



THE ESSENTIAL (AND NOT SECRET) RECIPE OF MEXICAN CUISINE

2019 ANNUAL REPORT | GRUPO HERDEZ



WHAT WE ARE

To dispel all doubts, we must first make three things clear. The first is that this is not the recipe that your grandmother refuses to give you to ensure that you will call her more often. The second is that in order to prepare it you must feel respect and admiration for Mexico and its roots. And the third – perhaps the most important – is that there are no secret ingredients; everything you will see here is all that is needed to create a **Mexican food company with a 100-year history**. The recipe for the creation of Grupo Herdez.

OUR RECIPE

INGREDIENTS:

ECONOMIC IMPACT

A clear view of who we are and where we want to go



SOCIAL IMPACT

Millions of open and loving hearts



ENVIRONMENTAL IMPACT

Commitment to our planet



ABOUT THIS REPORT

Condiments and spices to taste



INSTRUCTIONS:

Mix everything together in a country like Mexico, full of flavors and traditions. Make sure that the vision includes profitability and strategic potential. When adding the millions of hearts make sure that you do not forget **honesty, teamwork, confidence, and focus on results**. Keep in mind the sustainability of the recipe for future preparations. Finally, place in the oven at a low temperature for 105 years, and you will obtain a company like Grupo Herdez, which represents, enriches, and forms an intrinsic part of Mexican cuisine.

- ⌚ *Preparation time: 105 years*
- 👑 *Difficulty: High*
- ♥ *Servings: One for each heart*



MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

TO ALL WHO MAKE OUR RECIPE POSSIBLE:



We live in a world in motion, marked by constant and inevitable changes, more and more vertiginous day by day; featured by changes that are often unexpected, of a global and external nature, and that require a different reaction in accordance with each new challenge. The complexity of the times we are currently experiencing, among the most challenging that humanity has ever faced, forces us to stop in our tracks and distance ourselves from our fellow humans in order to protect the health of everyone. We could never have imagined such a time, but I can with full confidence say that once more, Mexicans will show the fortitude and solidarity for which we are known.

Grupo Herdez is facing this crisis with the strong conviction that we are prepared, bolstered by our own history across more than a century, with a portfolio of products of the highest quality and by the invaluable efforts of a dedicated group of workers and managers.

In this context, I want to express my appreciation to all those persons who are members of the Grupo Herdez family, including all our partners in the Company's supply chain, for their commitment toward ensuring the delivery of our products to Mexican homes despite all obstacles.

Our motto "Con toda confianza..." (With all confidence...) is not an empty phrase. It is a saying that implies a great responsibility, since we are a part of the daily lives of millions of Mexicans who have placed their confidence in us and in our work for more than 100 years. Our recipe would not be possible without the dedication of our workers, the collaboration of partners and suppliers, the confidence of our clients and shareholders and, of course, the preference of our consumers.

Background and results

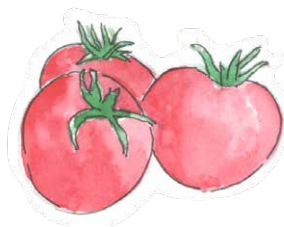


CONSOLIDATED
NET SALES
MXN 22.4 BILLION

The year 2019 was a period marked by uncertainty and volatility, due in large part to geopolitical and trade conflicts that caused the global economy to record its lowest growth in the decade. In Mexico we experienced a slowdown in consumption.

Despite this environment, our consolidated net sales were MXN 22.4 billion, a 6.9% increase compared to the previous year.

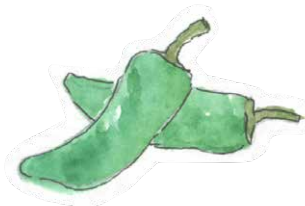
Net sales in the Preserves segment grew 6.7% to MXN 17.6 billion, with mayonnaise, vegetables and pasta being the categories with the best performance. The Frozen segment showed the same growth tendency, with net sales of MXN 3.2 billion, an increase of 8.1% above 2018, mainly driven by the growth recorded in convenience and traditional store sales. At the end of 2019, this segment represented 14% of the Group's total sales. As for the Exports segment, we achieved an increase of 6.5% in sales, for a total of MXN 1.6 billion.



OPERATING INCOME
MXN 3.0 BILLION

Consolidated gross margin in 2019 was 38.5%, a reduction of 80 basis points compared to the previous year. This result was due to an unfavorable sales mix in the Preserves segment, consisting of a greater amount of sales of canned tuna. Operating income for the year was MXN 3.0 billion, with a margin of 13.3%, one percentage point lower than 2018, due mainly to the impact from sales mix and the one-time charge of MXN 60 million for uncollectible receivables in the Frozen segment.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), including other non-cash items, was MXN 3.8 billion in the year, while the margin increased by 20 basis points to 17.0%, benefiting from the adoption of IFRS16 – Leases. Excluding this effect, the margin for the year would have contracted by 130 basis points.

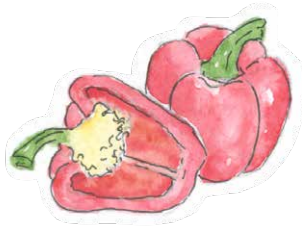


MEGAMEX SALES
+4.0%

The stake in the results of associated companies was MXN 776 million, 15.3% below 2018 results, affected especially by the performance of our businesses in the United States. In that market, MegaMex sales increased by 4.0% for a total equivalent to MXN 13.8 billion, driven by the good performance of the guacamole, home-style salsa and taco sauce categories. However, the operating margin decreased by 3.5 percentage points, ending at 12.1%, due to the significant increase in the price of avocados. Finally, the net income saw a decrease of 14.8% to MXN 1.5 billion.

As for the Group's net consolidated income, it decreased by 8.2% to MXN 2.2 billion.

At year-end, the Company's cash position was MXN 2.3 billion, 14.0% above the previous year, as a result of having bought back 22.2 million of our own shares, capital expenditures for MXN 886 million, and the acquisition of the Cielito Querido Café and Moyo brand for a combined investment of MXN 480 million.



CAPITAL EXPENDITURES
MXN 2.2 BILLION

Our leverage is at a very healthy level, which gives us the financial flexibility needed to take advantage of opportunities in the future. Our total debt at the end of 2019 was MXN 8.9 billion, that is, MXN 2.2 billion more than in 2018. The Company's debt was integrally denominated in Mexican pesos, 63% at a fixed rate.

The consolidated net debt-to-EBITDA ratio stood at 1.7 times, while the net debt-to-equity ratio was 0.36 times for the year.

Social and environmental commitment

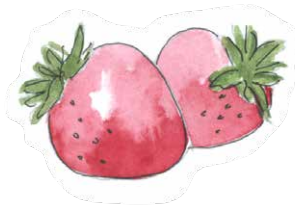
In 2019 we decided to align our sustainability strategy with seven of the Sustainable Development Goals that are a part of the 2030 Agenda of the United Nations for the eradication of poverty, protection of the planet, and an improvement of the lives and future of people all over the world.

Therefore, in 2019 we inaugurated our first seven lactation rooms for the purpose of conciliating family life and the workplace in a practical and satisfactory manner. This is a project that seeks to recognize and acknowledge the valuable contribution of women to all industries, and to pave the way to a closure of the gender gap in the workplace.

In the framework of Saber Nutrir, social responsibility program, our actions in this regard have benefited more than 700 families in 28 communities. The nutritional follow-up carried out this year to 69 children from 41 families who have been assisted since the program began has revealed that, compared against the base line established in 2013, malnutrition levels have decreased by 10% and obesity by 5%. These represented a small but relevant step toward the achievement of better and healthier nutrition and consequently a better life.

Our efforts in alliance with the Pro Mazahua foundation continue to bear fruit. In 2019 we instituted 25 productive projects with the participation of 73 families. The Mazahua communities are now marketing tomatoes, nopal, strawberries, poultry and sheep as a result of these projects, and those families have now doubled their monthly income.

Our initiatives for the planet have won First Place in the ranking of the 20 Mexican Companies with a High Environmental Commitment in 2019 in the Empresas Verdes (Green Companies) website, and fifth place in the Corporate Reputation Business Monitor's Social Responsibility and Corporate Governance ranking. We can proudly affirm that 63% of our energy comes from clean sources; that we recycle approximately 75% of the residues we generate; that we managed to store 76 million liters of rainwater; that our tuna fishing fleet operates in one of the most regulated zones of the world; and that we have invested more than MXN 30 million in environmental programs.



WE INSTITUTED 25 PRODUCTIVE
PROJECTS WITH PRO MAZAHUA
FOUNDATION

This year, continuing our movement Por un mundo más vivo (“For a healthier world”), more than one thousand volunteers were added to the task force dedicated to the cleanup of nine beaches in Mexico, representing 302 kilometers of coastline, for a total of 657 kilometers of coastline and 23 beaches since 2018. We also collected 60 tons of seaweed and 2,888 kilograms of waste. And, in our continuous passion to promote the culture of recycling, we installed – as we have in previous years – can collection centers in various locations across the country.

Sustainability has always been present in Grupo Herdez strategic planning process. We have traveled a long road in this quest, with tangible results and a positive impact. We are well aware that many things remain to be carried out on this front, and that our leadership in this endeavor must also be reflected in the environment.

To all of you who are taking an active role in these recipes, I wish to express my most sincere gratitude and appreciation.

Innovation

In 2019, we expanded and strengthened our portfolio with the incorporation of two great brands, loved and respected in the country because of their innovative and very Mexican ways of doing business: Cielito Querido Café and Moyo.



WE INCORPORATED TO OUR
PORTFOLIO CIELITO QUERIDO
CAFÉ AND MOYO

Unstoppable in the innovation of products and with a great desire to continue in the exploration of the many shades of Mexican gastronomy, we launched, through McCormick, a new generation of jams and gelatin with chili, earning the leadership in the Mexican jam category with a 45% market share.

On another note, Café Blasón renewed its image, to emphasize even more its 100% Mexican roots and to thereby render homage to the coffee-growing regions of the country.

Likewise, the Wholly Guacamole brand continued to lead in innovation for the guacamole category in the United States. In that regard, our products Wholly Avocado, Simply Avocado Dip and Spread, Wholly Guacamole Snack Cups and Herdez Taqueria Street Taco Sauces were heralded in the “Best New Product” category in the Editors’ Picks section of the specialized publication Progressive Grocer.



THANK YOU FOR THE SUPPORT
TO OUR EXTENDED FAMILY OF
COLLABORATORS, CLIENTS, SUP-
PLIERS, PARTNERS, SHAREHOL-
DERS AND CONSUMERS

The future

We are facing a future with major challenges. In this respect, I know that with determination, optimism and concentration we will emerge stronger than ever. Because our experience and our heritage are also promises for the future.

It will become clear that this report will be our best tool to communicate our awareness that we are a fundamental piece for creating value – the value that we bring to the dinner tables of families in our country and beyond our borders. Moreover, it is the ideal tool with which to recapitulate and show everything we have created and to feel pride in what we have accomplished.

Across more than 100 years Grupo Herdez has demonstrated its resilient nature, which is one of the Group's greatest virtues. In these uncertain times, brought about by a health contingency whose repercussions can still not be clearly understood or seen, I feel certain that our strengths will prove to be a competitive advantage, and that those same adversities will translate into new opportunities. With the support of our collaborators, clients, suppliers, partners, shareholders and consumers, we will manage to maintain the continuity of our operations and the availability of our products at the dinner tables of Mexico, the country that is our home and that needs and trust us for the years to come.

Con toda confianza... México saldrá adelante.
with all confidence, Mexico will overcome.

A handwritten signature in black ink, appearing to read 'Héctor Hernández-Pons Torres'.

Héctor Hernández-Pons Torres

Chairman of the Board and Chief Executive Officer

April 20, 2020



CORPORATE PROFILE

GRI: 102-4

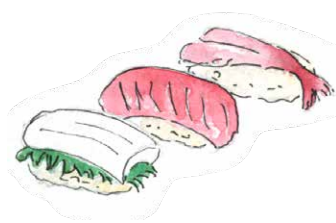
So, first things first: We are Grupo Herdez, **the leading company in the processed food sector in Mexico, and one of the main players in the ice cream category in the country.** We are also the fastest growing Mexican food company in the United States.



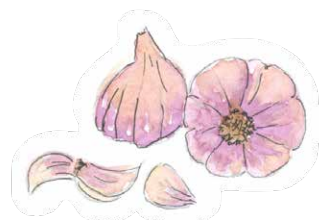
Presence in
21 countries

Close to 10,000 workers
+400 suppliers

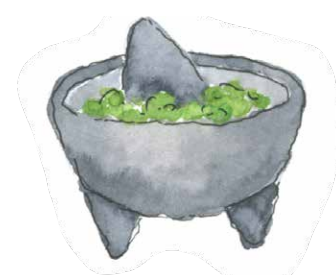
14 plants



25 distribution
centers

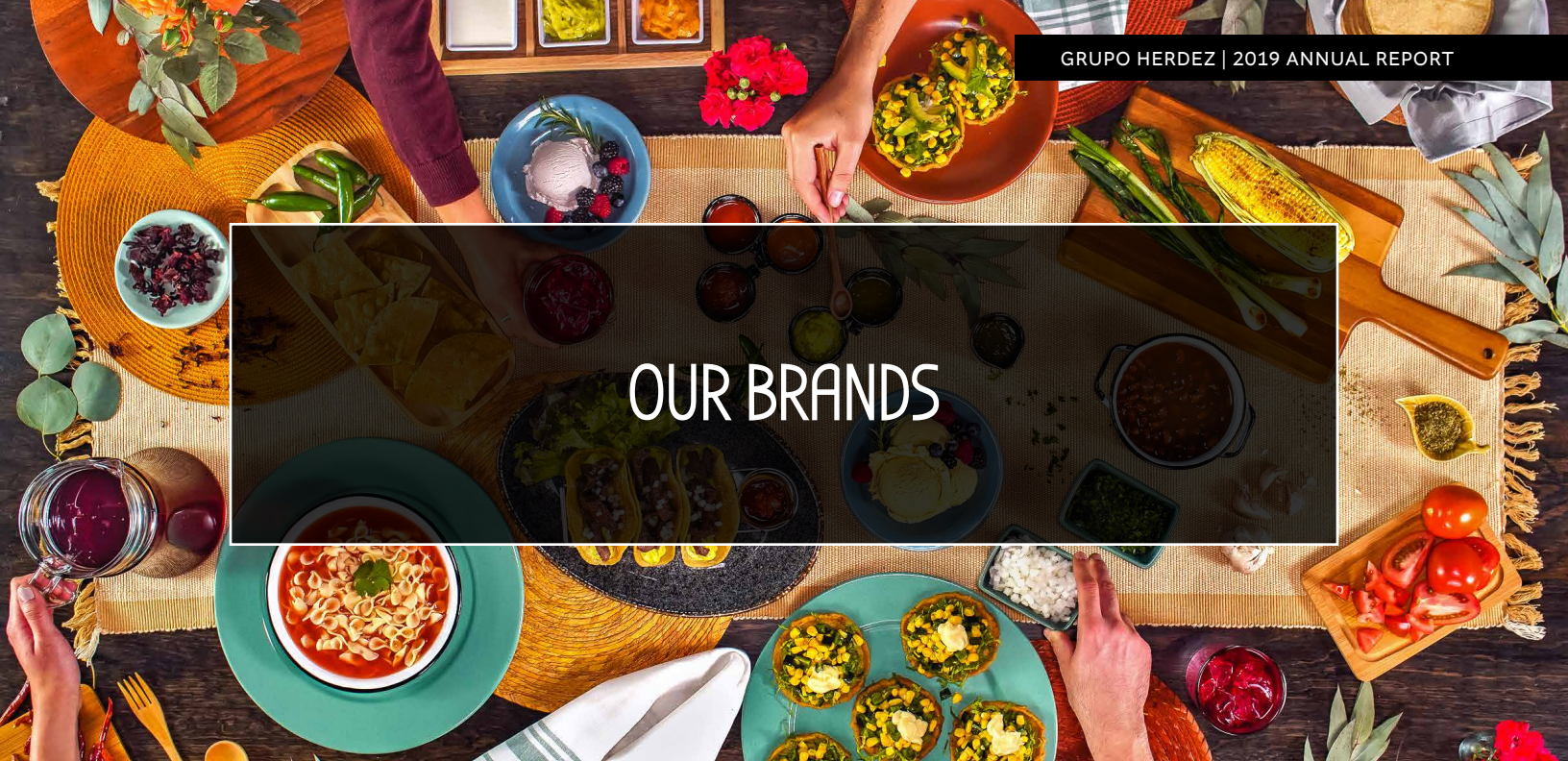


3 tuna
vessels



+600 stores





OUR BRANDS

GRI: 102-2



We have a diverse portfolio of products: coffee, home-style sauces, organic products, honey, ice cream, marmalades, mayonnaise, mole, mustard, pasta, spices, tea, tomato puree, and canned tuna, among other food products, marketed **under a great portfolio of brand names**, such as:

OUR BRANDS IN MEXICO



OUR BRANDS IN THE UNITED STATES



OUR DISTRIBUTION AGREEMENTS IN MEXICO



INNOVATION SNACK: FIRST EDITION OF THE MERCADITO GRUPO HERDEZ

This year, with a very Mexican format, we dished out an enormous bite of what we are to Grupo Herdez consumers, collaborators, and the media, fortifying our corporate reputation and highlighting 12 of our brands in Mexico.

