales, support our field sales team, and expand the data base systems to include more historical data on line.

The incursion into the Pastas market, presented us with the opportunity to generate new jobs, particularly in the sales area. Grupo Herdez continues to be an important source of employment in the sector, reflecting the loyalty and camaraderie of its staff as the Company shares its operating culture of excellence, allowing it to maintain its leadership.



Héctor Hernández-Pons Torres
CEO and Director of Corporate Services
Alberto Dappen Guerrero
Director of IT
Pedro Gracia-Medrano
Director of Human Resources
Ernesto Ramos Ortiz
Executive Director of Administration and Finance

The fundamental ingredient in our recipes is

"The human touch" - our people's experience and dedication make possible the improvement of the Grupo's activities day after day



Also indispensable:

"Technological tools" - the most modern systems that facilitate and improve all the Grupo's activities.

All served in:

"Well served portions" - The management and finances, which provide us with the information needed for accurate decision-making

Seating at the table with a sense of social responsibility



Grupo Herdez believes in the great importance of social responsibility, upholding it as an essential component of its philosophy and ethic. We, at Grupo Herdez, define ourselves as a socially responsible company when we bring the best product quality at competitive prices; when we are mindful of the environment and the natural resources; when we generate jobs that are worthy and well paid; and when we support education and help the less fortunate sectors of the population.

Quality

As at the end of 2002, five of our manufacturing plants had obtained the ISO 9000 certification (Certification of quality processes and continuous improvement). We expect the others to obtain this certification in the short-term.

Environment and Natural Resources

Given the great importance the environment and the natural resources represent to the Grupo, they have become part of a sustainable development program. According to this program, all our fishing vessels respect the seasonal ban and have special nets for the capture of tuna, which allow the escape of dolphins and turtles without causing them

any harm. In regards to the agricultural sector, the program prohibits the use of pesticides harmful to plants and animals.

In terms of our industrial facilities, seven of our plants have water treatment plants that meet the official water disposal requirements.

Labor Relations

The Grupo considers its unwavering attention to its relationship with employees a critical factor to its growth. In this fiscal year, as in the past, Grupo Herdez maintained a harmonious relationship with its workforce, and encouraged an environment of trust and open communication, two fundamental ingredients for the increase in its productivity.

Reflecting the acquisition of the new line of pastas, and the reorganization of Herdez Trading, the number of employees expanded to 5,750, for an increase of 6.4% versus the previous year.

Training is another key element to the Company's increase in productivity and as a result, the investment in training in the year 2002 totaled 60,000 man-hours, for an increase of 30% compared to fiscal year 2001. The attendance level was significant and in some cases, some of our employees attended more than two courses during the year. The training courses focused in the production, operating, and administration areas.

We are aware of our
responsibility to
improve ourselves in
conjunction with our
community

Herdez Foundation

The goal of the Herdez Foundation is to encourage research and the nutritional development of our country. As in previous years, the Herdez Foundation focused its efforts in the educational, scientific, technological, cultural, and social areas.

Educational, scientific, technological, and cultural arenas

We realized workshops, courses, and conferences for children and adults, to achieve a greater dispersion of the Mexican gastronomy, and continue to meet the social mission of preserving our rich gastronomic tradition.

The Library of the Mexican Gastronomy increased its collection by 25%, reaching 1,836 volumes thanks to donations and acquisitions, which included not only gastronomic, but also nutrition and health related themes. The library continues on its path to become one of the most important centers of gastronomic literature in the country, and welcomed 3,382 visitors in the year 2002.

We encouraged the realization of studies focused in the production of foods with high nutritional value, and the design of a project focused on the application of scientific discoveries to the nutritional arena, for the improvement of the population's nutrition.

During the year, the Gallery "Our Kitchen Duke of Herdez" welcomed 2,749 visitors among children, young adults, students of gastronomy and the general public. Additionally, the wing that houses the Pre-Hispanic Kitchen and the Viceroyalty Era was remodeled, with the support of the National Anthropology Museum and the Franz Mayer Museum.

Social Area

The Herdez Foundation, aware of the needs, poverty, and neglect affecting various population groups acted, as every year, on its commitment to support the populations most in need by providing food donations. The monthly donation and special assistance program provided 8,930 cases of food through 72 charitable institutions, and helped the populations affected by Hurricane Isidore, in the states of Yucatan and Campeche, through the delivery of 3,000 cases of food.



Fundación
HERDEZ



Board of Directors

Members

Enrique Hernández-Pons Torres

President and Chairman of the Board,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Patrimonial, Related

Héctor Hernández-Pons Torres

Vice President and Chief Executive Officer,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Patrimonial, Related

José G. Aguilera Medrano

Counsel

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Jóáo Alves de Quiroz Filho

President, Monte Cristalina, S.A.

Member of the Board of Directors of Grupo Herdez since 2001

Independent

Carlos Autrey Maza

President of the Board of Directors,

Corporación Autrey, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Independent

Enrique Castillo Sánchez Mejorada

President of the Board of Directors,

Ixe Grupo Financiero

Member of the Board of Directors of Grupo Herdez since 1991

Independent

Iñigo Dávila Fernández

Executive Director Herdez Companies,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2002

Related

Pedro Gracia-Medrano Murrieta

Director of Human Resources,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1998

Related

Pablo Lezama Vélez

Director of Finance,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2002

Related

Esteban Malpica Fomperosa

Counsel

Member of the Board of Directors of Grupo Herdez since 2001

Independent

Alejandro Martínez-Gallardo de Portualés

Executive Director Associated Companies

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2001

Related

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Mijares, Angoitia, Cortés y Fuentes, S.C.

Member of the Board of Directors of Grupo Herdez since 1991

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Luis Nieto Martínez

Director Counsel

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Related

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Vice-President, GBM Grupo Bursátil Mexicano, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Ernesto Ramos Ortíz

Executive Director, Administration and Finance,

Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1996

Related

Olympia Torres de Hernández-Pons

Counsel

Member of the Board of Directors of Grupo Herdez since 1991

Patrimonial, Related

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Koros Consultores, S.C.

