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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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

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INDEPENDENT AUDITORS' REPORT

(Translation from Spanish Language Original)

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

(Thousands of Mexican pesos)

OPINION

We have audited the consolidated financial statements of Grupo Herdez, S. A. B. de C. V. and subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2017 and 2016, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying 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, 2017 and 2016, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in México, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

GOODWILL

Amount in books of goodwill $4,259,263. See note 11 to the consolidated financial statements.

KEY AUDIT MATTER	HOW THE KEY MATTER WAS ADDRESSED IN OUR AUDIT
There is a risk in the book value amount of the goodwill of the cash-generating unit (CGU) of Grupo Nutrisa, within the frozen segment, which is significant because the budgeted and financial projections results of this CGU have not been historically reached in a way that allows the Group to generate the expected results that accomplish the recovery of long-lived assets including the goodwill assigned to this cash-generating unit. Due to the inherent uncertainty forecasting and discounting future cash flows, which are the basis for the evaluation of goodwill recoverability of this CGU, entails, this makes it a key audit matter.	Our audit procedures included the review of historical figures achieved as of December 31, 2017, compared to the projections of previous years, to analyze business performance of the last 5 years; the stabilization of 2017 figures and the bases of the 2018 budget, as well as the review of the reasonability of the projections of the future periods based on the CGU strategy of Grupo Nutrisa, in particular those related to projected income growth and profit margins, on which the principles and integrity of the discounted cash flow model are based. In this regard, we used our own valuation specialists, who evaluated, among other aspects, those related to assumptions, discount rates and the methodologies used by the Group. We compared the assumptions of the CGU with external data obtained, as well as our own evaluations related to the main elements, such as comparable companies, projected growth, competition, cost growth and discount rates. We compared the sum of discounted cash flows at the valuation date against the book value of the total assets of Grupo Nutrisa's CGU, which includes the value of goodwill and the brands recognized in the Group's books.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Group annual report of December 31, 2017 which should be filed to the National Banking and Securities Commission and the Mexican Stock Exchange (Annual report) but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

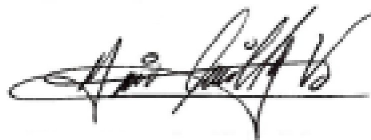
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG CÁRDENAS DOSAL, S.C.



Mario Carrillo Villalpando
Mexico City, February 28, 2018.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 1,484,800	919,751
Trade receivables (notes 6 and 9)	2,501,369	1,973,474
Debtors (note 9)	202,895	132,876
Value-added tax receivable	486,316	435,984
Income tax receivable	-	16,147
Related parties (note 7)	217,997	145,715
	3,408,577	2,704,196
Inventories (note 8)	3,220,961	3,036,986
Derivative financial instruments (note 5)	63,643	135,755
Prepayments	77,008	97,585
Total current assets	8,254,989	6,894,273
Property, machinery and equipment (note 10)	5,542,707	5,551,319
Equity-accounted investees (note 12)	6,625,954	6,448,560
Intangible assets and goodwill (note 11)	6,783,484	6,836,907
Deferred income tax (note 17)	599,278	558,589
Other assets	39,607	58,178
Total assets	$ 27,846,019	26,347,826

See accompanying notes to consolidated financial statements.

Liabilities and stockholders' equity	2017	2016
Current liabilities:		
Bank loans (note 14)	$ 200,000	950,000
Suppliers	1,846,209	1,670,521
Accounts payable	805,849	865,017
Related parties (note 7)	114,938	445,270
Income tax payable	120,358	-
Employees' statutory profit sharing payable	35,787	16,738
Total current liabilities	3,123,141	3,947,546
Non-current liabilities:		
Notes payable (note 14)	6,102,017	5,084,901
Long-term debt (note 14)	48,768	1,440,018
Deferred income tax (note 17)	895,546	915,051
Taxes under tax consolidation (note 17)	173,246	191,228
Employee benefits (note 16)	161,504	141,504
Total non-current liabilities	7,381,081	7,772,702
Total liabilities	10,504,222	11,720,248
Stockholders' equity (note 18):		
Capital stock	575,625	575,625
Reserve for repurchase of shares	497,253	608,598
Retained earnings	6,088,047	5,400,092
Legal reserve	141,862	141,862
Premium on the subscription of shares	135,316	135,316
Financial instruments valuation	25,913	53,876
Cumulative translation effect	464,833	432,135
Capital attributable to controlling interest	7,928,849	7,347,504
Capital attributable to non-controlling interest	9,412,948	7,280,074
Total stockholders' equity	17,341,797	14,627,578
Contingencies and commitments (notes 26 and 27)		
Total liabilities and stockholders' equity	$ 27,846,019	26,347,826

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

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

		2017	2016
Net sales (note 19)	$	20,064,915	18,180,456
Cost of goods sold (note 20)		12,173,759	10,928,518
Gross profit		7,891,156	7,251,938
Operating expenses:			
Selling (note 21)		4,426,156	4,210,925
Administrative (note 21)		777,557	734,281
		5,203,713	4,945,206
Income before other income		2,687,443	2,306,732
Other income, net (note 22)		102,970	56,671
Operating income		2,790,413	2,363,403
Financial result:			
Interest earned and exchange gain (note 23)		698,179	1,490,839
Interest paid and exchange loss (note 23)		(1,195,790)	(1,956,669)
Financial result, net		(497,611)	(465,830)
Equity investment in associates (note 12)		834,423	599,309
Income before income taxes		3,127,225	2,496,882
Income taxes (note 17)		961,246	904,066
Consolidated net income for the year	$	2,165,979	1,592,816
Net income attributable to controlling interests	$	1,046,111	717,458
Net income attributable to non-controlling interests		1,119,868	875,358
Consolidated net income for the year	$	2,165,979	1,592,816
Basic earnings per common and diluted share in Mexican pesos (note 25)	$	2.432	1.661

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Years ended December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

	2017	2016
Consolidated net income for the year	$ 2,165,979	$ 1,592,816
Items that will not be reclassified to statement of income:		
Actuarial losses on employee benefit obligations	(1,010)	3,582
Items that will be or could be reclassified subsequently to statement of income:		
Foreign currency translation results	65,396	379,960
Change in valuation of derivative financial instruments	(61,067)	118,329
Effects of equity-accounted investees	28,133	17,326
Consolidated comprehensive income	$ 2,197,431	2,112,013
Comprehensive income attributable to non-controlling interest	$ 1,117,307	1,108,121
Comprehensive income attributable to controlling interest	1,080,124	1,003,892
Consolidated comprehensive income	$ 2,197,431	2,112,013