INGREDIENTS:

- Making Parque Mexico our venue on May 18 and 19.
- An enthusiastic Grupo Herdez team that shared everything we have by means of cooking classes, garden workshops, and product tastings.
- The presence of 12 of our brands and Fundación Herdez.
- Communication strategy through the media and social networks.

REVIEWS BY HAPPY DINERS:

- More than **1,900** attendees; **14** hours of product activations; **26** activities, **+400** kits delivered.
- **403,000** persons reached and more than **630 new followers** on Facebook.
- **More than 11 million people** were reached through public mentions, publications, and social networks.
- **88%** of the attendees discovered the offers for Grupo Herdez products and brands.



We are happy to share our references and good reviews: According to the Corporate Business Reputation Monitor (MERCOS, Monitor Empresarial de Reputación Corporativa), for the third consecutive year, we are one of the top **10 food companies in Mexico, occupying the fifth place**. Similarly, **we ranked 29th among the top-100 companies with the best reputation**, having advanced 22 positions with respect to 2018.

NEW ACQUISITIONS

IN THIS RECIPE THERE IS ALWAYS ROOM FOR MORE FLAVOR

In 2019 Grupo Herdez acquired the following brands, in order to maintain the Group's portfolio growth while preserving our gastronomic culture:



Cielito Querido Café, one of the most renowned Mexican brands in the coffee house chains, with **78 points of sale across Mexico**.



Moyo, a chain of home-style ice cream shops, with more than **100 stores in Mexico** and a presence in five countries.

The total investment made for these acquisitions **amounted to MXN \$480 million**. When combined with Nutrisa and Lavazza, we now have more than **600 sales locations** throughout the country under our operation.



IF YOU LIVE IN THE UNITED STATES, DON'T WORRY, A PART OF THIS RECIPE IS ALSO PREPARED THERE

Since 2009, the most delicious and innovative Grupo Herdez's products can also be enjoyed and recognized in the U.S. market through **MegaMex**, which is the association we have with Hormel Foods. In 2019 we recorded net sales of **MXN \$13.8 billion**, representing a **4% increase** in comparison to 2018.

This growth was accompanied by a **new corporate identity and purpose**: "Reimagining Mexican Flavor." Thereby, we reinforce our commitment to continue to **find new ways to share the best of our Mexican cuisine**.

We now have a logo that is full of meaning:

The tomato, pepper and avocado:
Are essential ingredients, rooted in the company's history of Mexican cooking.

The fork and the spoon:
Celebrate the meals we share — how family, friends, and food are passions that connect us all.

The blossoms:
Represent the world of new flavors and ideas MegaMex Foods explores every day.



MegaMex
F O O D S



One of the efforts that best tells the story of this new position is **Wholly Guacamole**, the number one guacamole brand sold in the United States for ten consecutive years. In 2019 we reinforced this position even more:

- **During the Super Bowl season, we placed advertisements reaching more than 193 million persons.** We coordinated two national commercials and placed advertisements in more than 30 publications. Who would not want to eat guacamole during the game?
- **Advertisements placement in high profile publications focusing on food, lifestyle, and business.** We also managed to advertise Wholly Guacamole in publications such as BuzzFeed, Reader's Digest, Food & Wine and US Weekly.
- **We amplified the "All Real. No Drama" campaign,** and by means of a press release and by contacting media outlets we obtained an unbelievable mention in Forbes.com.

Something that raises the power of a recipe is when others are aware of how delicious it is. That is why we feel so proud to have three of our products listed in the **2018 Editors' Picks** of the specialized publication **Progressive Grocer**, in the **Best New Consumer Product** category.

- **Wholly Avocado Simply Avocado Dip and Spread.**
- **Wholly Guacamole Snack Cups.**
- **Herdez Taqueria Street Taco Sauces.**

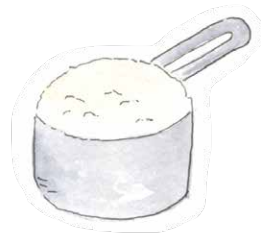
Stop whatever you're doing (unless you have a stove burner on) and join the collective applause.





CORPORATE GOVERNANCE

GRI: 102-16, 102-17, 103-1, 205-2



When all is said and done, our corporate governance is what has made us one of the most reliable companies in Mexico.

Proof of this is that in 2019 we were named by MERCO as one of the **100 companies with the best Social Responsibility and Corporate Governance in Mexico; the fifth-best in the food sector.**

This acknowledgment is an additional incentive for us to continue to work as we have for the last 105 years, with dedication, consciousness, and with economic growth always in mind, bringing the best of Mexican food to every family.

ORGANIZATIONAL PHILOSOPHY

OUR MISSION

To place quality foods, beverages, and products with ever-increasing prestige and value-added brands within the reach of the consumer.

OUR VALUES

Honesty, Focus on Results, Teamwork, and Confidence.

OUR VISION

Grupo Herdez aims to consolidate, grow and position itself as a leading company in the food, beverages and wellbeing industry, recognized for the quality of its products and for the effectiveness of its efforts, oriented toward ensuring the satisfaction of the needs and expectations of our clients and consumers within a framework of competitive service under strict criteria of profitability, strategic potential, and sustainability.



THE BOARD OF DIRECTORS

(IF THIS WAS A COOKING CONTEST, THEY WOULD BE THE JURY)

The Board of Directors is our highest governing body, which represents the company legally and has all the faculties necessary for acting on the operations related to the corporate purpose of the Company.

It is composed of nine members, including Mr. Héctor Hernández-Pons Torres, Chief Executive Officer and Chairman of the Board.

BOARD MEMBERS

Héctor Hernández-Pons Torres | *Chairman, [M] 1991*

Enrique Hernández-Pons Torres | *Vicepresident, [M] 1991*

Flora Hernández-Pons de Merino | *[M] 2005*

INDEPENDENT BOARD MEMBERS

Anasofía Sánchez Juárez Cardoze | *[M] 2019*

Michael Bernhard Jost | *[M] 2019*

Enrique Castillo Sánchez-Mejorada | *[M] 1992*

Eduardo Ortiz Tirado Serrano | *[M] 2003*

Responsible for labor practices

José Roberto Danel Díaz | *[EF] [M] 2003*

Chairman of the Corporate Practices and Audit Committees

Luis Rebollar Corona | *[M] 2004*

Responsible for environmental practices

[M] Member since

[EF] Financial Expert

The committees that form the Company's Corporate Governance are:

- *Audit Committee*
- *Corporate Practices Committee*
- *Risk Management Committee*
- *Energy Committee*
- *Ethics Subcommittee*

Governance Entities	Women			Men			Total members
	Less than 30 years old	30 to 50 years old	More than 50 years old	Less than 30 years old	30 to 50 years old	More than 50 years old	
Board of Directors	-	1	1	-	-	7	9
Auditing Committee	-	-	-	-	-	3	3 (100% independents)
Corporate Practices Committee	-	-	-	-	-	4	7 (50% independents)
Risks Management Committee	-	2	-	-	2	4	8
Energy Committee	-	1	-	-	1	8	10
Ethics Sub-committee	-	2	-	-	-	2	4

SENIOR MANAGEMENT

(THE PROFESSIONALS IN CHARGE OF THE RECIPE PREPARATION)



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

Enrique Hernández-Pons Torres |
Vicepresident of the Board of Directors and Deputy Chief Executive Officer

Gerardo Canavati Miguel |
Chief Financial Officer

Andrea Francesco del Rizzo |
Commercial Director

Pedro Gracia-Medrano Murrieta |
Human Resources Director

Enrique Hernández-Pons Méndez |
Aires de Campo Director

Estuardo Lárraga Martínez |
Supply Chain Director

Sergio Zardoni Galarza |
Planning and Associated Companies Unit Director

Juan Rodríguez Del Collado |
Food Service Director

We have several codes and policies in economic, social and environmental matters, in which we have established the guidelines for our employees as well as suppliers, in order to ensure their ethical behavior within and outside our facilities.

Codes and policies

We constantly update and stress the awareness of the policies by which we are ruled as a company through training, bulletins and meetings.



In 2019, **7,269 collaborators were informed** of the policies and procedures of the organization regarding fight against corruption.

Among those collaborators, **a total de 3,444 received specific training** in that subject. The nine members of the Board of Directors were also informed in regard to the policies and procedures in the fight against corruption.

We also carried out the following actions:

The Code of Ethics was updated and revised, and training was carried out:

- 201 training sessions were held for 2,452 employees, for a total of 2,963.5 hours of training.
- We launched the “Non-Negotiable” campaign, in which specific guidelines of the Code of Ethics were discussed every 15 days, and repeated with videos on the dining room screens of our facilities.
- We modified the guideline related to “Illegal payments/Anti-bribery” and sent it to all our collaborators by email, and posted it on boards in 16 facilities.

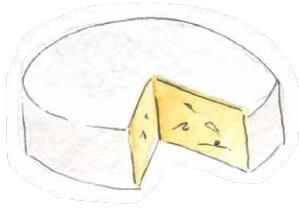
We implemented the Culture of Legality program:

We delivered **7,932 hours of training in Culture of Legality** to our collaborators, of which 62%⁽¹⁾ of these hours were endorsed by the Mexico United Against Crime Association (México Unido Contra la Delincuencia).

We updated and communicated the Illegal Payments and “No to Bribery” Policy:

- The policy is now identified as “Illegal Payments and Anti-bribery Policy”. This change was notified to our collaborators, and it was disseminated through the Company’s email system.
- We stressed the new content of this policy to our collaborators with info-graphs through the Company’s email system.

(1) As of July 2019.



We took the “General Law of the National Anticorruption System and General Law of Administrative Responsibilities” course:

- It was delivered by the firm Protiviti and was attended by seven employees from the Internal Auditing Department.

We attended an investigation workshop on harassment claims:

- It was carried out by the Association of Certified Fraud Examiners (Asociación de Examinadores de Fraude Certificados) and attended by one of our collaborators from the Internal Auditing Department.

We attended the “Ethics and Professional Responsibility” course:

- We were represented by two collaborators from the Internal Auditing Department and it was carried out by the Mexican Institute of Fiscal and Business Development (Instituto Mexicano de Expansión Fiscal y de Negocios).

Additionally, we have an anonymous complaint system available 24/7. This is monitored by an external provider and evaluated by the Internal Auditing team and the Department of Human Resources. All this is for the purpose of avoiding any type of behavior that is in violation of our codes and policies.

- 01 800 toll-free number (01 800 CONFIANZA – 01800 266342692).
- E-mail (confianza@herdez.com).
- Suggestions boxes.

During 2019, we received 22 complaints and 153 reports:

- 45% of these were realized through the 01800 CONFIANZA toll-free number
- 95% of them have been processed and the remaining 5% are in the process of being evaluated, since they were received during the last quarter of the year.



SUSTAINABILITY STRATEGY

GRI: 102-12, 102-21, 102-40, 102-47

In Grupo Herdez we are committed to the social and environmental needs of the communities in which we operate, and we strive to make our programs and projects oriented toward sustainability.

Therefore, our Sustainability Strategy is focused on **People, the Community and the Planet**.

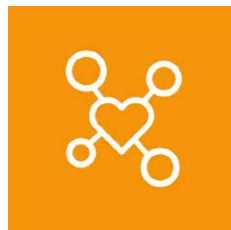
Since 2012, we have endorsed the **United Nations Global Compact**, the greatest international initiative in regard to business sustainability. Therefore, we have adopted and promoted the *Ten Principles of the United Nations Global Compact* in relation to human rights, labor, the environment, and the fight against corruption.

Since we are members and promoters of this initiative, our sustainability strategy is aligned with **7 of the 17 Sustainable Development Goals** that are a part of the 2030 Agenda of the United Nations, whose purpose is the **eradication of poverty, protection of the planet and the attainment of prosperity**.



PEOPLE

We are focused on the promotion of inclusion, diversity and equal opportunity by creating quality jobs.



COMMUNITY

We are committed to nutritional health by means of a healthy diet and the promotion of healthy habits.



PLANET

We are adopting measures to ensure the proper management of resources and ecological balance.



This is an ambitious strategy: we are trying to enhance the purpose of our brands, reducing costs and risks, generating more value for our groups of interest, working for the rights of all men and women, investing in a more sustainable world, and continuing to show the confidence for which we are known.

During the latest years, we have experienced an expansion toward new horizons with the acquisition of the businesses and brands that now compose our Frozen segment.

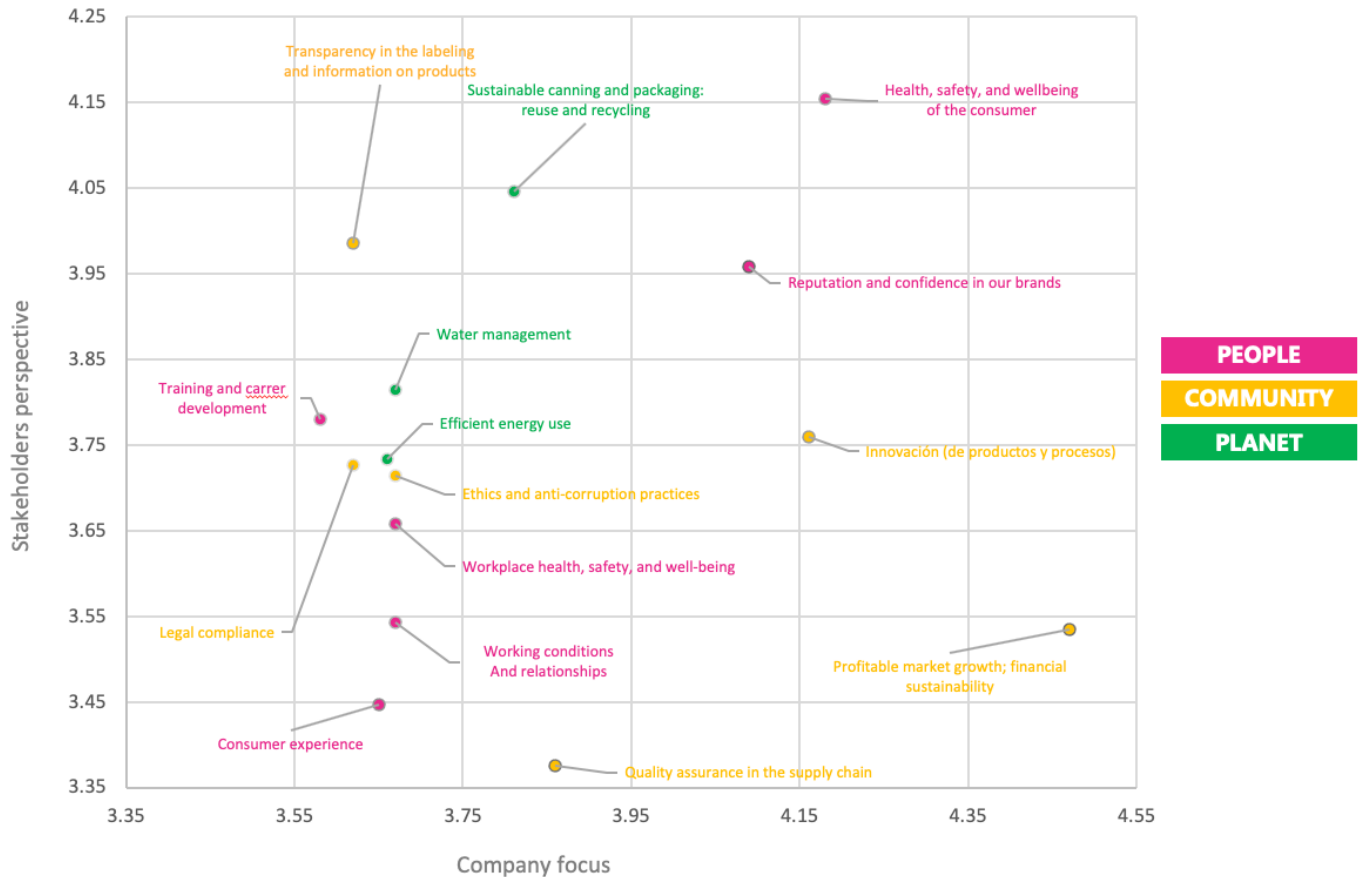
This, along with the evolution of the interests and expectations of our groups of interest, forces us to rethink the material matters in order to identify the key and relevant issues for Grupo Herdez.

For these reasons, this year we have updated our Materiality Assessment for the purpose of maximizing the creation of value of our reports. As a result, the findings were integrated into our sustainability strategy to thereby improve the Group's management and performance.

To accomplish this, key and relevant themes for Grupo Herdez were identified in social, environmental, and corporate governance matters, being a part of our main groups of interest's concerns and expectations.