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Richard Andrew DePass

City Group Venture Capital

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Julio Serrano Castro Espinosa

Director of Asset Management and Corporate Finance

GBM Grupo Bursátil Mexicano, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Examiner

Francisco Javier Soní Ocampo

Partner, PricewaterhouseCoopers, S.C.

Member of the Board of Directors of Grupo Herdez since 1992

Independent

Alternate Examiner

José Alfredo Hernández Linares

Partner, PricewaterhouseCoopers, S.C.

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Statutory Examiner

José Manuel Rincón Gallardo

CEO of Palmas Rent, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Alternate Statutory Examiner

Angel Reyes Arias

General Director of Auditing and Accounting Guidelines

GBM Grupo Bursátil Mexicano

Member of the Board of Directors of Grupo Herdez since 2002

Independent

Management Team

Lionel Camps Pérez
Executive Director, Hygiene and Personal Care

Alberto Dappen Guerrero
Director of Information Technology

Iñigo Dávila Fernández
Executive Director, Herdez Companies

Gerardo Canavati Miguel
Director of Financial Planning

Luis Garcés Benito
Executive Director, Farming/Fishing Companies

Jorge Gardner Gómez
Director of Operations Farming/Fishing Companies

Alberto Garza Cabañas
Director of Marketing, Herdez Companies

Pedro Gracia-Medrano Murrieta
Director of Human Resources

Roberto González Rosas
Executive Director, Herdez Trading

Héctor Lebrija Guiot
Director of Advertising and Communications

Pablo Lezama Vélez
Director of Finance

Alejandro Martínez-Gallardo de Pourtalés
Executive Director, Associated Companies

Luis Nieto Martínez
Director Counsel

Emilio Mahuad Gantus
Executive Director of Foreign Commerce

Jorge Obregón Parlange
Director of Logistics

Ernesto Ramos Ortíz
Executive Director of Administration and Finance

Rafael de Regil y Gómez Muriel
Director of Operations, Associated Companies

Juan Rodríguez del Collado
Director of Marketing, Associated Companies

Carlos T. Velásquez Osuna
Director of Operations, Herdez Companies

Committees' Members

Auditing Committee:

Enrique Castillo Sánchez Mejorada
President
Fernando Ramos González de Castilla
Juan G. Mijares Dávalos
Ernesto Ramos Ortíz

Review and Compensation Committee:

Carlos Autrey Maza
President
Pedro Gracia-Medrano Murrieta
Enrique Hernández-Pons Torres
Héctor Hernández-Pons Torres
Esteban Malpica Fomperosa

Finance and Planning Committee:

Ernesto Ramos Ortíz
President
José G. Aguilera Medrano
Enrique Castillo Sánchez Mejorada
Héctor Hernández-Pons Torres

Executive Committee:

Enrique Hernández-Pons Torres
President
José G. Aguilera Medrano
Pedro Gracia-Medrano Murrieta
Héctor Hernández-Pons Torres
Esteban Malpica Fomperosa
Alejandro Martínez Gallardo
Ernesto Ramos Ortíz

Management's Discussion and Analysis of Operating Results and Financial Position

The following analysis must be read in conjunction with the President's Letter to Shareholders, the Consolidated and Audited Financial Statements, as well as the accompanying notes, same that are part of this Annual Report. The amounts are expressed in thousands of constant pesos as of December 31, 2002, unless otherwise noted. Following is a comparative analysis of the fiscal years ending December 31, 2002 and 2001.

Net Sales

In the year 2002, we achieved the highest sales in the history of the Grupo, as we reported total sales of \$4,566.5 million pesos for the year, for an increase of 10.3% versus the year 2001. Volume increased 43.2% from 26.2 million cases sold in 2001, to 37.5 million cases sold in 2002. This significant increase reflected the sales generated by the new pasta line, which began in February of the same year, as well as sales growth of 6.5% in our traditional product lines.

The Sauces and Dressings segment contributed to 50% of the total sales in the year 2002, achieving a sales increase of 5.6% in cases and 1.2% in pesos, in relation to the year 2001. This increase was achieved in spite of stable prices,

and the promotions and discounts offered during the year, which ultimately helped us increase sales volume and maintain our leading market position.

The Juices, Fruits and Desserts and the Vegetables segments, showed negative changes of 1.8%, and 2.4% in cases, and of 2.0% and 12.2% in pesos respectively. During the year 2002, we continued to confront aggressive competition and weak consumption, which negatively impacted sales for some of the products that constitute these segments.

The Meats and Seafood segment managed to post important increases of 36.1% in cases and 12.3% in pesos, resulting from greater efficiencies obtained in the capture, processing and marketing of sardines and tuna at competitive prices, and representing 11% of the Grupo's total sales.

We achieved substantial synergies between the new pasta line, and the other segments that constitute our sales, resulting in a significant sales increase for the Grupo. Pasta sales in the year 2002 reached \$386.5 million pesos, for 9.3 million cases, representing 8% of the total sales for the Company. Excellent product quality, combined with its growing presence and market positioning, bode well for this segment.

The Others segment, which includes the Hygiene and Personal Care products, represented 2% of sales for the Grupo in 2002, showing declines of 18.8% in cases and 4.6% in pesos.

During the year, exports showed significant growth, reporting increases of 17.6% in cases and 13.1% in pesos, and representing 7% of total sales. This performance was favorable considering the depressed economic conditions prevalent in our most important export markets, and was supported by improved distribution in the United States, and the sale of new products in the international markets.

Cost of Sales

Cost of sales in the year 2002 totaled \$2,600.8 million pesos, an amount 11.9% higher than the amount reported in 2001. This increase reflected higher sales combined with increased price pressure in some of our raw materials, mostly soybean oil and steel.

Gross Profit

During the year, gross profit rose to \$1,965.8 million pesos, for an increase of 8.2% versus the year 2001, and a gross margin of 43.0%.