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

		Capital stock	Reserve for repurchase of shares	Retained earnings	Legal reserve
Balances as of December 31, 2015	$	575,625	630,702	5,051,371	141,862
Repurchase of outstanding shares (note 18(a))		-	(22,104)	-	-
Decree of dividends (note 18(e))		-	-	(388,762)	-
Reimbursement to stockholders (note 18(d))		-	-	-	-
Increase in capital stock (note 18(c))		-	-	-	-
Premium on the subscription of shares (note 18(c))		-	-	-	-
		-	(22,104)	(388,762)	-
Comprehensive income (note 3(q)):					
Net income for the year		-	-	717,458	-
Effect of translation		-	-	-	-
Change in valuation of derivative financial instruments, net of tax		-	-	-	-
Effects of equity-accounted investees, net of tax		-	-	17,326	-
Actuarial losses on employees' benefit obligations, net of tax		-	-	2,699	-
Comprehensive income for the year		-	-	737,483	-
Balances as of December 31, 2016		575,625	608,598	5,400,092	141,862
Repurchase of outstanding shares (note 18(a))		-	(155,119)	-	-
Placement of shares (note 18(a))		-	43,774	-	-
Decree of dividends (note 18(e))		-	-	(387,434)	-
Increase in capital stock (note 18(c))		-	-	-	-
		-	(111,345)	(387,434)	-
Comprehensive income (note 3(q)):					
Net income for the year		-	-	1,046,111	-
Effect of translation		-	-	-	-
Change in valuation of derivative financial instruments, net of tax		-	-	-	-
Effects of equity-accounted investees, net of tax		-	-	28,133	-
Actuarial losses on employees' benefit obligations, net of tax		-	-	1,145	-
Comprehensive income for the year		-	-	1,075,389	-
Balances as of December 31, 2017	$	575,625	497,253	6,088,047	141,862

See accompanying notes to consolidated financial statements.

Premium on the subscription of shares	Financial instruments valuation	Cumulative translation effect	Capital attributable to controlling interest	Capital attributable to non-controlling interest	Total stockholders' equity
125,387	(22,553)	242,155	6,744,549	7,162,542	13,907,091
-	-	-	(22,104)	-	(22,104)
-	-	-	(388,762)	(972,007)	(1,360,769)
-	-	-	-	(64,512)	(64,512)
-	-	-	-	36,001	36,001
9,929	-	-	9,929	9,929	19,858
9,929	-	-	(400,937)	(990,589)	(1,391,526)
-	-	-	717,458	875,358	1,592,816
-	-	189,980	189,980	189,980	379,960
-	76,429	-	76,429	41,900	118,329
-	-	-	17,326	-	17,326
-	-	-	2,699	883	3,582
-	76,429	189,980	1,003,892	1,108,121	2,112,013
135,316	53,876	432,135	7,347,504	7,280,074	14,627,578
-	-	-	(155,119)	-	(155,119)
-	-	-	43,774	-	43,774
-	-	-	(387,434)	(242,374)	(629,808)
-	-	-	-	1,257,941	1,257,941
-	-	-	(498,779)	1,015,567	516,788
-	-	-	1,046,111	1,119,868	2,165,979
-	-	32,698	32,698	32,698	65,396
-	(27,963)	-	(27,963)	(33,104)	(61,067)
-	-	-	28,133	-	28,133
-	-	-	1,145	(2,155)	(1,010)
-	(27,963)	32,698	1,080,124	1,117,307	2,197,431
135,316	25,913	464,833	7,928,849	9,412,948	17,341,797

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

STATEMENTS OF CONSOLIDATED CASH FLOWS

Years ended December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

	2017	2016
Operating activities:		
Income before taxes	$ 3,127,225	2,496,882
Adjustments for:		
Depreciation and amortization	504,962	453,010
Ships maintenance	162,510	110,166
Loss on sale of property, machinery and equipment	25,135	2,359
Net cost for the period	28,949	28,415
Interest income	(73,677)	(28,625)
Investment in subsidiaries and associates	(834,423)	(599,309)
Impairment losses on intangible assets	32,900	-
Allowance for impairment on plant and equipment	-	11,034
Other expenses (income) without cash flow	42,194	(18,708)
Employees' statutory profit sharing	38,981	13,781
Interest expense	573,491	463,223
Subtotal	3,628,247	2,932,228
Increase of accounts receivable	(597,914)	(556,904)
Increase of inventories	(183,975)	(599,162)
Increase in related parties, net	(1,509)	(117,352)
Decrease in advanced payments and recoverable taxes	4,960	101,479
Increase in suppliers	175,687	416,887
(Decrease) increase in other accounts payable and creditors	(76,570)	202,901
Income tax paid	(906,189)	(995,252)
Net cash by operating activities	2,042,737	1,384,825
Investing activities:		
Increased equity interest in subsidiaries	(14,104)	(68,728)
Dividends collected	512,434	658,601
Interest collected	72,571	27,095
Acquisition of property, machinery and equipment	(641,018)	(981,036)
Collections on sale of property, machinery and equipment	9,728	107,611
Acquisition of intangible	(74,074)	(111,529)
Net cash used in investing activities	(134,463)	(367,986)
Financing activities:		
Issues of domestic bonds	3,000,000	-
Long-term bank loans obtained	3,369,565	2,594,495
Premium on issue of shares	-	19,857
Long-term bank loans paid	(4,162,926)	(2,735,327)
Domestic bonds payment	(1,800,000)	-
Long-term debt paid	(1,238,152)	-
Other long-term liabilities and issue of domestic bonds	(40,989)	(44,312)
Repurchase of shares	(155,119)	(22,104)
Placement of shares	43,774	-
Interest paid	(574,717)	(450,402)
Dividends paid	(1,029,807)	(960,769)
Increase in capital stock on non-controlling interest	1,257,971	36,001
Reimbursement in capital stock on non-controlling interest	-	(64,512)
Net cash used in financing activities	(1,330,400)	(1,627,073)
Increase (decrease) in cash and cash equivalents	577,874	(610,234)
Effect from exchange rates on cash and cash equivalents	(12,825)	46,890
Increase (decrease) in cash and cash equivalents	565,049	(563,344)
Cash and cash equivalents:		
At beginning of the year	919,751	1,483,095
At end of the year	$ 1,484,800	919,751

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016 *(Thousands of Mexican pesos)*

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

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, Argentina Poniente, Mexico City, 11230. These consolidated financial statements comprise the Company and its subsidiaries (collectively "Group" and individually "Group companies") 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., it is exposed to and has rights to variable returns.

The Group is mainly engaged in the manufacture, purchase, distribution and marketing of canned and packed food products in Mexico and ice cream, 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, Nutrisa, Helados Nestle and Palomitas Cinépolis, 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 G. e. R. Fratelli S. p. A. and Grupo Kuo, S. A. B. de C. V. (Grupo Kuo).

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ("IASB").

On February 22, 2018, the Board of Directors authorized the 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.

Details of the Group's accounting policies including changes in the financial year, are included in note 3.

(a) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for following items, which are measured on an alternative basis on each consolidated financial statements:

- The defined benefit asset is recognized as plan assets, less the present value of the defined benefit obligation, limited as explained in note (3(i)).

- Derivative financial instruments are measured at fair value and recognized in the other comprehensive income when these are affective within the accepted range and classified as hedge, otherwise these instruments are recognized in the income statement.

(b) Functional and reporting currency

These consolidated financial statements are presented in Mexican pesos, which is the Company's functional currency. All amounts have been rounded to the nearest thousands of Mexican pesos, unless otherwise indicated.

In the case of the foreign entities of the joint venture in the U.S.A., 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.

(c) Use of judgments and estimates

In preparing these consolidated financial statements according to IFRS, Management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments made in applying accounting policies that have the most significant effect on 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 and joint venture companies are 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 hierarchy 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 inputs are active market prices (unadjusted) for identical assets and liabilities that the Group has the ability to negotiate on the measurement date.
- Level 2 inputs are different from market prices, but are directly or indirectly observable for the asset or liability.
- Level 3 inputs 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 area, mainly using to expected future cash flows discounted at present value and based on market information available at the valuation date.