- Consumers
- Clients
- Suppliers
- Shareholders
- Collaborators





We have identified the following material topics:

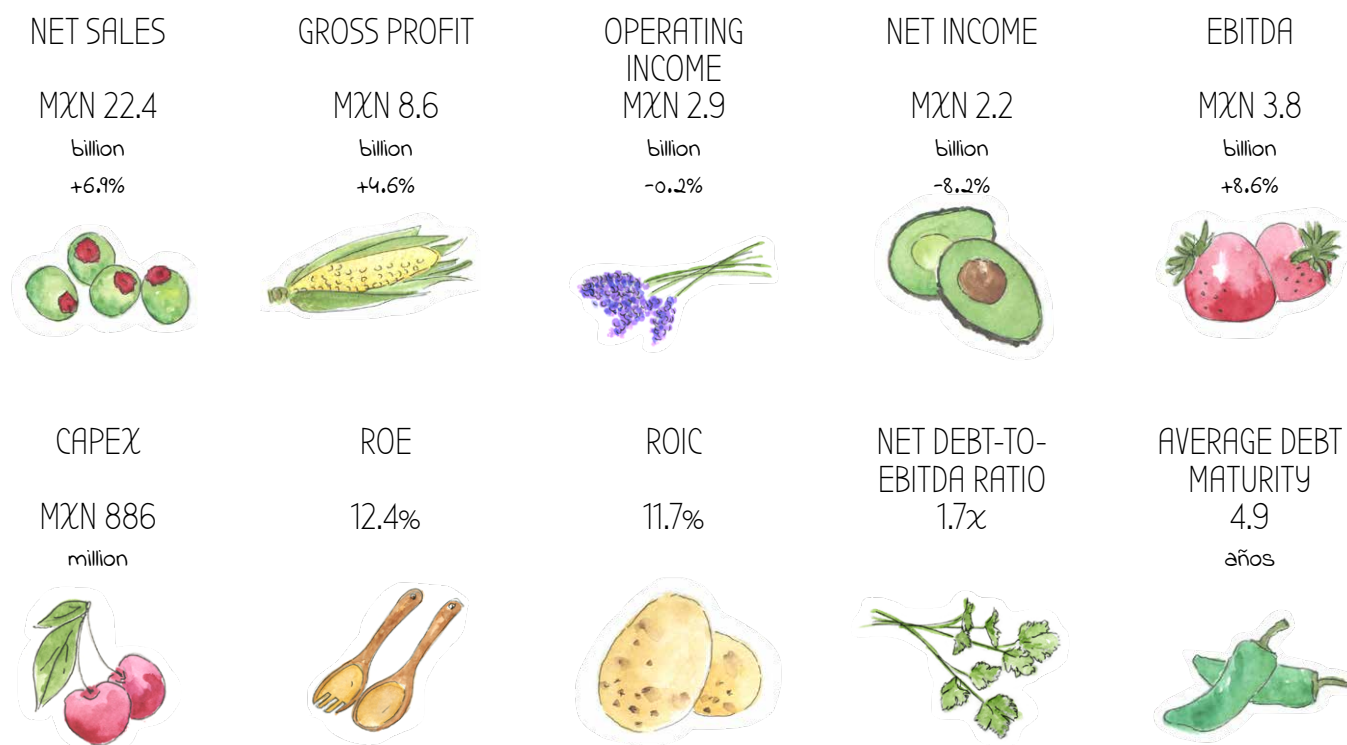
CRITICAL TOPICS

1. Health, safety, and wellbeing of the consumer
2. Reputation and confidence in our brands
3. Innovation (products and processes)
4. Sustainable canning and packaging; reuse and recycling

STRATEGIC TOPICS

1. Profitable market growth; financial sustainability
2. Water management
3. Efficient energy use
4. Ethics and anti-corruption practices
5. Workplace health, safety, and well-being
6. Working conditions and relationships
7. Quality assurance in the supply chain
8. Transparency in the labeling and information on our products
9. Training and career development
10. Legal compliance
11. Consumer experience

FINANCIAL HIGHLIGHTS



* Percentage changes between 2019 and 2018

	2019	Margin	2018	Margin	Var (%)
Net Sales	22,420		20,971		6.9%
Gross Profit	8,633	38.5%	8,250	39.3%	4.6%
Operating Income	2,990	13.3%	2,997	14.3%	-0.2%
Consolidated Net Income	2,224	9.9%	2,424	11.6%	-8.2%
EBITDA	3,818	17.0%	3,517	16.8%	8.6%
Total Assets	33,081		29,640		11.6%
Total Debt	8,859		6,638		33.5%
Total Liabilities	14,834		11,390		30.2%
Shareholders' Equity	18,248		18,250		0.0%
Net debt-to-EBITDA ratio	1.7		1.3		
Net debt-to-Equity ratio	0.36		0.25		

* Figures are stated in mexican pesos.

(1) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization and other non-cash items.

(2) Total debt = Interest-bearing debt, including leases.

MANAGEMENT DISCUSSION AND ANALYSIS



THE PURPOSE OF THE FOLLOWING REPORT ON THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS IS TO HELP THE READER UNDERSTAND GRUPO HERDEZ OPERATIONS AND RESULTS.

Grupo Herdez is the leading company in the processed foods sector and one of the main players in the ice cream category in the Mexican market, as well as the fastest-growing company in the Mexican Food market in the United States. This report covers the three Grupo Herdez business segments: Preserves, Frozen, and Exports. The results pertaining to MegaMex in the United States are recorded in the item Equity Investment in Associates, in the income statement.

The main growth opportunities for all the Company's segments are:

- Increase product and brand household penetration
- Gain market share
- Reduce distribution gaps
- Innovate based on consumer understanding and market segmentation
- Increase traffic in retail stores

Beginning January 1, 2019, the Company adopted IFRS 16 – Leases, which establishes the principles for the recognition, measurement, presentation and disclosure of leases to be now revealed as right-of-use assets and lease liabilities. Similarly, the adoption of the guidelines affected the depreciation and financial cost of the Group beginning on the above-mentioned date. As a consequence, the Group's financial statements were impacted by the adoption of this accounting guideline.

In 2019, consolidated net sales reached a record amount of MXN \$22.4 billion, 6.9% above the previous year, mainly as a combined result of price increases and greater volume sales.

PRESERVES



Net sales grew 6.7% to **MXN \$17.6 billion**. The categories with the best performance were **mayonnaise, vegetables, and pasta**, which derived from **a greater household penetration and the generation of added value** in various categories through the launching of differentiated formats. **The wholesale, self-service, and price club channels** surpassed the average growth rate of our portfolio.

FROZEN



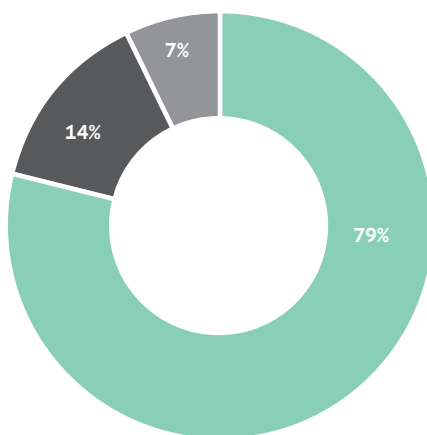
The segment's net sales rose to **MXN \$3.2 billion**, 8.1% above 2018, mainly driven by growth in the two main sales channels (conventional and traditional).

EXPORTS



Export sales rose to **MXN \$1.6 billion**, 6.5% above 2018, which was the result of price increases and higher volumes.

Sales mix (%)



- Preserves
- Frozen
- Exports

PRESERVES REPRESENTED 79%, FROZEN 14% AND EXPORTS 7% OF THE TOTAL NET SALES IN THE YEAR.

Gross margin was **38.5%**, a decrease of 80 basis points compared to the previous year. This as a result of an unfavorable sales mix, mainly in the Preserves segment that derived from greater sales of canned tuna and vegetables.

In the Frozen segment, gross margin remained practically unchanged at **64.1%**, while gross margin for the Exports segment decreased by 50 basis points, to **13.7%**.

Operating expenses stood at **25.8%** in relation to net sales, practically the same expense level observed in the previous year, being affected by an increase of 80 basis points in operating expenses in the Frozen segment in the period. This is explained by the replacement of transportation equipment and freezers.



done

During the year, the Company recorded Other Income of MXN \$143 million, reflecting the net effect of (i) the sale of a tuna vessel and (ii) a one-time expense of \$60 million related to uncollectible receivables in the Frozen segment.

Operating margin for the year was **13.3%**, one percentage point less than for 2018. This was the combined effect of Preserve sales mix and higher expenses recorded in the Frozen segment.

The **Net financing expenses** rose to **MXN \$612 million**, 24.6% above the previous year, explained principally by the higher interests paid, mostly deriving from the adoption of the new IFRS and an exchange rate loss of MXN \$34 million.

The equity investment in **associated companies** totaled **MXN \$776 million**, 15.3% less than in 2018. This is explained by the higher avocado price, as well as by an increase in the Don Miguel cost of sales.

The consolidated net income decreased by 8.2% to MXN \$2.2 billion, while the majority net income decreased by 12.3%.

EBITDA for the year was **MXN \$3.8 billion**, while the EBITDA margin expanded by 20 basis points to 17.0%, as a result of the adoption of the IFRS 16 –Leases. Without this effect, the EBITDA margin would have contracted by 130 basis points compared to the previous year.

Capex totaled **MXN \$886 million** in the year, mainly for maintenance works, the acquisition of freezers, and improvements carried out at the Company's plants.

Cash flow during the year was **MXN \$2.7 billion**, \$581 million more than in 2018, which allowed Capex for an amount of \$886 million, fulfillment of financial commitments, payment of dividends, and the buy-back of MXN 22.2 million Grupo Herdez's shares. Considering these last two items, the total return to shareholders in the year was 7.9%.

At year-end, the **Company's cash position was MXN \$2.3 billion**, an increase of 14.0% over 2018. The **Company's total debt at the end of the year was MXN \$8.9 billion**, MXN \$2.2 billion more than the figure recorded at the end of 2018. The debt was denominated in Mexican pesos, with 63% at a fixed rate and the remaining 37% at a floating rate, including derivatives.






The **consolidated net debt-to-EBITDA ratio stood at 1.7 times**, while the net debt-to-Equity ratio was 0.36 times.



GRI: 103-1

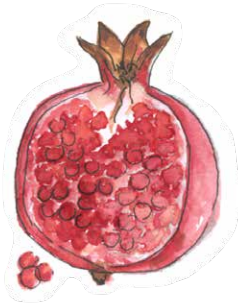
In order to keep the attention of our consumers, that is, with their hearts open to receive all that we have to offer, we operate under a culture of innovation, which is one of the five pillars of the Company's strategy.

Our core strategies:

- 
 1. To maintain and form partnerships through the development of market intelligence.
- 
 2. To implement innovation and transactional technologies that allow the acceleration of communication processes with the consumer.
- 
 3. To promote sustainable management, prioritizing water conservation and efficient use of energy.
- 
 4. To support and generate growth through the development of talent and investment in infrastructure.
- 
 5. To form responsible corporate citizenship that promotes social development initiatives.

Innovation represents almost 40% of the growth of brands in the food and beverage industry (Nielsen, 2018), however only 14% of launches achieve successful penetration and only 7% generate an incremental volume of sales for their category (Kantar, 2019).

That is why we have an **Innovation Department**, whose purpose is to pinpoint the consumer needs that have not been covered, to thereby capitalize those opportunities and generate growth in our portfolio of products and brands.



Before counting on those consumers, we must get to know them

We strive to achieve a deep knowledge of our consumers and to understand their present and future needs, in order to create products of value that will fortify our growing portfolio.

To accomplish this, we carried out a **consumer workshop in 2019**, in a process known as “co-creation,” where more than 1,500 ideas were generated and led to the development of 138 conceptual prototypes, which were tested with consumers. From this process, we obtained 29 ideas with a high potential to expand volume in 11 of the Company’s categories.

INNOVATION SNACKS

Tell us what you crave, and we will come up with the innovation that best suits your palate. How about pasta prepared by experts? Or toast with mildly spicy jam? Or maybe ice cream with a touch of Bailey’s? Whatever you may decide, we will have it!



#JuevesBarilla

This initiative was intended with the purpose of **increasing our penetration in the pasta consumption market through Barilla**. It consisted of presenting new recipe ideas every Thursday, which is the day of the week with the greatest consumption of pasta. (Of course, now, every day can be a Thursday!)

INGREDIENTS:

- Two master **#JuevesBarilla** dinners in spectacular locations in Mexico City.
- Social media contest mixed with a product purchase to win double tickets to the dinners.
- Media and influencers’ participation.
- Storefront exhibitions.

REVIEWS BY HAPPY DINERS:

- In the first dinner (April to May) we reached **2,221,592 people** in our social networks and received **8,015 enthusiastic comments**.
- In the second dinner (July to August) we reached **20,128,249 people** in our social networks and received **61,548 comments**. This surpassed our expectations!



Marmalade and gelatin with chili

A mildly hot snack! We launched a **new line of marmalade and gelatin powder with chili**, combining the best of sweet and spicy, to please the palates of our millennial consumers.

INGREDIENTS:

- **Innovative flavors** for our marmalades (mango and habanero chili, pineapple and pasilla chili, red fruits and morita peppers) and gelatin powder (mango and watermelon with chili).
- A launching event for gelatin powder with the #GelatinasConChilitoMcCormick hashtag and a **Spicy Picnic** for marmalades with the #MermeladasConChile hashtag.

REVIEWS BY HAPPY DINERS:

- Reviews by happy diners have reaffirmed our leadership in the marmalade category in Mexico, with a **45% share of the market** in volume and value.
- We became pioneers in Mexico regarding innovation in marmalades and gelatin flavors, with these launches.





La Lechera platform of ice cream and popsicles, and the launching of Baileys frozen products

During the year we invested in the innovation of our frozen products' flavors in alliance with **La Lechera and Baileys brands**, which we transformed into ready-made desserts in ice cream and in coated and stuffed popsicles.

INGREDIENTS:

- **Iconic flavors** such as key lime pie, dulce de leche and Irish cream.
- **A platform of recipes** in which La Lechera frozen products are used, encouraging the consumers of sweets to try them at home.
- **For the La Lechera platform**, a digital strategy with “influencers” and for Baileys, **advertisers in the traditional media**.

REVIEWS BY HAPPY DINERS:

- **1 million digital impacts** and 289 thousand thru plays on Facebook, which generated a majority of positive comments.
- **More than 450 thousand views** in the Frozen Key Lime Pie and Strawberry Milkshake recipes from La Lechera.
- The 1.9 Baileys ice cream was categorized as an In & Out product in the Sam's Club chain and, given its good performance, will remain on the market in 2020.
- Among our impulse products, the Baileys Iced Popsicle already has a **4% share of sales** of Bailey products.



DIGITAL INNOVATION SNACKS

We are convinced that innovation in **food goes beyond creating new flavors**. This “digital snacks” come as a result of our endeavor to disprove the idea that food cannot be enjoyed through our phone screens. Let anyone who does not begin to drool when he sees a chocolate-coated popsicle on a monitor throw the first stone (or spoon).



E-commerce of organic foods

Our brand of organic foods came up with one of the most innovative ideas in our recipe book: the first successful attempt to sell organic products directly to our consumers through e-commerce.

Now the best organic products grown in Mexico can arrive directly at your table with a couple of clicks!

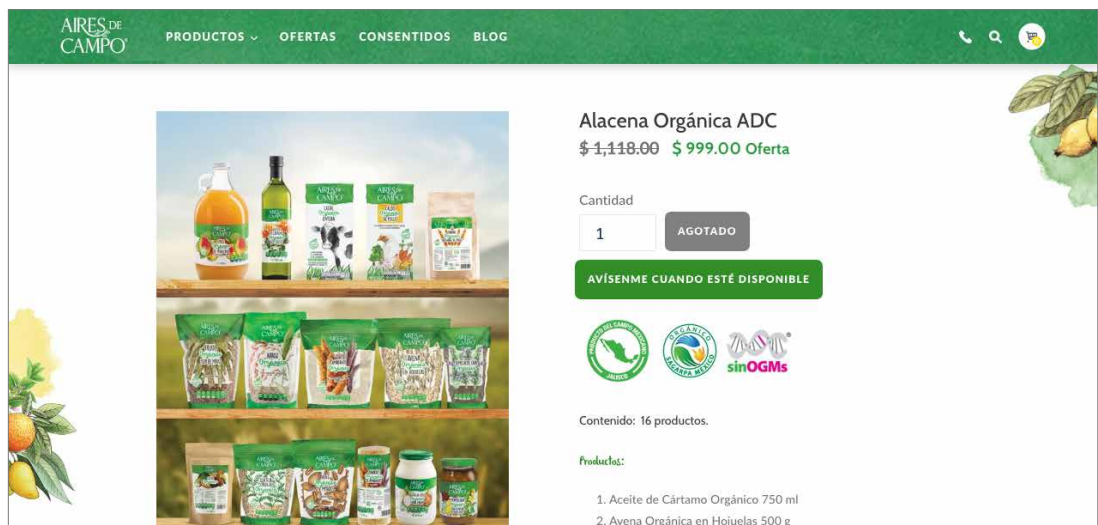
INGREDIENTS:

- A dedicated team of guardians and ambassadors of Mexico's farmlands.
- A wide portfolio of organic products, including **two organic foods pantry packages**.
- The development of a **100% sustainable** packaging material, with cushioning for the boxes (to prevent bruising of the product) made of corn fiber that dissolves in water.

REVIEWS BY HAPPY DINERS:

- **More than MXN 570,000 in sales** and a month-to-month **growth in sales of 20%** since February*.

