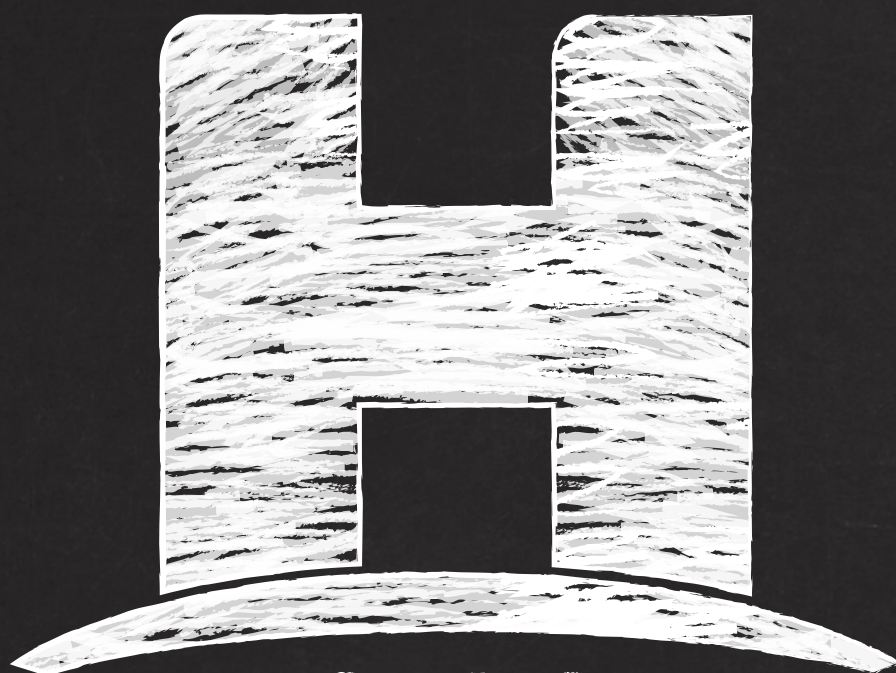


# Charting NEW PATHS



GRUPO  
HERDEZ<sup>®</sup>



**2013** INTEGRATED ANNUAL REPORT  
FINANCIAL AND SUSTAINABILITY

and revitalizing  
ourselves...

---



**GRUPO**  
**HERDEZ®**

# to reach our goals

---

## Contents

3 -	2013 Results	34 -	Audit Committee Report
5 -	Commercial Strength	36 -	Corporate Practices Committee Report
6 -	Corporate Profile	37 -	Corporate Governance
8 -	Financial Highlights	38 -	Board of Directors and Management Team
11 -	Message to our Shareholders	39 -	Materiality and Scope
15 -	Innovation	41 -	Consolidated Financial Statements
19 -	New Paths: Nutrisa®		
23 -	Value to the Environment		
30 -	Management's Discussion and Analysis of Results		



**HERDEZ**

Salsa de Guacamole

## 2013 Results

Net Sales Growth **9.5%**

**11.3%** EBITDA Growth

Net Debt / EBITDA **2.5X**

**Ps. 852** million in Capital Expenditures

Reduction in Electricity Consumption **12.4%**

Our brands in Mexico



Distribution agreements in Mexico



Our brands in the United States



Our commercial strength:

+ 25  
brands

+ 40  
categories

+ 1,500  
products

Supported by:

14  
plants

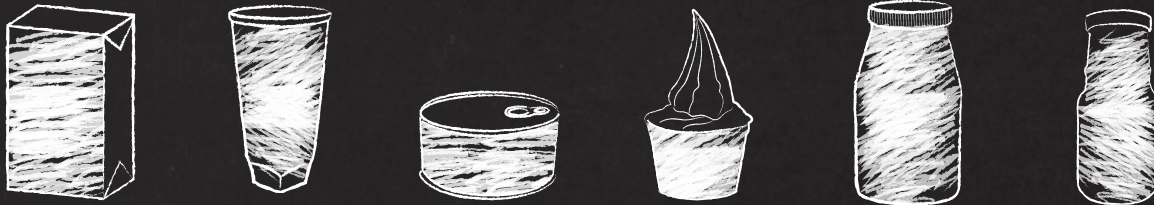
9  
distribution  
centers

7  
tuna  
vessels

418  
points  
of sale

8,790  
employees

# Corporate Profile



**GRUPO HERDEZ** is the leader in the segments of shelf-stable foods and frozen yogurt in Mexico, and a leader in the Mexican food category in the United States.

The Company participates in a wide range of categories including burritos, canned vegetables, coffee, frozen yogurt, guacamole, home-made salsas, honey, jam, ketchup, mayonnaise, mini tacos, mole, mustard, pasta, spices, tea, tomato puree, tuna and organic foods, among others.



These products are commercialized through an exceptional portfolio of brands, which include Aires de Campo®, Barilla®, Chi-Chi's®, Del Fuerte®, Don Miguel®, Doña María®, Embasa®, Herdez®, La Victoria®, McCormick®, Nutrisa®, Wholly Guacamole® and Yemina®. Additionally, the Company has agreements for the distribution in Mexico of Herdez GoGo Squeeze®, Kikkoman®, Ocean Spray®, Reynolds® and Truvia® products.





## MISSION

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

## VISION

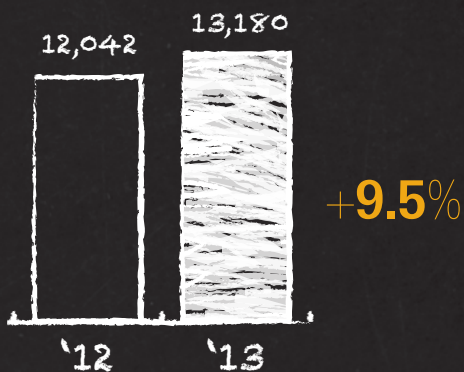
Grupo Herdez aims to consolidate, grow and position itself as a leading organization in the food and beverage industry, recognized by the quality of its products and the effectiveness of its efforts directed towards satisfying the consumer's needs and expectations, within a framework of optimal consumer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

## VALUES:

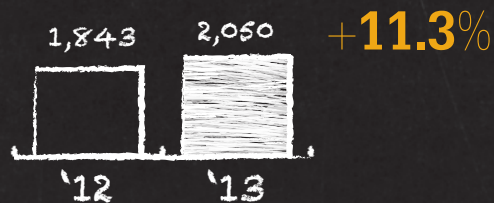
- Honesty
- Results-oriented
- Teamwork
- Trust

# Financial Highlights

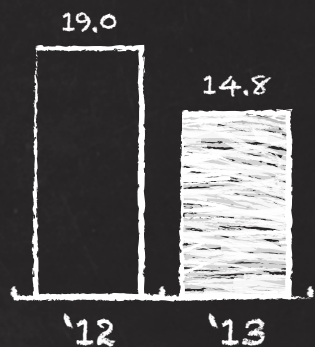
Net Sales  
MILLION PESOS



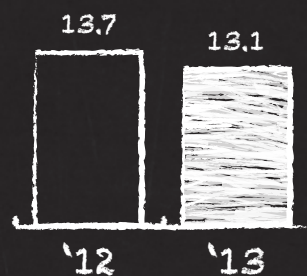
EBITDA  
MILLION PESOS



ROE  
ADJUSTED\*



ROIC  
ADJUSTED\*



All figures are expressed in millions of Mexican pesos, except for per share information and financial ratios, and were prepared in accordance with the International Financial Reporting Standards (IFRS), that came into effect on January 1, 2013.

	2013	2012	Var. (%)
<b>NET SALES</b>	<b>13,180</b>	<b>12,042</b>	<b>9.5</b>
Domestic	12,341	11,275	9.5
Exports	839	767	9.4
Cost of Goods Sold	8,541	8,079	5.7
Gross Profit	4,639	3,963	17.1
Operating Expenses	2,915	2,375	22.7
<b>INCOME BEFORE OTHER EXPENSES</b>	<b>1,724</b>	<b>1,588</b>	<b>8.6</b>
Other Income, Net	33	47	-30.9
<b>OPERATING INCOME</b>	<b>1,757</b>	<b>1,635</b>	<b>7.5</b>
<b>EQUITY INVESTMENT IN ASSOCIATES</b>	<b>186</b>	<b>413</b>	<b>-54.9</b>
Consolidated Net Income	1,148	1,429	-19.7
<b>MAJORITY NET INCOME</b>	<b>608</b>	<b>790</b>	<b>-23.1</b>
<b>EBITDA</b>	<b>2,050</b>	<b>1,843</b>	<b>11.3</b>
<b>TOTAL ASSETS</b>	<b>20,837</b>	<b>17,452</b>	<b>19.4</b>
<b>TOTAL LIABILITIES</b>	<b>8,707</b>	<b>5,399</b>	<b>61.3</b>
Debt <sup>1</sup>	5,969	3,154	89.2
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>12,130</b>	<b>12,053</b>	<b>0.6</b>
Majority Shareholders' Equity	5,665	5,784	-2.1
Net Debt / EBITDA (times)	2.48	0.98	
Net Debt / Total Shareholders' Equity (times)	0.42	0.15	
Return on Equity (ROE)	10.6%	13.7%	
<b>ADJUSTED ROE*</b>	<b>14.8%</b>	<b>19.0%</b>	
Return on Invested Capital (ROIC)	10.6%	10.7%	
<b>ADJUSTED ROIC*</b>	<b>13.1%</b>	<b>13.7%</b>	
Total Shares Outstanding as of Year End (millions)	432	432	-
Earnings per Share	1.407	1.829	-23.1
Ordinary Dividend per Share	0.85	0.85	-
Extraordinary Dividend per Share <sup>2</sup>	0.85	-	100.0
Book Value per Share	28.08	27.90	0.6
<b>PRICE PER SHARE AS OF YEAR END</b>	<b>46.47</b>	<b>39.70</b>	<b>17.1</b>

<sup>1</sup> Debt = Debt + Other interest bearing liabilities

<sup>2</sup> Payment corresponding to the results of 2013

ROE = Majority Net Income / Average Majority Shareholders' Equity

ROIC before taxes = Operating Income / Average (Total Shareholders' Equity + Debt)

\* Adjusted for the elimination of the reasonable value of Herdez Del Fuerte in 2013 following the application of IFRS 10 and IFRS 3.

1914



Creation of **Compañía Comercial Herdez**

1947

Creation of **McCormick de México**



1962

The **Herdez** brand is launched



2002

Creation of **Barilla México**



2009

Creation of **MegaMex**



1994

Creation of **Hormel Alimentos**



2007

Creation of **Herdez Del Fuerte**



2013

Acquisition of **Grupo Nutrisa**



**GRUPO HERDEZ**

# To Grupo Herdez's SHAREHOLDERS:

---

Our commitment is to place quality foods with growing prestige and value within the reach of consumers and we meet that challenge with enthusiasm and efficiency, but in no way is this an easy task. Therefore in 2013 we charted new paths that are consistent with our philosophy and aligned with our five business strategies:

**1. Grow organically through our current product lines.**

We generated organic growth at double the rate of the economy, despite the challenges the economic environment posed.

**2. Strengthen innovation processes.**

We launched more than 140 products in the year, including Herdez® guacamole salsa and the new flavors of Doña María® ready-to-serve mole sauce in Mexico, and in the United

States, Herdez® ready-to-cook sauces and frozen dishes as well as individual portions of Wholly Guacamole®.

**3. Develop infrastructure to be the best value option for the customer.**

We acquired Grupo Nutrisa, giving us direct entry into one of the most dynamic consumption categories – frozen yogurt –and also gained the capacity to distribute frozen goods in Mexico.

**4. Generate savings through operating and administrative efficiencies.**

We continue to allocate resources into strengthening the processes and technology that support our growth, with particular emphasis on the planning and integrated management of our value chain.

FOR MORE  
INFORMATION





PREPARING  
ourselves  
for the next  
**100**  
-years-  
GRUPO  
HERDEZ®

**5. Grow our international business to be the leader of Mexican food.**

We strengthened the organizational structure of MegaMex through the integration of Fresherized Foods. Our products are currently present in 35 million homes in the United States.

We also increased our presence in Central America with the expansion of the product portfolio and the support of stronger commercial partners.

Within this context, I would like to highlight the integration of Nutrisa®, the fifth most recognized brand in Mexico's retail sector according to a 2012 study by Interbrand. In 2013 alone, this business served 22 million customers in its 418 stores across Mexico.

Grupo Nutrisa is health and well-being, and the plans we have for this business will make a significant contribution to the growth of the Group.

**PERFORMANCE 2013**

As of January 1, 2013, the presentation of our financial reporting underwent important changes with the adoption of International Financial Reporting Standards (IFRS). The key changes are the line-by-line incorporation of 100% of Herdez Del Fuerte in Mexico (previously 50%), and the incorporation of 50% of the net income from MegaMex in the equity investment in associates line (previously 25% line-by-line).

I invite you to review the details of these changes in the Management's Discussion and Analysis of Results, and in the notes to the Audited Financial Statements of this Annual Report.

For the period covered by this document, total sales of Grupo Herdez reached a new record of Ps. 13,180 million, a 9.5% rise over the previous year, driven primarily by the integration of Grupo Nutrisa. EBITDA totaled Ps. 2,050 million, representing a margin of 15.3 per cent.

In addition, we registered a number of extraordinary charges totaling Ps. 369 million, which, for the most part, were non-cash items but affected the Group's net income. Nevertheless, operating results were satisfactory in a tough environment.

We invested Ps. 852 million in capital expenditures, mainly for the new McCormick® mayonnaise plant in the State of Mexico, the consolidation of the Herdez Del Fuerte plants in Los Mochis, Sinaloa, and the opening of 27 new proprietary Nutrisa® stores since its acquisition, as well as investments in processes and technology.

After paying Ps. 779 million in dividends and acquiring Grupo Nutrisa, the net debt to EBITDA ratio was 2.5 times.

During the year, we strengthened our commitment to sustainability, which is reflected in our efforts to create value for the environment. These actions include the following:

- We reduced electricity consumption by 12.4%, surpassing the goal we set for 2015.
- We cut CO<sub>2</sub> equivalent emissions by 5,608 tons.
- We provided, for the second consecutive year, more than one million hours of nutrition education in 459 schools and 25 rural communities through our Saber Nutrir® program, benefitting close to 400,000 people.
- We donated 212,263 boxes of products to private aid institutions through Fundación Herdez, part of which were destined to vic-

tims of natural disasters in Mexico.

- We helped 128 employees lose a total of 511 kilograms, through the Healthy Diet Plan.
- For the second consecutive year, we are part of the sample of the Mexican Stock Exchange's Sustainability Index.

## 2014 OUTLOOK

Mexico is also charting new paths. We are optimistic about the recent approval of structural reforms in our country, which will translate into higher productivity, higher growth rates and sustainable well-being in the long term, which will certainly favor consumption.

This conviction parallels our centennial celebration, which marks the beginning of a new stage in the consolidation of our Company. We are proud of the heritage and achievements of these last hundred years, which would not have been possible without the dedication and enthusiasm of our 8,790 employees. We thank you, our shareholders, for your confidence.

At Grupo Herdez, we will continue to chart new paths.

Sincerely,



**HÉCTOR HERNÁNDEZ-PONS TORRES**

Chairman and Chief Executive Officer







# Leading through INNOVATION

---

Our most important competitive advantages are the quality and leadership of our portfolio, which consists of more than 25 brands and 1,500 products that participate in approximately 40 categories.

In line with our long-term vision, we focus our efforts on staying ahead of the industry and relevant to consumers. As proof, despite the challenging environment, we launched more than 140 new products during the year, a record in the Company's history. We also allocated significant resources to research and development, advertising and promotional activities to further strengthen our brands and their growth in the market.

In Mexico, we launched healthier product options, such as Herdez GoGo Squeeze® (fruit pulp

without preservatives or added sugar), Truvia® (natural, low-calorie sweetener), Verdurizador Herdez® (dehydrated vegetables for breading), Nutrisa® acid-free coffee, and McCormick® reduced sugar jams. In addition, we offered consumers more practical and convenient ways to cook with products like Herdez® chopped green chili peppers, onion and garlic, and Del Fuerte® tomato, fried chopped tomato and chopped tomato and onion. Lastly, we expanded our range of flavors with Doña María® ready-to-serve chocolate and almond mole sauces, new Búfalo® hot sauces and the Herdez® guacamole salsa. The latter captured an average market share of 5.7% in the year.

It is worth noting that our consumer outreach in recent years has been centered on the dissemination of constructive, ethical and

FOR MORE  
INFORMATION





In Mexico,  
the **Herdez®**  
**guacamole** salsa  
reached an average  
market share of

**5.7%**



**Herdez GoGo**  
**Squeeze®** provides

**one**

of the two daily fruit  
portions recommended  
by the World Health  
Organization



The **Doña María®**  
ready-to-serve  
**moles** reached  
an average  
market share of

**5.7%**

*To remain at the forefront of  
the industry and relevant to  
our consumers, we launched  
more than 140 new products  
in 2013.*





- Wholly Guacamole® is the pioneer brand launching individual portion sized cups.
- Wholly Guacamole® minis are an excellent option to satisfy the growing consumption of guacamole in a practical and healthy way.

responsible messages. Particularly in Mexico, since 2010 we have followed the Food and Non-Alcoholic Beverages Self-Regulatory Code for Advertising to Children (Código de Autorregulación de Publicidad de Alimentos y Bebidas no Alcohólicas dirigida al Público Infantil, or PABI). In addition, we meet all the labeling, health and commercial information specifications of the Official Mexican Standard NOM-051-SCFI/SSA1-2010.

Regarding MegaMex, we continue to pursue our vision of bringing the spirit of Mexico to every table through our multi-brand, multi-product and multi-channel strategy. We broadened our product offering under the Herdez® brand, including frozen dishes, ready-to-cook sauces, frozen Mexican vegetable mixes, and jellies and puddings with typical Mexican flavors, which strengthened the brand's competitive advantage in the market as being authentically Mexican. We have also added new SKUs to the rest of the portfolio, notably Chi-Chi's® healthy tortillas and Wholly Guacamole® in individual portions.

All these efforts and initiatives bring us closer to achieving our goal whereby innovation contributes 5% of the Group's total net sales in the medium term.





# Charting NEW PATHS to get closer to the consumer

---

Through the acquisition of Grupo Nutrisa, a pioneer and national leader in the health foods segment and frozen yogurt category, we are adding a new path to our growth.

The Nutrisa® product portfolio includes food, beverages, dietary supplements and frozen products. This latter category, which includes frozen yogurt and popsicles, contributes two-thirds of total sales and generates the highest rate of growth.

This acquisition is undoubtedly one of the most important steps along our path of evolution and growth, as it offers the following opportunities:

1. The Nutrisa® brand is the fifth highest ranked Mexican retail brand <sup>1</sup> and its presence is concentrated in its own points of

sale. This opens the door for us to more aggressively penetrate the modern retail channel, where we are strongly positioned. This initiative will help us consolidate the brand, and Grupo Herdez in general, in the healthy food segment.

2. Frozen yogurt has a unique combination of attributes. In addition to its low caloric content, it is indulgent, an irresistible appeal to our consumers who are increasingly interested in eating healthy foods.

3. Grupo Nutrisa has 418 points of sale in Mexico, visited by more than 22 million people in 2013 alone. This represents an invaluable opportunity to interact with the consumer directly and, therefore, respond more quickly to changes in consumption

FOR MORE  
INFORMATION



<sup>1</sup> According to a study conducted in 2012 by Interbrand.

*The Nutrisa® points of sale represent an invaluable opportunity to understand consumer's needs directly.*



Over **22**  
million  
clients visited our  
**Nutrisa® stores** in 2013



patterns. Currently, 49% of its points of sale are in the metropolitan area of Mexico, which will allow us to continue expanding brand presence to the rest of the country.

4. Grupo Nutrisa provides us with new capabilities that we had not yet developed in Mexico. First, its distribution network gives us entry into the frozen food segment and, second, it complements our portfolio with the incorporation of impulse-purchase products.

From 2008 to date, Grupo Nutrisa has generated double-digit compound annual growth both in sales and EBITDA. We are confident that with its potential and our expertise we can maintain this pace in the years to come.

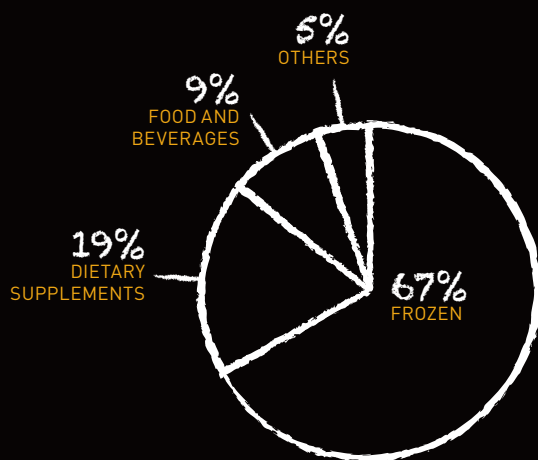


# NUTRISA®



## Sales mix

BY CATEGORY



256 stores

103 ice-cream parlors

46 kiosks

+

9 Yozen®

2 Benefits®

2 Amantes del Yogurt®

---

418 stores\*

\*138 are franchises



ethics and  
transparency



community  
involvement



environment



quality  
of life





# Adding VALUE to our environment

---

At Grupo Herdez we are convinced that our operating and financial performance should go hand in hand with equally outstanding guidelines in the sustainability front, as this is the only way to ensure the long-term viability of the Company.

Through our sustainability strategy we generate value for the business and focus efforts on relevant actions that benefit our various stakeholders. This strategy is supported by four fundamental pillars: i) ethics and transparency; ii) environment; iii) quality of life; and iv) community involvement.

## ETHICS AND TRANSPARENCY

We support the principles of the United Nations Global Compact by respecting the dignity of our employees and striving to guarantee

the rights of our employees and of all those involved in the value chain.

We have a Code of Ethics with strict and mandatory application for all employees, regardless of their hierarchy level, which also extends to external consultants and service providers.

In 2013, Grupo Herdez and its subsidiaries fully complied, on a timely basis, with the various laws and regulations of the countries in which they operate.

We have a hotline reporting system that protects informants and offers three formal channels of communication:

- Mailboxes at each location
- E-mail: [confianza@herdez.com](mailto:confianza@herdez.com)

FOR MORE  
INFORMATION



*In 2013, there were no reports of incidents on discrimination or human rights complaints.*

The 55 incidents were reported through:



- Toll-free line: 01-800 CONFIANZA (01-800-266-342692)

Through these channels, a total of 55 incidents were reported and resolved, and only two are still under analysis. For each incident, we have a record of the resolution, ranging from a reprimand to dismissal for violation of the Code of Ethics.

There were no reports of incidents involving discrimination or human rights complaints in 2013.

Each of our operations has undergone an analysis of the risks related to corruption and human rights. We have begun to implement a corruption prevention program at all levels; in 2013, the management team received 35 man-hours of training on anti-corruption practices.

In addition, for the first time our employees in key areas such as strategic procurement, environmental management, legal, operations and human resources, received 135 hours of human rights training. The program was provided by the regional office for Latin America and the Caribbean of the Global Compact and the Centro IdeaRSE of the Universidad Anáhuac in Mexico.

### Relationship with Suppliers

In 2013 we purchased more than four million tons of inputs that meet recognized international production standards, equivalent to 91% of the total volume acquired.

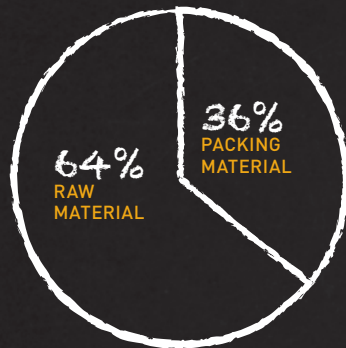
During the year we also implemented a sustainability evaluation for suppliers, whose goods and services represent 80% of our expenditure. As a result, we developed the Supplier Code of Conduct, which contains clauses on human rights, corruption, labor and environmental standards. This Code was distributed in January 2014.

It is of fundamental importance for Grupo Herdez to have the confidence of its clients and consumers. Based on our Corporate Safety and Quality Policy we adhere to the highest international standards. Thus, we supply high quality products that surpass the legal requirements in every country where they are commercialized.