In order to determining the fair values, conditions and assumptions are used, mainly based on rate models based on TIIE 28, the Mexican Average Interbank Interest Rate (TIIE per its Spanish acronym) and exchange rate MXP/USD available at the valuation date.

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

iv) *Useful lives 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 such assets.

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 at each reporting date. For the evaluation of 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 for 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, the goodwill is assigned to the operational divisions of the group and monitored in terms of the Group's operative segments (operative division) and reports the lowest level at which the 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 account receivables*

On each reporting date, the Group evaluates whether or not there is objective evidence that its account receivables are impaired, which includes defaulting or lack of payment by a debtor, or the restructuring of an amount due to the Group. The Company considers evidence of impairment of account receivables at both the specific asset level and collective. All account receivables considered significant individually are evaluated for possible specific impairment. All account receivables evaluated that are not specifically impaired are subsequently evaluated collectively to identify impairment that may have occurred and, that has not yet been identified. Account 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.

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) Basis of consolidation

i) *Businesses combinations*

The Group accounts businesses combinations by using the purchase method when control is transferred to the Group (see (a) (iii)).

The consideration transferred in the acquisition and the identifiable net assets acquired are generally measured at fair value. Any goodwill that arises is tested annually for impairment (see (h) (iii)). Any gain on a bargain purchase is recognized in the income statement, immediately.

Transaction costs are expensed as incurred, unless they relate to the issuance of debt or equity instruments (see (c)).

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

Any contingent consideration is measured at fair value at the date of acquisition. In other cases, subsequent changes in fair value of the contingent consideration are 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, or
- The proportionate share of the acquires identifiable net assets at the date of acquisition, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as interest non-controlling transactions, therefore any effect is recognized in equity.

iii) *Subsidiaries*

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

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

	Country where it was incorporated	December 2017	December 2016	Note
Alimentos:				
Herdez Del Fuerte y subsidiarias (HDF) - Subsidiary	Mexico	50%	50%	1
Herdez Del Fuerte-				
Manufacturing and trading:				
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
Herdez Del Fuerte-				
Manufacturing and trading:				
Alimentos Del Fuerte, S. A. de C. V. (Alimentos Del Fuerte) - Subsidiary	Mexico	99.95%	99.95%	1
Saben a Cine, S.A.P.I. de C. V. - Subsidiary	Mexico	50%	50%	1, 4
Intercafé, S. A. de C. V. - (Intercafé) - Joint Venture	Mexico	50%	50%	2
Aires de Campo, S. A. de C. V. – Subsidiary	Mexico	92.62%	92.62%	1
Buenos de Origen Services, S. A. de C. V. – Subsidiary	Mexico	92.62%	92.62%	1, 5
Incubadora Orgánica, S. A. de C. V. - Joint Venture	Mexico	50%	50%	2
Authentic Acquisition Corporation (AAC) – Subsidiary	USA	100%	100%	1, 3
Authentic Speciality Foods (ASF) – Subsidiary	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. - Joint Venture	Mexico	50%	50%	2, 3
Avomex Service, S. de R. L. de C. V. - Joint Venture	Mexico	50%	50%	2, 3
Avomex Importación y Exportación Limitada - Joint Venture	Chile	50%	50%	2, 3

	Country where it was incorporated	December 2017	December 2016	Note
Services provider:				
Corporativo Cinco, S. A. de C. V. (Corporativo) - Subsidiary	Mexico	100%	100%	1, 9
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
Manufacturing and trading:				
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
Herpons Continental, S. A. de C. V. (Herpons Co.) - Subsidiary	Mexico	100%	100%	1
Ubongo, S. A. P. I. de C. V. - Joint Venture	Mexico	50%	-	2, 8
Grupo Nutrisa y subsidiarias - Subsidiary	Mexico	99.84%	99.84%	1
Grupo Nutrisa				
Trading:				
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%	1, 7
Nutricomercializadora, S. A. de C. V. (Nutricomercializadora) - Subsidiary	Mexico	-	100%	1, 7
Alimentos Benefits, S. A. de C. V. (Benefits) - Subsidiary	Mexico	100%	100%	1
Servibenefits, S. A. de C. V. - Subsidiary	Mexico	100%	100%	1
Nutrisa USA, LLC. (Nutrisa USA) - Subsidiary	USA	100%	100%	1
Olyen Coffee, S. A. de C. V. - Subsidiary	Mexico	100%	-	1, 6
Services:				
Servinutrisa, S. A. de C. V. (Servinutrisa) - Subsidiary	Mexico	100%	100%	1
Servicios Corporativos el Panal, S. A. de C. V. - Subsidiary	Mexico	100%	100%	1

	Country where it was incorporated	December 2017	December 2016	Note
Real-Estate Group:				
Promociones Inmobiliarias Naturistas, S. A. de C. V. (Promociones) - Subsidiary	Mexico	100%	100%	1
Services:				
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	100%	100%	1
Fábrica de Envases del Pacífico, S. A. de C. V. - Joint Venture	Mexico	50%	50%	2
Real-Estate Group:				
Herport, S. A. de C. V. (Herport) - Subsidiary	Mexico	50%	50%	1
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	89.75%	89.75%	1
Quicolor de México, S. A. de C. V. (Quicolor) - Subsidiary	Mexico	100%	100%	1
Promotora Hercal, S. A. de C. V. (Hercal) - Subsidiary	Mexico	100%	100%	1

(1) *Consolidated entity.*

(2) *Entity recognized under the equity method.*

(3) *Financial statements from December 5, 2016 to December 3, 2017.*

(4) *Entity created in September 2015 beginning operations in April 2016.*

(5) *Entity created in December 2015 beginning operations in April 2016.*

(6) *Entity created in August 2016 beginning operations in December 2016.*

(7) *Merged entity with Nutrisa, S. A. de C. V. on January 1, 2017.*

(8) *Entity created in February 2017 and beginning operations in July 2017.*

(9) *On December 15, 2017, a purchase agreement was entered regarding the shares of capital stock owned by Corporativo Cinco, S. A. de C. V.; as the selling party, this agreement was subscribed by Herdez del Fuerte, S. A. de C. V. and Herdez, S. A. de C. V. and as the purchasing party, it was subscribed by Grupo Herdez, S. A. B. de C. V. and Comercial de Finanzas Netesa, S. A. de C. V. As agreed by the parties thereto, the agreement shall become effective from January 1, 2018.*

iv) *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

Associated are those entities in which the Group has a significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement 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 requires unanimous consent to take financial decisions and strategic operations.

Investments in associated entities and joint venture are recognized for using the equity method, and are initially recognized 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, until the date on which significant influence or joint control ceases.

When the portion of losses of the Group exceeds its 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*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. 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 way as unrealized profits, but only to the extent that there is no evidence of impairment.

vii) *Discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

— Represents either a separate major line of business or geographical area of operations.
— Is part of a single coordinated plan to dispose the purpose of a separate major line of business or geographic area of operation; or
— Is a subsidiary acquired exclusively with the purpose of re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

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

(b) Foreign currency

i) *Foreign currency transactions*

Transactions in foreign currency are translated into the respective functional currency of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the consolidated financial statements date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in the income statement.