**Consolidated results in the Preserves segment.*





The Nutrisa app

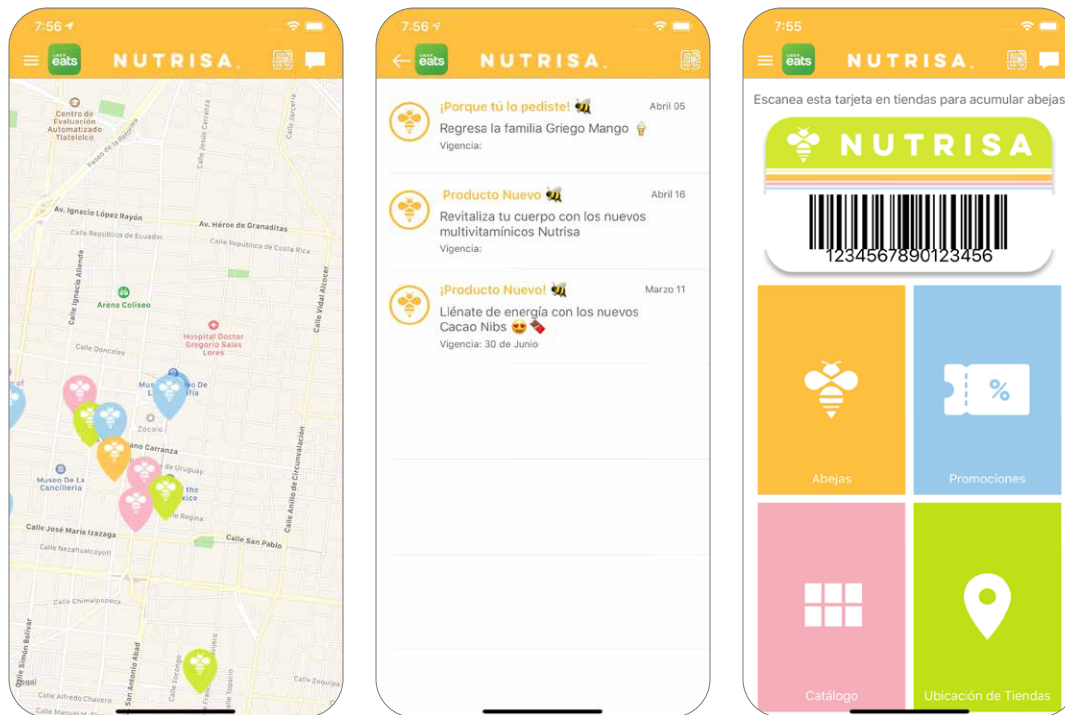
The **new Nutrisa app** has it all to become the main course. With this new app, we hope to reinforce the brand loyalty of our Nutrisa fans, expecting them to find in it everything needed to keep loving the brand unconditionally.

INGREDIENTS

- A social media strategy for awareness between our **+736,000 fans on Facebook and +36,000 followers on Instagram**.
- Great discounts and promotions.
- **A loyalty program** linked to the app. Five Nutrisa bees to win a free ice cream!

REVIEWS BY HAPPY DINERS:

- An average of **9,500 downloads of the app per month**, surpassing our expectations by 80%.
- **53,544 organic** downloads of the app. It became the app of the day!
- **43%** of the users who registered are currently active users, well above the 30% average for the industry. Full bellies and a happy hearts!





HEALTH AND SAFETY IMPACTS OF PRODUCTS

GRI: 103-1, 416-1, 417-1



Grupo Herdez has a **Research and Development Department**, which is responsible for the development of healthy, nutritious, and safe products of the highest quality, that fulfill the needs of our clients and consumers.

To ensure this is accomplished we have a **Quality and Safety Management System** therefore 100% of our brands are certified under the FSC22K standard, in accordance with client and domestic requirements, such as the Federal Commission for Protection Against Sanitary Risks (COFEPRIS, Comisión Federal de Protección contra Riesgos Sanitarios) and the U.S. Food and Drug Administration (FDA) in the case of exports to the United States.

Additionally, **the labels on all our products comply with the applicable regulations in the country of final destination**, since the label is the main way of communicating the consumers of the nutritional information of each product, including the contents; the origin of its components; the safety instructions; and the best way to dispose of or recycle the packaging.

In the case of Mexico, the label is designed in accordance with:

- Regulations for the Sanitary Control of Products.
- NOM-050-SCFI-2004: Commercial Information; the Official Mexican Standard for the General Labeling of Products.
- NOM-051-SCFI/SSA1-2010: The Official Mexican Specifications for the Labeling of Prepackaged Food and Non-alcoholic Beverages – Commercial and Sanitary Information.



Gluten-free month

This is what we could call a necessary inclusion because no one should be deprived of an occasional plate of pasta. We have chosen May to promote the knowledge and enjoyment of our gluten-free line.

INGREDIENTS:

- An **e-commerce** campaign with some clients.
- Greetings messages to influencers, lifestyle media, and gluten-sensitive Mexican celebrities.
- Event with 20 influencers in the **Forever Vegano** restaurant.

REVIEWS BY HAPPY DINERS:

- We obtained **one printed article, two online articles, and 83 mentions** in social media. Unforgettable!
- We reached **1,896,411 readers**, with a **return on investment of 405%**. A well done job!





WORKFORCE



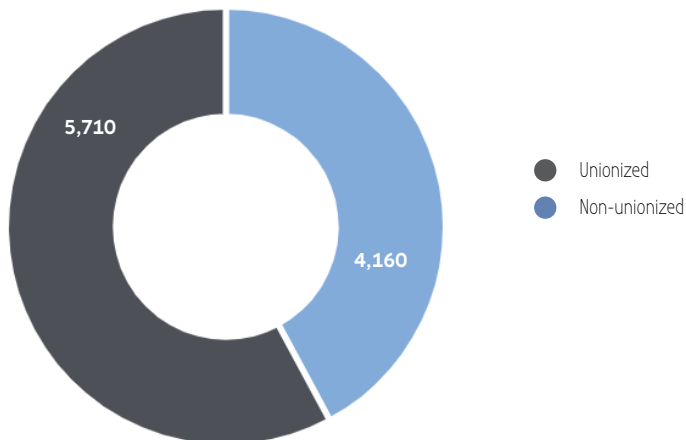
GRI: 103-1, 102-8, 102-41, 401-1, 405-1

One of the main things uniting our recipe is our collaborators, the people responsible for keeping Grupo Herdez in the forefront as a market leader for more than 100 years.

We, in return, strive to propitiate a **workplace that promotes wellbeing, safety, and the development of their personal and professional capabilities**. We do this by generating training and development programs, continuous evaluations and feedback, recognizing their skills, acknowledging the collective accomplishments of the organization, and promoting a culture of harmonious and ethical work.

Our organization is composed of **9,870 collaborators**, 58% of whom are affiliated to a collective labor contract.⁽¹⁾

Employees by collective labor contract

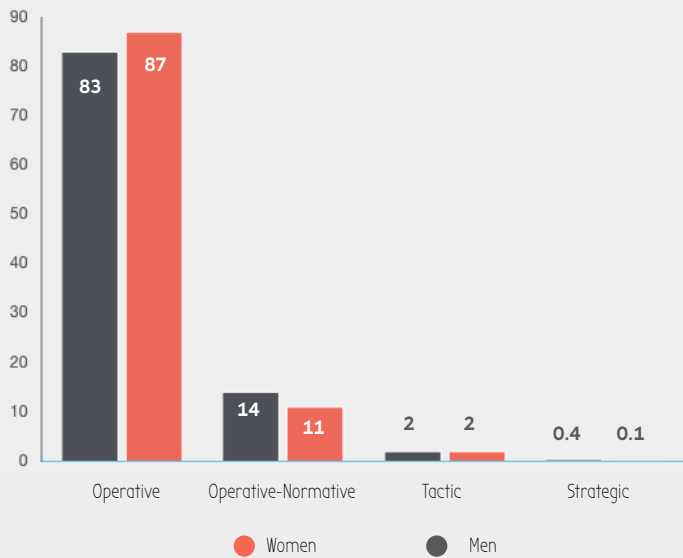


(1) The total of collaborators does not include the latest Grupo Herdez acquisitions: Cielito Querido Café and Moyo.

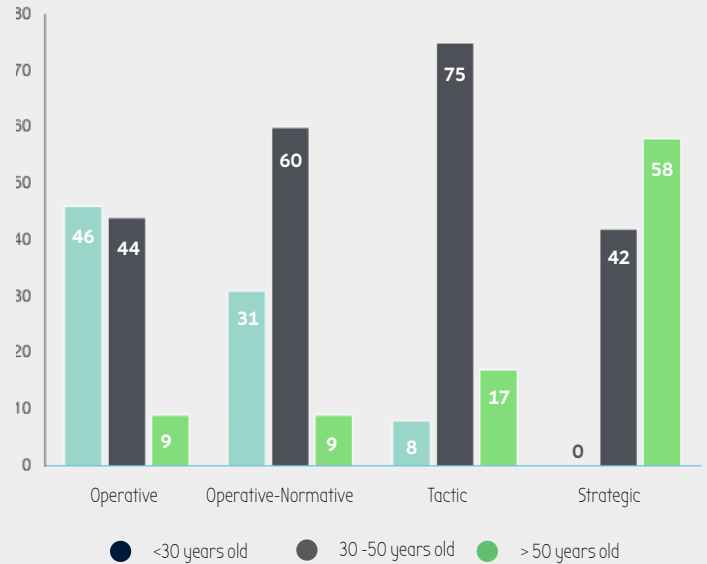
In Grupo Herdez we do not have part-time workers.

The distribution of collaborators by labor category, type of contract, age group, and location⁽²⁾ was as follows:

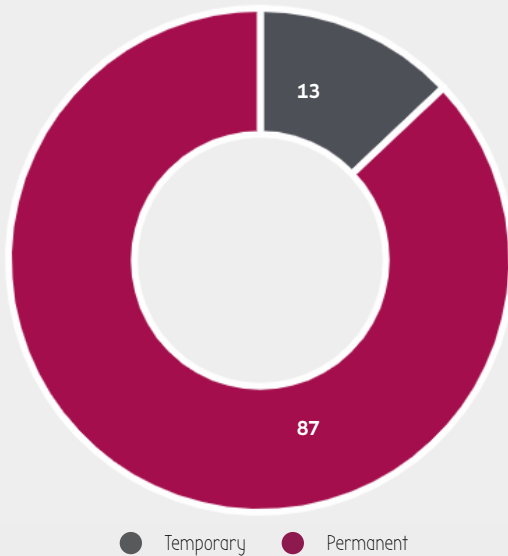
Employees by labor category (%)



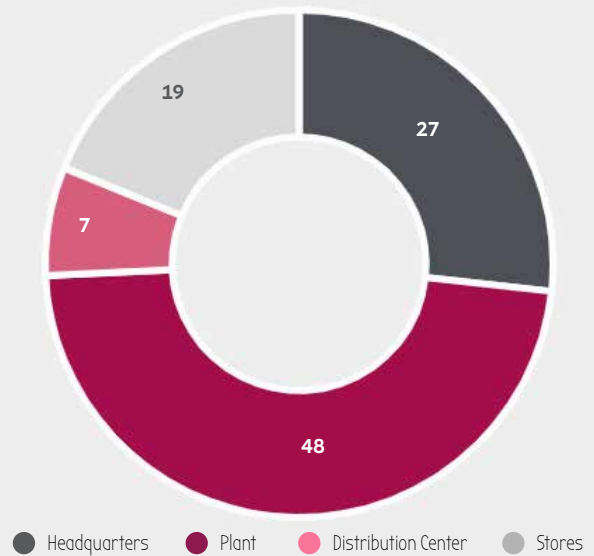
Employees by age group (%)



Employees by type of contract (%)



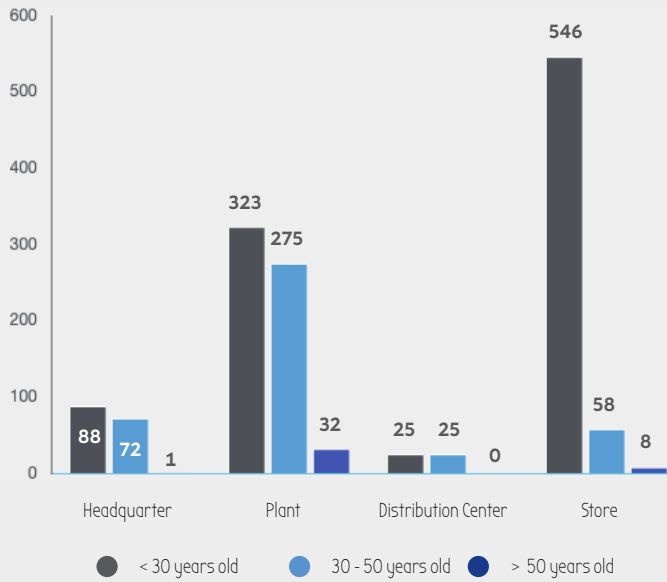
Employees by region (%)



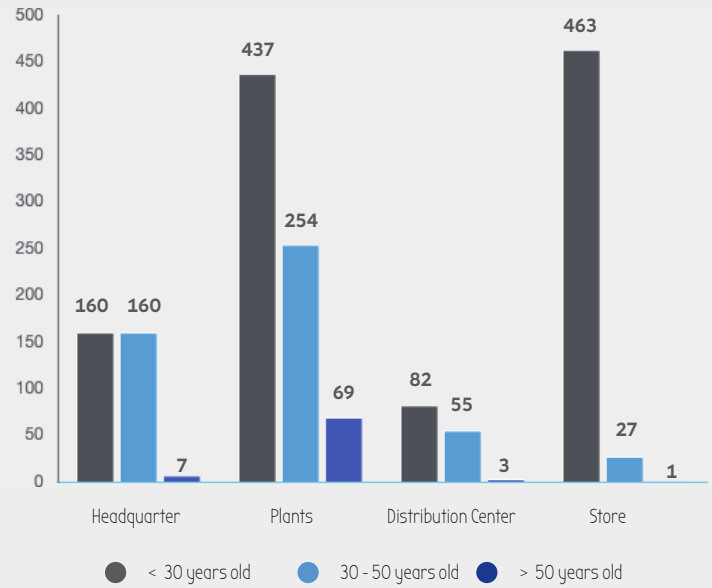
(2) Location: Place with significant Grupo Herdez operations: tuna fishing vessels, distribution centers, offices, plants, and stores in Mexico.

In 2019, our total turnover in personnel was 18%, 19% for men and 18% women, with 3,171 hires and 1,822 departures of personnel.

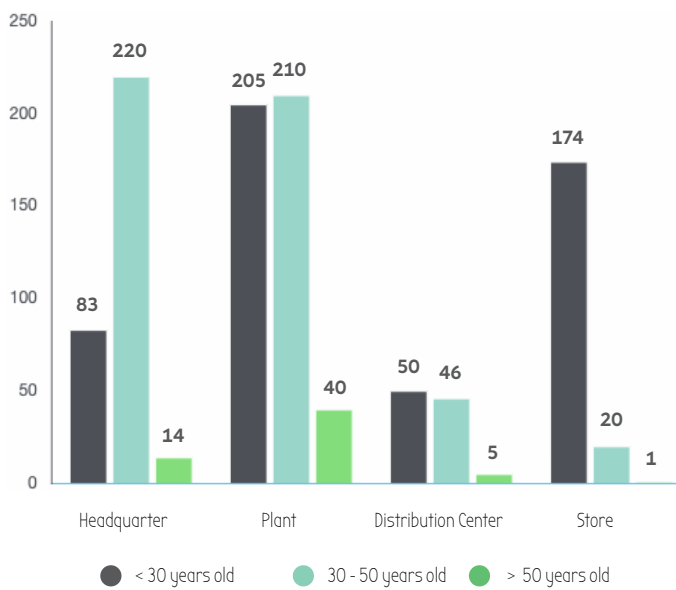
Employee hires: Women



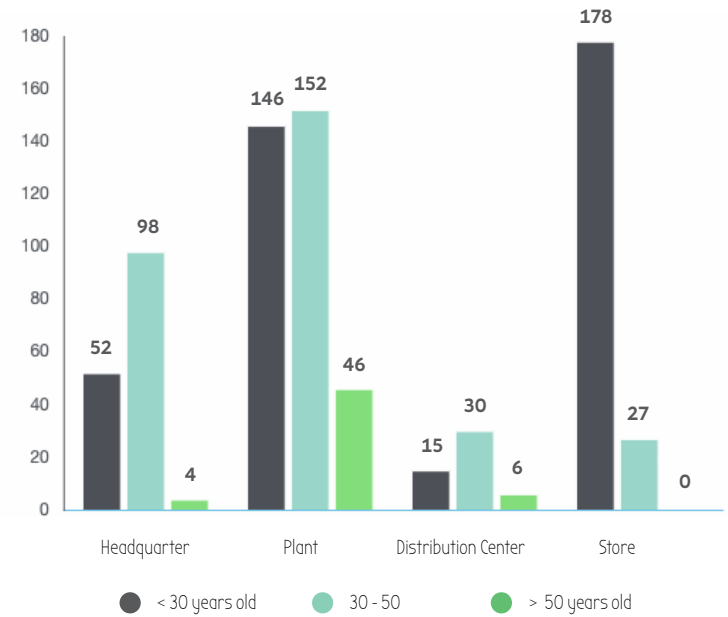
Employee hires: Men



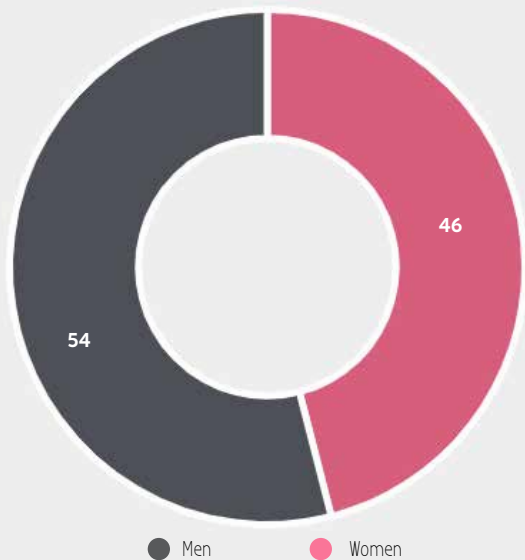
Turnover: Men



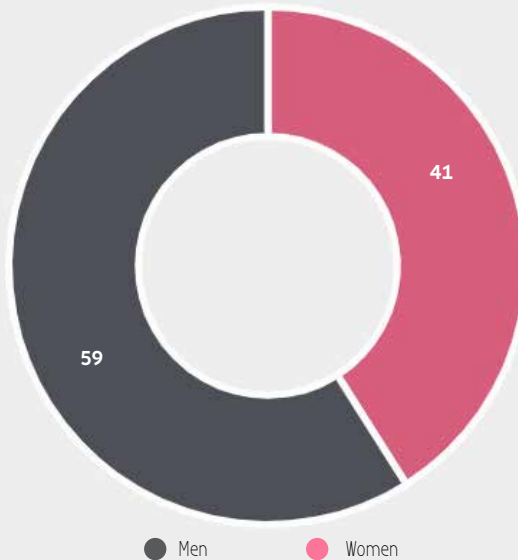
Turnover: Women



Hires (%)



Turnover (%)





DIVERSITY AND INCLUSION

GRI: 102-8, 405-1



In Grupo Herdez we have a **Gender Equality Policy**, in which we have established a firm commitment to the promotion of an **inclusive and diverse environment in which everyone feels valued, respected and enabled to make decisions.**

This way, we have created an environment of inclusion in which we value human differences and give equal opportunities to every person regardless of gender, race, religion, age, nationality and condition.