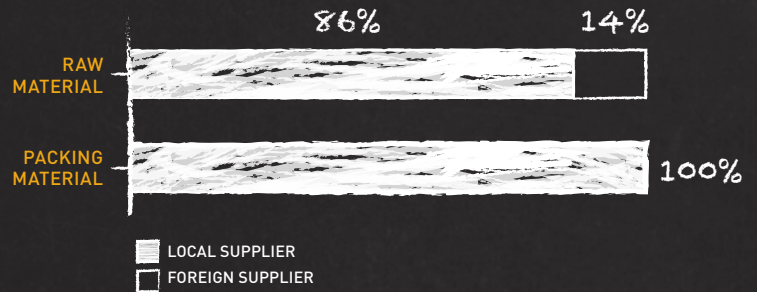
Percentage of certified production:

- HACCP: 54%
- FSSC 22000: 50%
- ISO 9001: 20%

### Input mix

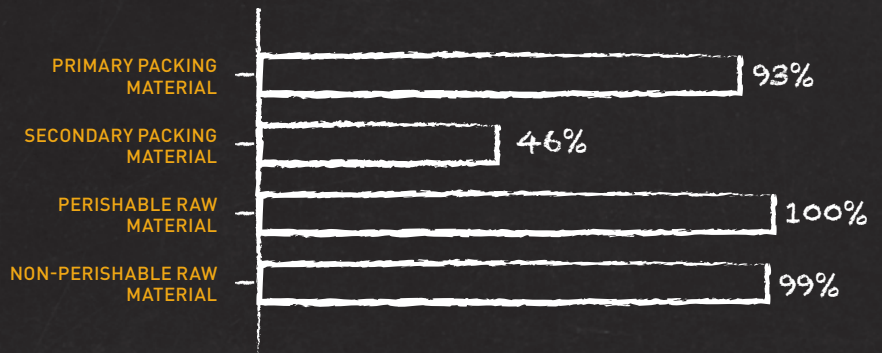


### Input origin



**GUADALUPE LATAPI**  
FOUNDER OF AIRES DE CAMPO

### Audited suppliers







The following tools and practices enable us to evaluate and improve client satisfaction:

- Toll-free lines
- Sensory Studies
- Brand health Tracking
- Market intelligence
- Household panel

FOR MORE INFORMATION



TABLE 1. ENVIRONMENTAL GOALS

		2011	2012	2013	Accumulated Advance	
ENERGY 	ANNUAL CONSUMPTION	145	158	138		
	Unit of measurement	kW/h per ton produced				
	GOAL 2015	Reduce total in-plant consumption by 10% compared to 2009	-1.7%	8.9%	-12.3%	12.8%
	WIND ENERGY CONSUMPTION			8,673,746		
	Unit of measurement	kW/h				
GOAL 2015	80% of electrical energy consumed must come from clean sources or alternative generation	0%	0%	13.0%	13.0%	
WASTE 	WASTE GENERATED ANNUALLY	20,236	25,076	39,349		
	Unit of measurement	Tons				
	GOAL 2015	Reduce volume of waste sent for final disposal by 20%	101.9%	23.9%	56.9%	0%
	GOAL 2015	Increase waste valorization by 5%	7.8%	46.2%	34.2%	100%
EMISSIONS 	ANNUAL EMISSIONS	109,057	104,423	98,815		
	Unit of measurement	Tons of CO <sub>2</sub> equivalent				
	GOAL 2015	Reduce CO <sub>2</sub> e emissions by 20% compared to estimated 2010 emissions	1.6%	-4.3%	-5.4%	8.0%
WATER 	ANNUAL CONSUMPTION	1,135,062	1,068,729	1,606,778		
	Unit of measurement	m <sup>3</sup>				
	GOAL 2015	Reduce potable water consumption by at least 20% compared to 2009	-13.1%	-5.8%	50.3%	0%

## ENVIRONMENT

Aware of our environmental responsibility, we adhere to best corporate practices in this matter and strengthen a culture of continuous improvement that will lead to sustainable development.

We seek the efficient use of natural resources in our production processes, which involves reducing Greenhouse Gas (GHG) emissions, maximizing the use of renewable resources and mitigating the environmental impact of our operations.

It is important to note that the increase in the volume of waste generated in 2013 (Table 1) reflects more rigorous record-keeping and improved tracking of the information.

Regarding water consumption, the increase compared to 2012 (Table 1) is explained by the incorporation of two work centers and stricter accountability. In addition, some plants have already surpassed their water consumption reduction goal for 2015, such as Planta México, which generated a cumulative 73.2% reduction from 2009 to 2013.

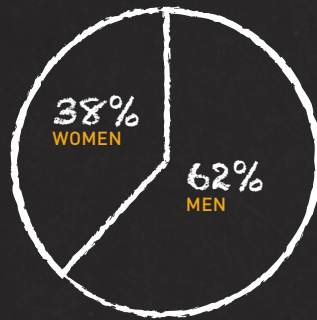
We have no significant direct or indirect impact on biodiversity. In fact, because of the risk that tuna fishing poses to other species, we comply with the Code of Conduct for Responsible Fishing.

We invested more than Ps.15 million in pro-



Grupo Herdez fleet complies with the Code of Conduct for Responsible Fishing.

Employee mix  
BY GENDER



Over  
**70,000**  
man-hours of training

environmental actions in 2013, of which Ps. 6 million was spent on prevention and environmental management.

### Social Dimension

We have a commitment to positively impact society, both internally (employees) and externally (community). In 2013 alone, we invested Ps. 59 million in social programs and Ps. 6 million in training for our employees.

### QUALITY OF LIFE<sup>1</sup>

Given the importance of engaged and capable personnel, we provide career plans and development opportunities for our employees, respect their right to collective bargaining, focus on maintaining a safe working environment, and reward them with salaries that exceed those established by the law.

Through our Gender Equity Policy, we promote equal opportunities for our workforce and pro-

vide the same standard starting salary to women and men. We are committed to the creation of an inclusive environment, where employees feel valued, respected and empowered to make decisions.

Of our personnel, 48.8% are adhered to a collective agreement.

During the year, we provided 72,104 man-hours of training, an average of 11.3 hours per employee. In addition, 100% of non-unionized personnel are given a performance evaluation at least once a year.

TABLE 2. ACCIDENTS AND ILLNESSES

	2012	2013
Number of accidents	208	191
Occupational diseases	0	0
Days lost per employee	0.7	0.9
Absenteeism per employee	7.1%	9.2%
Fatalities	0	0

FOR MORE INFORMATION



<sup>1</sup> The information is based on 6,380 employees, excluding Grupo Nutrisa personnel, who will be included in 2014.

2013

achievements:

Communities program

25

communities

1,926

beneficiaries

277

projects built



#### COMMUNITY ENGAGEMENT

At Grupo Herdez we are committed to reversing nutrition problems in our country with the support of our brands. Education and capacity-building are two key areas to achieve this fundamental change. For this purpose, we have developed a one-of-a-kind program, Saber Nutrir®, through which we teach how to make the best use of available resources for adequate long term nutrition.

The program operates in both elementary schools (through healthy eating education sessions offered by a certified nutritionist) and rural communities (through the food security model) so that with training and community empowerment we are helping to fight poverty-related nutrition issues.

The program is currently running in elementary schools and rural communities in seven Mexican states: Chiapas, Mexico City, State of Mexico, Jalisco, Nuevo León, San Luis Potosí and Sinaloa.

Our non-profit association, Fundación Herdez, promotes food research and development. Its library, museum and interpretive

We received  
**over**  
**12,000**

visitors in the **Nuestra  
Cocina Duque de  
Herdez** Museum Gallery

We donated  
**over**  
**200,000**

boxes of products to the  
**Banco de Alimentos de México**



Schools  
program



459  
schools

393,576  
beneficiaries

1,055,118  
education hours

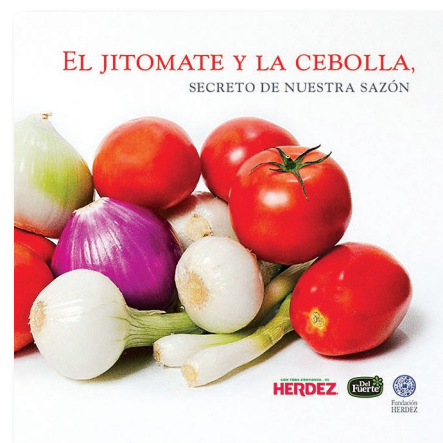
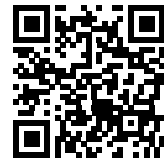
center in Mexico City enable it to reach across the different strata of the population.

The Library of Mexican Gastronomy, with a collection of 4,500 books, received 2,789 visitors in 2013. Nuestra Cocina Duque de Herdez Museum Gallery offers guided tours that explore the history of Mexican cuisine. During the year, 40 tours were given for a total of 991 students and 12,298 visitors.

Implemented in 2011, the On-line Publications Program published in 2013: *El jitomate y la cebolla, secreto de nuestra sazón* (Tomato and onion, the secret of our seasoning), which was presented at the Feria Internacional del Libro de Guadalajara, and *Memoria 1991-2012* (1991-2012 Memoir), both available at [www.fundacionherdez.com.mx](http://www.fundacionherdez.com.mx)

As part of the Monthly Food Donation Program, more than 200,000 boxes of products were delivered to the Banco de Alimentos de México (Mexico Food Bank), to the benefit of 84 institutions, while thanks to the Disaster Donation Program, 12,000 boxes of food were distributed to victims.

FOR MORE  
INFORMATION



Presented at the  
**Feria Internacional del  
Libro de Guadalajara**

# MANAGEMENT'S DISCUSSION & Analysis of Results

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## NOTE ON ACCOUNTING STANDARDS

All audited figures contained in this report are expressed in millions of Mexican pesos and prepared in accordance with International Financial Reporting Standards (IFRS) adopted on January 1, 2013. Please note that the most significant changes in the presentation of our Financial Statements derived from the adoption of changes in IFRS are: i) line-by-line integration of 100% of Herdez Del Fuerte Mexico (previously 50%); and ii) the recording of 50% of the net income of MegaMex in the equity investment in associates line (previously 25% line-by-line). It is important to highlight that among the most important impacts to the financial structure are an additional 50% of corporate loans of Herdez Del Fuerte Mexico and an increase in the minority shareholders' equity.

## OVERVIEW OF PERFORMANCE IN THE YEAR

In 2013, Grupo Herdez generated record net sales and operating income despite a challenging environment.

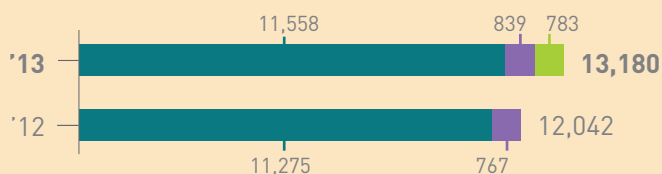
Amongst the key factors and trends that influenced the Company's operating and financial results during the year, the following are of particular note:

- Weaker than expected consumption in both of our main markets. In Mexico, soft results in indicators such as remittances and job creation affected the consumer sector; while in the United States, the economic recovery remained weak and the fastest growing categories in Mexican food faced a tougher competitive environment.



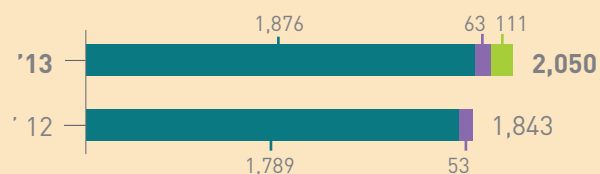
## Net Sales

MILLION PESOS



## EBITDA

MILLION PESOS



■ MEXICO ■ EXPORTS ■ NUTRISA

- A number of non-recurring items, totaling Ps. 369, impacted our results on the following lines:
  - Cost of Goods Sold: Ps. 73 for the relocation of the mayonnaise plant.
  - Net Income: Ps. 60 on additional taxes recorded in the second quarter, as well as a Ps. 236 payment registered at the equity investment in associates line for MegaMex's earn-out of Fresherized Foods.
- The incorporation of Grupo Nutrisa and the results of the revamped innovation strategy, which combined helped offset soft organic top line growth in both markets.

### NET SALES

Net sales totaled Ps. 13,180 in 2013, a 9.5% increase from the 2012 figure. In Mexico, net sales rose 9.5% to Ps. 12,341, primarily reflecting the incorporation of Grupo Nutrisa. To a lesser extent, product launches arising from the ongoing maturation of the innovation process launched in late 2011 also con-

tributed. The categories that outperformed the average were frozen yogurt, mayonnaise, mole, tomato puree and teas. In the international segment, which includes only exports, net sales rose 9.4% to Ps. 839 mainly due to double digit sales increases to MegaMex and Central America.

### GROSS PROFIT

Gross margin in 2013 was 35.2%, 2.3 percentage points higher than in the previous year. This expansion is primarily explained by: i) lower prices for the main raw materials; ii) a stronger peso particularly in the second quarter; and iii) the incorporation of Grupo Nutrisa as of mid-May, which has a lower cost structure than Grupo Herdez. The above factors were partially offset by a Ps. 73 charge related to the relocation of the mayonnaise plant. Excluding the latter, gross margin would have increased 2.8 percentage points to 35.8 per cent.

### OPERATING EXPENSES

Operating expenses as a percentage of net sales were 22.1% compared to 19.7% registered in 2012, primarily reflecting the higher

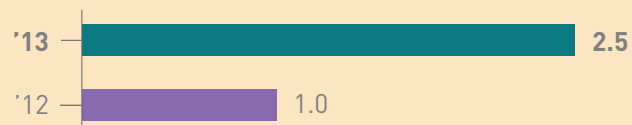
## Earnings Per Share

PESOS



## Net Debt / EBITDA

TIMES



expense structure of Grupo Nutrisa, due to its retail business base, as well as the increase in marketing and advertising expenses in Mexico as planned since the beginning of the year.

### OTHER INCOME

The Company registered Ps. 33 compared to Ps. 47 in 2012.

### OPERATING INCOME

Operating income totaled Ps. 1,757, a rise of 7.5% from the previous year. The operating margin of 13.3% was 30 basis points lower than in 2012 due to a lower absorption of fixed costs and expenses as a percentage of sales due to soft top line performance, as well as the relocation of the mayonnaise plant. Excluding extraordinary charges, operating margin would have been 13.9%, 31 basis points higher than last year.

### COMPREHENSIVE RESULT OF FINANCING

The Company registered a Ps. 259 cost in 2013. This mainly reflects higher interest pay-

ments arising from the Ps. 3,000 financing secured for the Grupo Nutrisa acquisition.

### EQUITY INVESTMENT IN ASSOCIATES

This line item, which is mainly comprised of the 50% of MegaMex net income that corresponds to Herdez Del Fuerte, was Ps. 186, 54.9% lower than in 2012 affected by the Ps. 236 earn out payment for Fresherized Foods, who exceeded the targets set at the time of the acquisition.

### MAJORITY NET INCOME

Majority net income totaled Ps. 608, a 23.1% decrease from the previous year, while the margin contracted two percentage points to 4.6%. This reflects the above mentioned one-time charges on the cost of goods sold and the equity investment in associates lines, as well as an additional tax paid in the second quarter of approximately Ps. 60. Excluding extraordinary expenses, majority net income would have been Ps. 859, 8.7% higher than in 2012; while the margin would have remained nearly flat at 6.5 per cent.

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA increased 11.3% to Ps. 2,050. Margin was 15.6%, 30 basis points higher than in the year ago period. Excluding the extraordinary expense registered in the cost of goods sold line, EBITDA margin would have expanded 81 basis points to 16.1 per cent.

## CAPITAL EXPENDITURES (CAPEX)

Net CAPEX in the year totaled Ps. 852 and was primarily allocated to the construction of the mayonnaise plant, a new pasta line, ongoing consolidation of three plants in Los Mochis, Sinaloa and the opening of 27 new company-owned points of sale for Nutrisa® since mid-May.

## FINANCIAL STRUCTURE

At December 31, 2013, the Company's cash position totaled Ps. 887, a 32.4% decrease from 2012 due primarily to the 2014 advanced dividend payment totaling Ps. 367 made in December as well as a debt prepayment of Ps. 152 at the end of the year. Consolidated debt at year-end was Ps. 5,969 which includes Ps. 3,000 of local bonds issued to refinance the bridge loan for the Grupo Nutrisa acquisition.

The average maturity of the Company's debt at year-end was extended to 6.4 years. All the debt is peso-denominated, and of the total, 48% was at a floating rate.

Leverage ratios remained healthy, with net debt to consolidated EBITDA at 2.5 times and net debt to consolidated shareholders' equity at 0.4 times.



In 2013  
Net CAPEX amounted

**Ps. 852**  
million

# AUDIT Committee Report

FEBRUARY 24, 2014

To the Board of Directors and Shareholders of  
Grupo Herdez, S.A.B. de C.V.

I am pleased to present herewith the Annual Report on the activities of the Board of Directors' Audit Committee for the 2013 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, and in the General Rules Applicable to Securities Issuers and other Participants of the Securities Market; the Best Corporate Practices Code's recommendations; and the provisions of the Audit Committee Rules, as well as of the Annual Program issues to be dealt with.

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

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

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

1. The Reported Financial Statements as at December 31, 2012, 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 were also analyzed.

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

2. We have learned about the document which includes the guidelines of the "Communication with the responsible of the entity governance" which based on the international auditing standards has been issued by the society's external auditor, with information required to be known by the Audit Committee.
3. We have analyzed the Report on the internal control assessment performed by the society's external auditor during the normal course of its revision for the 2012 fiscal year audit. The report indicates that the outcome of the applied audit procedures over the internal control design and operation, in which a high level of trust has been deposited during the audit development, confirms that it is working in an effective manner, with none of the detected and reported remarks submitted to the management that may be considered as a significant material weakness or shortcoming. We have learned about improve-

ment areas and follow up has been given to their implementation.

4. We have learned about the 2013 Quarterly Financial Statements, and we have issued our recommendation for their submission to the Mexican Stock Exchange.
5. We have analyzed and approved the work plan of the Internal Audit area for the year 2013, and follow up has been done to the development of its works, and to the implementation of its observations.
6. The new IFRS used during the 2013 fiscal year, as well as those already in force were consistently applied with no significant effects. Nevertheless, the application of the IFRS 11 "Joint Agreements" did not allow the proportional consolidation of associations at 50%, for which reason, after a detailed study the IFRS 10 "Consolidated Financial Statements" was adopted. The consolidated financial information showed the acquisition of Grupo Nutrisa, S.A.B. de C.V. as of the month of May.
7. We have assessed the performance of the external audit firm PricewaterhouseCoopers, having been considered as satisfactory and in accordance with the criteria established in the services contract. Likewise, the partner in charge of the audit, in due time has confirmed his professional and economic independence.

Notwithstanding, taking into account the benefits of having different knowledge and expertise, as well as to follow the practice that recommends an eventual change of external auditor when it has remained for a long period of time. We recommended the hiring of KPMG Cárdenas Dosal firm for the 2013 fiscal year of Grupo Herdez and its subsidiaries

with the exception of Herdez Del Fuerte S.A. de C.V. In this manner, confirmation of the firm PricewaterhouseCoopers as the external audit firm of the subsidiary Herdez Del Fuerte, S.A. de C.V. and its companies in the United States of America has been recommended for the 2013 fiscal year.

8. Additional services to those of the external audit provided by the society's external audit firm amounted to a total of \$6.5 million.
9. We have learned and assessed the activities of the Risks Committee, as well as the mechanisms implemented by the Chief Executive Officer for the identification, analysis, management and control of the main risks to which the society is subject to, as well as the established criteria for their adequate disclosure.
10. During each and every meeting we have been informed about the complaints received due to penalties to the Ethics Code, as well as about the follow up and protection given to the informants.
11. We have learned about and follow up has been given to the outstanding fiscal and legal matters, as well as to the adequate implementation of the Securities Market Law provisions, and the Shareholders' and the Board of Directors' meetings resolutions.

Sincerely,



**ROBERTO DANIEL DÍAZ**  
Chairman of the Audit Committee

# CORPORATE PRACTICES Committee Report

FEBRUARY 24, 2014

To the Board of Directors and Shareholders of  
Grupo Herdez, S.A.B. de C.V.

I am pleased to present herewith the Annual Report of the activities of the Board of Directors' Corporate Practices Committee corresponding to 2013 fiscal year, as provided in Article 43, Section I of the Securities Market Law.

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

During the reported period, the Committee punctually held the called meetings, an agenda was prepared based on the issues to be discussed and the respective meeting summaries were prepared. The meetings were attended by the designated Directors and invitees.

A report was presented 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 the following:

1. We have learned the policies for designation and for the integral compensation of the Chief Executive Officer and other relevant executives.
2. We have learned the mechanism to measure and disclose the observations on the performance of the relevant executives. During the year, the performance of these relevant executives was considered to be adequate, having been determined on the basis of the established policies.
3. We analyzed 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 parties, as part of the agreed procedures referred to in the applicable standard. In his report, it was concluded that the transactions correspond to the normal business purposes, that they have been carried out at market value, and that they have been duly recorded as appropriate. Such transactions have included sales services, selling of materials, royalties, real estate and transportation equipment leasing, finished product imports, personnel services, interests, freights and other services amounting to a total of \$3,868 million.
5. With an exception granted to a relevant executive, in general no exemption was granted by the Board of Directors to allow a Director, a relevant executive or an individual with decision-making power to take advantage for his own benefit, or in favor of any third party, from business opportunities corresponding to the society or to a legal entity under their control, or over which they have significant influence.
6. Management of derivative financial instruments, which is mainly focused on certain raw materials coverage, in being carried out in accordance with the policies that have been established and approved by the Board of Directors.
7. Following the Business Strategy Model of the society, the Board of Directors approved the acquisition of Grupo Nutrisa, S.A.B. de C.V. in January 2013.

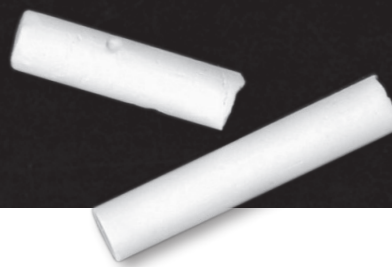
Sincerely,



**ROBERTO DANIEL DÍAZ**

Chairman of the Corporate Practices Committee

# CORPORATE Governance



The Board of Directors of Grupo Herdez is the highest governance body. The Chairman of the Board is also the Group's Chief Executive Officer. Board members are required to:

- i) have professional training in economic-management sciences, preferably at a Masters level;
- ii) have minimum professional experience of twenty years in executive positions at consumer and/or financial sector companies;
- iii) have experience as board members in the manufacturing industry and/or financial sector; and
- iv) belong to business organizations.

(Table 1)

The Board of Directors meets at least quarterly. Intermediate bodies are responsible for monitoring the management and implementation of the objectives of the Company. (Table 2)

From 2014, the Board will receive quarterly reports on the Company's social and environmental performance.

The Audit Committee is responsible for reviewing the complaints and/or reports received from employees, suppliers or third parties, and presenting them to the Board of Directors in an annual report.

According to Company bylaws, Board members receive two \$50.00 peso gold (Centenario) coins, or their equivalent, in compensation for attending each meeting. This compensation is not dependent on the results of the Group.

To avoid conflicts of interest, each committee is governed by rules that regulate and define the functions of the highest level of governance. One such function is to validate the salaries of top executives of the Company, including the CEO. (Table 3)

**TABLE 1. DISTRIBUTION OF MEMBERS BY GENDER AND AGE**

Governance Body	Men	Women	Over 50
Board of Directors	90%	10%	100%
Audit Committee	100%	0%	100%
Corporate Practices Committee	100%	0%	100%
Risk Committee	100%	0%	100%

**TABLE 2. ATTENDANCE TO BOARD MEETINGS**

Quarter	1T13	2T13	3T13	4T13
Date	25-Apr	25-Jul	24-Oct	20-Feb
Attendance	80%	80%	100%	100%

**TABLE 3. INTERMEDIATE AND OPERATING GOVERNANCE BODIES**

Intermediate Bodies	Operating Governance Bodies
<b>Audit Committee</b>	<b>Risk Committee</b>
4 independent members	7 members
<b>Corporate Practices Committee</b>	<b>Ethics Committee</b>
5 members (3 independent)	6 members

## BOARD OF DIRECTORS

### Proprietary Directors

Héctor Hernández-Pons Torres

CHAIRMAN, [M] 1991

Enrique Hernández-Pons Torres

VICE-CHAIRMAN, [M] 1991

Flora Hernández-Pons de Merino

[M] 2004

### Independent Directors

Carlos Autrey Maza [M] 1991

Enrique Castillo Sánchez Mejorada [M] 1991

José Roberto Danel Díaz [M] 2003

Eduardo Ortiz Tirado Serrano [M] 2003

Luis Rebollar Corona [M] 2004

José Manuel Rincón Gallardo [M] 2005

### Secretary

Ernesto Ramos Ortiz

(NON-MEMBER)

## AUDIT COMMITTEE

José Roberto Danel Díaz [FE]

CHAIRMAN

Carlos Autrey Maza

Eduardo Ortiz Tirado Serrano

José Manuel Rincón Gallardo [FE]

## CORPORATE PRACTICES COMMITTEE

José Roberto Danel Díaz

CHAIRMAN

Enrique Hernández-Pons Torres

Héctor Hernández-Pons Torres

Luis Rebollar Corona

José Manuel Rincón Gallardo

## MANGEMENT TEAM

Héctor Hernández-Pons Torres

CHIEF EXECUTIVE OFFICER

Enrique Hernández-Pons Torres

DEPUTY CEO AND INTERNATIONAL BUSINESS

VICE PRESIDENT

Gerardo Canavati Miguel

CHIEF FINANCIAL OFFICER AND PLANNING VICE PRESIDENT

Héctor J. Castillo Guerrero

MARKETING VICE PRESIDENT

Andrea del Rizzo

SALES VICE PRESIDENT

Alberto Garza Cabañas

SUPPLY CHAIN VICE PRESIDENT

Pedro Gracia Medrano Murrieta

HUMAN RESOURCES VICE PRESIDENT

Alejandro Martínez-Gallardo y de Pourtales

ASSOCIATED COMPANIES BUSINESS UNIT VICE PRESIDENT

Ernesto Ramos Ortiz

ADMINISTRATIVE VICE PRESIDENT

Juan Rodríguez del Collado

FOOD SERVICE VICE PRESIDENT

66% of the Board members are Independent Directors

[FE] Financial Expert

[M] Member since



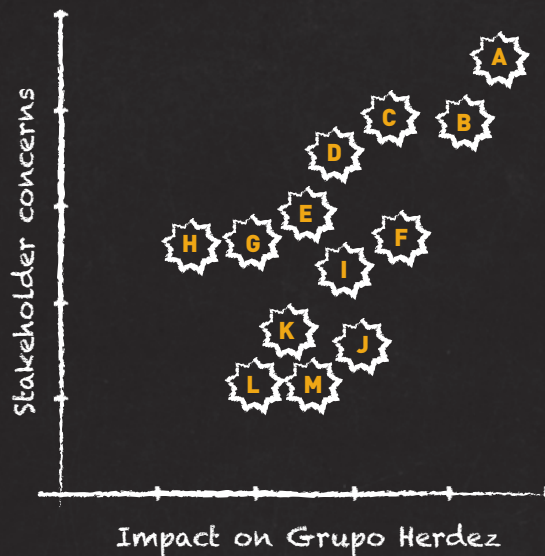
# Materiality & Scope of this Report

## MATERIALITY

At Grupo Herdez we are aware that the people with whom we come into contact during our everyday operations are key to our success and permanence. With that in mind, for the first time we conducted a study to determine key stakeholder concerns about the Company.