Foreign currency differences arising from translation of the following items are recognized in other comprehensive income:

- Available-for-sale equity investments (except for impairment, in which case foreign currency differences that have 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 to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Mexican pesos at the exchange rates at the consolidated financial statements date. Revenues and expenses of foreign operations are translated into Mexican pesos at the exchange rates at the date of transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except when the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirely or such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

When the Group disposes only part of an associate or joint venture while retaining significant influence or joint control, the corresponding proportion of the cumulative amount is reclassified to the income statement.

(c) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through income statement, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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

i) *Non-derivative financial assets and financial liabilities - Recognition and derecognition*

The Group initially recognizes loans and trade account receivables issued on the date when they are originated. All the other financial assets are initially recognized on the trade date when the Group becomes a party to the instrument's contractual provisions.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risk and rewards of the ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets created or retained by the Group is recognized as a separate asset or liability.

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

A financial asset and a liability are subject to be offset being the net amount presented in the statement of financial position 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.

ii) *Non-derivative financial assets*

Loans and account receivables

Loans and account receivables are financial assets with fixed or determinable payments that are not traded in an active market. These assets are initially recognized at fair value, plus any directly attributable transaction cost to initial recognition. They are measured at amortized cost by using the effective interest method, less impairment losses. Loans and account receivables include trade account receivables and other account receivables.

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.

The amount of cash and cash equivalents in the balance sheet includes restricted cash and investments, comprised of deposits in margin accounts that guarantee several of the Group obligations, to the extent that the restriction will be lifted in less than three months from the consolidated statement of financial position. When the restriction period is greater than three months, such restricted cash and investments are not considered cash equivalents and are included within short-term or long-term "Debtors" as appropriate.

iii) *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.

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

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

iv) *Derivative financial instruments and hedge accounting*

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

In addition, the Group holds derivative 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.

Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in the income statement; in case they are designed in a cash flow hedge, changes are recognized in other comprehensive income.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in 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 income statement 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 statement.

If the hedging instrument is no longer expected to occur, the hedge no longer meets the criteria, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified 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 statement.

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 statement.

v) *Equity*

Ordinary shares

Ordinary shares are classified in stockholders' equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

Repurchase and reissuance of ordinary shares (treasury shares)

When shares recognized as stockholders' equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effect, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury shares reserve. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within 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 indexing derived from the NCPI until December 31, 1997.

(d) Property, machinery and equipment

i) *Recognition and measurement*

Items of property, machinery and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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.
— 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.

At December 31, 2017 and 2016, there are not qualifying assets where capitalized financing cost exist. Acquired software, which is part of the functionality of the related equipment is capitalized as part of such equipment.

If significant parts of an item of property, machinery and equipment have different useful lives, they are accounted for as separate items (major components) of property, machinery and equipment.

Any gain or loss on the disposal of an item of property, machinery and equipment (determined as the difference between the profits obtained from the sale and the book value for such item) are recognized in the income statement.

ii) *Subsequent expenditures*

Subsequent expenditures are capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Continuous repairs and maintenance are expensed in income statement 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.

Depreciation is calculated to write-off the cost of items of property, machinery and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized to the income statement. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date of the consolidated financial statements and adjusted if appropriate.

(e) Intangible assets and goodwill

i) *Goodwill*

Goodwill arising from the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

ii) *Subsequent measures*

Goodwill is valued at cost less accumulated impairment losses. In relation with 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, licenses, 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 as 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 impairment testing at each reporting date under IFRS.

v) *Subsequent expenditures*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generate trademarks and goodwill, are recognized in income statement as incurred.

vi) *Amortization*

Amortization is calculated to write-off the cost of intangible assets less their estimated residual values by using the straight-line method over their estimated useful lives, and is generally recognized in the income statement. Goodwill is not amortized.

The estimated useful lives are as follows:

	Years
Non-competition agreements	2 - 3
Developed technology	8 - 20
Customer relationships	13 - 20
Lease rights and software	3

Amortization methods, useful lives and residual values are reviewed at each date of the consolidated financial statements and adjusted if appropriate.

(f) Leases

i) *Determining whether an agreement contains a lease*

At inception of an 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 reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset, subsequently, the liability is reduced as payments are made, recognizing the financial cost on the liability using the Group's incremental borrowing rate.

ii) *Leased assets*

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as financial leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

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

iii) *Lease payments*

Payments made under operating leases are recognized in income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term lease.

Minimum lease payments made under financial leases are apportioned between the finance expense and the reduction of liability balance. The financial expense is allocated to each period during the lease term in order to obtain a consistent interest rate on each period, over the remaining balance of the liability.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in-first-out principle 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 inventories and work in progress, costs include an appropriate share of production overheads based on normal 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*

Financial asset not classified as at fair value through income statement, including an interest in an equity accounted investee, are assessed at each reporting date to determine if there is an objective evidence of impairment.

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;
- The disappearance of an active market for an instrument; and
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged fair value decrease below its cost. The Group considers a decrease of 20% to be significant and a period of nine months to be prolonged.

ii) *Financial assets measured at amortized cost*

The Group considers evidence of impairment for these assets measured at amortized cost (loans and receivables and financial assets held to maturity) both an individual assets and a 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 information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions make probable that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognized in the income statement and reflected in an allowance account. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed in the income statement.

iii) *Non-financial assets*

At each consolidated financial statement date, the Group reviews the carrying amount of its non-financial assets, excluding employee benefits, inventories and deferred tax assets, to determine whether there is any indication of impairment exists. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with undefined useful lives are tested at each reporting date for impairment.

For impairment testing, 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 cash-generating units. Goodwill acquired in a business acquisition is distributed to the group of cash-generating units (CGU) expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less selling costs. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

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 the income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata 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 asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized

(i) Employee benefits

i) *Short-term benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) *Share based payment*

The fair value at grant date of the incentive share based payment settled in equity instruments are usually recognized as an expense, with a corresponding increase in equity, over the period of vesting of incentives. The amount recognized as an expense is adjusted to reflect the amount of incentives for expected service conditions and performance conditions other than those relating to market.

Incentives for share based payments with non-vesting conditions, the fair value at grant date is valued to reflect these conditions and there is no correction for differences between actual and expected results.

The fair value of the amount payable to employees in connection with the appreciation rights shares, which are settled with cash, is recognized as an expense with a corresponding increase in liabilities in the period in which employees have unconditional right to payment. The liability is revalued at each balance sheet date and the settlement date based on the fair value of the appreciation rights.

iii) *Defined benefit plans*

The Group's net obligations in respect of defined benefit plans are calculated separately for each plan by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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 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. 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 the income statement by 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 the income statement.

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

When having reductions or settlements in a defined benefit plan, the Group shall recognize gains or losses arising there from. 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 actuarial gains and losses and past service costs that had not been previously recognized

(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 pre-tax rate that reflects current market evaluation of the book value attributable to the time factor and risks specific to the liability. The unwinding of the discount is recognized as a financial cost.

Restructuring

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

Revenue is recognized when the risks and rewards of ownership have been transferred to the customers, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing Management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on 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 statement as incurred.

(m) Finance income and finance costs

Financial income includes interest income on invested funds, and changes in the fair value of financial assets at fair value in the income statement, as well as exchange gains. Interest income is recognized in income statement at amortized cost, using the effective interest method.