We feel very proud that, at the end of 2019, **43% of our employees were women and 57% were men.**

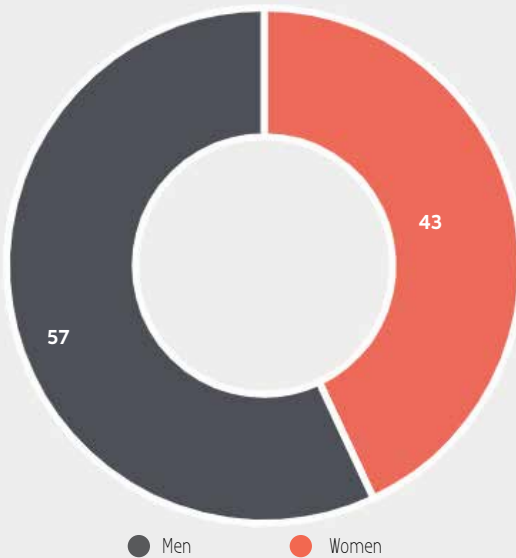
For more information on our Policy of Gender Equality, visit:

<https://grupoherdez.com.mx/wp-content/uploads/2018/09/ENG-GENDER-EQUALITY-POLICY.pdf>

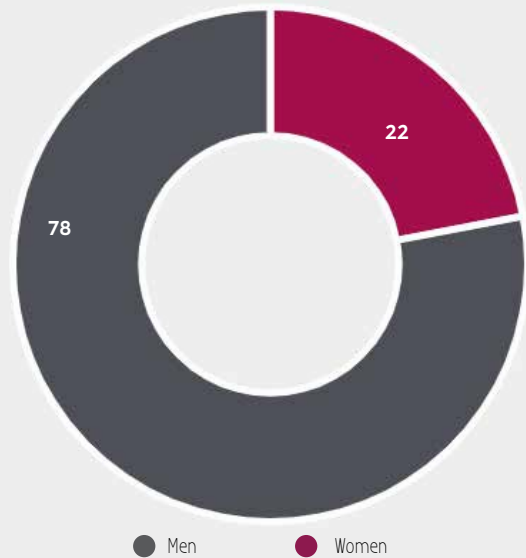
Workforce

Gender	Total
Men	5,599
Women	4,271
Total	9,870

Collaborators by gender (%)



Board of Directors (%)



As for the nine Board Members, 22% are women and 78% are men.

In accordance to our commitment to gender equality, and in pursuance of our goal of improving the working conditions of women, in order to obtain a better performance and a lower rate of absenteeism by our female employees, we reinforce the importance of breastfeeding opening lactation rooms.

A MOTHER'S SECRET INGREDIENT

In Mexico, only 1 out of 10 women are able to exercise the right to breastfeed their children. **For this reason, we have opened our first seven lactation rooms** in which our female employees can extract and store their breast milk, so they can take it to their babies after work hours.

This project includes the installation of a lactation room for each of our locations, including corporate offices and plants, for a total of 12 lactation rooms.

Our lactation rooms meet the *Mexican Social Security Institute* (IMSS, Instituto Mexicano del Seguro Social) guidelines and of the United Nations Infancy Fund (UNICEF). These lactation rooms are hygienic private spaces of easy access, and designed to be used by one user at a time.



Since 2017, we have also been a member of *Alianza Éntrale* (Éntrale Alliance), an initiative promoted by the *Mexican Business Council* (Consejo Coordinador Empresarial), consisting of more than 100 businesses, chambers of commerce and institutions, with the main purpose of promoting the inclusion of people with disabilities in the workforce.

PARENTAL LEAVE

SOMETIMES SOME INGREDIENTS MUST BE TAKEN OUT FROM THE STOVE AND ALLOWED TO SETTLE.

As a part of the maternity and paternity leave established in the *Mexican Federal Labor Law* (LFT, Ley Federal del Trabajo), Grupo Herdez granted **147 parental leaves in 2019** (73% to women and 27% to men). From these totals, 78% of the women and 82% of the men returned to their jobs.



WORKPLACE WELL-BEING

GRI: 401-2, 401-3



With a view toward ensuring the well-being of all our employees, we provide social benefits that exceed those established by the *Mexican Federal Labor Law* (LFT, Ley Federal del Trabajo):

- Life insurance
- Public health services
- Insurance coverage for disability or illness
- Maternity and paternity leave
- Retirement plans
- Stock options plan

Other benefits include:

- Medical insurance
- Medical check up
- Weight control
- Nutritional counseling
- Flexible work hours
- Days off (additional to those established by the Law)
- Marriage dowry
- Holidays on Children's Day,
- Mothers' Day and New Year's Day.
- Lactation rooms



OCCUPATIONAL HEALTH AND SAFETY

GRI: 403-3, 403-4, IP-5

DO NOT RUN WITH A KNIFE IN YOUR HAND!

In our **Industrial Safety Policy**, we commit to guaranteeing the physical integrity and well-being of our operational personnel.

Toward this end, we have an **Occupational Health Service** (Medical Service) that carries out inspections to identify unsafe conditions in the facilities. Based on the identification of risks and hazards, we establish an annual scheme of general medical examinations, such as Spirometry, Audiometric and vibration exposure tests, among others. The medical files are strictly confidential and accessed only by the doctor and the patient.

We continuously homologate strategies and processes managed by the *Environmental Control, Safety and Hygiene Department* (CASH, Control Ambiental, Seguridad e Higiene) in order to safeguard, prevent and mitigate incidents that could represent a risk for the continuity of our operations.

For more information on our Industrial Safety Policy, visit:

<https://grupoherdez.com.mx/file/2019/04/POL-TICA-DE-SEGURIDAD-INDUSTRIAL.pdf>

The CASH department has operated under a strategic plan for the follow-up of incidents and the prevention of workplace accidents and environmental damage since 2012.

During 2019, thanks to this continuous effort, we managed to reduce the rate of accidents by 11%. We also reduced the rate of workdays lost by 5%.

Gender	Accidents	Rate of accidents*	Working days lost due to accidents	Rate of working days lost due to accidents**
Women	74	1.39	1,146	21.5
Men	88	1.26	1,518	21.7
Total	162	1.32	2,664	21.6

(*) The rate of accidents refers to the number of accidents during the year in relation to the total of man-hours worked multiplied by a factor of 200,000.

(**) The rate of working days lost is expressed by comparing the total of days lost during the year against the total of man-hours worked, multiplied by a factor of 200,000.

Note: The information presented here covers all the employees in the Group, since the Company does not have outsourced personnel.

In the same manner, we encourage our employees to participate in the development, implementation and evaluation of our **Management System**, as well as to provide relevant information in regard to health and occupational matters.

Following below are the most significant actions we have realized in that sense:

5 S method

Following the 5S method (Sort, Set in order, Shine, Standardize, and Sustain), which are standards and regulations that are visible to departments and easily understood and identified by all the personnel.

Information boards

Communication plan for information about campaigns by posting it on bulletin boards, along with calls of action in activities related to safety and occupational health as well as accident rate indicators.

Integral Management System

Walk-by inspections and/or scheduled safety inspections are carried out to evaluate compliance, and/or to establish action procedures corresponding to the findings, in order to ensure continuous improvement.

Bulletins, internal and audiovisual communication

Generation of informational bulletins with programmed events in regard to safety, health, and/or the environment.

Health programs

Various health campaigns are carried out based on the established annual plan, such as vaccinations campaigns, early detection of chronic degenerative diseases, among other health matters.

There are also the **Health and Safety Administration Committees** for the workers, which perform follow-ups on matters regarding formal arrangements with the labor unions, such as emergency brigades, evacuation plans, fire brigades, workplace accidents and illnesses, health and safety campaigns, the system for the prevention of workplace hazards, and all other matters established by the official Mexican laws, standards and regulations.



HEALTHY EATING PROGRAM

IP-3

IN ORDER TO COOK WELL, YOU MUST EAT WELL

In 2012 we implemented the **Healthy Eating Program** to provide nutritional advice to our employees through balanced eating plans and providing monthly consultation follow-ups.

In 2019 we provided **2,588 consultations to employees** in Mexico City, San Luis Potosí and Sinaloa.

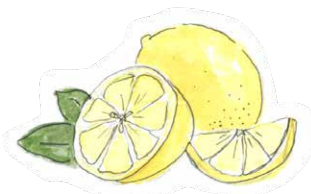
Thanks to the change in their eating habits, our employees achieved a total weight loss of **1,254 kg**.

Location	Number of assessments	Weight loss (kg)
San Luis Potosí	544	297.5
Los Mochis	1,105	464.7
Mexico City and the State of Mexico	939	492.3
Total	2588	1,254.5



TRAINING

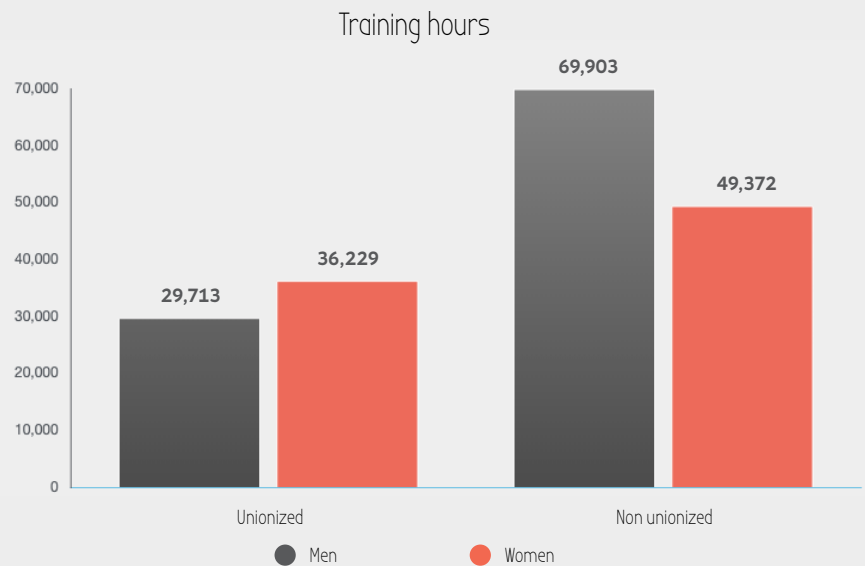
GRI: 404-1, 404-2, 404-3



If there is any part of our recipe that cannot have a shortcut it is this: **the constant development of skills and abilities in our employees.** For this reason, we delivered various training courses throughout the year on subjects such as: technical knowledge, health and safety, the 5S's, manufacturing practices, culture of legality, management skills, financial education and training of trainers.

In total, we delivered **185,217 hours of training.** The average of hours per employee was **17.8 for men and 20 for women; 11.5 for unionized personnel and 28.6 for non-unionized personnel.**

The training was distributed as following:



Training programs with the greatest impact

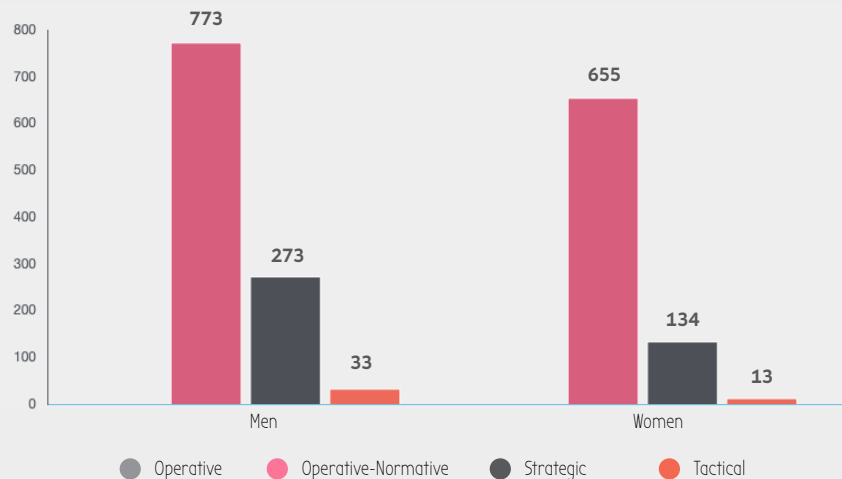
Program	Benefits for the Company	% de FTE who participated
Financial Management Skills	Development of skills in the Company's managers in their thinking process regarding economic and financial problems.	2.9% (289 collaborators)
Culture of Legality	<ul style="list-style-type: none"> - Building and strengthening of the organizational culture, based on a respect for standards and a rejection of illegality and corruption. - Reinforcing behavior in accordance with the Code of Ethics, the Company's policies and the reason for its existence. 	12.2% (1,202 collaborators)

We evaluate the performance of our collaborators on an annual basis, encouraging their **professional development**. Toward this effect we apply various methodologies, such as:

- Goal-oriented management (GOA): Goals defined by upper management.
- Multidimensional performance assessment (nine-boxes methodology)

This year **33% of our non-unionized collaborators (1,881 evaluations)** were evaluated regarding their performance. The unionized personnel are evaluated monthly, based on indicators of the plant or distribution center in which they work.

Evaluated employees





COMMUNITIES



IP-2

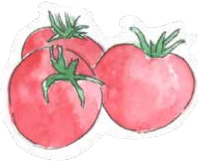
The program Saber Nutrir®, was established in 2011 as an initiative related to our community actions during the time. Today we work towards improving the quality of life of Mexican families which live with food safety issues, to contribute to children welfare in those communities.

We achieve this through 3 pillars:

- Food security
- Water safety
- Productive and marketable projects

We work in alliance with Fundación Pro Zona Mazahua in the State of Mexico and with ChildFund México in Tapachula, in the State of Chiapas.





FOOD SECURITY

WE HAVE STATED THAT THIS RECIPE WAS PLANNED FOR THE FUTURE, AND CHILDREN ARE PART OF THAT FUTURE.

This year we carried out a nutritional survey of **69 children in 41 families**, who had been helped since the beginning of the program. When compared against the baseline survey in 2013, we found that we had achieved a 10% reduction in malnutrition and a 5% reduction in obesity in the children of the communities, as well as a 15% increase in the percentage of children with a normal state of nutrition.

At the end of 2019 we had 58 **“godfathers” in the Saber Nutrir® program**, whose donations delivered food supplements to 94 children of the Mazahua community, nine of whom thereby recovered from malnutrition.

On another note, in the **Papalote Museo del Niño** we presented the exhibitions “What are we going to eat?” and “What a Great Plan!”, which were in the “My Home and my Family,” area, where the children were able to identify the food groups in a well-balanced meal, as well as to recognize a well-planned diet. A total of 126,126 people visited the “What a Great Plan!” exhibit and 126,126 visited the “What are we Going to Eat?” exhibit.



WATER SAFETY

IMPORTANT: WE MUST NOT LET ANY OF THE INGREDIENTS GO DRY.

For the communities benefited by the Saber Nutrir® program the limited access to water, its poor quality and inadequate sanitation have deleterious effects on the nutrition of those families. For this reason, in 2019 we **installed 27 safe water systems** in those communities (wells, water tanks, water purifiers and biodigesters), for a total of 183 active water systems in three years.

This was possible thanks to our alliance with **Rotoplas**, who since 2017 has supported us to benefit the communities.