The following graphic shows the most important concerns for the stakeholders we consulted:

- |                                   |                                  |
|-----------------------------------|----------------------------------|
| <b>A</b> Employee quality of life | <b>H</b> Water                   |
| <b>B</b> Regulatory compliance    | <b>I</b> Human rights            |
| <b>C</b> Product reformulation    | <b>J</b> Healthy living programs |
| <b>D</b> Consumer relations       | <b>K</b> Waste reduction         |
| <b>E</b> Safety and hygiene       | <b>L</b> GHG emissions           |
| <b>F</b> Biodiversity             | <b>M</b> Supplier development    |
| <b>G</b> Energy consumption       |                                  |



## SCOPE

Through this report we present Grupo Herdez's stakeholders the results, programs and actions in the financial, social and environmental fields which took place between January 1 and December 31, 2013. Our previous annual reports can be consulted at [www.grupoherdez.com.mx](http://www.grupoherdez.com.mx)

We are grateful for any feedback on the information contained in this document. For this purpose, at the end of this Report, we provide the contact information of the person responsible for dealing promptly with any feedback.

The sustainability information was prepared according to the methodology of the Global Reporting Initiative (GRI) 3.1 version, the sectorial supplement on Food Processing, the Sustainable Index Indicators of the Mexican Stock Exchange and the principles of the United Nations Global Compact. We use the "Making the Connection" tool to link GRI indicators to the principles of the Global Compact.

This report has a GRI Application Level B and covers all the strategic areas of the Group. We obtained the information from the Social Responsibility Committees, key areas and management staff, who provided consolidated data for each indicator.

The financial information included is audited by KPMG Cárdenas Dosal, S.C. The sustainability information is not audited; however, during 2013 the Company worked on formalizing the data collection process to guarantee the traceability of the data presented. We intend to submit the 2014 sustainability report for external audit.



## Statement GRI Application Level Check

GRI hereby states that **Grupo Herdez S.A.B. de C.V.** has presented its report "Tracing new routes" (2014) to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 10 March 2014

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a light blue circular background.

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 25 February 2014. GRI explicitly excludes the statement being applied to any later changes to such material.

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

DECEMBER 31, 2013

These financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers.

# Consolidated FINANCIAL Statements

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## Contents

42 -	Independent Auditors' Report	48 -	Consolidated Statements of Changes in Stockholders' Equity
44 -	Consolidated Statements of Financial Position	50 -	Statements of Consolidated Cash Flow
46 -	Consolidated Statements of Income	51 -	Notes to the Consolidated Financial Statements
47 -	Consolidated Statements of Other Comprehensive Income		

# Independent AUDITORS' REPORT

*(Translation from Spanish Language Original)*

**To the Board of Directors and Stockholders  
Grupo Herdez, S. A. B. de C. V.:**

We have audited the accompanying consolidated financial statements of Grupo Herdez, S. A. B. de C. V. and subsidiaries (the "Company" or the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income, statements of other comprehensive income, statements of changes in stockholders' equity and cash flows for the year then ended, and notes, comprising a summary of the accounting policies and additional explanatory information.

## **MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements free from material misstatement, whether due to fraud or error.

## **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those stan-

dards require us to comply with ethical requirements and to plan and perform the audit in order to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures in order to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers the entity's internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Herdez, S. A. B de C. V. and subsidiaries as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended December 31, 2013, in accordance with International Financial Reporting Standards.

## COMPARATIVE FINANCIAL INFORMATION

Without qualifying our opinion, we draw attention to note 2(e) in the consolidated financial statements, which discloses that the comparative information presented on December 31, 2012 has been reformulated, because the Company adopted the guidelines set forth in the IFRS 10 "Consolidated Financial Statements" in reference to the comprehensive consolidated recognition of its subsidiary company Herdez del Fuerte, S. A. de C. V.

The consolidated financial statements of Grupo Herdez, S. A. B. de C. V. and subsidiaries as at December 31, 2012 and December 31, 2011 (from which the consolidated statement of financial position as at January 1, 2012 has been derived), excluding the adjustments described in note 2(e), were audited by other auditors who expressed an unqualified opinion on those financial statements on April 5, 2013.

As part of our audit of the consolidated financial statements as at December 31, 2013, we have audited the adjustments described in note 2(e) that were applied to reformulate the comparative information presented as at December 31, 2012 and the consolidated statement of financial position as at January 1, 2012. We were not hired to audit, review, or apply procedures to the consolidated financial statements as at December 31, 2012 and 2011 (not presented herein) nor to the consolidated statement of financial position as at January 1, 2012, other than with respect to the adjustments aforementioned. Therefore, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole. In our opinion, the adjustments described in note 2(e) to the consolidated financial statements are appropriate and have been properly applied.

KPMG CARDENAS DOSAL, S. C.



**JOSÉ MANUEL GONZÁLEZ GARNICA**

MARCH 11, 2014

# Consolidated statements of financial position

(Thousands of Mexican pesos)

	DECEMBER 31, 2013	DECEMBER 31, 2012 Reformulated	JANUARY 1, 2012 Reformulated
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 886,680	1,311,196	1,204,907
Trade receivables (notes 6 and 9)	1,647,826	1,780,484	1,692,762
Debtors (note 9)	46,330	46,413	63,973
Value added tax recoverable	365,620	201,096	212,497
Income tax recoverable	103,507	115,920	87,925
Related parties (note 7)	202,573	120,598	184,305
	<u>2,365,856</u>	<u>2,264,511</u>	<u>2,241,462</u>
Inventories (note 8)	1,985,769	1,658,724	1,375,495
Derivative financial instruments (note 5)	25,055	63,151	71,213
Advanced payments	54,653	90,058	112,325
	<u>5,318,013</u>	<u>5,387,640</u>	<u>5,005,402</u>
Total current assets	5,318,013	5,387,640	5,005,402
Property, machinery and equipment (note 10)	4,110,899	3,312,732	3,015,685
Investment in shares of the associated parties (note 12)	4,598,513	4,696,895	4,656,519
Intangible assets and goodwill (note 11)	6,608,383	3,847,137	3,859,724
Deferred income taxes (note 18)	172,588	196,060	245,436
Other assets	28,738	11,107	33,736
	<u>\$ 20,837,134</u>	<u>17,451,571</u>	<u>16,816,502</u>
<b>Total assets</b>	<b>\$ 20,837,134</b>	<b>17,451,571</b>	<b>16,816,502</b>

	DECEMBER 31, 2013	DECEMBER 31, 2012 Reformulated	JANUARY 1, 2012 Reformulated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>SHORT-TERM LIABILITIES:</b>			
Bank loans (note 14)	\$ -	-	4,200
Suppliers	1,094,386	941,865	1,036,340
Creditors	484,430	351,233	354,441
Derivative financial instruments	-	877	43,507
Income tax payable	-	-	39,768
Employees' statutory profit sharing payable	10,944	25,660	26,439
Total short-term liabilities	1,589,760	1,319,635	1,504,695
<b>LONG-TERM LIABILITIES:</b>			
Notes payable (note 14)	4,979,370	2,181,441	2,219,361
Long-term debt (note 14)	1,064,219	1,060,946	1,117,135
Derivative financial instruments (note 5)	31,921	37,068	27,384
Deferred income tax (note 18)	711,026	446,496	511,329
Taxes under tax consolidation (note 18)	218,643	225,649	205,382
Employee benefits (note 17)	112,173	127,517	78,346
Total long-term liabilities	7,117,352	4,079,117	4,158,937
Total liabilities	8,707,112	5,398,752	5,663,632
<b>STOCKHOLDERS' EQUITY (NOTE 19):</b>			
Capital stock	575,625	575,625	575,625
Reserve for repurchase of shares	601,911	600,000	321,194
Retained earnings	4,265,071	4,396,286	4,161,062
Legal reserve	141,862	141,862	141,862
Premium on the subscription of shares	113,110	113,110	113,110
Financial instruments	(19,114)	(37,524)	(43,856)
Cumulative translation adjustment	(13,757)	(5,425)	39,367
Capital attributable to controlling interest	5,664,708	5,783,934	5,308,364
Capital attributable to non-controlling interest	6,465,314	6,268,885	5,844,506
Total stockholders' equity	12,130,022	12,052,819	11,152,870
Contingencies and commitments (notes 27 and 28)			
Subsequent event (note 29)			
<b>Total liabilities and stockholders' equity</b>	<b>\$ 20,837,134</b>	<b>17,451,571</b>	<b>16,816,502</b>

See accompanying notes to consolidated financial statements.

# Consolidated statements of income

Years ended December 31, 2013 and 2012  
(Thousands of Mexican pesos)

	2013	2012 Reformulated
Net sales (note 20)	\$ 13,180,293	12,041,798
Cost of goods sold (note 21)	8,541,161	8,078,963
Gross profit	4,639,132	3,962,835
Operating expenses:		
Selling (note 23)	2,449,008	1,967,601
Administrative (note 23)	465,715	407,718
	2,914,723	2,375,319
Income before other incomes and expenses	1,724,409	1,587,516
Other income, net (note 22)	32,636	47,196
Operating income	1,757,045	1,634,712
Financial result:		
Interest earned and exchange gain (note 24)	938,986	1,025,796
Interest paid and exchange loss (note 24)	(1,198,375)	(1,220,684)
Financial result, net	(259,389)	(194,888)
Equity investment in associates (note 12)	186,323	412,963
Income before income taxes	1,683,979	1,852,787
Income taxes (note 18)	536,465	423,318
Consolidated net income for the year	\$ 1,147,514	1,429,469
Net income attributable to non-controlling interests	\$ 539,825	639,382
Net income attributable to controlling interests	607,689	790,087
Consolidated net income for the year	<b>\$ 1,147,514</b>	<b>1,429,469</b>
<b>Basic income per common and diluted share in Mexican pesos (note 26)</b>	<b>\$ 1.407</b>	<b>1.853</b>

See accompanying notes to consolidated financial statements.



# Consolidated statements of other comprehensive income

Years ended December 31, 2013 and 2012  
(Thousands of Mexican pesos)

	2013	2012 Reformulated
Consolidated net income for the year	\$ 1,147,514	1,429,469
Items that will not be reclassified to income:		
Actuarial losses on employee benefit obligations	(6,544)	(29,357)
Items that will be reclassified subsequently to income:		
Foreign currency translation results	(16,664)	(89,584)
Change in valuation of derivative financial instruments	30,383	(10,541)
	<u>30,383</u>	<u>(10,541)</u>
Consolidated comprehensive income	<u>\$ 1,154,689</u>	<u>1,299,987</u>
Comprehensive income attributable to non-controlling interest	\$ 541,429	563,379
Comprehensive income attributable to controlling interest	<u>613,260</u>	<u>736,608</u>
Consolidated comprehensive income	<u>\$ 1,154,689</u>	<u>1,299,987</u>

See accompanying notes to consolidated financial statements.

# Consolidated statements of changes in stockholders' equity

Years ended December 31, 2013 and 2012  
(Thousands of Mexican pesos)

	CAPITAL STOCK	RESERVE FOR REPURCHASE OF SHARES	RETAINED EARNINGS
<b>Balances as of January 1, 2012, previously reported</b>	<b>\$ 575,625</b>	<b>321,194</b>	<b>2,535,062</b>
Effect of adoption of newly issued accounting standards (note 2(e))	-	-	1,626,000
<b>Reformulated balances as of January 1, 2012</b>	<b>575,625</b>	<b>321,194</b>	<b>4,161,062</b>
Repurchase of outstanding shares	-	(450,007)	-
Placement of shares	-	425,515	-
Increase in reserve for repurchase of shares	-	178,460	(178,460)
Payment of dividends (note 19(c))	-	124,838	(361,384)
	-	278,806	(539,844)
Comprehensive income (note 3):			
Net income for the year	-	-	790,087
Cumulative effect of translation	-	-	-
Change in valuation of derivative financial instruments	-	-	-
Actuarial losses on employees' benefit obligations	-	-	(15,019)
Comprehensive income for the year	-	-	775,068
<b>Balances as of December 31, 2012</b>	<b>575,625</b>	<b>600,000</b>	<b>4,396,286</b>
Repurchase of outstanding share	-	(19,586)	-
Placement of shares	-	21,497	-
Payment of dividends (note 19(c))	-	-	(734,397)
Increase in stockholders' equity for non-controlling interest	-	-	-
	-	1,911	(734,397)
Comprehensive income (note 3):			
Net income for the year	-	-	607,689
Cumulative effect of translation	-	-	-
Change in valuation of derivative financial instruments	-	-	-
Actuarial losses on employees' benefit obligations	-	-	(4,507)
Comprehensive income for the year	-	-	603,182
<b>Balances as of December 31, 2013</b>	<b>\$ 575,625</b>	<b>601,911</b>	<b>4,265,071</b>

See accompanying notes to consolidated financial statements.

LEGAL RESERVE	PREMIUM ON THE SUBSCRIPTION OF SHARES	FINANCIAL INSTRUMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	CAPITAL ATRIBUTABLE TO CONTROLLING INTEREST	CAPITAL ATRIBUTABLE TO NON-CONTROLLING INTEREST	TOTAL STOCKHOLDERS' EQUITY
141,862	113,110	(43,856)	39,367	3,682,364	1,062,751	4,745,115
-	-	-	-	1,626,000	4,781,755	6,407,755
141,862	113,110	(43,856)	39,367	5,308,364	5,844,506	11,152,870
-	-	-	-	(450,007)	-	(450,007)
-	-	-	-	425,515	-	425,515
-	-	-	-	-	-	-
-	-	-	-	(236,546)	(139,000)	(375,546)
-	-	-	-	(261,038)	(139,000)	(400,038)
-	-	-	-	790,087	639,382	1,429,469
-	-	-	(44,792)	(44,792)	(44,792)	(89,584)
-	-	6,332	-	6,332	(16,873)	(10,541)
-	-	-	-	(15,019)	(14,338)	(29,357)
-	-	6,332	(44,792)	736,608	563,379	1,299,987
141,862	113,110	(37,524)	(5,425)	5,783,934	6,268,885	12,052,819
-	-	-	-	(19,586)	-	(19,586)
-	-	-	-	21,497	-	21,497
-	-	-	-	(734,397)	(350,000)	(1,084,397)
-	-	-	-	-	5,000	5,000
-	-	-	-	(732,486)	(345,000)	(1,077,486)
-	-	-	-	607,689	539,825	1,147,514
-	-	-	(8,332)	(8,332)	(8,332)	(16,664)
-	-	18,410	-	18,410	11,973	30,383
-	-	-	-	(4,507)	(2,037)	(6,544)
-	-	18,410	(8,332)	613,260	541,429	1,154,689
141,862	113,110	(19,114)	(13,757)	5,664,708	6,465,314	12,130,022

# Statements of consolidated cash flow

Years ended December 31, 2013 and 2012  
(Thousands of Mexican pesos)

	2013	2012
Operating activities:		
Income before taxes	\$1,683,979	1,852,787
Items related to investing activities:		
Depreciation and amortization	292,908	207,863
(Profit) loss on sale of property, machinery and equipment	(13,515)	2,455
Net cost for the period	29,798	23,158
Interest income	(62,130)	(52,945)
(Gain) loss from exchange	(20,516)	41,279
Investment in subsidiaries and associates	(186,323)	(412,963)
Other expenses without cash flow	(3,257)	(10,266)
Cancellation of provisions	-	(53,962)
Employees' statutory profit sharing	8,723	24,974
Items related to financing activities -		
Interest expense	342,035	206,555
Subtotal	2,071,702	1,828,935
Decrease (increase) of accounts receivable	148,924	(87,722)
Increase of inventories	(228,037)	(283,229)
(Increase) decrease in accounts receivable from related parties	(15,429)	126,163
Increase in advanced payments and taxes recoverable	(21,030)	(16,594)
Increase (decrease) in suppliers	103,612	(94,474)
Increase (decrease) in other accounts payable and creditors	42,003	(38,561)
Income tax paid	(620,534)	(524,890)
Net cash by operating activities	1,481,211	909,628
Investing activities:		
Business acquired (Grupo Nutrisa)	(2,886,768)	-
Dividends collected	305,267	315,580
Interest collected	60,944	52,401
Acquisition of property, machinery and equipment	(889,911)	(618,938)
Collections on sale of property, machinery and equipment	139,796	114,041
Net cash used in investing activities	(3,270,672)	(136,916)
Financing activities:		
Cash in flow from issuance of certificados bursátiles (domestic bonds)	3,000,000	-
Long-term bank loans obtained	200,000	-
Increase in capital stock on non-controlling interest	5,000	-
Long-term bank loans paid	(389,640)	(4,200)
Other long-term liabilities	(47,707)	(56,189)
Repurchase of shares	(19,585)	(450,007)
Placement of shares	21,497	425,515
Interest paid	(320,223)	(205,996)
Dividends paid	(1,084,397)	(375,546)
Net cash provided by (used in) financing activities	1,364,945	(666,423)
Net (decrease) increase in cash and cash equivalents	(424,516)	106,289
Cash and cash equivalents:		
At beginning of the year	1,311,196	1,204,907
At end of the year	\$886,680	1,311,196

See accompanying notes to consolidated financial statements.

# Notes to the consolidated financial statements

For the years ended December 31, 2013 and 2012 and at January 1, 2012 and for the years ended December 31, 2013 and 2012  
(Thousands of Mexican pesos)

## (1) Reporting entity-

Grupo Herdez, S. A. B. de C. V. (the "Company"), is a company located in Mexico, which trade shares on the Mexican Stock Exchange. The Company's registered office is at Calzada San Bartolo Naucalpan No. 360, Col. Argentina Poniente, Mexico, D.F., C.P. 11230. The Company's consolidated financial statements as at December 31, 2013 include the Company and its subsidiaries (jointly referred to as the "Group" and "Group entities" individually) and the Group's share on related entities and jointly controlled. The Company is a 51.0% subsidiary of Hechos con Amor, S. A. de C. V., which is empowered to lead its operations.

The Group is mainly engaged in the manufacture, purchase, distribution and marketing of canned and packed food products in Mexico, as well as food products targeted at the Mexican food segment within the United States of America (USA).

The entities of Grupo Herdez, S. A. B. de C. V. manufacture and commercialize products under the following trademarks: Aires de Campo, Barilla, Búfalo, Carlota, ChiChi's, Del Fuerte, Don Miguel, Doña María, Embasa, Herdez, La Victoria, McCormick, Wholly, Yemina and Nutrisa, among others. For such purposes, Grupo Herdez, S. A. B. de C. V. have forged alliances with leading companies worldwide, such as: McCormick and Company Inc., Hormel Foods Corp., Barilla GeR Fratelli S.p.A. and Grupo Kuo, S. A. B. de C. V. (Grupo Kuo).

## (2) Basis of preparation-

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

On March 11, 2014, the Board of Directors authorized issuance of the accompanying consolidated financial statements and notes thereto.

In accordance with the Mexican Corporations Law (LGSM by its Spanish acronym) and the bylaws of Grupo Herdez, S. A. B. de C. V., the stockholders are empowered to modify the consolidated financial statements after issuance. The accompanying consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

### (a) Measurement basis-

The consolidated financial statements have been prepared on the historical cost basis, except for following significant items included in the statement of financial position:

- The defined benefit asset is recognized as plan assets, less the present value of the defined benefit obligation and is limited as explained in note 3(i) (ii).
- Derivative financial instruments are recognized at fair value with effects applied either to income for the period or comprehensive income.

# Notes to the consolidated financial statements

[Thousands of Mexican pesos]

- The items of property, machinery and equipment recorded at their assumed cost as at the date of the transition to IFRS, which corresponds to the carrying values recognized in accordance with Mexican Financial Reporting Standards (MFRS), which include the effects of accumulated inflation as at December 31, 2007, based on the National Consumer Price Index (NCPI) issued by Banco de México (Central Bank). The assumed cost of the Chiapas plant machinery and the land of the Mexico distribution center corresponds to fair values as per appraisals conducted at the date of transition to IFRS.
- Bank loans and notes payable are recognized at their amortized cost.

## **(b) Functional and reporting currency-**

The consolidated financial statements are presented in Mexican pesos, which is the company's functional currency. All the information is presented in thousands of pesos and has been rounded to the nearest unit, except when otherwise indicated.

In the case of the foreign entities of the joint venture in the U.S., their financial statements are presented in the local currency which is their functional currency and they are converted to Mexican pesos allowing the Company to recognize their participation in such entities.

Until December 17, 2013, the subsidiary in Spain converted its financial statements from the local currency to its functional currency, which is Mexican peso. The Spain subsidiary's activity is considered an extension of the reporting entity, being the collections of royalties generated by Mexican companies its only activity, having as basis of calculation for said royalties the Mexican peso.

This Spanish subsidiary decided to transfer its business address to Mexico, adopting for such effects the Mexican nationality and the figure of corporation with variable capital, as well as the Company's name of "MARCAS HERDEZ".

## **(c) Use of estimates and judgments-**

The preparation of consolidated financial statements in accordance with IFRS requires that management to make certain judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts for assets, liabilities, income and expenses. Actual results may differ from these estimates.

The relevant estimates and assumptions are reviewed on a regular basis. The reviews of the accounting estimates are recognized in the period on which they were reviewed and in any other affected future period.

Information about critical judgments in applying accounting policies that have the most significant effect over the amounts recognized in the consolidated financial statements and estimates with a significant risk of resulting in a material adjustment in the next financial year are described below:

**(i) Consolidation of entities on which there are no majority shareholding**

The Group analyzes the existence of control over those entities on which it does not have majority shareholding, evaluating if it is exposed or has rights to the variable yields from its involvement with the entity, and has the ability to affect yields through its power over the entity. If as a result from the analysis, the Group determines that it exercises control of these entities, they are consolidated within the Group. If there are no signs of the existence of control on the entities, the investment in those associated companies is recognized by the equity method.

**(ii) Fair values determination**

The Group applies the guidelines of IFRS 13, *Fair Value Measurement* ("IFRS 13") to determine the fair values of financial assets and financial liabilities recognized or disclosed at fair value. IFRS 13 does not require fair values in addition to those required or allowed by other IFRS and is not required to establish valuation standards or affect valuation practices outside of financial reporting. Under IFRS, the fair value represents the "Selling Price", which would be received from selling an asset or would be paid for transferring a liability in an orderly transaction between market participants as at the date of valuation, considering the credit risk of the counterparty in the valuation.

The concept of selling price is based on the assumption that there is a market and participants in such market for the specific asset or liability. When there is no market and/or participants to form the market, the IFRS 13 establishes a fair value that organizes the entry data in the valuation techniques used to determine fair value. The hierarchy of highest priority is unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority is that of the calculations that have to do with entry data that are significant but unobservable (level 3 measurement). The three levels of hierarchy are as follows:

- Level 1 data are active market prices (unadjusted) for identical assets and liabilities that the Group has the ability to negotiate on the measurement date.
- Level 2 data are different from market prices, but are directly or indirectly observable for the asset or liability.
- Level 3 data are those that are unobservable for the asset or liability.

**(iii) Fair value of derivative financial instruments**

The fair values of derivative instruments traded on recognized markets are determined based on quotations issued by these markets. In those cases in which the instruments are traded on OTC market ("*Over The Counter*"), the fair value of the financial instruments is estimated on the basis of valuation technical models recognized in the financial arena, mainly using that relating to expected future cash flows discounted at present value and based on market information available at the valuation date.

In determining the fair values, conditions and assumptions are used, mainly based on TIIE 28, the Mexican Average Inter-bank Interest Rate (TIIE per its Spanish acronym) and exchange rate available at the valuation date.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

The Company has conducted the effectiveness tests required to comply with hedge accounting, which fall within the ranges allowed under IFRS.

#### ***(iv) Useful lives and fair value of property, machinery and equipment***

The Group determines the useful lives of its assets based on their best estimate of the periods during which economic benefits are expected to be obtained derived from said assets. Only for IFRS adoption purposes for those assets measured at fair value, when there is a market value, the Company evaluated whether or not said market value met the conditions agreed among interested and willing parties in a free competition transaction, which will allow for considering the market value as a proper reference of fair value; otherwise, the fair value of the assets is estimated on the basis of technical valuation models recognized in the financial scope.