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

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

Gains and losses on foreign currency for financial assets and financial liabilities are presented according to their profit or loss position.

(n) Income tax

Income tax expense comprises current and deferred taxes. It is recognized in income statement except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable on receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the consolidated statements of financial position date. Current tax also includes any tax arising from dividends.

ii) *Deferred tax*

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

— Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting not taxable profit or loss;
— Temporary differences related to the investments in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal on the temporary differences and it is probable that they will not be reversed in the foreseeable future; and
— Taxable temporary differences arising on initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates expected to applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the consolidated financial statement date.

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

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 the accumulated probability model.

Each position is considered individually, without considering its relation to other fiscal procedure. The indicator of more likely than not represents 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 not recognized.

The Group recognizes interest and penalties related to unrecognized tax benefits as part of the income tax expense for in the consolidated income statements

(o) Earnings per share

The Group presents information on basic Earnings per Share (EPS), and the diluted earnings 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). As there are no dilutive effects, the basic earnings per share and diluted earnings is the same.

(p) Operating segments

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 and investments (net of tax), translation effects and the results from actuarial losses on employee benefit obligations (net of tax), which are reflected in stock-holders' equity, but which do not constitute capital contributions, reductions and/or distributions.

4. STANDARDS ISSUED BUT NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

(a) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the IAS 39 Financial Instruments.

Recognition and Measurement. IFRS 9 includes guidance about classification and measurement of financial instruments, an expected credit loss model to calculate the financial assets impairment, and new general requirements of hedge accounting. Also keep guidance about recognition and write-off financial instruments accounts in IAS 39.

The date of application corresponds to the financial statements issued for periods beginning on January 1, 2018 or late. Early adoption is permitted.

Based on its assessment, the Group does not expect the application of IFRS 9 to have a significant impact on its consolidated financial statements.

(b) IFRS 15 Revenue from Contracts with Customers

Issued on May 28, 2014, This standard supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

This new IFRS applies to contracts with customers, but does not apply to insurance contracts, financial instruments or leases that are within the scope of other IFRS.

Introducing a single revenue recognition model that applies to client contracts and two approaches to revenue recognition: in moments of time or over a period. The model considers an analysis of transactions based on five steps to determine if an income is recognized, when it is recognized and the amount:

(i) Identify contracts with customers.
(ii) Identify the obligations of performance contract.
(iii) Determining the transaction price.
(iv) Allocate the transaction price to the remaining performance obligations.
(v) Recognize revenue when the extent than an entity satisfies a performance obligation.

The standard is effective for annual periods beginning on or after January 1, 2018, early adoption is permitted.

Based on its assessment, the Group does not expect the application of IFRS 15 to have a significant impact on its consolidated financial statements.

(c) Leases

Issued on January 13, 2016 this standard requires leasing companies accounted for all operating leases in its financial statements as of January 1, 2019. Leasing companies with operating leases will be more assets but also more debt. The higher the portfolio of leases of the company, the greater the impact on reporting metrics.

The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that it is applied in conjunction with IFRS 15.

The Group is assessing the possible impact on its consolidated financial statements resulting from the amendments.

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 Management and Finance Office, in accordance with policies approved by the Board of Directors. The entity identifies, evaluates and hedges financial risks in close cooperation with its subsidiaries. The Board of Directors has approved general written policies regarding to the financial risks management, including the risk of prices for certain raw materials, exchange rate risk and risk on interest rate.

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

Derivative financial commodities (Commodities)

As part of the hedging strategy on raw materials during 2017 and 2016, the Group 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, 2017 and 2016, are shown in the next page.

December 31, 2017

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (USD)	Fair value (MXP)
Futures	CME Clearing*	41,949	827,887[1]	Several	Buy (long)	575	11,342

December 31, 2016

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (USD)	Fair value (MXP)
Futures	CME Clearing*	36,827	760,998[1]	Several	Buy (long)	3,884	80,255

* *Clearing Member authorized by Chicago Mercantile Exchange.*
[1] *Pounds covered at agreed price.*

Derivative financial on exchange rate

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

As at December 31, 2017 and 2016, the characteristics of the contracts designated as hedges is shown below:

December 31, 2017

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (MXN)
Forwards	National bank*	2,000	38,019	Several	Buy (long)	1,792
	National bank*	16,900	329,653	Several	Buy (long)	9,278
	National bank*	6,500	125,055	Several	Buy (long)	4,802
		25,400	492,727			15,872

December 31, 2016

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (MXN)
Forwards	National bank*	11,000	206,682	Several	Buy (long)	22,100
	National bank*	6,500	121,400	Several	Buy (long)	14,752
	National bank*	13,000	254,625	Several	Buy (long)	17,002
		30,500	582,707			53,854

* *AAA rated financial institutions, according to the national and issuers for long term debt.*

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 at variable rate and are recognized in the consolidated financial statements, Company's Management entered into an interest rate swap agreement which converts variable to fixed rate profile.

On June 14, 2017, the Group decided to settle in advance the financial liabilities hedged by these derivative financial instruments. Thus, on the same date, the Group designated and settled in advance the interest-rate swaps held in cash flow hedge relationships, recycling the effects of the comprehensive income in the stockholders' equity to profit and loss on the same date. The amount of this recycling was a profit of $15,602.

Additionally, on the same date, the Group entered into two derivative interest-rate swaps to hedge Herdez 17-2 issuance referenced at a TIIE 28 floating exchange rate, issued on June 1, 2017. Upon execution of these new transactions, the Group used the profits from matured derivatives in advance to improve payment conditions for these new instruments (a lower fixed rate payable); thus, as of June 14, 2017, no cash flow was made for the anticipated maturity of interest-rate swaps or as of the contracting date of the new interest-rate derivatives. On the same date, the Group estimated a reasonable value of the interest-rate derivatives contracted in the amount of $8,508. In addition, on June 14, 2017, the Group recognized in the statement of operations a loss of $7,094 for the difference estimated by the Group between the transaction price and the reasonable value of the new derivative instruments.

The derivative financial instruments acquired in June 2017, were designated in hedge relationships under the cash flow model. The detail of these hedged derivative instruments is as follows:

December 31, 2017

Instrument	Counterparty	Notional amount (MXN)	Expiration date	Payable rate	Receivable rate	Fair value (MXN)
Swap	National banks *	500,000	May 26, 22	6.75%	TIIE 28	19,674
Swap	National banks *	500,000	May 26, 22	6.90%	TIIE 28	16,755
		1,000,000				36,429

As of December 31, 2016, the Group had the following interest-rate swaps:

December 31, 2016

Instrument	Counterparty	Notional amount (MXN)	Expiration date	Payable rate	Receivable rate	Fair value (MXN)
Swap	National banks *	300,000	Dec 05, 19	7.79%	TIIE 91	(4,394)
Swap	National banks *	250,000	Nov 09, 18	4.88%	TIIE 28	9,721
Swap	National banks *	250,000	Nov 09, 18	5.27%	TIIE 28	7,961
Swap	National banks *	500,000	Nov 09, 18	6.80%	TIIE 28	2,114
		1,300,000				15,402

December 31, 2016

Instrument	Counterparty	Notional amount (USD)	Expiration date	Payable rate	Receivable rate	Fair value (000'MXN)
Swap	National banks *	35,000	Feb 23-21	3.73%	LIBOR 3M+1.95%	896

* *AAA rated financial institutions, according to the national and issuers debt long-term.*

As at December 31, 2017 and 2016, 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 of 80% -125%.