PRODUCTIVE AND MARKETABLE PROJECTS

HOW WE HELP OTHERS TO PREPARE THEIR OWN INDISPENSABLE RECIPES

ChildFund

Across a period of five years, we have implemented **673 productive projects** that have benefited 199 families in nine rural communities. At the end of 2019 **591 projects** continued in active operation, with the participation of **187 families**.

In 2019, we implemented 27 orchards and 27 farms, for a total of 183 farms and 148 active orchards.

We also installed **39 ecological stoves**, which reduced the emissions emitted by wood-burning stoves and the incidence of respiratory diseases.

Pro Mazahua

Since 2013 we have allied with the **Pro Mazahua** foundation to benefit Mazahua families in the State of Mexico. In six years, we have installed **1,053 productive projects**, which have benefited **607 families** in 19 rural communities.

Also, in the Mazahua community, we have installed 156 chicken coops and 182 greenhouses.

During 2019 we managed to:

- Carry out the project “Income generation for Mazahua families” in 11 communities of the municipality of San José del Rincón, in the State of Mexico.
- The installation of 25 projects for the marketing of tomatoes, nopal, strawberries, poultry and sheep, with the participation of 73 families. In six months, the profits reported by 23 of the projects were MXN 623,010.
- The active operation of 990 projects, with the participation of 463 families

In our **Corporate Volunteers Program**⁽¹⁾, 105 collaborators contributed 309 hours of work in nine projects, to accomplish the following:

- Installation of four greenhouses and a sheep pen.
- The planting of nopal and strawberries.
- Reforestation of 500 square meters with 483 trees.
- Production of 30 adobe blocks for the construction of sheep pens.

Barter Market

In 2018 we launched the **Barter Market initiative**, with which we contributed to an improvement in the quality of life of the families benefited by the Saber Nutrir® productive projects through the purchase-sale of the products harvested or produced in family farms at competitive prices.

(1) Two of the projects were not profitable because their activities started in December 2019.



PRODUCTIVE AND MARKETABLE PROJECTS

cont.

In this project the collaborators in our corporate offices offer recyclable items (cardboard, cans, paper, PET, Tetra Pak® and glass) in exchange for vegetables, herbs, fruit and preserves produced in the communities.

These were our results in 2019:

- We had five editions.
- We benefited six communities in the Mazahua community.
- We collected four tons of recyclable materials, which were exchanged for more than 1,500 kg of organic products from the Mazahua community.
- We generated an additional income of MXN \$88,396 for families in the community.





Doing good feels good

In this effort we combined our forces with our brands McCormick, Barilla, Del Fuerte, Herdez and Doña María to disseminate an awareness of Saber Nutrir, our corporate social responsibility program, which helps **to improve the quality life of Mexican families that are vulnerable to malnutrition.**

INGREDIENTS:

- A restructured and attractive website, with detailed information about the program.
- A digital campaign and articles in digital news portals.
- An alliance with **Cornershop** app to deliver handcrafted bracelets, elaborated by the Mazahua community, to the purchasers of our products in its platform.
- Point of sales materials.

REVIEWS BY HAPPY DINERS:

- Delivery of **10,000 bracelets** to Cornershop clients.
- **More than 10 million comments** in Instagram and more than **15 million in Facebook.**
- **Eight** websites mentions with more than **4 million comments.**

FUNDACIÓN HERDEZ

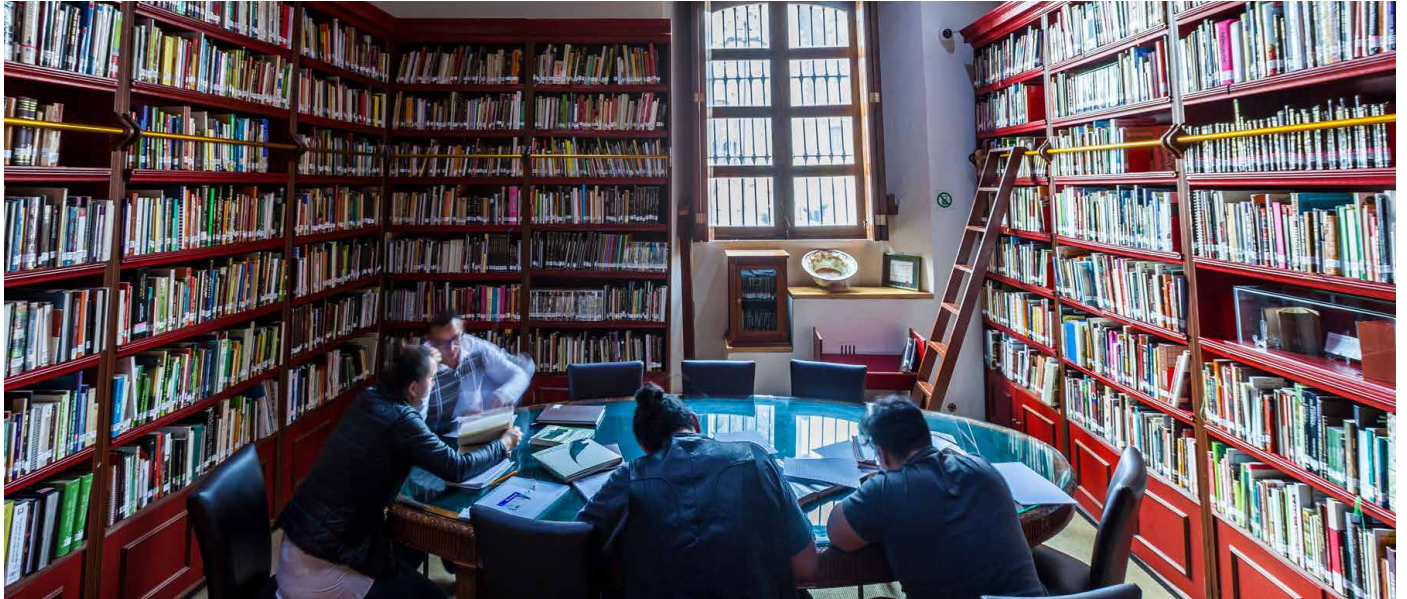
OUR EFFORTS TO ENDOW THIS RECIPE WITH EVEN GREATER VALUE

Fundación Herdez has a worthy goal: to promote healthy nutritional habits and to educate Mexico in regard to its gastronomic heritage **by educating about the products that are extracted from our soil**, with a focus on Mexico's anthropological, social, nutritional, industrial and biodiverse history.

Fundación Herdez's **Library of Mexican Gastronomy** (*yes, we have a library!*) hosted **1,807 visitors in 2019**, for a total of **57,214 visitors since its opening in 1997**. The library presently has a selection of 6,065 books.

In the **Museum of Mexican Gastronomy** (*yes, we also have a museum!*) we received **10,314 visitors in 2019** for a total of **188,397 visitors since its opening in the year 2000**.

For more information, visit: <https://fundacionherdez.com/>



#JuevesBarilla with cause

One of the most solidary snacks in the Grupo Herdez cook book! We have used the **#JuevesBarilla Master Dinners platform, adding to it the #SpaghettiFace activity, with the aim of donating pasta to the Academic Center for Child Development (CADI, Centro Académico de Desarrollo Infantil)** during the observance of International Pasta Day.

INGREDIENTS:

- The **#JuevesBarilla Master Dinner** in the Palacio Metropolitano of Mexico City.
- Social media photo sharing with the **#SpaghettiFace** hashtag to win a double access to the dinner.
- A call to the media and influencers.
- Information in in-store exhibitions.

REVIEWS BY HAPPY DINERS:

- During September and October, we collected **103 kg of pasta**, the equivalent of **1,000 servings for CADI**. We were left with a desire for more!



SUPPLIERS

GRI: 102-9, 103-1, 204-1

We are committed to the **development of Mexico's** farmland and support to our local suppliers with long-term agreements. Their experience, combined with our best practices, guarantee the availability of unique products of the highest quality for our consumers.

In order to ensure our presence in all Mexican homes, with the guarantee that all our products will arrive at their tables on time and with the quality for which we are known, **it is imperative that we establish a relationship of mutual value with our commercial partners, and share with them the same awareness of responsibility.**



Rescue of Mexican vegetables and seeds

This innovation snack arises from the desire to place greens and vegetables that come exclusively from the fields of our own country within the reach of our citizens. Their cultivation promotes the care of the environment, protection of our biodiversity and the consolidation of sustainable agriculture.

INGREDIENTS:

- A research task alliance between Fundación Herdez, Chapingo Autonomous University and National Autonomous University of Mexico's Botanical Garden.
- Awareness on the work of professor Edelmira Mazari and Dr. Robert Bye, two scholars with **more than 40 years of research on quelite and other native plants.**
- The production of **100% biodegradable packaging material**, made from plant fibers that degrade within 60 days under composting conditions.
- Glue made from rice starch for the labels, dissolvable in water and also biodegradable.

REVIEWS BY HAPPY DINERS:

- Aires de Campo brings us closer to our **Mexican roots** through the offering of a new Fresh Food category, made with sprouts, leaves and salad mixtures and traditional native quelites, Mexican tomatoes and native corn. A dreamy blend!

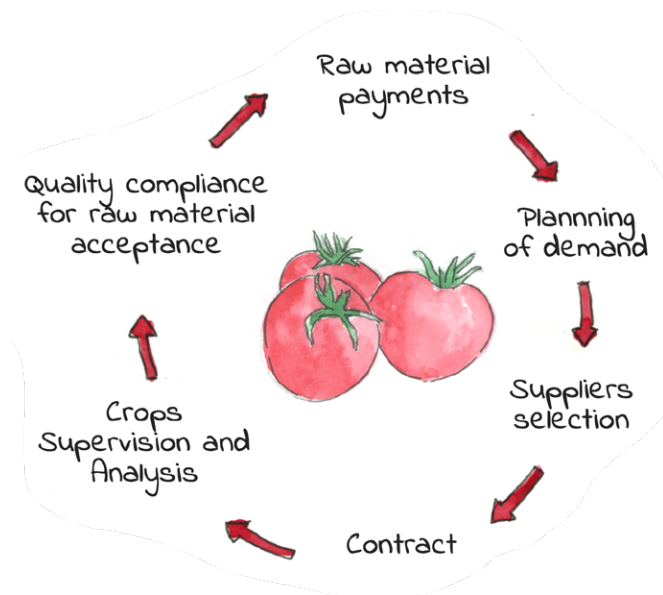


AGRICULTURAL SUPPLY

The quality and traceability of all our products that come from the field are ensured through our **Agricultural Supplies Department**.

We achieve this through 3 pillars: sourcing, supplier development and agricultural auditing, the latter two being the most important to achieve an efficient and responsible value chain.

We carry out a process composed of six phases:



At the present time we have **125 providers of raw agricultural materials**, distributed in several states of the country.

In 2019, the purchase of agricultural items represented an investment of MXN \$1,284,769,979.68.

All our agricultural suppliers have operations distributed throughout Mexico in the states of Aguascalientes, Baja California, Baja California Sur, Campeche, Chihuahua, Mexico City, Durango, Guanajuato, Hidalgo, Morelos, Nayarit, Nuevo León, Puebla, Quintana Roo, San Luis Potosí, Sinaloa, Sonora, Veracruz, Yucatán and Zacatecas.



STRATEGIC SUPPLY

Currently, we work with **296 strategic providers** who supply us with raw material, packaging material, assembly services and indirect services with a value of more than MXN 7.9 billion.

We have a diversified supply chain that is divided into two principal branches: raw material and packaging material.

Raw material

In 2019, always striving to support the local economy, **90.07% (MXN \$4,275,182,833.33) of non-perishable raw material was purchased in Mexico⁽³⁾**, while the remaining 9.93% (MXN \$471,376,657.22) was purchased abroad.

Packaging material

In regard to the packaging material, **76.98% (MXN \$2,467,455,074.05) was purchased in Mexico⁽³⁾**, while 3.38% was supplied by foreign providers (MXN \$108,595,445.83). The remaining 19.6% corresponds to a mixed supply (MXN \$629,211,403.38).

In order to ensure that we have all the resources needed for an efficient operation, both now and in the future, we have a supply strategy based on four maxims: utility, innovation, productivity and risk management.

Toward this effect, our **Supply Chain Department** continuously monitors the environmental impact of our consumption of materials.

(3) Regional or domestic suppliers are defined as those with their manufacturing and processing facilities in Mexico.

(4) Soy beans are purchased in Mexico, because, although their main origin is from the United States, the refining process is carried out in Mexico.



AGRICULTURAL SUSTAINABILITY PROGRAM

IP-6

Our **Agricultural Sustainability Program** seeks to generate products of the highest quality, using natural resources in an adequate manner while maintaining their integrity for future generations.

The principal benefits of this program include:

- A decrease in the providers' costs.
- Reduction of the environmental impact.
- Generation of raw materials with a lesser amount of chemical residues.

As a part of this initiative we have a **Good Practices Manual** for the purpose of training the agricultural providers who supply us with fresh raw material and guide them in the adoption of the best labor and environmental practices.

We also have a team of six internal auditors that evaluates and monitors the condition of our providers' farm lands, to thereby ensure the continuity and validity of the program.

In 2019 we evaluated 45 of our providers of fresh perishable agricultural materials (100% under the category), 15% of them were new providers.

The main current controls for monitoring the progress in the implementation of the Program are:

1. Delivery of the control documentation upon the initiation of the contract (annually).
2. Periodic review of each provider (biweekly).
3. BPA inspections (quarterly).
4. Analysis of water, soil and product (a single time for water and soil; monthly for product).
5. Walk-by inspections (monthly).

We also promote reduction in the use of chemical fertilizers, favoring the **integrated farming system**, which consists in the use of biological products, mainly:

- Fungicides: organic fertilizers and beneficial microorganisms.
- Insecticides: beneficial fungi, bacteria and beneficial insects.
- Fertilizers: organic fertilizers (compost, lixiviates, manual weeding)

Among all our agricultural suppliers ⁽⁶⁾, **90% of them comply with the Proper Use and Management of Chemical Fertilizers (BUMA, Buen Uso y Manejo de Agroquímicos)**, the same percentage as in 2018.

(6) The program, in its first phase, only encompasses the providers of fresh perishable raw materials, such as onions, tomatoes, tomatillo, chili peppers, and other vegetables.

BLASÓN®

The new image of Blasón

This high-altitude coffee from the best growing regions in the country and processed manually was in need of an image that would highlight its Mexican character. This product has been created with master brush strokes of smoke and soil.

INGREDIENTS:

- A new printing press, a new palette of colors, and special treatment in its packaging.
- Its launching in capsules that may be used by special machines.
- An exclusive and integral strategy with some of our clients to create new consumption experiences.
- Teaming up with clients like these is indeed a pleasure!

THIS DELICACY IS STILL BEING COOKED. WHILE WE WAIT FOR IT TO BE READY, WE INVITE YOU TO ENJOY THE AROMAS OF MEXICO IN ALL OUR VARIETIES OF COFFEE.





CLIMATE CHANGE

THIS RECIPE IS ALMOST READY, THERE IS ONLY ONE MISSING INGREDIENT: TO TAKE CARE OF THE NEW RECIPES.

GRI: 103-1, 201-2, IP-4

Without natural resources, Grupo Herdez could not exist. It is therefore imperative that we work under a **sustainability vision that will allow us to anticipate and manage the impacts caused by environmental changes**, to ensure the sustained growth of our operations.

Each of our business units has change agents who, in conjunction with other Company departments and groups of interest, design strategies, guidelines, and policies focusing on actions for the care and protection of the environment. In this manner, we promote a **culture of respect, care, and synergy** that will help us overcome the effects of climate, social, and political changes that we face every year.

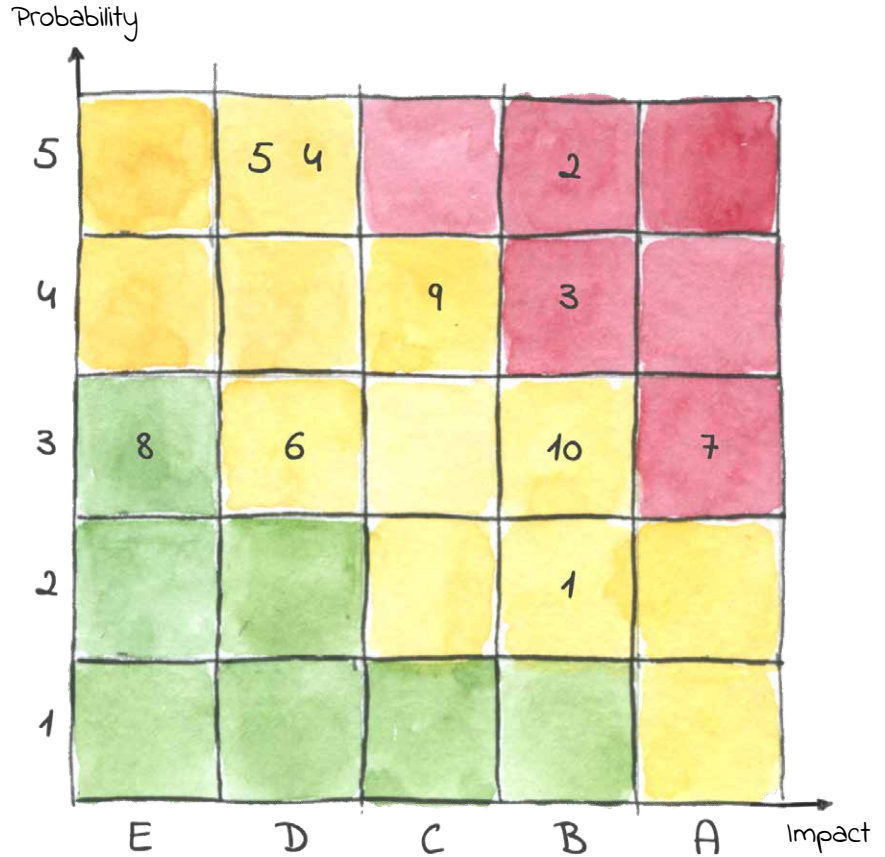
Since all efforts have their reward, this year we were awarded **First Place in the ranking of the 20 Mexican Companies with a High Environmental Commitment in 2019** of Empresas Verdes website, thanks to the actions and programs we have implemented for the reduction of our impact on the planet.