#### ***(v) Impairment of goodwill and other intangible assets with undefined useful lives***

In the case of goodwill and intangible assets with undefined useful lives, the impairment test is performed annually on the same dates. In evaluating the value in use, estimated future cash flows are discounted at their present value, using a discount rate before taxes that reflects the market evaluations of the value of the money over time, taking into account the specific risks inherent to the asset. For impairment testing purposes, assets that cannot be tested individually are integrated in smaller groups of assets that generate cash inflows from on-going use and that are, for the most part, independent from the cash inflows of other assets or groups of assets (the "cash generating unit"). For impairment testing purposes, goodwill is distributed to the group of cash generating units expected to benefit from the synergies of such combination. This distribution is subject to operating segment ceiling testing and reflects the lowest level at which goodwill is monitored for internal reporting purposes. Impairment losses are recognized in the income statement. Impairment losses recorded with respect to the cash generating units are distributed first to reduce the carrying value of any goodwill distributed to the units and subsequently to reduce the carrying value of other assets in the unit (group of units) on a pro rata basis. No goodwill-related impairment loss is reverted.

#### ***(vi) Determination of employee benefits***

Direct benefits are applied in the income statement as they arise and the related liabilities are stated at their nominal value, due to their short-term nature. The Group's net obligations with respect to defined benefit pension plans are calculated separately for each plan, estimating the amount of the future benefit earned by employees in return for their services in the current and past periods; this benefit is discounted to determine its present value and the fair value of plan assets is deducted. The discount rate is calculated on the basis of zero coupon government bonds with maturity term resembling those of the Group's obligations and that are determined in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary, using the projected unit credit method.



#### ***(vii) Impairment of accounts receivable***

On each reporting date, the Group evaluates whether or not there is objective evidence that its accounts receivable are impaired, which includes defaulting or late payment by a debtor, or the restructuring of an amount due to the Group. The Company considers evidence of impairment of accounts receivable at both the specific asset level and collective. All accounts receivable considered significant individually are evaluated for possible specific impairment. All accounts receivable evaluated that are not specifically impaired are subsequently evaluated collectively to identify impairment that may have occurred and, that has not yet been identified. Accounts receivables not significant individually are evaluated collectively for possible impairment, by grouping the accounts showing similar risk features. In evaluating collective impairment, the Group uses the historical trends of the likelihood of default, timing of recoveries and losses incurred, adjusted as a result of the analysis conducted by Management to determine whether or not current economic and credit conditions are such, that actual losses are likely to be higher or lower than those the historical trends suggest.

#### ***(d) Changes in accounting policies-***

Except for the changes included below, the Group has consistently applied the accounting policies described in note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any amendment resulting to other standards with initial application date as at January 1, 2013.

- a.** Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).
- b.** IFRS 10 "Consolidated Financial Statements".
- c.** IFRS 11 "Joint Agreements".
- d.** IFRS 12 "Disclosure of Interests in Other Entities".
- e.** IFRS 13 "Fair Value Measurement".
- f.** Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
- g.** IAS 19 "Employee Benefits" (2011).
- h.** Disclosure of the Recoverable Amount of Non-Financial Assets (Amendments to IAS 36) (2013).

The nature and effects of these amendments are explained below.

#### ***(i) Offsetting financial assets and financial liabilities***

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about offsetting financial assets and financial liabilities. (Note 5).

# Notes to the consolidated financial statements

[Thousands of Mexican pesos]

## **(ii) Subsidiaries**

As a result of the adoption of IFRS 10 (2011), the Group has changed its accounting policy relating to the determination of whether or not it has control over its investees and accordingly, whether or not to consolidate them. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, the exposure or the rights to variable yields from its involvement with the investee and the ability to use its power to influence the amount of yields.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the conclusion of its investees control as at January 1, 2013. As a result, the Group has changed its control conclusion for its investment on Herdez Del Fuerte, S. A. de C. V. and subsidiaries (HDF), which was previously consolidated in proportion. Although the Group owns half of the voting power of the investee, Management has determined that the Group has de facto control over the investee since its incorporation on January 1, 2008, as the Group has significantly maintained influence on HDF in relation to the relevant activities and exposure of the same to variable returns. Accordingly, due to the ineffectiveness to recognizing the effects since the aforementioned date, the Group applied business acquisition accounting as at January 1, 2012, and recognized at fair value the amounts as if the investee had been consolidated from that date. The quantitative impact of the amendment is included in the summary of impacts section (see note 2(e)).

## **(iii) Joint agreements**

As a result of the adoption of IFRS 11, the Group has modified its accounting policy related to its interests in joint agreements. Under IFRS 11, the Group classifies its investments in joint agreements as either joint operations (if the Group has rights to the assets and obligations for the liabilities associated with an agreement) or joint ventures (whether the Group has rights only on net assets of an agreement). In making this assessment, the Group considers the structure of these agreements, the legal form of any separate vehicle, the contractual terms of the agreements and other facts and circumstances. Previously, the structure of the agreement was the only point to be considered for the classification.

The Group has re-evaluated its participation in joint agreements and has also reclassified investments from entities jointly controlled to the joint venture; recognizing such investments retrospectively through the equity method.

## **(iv) Disclosure of interests in other entities**

As a result of IFRS 12, the Group has expanded its revelations about its interests in associated parties and joint ventures (see note 13) and investments accounted for under the equity method (see note 12).

## **(v) Fair value measurement**

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when these measurements are required or permitted by other IFRS. It unifies the definition of fair value as the price that would be received from selling an asset or paid for transferring a liability in a performed transaction between market participants at the measurement date. It replaces and expands the disclosure requirements related to fair value measurements included in other IFRS, including the IFRS 7. As a result, the Group has included additional disclosures in this regard (see note 5).

In accordance with the transitional provisions of IFRS 13, the Group has prospectively applied the new guidelines for measuring fair value and has not provided comparative information for the new disclosures. Nevertheless, the amendment has not had a significant impact on the measurements of assets and liabilities of the Group.

***(vi) resenetation of other comprehensive income items***

As a result of the amendments to the International Accounting Standard (IAS) 1, the Group has modified the presentation of other comprehensive income items in its income statement of other comprehensive income, in order to present separately the items that would be reclassified to income of those that would never be reclassified. The comparative information has been modified in accordance with this change in the presentation.

***(vii) Post-employment defined benefit plans***

As from January 1, 2013, based on the amendments to IAS 19: a) the same rate is used for the determination of the expected return on plan assets and the discount of the employee benefits liabilities to present value; b) a net financial cost is recognized on the net liability for pension funds (liability minus plan assets), instead of a financial cost on the liability and an expected return on separate assets, as it was determined until December 31, 2012; and c) all actuarial gains and losses for the period are recognized as part of other comprehensive income or loss, thereby eliminating the option to defer the recognition of gains and losses, known as the "corridor approach", which was not applied by the Group. Until December 31, 2012, the expected rates of return on plan assets were determined based on market prices prevailing on the calculation date, applicable to the period over which the obligation was expected to be settled. As a result of the adoption of the amendments to IAS 19 on January 1, 2013, the Group restated its consolidated balance sheet as of December 31, 2012 and its consolidated income statements for the years ended December 31, 2012 and 2011. The effects were not significant.

***(viii) Disclosure of the recoverable amount of non-financial assets***

The Group has early adopted the amendments to IAS 36 (2013). As a result, the Group has expanded its related disclosures to the recoverable amounts when based on fair values less costs of disposal and value impairment is recognized (see note 11).

***(e) Quantitative impacts summary-***

The impacts of these changes on the financial position, the comprehensive result and the cash flows of the Group are summarized below. The impacts are related to the consolidation of HDF (see note 2 (d)(ii)) and the changes related to employee defined benefit plans (see note 17).

As a result of the adoption of the IFRS 10 which Grupo Herdez performed as from January 1, 2013, it started to retrospectively consolidate the financial statements of Herdez Del Fuerte, S. A. de C. V. and its subsidiaries ("HDF") as from January 1, 2012, instead of proportionally consolidating as it was done until December 31, 2012.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

HDF is a company which shareholders are Grupo Herdez and Grupo Kuo, S. A. B. de C. V., each with a shareholding of 50%. In this sense, the initial agreement between shareholders remains unchanged. HDF was incorporated in Mexico on December 14, 2007, located on Calzada San Bartolo Naucalpan No. 360, Col. Argentina Poniente, Mexico, D.F., C.P. 11230.

HDF's main activities are the manufacture, purchase, distribution, and marketing of canned and bottled packed food products in Mexico, as well as of food products targeted at the Mexican food segment in the United States of America (USA). HDF produces and sells products under the following trademarks: Aires de Campo, Chi-Chi's, Del Fuerte, Don Miguel, Doña Maria, Embasa, Herdez, La Victoria, Wholly, among others. For this purpose HDF has formed a partnership in the U.S. with Hormel Foods Corp.

Arising from the adoption of IFRS 10, the Group applied the IFRS 3 "Business Combinations" as required by IFRS 10, in order to appraise HDF's business at fair value.

The identifiable assets acquired and the liabilities assumed due to HDF's consolidation were as shown below:

	HDF BALANCE AS AT JANUARY 1, 2012	FAIR VALUE ADJUSTMENTS	INCORPORATED BALANCE SHEET TO GRUPO HERDEZ'S FIGURES
Current assets	\$ 3,289,281	-	3,289,281
Property, machinery and equipment	2,307,184	-	2,307,184
Investment in associated companies	2,730,097	1,810,000 <sup>(1)</sup>	4,540,097
Intangible assets (trademarks)	873,088	1,136,000 <sup>(1)</sup>	2,009,088
Goodwill	1,483,117	568,000 <sup>(2)</sup>	2,051,117
<b>Total assets</b>	<b>\$ 10,682,767</b>	<b>3,514,000</b>	<b>14,196,767</b>
Current liabilities	\$ 2,193,590	-	2,193,590
Long-term liabilities	2,141,422	-	2,141,422
Deferred tax liabilities	35,385	262,000	297,385
<b>Total liabilities</b>	<b>4,370,397</b>	<b>262,000</b>	<b>4,632,397</b>
Equity	6,312,370	3,252,000	9,564,370
Controlling interest	6,311,201	1,626,000	7,937,201
Non-controlling interest	1,169	1,626,000	1,627,169
<b>Total liabilities and equity</b>	<b>\$ 10,682,767</b>	<b>3,514,000</b>	<b>14,196,767</b>

<sup>(1)</sup> Adjustment for recognition of the market value, mainly due to investments in the U.S., as well as trademarks Doña María, Herdez and Del Fuerte.

<sup>(2)</sup> Adjustment for recognition of HDF's fair value.

As a result of adopting IFRS 10 the financial statements of 2012, previously issued, were reformulated as shown in the following sheets.

The consolidated statement of financial position is summarized below as at January 1, 2012:

	REFORMULATION ADJUSTMENTS			
	PREVIOUSLY REPORTED BALANCES	EFFECT OF ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS <sup>(3)</sup>	HDF BUSINESS COMBINATION ADJUSTMENTS	REFORMULATED BALANCES
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 1,154,709	50,198	-	1,204,907
Trade receivables	936,136	756,626	-	1,692,762
Debtors	36,056	27,917	-	63,973
Recoverable value added tax	155,363	57,134	-	212,497
Recoverable income tax	85,484	2,441	-	87,925
Related parties	1,320,801	(1,136,496)	-	184,305
	2,533,840	(292,378)	-	2,241,462
Inventories	1,095,989	279,506	-	1,375,495
Derivative financial instruments	71,213	-	-	71,213
Advanced payments	89,491	22,834	-	112,325
Total current assets	4,945,242	60,160	-	5,005,402
Property, machinery and equipment	2,157,610	858,075	-	3,015,685
Investment in shares of the associated parties	122,752	2,723,767	1,810,000 <sup>(1)</sup>	4,656,519
Intangible assets	2,098,630	57,094	1,704,000 <sup>(2)</sup>	3,859,724
Deferred income taxes	158,354	87,082	-	245,436
Other assets	20,417	13,319	-	33,736
Total assets	\$ 9,503,005	3,799,497	3,514,000	16,816,502

<sup>(1)</sup> Adjustment for recognition of the market value of investments in the U.S.A.

<sup>(2)</sup> Adjustment for recognition of the 50% of trademarks for \$437,000 and goodwill for \$1,267,000.

<sup>(3)</sup> For the remaining 50% as such investment was previously recognized via proportional consolidation.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

The consolidated statement of financial position of the Group is summarized below as at January 1, 2012:

	REFORMULATION ADJUSTMENTS			
	PREVIOUSLY REPORTED BALANCES	EFFECT OF ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS <sup>(3)</sup>	HDF BUSINESS COMBINATION ADJUSTMENTS	REFORMULATED BALANCES
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Short-term liabilities:</b>				
Bank loans	\$ 4,200	-	-	4,200
Suppliers	843,049	193,291	-	1,036,340
Creditors	273,966	80,475	-	354,441
Derivative financial instruments	43,507	-	-	43,507
Income tax payable	26,917	12,851	-	39,768
Employees' statutory profit sharing payable	13,883	12,556	-	26,439
Total short-term liabilities	1,205,522	299,173	-	1,504,695
<b>Long-term liabilities:</b>				
Notes payable	2,208,851	10,510	-	2,219,361
Long-term debt	553,174	563,961	-	1,117,135
Contingent consideration	76,112	(76,112)	-	-
Derivative financial instruments	27,384	-	-	27,384
Deferred income tax	434,974	(185,645)	262,000 <sup>(1)</sup>	511,329
Taxes under tax consolidation	205,382	-	-	205,382
Employee benefits	46,491	31,855	-	78,346
Total long-term liabilities	3,552,368	344,569	262,000	4,158,937
Total liabilities	4,757,890	643,742	262,000	5,663,632
<b>Stockholders' equity:</b>				
Capital stock	575,625	-	-	575,625
Reserve for repurchase of shares	321,194	-	-	321,194
Retained earnings	2,535,062	-	1,626,000 <sup>(2)</sup>	4,161,062
Legal reserve	141,862	-	-	141,862
Premium on the subscription of shares	113,110	-	-	113,110
Financial instruments	(43,856)	-	-	(43,856)
Cumulative translation adjustments	39,367	-	-	39,367
Capital attributable to controlling interest	3,682,364	-	1,626,000	5,308,364
Capital attributable to non-controlling interest	1,062,751	3,155,755	1,626,000	5,844,506
Total stockholders' equity	4,745,115	3,155,755	3,252,000	11,152,870
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,503,005</b>	<b>3,799,497</b>	<b>3,514,000</b>	<b>16,816,502</b>

<sup>(1)</sup> Adjustment for recognition of the deferred tax of trademarks.

<sup>(2)</sup> Gain in joint venture due to total consolidation of HDF.

<sup>(3)</sup> For the remaining 50% as such investment was previously recognized via proportional consolidation.

In addition, the consolidated financial statement as at December 31, 2012 is shown below:

	REFORMULATION ADJUSTMENTS			
	PREVIOUSLY REPORTED BALANCES	EFFECT OF ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS <sup>(3)</sup>	HDF JOINT VENTURE ADJUSTMENTS	REFORMULATED BALANCES
<b>ASSET</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 1,064,132	247,064	-	1,311,196
Trade receivables	1,032,513	747,971	-	1,780,484
Debtors	40,611	5,802	-	46,413
Recoverable value added tax	151,889	49,207	-	201,096
Recoverable income taxes	61,165	54,755	-	115,920
Related parties	1,287,423	(1,166,825)	-	120,598
	2,573,601	(309,090)	-	2,264,511
Inventories	1,348,271	310,453	-	1,658,724
Derivative financial instruments	63,151	-	-	63,151
Advanced payments	71,831	18,227	-	90,058
Total current assets	5,120,986	266,654	-	5,387,640
Property, machinery and equipment	2,426,997	885,735	-	3,312,732
Investment in shares of the associated parties	150,505	2,736,390	1,810,000 <sup>(1)</sup>	4,696,895
Intangible assets	1,992,490	150,647	1,704,000 <sup>(2)</sup>	3,847,137
Deferred income taxes	158,015	38,045	-	196,060
Other assets	7,867	3,240	-	11,107
<b>Total assets</b>	<b>\$ 9,856,860</b>	<b>4,080,711</b>	<b>3,514,000</b>	<b>17,451,571</b>

<sup>(1)</sup> Adjustment for recognition of the market value of investments in the U.S.A.

<sup>(2)</sup> Adjustment for recognition of the 50% of trademarks for \$437,000 and goodwill for \$1,267,000.

<sup>(3)</sup> For the remaining 50% as such investment was previously recognized via proportional consolidation.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

In addition, the consolidated statement of financial position of the Group as at December 31, 2012 is shown below:

	REFORMULATION ADJUSTMENTS			
	PREVIOUSLY REPORTED BALANCES	EFFECT OF ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS <sup>(1)</sup>	HDF JOINT VENTURE ADJUSTMENTS	REFORMULATED BALANCES
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Short-term liabilities:				
Suppliers	\$ 773,627	168,238	-	941,865
Creditors	241,503	109,730	-	351,233
Derivative financial instruments	877	-	-	877
Employees' statutory profit sharing payable	14,828	10,832	-	25,660
Total short-term liabilities	1,030,835	288,800	-	1,319,635
Long-term liabilities:				
Notes payable	2,181,441	-	-	2,181,441
Long-term debt	530,473	530,473	-	1,060,946
Contingent consideration	72,582	(72,582)	-	-
Derivative financial instruments	37,068	-	-	37,068
Deferred income tax	351,614	(167,118)	262,000 <sup>(1)</sup>	446,496
Taxes under tax consolidation	225,649	-	-	225,649
Employee benefits	74,504	53,013	-	127,517
Total long-term liabilities	3,473,331	343,786	262,000	4,079,117
Total liabilities	4,504,166	632,586	262,000	5,398,752
Stockholders' equity				
Capital stock	575,625	-	-	575,625
Reserve for repurchase of shares	600,000	-	-	600,000
Retained earnings	2,770,286	-	1,626,000 <sup>(2)</sup>	4,396,286
Legal reserve	141,862	-	-	141,862
Premium on the subscription of shares	113,110	-	-	113,110
Financial instruments	(37,524)	-	-	(37,524)
Cumulative translation adjustment	(5,425)	-	-	(5,425)
Capital attributable to controlling interest	4,157,934	-	1,626,000	5,783,934
Capital attributable to non-controlling interest	1,194,760	3,448,125	1,626,000	6,268,885
Total stockholders' equity	5,352,694	3,448,125	3,252,000	12,052,819
Total liabilities and stockholders' equity	\$ 9,856,860	4,080,711	3,514,000	17,451,571

<sup>(1)</sup> Adjustment for recognition of the deferred tax of trademarks

<sup>(2)</sup> Gain in joint venture due to total consolidation of HDF.

<sup>(3)</sup> For the remaining 50% as such investment was previously recognized via proportional consolidation.



Reformulated consolidated income statement of the Group as at December 31, 2012:

	PREVIOUSLY REPORTED BALANCES	REFORMULATION ADJUSTMENTS EFFECT BY ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS	REFORMULATED BALANCES
Net sales	\$ 11,220,343	821,455	12,041,798
Cost of goods sold	7,263,733	815,230	8,078,963
Gross profit	3,956,610	6,225	3,962,835
Operating expenses:			
Selling	2,016,073	(48,472)	1,967,601
Administrative	328,067	79,651	407,718
	2,344,140	31,179	2,375,319
Income before other incomes and expense	1,612,470	(24,954)	1,587,516
Other income, net	42,533	4,663	47,196
Operating income	1,655,003	(20,291)	1,634,712
Financial result:			
Interest earned and exchange gain	675,719	350,077	1,025,796
Interest paid and exchange loss	(823,556)	(397,128)	(1,220,684)
Financial result, net	(147,837)	(47,051)	(194,888)
Equity investment in associates	23,880	389,083	412,963
Income before income taxes	1,531,046	321,741	1,852,787
Income taxes	451,285	(27,967)	423,318
Consolidated net income for the year	\$ 1,079,761	349,708	1,429,469
Net income attributable to non- controlling interest	\$ 289,674	349,708	639,382
Net income attributable to controlling interest	790,087	-	790,087
Consolidated net income for the year	\$ 1,079,761	349,708	1,429,469

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

In addition, the reformulated consolidated income statements of other comprehensive income as at December 31, 2012 are shown:

	PREVIOUSLY REPORTED BALANCES	REFORMULATION ADJUSTMENTS EFFECT BY ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS	REFORMULATED BALANCES
Consolidated net income for the year	\$ 1,079,761	349,708	1,429,469
Items that not be reclassified to income:			
Actuarial losses on employee benefits obligations	(16,811)	(12,546)	(29,357)
Items that may be reclassified subsequently to income:			
Foreign currency translation results	(44,792)	(44,792)	(89,584)
Change in valuation of derivative financial instruments	(10,541)	-	(10,541)
Consolidated comprehensive income	\$ 1,007,617	292,370	1,299,987
Comprehensive income attributable to non-controlling interest	\$ 271,009	292,370	563,379
Comprehensive income attributable to controlling interest	736,608	-	736,608
Consolidated comprehensive income	\$ 1,007,617	292,370	1,299,987

Moreover, the main effects of the adoption of the newly issued accounting standards and adjustments due to the joint venture impacting the consolidated statement of cash flows as at December 31, 2012 are shown:

	PREVIOUSLY REPORTED BALANCES	REFORMULATION ADJUSTMENTS EFFECT BY ADOPTION OF NEWLY ISSUED ACCOUNTING STANDARDS	REFORMULATED BALANCES
Net cash from operating activities	\$ 900,543	9,085	909,628
Net cash used in investing activities	(397,897)	260,981	(136,916)
Net cash used in financing activities	(576,973)	(89,450)	(666,423)
Difference in changes in cash and cash equivalents	(16,250)	16,250	-
Net increase in cash and cash equivalents	\$ (90,577)	196,866	106,289

### **(3) Significant accounting policies-**

The following accounting policies set out have been applied consistently to all the periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

#### **(a) Consolidation basis-**

##### **(i) Businesses combinations-**

Businesses combinations are recorded using the purchase method to the acquisition date, i.e., the date on which control is transferred to the Group. The control is based on whether the investor has 1) power over the entity invested on; 2) exposure, or rights, to variable returns from its involvement in the entity invested on, and 3) the ability to use its power over the entity invested on in order to affect the amount of returns.

The Group recognizes goodwill at the acquisition date as:

- The fair value of the consideration transferred, plus the recognized amount of any non-controlling interest in the acquired company, plus if the business combination is carried out in stages, the fair value of existing equity interests in the acquired company, less the net amount recognized (generally fair value) of the identifiable assets acquired and the assumed identifiable liabilities.

When the excess is negative, a gain on sale on favorable terms is recognized immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. These amounts are recognized in the income statement.

Transaction costs, other than those associated with the issuance of debt or equity securities, incurred by the Group in connection with a business combination are expensed as incurred.

Some contingent payable considerations are recognized at fair value at the acquisition date. In other cases, subsequent changes in fair value in the contingency shall be recognized in the income statement.

##### **(ii) Non controlling interest-**

For each business combination, the Group measures any non-controlling interest in the investee at:

- Fair value.
- The proportionate share of the identifiable net assets of the acquired company, which are generally at fair value.

Changes involving Group interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as such. The adjustments to non-controlling interests are based on a proportionate amount

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

of the net assets of the subsidiary. No adjustments are made to goodwill nor any gain or loss is recognized in the income statement.

### (iii) Subsidiaries-

Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control begins until termination of the same. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over such investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date in which control ceases.