The net effect recorded on the capital stock including IT deferred as at December 31, 2017 and 2016, form financial instrument hedging amounted to ($61,067) and $ 118,329, respectively. The amount included in comprehensive income in the stockholders equity, will be recycled to income statement when the hedge item affects them; said amount is subject to changes due to market conditions.

Tables below show 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, 2017 and 2016:

	Book value	Expected cash flows				
		Total	1 year	2 years	3 years	More than 3 years
December 31, 2017						
Swaps on interest rates						
Asset	36,429	44,971	12,074	11,304	8,278	13,315
Forwards on exchange rates						
Asset	15,872	14,842	14,842	-	-	-
Futures on raw materials						
Asset	11,342	11,342	11,342	-	-	-
December 31, 2016						
Swaps on interest rates						
Liability	(4,394)	(4,522)	(3,928)	(631)	37	-
Asset	20,692	21,697	8,355	13,050	116	176
Total swaps on interest rates	16,298	17,175	4,427	12,419	153	176
Forwards on exchange rates						
Asset	53,854	51,372	51,372	-	-	-
Futures on raw materials						
Asset	80,255	80,255	80,255	-	-	-

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, 2017

	Book value		Fair value			
	Financial instruments derived from hedges	Other financial liabilities	Level 1	Level 2	Level 3	Total
Derivative financial assets measured at fair value						
Forwards on exchange rate hedging	15,872	-	-	15,872	-	15,872
Swaps on interest rate hedging	36,429	-	-	36,429	-	36,429
Commodities futures hedging	11,342	-	11,342	-	-	11,342
Total derivative financial assets measured at fair value	63,643	-	11,342	52,301	-	63,643
Non-derivative financial liabilities non-measured at fair value						
Bank loans in MXP	-	(923,830)	-	(939,289)	-	(939,289)
Total non-derivative financial liabilities non-measured at fair value	-	(923,830)	-	(939,289)	-	(939,289)
Debt issues						
CEBURES HERDEZ 13	-	(1,993,350)	-	(1,911,190)	-	(1,911,190)
CEBURES HERDEZ 14	-	(399,346)	-	(401,419)	-	(401,419)
CEBURES HERDEZ 17	-	(1,990,660)	-	(1,991,376)	-	(1,991,376)
CEBURES HERDEZ 17-2	-	(994,831)	-	(1,004,825)	-	(1,004,825)
Total debt issues	-	(5,378,187)	-	(5,308,810)	-	(5,308,810)

December 31, 2016

	Book value		Fair value			
	Financial instruments derived from hedges	Other financial liabilities	Level 1	Level 2	Level 3	Total
Derivative financial assets measured at fair value						
Forwards on exchange rate hedging	53,854	-	-	53,854	-	53,854
Swaps on interest rate hedging	20,692	-	-	20,692	-	20,692
Commodities futures hedging	80,255	-	80,255	-	-	80,255
Total derivative financial assets measured at fair value	154,801	-	80,255	74,546	-	154,801
Derivative financial liabilities measured at fair value						
Swaps on interest rate hedging	(4,394)	-	-	(4,394)	-	(4,394)
Total derivative financial liabilities measured at fair value	(4,394)	-	-	(4,394)	-	(4,394)
Non-derivative financial liabilities non-measured at fair value						
Bank loans in MXP	-	(400,000)	-	(415,903)	-	(415,903)
Bank loans in USD	-	(1,446,480)	-	(1,565,513)	-	(1,565,513)
Total non-derivative financial liabilities non-measured at fair value	-	(1,846,480)	-	(1,981,416)	-	(1,981,416)
Debt issues						
CEBURES HERDEZ 10	-	(599,073)	-	(603,418)	-	(603,418)
CEBURES HERDEZ 13	-	(1,993,232)	-	(1,925,367)	-	(1,925,367)
CEBURES HERDEZ 13-2	-	(998,124)	-	(1,002,950)	-	(1,002,950)
CEBURES HERDEZ 14	-	(597,992)	-	(601,091)	-	(601,091)
Total debt issues	-	(4,188,421)	-	(4,132,826)	-	(4,132,826)

6. FINANCIAL RISK MANAGEMENT

General

The Group has exposure to the following risks arising from 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 Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee report regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and review the adequacy of the risk management framework in relation to the risk faced by the Group. The Group Audit Committee is assisted in its oversight role by the internal audit. Internal audit conducts both routine and special inspections of risk management controls and procedures, the results of which are reported to the Audit Committee.

i) *Credit risk*

Credit risk is the risk of financial loss to the Group if a costumer or counterparty for a financial instrument fails to meet its contractual obligations, and arises mainly from the Group's account receivables and the investment instruments of the Group.

The carrying amount of financial assets represents the maximum credit exposure.

Account receivables

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 account receivables.

The Risk Management Committee has implemented a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, and in some cases bank references. Customers failing to meet the Company's credit reference requirements can only conduct operations with the Group through upfront payments.

More than 96% of the Group's customers have been transacting with the Group for more than four years, and no impairment loss has been recognized against these customers. In monitoring customer credit risks, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesaler, retail or an end-user customer, their geographic location, industry, years in business, maturity and existence of prior financial difficulties.

	Carrying amount	
	2017	2016
Wholesale customers	$ 2,370,538	$ 1,883,288
Retail customers	78,676	48,278
End-user customers	1,734	12,108
Others	50,421	29,800
Total	$ 2,501,369	$ 1,973,474

At December 31, 2017, the maximum exposure to credit risk for trade and other receivables by counterparty type was as follows:

- At December 31, 2017, the Group's most significant customer, accounted for 31% of the trade and other receivables carrying amount (22% in 2016).

- Customers classified as "high risk" are included in a list of restricted customers and they are monitored by the Risk Management Committee.

At 31 December 2017 and 2016, the aging of trade and other receivables without impairment was as follows:

	2017		2016	
Current portfolio	$	1,312,202	$	1,268,182
Past-due portfolio 1-30		1,020,300		560,429
Past-due portfolio 31-60		103,640		92,621
Past-due portfolio 61-90		43,652		14,743
Past-due portfolio +90		42,742		42,787
Legal portfolio		9,896		20,407
Total portfolio		2,532,432		1,999,169
Estimated portfolio of doubtful accounts		(31,063)		(25,695)
Total trade receivables	$	2,501,369	$	1,973,474

The allowance for doubtful accounts movement for the years ended December 31, 2017 and 2016, is as follows:

	2017		2016	
Allowance as at January 1st	$	25,695	$	20,648
Plus additions		6,549		5,047
Less applications		1,181		-
Allowance as at December 31	$	31,063	$	25,695

At December 31, 2017 and 2016, the Company had certain account receivables that were not past due or impaired. The credit quality for said account receivables 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 95% of the overall portfolio in 2017 and 2016.

At December 31, 2017 and 2016, none of the aforementioned account receivables 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 held cash and cash equivalents of $1,484,800 as of December 31, 2017 (2016 $919,751). The cash and cash equivalents are held with banks and financial institutions counterparties, which are rated between the rank AA and AAA.