Operating Expenses

Operating expenses in the year 2002 totaled \$1,473.6 million pesos, for an increase of 8.1% with respect to the year 2001. Higher costs reflected the increase in distribution expenses incurred in connection with the pasta sales, and the promotions implemented during the year, particularly in the last quarter. Sales expanded at a higher rate than costs, which resulted in a drop in the ratio of costs to sales, from 32.9% in 2001, to 32.3% this year, indicating greater operating efficiency.

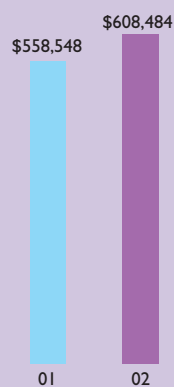
Operating Income and EBITDA

In 2002, operating income totaled \$492.2 million pesos, which was 8.4% higher than the amount reported in the year 2001, for an operating margin of 10.8%, a percentage consistent with that of the year 2001. Additionally, we posted an increase in EBITDA of 8.9% with a margin of 13.3%, which is slightly lower than the previous year. Lower operating costs were not sufficient to offset the pressure in margins exerted by higher costs.

EBITDA/Net interests
(times)



EBITDA (thousands of pesos)



Integral Cost of Financing

The integral cost of financing in the year 2002 was \$129.3 million pesos, which compared to \$80.7 million pesos reported in the year 2001, represented an increase of 60.2%. This was a result of the exchange loss reported in the year, as the peso depreciated against the dollar.

Tax Provision and Employees' Profit Sharing

The tax provision and the employees' profit sharing during the year totaled \$103 million pesos, an amount 31.7% below the amount reported in 2001. This decline was the result of a smaller taxable base due to smaller profits.

Majority Shareholders Net Income

Net income in the year 2002 was \$142.0 million pesos, for a 2.4% increase compared to 2001. Net profit was negatively impacted by the integral cost of financing, which reflected the effects of the peso depreciation. Net margin in 2002 was 3.1%, just below the 3.4% in 2001.

Changes in Financial Position

Cash flow generation

Net cash flow generated by operations in 2002 reached \$151.8 million pesos, an amount 46.0% lower compared to the flows generated in 2001, reflecting an increase in working capital requirements.

Financing Operations

During the year, financing operations increased due to the acquisitions and investments implemented during the year. The capital derived from financing operations in 2002 totaled \$67.9 million pesos.

Investments

During the year 2002, we realized various acquisitions and investments amounting to approximately \$300 million pesos. This amount was applied in the following manner: purchase of the Yemina and Vesta brands in conjunction with their production equipment (\$180 million pesos), the purchase of a tract of land (\$70 million pesos) in San Luis Potosi, where an industrial complex for Barilla, McCormick, and

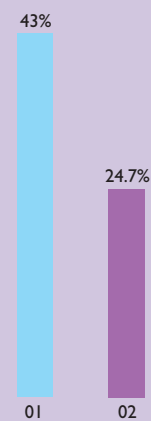
Herdez will be built, the construction of the Barilla plant in the complex above mentioned (\$30 million pesos), and various other investments for the improvement of the production processes at the Yavaros, Veracruz, San Luis Potosi, and Mexico city plants (\$20 million pesos).

The cash utilized in investment activities declined slightly versus the previous year, reflecting the sale and lease of our three tuna fishing vessels, for \$200 million pesos.

Cost bearing liabilities

The Company's cost bearing rose 16.7% totaling \$1,359.3 million pesos, resulting mainly from the financing requirements from the investment projects. The profile of the bank debt improved significantly, as the short-term debt represented 25% of the total debt, compared to 43% in the previous year; while the dollar denominated debt represented 25% of total debt, versus 43% a the end of 2001.

Short term liabilities with financial cost/total liabilities with financial cost



Short term liabilities/total liabilities



Report of Independent Accountants

(Translation from the original issued in Spanish)

Tlalnepantla, Mex., February 6, 2003

To the Stockholders of

Grupo Herdez, S. A. de C.V.

We have examined the consolidated and individual balance sheets of Grupo Herdez, S. A. de C.V. and subsidiaries and of Grupo Herdez, S. A. de C.V. (as an individual legal entity) as of December 31, 2002 and 2001, and the related consolidated and individual statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the 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 to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with generally accepted accounting principles. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated and individual financial statements present fairly, in all material respects, the financial position of Grupo Herdez, S. A. de C.V. and subsidiaries and of Grupo Herdez, S. A. de C.V. (as an individual legal entity) at December 31, 2002 and 2001, and the consolidated and individual results of their operations, the changes in their stockholders' equity and in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers



Luis A. Martínez Gómez

Statutory Auditors' Report

(Translation from the original issued in Spanish)

Mexico City, February 6, 2003

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

In our capacity as Statutory Auditor, in compliance with article 166 of the Corporations Law and the company's bylaws, we hereby submit our report on the veracity, sufficiency and reasonability of the financial information presented to you by the Board of Directors concerning the company's business for the year ended December 31, 2002.

We have attended the shareholders' and Board of Director's meetings to which we have been summoned and we have obtained from the directors and administrators all the information on operations, documentation and records we considered it necessary to examine. Our review was carried out in accordance with generally accepted auditing standards.

In our opinion, the accounting and reporting policies and procedures followed by the company and considered by management in preparing the financial information to be submitted to the stockholders are adequate and sufficient and were applied on a basis consistent with that of the preceding year. Therefore, said information accurately, reasonably and sufficiently reflects the financial situation of Grupo Herdez, S. A. de C.V. at December 31, 2002, the results of its operations and the changes in its stockholders' equity and in its financial position for the year ended on that date, in conformity with generally accepted accounting principles.