The following table shows the detail of the Group's significant subsidiaries, as well as the ownership percentage it has on each of them:

	COUNTRY WHERE IT WAS INCORPORATED	DECEMBER 2013	DECEMBER 2012	NOTE
<b>FOOD PRODUCTS:</b>				
Herdez Del Fuerte and subsidiaries (HDF) - Subsidiary	Mexico	50%	50%	1
<i>Grupo Herdez del Fuerte-</i> <u>Manufacturing and marketing:</u>				
Herdez S. A. de C. V. - Subsidiary	Mexico	100%	100%	1
Hersea, S. A. de C. V. - Subsidiary	Mexico	100%	100%	1
Compañía Comercial Herdez, S. A. de C. V. - Subsidiary	Mexico	100%	100%	1
Corfuerte, S. A. de C. V. - Subsidiary	Mexico	100%	100%	1
Herdez Marcas, S. L. - Subsidiary	Spain	100%	100%	1
Intercafé, S. A. de C. V. (Intercafé) - Joint venture	Mexico	50%	50%	2
Aires de Campo, S. A. de C. V.	Mexico	50%	50%	2
Authentic Acquisition Corporation (AAC)	USA	100%	100%	1, 3
Authentic Speciality Foods (ASF)	USA	100%	100%	1, 3
Megamex Foods, LLC - Joint venture	USA	50%	50%	2, 3
Megamex Holding Inc. - Joint venture	USA	50%	50%	2, 3
Don Miguel Foods Corp. - Joint venture	USA	50%	50%	2, 3
Avomex Inc. - Joint venture	USA	50%	50%	2, 3
Avomex Internacional, S. A. de C. V.	Mexico	50%	50%	2, 3
Avomex Service, S. de R. L. de C. V.	Mexico	50%	50%	2, 3
Avomex Importación y Exportación Limitada	Chile	50%	50%	2, 3

	COUNTRY WHERE IT WAS INCORPORATED	DECEMBER 2013	DECEMBER 2012	NOTE
<u>Services provider:</u>				
Corporativo Cinco, S. A. de C. V. (Corporativo) - Subsidiary	Mexico	100%	100%	1
Campomar, S. A. de C. V. (Campomar) - Subsidiary	Mexico	100%	100%	1
Hersail, S. A. de C. V. (Hersail) - Subsidiary	Mexico	100%	100%	1
Herventa, S. A. de C. V. (Herventa) - Subsidiary	Mexico	100%	100%	1
<u>Lessors:</u>				
Alimentos del Fuerte, S. A. de C. V. (Alimentos del Fuerte) - Subsidiary	Mexico	99.70%	99.70%	1
McCormick de México, S. A. de C. V. (McCormick) - Subsidiary	Mexico	50%	50%	1
Barilla México, S. A. de C. V. (Barilla México) - Subsidiary	Mexico	50%	50%	1
Serpasta, S. A. de C. V. (Serpasta) - Subsidiary	Mexico	50%	50%	1
Hormel Alimentos, S. A. de C. V. (Hormel Alimentos) - Subsidiary	Mexico	50%	50%	1
Grupo Nutrisa and subsidiaries - Subsidiary (a)	Mexico	99.87%	-	1
<u>Grupo Nutrisa</u>				
<u>Marketing:</u>				
Nutrisa, S. A. de C. V. (Nutrisa) - Subsidiary	Mexico	100%	100%	1
Bases y Productos Naturales La Planta, S. A. de C. V. (La Planta) - Subsidiary	Mexico	100%	100%	1
Nutricomercializadora, S. A. de C. V. (Nutricomercializadora) - Subsidiary	Mexico	100%	100%	1
Yogurt Helado Yozen, S. A. de C. V. (Yozen) - Subsidiary	Mexico	100%	100%	1
Alimentos Benefits, S. A. de C. V. (Benefits) - Subsidiary	Mexico	100%	100%	1
Bioselect Productos Selectos, S. A. de C. V. (Bioselect) - Subsidiary	Mexico	100%	100%	1
Operadora Nutrisa, S. A. de C. V. (Operadora) - Subsidiary	Mexico	100%	100%	1
Nutrisa USA, LLC. (Nutrisa USA) - Subsidiary	USA	100%	100%	1
<u>Services:</u>				
Servinutrisa, S. A. de C. V. (Servinutrisa) -Subsidiary	Mexico	100%	100%	1
<u>Real-Estate Group:</u>				
Inmobiliaria Nutrisa, S. A. de C. V. (Inmobiliaria) - Subsidiary	Mexico	100%	100%	1
Promociones Inmobiliarias Naturistas, S. A. de C. V. (Promociones) - Subsidiary	Mexico	100%	100%	1
Nutrinmuebles, S. A. de C. V. (Nutrinmuebles) - Subsidiary	Mexico	100%	100%	1

(a) Acquisition carried out in the 2013 period..

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	PAÍS EN DONDE SE CONSTITUYÓ	DICIEMBRE 2013	DICIEMBRE 2012	NOTA
<i>Services:</i>				
Herport, S. A. de C. V. (Herport) - Subsidiary	Mexico	50%	50%	1
Litoplas, S. A. de C. V. (Litoplas) - Subsidiary	Mexico	100%	100%	1
Seramano, S. A. de C. V. (Seramano) - Subsidiary	Mexico	100%	100%	1
Herdez Capital, S. A. de C. V. SOFOM, E.N.R. (Herdez Capital) - Subsidiary	Mexico	75%	75%	1
Fábrica de Envases del Pacífico, S. A. de C. V. - Joint Venture	Mexico	50%	50%	2
<i>Real-Estate Group:</i>				
Alimentos HP, S. A. de C. V. (Alimentos) -Subsidiary	Mexico	100%	100%	1
Comercial de Finanzas Netesa, S. A. de C. V. (Netesa) - Subsidiary	Mexico	100%	100%	1
Energía Para Conservas, S. A. de C. V. - Subsidiary	Mexico	90%	50%	2, 4
Quicolor de Mexico, S. A. de C. V. (Quicolor) - Subsidiary	Mexico	100%	100%	1
Promotora Hercal, S. A. de C. V. (Hercal) - Subsidiary	Mexico	100%	100%	1
Herpons Continental, S. A. de C. V. (Herpons Co.) - Subsidiary	Mexico	100%	100%	1

(1) Consolidated Entity.

(2) Entity recognized under the equity method.

(3) Financial Statements from December 2, 2012 to December 3, 2013.

(4) This entity is not material for the consolidated financial statements is not consolidated and is recognized by the equity method.

#### (iv) Loss of control-

When loss of control occurs, the Group removes the assets and liabilities of the subsidiary, the non-controlling interest and the other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the income statement. If the Group retains any interest in the former subsidiary, it shall be appraised at its fair value at the date when control is lost.

#### (v) Investments in associated entities and jointly controlled entities (equity method)-

The associated entities are those entities in which the Group has a significant influence, but not control or joint control of its financial and operating policies. The joint ventures are those entities in which the Group has joint control over its activities, through which the Group is entitled to the net assets of the agreement and not entitled to its assets and obligations for liabilities, established by contractual agreement and unanimous consent to take financial decisions and strategic operations.

The investments in associates entities and joint venture are recognized by the equity method and are initially recorded at cost. The investment cost includes the transaction costs.

The consolidated financial statements include the interest of the Group in the profits or losses and other comprehensive income of investments accounted by the equity method, after performing the adjustments to align the accounting policies with those of the Group, from the date that significant influence and the joint venture begins and until these are finished.

When the portion of losses of the Group exceeds his interest in an investment recognized by the equity method, the carrying amount of that interest, including any long-term investment, is reduced to zero and the recognition of more losses is discontinued except if the Group has an obligation or has made payments on behalf of the company it participates in.

**(vi) Transactions eliminated in the consolidation-**

The intercompany balances and transactions and any income or derecognized expense arising from group intercompany transactions are eliminated while preparing the consolidated financial statements. Unrealized profits arising from transactions with companies which investment is recognized by the equity method are eliminated from the investment in the proportion of the Group's participation in the investment. Unrealized losses are eliminated in the same manner as unrealized profits, but only to the extent there is no evidence of impairment.

**(vii) Discontinued operations-**

A discontinued operation is a component of the Group that has been set and which operations and cash flows may be clearly distinguished from the rest of the group:

- It represents a line of business or geographical area, which is significant and can be considered apart from the rest.
- It is part of a single coordinated plan to dispose of a line of business or geographical area of the operation that is meaningful and can be considered apart from the rest.
- It is a subsidiary acquired exclusively with a view to resell it.

The classification of a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if this occurs earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

**(b) Foreign currency-**

**(i) Foreign currency transactions-**

Foreign currency transactions are converted to the respective functional currency of the Group entities at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

The non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date when the fair value was determined.

The foreign currency differences arising on retranslation operations are generally recognized in the income statement. However, foreign exchange differences arising from retranslation operations of the following items are recognized in other comprehensive income:

- Equity instruments available for sale (except for impairment when the foreign currencies differences that had been recognized in other comprehensive income are reclassified to the income statement).
- A financial liability designated as a hedge of the net investment in a foreign operation when coverage is effective.
- Qualified cash flow hedges when coverage is effective.

## **(ii) Foreign operations-**

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Mexican pesos at the exchange rate at the reporting date. Revenues and expenses of foreign operations are translated into Mexican pesos at the exchange rate at the date of transactions.

Foreign currency differences are recognized in other comprehensive income and presented in the translation reserve in foreign currency (translation reserve) on the stockholders' equity. However, if the operation is not wholly owned by the Group, the share corresponding to the difference is assigned to the non-controlling interest. When the foreign operation is eliminated or significant influence or joint control is lost, the corresponding amount in the cumulative translation effects is transferred to income as part of the gain or loss on disposal. When there is partial elimination of a subsidiary including a foreign operation but retaining control, the relevant proportion of the accumulated amount of the non-controlling interest is reallocated. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation but retains significant influence or joint control, the relevant proportion of the total amount is reclassified to income statement.

When the settlement of a monetary receivable or payable item in a foreign operation arising from it, which settlement is neither planned nor likely in the foreseeable future, the gains and losses of foreign currency are considered as part of a net investment in a foreign operation and are recognized directly in other comprehensive income and presented within equity in the cumulative adjustment accounts.

## **(c) Financial instruments-**

### **(i) Non-derivative financial instruments-**

Initially, the Group recognizes loans and accounts receivable on the date on which they are generated. All the other financial assets (including assets designated at fair value with changes in income) are initially recognized on the transaction date when the Group becomes a party to the instrument's contractual provisions.



The Group eliminates a financial asset when the contractual rights to cash flows derived from the asset expire, or when it transfers the rights to receive the contractual cash flows from the financial asset in a transaction on which all risks and benefits from ownership of the financial asset are substantially transferred. Any share in the transferred financial assets created or retained by the Group is recognized as a separate liability or asset.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends to settle the net amount or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and accounts receivable.

#### ***Loans and account receivables***

Loans and accounts receivable are financial assets with fixed or determinable payments that are not traded in an active market. Said assets are initially recognized at fair value, plus any transaction cost directly attributable. After their initial recognition, loans and accounts receivable are measured at their amortized cost using the effective interest method, less impairment losses. Loans and accounts receivable include client accounts receivable and other accounts receivable.

#### ***Cash and cash equivalents***

Cash and cash equivalents include cash balances and deposits with original maturities of three months or less from the date of acquisition subject to exchange effects in fair value and are used by the Group in the management of its short-term commitments.

#### ***(ii) Non-derivative financial liabilities-***

Initially, the Group recognizes the debt securities issued at the date on which they are generated. All the other financial liabilities are initially recognized on the contracting date on which the Group becomes a party to the instrument's contractual provisions.

The Group eliminates a financial liability when its contractual obligations are cancelled, or expired.

The Group classifies non-derivative financial liabilities in the category of other financial liabilities.

These financial liabilities are initially recognized at fair value, plus transaction costs directly attributable. Following the initial recognition, these financial liabilities are valued at their amortized cost using the effective interest method.

Other financial liabilities consist of notes payable, suppliers and other accounts payable and stock market certificates.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## **(iii) Equity-**

### ***Common shares-***

Ordinary shares are classified in stockholders' equity. Incremental costs directly attributable to issuance of ordinary shares and stock options are recognized as a deduction of stockholders' equity, net of any tax effect.

### ***Repurchase and reissue of ordinary shares (treasury shares)-***

When stock equity recognized as stockholders' equity is repurchased, the consideration paid, including directly attributable costs, net of any tax effect, are recognized as a stockholders' equity deduction. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or subsequently reissued, the amount received is recognized as an increase in share premiums.

Capital stock, the reserve for the purchase of shares, the legal reserve, the premium on the subscription of shares and accrued profits are stated as follows: i) movements made as from January 1, 1998 at their historical cost, and ii) movements made prior to January 1, 1998 at their restated historical values by applying factors derived from the NCPI until December 31, 1997.

## **(iv) Derivative financial instruments, including hedge accounting-**

The Group has derivative financial instruments to hedge the risk of foreign currency and interest rates.

Similarly, the Group uses derivatives to hedge the price of the raw materials (*Commodities*), which are designated in a formal hedging relationship.

In the initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and the item(s) covered, including the risk management objectives and strategy when entering the hedging transactions, as well as the methods to be used in assessing the effectiveness of the hedge relationship. The Group conducts an evaluation at the outset of the hedge operation (prospectively) and subsequent on-going evaluations (retrospectively), if the hedging instruments are expected to be highly effective to offset the changes in fair value of the primary positions during the period for which the hedge is designated, and if each hedge's actual results are within a range of 80-125 percent.

Derivative financial instruments are initially recognized at fair value; any cost attributable to the transaction are applied to income as they are incurred. Following their initial recognition, derivative financial instruments are measured at fair value and changes in said value are recognized as follows:

### ***Cash flow hedges-***

When a derivative is designated as a hedging instrument in the variety of cash flows attributable to a particular risk, relating to a recognized asset or liability or a potential highly projected transaction that could affect the income for the period, the

effective portion of the changes in the fair value of the derivative is recognized in the comprehensive income account and is presented as a component of stockholders' equity. Any ineffective portion of the changes in fair value of the derivative is immediately applied to the income statement.

When the hedged item is a non-financial asset, the amount accrued in the stockholders' equity is maintained in other comprehensive income and it is reclassified to in the same period when the hedged item affects the income statement. In other cases, the amount accrued in stockholders' equity is reclassified to the income in the same period when the hedged item affects the income. If the hedge instrument no longer complies with the hedge accounting criteria, it expires or it is sold, suspended or executed, or the designation is revoked, this hedge is prospectively discontinued. If the transaction is no longer expected to take place, the balance of other comprehensive income items is immediately applied to the income statement.

#### ***Embedded derivatives-***

Embedded derivatives are separated from the main contract and recorded separately if:

- The characteristics and risks of the main contract and the embedded derivative are not closely related.
- A separate instrument with the same terms as the embedded derivative could meet the characteristics of a derivative.
- The combined instrument is not measured at fair value through with changes in income.

#### ***Derivative financial instruments not designated as hedging-***

When a derivative financial instrument is not designated for a hedging qualifying relationship all changes in fair value are immediately recognized in income.

### **(d) Property, machinery and equipment-**

#### ***(i) Recognition and measurement-***

Property, machinery and equipment items are valued at cost less accrued depreciation and impairment losses.

The Group opted to apply the optional exemption provided by IFRS 1, to use the book value as per MFRS as the assumed cost as at January 1, 2011, date of transition to IFRS, except the Chiapas plant machinery and the land pertaining to the Mexico distribution center, which assumed cost was determined at fair value on the basis of appraisals conducted at the date of transition to IFRS.

The cost includes expenses directly attributable to acquisition of the asset. The cost of assets built by the entity include the following:

- The cost of materials and direct labor.
- Any other costs directly attributable to making the asset suitable to a working condition for its intended use.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

- When the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site where they are located.
- The capitalized loan costs

The costs may also include transfers from equity of any gain or loss on qualified cash flow hedges for acquisitions of property, machinery and equipment. Acquired software, which is part of the functionality of the related equipment is capitalized as part of such equipment.

When parts of an item of property, machinery and equipment have different useful lives, they are registered as separate items (major components) of property, machinery and equipment.

Gains or losses on the sale of a property, machinery and equipment item (determined as the difference between the profit obtained from the sale against the book value of such item) are recognized in the income.

## (ii) Subsequent costs-

Subsequent expenditures are capitalized only when future economic benefits associated with the expenditure are likely to flow to the Group. Continuous repairs and maintenance are expensed in income as incurred.

## (iii) Depreciation-

Items of property, machinery and equipment are depreciated from the date on which they are installed and ready for their use or in the case of assets internally built, from the date on which the asset is completed and ready to be used.

Property, machinery and equipment elements are depreciated on a straight-line basis according to the estimated useful life of each element. Land is not depreciated.

The estimated useful lives for the current and comparative periods of the significant items of property, machinery and equipment are summarized as follows:

	YEARS
Buildings	20 - 33
Machinery and tools	10 - 14
Fishing equipment	17
Furniture and office equipment	12
Stowing and transportation equipment	4 - 10
Electronic data processing equipment	4

The depreciation method, useful lives and residual values are reviewed at each period and adjusted, if necessary.

**(e) Intangible assets and goodwill-**

**(i) Goodwill-**

Goodwill resulting from the acquisition of subsidiaries is included in intangible assets. With respect to the valuation of goodwill in the initial recognition, see note 3(a) (i).

**(ii) Subsequent measures-**

Goodwill is valued at cost, less accumulated impairment losses. With respect to the investments recognized by the equity method, the book value of goodwill is included in the book value of the investment, and any impairment loss is distributed to the book value of the investment recognized by the equity method as a whole.

**(iii) Intangible assets with defined life-**

Intangible assets acquired by the Group consisting of non-competition agreements, developed technology and customer relationships that have defined useful lives are recorded at cost, less accumulated amortization and accumulated impairment losses. The aforementioned does not refer to intangible assets internally developed, they arise from acquisitions made.

**(iv) Intangible assets with undefined useful lives-**

Intangible assets with undefined useful lives correspond to patents and trademarks, involving no legal, regulatory, contractual, economic or other factors that might limit their useful lives, and which are expected to generate future cash flows, which are not conditioned to a limited period of time, and are thus subject to annual impairment testing under IFRS.

**(v) Subsequent disbursements-**

Subsequent disbursements are capitalized solely when they increase the future economic benefits comprised in the specific asset related to such disbursements. All other disbursements, including those to internally generate trademarks and goodwill are applied to income as they are incurred.

**(vi) Amortization-**

Amortization is based on the cost of the asset less its residual value.

The intangible assets are amortized to income on the straight-line basis during the estimated useful life of the intangible assets, except goodwill, as from the date when they are ready to use.

The estimated useful life for current and comparative periods are in the next page.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	YEARS
Non-competition agreements	2 - 3
Developed technology	8 - 20
Customer relationships	13 - 20

The amortization, useful lives and residual values methods are reviewed at the year-end close and adjusted, if necessary.

## (f) *Leased assets-*

### ***Determining whether an agreement contains a lease***

At the beginning of the agreement, the Group determines whether the agreement is or contains a lease.

The Group separates payments and other consideration required by the agreement, at the beginning of it or after making the proper review, between those derived from the lease and those derived from other elements, based on their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments on a reliable basis, it will recognize an asset and a liability at an amount equal to the fair value of the underlying asset identified. Then, the liability will be reduced as payments are made, recognizing the imputed financial burden on such liability by using the incremental interest rate of the buyer's debt.

### ***Leased assets***

Assets held by the Group under leases which substantially transfer to the Group all the risks and advantages related to ownership are classified as financial leases. Leased assets are initially measured at an amount equal to the lowest value between fair value and present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to such asset.

Assets held under other leases are classified as operating leases and are not recognized in the statement of financial position of the Group.

### ***Lease payments***

Payments made under operating leases are recognized in lineal income throughout the lease term. Lease incentives received are recognized as an integral part of the total lease expense during the lease term.

Minimum lease payments made under financial leases are apportioned between the finance expense and the reduction of liability balance. The financial burden is allocated between the periods that constitute the lease term, so that a constant interest rate in each period on the balance of the outstanding debt is obtained.

**(g) Inventories-**

Inventories are measured at the lower of cost and net realizable value. Cost is determined by the first-in-first-out method and includes disbursements incurred for the acquisition of inventories, production or manufacturing costs and other costs incurred to transport them to their site and current conditions. In the case of manufactured inventory stock and inventory in progress, the costs include a portion of production overhead based on the regular operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on the rated flow hedges of inventory purchases in foreign currency.

Net realizable value is the estimated sale price in the ordinary course of business, less the costs of completion and the estimated necessary costs to close the sale.

**(h) Impairment-**

**(i) Non-derivative financial assets-**

A financial asset that is not recognized at fair value with changes in income, including a participation in an investment accounted for under the equity method, is evaluated on each date of the statement of financial position to determine objective evidence of impairment thereof. A financial asset is impaired if there is objective evidence that indicates that a loss event has occurred after initial recognition of the asset, and that said event had a negative effect on that asset's future cash flows and that can be reliably estimated.

Objective evidence that financial assets are impaired includes default or non-compliance of a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will declare bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that relate to non-compliance or the disappearance of an active market for an instrument and observable data indicating a decrease in future cash flows of financial assets. In addition, for an investment in an equity instrument, a significant or prolonged decrease in items fair value below cost represents objective evidence of impairment. The Group finds that a reduction of 20 percent is significant and a period of nine months is extensive.

**(ii) Financial assets measured at amortized cost-**

The Group considers evidence of impairment of financial assets measured at amortized cost (loans and receivables and financial assets held to maturity) both at specific and at collective level. All receivables and investment securities held to maturity individually significant are assessed for specific impairment. Those who are not specifically impaired are evaluated for collective impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of default probabilities, timing of recoveries, and the amount of loss incurred, adjusted for Management's judgments regarding whether the current credit and economic conditions make it likely that actual losses are greater or lesser than those suggested by historical trends.

# Notes to the consolidated financial statements

[Thousands of Mexican pesos]

An impairment loss relating to a financial asset measured at amortized cost is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment is recognized it causes the amount of impairment loss to decrease, the decrease is reversed in income.

## **(iii) Non-financial assets-**

The book value of the Group's non-financial assets, excluding employee benefits, inventories and deferred tax assets, is tested for impairment on each reporting date. If signs of impairment are identified, the recovery value of the asset is estimated. The recovery value of goodwill and intangible assets with undefined useful lives are estimated yearly. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recovery value of an asset or cash-generating unit is the greatest value between its value in use and its fair value, less costs incurred for its sale. In evaluating the value in use, estimated future cash flows are discounted at their present value, using a discount rate before taxes reflecting current market evaluations of the value of the money over time, taking into account the specific risks inherent to the asset or the cash-generating unit. For impairment testing purposes, assets that cannot be individually tested are integrated in smaller groups of assets that generate cash inflows from on-going use and that are, for the most part, independent from the cash inflows of other assets or groups of assets. For the purposes of impairment testing of goodwill, goodwill acquired in a business acquisition is distributed to the group of cash generating units expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate cash inflows separately. If there is any indication that a corporate asset may be impaired, the recovery value of the cash-generating unit to which the corporate asset pertains is then determined.

Impairment losses are recognized in income. Impairment losses recorded with respect to the cash generating units are distributed first to reduce the carrying value of any goodwill distributed to the units (group of units) and subsequently to reduce the book value of other assets in the unit (group of units) on a prorated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if there had been any recognized impairment loss.

## **(i) Employee benefits-**

### **(i) Short-term benefits-**

Liabilities for employee short-term benefits are undiscounted measures and are recognized as an expense as the related service is provided. An obligation is recognized for the amount expected to be paid under the short-term cash bonus or participation plans of employees in profits if the Group has a current legal or constructive obligation to pay this amount as a result of service provided by the employee in the past and the obligation may be estimated reliably.



**(ii) Defined benefit plans-**

The net obligations with respect to defined benefit pension plans are calculated separately for each plan, estimating the amount of the future benefit earned by employees in return for their services in the current and past periods. This benefit is discounted to determine its present value. The costs for prior services not yet recognized and the fair value of plan assets are deducted. The discount rate is calculated on the basis of zero-coupon government bonds with maturity term resembling those of the company's obligations and that are determined in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary, using the projected unit credit method. When the result of the calculation is a benefit for the Group, the asset recognized is limited to the net total of prior-service costs not yet recognized and the present value of the economic benefits available, in the form of future reimbursements of the plan or reductions in future contributions to the plan. In calculating the present value of the economic benefits, the minimum funding requirements applied to any of the Group's plan. The resulting increase in labor cost of the benefit obligation and expenditure by employees in the year are recognized in operating expenses. The financial cost associated with increased liability over time, as well as the expected return on the period of plan assets are recognized in the financial results. An economic benefit is available to the Group if it is realizable during the life of the plan, or liquidation of the obligations of the plan. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in income using the straight-line basis over the average period until the benefits are delivered. To the extent that the benefits are immediately delivered, the expense is immediately recognized in income.

The Group recognizes the actuarial gains and losses arising from defined benefit plans in another comprehensive income and all expenses related to the defined benefit plans in the expenses for benefits to the employees in income.

When having reductions or settlements in a defined benefit plan, the Group shall recognize gains or losses arising therefrom. These gains or losses shall include any change that could result in the present value of the defined benefit obligations incurred by the entity, and any changes in the fair value of plan assets, any gains and losses and past service costs that had not been previously recognized.

**(iii) Termination benefits-**

The benefits at the end of the employment relationship not associated with a restructuring event, such as severance payments are recognized in the income statement as incurred.

**(j) Allowances-**

An allowance is recognized if, it is a result of a past event, the Group has a present legal or assumed obligation that can be reliably estimated, and will probably require the use of economic resources to settle the obligation. The long-term allowances are determined by discounting future cash flows at a pretax rate that reflects current market evaluation of the book value attributable to the time factor and risks specific to the liability. The effect of the discount is recognized as a financial cost.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## ***Restructuring-***

The Group recognizes allowances for restructuring, when restructuring plans have been properly completed and approved by the administration, and have been reported to the third parties involved and/or affected before the date of the financial statements.

## ***Contingencies and commitments-***

Obligations or losses related to contingencies are recognized as a liability when there is a present obligation resulting from past events and it is likely that the effects will materialize and can be measured reliably; otherwise they are qualitatively disclosed in the financial statements. The effects of long-term commitments established with third parties, as in the case of supply contracts with suppliers or customers, are recognized in the financial statements considering the substance of the agreements based on what was incurred or accrued. Relevant commitments are disclosed in the notes to the financial statements. No income, profits or contingent assets are recognized.

## ***(k) Revenue-***

### ***Sale of goods-***

Income from the sale of goods during the course of ordinary operations is recognized at the fair value of the counter entry received or receivable, net of returns, commercial and volume discounts. Income is recorded when the risks and benefits inherent to ownership of the goods have been transferred to the client, recovery of the consideration is probable, incurred costs and the possible return of the goods can be reliably estimated and the company does not keep any implication in the current management of the sold goods. If discounts are likely to be granted and the amount can be reliably determined, the discount is then recognized as a reduction of income when sales are recognized.

The opportunity of the transfer of risks and benefits varies according to the individual terms of the sales agreement. Generally, the transfer takes place when the product is received at the customer's warehouse.

## ***(l) Donations-***

To the extent the Group donations to social programs benefit the community in general, they are applied to income as incurred.