Guarantees

Cash and cash equivalents include restricted cash as follows:

Margin account held for commodities operation $35,188 as at December 31, 2017 (2016 $6,058).

Trust account by $51,601 as at December 31, 2017 (2016 $43,856).

Derivatives

The derivative are entered into with bank and financial institution counterparties, which are rated between the range AA and AAA, according to various rating agencies.

The book value of derivative and non-derivative financial assets represents the maximum credit risk exposure of the Group. The maximum loss associated with credit risk, identified by the Group, is as follows:

December 31, 2017

	Book Value
Derivative financial assets measured at fair value	
Forwards on exchange rate	15,872
Futures on commodities	11,342
Swaps on interest rate in MXP	36,429
Total	63,643

December 31, 2016

	Book Value
Derivative financial assets measured at fair value	
Forwards on exchange rate	53,854
Futures on commodities	80,255
Swaps on interest rate in MXP	19,796
Swaps on interest rate in USD	896
Total	154,801

ii) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivery cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity based costing method to cost its products and services, which assist it in monitoring cash flow requirements and optimizing its cash return on 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.

Exposure to liquidity risk

A table with a summary of the outstanding financial liabilities of payment, including interest payable each future expiration date corresponding to December 31, 2017 and 2016, is shown below:

December 31, 2017

		Contractual cash flows					
	Book value	Total	2 months or less	2 months to 1 year	1 to 2 years	2 to 3 years	More than 3 years
Total non-derivative financial liabilities							
Bank debt in MXN	(923,830)	(1,141,520)	(10,087)	(74,258)	(87,685)	(969,490)	-
Debt issues							
CEBURES HERDEZ 13	(1,993,350)	(2,973,093)	-	(162,182)	(162,182)	(162,182)	(2,486,547)
CEBURES HERDEZ 14	(399,346)	(448,010)	(7,396)	(225,063)	(215,551)	-	-
CEBURES HERDEZ 17	(1,990,660)	(3,771,265)	-	(186,449)	(186,449)	(186,449)	(3,211,918)
CEBURES HERDEZ 17-2	(994,831)	(1,388,322)	(12,903)	(76,038)	(88,290)	(85,296)	(1,125,795)
Total debt issues	(5,378,187)	(8,580,690)	(20,299)	(649,732)	(652,472)	(433,927)	(6,824,260)

December 31, 2016

		Contractual cash flows					
	Book value	Total	2 months or less	2 months to 1 year	1 to 2 years	2 to 3 years	More than 3 years
Total derivative financial liabilities							
Swaps on interest rates in MXN	(4,394)	(4,522)	(2,009)	(1,919)	(631)	37	-
Non-derivative financial liabilities							
Bank debt in MXN	(400,000)	(455,903)	(106,801)	(69,068)	(119,205)	(160,829)	-
Bank debt in USD	(1,446,480)	(1,681,749)	(10,608)	(36,933)	(50,486)	(58,662)	(1,525,060)
Total non-derivative financial liabilities	(1,846,480)	(2,137,652)	(117,409)	(106,001)	(169,691)	(219,491)	(1,525,060)
Debt issues							
CEBURES HERDEZ 10	(599,073)	(648,109)	-	(648,109)	-	-	-
CEBURES HERDEZ 13	(1,993,232)	(3,135,275)	-	(162,182)	(162,182)	(162,182)	(2,648,729)
CEBURES HERDEZ 13-2	(998,124)	(1,149,670)	(9,968)	(65,034)	(1,074,668)	-	-
CEBURES HERDEZ 14	(597,992)	(685,746)	(8,874)	(232,454)	(229,158)	(215,260)	-
Total debt issues	(4,188,421)	(5,618,800)	(18,842)	(1,107,779)	(1,466,008)	(377,442)	(2,648,729)

The Group has Account Payable balances of $165,501 and $137,632 as at December 2017 and 2016, respectively, for discount of documents of account payable with Fideicomiso AAA Herfin, which is primarily intended to promote the economic development thereof.

iii) *Market risk*

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

The Group sells and buys derivatives and also incurs on financial liabilities to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting to mitigate volatility in income statement.

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

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and loans are denominated and the functional currency of the Group, which is the Mexican peso. The currency in which these transactions are mainly denominated is the U.S.A dollar (USD).

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

In respect to other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at exchange rates of transactions in cash or "spot" to cover incidentals in the short-term.

Exposure to currency risk

The summary quantitative data about the Group's exposure to foreign currency risk as reported to the Management of the Group is as follows.

	December 31, 2017		December 31, 2016	
	MXN	USD	MXN	USD
Trade receivable	575,168	29,144	440,804	21,332
Trade payable and notes payable	(523,028)	(26,502)	(2,965,594)	(143,515)
Net exposure	(52,140)	2,642	(2,524,790)	(122,183)

The following significant exchange rates have been applied during the year:

	Average exchange rate		Exchange rate at December 31,	
	2017	2016	**2017**	2016
U.S. dollar	$ 18.9276	$ 18.6669	19.7354	20.6640

Sensitivity analysis

A reasonably possible strengthening (weakening) of the Mexican peso and the US dollar, against all other currencies as at December 31, 2017 and 2016, would have affected the measurement of financial instruments denominated in a foreign currency, equity and income statement by the amounts shown below. This analysis assumes that all other variables, particularly on interest rates, remain constant and ignores any impact of forecast sales and purchases:

	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
December 31, 2017	20.7222	18.7486		
USD (5% Movement)	54,748	49,534	1,825	(1,825)
December 31, 2016	21.6972	19.6308		
USD (5% Movement)	(2,651,029)	(2,398,550)	(88,368)	88,368

Exposure to currency risk on financial liabilities

The following table represents the Group's exposure to foreign currency risks in the financial liabilities of the Group:

	Nominal amount	
	2017	2016
Financial Liabilities		
Bank debt in USD	-	70,000

	Nominal amount	
	2017	2016
Financial Liabilities		
Bank debt in MXP	-	1,446,480

As at December 31, 2017, there was not current position of financial liabilities in foreign currency; however, as at December 31, 2016, below is a sensitivity analysis of financial liabilities in foreign currency, if peso increases or decreases +/-$2.00 and +/-$3.50, showing the changes applicable in case of the risk exposure [1].

(1) *It should be considered that the Increase and Decrease is regarding to the financial liability value, whereby an increase will mean a higher liability.*

December 31, 2016

	Increase		Decrease	
	$ 3.50	$ 2.00	$ (2.00)	$ (3.50)
Financial liabilities				
Bank debt in USD	245,000	140,000	(140,000)	(245,000)

Exposure to the currency risk of derivative financial instruments

	Book value	
	2017	2016
Derivative financial instruments		
Forwards on exchange rates	15,872	53,854
Futures on commodities	11,342	80,255
Swaps on interest rate in USD	-	896
Total	27,214	135,005

The table, in the next page, shows a sensitivity analysis about assets and derivative liabilities and non-derivative instruments denominated in foreign currencies as at December 31, 2017 and 2016, if the Mexican peso were to increase or decrease +/- $2.00 and +/- $3.50, showing the changes that would be in exposure to this risk.