Javier Soní Ocampo

Statutory auditor



José Manuel Rincón Gallardo

Statutory auditor

Consolidated Balance Sheet

GRUPO HERDEZ, S.A. DE C.V. AND SUBSIDIARIES

Thousands of Mexican pesos (Note 1)

Assets	December 31,		Liabilities and Stockholders' Equity	December 31,	
	2002	2001		2002	2001
CURRENT:			SHORT-TERM LIABILITIES:		
Cash and marketable securities	Ps 152,684	Ps 47,312	Bank loans	Ps 335,438	Ps 500,662
Customers	720,305	749,665	Suppliers	298,048	303,424
Other accounts receivable	109,948	140,409	Other accounts payable and accrued expenses	219,354	126,737
Value added tax and income tax recoverable	198,251	181,247	Income tax payable	1,486	13,394
Related parties (Note 3)	13,431	51,441	Employees' statutory profit sharing payable	6,851	5,850
	1,041,935	1,122,762	Deferred income tax (Notes 1f. and 10)	398,993	426,978
Inventories (Note 4)	850,488	803,511	LONG-TERM LIABILITIES:		
Prepaid expenses	210,462	87,264	Bank loans (Note 7)	1,023,926	664,551
Total current assets	2,255,569	2,060,849	Accrued seniority premiums (Note 1g.)	15,687	17,451
				1,039,613	682,002
PROPERTY, PLANT AND EQUIPMENT - Net (Note 5)	1,734,167	1,757,533	NEGATIVE GOODWILL (Note 6)		20,555
INVESTMENT IN ASSOCIATED COMPANIES (Note 6)	48,370	43,362	ACCUMULATED AMORTIZATION		(19,870)
OTHER ASSETS	258,567	114,130			685
GOODWILL (Note 6)	254,622	254,622			
ACCUMULATED AMORTIZATION	(179,191)	(165,633)		2,299,783	2,059,732
	75,431	88,989	STOCKHOLDERS' EQUITY (Note 9):		
			Capital stock		
			Nominal value	422,314	422,825
			Restatement increment	356,677	356,648
				778,991	779,473
			Retained earnings	2,467,837	2,398,906
			Capital stock subscription premiums	181,034	181,034
			Deficit in the restatement of capital	(1,865,199)	(1,786,149)
			Accumulated deferred income tax effect (Note 1f.)	19,023	19,023
				802,695	812,814
			MINORITY INTEREST	490,635	412,844
				2,072,321	2,005,131
			COLLATERAL GRANTED (Note 11)		
	Ps4,372,104	Ps4,064,863		Ps4,372,104	Ps4,064,863

The accompanying eleven notes are an integral part of these financial statements.

Consolidated Statement of Income

GRUPO HERDEZ, S.A. DE C.V. AND SUBSIDIARIES

Thousands of Mexican pesos (Note I)

	Year ended December 31,			
	2002		2001	
Net sales	Ps	4,566,580	Ps	4,139,884
Other income		13,501		30,683
		4,580,081		4,170,567
Costs and expenses:				
Cost of sales		2,600,782		2,323,458
Selling expenses		647,102		566,205
Administrative expenses		228,552		251,996
Advertising expenses		583,994		531,503
Amortization of goodwill		14,605		16,936
Amortization of negative goodwill		(685)		(4,112)
		4,074,350		3,685,986
Operating income		505,731		484,581
Comprehensive financing cost:				
Interest paid - Net		114,161		123,200
Exchange loss (gain) - Net		43,627		(20,153)
Gain on net monetary position		(28,475)		(22,331)
		129,313		80,716
Income before income tax, equity in net income of associated companies and minority interest		376,418		403,865
Provisions for (Note 10):				
Income tax		95,037		142,814
Deferred income tax		1,354		2,314
		96,391		145,128
Employees' statutory profit sharing		6,610		5,573
		103,001		150,701
Income before equity in net income of associated companies and minority interest		273,417		253,164
Equity in net income of associated companies		4,839		3,695
Consolidated net income		278,256		256,859
Minority interest		136,204		117,959
Net income of majority shareholders	Ps	142,052	Ps	138,900
Net income per share (Note II.)	Ps	0.337	Ps	0.329

The accompanying eleven notes are an integral part of these financial statements..

Consolidated and Individual Statement of Changes

in Stockholders' Equity for the two years ended December 31, 2002 and 2001

GRUPO HERDEZ, S.A. DE C.V. AND SUBSIDIARIES

Thousands of Mexican pesos (Note 1)

	Capital stock	Retained earnings	Capital stock subscription premiums	Deficit in the restatement of capital	Accumulated deferred income tax effect	Minority interest
Balances at January 1, 2001	Ps 781,521	Ps 2,338,964	Ps 181,034	(Ps 1,711,649)	Ps 19,023	Ps 449,237
Share reacquisition (Note 9)		(5,118)				
Capital reductions by share reacquisition (Note 9)	(2,048)	2,048				
Dividends paid (Note 9)		(75,888)				(152,309)
Comprehensive income 2001 (Note 1m.)		138,900		(74,500)		115,916
Balances at December 31, 2001	779,473	2,398,906	181,034	(1,786,149)	19,023	412,844
Capital stock increase in subsidiary						92,186
Share reacquisition (Note 9)		(2,217)				
Capital reductions by share reacquisition	(571)	571				
Placement of shares		379				
Capital increase resulting from the placement of shares	89	(89)				
Dividends paid (Note 8)		(71,765)				(146,694)
Comprehensive income 2002 (Note 1m.)		142,052		(79,050)		132,299
Balances at December 31, 2002	Ps 778,991	Ps 2,467,837 ⁽¹⁾	Ps 181,034	(Ps 1,865,199)	Ps 19,023	Ps 490,635

⁽¹⁾Includes Ps70,070 and Ps63,258 of statutory legal reserve at December 31, 2002 and 2001.

The accompanying eleven notes are an integral part of these financial statements.