## ***(m) Financial income and financial costs-***

Financial income includes interest income on invested funds, income earnings and changes in the fair value of financial assets at fair value through income, as well as exchange gains. Interest income is recognized at amortized cost, using the effective interest method. Income earnings are recognized in income on the date on which the Group's right to receive payments is established, on the date when the aforementioned instruments corresponds to the date of income payment.

Financial costs comprise the interest expense on loans, exchange losses, changes in the fair value of financial liabilities at fair value through income and impairment losses recognized on financial assets.

Costs of loans that are not directly attributable to the acquisition, construction or production of an asset that qualifies, are applied to income by the effective interest method.

Gains and losses on foreign currency for financial assets and financial liabilities are presented offsetting the corresponding amounts as income or financial costs depending on whether foreign currency movements are in a position of net profit or loss.

#### **(n) Income tax-**

The tax expense comprises current and deferred taxes. Current taxes and deferred taxes are recognized in income as far as they are not related to a business combination, or items recognized directly in equity or in other comprehensive income

##### **(i) Current tax-**

Current tax is the expected tax payable or receivable on the taxable income for the year, using approved tax rates or nearly approved at the statements of financial position date, and any adjustment to tax payable in respect of previous years. Current tax receivable also includes any tax liability arising from declaring dividends.

##### **(ii) Deferred tax-**

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred taxes are not recognized for:

- The initial recognition of an asset or liability in a transaction that is not a business combination and that did affect neither the accounting or fiscal gain or loss;
- The differences associated with investments in subsidiaries, associates and joint ventures to the extent that the Group can control the timing of the reversion of the temporary differences and it is likely that they will not be reversed in the near future; and
- The taxable temporary differences arising on initial recognition of goodwill.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the fiscal consequences that would follow from the manner in which the entity expects, at the end of the reporting period under review, to recover or settle the book amount of its assets and liabilities.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences when they reverse, based on laws that have been approved or almost approved at the statements of financial position date.

Assets and liabilities in deferred taxes are adjusted if there is an exigible legal right to adjusting liabilities and assets for current tax, and are related to the income taxes imposed by the same tax authority on the same taxable entity or different

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

entities tax, but intend to settle the liabilities and assets for current tax on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax loss carryforwards, tax credits and deductible temporary differences to the extent that it is probable that future taxable gains will be available against which they can be used. The deferred tax assets are reviewed at the statements of financial position date and are reduced to the extent that it is not likely that the related tax benefit will be realized.

The effects of income taxes for uncertain tax positions are recognized when it is more likely than not that the position will be sustained on its technical merits and assuming that the authorities will review each position and have full knowledge of the relevant information. These positions are valued based on an accumulated probability model. Each position is considered individually, without considering its relation to other fiscal procedure. The indicator of more likely than not a statement from management that the Group is entitled to the economic benefits of the tax position. If a tax position is not considered more likely than not to be sustained, the benefits of the position are recognized. The Group recognizes interest and penalties related to unrecognized fiscal benefits as part of the expense for income taxes in the consolidated income statements.

## **(o) Earnings per share-**

The Group presents information on basic Earnings per Share (EPS), and the diluted earning per share corresponding to its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to the holders of ordinary shares by a weighted average number of shares outstanding during the period, adjusted by own shares held (see note 25). Provided there are no dilutive effects, the basic earning per share and diluted earning is the same.

## **(p) Segment reporting-**

Segment results that are reported to the Group General Manager (highest authority in making operating decisions) include items directly attributable to a segment as well as those items that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), the cost of the central office, and tax assets and liabilities.

## **(q) Comprehensive income-**

Comprehensive income is comprised of net income, the valuation of derivative financial instruments, the effects of translation and the results from actuarial losses on employee benefit obligations, which are reflected in stockholders' equity, but which do not constitute capital contributions, reductions and/or distributions.

## **(4) New standards and interpretations not yet adopted-**

A number of new standards, amendments to or interpretations of standards are effective for annual periods beginning on or after January 1, 2014 and have not been applied in the preparation of these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

**(a) IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)-**

During 2012 and 2013, the IASB issued IFRS 9, Financial Instruments: classification and measurement (“IFRS 9”), which reflects the first part of Phase 1 of the IASB’s project to replace IAS 39. In subsequent phases, the IASB will address the impairment methodology, hedge accounting and derecognizes its financial assets. IFRS 9 requires an entity to recognize a financial asset or financial liability, only until such time that the entity is part of the contract of the instrument. On initial recognition, the entity must value the financial asset or financial liability at fair value, plus or minus, in the case of a financial asset or financial liability not recognized at fair value through income, direct transaction costs associated with the acquisition of the asset or the liability issuance. IFRS 9 is effective as from January 1, 2015, with early application permitted. The Group believes that the current IFRS 9 will have a significant impact on the classification and valuation of assets and liabilities of the Group. However, the Group will assess the impact and quantify the effects insofar be issued and the following phases are known to present a complete diagnosis.

**(b) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)-**

In December 2011, the IASB amended IAS 32 to include disclosures about offsetting assets and liabilities in the statement of financial position. The amended standard requires entities to disclose both amounts, on gross and compensated base on instruments and transactions for offset in the balance sheet as well as instruments and transactions subject to an offsetting agreement. The scope includes derivative instruments, agreements of purchase and sale and purchase agreements and sale and leaseback, and securities loan agreements. The amendments to IAS 32 are effective as from January 1, 2014 and retrospective application is required. The Group is currently evaluating the impact of adopting the amended IAS 32. However, the Group does not anticipate that the adoption of this amended IAS has a significant impact on its financial statements.

**(5) Financial instruments-**

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, the risk of interest rates and the risk of fluctuation in the prices of raw materials), credit risk, liquidity risk and operational risk. The overall risk management program considers the volatility of financial markets and seeks to minimize potential adverse effects on financial performance of the Group. The Group uses derivatives financial instruments to hedge certain risk exposures.

Financial risk management is carried out in the Planning and Finance Office, in accordance with policies approved by the Boards of Directors. The entity identifies, evaluates and hedges financial risks in close cooperation with its subsidiaries. The Boards of Directors have approved general written policies regarding the management of financial risks, including the risk of prices of certain raw materials and exchange rate risk.

All derivative financial instruments contracted by the Company, are formally designated as hedging on the date of hiring under the cash flow model.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## Derivative Financial Commodities (Commodities)-

As part of the hedging strategy on raw materials during 2013 and 2012 the Company used derivative financial instruments to reduce the risk of price fluctuations.

The total value of contracts for hedging purposes to purchase raw materials effective as at December 31, 2013 and 2012 are shown below:

INSTRUMENT	COUNTERPARTY	NOTIONAL AMOUNT		EXPIRATION DATE	POSITION	FAIR VALUE	
		(000'USD)	(000'MXP)			(000'USD)	(000'MXP)
<b>2013</b>							
Futures	CME Clearing	5,953	77,783	Several	Buy (long)	(428)	(5,596)
Options	CME Clearing	150	1,961	Several	Buy (long)	32	414
<b>2012</b>							
Futures	CME Clearing	41,342	536,952	Several	Buy (long)	(2,538)	(32,966)

## Derivative Financial on exchange rate-

The Company is exposed in their raw material purchases and sales of imports of various products to the fluctuation in the peso-U.S. dollar, reason why the Boards of Directors approved its strategy of risk management in order to limit the currency risk of such operations.

As at December 31, 2013 and 2012, the characteristics of the contracts designated as hedges are as follows:

INSTRUMENT	COUNTERPARTY	NOTIONAL AMOUNT		EXPIRATION DATE	POSITION	FAIR VALUE
		(000'USD)	(000'MXP)			(000'MXP)
<b>2013</b>						
Forwards	National banks	2,500	32,663	Several	Buy (long)	753
		13,400	175,074	Several	Sale (short)	3,805
	National banks	4,500	58,793	Several	Buy (long)	973
		19,550	255,425	Several	Venta (corta)	5,096
<b>2012</b>						
Forwards	National banks	9,000	116,892	Several	Buy (long)	(29)
	National banks	8,500	110,398	Several	Buy (long)	(776)
	National banks	4,000	51,952	Several	Buy (long)	99
Options	National banks	2,000	25,976	Several	Buy (long)	337
	National banks	6,000	77,928	Several	Buy (long)	819

### **Derivative Financial Instruments on interest rates-**

In order to reduce the risk of adverse movements attributable to the interest rate profile contracted with financial institutions engaged in long-term debt bearing interest recognized in the balance sheet, Company Management entered into a interest rate swap agreement converting variable rate into fixed rate, which will be paid from July 2017 to December 2019, the contract designated as a hedge is as follows:

INSTRUMENT	COUNTERPARTY	NOTIONAL AMOUNT (000'MXP)	EXPIRATION DATE	PAYABLE RATE	FAIR VALUE	
					RECEIVABLE RATE	(000'MXP)
<b>2013</b>						
Swap	National banks	<u>300,000</u>	Dec 05-17	7.79%	TIE 91	<u>(31,921)</u>
<b>2012</b>						
Swap	National banks	<u>300,000</u>	Dec 05-17	7.79%	TIE 91	<u>(37,068)</u>

As at December 31, 2013 and 2012, the Group's Management has evaluated the effectiveness of all hedging relationships both prospectively and retrospectively, concluding that these relationships are highly effective, and are within the range established by IFRS 80% -125%.

The net effect recorded on the capital stock with IT deferred as at December 31, 2013 and 2012, for financial instrument hedging amounted to \$30,383 and \$(10,541), respectively. The amount included on the comprehensive income in the capital stock, will be recycled to income when the hedged item affects them, which amount is subject to change due to market conditions.

Also, at December 31, 2013 and 2012, the amount recycled on the comprehensive profit for hedging effects cash flow amounted to \$(3,157) and \$(15,448), respectively.

The following table presents the periods in which the expected cash flows associated with the hedging relationships cash flows are expected to occur and when it is expected to affect the income statement (which occurs simultaneously), as well as the book value to the hedging derivative financial instruments associated as at December 31, 2013 and 2012:

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

2013	EXPECTED CASH FLOWS					
	BOOK VALUE	TOTAL	1 YEAR	2 YEARS	3 YEARS	MORE THAN 3 YEARS
<b>Swaps on interest rates</b>						
Liability	\$ (31,921)	(33,809)	(11,701)	(10,062)	(7,263)	(4,783)
<b>Forwards on exchange rates</b>						
Asset	10,834	10,975	10,975	-	-	-
Liability	(207)	(208)	(208)	-	-	-
<b>Options on exchange rates</b>						
Asset	-	-	-	-	-	-
<b>Future on raw materials</b>						
Liability	(5,596)	(5,596)	(5,596)	-	-	-
<b>Options on raw materials</b>						
Asset	414	414	414	-	-	-
<hr/>						
2012	EXPECTED CASH FLOWS					
	BOOK VALUE	TOTAL	1 YEAR	2 YEARS	3 YEARS	MORE THAN 3 YEARS
<b>Swaps on interest rates</b>						
Liability	\$ (37,068)	(42,487)	(8,804)	(8,277)	(7,351)	(18,055)
<b>Forwards on exchange rates</b>						
Asset	905	905	905	-	-	-
Liability	(1,611)	(1,611)	(1,611)	-	-	-
<b>Options on exchange rates</b>						
Asset	1,155	1,155	1,155	-	-	-
<b>Future on raw materials</b>						
Liability	(2,538)	(2,538)	(2,538)	-	-	-
<b>Options on raw materials</b>						
Asset	-	-	-	-	-	-

### **Fair values versus book values-**

The following table shows the book values and the fair value of the derivative and non-derivative assets and liabilities, including its hierarchy. If the fair value of the financial assets and liabilities measured at fair value is not included, is because the book value is an approximation of fair value:



DECEMBER 31, 2013	BOOK VALUE (000' MXP)			FAIR VALUE (000' MXP)			
	FINANCIAL INSTRUMENTS DERIVED FROM HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Derivative financial assets measured at fair value</b>							
Forwards on exchange rate hedging	\$ 10,834	-	10,834	-	10,834	-	10,834
Commodities option	414	-	414	414	-	-	414
	<u>11,248</u>	<u>-</u>	<u>11,248</u>				
<b>Derivative financial liabilities measured at fair value</b>							
Forwards on exchange rate hedging	(207)	-	(207)	-	(207)	-	(207)
Swaps on exchange rate hedging	(31,921)	-	(31,921)	-	(31,921)	-	(31,921)
Commodities futures hedging	(5,596)	-	(5,596)	(5,596)	-	-	(5,596)
	<u>(37,724)</u>	<u>-</u>	<u>(37,724)</u>				
<b>Non-derivative financial liabilities non-measured at fair value</b>							
Bank loans	-	(800,000)	-		(918,746)	-	(918,746)
Debt issuers							
CEBURES HERDEZ 10	-	(595,230)	-		637,644	-	(637,644)
CEBURES HERDEZ 11	-	(598,656)	-		(603,099)	-	(603,099)
CEBURES HERDEZ 13	-	(1,990,296)	-		(2,010,726)	-	(2,010,726)
CEBURES HERDEZ 13-2	-	(995,188)	-		(1,002,151)	-	(1,002,151)
	<u>\$ -</u>	<u>(4,979,370)</u>	<u>-</u>				

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

DECEMBER 31, 2012	BOOK VALUE (000' MXP)			FAIR VALUE (000' MXP)			
	FINANCIAL INSTRUMENTS DERIVED FROM HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Derivative financial assets measured at fair value</b>							
Forwards on exchange rate hedging	\$ 905	-	905	-	905	-	905
Options on Exchange rate hedging	1,155	-	1,155	-	1,155	-	1,155
	<u>2,060</u>	<u>-</u>	<u>2,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Derivative financial liabilities measured at fair value</b>							
Forwards on exchange rate hedging	(1,611)	-	(1,611)	-	(1,611)	-	(1,611)
Swaps on exchange rate hedging	(37,068)	-	(37,068)	-	(37,068)	-	(37,068)
Commodities futures hedging	(32,966)	-	(32,966)	(32,966)	-	-	(32,966)
	<u>(71,645)</u>	<u>-</u>	<u>(71,645)</u>				
<b>Non-derivative financial liabilities non-measured at fair value</b>							
Bank loans	-	(989,640)	-		(1,148,803)	-	(1,148,803)
Debt issuers							
CEBURES HERDEZ 10	-	(594,131)	-		(640,476)	-	(640,476)
CEBURES HERDEZ 11	-	(597,670)	-		(603,277)	-	(603,277)
	<u>\$ -</u>	<u>(2,181,441)</u>	<u>-</u>				

## (6) Financial risk management

### General

The Group is exposed to the following risks related to the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Commodities risk
- Capital management

This note presents information on the Group's exposure to each of the previously-mentioned risks, objectives, policies and processes of the Group for measuring and managing risks, as well as for managing its capital. More quantitative disclosures are included in the various sections of these consolidated financial statements.

### **Risk management framework-**

The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring risk management policies of the Group. This committee usually reports its activities to the Board of Directors.

The Group's risk management policies were established in order to identify and analyze the risks to which the Group is exposed, to establish the proper limits and risk controls, and monitor risks and enforce restrictions. The risk management policies and systems are periodically reviewed to reflect the changes in market conditions and in the Group's activities. Through its standards and administrative procedures, the Group intends to develop a disciplined and constructive control environment that will allow for all employees to understand their roles and obligations.

The Group's Audit Committee supervises the manner in which management monitors compliance with risk management policies, procedures and inspections are in line with the risk management framework, in terms of the risks the Company are exposed to. The Group's Audit Committee receives supervision support from the internal audit area. Internal audit conducts both routine and special inspections of risk management controls and procedures, the results of which are reported to the Audit Committee.

### ***Credit risk-***

The credit risk is the risk of financial loss for the Group, if a customer or counterparty of a financial instrument defaults on its contractual obligations, and arises mainly from the client accounts receivable and the investment instruments of the Group.

### ***Accounts receivable***

The credit risk represents the risk of financial loss for the Group, if a customer or counterparty of a financial instruments defaults on its contractual obligations, and arises mainly from the client accounts receivable.

The Risk Management Committee has implemented a credit policy under which each new customer is analyzed individually in terms of solvency before being offered the Group's standard terms and conditions for payment and delivery. The Group's revision includes external opinions, when available, and in some cases, bank references. For each customer, purchase limits are established, that represent the maximum open amount that does not require approval from the Risk Management Committee. These limits are revised quarterly. Customers failing to meet the Company's credit reference requirements can only conduct operations with the Group through upfront payments.

In monitoring customers' credit risks, customers are grouped according to their credit characteristics, which include whether the customer is an individual or an entity, a wholesaler, retailer or final user, geographical location, industry, years in business, maturity and existence of prior financial difficulties. Accounts receivable from clients and other accounts receivable correspond mainly to the Group's wholesale customers. Customers classified as "high risk" are included in a list of restricted customers and they are monitored by the Risk Management Committee.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	2013	2012 Reformulated
Current portfolio	\$ 1,016,393	1,122,389
Past-due portfolio 1-30	467,340	446,578
Past-due portfolio 31-60	117,698	95,283
Past-due portfolio 61-90	16,087	16,945
Past-due portfolio +90	32,001	100,624
Legal portfolio	7,910	7,910
Total portfolio	1,657,429	1,789,729
Estimated portfolio of doubtful accounts	(9,603)	(9,245)
Total clients	\$ 1,647,826	1,780,484

Movement of the allowance for doubtful accounts for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012 Reformulated
Allowance as at January 1	\$ 9,245	5,655
Additions	358	3,590
Applications	-	-
Allowance at December 31	\$ 9,603	9,245

At December 31, 2013 and 2012, the Company had certain accounts receivable that were not past due or impaired. The credit quality of said accounts receivable shows no signs of impairment, as income is obtained from a broad variety of customers ranging from supermarkets, marketers and stores. The Company's customer portfolio is mainly comprised of wholesalers and self-service stores, which entails similar credit risk conditions and account for 78% and 74% of the overall portfolio in 2013 and 2012, respectively. At December 31, 2013 and 2012, none of the aforementioned accounts receivable showed default; however, Company Management has recognized an allowance for doubtful accounts for accounts past due and in legal process, that could represent impairment.

### *Cash and investment in securities*

The Group had cash and cash equivalents of \$886,680 as of December 31, 2013 (2012 \$1,311,196), which represent the maximum exposure to credit risk on these assets. Cash and cash equivalents are held with banks and financial institutions, which are rated between the rank AA- and AA+.

## Derivatives

Derivative instruments are entered into with counterparties, banks and financial institutions, which are rated between the range AA- and AA+, according to various rating agencies.

The book value of derivative and non-derivative financial assets represents the maximum credit risk exposure of the Group:

DECEMBER 31, 2013	BOOK VALUE (000'MXP)		
	DERIVATIVE FINANCIAL HEDGING INSTRUMENTS	OTHER FINANCIAL LIABILITIES	TOTAL
<b>Derivative financial assets measured at fair value</b>			
Forwards on exchange rate hedging	\$ 10,834	-	10,834
<b>DECEMBER 31, 2012 [Reformulated]</b>			
<b>Derivative financial assets measured at fair value</b>			
Forwards on exchange rate hedging	\$ 905	-	905
Options on exchange rate hedging	1,155	-	1,155
	\$ 2,060	-	2,060

## Liquidity risk-

The liquidity risk represents the possibility of the Group facing difficulties in complying with its obligations related to financial liabilities settled through delivery of cash or other financial assets. The Group's approach to managing its liquidity consists of ensuring, to the extent possible, that it will have sufficient liquidity to settle its liabilities at the date of maturity, under both ordinary and extraordinary tense conditions, without incurring unacceptable losses or jeopardizing the Group's reputation.

The Group uses costing based on activities for the allocation of costs to its products and services, which help monitor cash flow requirements and optimize the cash, return on its investments. Normally, the Group ensures that it has sufficient available cash to cover expected operating expenses for a 60-day period, which includes payment of its financial obligations. The aforementioned excludes the possible impact of extreme circumstances that are not reasonably predictable, such as natural disasters.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

A table with a summary of the outstanding financial liabilities of payment, including interest payable each future expiration date corresponding to December 31, 2013 and 2012 is shown below:

DECEMBER 31, 2013	BOOK VALUE	TOTAL	CONTRACTUAL CASH FLOWS				
			2 MONTHS OR LESS	2 MONTHS TO 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS	MORE 3 YEARS
<b>Derivative financial liabilities</b>							
Swaps on interest rates	\$ (31,921)	(33,810)	(2,856)	(8,846)	(10,062)	(7,263)	(4,783)
Forwards on exchange rate	(207)	(208)	(197)	(10)	-	-	-
<b>Non-derivative financial liabilities</b>							
Bank debt	(800,000)	(1,104,976)	(14,069)	(45,313)	(254,673)	(57,606)	(733,315)
Issuance of claims							
CEBURES HERDEZ 10	(595,230)	(792,435)	-	(48,109)	(48,109)	(48,109)	(648,109)
CEBURES HERDEZ 11	(598,656)	(632,054)	(4,098)	(23,371)	(604,585)	-	-
CEBURES HERDEZ 13	(1,990,296)	(3,621,822)	-	(162,182)	(162,182)	(162,182)	(3,135,276)
CEBURES HERDEZ 13-2	(995,188)	(1,304,639)	(6,740)	(38,362)	(51,968)	(61,644)	(1,145,925)

## DECEMBER 31, 2012

<b>Derivative financial liabilities</b>							
Swaps on interest rates	\$ (37,068)	(42,487)	(2,319)	(6,485)	(8,277)	(7,351)	(18,055)
Forwards on exchange rate	(1,611)	(1,611)	(1,611)	-	-	-	-
<b>Non-derivative financial liabilities</b>							
Bank debt	(989,640)	(1,385,804)	(13,912)	(44,010)	(159,742)	(194,717)	(973,423)
Issuance of claims							
CEBURES HERDEZ 10	(594,131)	(840,543)	-	(48,109)	(48,109)	(48,109)	(696,217)
CEBURES HERDEZ 11	(597,670)	(669,343)	(5,081)	(24,939)	(33,825)	(605,498)	-

### Market risk-

Market risk is the risk of changes in market prices, such as exchange rates, interest rates and materials costs affect the Group's income or the value of its financial instruments. The purpose of risk management is to manage and control exposure to market risks within acceptable parameters, while at the same time, optimizing profitability.

The Group buys and sells derivatives, and it also incurs in financial obligations, to manage market risks. All these transactions are valued according to the guidelines established by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting to mitigate volatility in results.

It is noteworthy that Grupo Herdez also has the risk of price changes in raw materials which is why the Company operates with future derivatives.

**Currency risk-**

The Group is exposed to exchange risk on sales, purchases and loans denominated in a currency other than its functional currency, which is the Mexican peso. The foreign currency in which said transactions are mainly denominated is the U.S. dollar (US\$).

Through hedging, the Group protects of its estimated exposure to variations in exchange rates with respect to purchases projected with suppliers, denominated in foreign currency. The Group uses exchange rate “forwards” to hedge against the exchange risk, most with maturities of less than one year as from the reporting date.

With respect to other monetary assets and liabilities denominated in foreign currency, the Group ensures that its net exposure is kept at an acceptable level through the purchase and sale of foreign currencies at exchange rates of transactions in cash or “spot” to cover incidentals in the short term.

During the year, the following significant exchange rates were applied:

	AVERAGE EXCHANGE RATE		EXCHANGE RATE AT DECEMBER 31,	
	2013	2012	2013	2012
U.S. dollar	\$ 12.7700	13.1742	13.0652	12.9880

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

At December 31, 2013 and 2012, the Company and its subsidiaries had the following foreign currency assets and liabilities. The information is stated in thousands of US dollars, which is the prevailing foreign currency:

## Derivative financial Instruments

YEAR	INSTRUMENT	NOTIONAL AMOUNT (000'USD)
2013	Forward (buy)	7,000
	Forward (sale)	(32,950)
	Commodities	5,953
	Options commodities	426
2012	Forward (buy)	21,500
	Options	8,000
	Commodities	41,342

## Non-derivative financial liabilities

YEAR	INSTRUMENT	NOTIONAL AMOUNT (000'USD)
2012	Bank debt	30,000

A sensitivity analysis about assets and derivative liabilities and non-derivative instruments denominated in foreign currencies at December 31, 2013 is shown on the next page, if the peso were to increment or decrease +\$0.25, +/- \$ 0.50 and -\$1 showing the changes that would be in exposure to this risk.

		INCREASE		DECREASE	
<b>Derivative financial instruments</b>					
Forwards buy	\$	3,499	1,749	(3,499)	(6,998)
Forwards sale		(16,452)	(8,226)	16,452	32,903
Future on commodities		(5,805)	(5,697)	(5,376)	(5,162)
Options on commodities		16	8	(16)	(32)
Total	\$	(18,742)	(12,166)	7,561	20,711

This analysis assumes that all other factors remain constant.



### **Interest rate risk-**

The Group ensures that its exposure to interest rate fluctuations on loans to be at a fixed rate and variable rate. This is through a concentration of interest rate hedge operations (swaps).

In addition, the Group is exposed to fluctuations in rates on financial liabilities: Bank debt and debt issues.