In 2019 we concluded our **Risks Assessment for Climate Change**, with the purpose of identifying the impact that climate change will generate on the continuity of Grupo Herdez businesses. Based on the results of our study, we prioritized the risks and generated a valuation of the financial impact, in order to propose manageable initiatives.



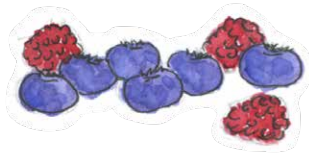
The risks identified have been classified according to the likelihood of their occurrence and impact. The three principal risks are as follows:

1. An increase in average temperatures.
2. Variations in rainfall patterns and extreme variability in climatic patterns.
3. Changes in consumer preferences.

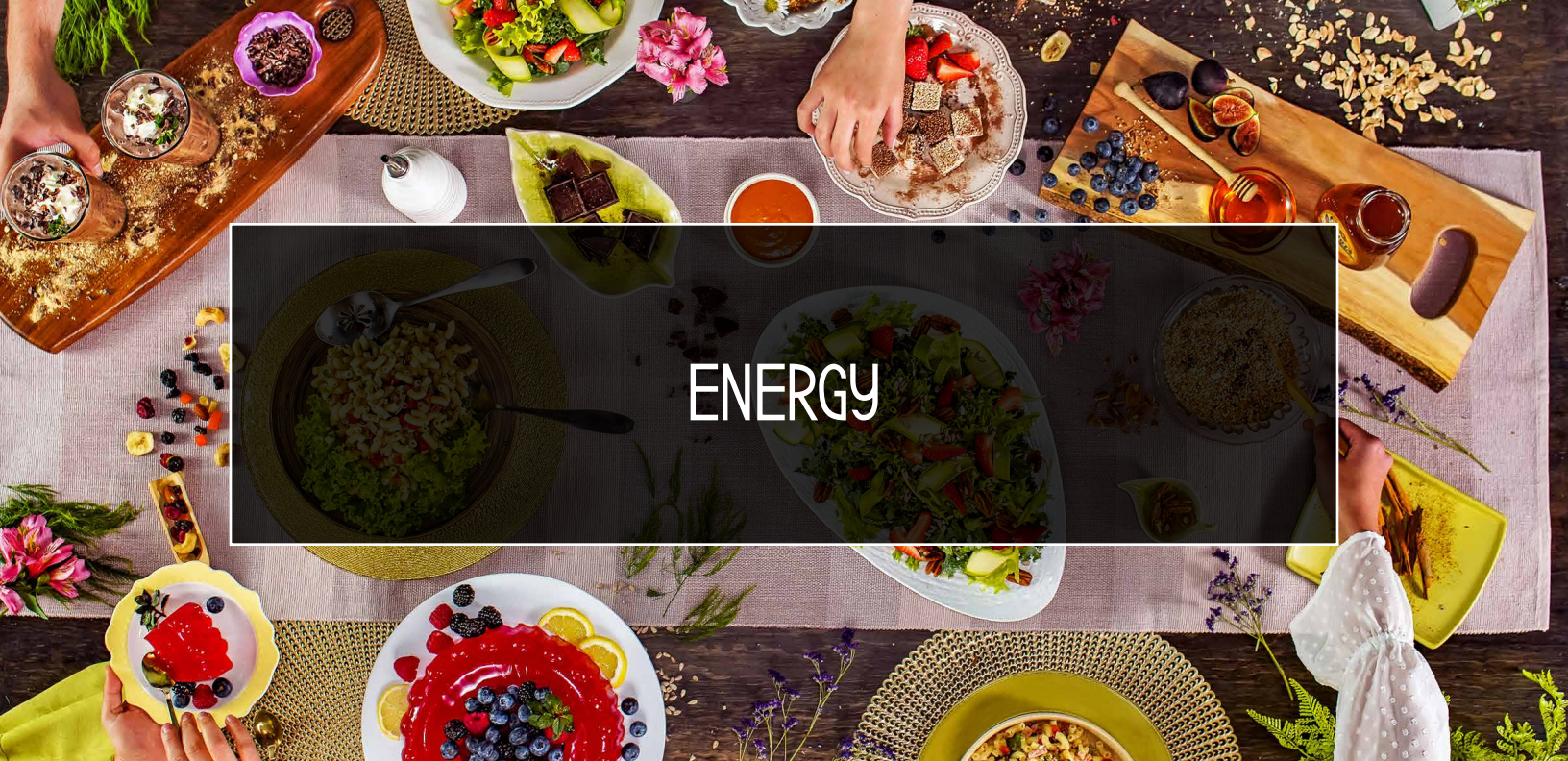


1. An increase of extreme climatic events
2. An increase of temperature impacts on the supply chain
3. Changes in rainfall patterns
4. Rising temperatures: impacts on production
5. An increase in the price of greenhouse gas emissions
6. An increase in the expectations or preoccupations of the groups of interest
7. Changes in the consumption patterns
8. Transition toward low emissions transportation technologies
9. Stricter regulation relative to products and services (our own operations)
10. Stigmatization of sectors: deforestation

In 2019 we invested **MXN \$30,212,926 in environmental programs**, such as:



- Reduction of our carbon footprint
- Reduction of CO₂ emissions
- Reduction of water emissions
- Management of post-industrial waste
- Management of post-consumption waste
- External consulting services
- Anti-contamination equipment
- Green procurement
- Participation in industry associations
- Education and training
- Participation in events



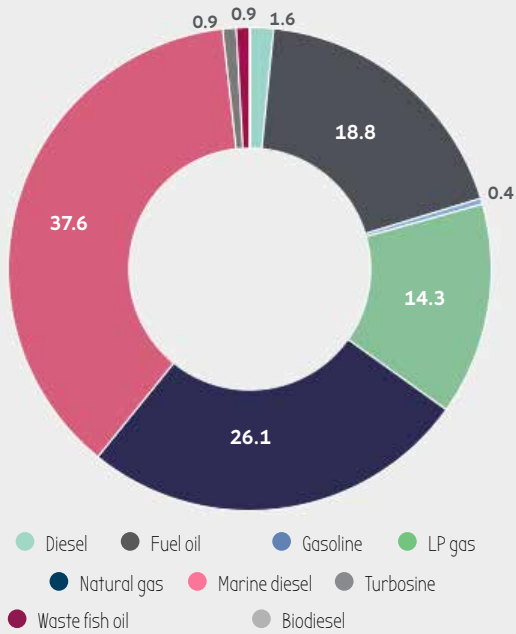
GRI: 103-1, 302-1, 302-4, IP-10

In 2019 the total consumption of energy by the Group was of **1,261,522 GJ (77% in fuel and 23% in electricity)**, which represents a decrease of **1.6%** compared to the previous year.

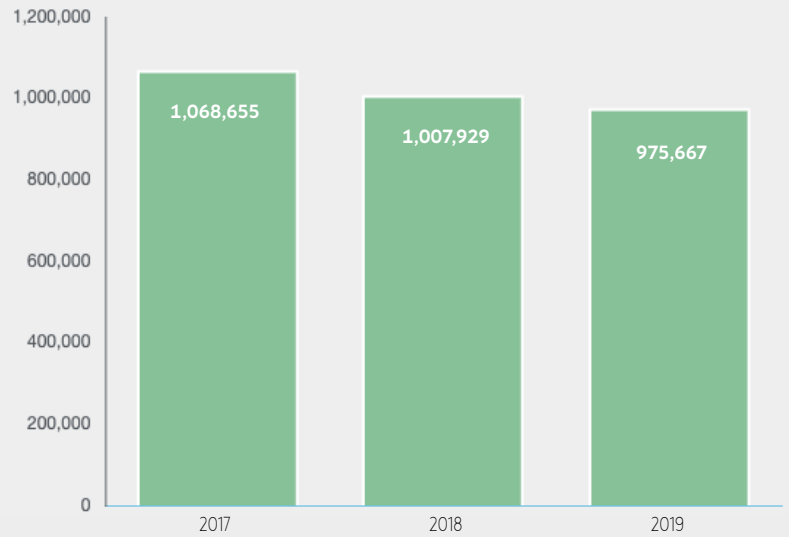
For the purpose of reducing our consumption of fuel and electricity, Grupo Herdez has a **Cogeneration Plant**, as well as several other energy initiatives:

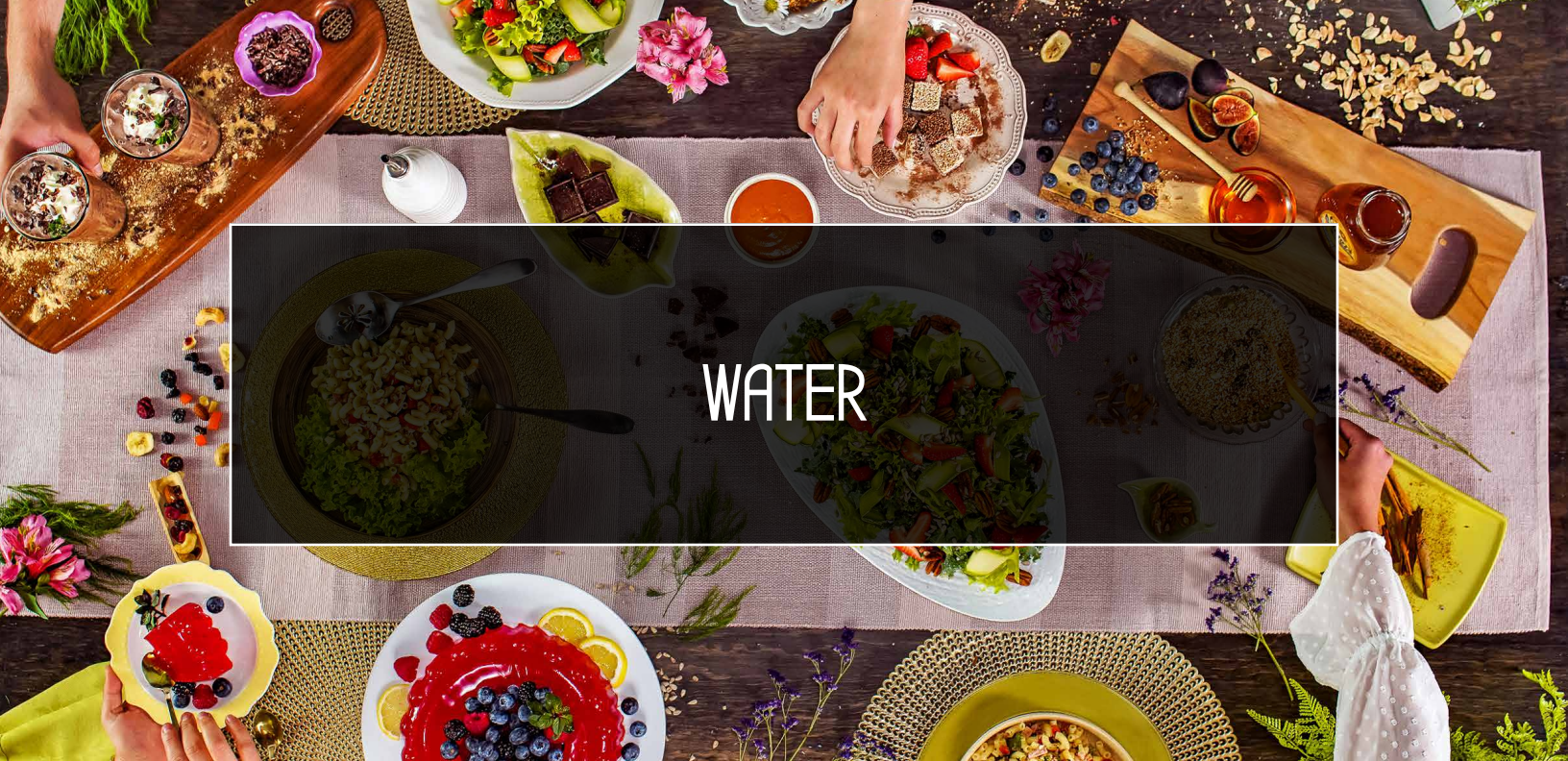
- **Conversion and adaptation of equipment:** with this initiative we saved 77,156 GJ, six times more than in 2018.
- **Behavioral changes among employees:** with savings of 8,226 GJ, whereas in 2018 the savings were zero.
- **Energy-savings supporting devices:** by which we saved 27,026 GJ, 105% more than in 2018.
- In addition, **63% of the energy** consumed by Grupo Herdez is generated by **clean sources**.

Energy consumption by type of fuel (%)



Total fuel consumption (Gj)





WATER

GRI: 103-1, 303-3, 303-4, 303-5

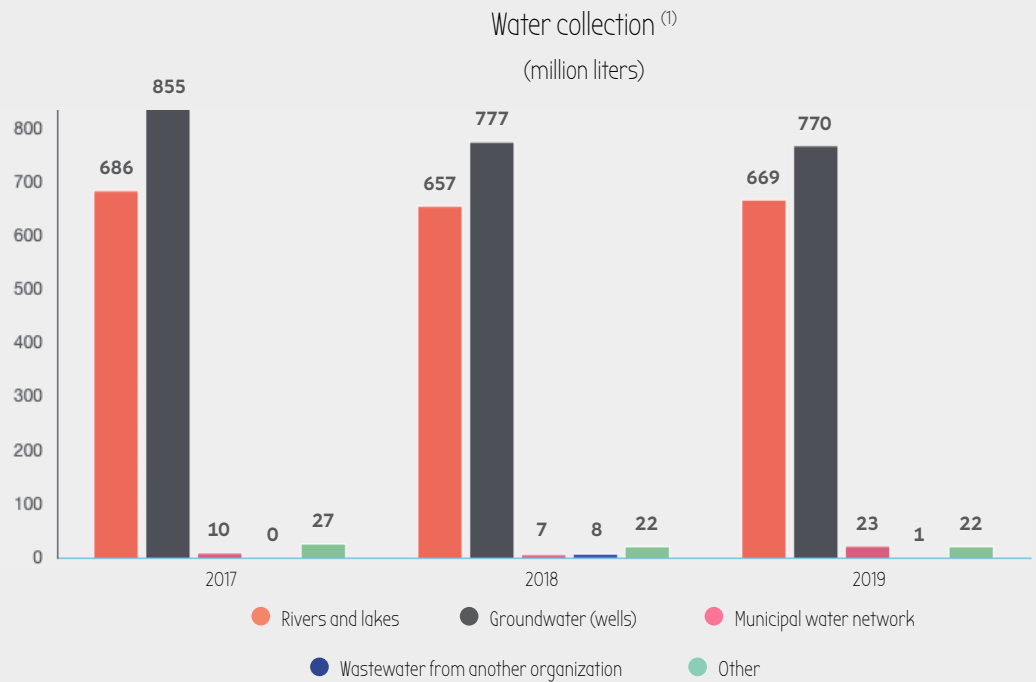


We are constantly seeking ways to implement improvements in the measurement processes that will enable us to obtain valuable information in regard to new ways of optimizing our consumption of water.

Therefore, we also carry out awareness actions between our collaborators and suppliers by giving training in the adequate management of water resources.

In 2019, **the total volume of water extracted was 1.299 billion liters**, while the volume of residual water generated was 882 million liters, **22% less than in 2018**.

“El Duque de Herdez” facility, Planta México, and the Mexico distribution center have been **collecting and utilizing rainwater for the irrigation** of gardens since 2017. This year we managed to **collect 76 million liters of rainwater**.



(1) The Aqueeduct Water Risk Atlas 2019, which is a tool that is recognized internationally for that purpose, was used for the determination of hydric stress, except in the cases of Chiapas and Merida, in which the criterion of CONAGUA was used, considering it to be more in keeping with the national reality.

Con toda confianza... es
HERDEZ.

Mexican beaches cleanup (Por un mundo más vivo)

The second stage of **Mexican beaches cleanup** initiative found us all with sunscreen bottle in one hand, lots of desire in the other, and a cap firmly on our heads, determined to erase our footprint from our coasts. A sunny endeavor!