Consolidated Statement of Changes

in financial position

GRUPO HERDEZ, S.A. DE C.V. AND SUBSIDIARIES

Thousands of Mexican pesos (Note 1)

	Year ended December 31,			
	2002		2001	
Operation:				
Net income	Ps	142,052	Ps	138,900
Charges (credits) to income not affecting resources:				
Minority interest in income for the year		136,204		117,959
Equity in net income of associated companies		(4,839)		(3,695)
Depreciation		102,334		91,951
Deferred income tax		1,354		2,314
Amortization of goodwill		14,605		16,936
Amortization of negative goodwill		(685)		(4,112)
Net change in inventories, other assets, accounts receivable and payable		(239,193)		(79,014)
Resources provided by operations		151,832		281,239
Financing:				
Increase of capital stock in subsidiary		92,186		
Dividends paid to minority interest		(146,694)		(152,309)
Dividends paid to stockholders majority		(71,765)		(75,888)
Bank loans received (paid) - Net		194,151		(12,644)
Resources provided by (used in) financing activities		67,878		(240,841)
Investment:				
Decrease of capital stock in affiliated		(4,013)		
Reacquisition of shares		(2,217)		(5,118)
Placement of shares		379		
Acquisition of fixed assets		(108,487)		(119,114)
Resources used in investment activities		(114,338)		(124,232)
Increase (decrease) in cash and marketable securities		105,372		(83,834)
Cash and marketable securities at beginning of year		47,312		131,146
Cash and marketable securities at end of year	Ps	152,684	Ps	47,312

The accompanying eleven notes are an integral part of these financial statements.

Balance Sheet

GRUPO HERDEZ, S. A. DE C.V.

Thousands of Mexican pesos (Note 1)

	December 31,	
	2002	2001
Assets		
CURRENT:		
Cash and marketable securities	Ps 736	Ps 381
Other accounts receivable	311	292
Related parties (Note 3)	19,435	7,392
Value added tax and income tax recoverable	4	2,628
Total current assets	20,486	10,693
MACHINERY AND EQUIPMENT - Net (Note 5)	10,377	12,423
INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (Note 6)	1,606,339	1,583,723
GOODWILL (Note 6)	188,327	188,327
ACCUMULATED AMORTIZATION	(113,865)	(102,085)
	74,462	86,242
DEFERRED INCOME TAX (Notes 1f. and 10)	32,911	29,504
	Ps 1,744,575	Ps 1,722,585
Liabilities and Stockholders' Equity		
SHORT-TERM LIABILITIES:		
Bank loans	Ps 48,439	Ps 106,696
Income tax payable	1,088	1,960
Other accounts payable	13,362	20,957
Total short-term liabilities	62,889	129,613
LONG-TERM LIABILITIES:		
BANK LOANS (Note 7)	100,000	
NEGATIVE GOODWILL (Note 6)		20,555
ACCUMULATED AMORTIZATION		(19,870)
		685
STOCKHOLDERS' EQUITY (Note 9):		
Capital stock		
Nominal value	422,314	422,825
Restatement	356,677	356,648
	778,991	779,473
Retained earnings	2,467,837	2,398,906
Capital stock subscription premiums	181,034	181,034
Deficit in the restatement of capital	(1,865,199)	(1,786,149)
Accumulated deferred income tax effect (Note 1f. and 10)	19,023	19,023
	802,695	812,814
COLLATERAL GRANTED (Note 11)		
	Ps 1,744,575	Ps 1,722,585

The accompanying eleven notes are an integral part of these financial statements.

Statement of Income

GRUPO HERDEZ, S. A. DE C.V.

Thousands of Mexican pesos (Note 1)

	Year ended December 31,	
	2002	2001
Equity in net income of subsidiaries	Ps 154,948	Ps 152,028
Other income	3,780	4,146
	158,728	156,174
Operating expenses:		
Administrative expenses	6,818	5,012
Amortization of goodwill	11,780	11,780
Amortization of negative goodwill	(685)	(4,112)
	17,913	12,680
Operating income	140,815	143,494
Comprehensive financing cost:		
Interest paid - Net	8,601	15,430
Exchange loss - Net	1,740	589
Gain on net monetary position	(8,170)	(7,872)
	2,171	8,147
Income before the following provision	138,644	135,347
Provision for deferred income tax (Note 10)	(3,408)	(3,553)
Net income	Ps 142,052	Ps 138,900
Net income per share	Ps 0.337	Ps 0.329

The accompanying eleven notes are an integral part of these financial statements.

Statement of Changes in Financial Position

GRUPO HERDEZ, S.A. DE C.V.

Thousands of Mexican pesos (Note 1)

Operation:	Year ended December 31,	
	2002	2001
Net income	Ps 142,052	Ps 138,900
(Credits) charges to income not affecting resources:		
Equity in net income of subsidiaries	(154,948)	(152,028)
Depreciation	2,046	2,046
Amortization of goodwill	11,780	11,780
Amortization of negative goodwill	(685)	(4,112)
Deferred tax	(3,408)	(3,553)
Net change in accounts receivable and payable	(20,551)	19,156
Resources (used in) provided by operations	(23,714)	12,189
Financing:		
Dividends received from subsidiaries	144,802	152,309
Dividends paid to stockholders	(71,765)	(75,888)
Loans received (paid) - Net	41,743	(83,418)
Resources provided by (used in) financing activities	114,780	(6,997)
Investment:		
Decrease of capital stock in associated companies	(88,873)	
Reacquisition of shares	(2,217)	(5,118)
Placement of shares	379	
Resources used in investment activities	(90,711)	(5,118)
Increase in cash and marketable securities	355	74
Cash and marketable securities at beginning of year	381	307
Cash and marketable securities at end of year	Ps 736	Ps 381

The accompanying eleven notes are an integral part of these financial statements.

Notes to the Financial Statements

consolidated and individual
GRUPO HERDEZ, S.A. DE C.V.

DECEMBER 31, 2002 AND 2001

Figures stated in thousands of Mexican pesos of December 31, 2002 purchasing power

NOTE 1 - BASIS FOR CONSOLIDATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The main activities of the company are the establishment, organization, acquisition and promotion of all types of businesses and manufacturing concerns. The company has not employees. The consolidated financial statements include those of Grupo Herdez, S.A. de C.V. (Grupher) and the following subsidiaries:

Company	%	Activity
Herdez, S.A. de C.V. (Herdez)	100%	Manufacture, production, purchase and sale of canned foods and cosmetics, importation and exportation of goods and services, rendering of administrative, accounting, distribution and real estate services. Additionally, it is the majority shareholder of Arpons, S.A. de C.V. (Arpons) 100%, Herimex, S.A. de C.V. (Herimex) 51%,
Herport, S.A. de C.V. (Herport)	50%	Hersail, S.A. de C.V. (Hersail) 50%, Grupo Inmobiliario (real state companies) 100% and Herdez Europa 60%.
Grupo Búfalo, S.A. de C.V. (Grupo Búfalo)	100%	Incorporation, organization, acquisition and promotion of all type of businesses and manufacturing concerns, as well as the purchase and sale of foodstuffs.
Yavaros Industrial, S.A. de C.V. (Yavaros)	100%	Fishing and marine trapping, gathering of agricultural products, industrialization, processing and marketing of marine and agricultural products.
Alimentos Deshidratados del Bajío, S.A. de C.V. (ADB)	100%	Manufacturing, sale and distribution of onion, garlic, vegetable and dehydrated products and holds the 48% of Fórmula Alimenticia, S.A. de C.V.
Almacenedora Herpons, S.A. de C.V. (Almacenedora Herpons)	100%	Construction, acquisition and organization of offices and warehouses for the storage of all kind of goods.
Hersea, S.A. de C.V. (Hersea)	100%	Tuna fishing.
Miel Carlota, S.A. de C.V. (Miel Carlota)	95%	Purchase and sale of honey and related products.
Hormel Alimentos, S.A. de C.V. (Hormel Alimentos)	50%	Purchase, sale, production, distribution, importation and exportation of canned foods.
McCormick de México, S.A. de C.V. (McCormick)	50%	Production of canned foods.
Sociedad de Desarrollo Agrícola H. P., S.A. de C.V. (SDA)	50%	Agricultural, agribusiness and forestry.
Barilla México, S.A. de C.V.	50%(1)	Purchase, importation, sale and distribution of pasta.

⁽¹⁾This company was acquired in January 2002 via the contribution of Ps58,874 and an additional contribution of Ps30,000 in November 2002.

The financial statements have been prepared by applying accounting principles generally accepted in Mexico, and include the following significant accounting policies:

Notes to the Financial Statements

consolidated and individual
GRUPO HERDEZ, S. A. DE C.V.

- a. The financial statements are stated in thousands of Mexican pesos (Ps) of constant purchasing power as of December 31, 2002.
- b. All significant intercompany transactions are eliminated for consolidation purposes. The individual financial statements of Grupher as of December 31, 2002 and 2001 are included, in which the investment in subsidiaries (eliminated from consolidation against stockholders' equity of the subsidiaries) is valued by the equity method. Goodwill is amortized over 15 years, and the negative goodwill derived from the Yavaros acquisition was amortized in 5 years, concluding in December 31, 2002.
- c. Marketable securities are stated at cost, which approximates market value.
- d. Inventories are expressed at the last purchase price or production cost, which does not exceed market. Cost of sales is determined by the last-in first-out method.
- e. Property, plant and equipment and the related accumulated depreciation are restated by applying the National Consumer Price Index (NCPI) in accordance with the Fifth Series of Amendments to Statement B-10 of the Mexican Institute of Public Accountants (MIPA).
- As from 2001, the company considered restating shipments coming in form abroad corresponding to Yavaros by applying the NCPI for the country of origin of the currency in which they were acquired, because the market value of those assets is more easily determined and complied with, given their characteristics.
- f. Income tax is reported as per the provisions of Statement D-4, revised, "Accounting Treatment of Income Tax (IT), Asset Tax (AT) and Employees' Statutory Profit Sharing (ESPS) by the full-scope method of assets and liabilities. That method, in principle, records deferred IT on all differences between the book and tax values of assets and liabilities.
- g. Seniority premiums to which employees are entitled upon termination of employment after 12 years of service, in accordance with the collective labor contract, are recognized as expenses for the year in which the corresponding services are rendered, through contributions to an irrevocable trust fund, based on actuarial studies.

The aforementioned plans are calculated based on the projected unit credit method. Below is a summary of the main financial data for said plans at December 31, 2002 and 2001:

	December 31,	
	2002	2001
Projected benefit obligation	(Ps 51,640)	(Ps 46,833)
Plan assets at market value	9,511	5,826
Unamortized prior service cost	20,528	22,990
Unamortized variation in assumptions and actuarial adjustments	5,914	566
Projected net liability	(Ps 15,687)	(Ps 17,451)
Accumulated benefit obligation	(Ps 40,556)	(Ps 16,300)
Unamortized transition liability (asset)	Ps 24,869	(Ps 1,150)
Net cost for the period	Ps 7,685	Ps 6,788

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The transition liability (asset) is amortized by the straight-line method over the average remaining useful lives of the employees expected to receive the benefits approximately 16 years.

Other compensations based on length of service to which employees may be entitled in the event of dismissal or death, in accordance with the Federal Labor Law, are charged to income in the year in which they become payable.

h. Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in such currencies are stated at the Mexican peso equivalents resulting from applying the year-end rates. Exchange differences arising from fluctuations in the exchange rates between the dates on which transactions are entered into and those on which they are settled, or the balance sheet dates, are charged or credited to income.

i. The gain or loss on net monetary position represents the effects of inflation, as measured in terms of the NCPI, on monthly net monetary assets and liabilities during the year.

j. The capital stock, subscription premiums and retained earnings represent the value of these items in purchasing power at the end of the year, as measured in terms of the NCPI.

The premium on share subscription represents the difference between the payment for subscribed shares and the nominal value of those shares.

k. The gain or loss from holding nonmonetary assets represents the amount by which the increase in the restated value of these assets, applying specific costs, exceeded or fell short of inflation, measured in terms of the NCPI.

l. Net income per share is determined based on the weighted average of shares in circulation in accordance with Statement B-14 issued by the MIPA.

m. Statement B-4, "Comprehensive Profit" went into effect as from January 1, 2001. This statement requires the different items comprising capital earned (lost) over the year to be shown in the statement of changes in stockholders' equity under the "comprehensive profit" caption.

Comprehensive income for the years ended December 31, 2002 and 2001, is analyzed as follows:

	December 31, 2002			
	Retained earnings	Deficit in the restatement of capital	Minority interest	Comprehensive income
Net income	Ps 142,052		Ps 136,204	Ps 278,256
Loss from holding nonmonetary assets		(Ps 79,050)	(3,905)	(82,955)
	Ps 142,052	(Ps 79,050)	Ps 132,299	Ps 195,301

Notes to the Financial Statements

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GRUPO HERDEZ, S. A. DE C.V.