A sensitivity analysis considering various scenarios (+/- 50 points basis and +/- 100 point basis) to the instruments that are exposed to the interest rate risk, in this particular case TIE is shown below. It is noteworthy that this analysis was performed on the fair values of the various instruments:

DECEMBER 31, 2013	INCREASE		DECREASE	
<b>Derivative financial instruments</b>				
Swap on interest rates	\$ 9,887	4,972	(5,381)	(10,838)
<b>Non-derivative financial instruments</b>				
Bank debt	(2,325)	(1,176)	1,206	2,441
Issuance of claims				
CEBURES HERDEZ 10	(19,844)	(10,023)	10,223	20,648
CEBURES HERDEZ 11	(6,626)	(3,323)	3,343	6,706
CEBURES HERDEZ 13	(128,862)	(65,919)	68,896	140,769
CEBURES HERDEZ 13-2	(43,237)	(21,885)	22,418	45,370
Total	\$ (191,007)	(97,354)	100,705	205,096

Additionally, in accordance with the valuation model on currency forwards, part of the inputs are the local rate and foreign rate, these instruments are exposed to the fluctuation in those rates, therefore, a sensitivity analysis for each rates is shown (local or implicit rate and foreign rate).

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## LOCAL RATE (IMPLICIT)

DECEMBER 31, 2013	INCREASE		DECREASE	
<b>Derivative financial instruments</b>				
Forwards buy	\$ 75	37	(38)	(75)
Forwards sale	(1,997)	(1,002)	1,008	(1,997)
Total	\$ (1,922)	(965)	970	(2,072)

## FOREIGN RATE (LIBOR)

DECEMBER 31, 2013	INCREASE		DECREASE	
<b>Derivative financial instruments</b>				
Forwards buy	\$ (4)	(2)	2	4
Forwards sale	100	50	(50)	(100)
Total	\$ 96	48	(48)	(96)

### *Risk in the fluctuating of raw material prices*

The Group is exposed to the risk from the fluctuating prices of raw material, therefore a sensitivity analysis was performed on the instruments that are affected by this risk considering scenarios of +/- 5% and +/-10%.

DECEMBER 31, 2013	INCREASE		DECREASE	
<b>Derivative financial instruments</b>				
Future on commodities	\$ 560	280	(280)	(560)
Options on commodities	64	21	(21)	(41)
Total	\$ 624	301	(301)	(601)

### *Capital management-*

It is the Board of Directors' policy to maintain a solid capital gain to retain the investors', creditors' and market's trust in the Company and to sustain the business's future development. Capital is comprised by total stockholders' equity, minus the accrued amounts in the equity related with hedging of cash flow. The Board of Directors also monitors the capital return and dividends distributed to the stockholders of ordinary shareholders.

The Group monitors capital using a debt-equity adjusted index, which adjusts net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities (including interest-bearing loans and obligations under finance leases) plus dividends proposed unearned, less cash and cash equivalents. The adjusted equity includes all components of equity other than amounts recognized in equity relating to cash flow hedges, less proposed unearned dividends.

During the reporting periods, there were no changes in the approach to the Group's policies on capital management.

The Company and its subsidiaries are not subject to externally tax capital requirements.

Periodically, the Group purchases its own shares in the market; the timing of said purchases depends on the market prices. The decisions to buy or sell are made by Management. The Group has no specific plan to repurchase shares.

Company Management has established the following rules for management of financial and capital risks:

- The debt with cost must not exceed 100% of consolidated stockholders' equity.
- Not to reduce capital stock to under \$5,000,000.
- Debt with a cost must cash net must not exceed three times the EBITDA (1).
- Not to reduce interest hedge (EBITDA/net financing expenses) to less than 3 times.

All of these rules were duly complied with at December 31, 2013 and 2012.

<sup>(1)</sup> EBITDA = Operating Income plus Depreciations and Amortizations

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## (7) Related parties-

As mentioned in note 1, the Group is a subsidiary of Hechos con Amor, S. A. de C. V., which belongs to a group of investors that exercises control over it and with which there is a relationship, as it is the main holding Company with 51% of the Group shares. The remaining 49% of the shares is owned by numerous stockholders.

The main balances of accounts receivable and payable with related parties as of December 31, 2013 and 2012 are as follows:

	2013	2012 Reformulated
<b>Holding company:</b>		
Hechos Con Amor, S. A. de C. V.	\$ 1,329	(20)
<b>Joint venture:</b>		
Megamex Foods LLC	86,833	37,200
Intercafé, S. A. de C. V.	10,828	17,377
<b>Other associate company:</b>		
Fábricas de Envases del Pacífico, S. A. de C. V.	(98)	100,000
<b>Other related parties:</b>		
McCormick and Company, Inc.	(35,329)	(52,103)
Barilla Alimentare	(7,875)	(13,581)
Energía para Conservas, S. A. de C. V.	106,237	-
Desc Corporativo, S. A. de C. V.	(4,985)	(3,435)
Stafford de México S. A. de C. V.	45,985	47,317
Others, net	(352)	(12,157)
	\$ 202,573	120,598

During the years ended December 31, 2012 and 2011, operations conducted with related parties which were performed at market value are shown below:

	2013	2012 Reformulated
<b>Holding company:</b>		
Lease expenses	\$ (32,668)	(33,256)
Other expenses	\$ (5,320)	(5,635)
<b>Joint venture:</b>		
Commissions on sales	\$ 9,449	9,709
Interest collected	\$ 1,484	1,863
Sales of finished goods and materials	\$ 546,470	414,421
Other income	\$ 39	163
<b>Associates:</b>		
Purchase of materials	\$ (393,465)	(331,678)
Lease income	\$ 1,500	1,500
Interest collected	\$ 8,863	9,452
Other income	\$ 715	729

	2013	2012 Reformulated
<b>Other related parties:</b>		
Lease expenses	\$ (46,417)	(40,234)
Freight services	(15,279)	(15,447)
Interests earned	2,025	2,133
Interests collected	(49,805)	(52,665)
Royalties paid <sup>(1)</sup>	(222,979)	(212,783)
Administrative services paid	(62,566)	(64,607)
Fuel purchase <sup>(2)</sup>	(117,485)	(110,940)
Import of finished products	(54,407)	(69,129)
Sale of finished goods and materials	267,597	253,224
Other expenses	(4,159)	(16,682)
	\$ (303,475)	(327,130)

<sup>(1)</sup> Payment for the use of trademarks McCormick and Barilla to McCormick and Company, Inc. and Barilla Ger Fratelli, respectively.

<sup>(2)</sup> Purchases performed to the Fuel Terminal, mainly for the Tuna Fishing fleet to Suministro de Combustibles y Lubricantes del Puerto Madero, S. A de C. V.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## Compensation to the key members of management

The key members of the Board of Directors received the following compensations during those periods, which are included in personnel costs under general expenses in the corresponding consolidated statements of comprehensive income:

	2013	2012 Reformulated
Short and long-term direct benefits	\$ 22,517	23,274
Termination benefits	3,058	3,264
	<u>\$ 25,575</u>	<u>26,538</u>

## (8) Inventories-

Inventories are comprised as follows:

	2013	2012 Reformulated
Finished goods	\$ 1,308,620	1,003,718
Semi-finished goods	5,653	2,599
Raw materials and packaging materials	511,123	467,751
Materials held by contract manufacturers	83,485	108,880
Spareparts warehouse	76,888	75,776
Total	<u>\$ 1,985,769 <sup>(1)</sup></u>	<u>1,658,724</u>

Turnover of spare-parts inventory is under 365 days (average 188 days), therefore, its application is handled based on consumption.

<sup>(1)</sup> At December 2013 and 2012, the Company has a registered allowance for inventories of \$46,096 and \$12,415, respectively.

## (9) Accounts receivable

Accounts receivable consist of the following:

	2013	2012 Reformulated
Costumers	\$ 1,657,429	1,789,729
Debtors	46,330	46,413
	1,703,759	1,836,142
Less allowance for doubtful accounts	9,603	9,245
Accounts receivable - Net	\$ 1,694,156	1,826,897

## (10) Property, machinery and equipment-

At December 31, 2012 and 2011, property, machinery and equipment are comprised as shown in the following table:

	BALANCES AT DECEMBER 31, 2012 [Reformulated]	ADDITIONS	ADDITIONS DERIVED FROM BUSINESS ACQUISITIONS	DISPOSALS	RECLASIFICACION	BALANCES AT DECEMBER 31, 2013
Building	\$ 1,430,263	25,782	171,049	27,911	106,985	1,761,990
Machinery and tools	2,375,667	172,040	96,465	(93,379)	155,829	2,706,622
Fishing equipment	1,046,356	-	-	-	56,176	1,102,532
Office furniture and equipment	95,495	3,905	4,476	8,839	2,433	115,148
Stowing and transportation equipment	315,762	2,682	14,139	8,106	1,987	342,676
Electronic data processing equipment	152,734	18,887	5,996	17,611	696	195,924
Original investment (OI)	5,416,277	223,296	292,125	(30,912)	324,106	6,224,892
Accumulated depreciation	(2,873,380)	(291,247)	-	(72,656)	-	(3,237,283)
OI less depreciation	2,542,897	(67,951)	292,125	(103,568)	324,106	2,987,609
Land	305,685	-	46,578	-	-	352,263
Impairment reserve	-	-	-	-	-	-
Construction in progress	464,150	666,609	603	(36,229)	(324,106)	771,027
Total fixed assets	\$ 3,312,732	598,658	339,306	(139,797)	-	4,110,899

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	BALANCES AT JANUARY 1, 2012 (Reformulated)	ADDITIONS	DISPOSALS	RECLASIFICACION	BALANCES AT DECEMBER 31, 2012
Building	\$ 1,426,249	3,573	(18,880)	19,321	1,430,263
Machinery and tools	2,265,714	135,732	(130,358)	104,579	2,375,667
Fishing equipment	1,006,448	-	-	39,908	1,046,356
Office furniture and equipment	104,493	3,262	(8,621)	(3,639)	95,495
Stowing and transportation equipment	327,505	53	(11,653)	(143)	315,762
Electronic data processing equipment	156,580	9,185	(20,137)	7,106	152,734
Original investment (OI)	5,286,989	151,805	(189,649)	167,132	5,416,277
Accumulated depreciation	(2,766,821)	(207,851)	101,292	-	(2,873,380)
OI less depreciation	2,520,168	(56,046)	(88,357)	167,132	2,542,897
Lands	311,026	4,702	(6,277)	(3,766)	305,685
Construction in progress	184,491	462,432	(19,407)	(163,366)	464,150
Total Fixed Assets	\$ 3,015,685	411,088	(114,041)	-	3,312,732

At December 31, 2013 and 2012, the depreciation expense of \$224,630 and \$159,763, respectively, was charged to the cost of sales, \$57,745 and \$39,197 to selling expenses, respectively, and \$8,872 and \$8,891 to administrative expenses, respectively.

### **Construction in progress**

During the year, the Group develops projects that will increase production capacity, which is estimated to be completed in 2014; the outstanding estimated investment related to such constructions in progress amounts to \$1,012,471.



## (11) Intangible assets and goodwill-

Intangible assets as at December 31, 2013 and 2012 include the following:

	GOODWILL	PATENTS AND TRADEMARKS	DEFINED LIFE INTANGIBLE ASSETS <sup>(1)</sup>	TOTAL INTANGIBLE ASSETS
Balance at December 31, 2011	\$ 1,452,513	326,481	319,636	2,098,630
Effects for adopting new accounting standards	145,923	230,763	(319,592)	57,094
Joint venture Herdez del Fuerte	1,267,000	437,000	-	1,704,000
Balance at January 1, 2012 (reformulated)	2,865,436	994,244	44	3,859,724
Additions	-	-	1,425	1,425
Disposals	-	(14,000)	-	(14,000)
Amortization for the period	-	-	(12)	(12)
Balance at December 31, 2012	2,865,436	980,244	1,457	3,847,137
Additions	1,724,463	-	45,644	1,770,107
Additions due to business combination	-	992,800	-	992,800
Amortization for the period	-	-	(1,661)	(1,661)
Balance at December 31, 2013	4,589,899	1,973,044	45,440	6,608,383

<sup>(1)</sup> Corresponds to non-competence contracts, developed technology and customer relationships.

Based on Management's analysis, no impairment losses were determined with respect of intangible assets as at December 31, 2013 and 2012, and also at January 1, 2012.

### **Amortization and impairment debts-**

Amortization of intangible assets for the years ended December 31, 2013 and 2012 was recognized under administrative expenses in the income statement.

### **Impairment testing for cash-generating units that include goodwill -**

For purposes of impairment testing, goodwill is allocated to the operating divisions of the Group and is monitored at the Group operating segment level.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

Following is a summary of goodwill assigned to each operating segment:

	DECEMBER 31, 2013			
	OPENING BALANCE	ADDITIONS	EFFECTS OF TRANSLATION	CLOSING BALANCE
Goodwill related to National segment	\$ 2,865,436	1,724,463	-	4,589,899

	DECEMBER 31, 2012 (Reformulated)			
	OPENING BALANCE	ADDITIONS	EFFECTS OF TRANSLATION	CLOSING BALANCE
Goodwill related to National segment	\$ 1,598,436	1,267,000	-	2,865,436

Cash flows subsequent to that period are extrapolated using the estimated growth rates shown below, which do not exceed the average long-term growth rate for the business in which each CGU and/or segment operates.

The key assumptions used in calculating value in use in 2013 are as follows:

	NATIONAL SEGMENT
Gross margin	31.00%
Long-term growth rate	3.90%
Discount rate	9.90%

The key assumptions used in calculating value in use in 2012 are as follows:

	NATIONAL SEGMENT
Gross margin	35.00%
Long-term growth rate	3.45%
Discount rate	10.28%

These assumptions have been used for each CGU.

The gross margin has been budgeted based on past performance and on development expectations of each market. The weighted average growth rates used are consistent with the projections included in the industry's reports.

The discount rate corresponds to a before-tax measure that is estimated based on past experience and the weighted average cost of capital of the industry that is based on a possible range of debt leveraging of 40 percent at a market interest rate of 7 percent.

Five years of cash flows were included in the model of discounted cash flow. A long-term growth rate in perpetuity was determined based on the estimate of the administration of long-term compound annual growth rate that, in the opinion of management, was consistent with the assumption that it would make a market participant.

## (12) Investments accounted under the equity method-

At December 31, 2013 and 2012, the investment in associated for \$4,598,513 and \$4,696,895, respectively, belongs to the investment in Megamex by \$4,432,732 and \$4,508,990, respectively, and a others investments' by \$165,781 and \$187,905, respectively (see note 13).

The Group's profit share for the year ended as of December 31, 2013 of its associated entities recognized by the equity method amounted to \$186,323, and as of December 31, 2012 to \$412,963.

At December 31, 2013, the Group received dividends from its associated Fabrica de Envases del Pacifico, S. A. de C. V. for \$57,007, recognized under the equity method.

## (13) Associated parties-

Megamex Foods, LLC (Megamex) was incorporated on October 21, 2009 in the United States of America. Megamex is a joint venture between Hormel Foods Corporation and Authentic Specialty Foods Inc. (ASF), which is a subsidiary of Herdez del Fuerte. The recognition of this investment is recognized under the equity method in the results of Authentic Specialty Foods Inc.

Megamex carries out the production, distribution and sale of a variety of Mexican products, mainly to supermarkets, food service, distributors, retailers and convenience stores. Some of the products marketed by Megamex are produced by Herdez Del Fuerte in Mexico.

The following table summarizes Megamex financial information of included in its financial statements. The following table reconciles the summary financial information with the book value of the participation of ASF.

	2013	2012
Non-current assets	\$ 4,384,527	4,623,407
Current assets	4,631,712	4,515,694
Non-current liabilities	1,007	3,365
Current liabilities	146,877	114,868
Net assets (100%)	\$ 8,868,355	9,020,868

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	2013	2012
Group's shares of net assets (50%)	\$ 4,434,266	4,510,524
Elimination of unrealized profit	(1,534)	(1,534)
Carrying amounts of the participation in the joint venture	<u>\$ 4,432,732</u>	<u>4,508,990</u>
Net sales	\$ 2,728,600	2,785,428
Interest income	214,815	219,722
Income taxes expenses	(41,103)	(276,110)
Profit and total comprehensive income (100%)	<u>290,261</u>	<u>766,187</u>
Group's share of earnings and other comprehensive income (50%)	<u>\$ 145,131</u>	<u>383,101</u>
Received dividends	<u>\$ 248,259</u>	<u>315,580</u>

The following is a summary of the financial information pertaining to the main associated entities recognized by the equity method, by the Company's shareholding percentage:

	SHARE HOLDING	INVESTMENT
<b>December 31, 2013</b>		
Aires de Campo, S. A. de C. V.	50%	\$ 3,312
Intercafé, S. A. de C. V.	50%	28,274
Fábrica de Envases del Pacífico, S. A. de C. V.	50%	119,761
Energía para Conservas, S. A. de C. V.	90%	14,434
		<u>\$ 165,781</u>

	SHARE HOLDING	INVESTMENT
<b>December 31, 2012 (Reformulated)</b>		
Aires de Campo, S. A. de C. V.	50%	\$ 7,894
Intercafé, S. A. de C. V.	50%	33,348
Fábrica de Envases del Pacífico, S. A. de C. V.	50%	140,663
Energía para Conservas, S. A. de C. V.	50%	6,000
		<u>\$ 187,905</u>

## (14) Loans and liabilities-

This note provides information about the contractual terms of the Group's loans and liabilities bearing interest, which are valued at amortized cost in order to provide more information about Group's exposure to interest rate, foreign currency and liquidity risk

On November 15, 2013, the Group placed domestic bonds of \$3,000,000; the resources will be used for the advance payment of a bank loan in the amount of \$350,000 due in 2014 and \$2,640,000 in a linked loan to finance the acquisition of Grupo Nutrisa, S. A. B. de C. V.

On February 18, 2011 and September 30, 2010, the Group placed domestic bonds of \$600,000, respectively, which resources were used to replace short-term bank loans.

Notes payable and short-term debts are analyzed as follows.

	2013	2012 Reformulated
Domestic bonds in pesos, maturing on September 20, 2017, with interest payable in semiannual at the rate of 7.93%	\$ 600,000	600,000
Domestic bonds in pesos, maturing on February 13, 2015, with interest payable in at the 28-day TIIE plus 0.60%	600,000	600,000
Bank loan in dollars, due on December 26, 2016, with amortizations as from 2014 and interest payable in quarterly at the 91-day LIBOR, plus 2.45% which was paid early on April 16, 2013	-	389,640
Bank loan in pesos, due on December 5, 2019, with amortizations as from 2017 and interest payable at a variable rate TIIE 91, plus 4.05%	600,000	600,000
Domestic bonds in pesos, maturing on November 3, 2023, with interest payable semiannual at the rate of 8.02%	2,000,000	-
Domestic bonds in pesos, maturing on November 9, 2018, with interest payable in monthly at the 28-day TIIE 28 plus 0.54%	1,000,000	-
Bank loan in pesos, maturing on March 16, 2015, with interest payable in monthly at the 28-day TIIE plus 1.50%	200,000	-
Total notes payable	5,000,000	2,189,640
Cost of issuance of unamortized traded notes (domestic bonds)	[20,630]	[8,199]
Long-term maturity - Net	\$ 4,979,370	2,181,441

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## Covenants

The main covenants are listed as follows:

- Not to exceed the 3 times leverages (liabilities with consolidated cost - net/EBITDA).
- Not to reduce interest hedge (EBITDA/net financing expenses) to less than 3 times.
- Not to reduce capital stock to under \$5,000,000.
- To grant any kind of loan or credit, secured or unsecured, except for those entered into with the borrower's subsidiaries and/or affiliates.

At December 31, 2013 and 2012 and at the date of approval of Consolidated Financial Statements, there is no default whatsoever that could modify loan conditions.

## Long-term debt-

At December 31, 2013 and 2012, the long-term debt is comprised as follows:

	2013	2012 Reformulated
Loans payable	\$ 968,586	964,340
Commercial sale contract	95,633	96,606
	<u>\$ 1,064,219</u>	<u>1,060,946</u>

### DECEMBER 31, 2013

COMPANY	ACQUISITION DATE	MATURITY DATE	AMOUNT	INTEREST RATE
Grupo Kuo, S. A. B. de C. V.	Dec 31-12	Dec 31-16	\$ 250,000	TIEE (91 days) + 4.50 points
Grupo Kuo, S. A. B. de C. V.	Dec 31-13	Dec 31-16	326,630	Libor 3 (three) months + 3.5%
Grupo Kuo, S. A. B. de C. V.	Dec 31-13	Dec 31-16	<u>391,956</u>	Libor 3 (three) months + 3.5%
			<u>\$ 968,586</u>	

### DECEMBER 31, 2012 (Reformulated)

COMPANY	ACQUISITION DATE	MATURITY DATE	AMOUNT	INTEREST RATE
Grupo Kuo, S. A. B. de C. V.	Dec 31-12	Dec 31-16	\$ 250,000	TIEE (91 days) + 4.50 points
Grupo Kuo, S. A. B. de C. V.	Nov 30-11	Dec 31-14	324,700	Libor 3 (three) months + 3.5%
Grupo Kuo, S. A. B. de C. V.	Aug 11-11	Aug 31-14	<u>389,640</u>	Libor 3 (three) months + 3.5%
			<u>\$ 964,340</u>	

## (15) Business combination-

### *Acquisition*

On January 17, 2013 Grupo Herdez, S. A. B. de C. V. signed a sales agreement to acquire the shares of Grupo Nutrisa, S. A. B. de C. V. "Nutrisa". Such agreement contained certain terms and conditions, including the approval by the Federal Commission of Competence and the approval by the shareholders of Grupo Herdez, which had to be complied with for the operation to be completed. In addition, Grupo Herdez was forced by the Securities Market Law to carry out the public offering for the acquisition of outstanding shares. On May 9, 2013, Grupo Herdez, S. A. B. de C. V. announced a successful result of the public offering to acquire the outstanding shares of Grupo Nutrisa, S. A. B. de C. V. setting a share price of \$91.00 pesos. As a result of the public offering, Grupo Herdez, S. A. B. de C. V. acquired 99.82% of the capital stock of Grupo Nutrisa, S. A. B. de C. V., thus originating the closing of the transaction based on the terms and conditions of the sales agreement. The closing of the operation was performed on May 13, 2013, since that date Grupo Herdez, S. A. B. de C. V. consolidated the results of Grupo Nutrisa, S. A. B. de C. V.

In the eight months elapsed as to December 31, 2013, Nutrisa contributed revenues of \$782,738 and profits of \$46,392 to the Group's results. If the acquisition had occurred on January 1, 2013, the management estimates that consolidated revenue would have amounted to \$13,629,137 and consolidated profits for the period would have amounted to \$1,193,825. In determining these amounts the management has assumed that the provisionally determined fair value adjustments, arising from the acquisition date would have been the same if the acquisition had occurred on January 1, 2013.

Nutrisa shareholders received \$91.00 pesos per share, representing a total of \$2,971,308 of consideration transferred.

### *Acquisition-related costs*

The Group incurred in acquisition costs of \$6,000 relating to external legal fees, due diligence costs and bank commissions that guaranteed payment. These costs have been included in administrative expenses.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## Identifiable assets acquired and identifiable liabilities assumed

The following table is a summary of the amounts recognized for the assets acquired and liabilities assumed to the acquisition date:

Property, machinery and equipment	\$	339,300
Intangible assets		1,010,747
Other assets		16,037
Deferred taxes assets		16,823
Non-current assets		<u>1,382,907</u>
Inventories		99,008
Taxes receivable		86,118
Account receivables and others		24,383
Prepayments		9,558
Cash and cash equivalents		<u>84,540</u>
Current assets		<u>303,607</u>
Total assets	\$	<u>1,686,514</u>
Deferred taxes liabilities		349,887
Accruals		4,360
Non-current liabilities		<u>354,247</u>
Income taxes payable		125
Suppliers and other payables		74,989
Accruals		<u>3,835</u>
Current liabilities		<u>78,949</u>
Total identifiable acquired net assets	\$	<u>1,253,318</u>

## Measurement of fair values

Valuation techniques used to measure fair value of tangible assets acquired are as follows:

ASSET ACQUIRED	VALUATION TECHNIQUE
Property, plant and equipment	<i>Market Comparison Technique and Cost Technique:</i> The valuation model considers quoted market prices for items when they are available, and the depreciated replacement cost when appropriate. The depreciated replacement cost reflects the adjustments relating to physical deterioration as well as the functional and economic obsolescence.
Intangible assets	<i>Relief-from-royalty method and multi-periods excess earning method:</i> The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned.

The clients accounts receivable include the gross contractual amounts due of \$24,383 to the acquisition date.



If the new information obtained within a period of one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition the accounting for the acquisition shall be revised.

### **Goodwill**

Goodwill arising from the acquisition was recognized as follows.

Transferred consideration	\$	2,971,308
Non-controlling interest		6,473
Fair value of the identified net assets		<u>(1,253,318)</u>
Goodwill	\$	<u>1,724,463</u>

Goodwill is mainly attributable to Nutrisa workforce skills and technical talent and the growth strategy of the Group to strengthen its position in the segment through the incursion into the category of frozen foods and a new sales channel through retail stores. No portion of the recognized goodwill is expected to be deductible for tax purposes.

### **Contingent consideration**

On August 22, 2011, HDF acquired through their joint venture called Megamex, 100% of the shares of the corporation Avomex, which purpose is the production, marketing, distribution and sale of processed avocado and "guacamole" through premium trademarks in the U.S.

As part of Avomex sales agreement, Megamex pledged to the payment of contingent consideration subject to Avomex financial results, which will be due in 2014 (in terms of annual compound growth rate of net sales and adjusted EBITDA percentage on net sales).