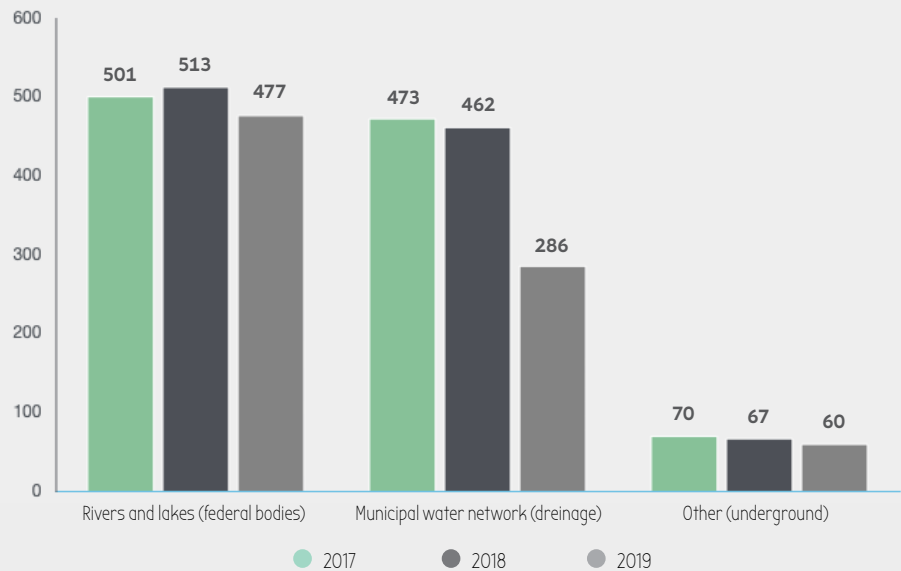
INGREDIENTS:

- Three partners committed to our planet: the ECOCE Association, the Del Bajío aquarium and the Blau Life marine laboratory.
- A group of volunteers determined to contribute.
- All the technical equipment (also known as mobile phone with a signal) to carry out a live transmission via Facebook as the cleanup proceeded.

REVIEWS BY HAPPY DINERS:

- Nine beaches, equivalent to **302 kilometers** as clean as nature made them. An excellent presentation!
- **1,090 volunteers** collected **60 tons of seaweed and 2,888 kilograms of garbage**. We wanted more!

Wastewater by discharge destination (million liters)



For the purpose of reducing the discharge of water with residues, **we have a water treatment system in all our plants**, each one planned and designed according to the characteristics of the residual water generated and the discharge conditions that must be complied with. All of them adhere to the following processes:

- 1. Pretreatment:** traps for fats, oils, grease and solid material.
- 2. Primary Treatment:** a linear or circular Dissolved Air Flotation (DAF) Physical-Chemical System.
- 3. Secondary Treatment:** Conventional Sludge Biological Systems with Clarification Systems.
- 4. Tertiary Treatment:** sand and gravel with an activated-carbon filtering system, and manual or in-line clarification systems and/or Ultraviolet Light to eliminate mainly fecal coliforms and other biological microorganisms.



WASTE AND RECYCLING



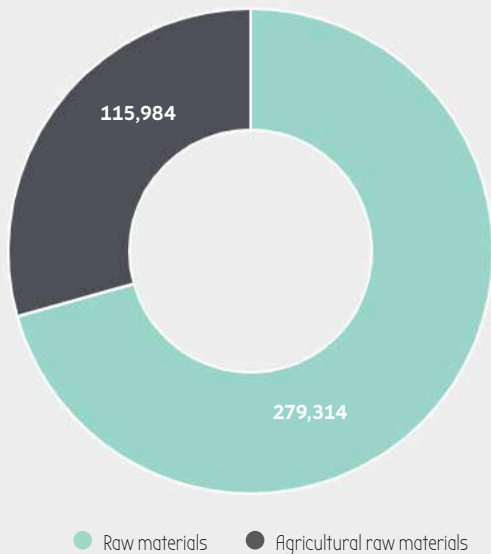
GRI: 103-1, 301-1, 301-2, 301-3, 306-2

In our production processes we seek to use natural resources in efficient ways, to thereby satisfy our present needs without putting at risk the availability of those resources in the future. We strive for a greater reincorporation of our residues into new production chains.

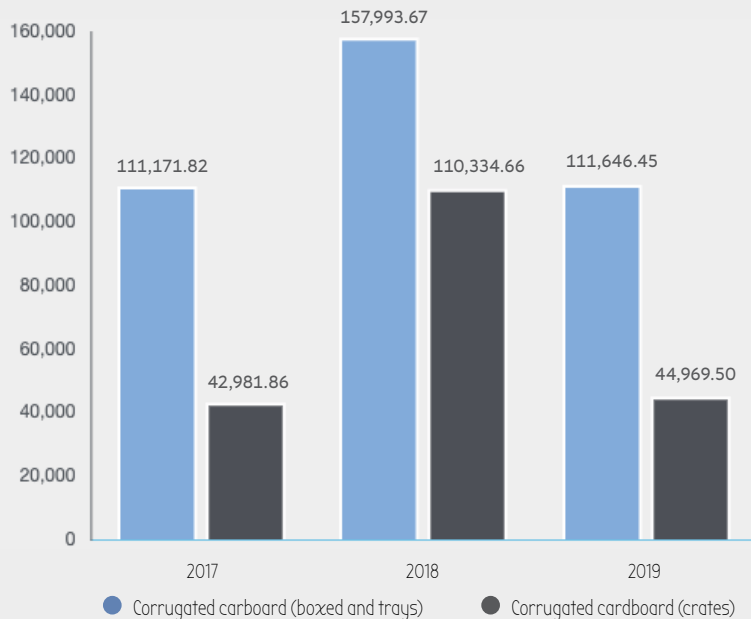
In 2019 we used 115,984 tons of agricultural raw materials, 279,314 tons of other raw materials and 4,852,977 thousand pieces of packaging materials.

We also managed to recycle 2.59% of our inputs (156,615.95 pieces)⁽¹⁾.

Materials used (tons)



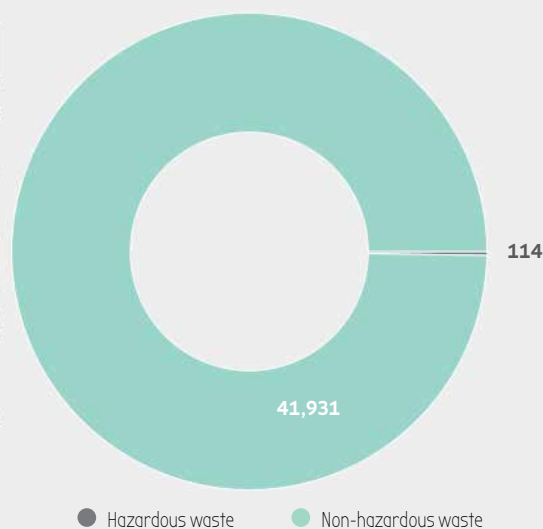
Recycled input material used (thousands)



(1) It is considered that the only item that contains recycled materials is the corrugated cardboard, with an estimated percentage of 80%.

During this year we generated **42,045 tons of residues, 75% of which were recycled.**

Waste by type (tons)



Dangerous residues and disposal method

Method of elimination	2019 (Ton)	2018 (Ton)
Recycling	71	49
Other (safe disposal)	43	41
Total	114	90

Non-dangerous residues and disposal method

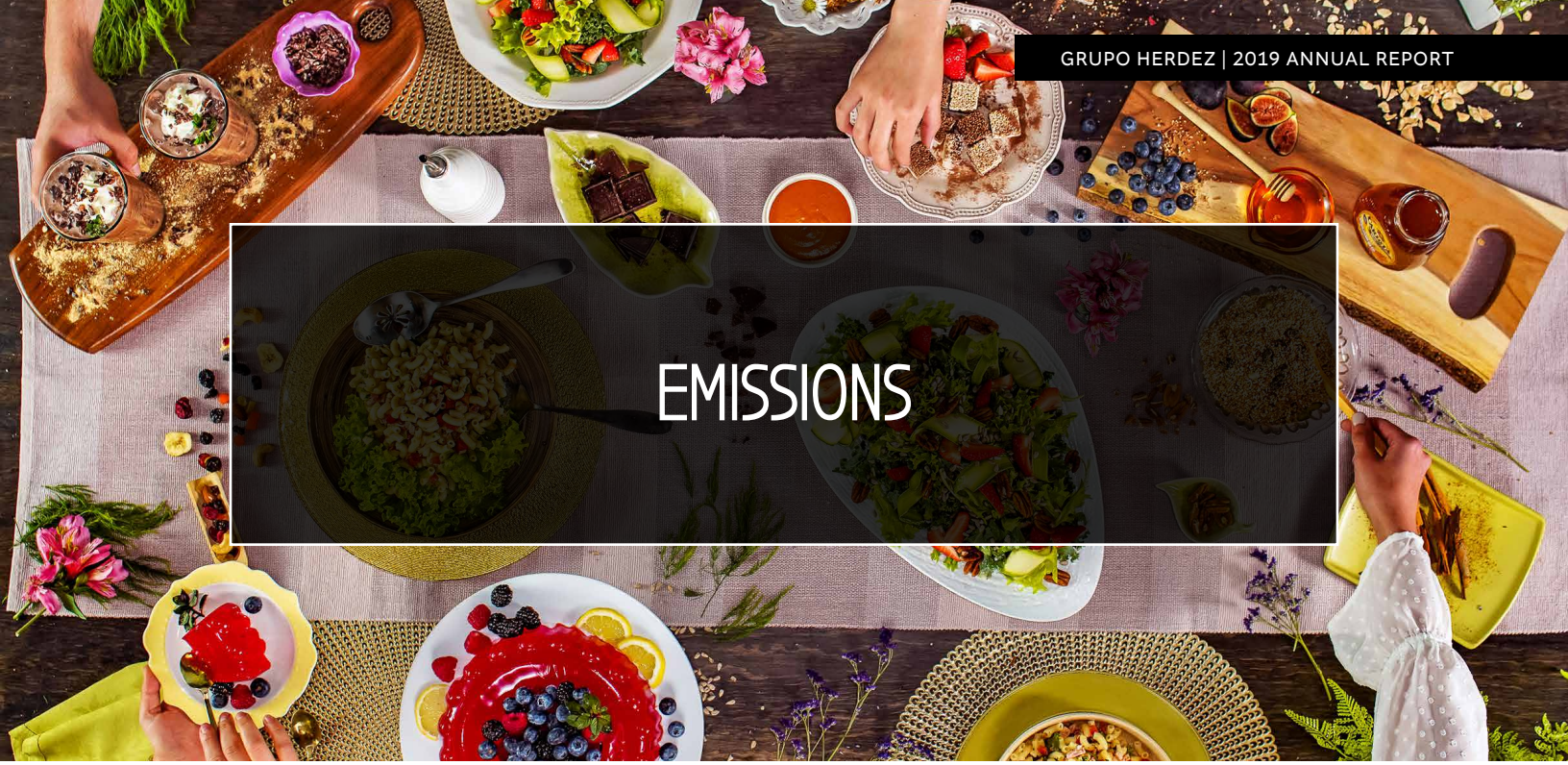
Method of elimination	2019 (Ton)	2018 (Ton)
Recycling	31,604	23,867
Other (safe disposal*)	10,327	10,275
Total	41,931	34,142

*Sanitary landfill: includes special handling waste and urban solid waste (not valuated)

Total weight of residues generated

Discarded waste	Unit	2019	2018	2017	2016
Total waste	Metric tons	42,045	34,231	36,856	40,999

Aimed at executing improvements under our environmental agenda, Grupo Herdez established a partnership with **ECOCE**, an environmental Mexican association that has developed a specific plan for the **management and recovery of post-consumption** waste and packaging for **their recycling**.



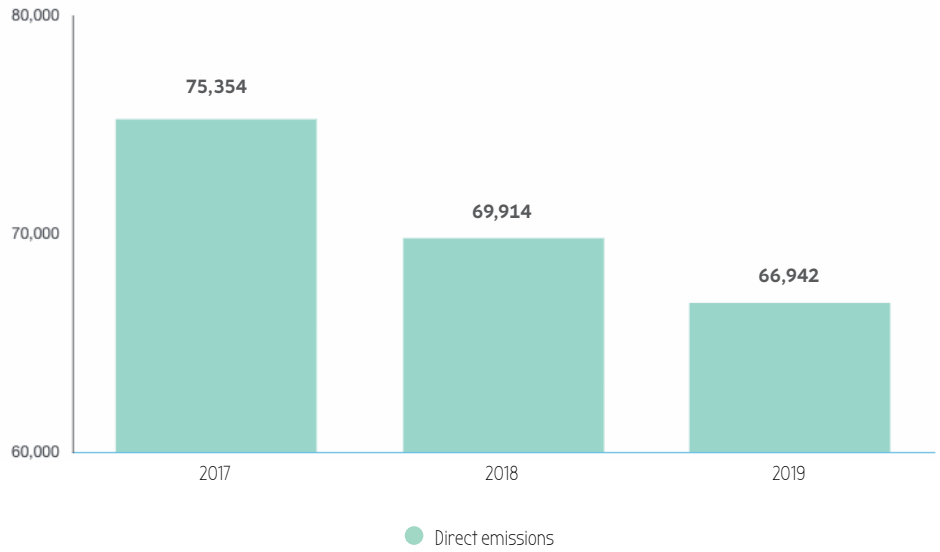
EMISSIONS

GRI: 305-1, 305-2, 305-5



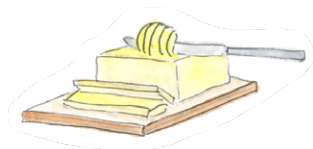
If there is an ingredient we would like to dispense of in this indispensable recipe it is the negative impact on the planet. **In 2019 we reduced our total emissions of CO₂ by 4%.**

Total direct emissions
(CO₂ equivalent; tons)





Reduction of Greenhouse Gas emissions (GHG) (CO₂ equivalent; tons)



Reduction of GHG emissions	2019
Process redesign	-
Conversion and adaptation of equipment	2,943.27
Substitution of fuels	313.81
Behavioral changes among employees	1,030.96
Total	4,288.05



ABOUT THIS REPORT

GRI: 102-46, 102-50, 102-53, 102-54



In Grupo Herdez we have been reporting our performance in social, environmental and economic material topics since 2008.

This report has been elaborated in accordance with the Global Reporting Initiative (GRI) Standards, the Mexican Stock Exchange Price and Quotations Index, the United Nations Global Compact, and the United Nations Sustainable Development Goals.

The financial information herein contained has been prepared in conformance with the International Financial Reporting Standards (IFRS) and expressed in Mexican pesos, unless stated otherwise.

The information presented comprises the period from Jan. 1 2019, to Dec. 31 of the same year, and has been selected based on our 2019 Materiality Assessment

For any comments in regard to this report, contact:

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CORPORATE PRACTICES COMMITTEE REPORT

March 17, 2020

Lic. Héctor Hernández-Pons Torres

Chairman of the Board of Directors
Grupo Herdez, S.A.B. de C.V.
Monte Pelvoux No. 215, Floor 5
Mexico, D.F. 11000

Dear Mr. Hernández-Pons:

I am herein submitting to your attention the Annual Report on the activities of the Board of Directors' Corporate Practices Committee corresponding to 2019 fiscal year, referred to in Article 43, Section 1 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 Principles and Best Practices on Corporate Governance 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 based on the approved 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 independent third parties in comparable transactions under similar circumstances.

Such transactions have included export and materials sales, sales and administrative services, maquila, royalties, freight services, materials acquisition, fees, fuels, storage, real estate and transportation equipment leasing, finished products sale, strategic and personnel services, absent investor returns and other, amounting to a total of 7,170 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 a 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 franchises of the subsidiary Nutrisa 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,



Roberto Danel Díaz

Chairman of the Corporate Practices Committee

AUDIT COMMITTEE REPORT

February 20, 2020

Lic. Héctor Hernández-Pons Torres

Chairman of the Board of Directors
Grupo Herdez, S.A.B. de C.V.
Monte Pelvoux No. 215, Floor 5
Mexico, D.F. 11000

Dear Mr. Hernández-Pons:

I am herein submitting to your attention the Annual Report on the activities of the Board of Directors' Audit Committee for the 2019 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 Provisions Applicable to Securities Issuers and Other Participants of the Securities Market, the Mexican Stock Exchange Internal Rules, the Principles and Best Practices on Corporate Governance Code's recommendations, 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 scheduled meetings, and the Agenda with the issues to be discussed and the respective Minutes were in turn 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 and which in turn were favorably recommended for approval of the Board of Directors, as appropriate, were as follows:

1. Reported Financial Statements as of December 31, 2018, 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 was also analyzed.

In accordance with the regulations of the National Banking and Securities Commission, the financial information has been prepared and submitted under the International Financial Reporting 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 the Entity’s 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 the revision for the 2018 fiscal year audit.

The Report indicates that certain audit procedures have been applied to the internal controls regarding determined areas for the identification of controls, control design and implementation, operative efficacy testing and the conclusion regarding 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 2019 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 2019 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 2019 fiscal year, as well as those already in force, were consistently applied with no significant effect.
7. We have assessed the performance of the external audit firm KPMG Cárdenas 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 has in due time 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 2019 fiscal year was recommended, with exception made of the components Herdez Del Fuerte, S.A. de C.V., and its subsidiaries, as well as McCormick de México, S.A. de C.V., of which external auditors are from other firm.

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

8. Additional services to those of auditing provided by the society’s external audit firm during 2019, were related to transfer prices, local contributions, tax-financial advisory and social security report, for an amount of 4.8 million pesos.
9. Provisions of the so-called Auditors Unique Circular have been analyzed, and we have learned about the Schedule prepared by the Company’s Administration for its compliance in 2019 by each and every party involved.

10. 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.
11. In 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.
12. 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,



Roberto Danel Díaz

Chairman of the Audit Committee