December 31, 2001

	Retained earnings		Deficit in the restatement of capital		Minority interest		Comprehensive income	
Net income	Ps	138,900			Ps	117,959	Ps	256,859
Loss from holding nonmonetary assets			(Ps)	74,500		(2,043)		(76,543)
	Ps	138,900	(Ps)	74,500	Ps	115,916	Ps	180,316

NOTE 2 - FOREIGN CURRENCY:

At December 31, 2002, the exchange rate was Ps10.44 to the US dollar (Ps9.17 at December 31, 2001). At February 6, 2003, date of issuance of the audited financial statements the exchange rate was Ps10.87.

The information which follows is expressed in thousands of US dollars, since this is the currency in which most of the company's and subsidiaries' foreign currency transactions are carried out.

At December 31, 2002 and 2001, the company and its subsidiaries had the following US dollar monetary assets and liabilities:

	Consolidated				Grupher			
	2002		2001		2002		2001	
Assets	US	12,605	US	4,642	US	662	US	679
Liabilities		(34,159)		(47,238)		(1,000)		
Net short position	(US)	21,554	(US)	42,596	(US)	338	US	679

At December 31, 2002 and 2001, the company and its subsidiaries had the following position with respect to nonmonetary assets of foreign origin or whose replacement cost can be determined only in dollars:

	Consolidated				Grupher			
	2002		2001		2002		2001	
Inventories	US	4,129	US	2,297				
Machinery and equipment		79,476		75,360	US	1,938	US	1,938
	US	83,605	US	77,657	US	1,938	US	1,938

Following is a summary of items exported and imported by the subsidiaries (excluding machinery and equipment for their own use), together with the related income and expenses, in dollars:

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GRUPO HERDEZ, S.A. DE C.V.

	Year ended December 31,			
	2002		2001	
Exports of merchandise	US	30,937	US	27,420
Imports of finished goods		(5,725)		(6,573)
Technical services and royalties		(8,591)		(7,864)
Interest expenses		(3,150)		(5,617)
Royalty income		753		723
Net	US	14,224	US	8,089

NOTE 3 - ANALYSIS OF BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

Following are shown the main balances and transactions with the parent company and subsidiaries at December 31, 2002 and 2001.

Accounts receivable (payable):	Consolidated				Grupher			
	2002		2001		2002		2001	
Hechos con Amor, S.A. de C.V.	Ps	13,247	Ps	46,519	Ps	22,817	Ps	12,735
Créame, S.A. de C.V.		2,814		63				
Herdez Corporation		1,395		1,360				
Herimex Corporation				3,918				
Empresas H. P., S.A. de C.V.		139		2,836				
Yavaros						6,032		5,605
Herdez						(8,487)		(11,477)
Corporativo Cinco, S.A. de C.V.		(950)		(5,659)				
McCormick and Company, Inc.		(14,515)		(17,869)				
Herflot, S.A. de C.V.		1,251		(4,073)				
Herflot Tijuana, S.A. de C.V.		2,165		4,304				
Barilla Alimentare		(3,958)				506		
Others - Net		11,843		20,042		(1,433)		529
	Ps	13,431	Ps	51,441	Ps	19,435	Ps	7,392

Notes to the Financial Statements

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GRUPO HERDEZ, S. A. DE C.V.

Year ended
December 31,

	Consolidated				Grupher			
	2002		2001		2002		2001	
Transactions:								
Sale (purchase) of fixed assets	Ps	963	(Ps	9,776)				
Interest gain		775		1,720	Ps	463	Ps	587
Interest expense		(6)				(6)		(217)
Service income		6,392		6,696		3,821		4,146
Rent expense		(41,574)		(40,718)				
Contract work income		3,402		4,146				
Administrative services		(111,030)		(104,599)				
Royalty				(52)				
Freight services		(18,357)		(15,579)				
Packaging services		(11,469)		(11,315)				
Purchase of labels		(70,962)		(53,465)				
	(Ps	241,866)	(Ps	222,942)				

At December 31, 2002 and 2001, the above mentioned totals represent 5% of overall income and overall assets.

NOTE 4 - ANALYSIS OF INVENTORIES:

December 31,

	2002		2001	
Finished goods	Ps	419,392	Ps	336,647
Work in process		13,537		14,089
Raw and packaging materials		185,470		173,975
Inventory in the hands of consignee		210,953		252,575
Spare parts		21,136		26,225
	Ps	850,488	Ps	803,511

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NOTE 5 - ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT:

	Consolidated		Grupher	
	2002	2001	2002	2001
Buildings	Ps 526,404	Ps 466,603		
Machinery and equipment	1,527,135	1,567,559	Ps 20,464	Ps 20,464
Furniture and fixtures	55,932	52,874		
Transportation and stowing equipment	56,452	53,735		
Electronic equipment	43,955	39,182		
Beehives	3,764	3,975		
	2,213,642	2,183,928	20,464	20,464
Less - Accumulated depreciation	(959,542)	(893,131)	(10,087)	(8,041)
	1,254,100	1,290,797	10,377	12,423
Land	212,775	190,738		
Constructions in progress, machinery in transit and advances to suppliers	267,292	275,998		
	Ps 1,734,167	Ps 1,757,533	Ps 10,377	Ps 12,423

At December 31, 2002, three vessels are being leased under operating leasing agreements. Lease payments for the first two ships are US\$377,157 and US\$270,844 for the third one. Payments are made on a quarterly basis, maturing in May of 2007 and 2010, respectively.