The Group's Management concluded that the contingent consideration to be paid by Megamex, following the acquisition of Avomex is part of the consideration for the business combination.

Due to the above and as a result of the valuation of the consideration, the best estimate was indeed performed; therefore, no significant losses are expected for any variation that may occur. The record of this allocation was made on the proportional part, and was part of the total consideration related to such business combination. The subsequent adjustments of valuation are recognized in the income statement of the Group.

On October 8, 2013, the Group entered an agreement in which they agreed to limit contingent consideration to US\$60 million, which will be paid in November 2014. Such agreement created the recognition of the corresponding liability. Also, the net effect on the Group income statement was by \$9.2 million USD.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## (16) Operating lease-

### *Leases as lessee*

At the end of the reporting period under review, the future minimum lease payments arising from non-cancellable operating leases are made as follows.

	2013	2012 Reformulated
Less than a year	\$ 21,987	15,428
Between one year and five years	108,709	115,822
	<u>\$ 130,696</u>	<u>131,250</u>

The Group leases a number of warehouses and factory facilities under operating leases. Leases are usually for a maximum period of 5 years with an option to renew the lease after that date. Lease payments increase every five years to reflect the market lease prices. Some leases include additional lease payments based on changes in a local price index.

One of the leased properties has been subleased by the Group. The lease and sublease are due in 2019. Sublease payments are expected to be received during 2014 in a total amount of \$1,500.

During the year, \$106,371 were recognized as an expense in the income statement in respect of the operating leases (\$99,971 in 2012). An amount of \$1,500 was included as "other income" in respect of sub-leases (\$1,500 in 2012).

Leases of plant and warehouse were signed more than ten years ago and they correspond to combined leases of land and facilities. The Group determined that the land and buildings items of the lease of the warehouse and factory are operating leases. The fee paid to the owner of the building is increased to market shares at regular intervals, and the Group does not participate in the residual value of the facilities. Therefore, it was determined that substantially all the risks and benefits belong to the lessor.

### *Leases as lessor*

The Group does not have leases as lessor.

## (17) Employee benefits-

	2013	2012 Reformulated
Obligations in the statement of financial position arising from:		
Pension plan and seniority premiums	\$ (321,907)	(304,395)
Projected liability	(112,173)	(127,517)
Pension plan and seniority premiums:		
Net period cost	29,798	23,158
Actuarial losses recognized in the statement of comprehensive income in the period	9,838	39,559
Accumulated actuarial losses recognized in the statement of comprehensive income	49,397	39,559

### Employee benefits

Some entities of the Group offer their employees a pension plan of defined benefits in Mexico, on the basis of pensionable compensation and years of service of the employees. The Plan Assets (PA) that support these plans are held in trusts, foundations or similar institutions regulated under local laws and by each country's accepted practices, which also regulate the nature of the relationship between the Group and trust beneficiaries (or equivalent) and their composition thereof.

Following is a breakdown of the PA defined benefit:

	2013	2012 Reformulated
Variable rent	\$ 40,520	35,396
Debt instrument	90,234	112,603
Cash	68,678	-
Fair value of plan assets	\$ 199,432	147,999

The amounts shown in the statement of financial position are as follows:

	2013	2012 Reformulated
Defined benefit obligations	\$ (321,907)	(304,395)
Fair value of PA	199,432	147,999
Variations in assumptions and adjustments	10,302	28,879
Projected net liabilities	\$ (112,173)	(127,517)

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

The changes in the defined benefit obligations during the years presented are as follows:

	2013	2012 Reformulated
As at January 1	\$ 304,395	221,199
Cost of current service	21,006	13,789
Financial cost	16,754	15,975
Actuarial (losses)/gain	(15,772)	61,215
Benefits paid	(4,476)	(7,783)
As at December 31	<u>\$ 321,907</u>	<u>304,395</u>

The entry in the PA fair value during the years presented are as follows:

	2013	2012 Reformulated
As at January 1	\$ 147,999	131,259
Expected return on plan assets	5,988	12,173
Employer's contribution	54,150	10,500
Benefits paid	(8,705)	(5,933)
As at December 31	<u>\$ 199,432</u>	<u>147,999</u>

The amounts recognized in the income statement are as follows:

	2013	2012 Reformulated
Cost of current service	\$ 21,006	13,789
Financial cost	16,754	15,975
Expected return on PA	(8,392)	(9,132)
Cost of prior services <sup>6</sup>	430	2,526
Total included in personnel costs and expenses	<u>\$ 29,798</u>	<u>23,158</u>

The charge for the 2013 period of \$29,798 was included in the cost of sales for \$13,107 and administrative expenses for \$6,216, and selling expenses in the amount of \$10,475.

For the 2012 period a total of \$23,158 was included in the cost of sales for \$11,455, administrative expenses \$4,288, and selling expenses \$7,415.

The main variables used in the actuarial calculations were the following:

#### *Discount rate-*

The determination of the discount rate in some companies considers the term and behavior of corporate bonds of high quality credit. For other companies a refinement in the methodology was applied where a curved based on future payment durations was concluded.

The Company has decided to use the discount rate according to corporate bonds with ranking AA exclusively, that is to say, an 8.00% rate (rounded off to the nearest quarter).

#### *Long-term inflation rate-*

Banco de México (Central Bank) established a goal for long-term inflation of 3.50%, which was considered for the valuation of the labor obligations.

#### *Salary increase rate-*

Based on experience, salary increases have been observed to be presented on the basis of annual inflation, thus a nominal rate of 4.50% was maintained, the same as in 2012.

#### *Expected return of PA-*

The expected return rate on plan assets is consistent with the discount rate reported by the actuary and it was determined with the guidelines established in the most recent version of IAS 19.

See main variables used:

	2013	2012
Discount rate	8.00%	5.75%
Salary increase rate	4.50%	4.50%
Minimum wage increase rate	3.50%	3.50%
Long-term inflation rate	3.50%	3.50%

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## Sensitivity analysis-

Reasonably possible changes in the relevant actuarial assumptions at the balance sheet date, as long as other assumptions remain constant, would have affected the benefit obligation amounts included in the following table:

### DECEMBER 31, 2013

SENIORITY PREMIUM	TOTAL	
	INCREASE	DECREASE
<b>A. Defined benefit obligations</b>		
Discount rate (change of 1%)	\$ (4,251)	5,172
Salary increase rate (change of 1%)	219	(629)
Future mortality (change of 1 year)	44	(41)

PENSION PLANS	TOTAL	
	INCREASE	DECREASE
<b>A. Defined benefit obligations</b>		
Discount rate (change of 1%)	\$ (27,236)	30,509
Salary increase rate (change of 1%)	44,960	(37,255)
Future mortality (change of 1 year)	391	(357)

Eventhough the analysis does not consider total distribution of the cash flows expected in the plan, it does provide however an approximation of the sensitivity of the assumptions presented.

## (18) Taxes-

### Income Tax (IT)

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

In 2013, the Group determined a consolidated fiscal profit, relating to the group of entities that are part of the tax consolidation regime of \$176,313 (consolidated fiscal profit of \$182,138 in 2012). Consolidated book and tax results differ mainly due to items taxed or deducted over time, differently for book and tax purposes, due to recognition of the effects of inflation for tax purposes, as well as to items only affecting either book or tax consolidated results.

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented, and repealed. This decree became effective as of January 1, 2014. Upon enactment of a new IT Law, the IETU Law and the IT Law in effect until December 31, 2013 were repealed.

Further changes are set out in the scheme of deduction of expenditure for employee benefits in the Income Tax Law, IT on dividends, eliminating the simplified regime, changing the income tax rate, changes in the determination of the Employee Statutory Profit Sharing (ESPS) and the elimination of tax consolidation regime.

Up to December 31, 2013 the Group's Income Tax was determined on a consolidated basis

On December 31, 2013 and 2012, the Company recognized a liability (asset) for income tax related differences of "Cuenta de Utilidad Fiscal Neta" (CUFIN) for \$(7,006) and \$20,267, respectively.

The 2014 Tax Reform provides the elimination of the tax consolidation regime, an issue that leads to the conclusion that, in one way or another, the balances of assets and liabilities related to this regime and pending completion are recognized on the financial statements.

Following is a reconciliation of tax-consolidation-related income tax balances:

	INCOME TAX LIABILITIES	
	2013	2012 Reformulated
Opening balance at January 1 of every year	\$ 225,649	205,382
Increases:		
IT from differences in CUFIN and CUFINRE <sup>1</sup>	(7,006)	20,267
Closing balance at December 31	\$ 218,643	225,649

<sup>(1)</sup> Cuenta de Utilidad Fiscal Neta Reinvertida.

The income tax expense at December 31, 2013 and 2012 are comprised as shown below:

	2013	2012 Reformulated
Current IT	\$ 558,188	436,055
Deferred IT	(21,723)	(12,737)
	\$ 536,465	423,318

Under the income tax law in effect until December 31, 2013, the income tax rate for 2013 and 2012 was 30%; for 2014 it would be 29% and from 2015 on, 28%. The new law establishes an income tax rate of 30% for 2014 and subsequent years.

Following is reconciliation between the rates incurred and the effective IT rate:

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	2013	2012 Reformulated
Income of the year before earnings of subsidiaries	1,683,979	1,852,787
Participation in subsidiaries	186,323	412,963
Income before taxes	1,497,656	1,439,824
Statutory rate	30%	30%
IT at statutory rate	449,297	431,947
Plus (less) tax effect of permanent items:		
Inflationary effects	(8,434)	(31,714)
Difference in rates of domestic and foreign subsidiaries	25,926	33,732
Tax loss carryforwards from previous years	(4,921)	(2,298)
Effect of change in deferred income tax rate	13,874	(1,591)
Other permanent items	4,861	(6,758)
	480,603	423,318
Income tax amnesty	55,862	-
IT expense	\$ 536,465	423,318
Effective income tax rate	36%	29%

The main effects of temporary differences for which deferred Income Tax are analyzed are shown as follows:

	2013			2012		
	ASSET	LIABILITY	NET	ASSET	LIABILITY	NET
Deferred assets:						
Estimates and accruals	\$ 128,298	43,500	84,798	126,396	41,545	84,851
Derivative financial instruments <sup>(1)</sup>	1,036	-	1,036	9,755	-	9,755
Tax loss carryforwards and tax incentives	1,849	-	1,849	1,306	-	1,306
Fiscal cost of joint venture shares	51,580	-	51,580	51,580	-	51,580
Derivative financial instruments <sup>(1)</sup>	8,361	-	8,361	11,120	-	11,120
For employees benefits <sup>(2)</sup>	25,422	458	24,964	37,448	-	37,448
Deferred tax assets	\$ 216,546	43,958	172,588	237,605	41,545	196,060



	2013			2012		
	ACTIVO	PASIVO	NETO	ACTIVO	PASIVO	NETO
Deferred liabilities:						
Inventories	\$ 15,569	36,048	(20,479)	16,173	46,967	(30,794)
Derivative financial instruments <sup>(1)</sup>	-	1,494	(1,494)	-	-	-
Prepayments	248	6,050	(5,802)	65	22,914	(22,849)
Other assets	12,922	36,826	(23,904)	-	68,910	(68,910)
Property, machinery and equipment, net	30,789	130,296	(99,507)	51,596	113,539	(61,943)
Intangibles Nutrisa Trademark	-	297,840	(297,840)	-	-	-
Deferred tax for trademark recognition	-	262,000	(262,000)	-	262,000	(262,000)
Deferred tax liability	\$ 59,528	770,554	(711,026)	67,834	514,330	(446,496)

<sup>(1)</sup> These effects are recorded as part of other comprehensive income.

<sup>(2)</sup> There is an effect of \$2,805 corresponding to deferred tax on actuarial losses recorded in other comprehensive income.

The gross movement on deferred tax is as follows:

	2013	2012 Reformulated
Opening balance	\$ (250,436)	(265,893)
Valuation of financial instruments	(12,971)	4,518
Debited or credited related to components of other comprehensive income	9,348	(670)
Effect for initial adoption of IFRS	-	(39,521)
Translation effect	7,142	38,393
Business combination Nutrisa	(15,404)	-
Recorded in income statement	21,723	12,737
Trademarks acquisition	(297,840)	-
	\$ (538,438)	(250,436)

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

Gross movement on the deferred tax asset and liability during the year is shown as follows:

DEFERRED ASSETS	ESTIMATES AND ACCRUAL	ROYALTIES	DERIVATIVE FINANCIAL INSTRUMENTS	FISCAL COST OF JOINT VENTURE SHARES	EMPLOYEE BENEFITS	TAX LOSSES AND INCENTIVES	TOTAL
Balances at January 1, 2012	\$ 140,253	-	20,914	51,592	22,984	9,693	245,436
Effects of IFRS adoption	-	-	-	-	(9,556)	-	(9,556)
Debits (credits) related to other comprehensive income components	(669)	-	4,518	-	-	-	3,849
Debits (credits) to statement of income	(90,121)	30,831	-	(12)	24,020	(8,387)	(43,669)
Balances at December 31, 2012	49,463	30,831	25,432	51,580	37,448	1,306	196,060
Debits (credits) related to other comprehensive income components	9,347	-	(12,971)	-	-	-	(3,624)
Debits (credits) to statement of income	22,925	(30,831)	-	-	(12,485)	543	(19,848)
Balances at December 31, 2013	\$ 81,735	-	12,461	51,580	24,963	1,849	172,588

DEFERRED LIABILITIES	INVENTORIES	DERIVATIVE FINANCIAL INSTRUMENTS	PREPAYMENTS	PROPERTY, MACHINERY AND EQUIPMENT, NET	INTANGIBLE	OTHER ASSETS	TOTAL
Balances at January 1, 2012	(85,584)	-	(33,681)	86,106	(262,000)	43,958	(511,329)
Effect of IFRS adoption	-	-	-	(8,527)	-	(21,438)	(29,965)
Translation effects	-	-	-	-	-	38,393	38,393
Debits (credits) to statement of income	54,791	-	10,832	32,689	-	(41,907)	56,405
Balances at December 31, 2012	(30,793)	-	(22,849)	(61,944)	(262,000)	(68,910)	(446,496)
Debits (credits) related to other comprehensive income components	-	(1,494)	-	-	-	-	(1,494)
Business combination Nutrisa	-	-	-	-	(297,840)	-	(297,840)
Translation effects	-	-	-	-	-	7,142	7,142
Business combination Nutrisa	-	-	-	-	-	(15,403)	(15,403)
Debits (credits) to statement of income	10,315	-	17,047	(37,564)	-	53,267	43,065
Balances at December 31, 2013	(20,478)	(1,494)	(5,802)	(99,508)	(559,840)	(23,904)	(711,026)

At December 31, 2013, there was a deferred tax liability of \$876,184 (\$916,070 in 2012) for temporary differences of \$2,509,397 (\$2,627,703 in 2012) related to investments in subsidiaries and joint ventures that were not recognized because the Company is able to control the timing of the reversal of the temporary difference associated with those investments, the liability will not be reversed in the foreseeable future.

## (19) Stockholders' equity and reserves-

### (a) Common shares-

At December 31, 2013 and 2012, the Company's subscribed and paid-in capital stock totaled \$432,275, plus an increase of \$143,350, to express it in modified historical pesos, and is represented by 432,000,000 common nominative shares, with no par value.

In case of reduction of capital, the procedures established by the Income Tax Law (ITL) provide that any excess of stockholders' equity on the balance of the capital contributions is accorded the same tax treatment as dividends.

The Company decided to take the following measures in relation with the securities market outstanding shares.

- (i) At the April 2013 Stockholders' meeting, the stockholders agreed on a maximum amount of \$600,000 of resources that the Company can set aside to repurchase own shares.

The stock repurchase fund showed its activity as follows:

	DECEMBER 31, 2013		DECEMBER 31, 2012	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT
Purchases	500,274	\$ 19,586	17,241,359	450,007
Sales	(500,274)	(21,497)	(15,641,641)	(425,515)
Dividends in shares	-	-	(4,895,618)	(124,838)
Net	-	\$ (1,911)	(3,295,900)	(100,346)

As at December 31, 2013 and 2012, the Company had no shares in the treasury.

### (b) Nature and purpose of reserves-

#### *Reserve for repurchase of shares*

The Company may acquire shares representing its capital through the stock market in which it operates and the current market price, without giving effect to the prohibition as set forth in the first paragraph of Article One Hundred Thirty Four of the Mexican Corporate Law (Ley General de Sociedades Mercantiles, LGSM) and complying with the requirements of the Securities Market Law, the general provisions to that effect issued by the National Banking and Securities Commission and other applicable laws.

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## *Legal reserve*

In accordance with the LGSM, five percent of net income for the year must be appropriated to the statutory reserve, until it reaches one-fifth of capital stock. As of December 31, 2013, the statutory reserve amounts to \$141,862 and has reached the required amount.

## **(c) Dividends-**

On April 25, 2013, the Ordinary General Meeting of Shareholders agreed to declare dividends from retained earnings in the amount of \$367,199 at \$85 cents per share, which were paid in cash. Also, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of \$150,000 were paid.

On December 13, 2013, the Ordinary General Meeting of Shareholders agreed to declare dividends from retained earnings in the amount of \$367,198 at \$85 cents per share, which were paid in cash. Also, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of \$200,000 were paid.

At the April 2012 Ordinary General Stockholders' Meeting, the stockholders agreed to declare dividends, which, at each stockholder's choice, are to be paid in cash, at the rate of 85 cents per share or in shares in the proportion of one share for every thirty shares held. The dividend is charged to retained earnings.

The dividends totaled \$361,384, of which \$236,546 were paid in cash, and the equivalent of \$124,838 paid in shares, which corresponds to 4,895,618 shares. Also, dividends were declared in favor of the non-controlling shareholders in the Ordinary General Stockholders' Meetings on February and March in the amount of \$139,000.

Dividends are free of IT if paid out from the Net Tax Profit Account (CUFIN by its Spanish acronym) any excess over the CUFIN is taxable at a rate fluctuating between 4.62% and 7.69%, if paid out from the reinvested CUFIN (CUFINRE). Dividends in excess of the after tax earnings account CUFIN and CUFINRE are subject to 42.86% tax if paid in 2014. Tax incurred is payable by the Company and may be credited against IT for the period and for the following two immediate periods. Dividends paid from previously taxed earnings are not subject to any tax withholding or additional tax payments.

It is also established that individuals residing in Mexico, as well as residents abroad, receiving dividends or profits that may have been generated starting from 2014, must pay an additional tax of 10%. In these cases, the companies that distribute or pay dividends to individuals residing in Mexico or residing abroad must withhold 10%. The 10% tax applies only to profits generated in 2014, therefore the company shall carry two separate accounts to identify the profits generated before and after 2014.

## (20) Income from ordinary activities-

The earned income for the years ended December 31, 2013 and 2012 come entirely from the sale of products. Revenues from the sales of products at December 31, 2013 and 2012 were \$13,180,293 and \$12,041,798, respectively.

### ***Seasonality of operations-***

Most of the products manufactured and marketed by the Group are seasonal, increasing their sales in the last fourth months of the year. Additionally, consumption of certain products increases during lent, and others increase in the summer time and some others in the winter. Seasonality is also a factor in the harvest cycle of certain raw materials used by the Company, due to which, during those periods, the Group increases its safety inventories..

## (21) Cost of goods sold-

Cost of goods sold for the periods ended December 31, 2013 and 2012 are integrated as shown below:

	2013	2012 Reformulated
Direct cost of sales	\$ 7,939,423	7,521,528
Maintenance and conservation	261,412	287,982
Electricity	104,271	96,877
Employee benefits	11,425	12,813
Depreciation expenses	224,630	159,763
Total cost of sales	<u>\$ 8,541,161</u>	<u>8,078,963</u>

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

## (22) Other income and other expenses-

Other income incurred for the years ended December 31, 2013 and 2012 are comprised as follows:

	2013	2012 Reformulated
Cancellation of accruals	\$ 1,401	53,962
Inflationary impact of favorable tax balances	5,326	4,247
Profit from sale of property, machinery and equipment	983	-
Recovery of group life insurance fees	7,642	-
Nutrisa (stores sales)	13,044	-
Other income	10,843	9,317
Total other income	39,239	67,526
<b>Other expenses:</b>		
Loss from sale of property, machinery and equipment	-	2,455
Loss on sale of trademarks	-	1,000
Write-off of fixed assets	-	7,150
Restructuring expenses	-	196
Charge-off trade receivables	-	2,295
Idle plant	6,603	7,234
Total other expenses	6,603	20,330
	\$ 32,636	47,196

## (23) Operating expenses-

	2013	2012 Reformulated
Salaries and related benefits	\$ 1,356,491	1,055,748
Distribution and associated expenses	1,346,216	1,176,328
Conservation and fuels	143,738	95,143
Depreciation and amortization	68,278	48,100
	2,914,723	2,375,319

## (24) Financial income and costs-

	2013	2012 Reformulated
<b>RECOGNIZED IN INCOME-</b>		
<b>Earned interests:</b>		
Bank interests	\$ 47,174	37,818
Related parties interests	12,515	13,441
Other minor interests	2,441	1,686
Total earned interests	62,130	52,945
Exchange rate profit	876,856	972,851
Financial income	938,986	1,025,796
<b>Interests paid:</b>		
Bank interests paid	292,171	168,361
Related parties interests paid	49,566	37,203
Other interests	298	990
Total interests paid	342,035	206,554
Exchange rate loss	856,340	1,014,130
Financial costs	1,198,375	1,220,684
Financial result, net	\$ 259,389	194,888

## (25) Operating segments-

The Group has two segments on which it should inform, as described below, which correspond to the strategic divisions of the Group. The strategic divisions offer various products and services, and they are managed separately as they require different technology and marketing strategies. For each of the strategic divisions, the Company's CEO (responsible for making operational decisions) reviews the Management reports prepared internally at least quarterly. The following summary describes the operations of one of the segments that should be informed:

# Notes to the consolidated financial statements

(Thousands of Mexican pesos)

	2013			2012 (Reformulated)		
	MEXICO	USA	TOTAL	MEXICO	USA	TOTAL
Net sales	\$ 12,341,200	839,093	13,180,293	11,275,033	766,765	12,041,798
Cost of sales	7,796,087	745,074	8,541,161	7,399,846	679,117	8,078,963
Gross profit	4,545,113	94,019	4,639,132	3,875,187	87,648	3,962,835
Operating income	1,722,942	34,103	1,757,045	1,603,047	31,665	1,634,712
Depreciation and amortization	263,577	29,331	292,908	186,166	21,697	207,863
R.F. <sup>(1)</sup>	259,389	-	259,389	194,888	-	194,888
Interests income	62,130	-	62,130	52,945	-	52,945
Interests costs	342,035	-	342,035	206,554	-	206,554
Equity in associates investment	186,323	-	186,323	412,963	-	412,963
Income before tax	1,649,876	34,103	1,683,979	1,821,122	31,665	1,852,787
Income tax	529,656	6,809	536,465	416,898	6,420	423,318
Net income	1,120,220	27,294	1,147,514	1,404,224	25,245	1,429,469
Net income attributable to controlling interest	592,505	15,184	607,689	774,491	15,596	790,087
Total assets	19,658,235	1,178,899	20,837,134	16,377,209	1,074,362	17,451,571
Total liabilities	8,656,692	50,420	8,707,112	5,359,977	38,775	5,398,752

<sup>(1)</sup> F.R. = Financial Result.

At December 31, 2013 and 2012, the Company marketed its products with a large number of customers, and just one of them (Walmart de México, S. A. B. de C. V.) represented approximately 20% of the total revenues.

## (26) Earning per share-

The calculation of basic earnings per share and diluted earning per share at 31 December 2013 and 2012 was based on the profit of \$607,689 attributable to common stockholders (\$790,087 in 2012) and a weighted average number of ordinary shares outstanding of 431,972 thousands of shares (426,418 thousands of shares in 2012)

## (27) Contingencies-

- (a) The Company is involved in a number of lawsuits and claims derived from the ordinary course of business. It is expected that the final outcome of these matters will not have significant adverse effects on the Company's financial position and income (loss).
- (b) In accordance with the Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.
- (c) In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of agreed prices, which should be similar to those that would be used with or between parties in arm's-length transactions.



## (28) Commitments-

(a) The Company leases facilities for administrative offices and warehouses, as well as certain computer and transportation equipment, under defined term lease agreements. Total rental expense, reported under expenses, summed \$106,371 in 2013 and \$99,971 in 2012 and they are included in the sales and administrative expenses in the income statements. Total annual rents payable derived from the definite lease agreements up to 2019 are as follows:

Less than a year	\$	21,987
Between one year and five years		108,709
		<hr/>
	\$	130,696

(b) In the ordinary course of business, certain subsidiaries have undertaken commitments resulting from sales agreements, and for the purchase of machinery and equipment, which in certain cases, establish default penalties for cases of non-compliance.

## (29) Subsequent event-

On February 24, 2014, Grupo Herdez, S. A. B. de C. V. executed a Market Maker agreement with UBS Casa de Bolsa, S. A. de C. V., which will allow to drive the liquidity of its shares.



## CORPORATE HEADQUARTERS

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This Annual Report contains forward-looking statements which reflect the current opinions of Grupo Herdez's management regarding future events. These statements are subjects to risks, uncertainties and changing circumstances. The final results may be materially different from current expectations due to several factors beyond the control of Grupo Herdez, S.A.B. de C.V. and its subsidiaries.



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