NOTE 6 - INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES:

Company ⁽¹⁾	Equity	Total	Goodwill
Consolidated subsidiaries:			
Herdez	100%	Ps 751,341	
McCormick	50%	310,586	
Yavaros	100%	82,671	
Grupo Búfalo	100%	94,103	Ps 106,840
ADB	100%	36,588	14,177
Almacenadora Herpons	100%	48,007	21,141
Miel Carlota	95%	22,796	18,321
Hormel Alimentos	50%	51,469	486
Hersea	100%	41,734	
SDA	50%	424	
Barilla Mexico	50%	127,980	
Associated companies		38,640	27,362
		Ps 1,606,339	Ps 188,327
Associated companies of the subsidiaries		Ps 9,730	Ps 66,295

⁽¹⁾The financial statements of these companies have been examined by external auditors.

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GRUPO HERDEZ, S. A. DE C.V.

NOTE 7 - BANK LOANS:

Bank loans at December 31, 2002 are analyzed as follows:

Maturity	Average interest rate	Consolidated	Gruper
2004			
Mexican pesos	9.42%	Ps 150,000	
Dollars	5.0%	28,186	
2007			
Mexican pesos	9.62%	543,000	Ps 100,000
Dollars	4.10%	156,590	
2008			
Dollars	4.18	146,150	
Total long term loan		Ps 1,023,926	Ps 100,000

Some loan agreements contain certain obligations for one of the subsidiaries. At December 31, 2002, the subsidiary is in compliance with those covenants.

NOTE 8 - FINANCIAL INFORMATION BY SEGMENT:

Group management issues internal financial information that is used as a base for evaluations and decision-making. Below is the information on sales made abroad, by geographical segment:

	December 31,							
	2002				2001			
	Mexico		USA		Mexico		USA	
Net sales	Ps	4,281	Ps	286	Ps	3,869	Ps	270
Operating income		475		17		452		2
Net income		134		8		138		1
Depreciation and amortization		109		7		97		7
EBITDA		584		24		549		9
Total assets		4,098		274		3,799		265
Total liabilities		2,156		144		1,925		134

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NOTE 9 - STOCKHOLDERS' EQUITY:

At the General Ordinary Stockholders' meeting held on March 19, 2002, it was agreed to pay dividends amounting to Ps71,765 (Ps69,722 nominal value).

At the General Ordinary Stockholders' meeting held on April 19, 2001, it was agreed to pay dividends amounting to Ps75,888 (Ps69,932 nominal value).

Dividends arising from the after-tax earnings account (CUFIN) are free from IT, while the excess is subject to 34% on the result of multiplying the dividend paid by the factor of 1.5151. The respective tax is payable by the company, and may be credited against the company's income tax for the period in which the distribution is made, or in the following 10 periods.

In capital reductions, the excess of capital stock over capital contributions, the latter restated in accordance with the procedures specified in the IT Law, are accorded the same tax treatment as dividends.

Below are the nominal value and restatement increment of stockholders' equity components other than capital stock:

	Nominal value		Restatement increment	
Retained earnings	Ps	1,267,924	Ps	1,199,913
Subscription premiums	Ps	43,572	Ps	137,462

During 2002 and 2001, the company repurchased 570,000 and 1,915,037 shares, respectively, of current shares which it had on the Mexican Stock Market for Ps2,217 (Ps2,216 nominal value) and Ps5,118 (Ps4,793 nominal value), respectively, which means that Ps571 (Ps570 nominal value) and Ps2,048 were reduced from the capital stock at December 2002 and 2001.

The capital stock subscribed and paid amounts to Ps422,314 plus a restatement increment of Ps356,667 to express it in Mexican pesos of purchasing power as of December 31, 2002, and is represented by 422,046,063 registered common shares with no par value.

NOTE 10 - INCOME TAX (IT), ASSET TAX (AT), EMPLOYEES' STATUTORY PROFIT SHARING (ESPS) AND TAX LOSS CARRYFORWARDS:

The company and its subsidiaries have been authorized by the Treasury Department to file consolidated IT and AT returns.

The IT and ESPS are not proportional to the results before these entries, due basically to permanent differences which mostly arise from recognition of the effects of inflation on different bases for accounting and tax purposes, nondeductible expenses and depreciation on revaluation values.

As a result to the amendments to the Income Tax Law in effect as from January 1, 2002, the IT rate (35%) will be reduced annually as from 2003 until it reaches the nominal rate of 32% in 2005.

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GRUPO HERDEZ, S. A. DE C.V.

At December 31, 2002 and 2001, the main temporary differences on which deferred income tax is recorded are as follows:

	2002		2001	
	Consolidated	Grupher	Consolidated	Grupher
Estimation for valuing assets and liabilities	Ps 32,908		(Ps 21,660)	
Inventories	(864,049)		(751,967)	
Fixed assets - Net	(639,406)	(Ps 5,615)	(694,673)	(Ps 6,625)
Advance expenses	(197,989)		(74,330)	
Excess in cost of shares	92,044	91,583	78,287	78,287
Royalties payable abroad	20,820		19,316	
Unamortized tax losses	265,877	5,285	288,523	10,788
Others			(423)	
	(1,289,795)	91,253	(1,156,927)	82,450
IT rate	34%	34%	35%	35%
	(438,530)	31,026	(404,924)	28,857
Recoverable AT	43,915	1,885	3,296	647
Deferred tax	(394,615)	32,911	(401,628)	29,504
Deferred tax arising from reinvested tax profit	(4,378)		(25,350)	
Total deferred taxes	(Ps 398,993)	Ps 32,911	(Ps 426,978)	Ps 29,504

The company determined tax losses of Ps5,285 and Ps10,705, respectively, for the years ended December 31, 2002 and 2001.

The company incurred in individual AT of Ps1,885 in the year ended December 31, 2002.

NOTE 11 - COLLATERAL GRANTED:

At December 31, 2002 and 2001, Grupher and a subsidiary are guaranteeing bank loans of certain subsidiary and affiliated companies amounting to Ps1,248,924 and Ps1,165,040, respectively.



HERDEZ

Information for Shareholders

Share Information:

BMV code: Herdez

ADR Level I: 25:1

Market: OTC

Symbol: GUZBY

Cusip: 40050P109

Closing share price as of:

December 31, 2001: \$3.06

December 31, 2002: \$4.08

Depository Bank

The Bank of New York

Investor Relations

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Church Street Station

New York, N.Y. 10286-1258

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