December 31, 2017

	Increase		Decrease	
	$ 3.50	$ 2.00	$ (2.00)	$ (3.50)
Derivative financial instruments				
Forwards on exchange rates	87,796	50,169	(50,169)	(87,796)
Futures on commodities	2,011	1,149	(1,149)	(2,011)
Total	89,807	51,318	(51,318)	(89,807)

December 31, 2016

	Increase		Decrease	
Derivative financial instruments				
Forwards on exchange rates	106,588	60,907	(60,907)	(106,588)
Futures on commodities	13,593	7,768	(7,768)	(13,593)
Swaps on interest rate in USD	153	88	(88)	(153)
Total	120,334	68,763	(68,763)	(120,334)

This analysis assumes that all other factors are remained constant.

Interest rate risk

The Group adopts a policy of ensuring that its exposure to interest rate fluctuations on loans to be at a fixed rate and not 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.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments reported to the management of the Group is as follows:

	Nominal amount	
	2017	2016
Fixed-rate instruments		
Financial liabilities in MXP	(4,000,000)	(2,600,000)

	Nominal amount	
	2017	2016
Variable-rate instruments		
Financial liabilities in MXP	(2,330,000)	(2,000,000)
Financial liabilities in USD	-	(1,446,480)
Total	(2,330,000)	(3,446,480)

Fair value sensitivity analysis for fixed-rate instruments

A sensitivity analysis, considering various scenarios (+/- 50 base points and +/- 100 base points) for the instruments that are exposed to the interest rate risk, in this particular case discount rate, is shown below. It is noteworthy that this analysis was performed on the fair values of the various instruments[2].

December 31, 2017

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Financial liabilities				
CEBURES HERDEZ 13	84,229	42,732	(43,966)	(89,166)
CEBURES HERDEZ 17	118,047	60,298	(62,846)	(128,242)
Total	202,276	103,030	(106,812)	(217,408)

December 31, 2016

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Financial liabilities				
CEBURES HERDEZ 10	4,104	2,058	(2,070)	(4,153)
CEBURES HERDEZ 13	95,388	48,495	(50,097)	(101,797)
Total	99,492	50,553	(52,167)	(105,950)

[2] *It should be considered that the Increase and Decrease is regarding to the financial liability value, whereby an increase will mean a higher liability.*

Fair value sensitivity analysis for variable-rate instruments

A sensitivity analysis considering various scenarios (+/- 50 base points and +/- 100 base points) for the instruments that are exposed to the interest rate risk for variable-rate, in this particular case TIIE, is shown below. It is important to mention that this analysis was performed based on the fair values of the various instruments[3]:

December 31, 2017

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Financial liabilities				
Bank debt in MXN	612	309	(315)	(636)
CEBURES HERDEZ 14	5,086	2,553	(2,573)	(5,167)
CEBURES HERDEZ 17-2	36,439	18,417	(18,812)	(38,018)
Total	42,137	21,279	(21,700)	(43,821)

December 31, 2016

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Financial liabilities				
Bank debt in MXN	797	398	(398)	(794)
CEBURES HERDEZ 13-2	17,451	8,768	(8,852)	(17,788)
CEBURES HERDEZ 14	10,277	5,167	(5,225)	(10,508)
Total	28,525	14,333	(14,475)	(29,090)

[3] *It should be considered that the Increase and Decrease is regarding to the financial liability value, whereby an increase will mean a higher liability.*

As at December 31, 2017, the Group did not account the current position of derivative financial instruments exposed to Libor interest rate risk; however, below is a sensitivity analysis for the position as at December 31, 2016, considering various scenarios (+/- 5 base points and +/- 10 base points) for instruments exposed to Libor variable interest rate risk. It is important to mention that this analysis was performed based on the fair values of various financial instruments:

December 31, 2016

	Increase		Decrease	
	+10 bp	+ 5 bp	- 5 bp	-10 bp
Financial liabilities				
Bank debt in USD	86	43	(44)	(87)

Fair value sensitivity analysis for derivative financial instruments

The Company is exposed to the rate risk of the different financial instruments held, a sensitivity analysis for each of them is shown in the next page.

Swap on interest rates

Local rate

December 31, 2017

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Derivative financial instruments				
Swaps on interest rate in MXP	25,322	12,850	(13,247)	(26,909)

December 31, 2016

	Increase		Decrease	
	+100 bp	+ 50 bp	- 50 bp	-100 bp
Derivative financial Instruments				
Swaps on interest rate in MXP	19,036	9,596	(9,757)	(19,679)

Foreign rate

As at December 31, 2017, the Group did not account the current position of derivative financial instruments exposed to Libor interest rate risk; however, below is a sensitivity analysis for the position as at December 31, 2016, considering various scenarios (+/- 5 base points and +/- 10 base points) for instruments exposed to Libor variable interest rate risk:

December 31, 2016

	Increase		Decrease	
	+10 bp	+ 5 bp	- 5 bp	-10 bp
Derivative financial instruments				
Swaps on interest rate in USD	2,610	1,308	(1,313)	(2,631)

Currency forwards

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, the table, shown below, shows a sensitivity analysis for each rates: (local or implicit rate and foreign rate).

Local rate

December 31, 2017

	Increase		Decrease	
	+ 100 bp	+ 50 bp	- 50 bp	- 100 bp
Derivative financial Instruments				
Forwards on exchange rate	1,231	617	(619)	(1,239)

December 31, 2016

	Increase		Decrease	
	+ 100 bp	+ 50 bp	- 50 bp	- 100 bp
Derivative financial Instruments				
Forwards on exchange rate	900	451	(452)	(904)

Foreign rate (Libor)

December 31, 2017

	Increase		Decrease	
	+10 bp	+ 5 bp	- 5 bp	-10 bp
Derivative Financial Instruments				
Forwards on exchange rate	(130)	(65)	65	131

December 31, 2016

	Increase		Decrease	
	+10 bp	+ 5 bp	- 5 bp	-10 bp
Derivative Financial Instruments				
Forwards on exchange rate	(100)	(50)	50	100

Risk of raw material prices fluctuation

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 +/- 10% and +/-15%.

December 31, 2017

	Increase		Decrease	
	15%	+10%	-10%	-15%
Derivative Financial Instruments				
Futures on commodities	125,884	83,923	(83,923)	(125,884)

December 31, 2016

	Increase		Decrease	
	15%	+10%	-10%	-15%
Derivative Financial Instruments				
Futures on commodities	126,188	84,125	(84,125)	(126,188)

Capital management

The Group's policy is to maintain capital basis so as to maintain the investor, creditor and market confidence and to sustain future development of the business. The Board of Directors also monitors the returns on capital and as well as the level of dividends distributed to the stockholders of ordinary shareholders.

The Group monitors the Company performance by using key financial indicators that measure the margins of the income statement, net leverage, interest rate hedging, returns on capital and returns on equity investments.

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 except what is mentioned in the note 14.

Periodically, the Group purchases its own shares on the Mexican Stock Exchange; the timing of such purchases depends on market situation. Buying and selling decisions are made by Management; the Group does not have a defined specific plan to repurchase shares.

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

- Not to reduce stockholders equity to under $10,000,000.
- Debt and its cash cost net [2] must not exceed than 3 times the EBITDA [1].
- Not to reduce interest hedge (EBITDA/net financing expenses) to less than 3 times.

[1] *EBITDA - Operating Income plus Depreciations and Amortizations.*

[2] *It is equal to the aggregate of bank loans, notes payable and long-term debt less cash and cash equivalents.*

7. RELATED PARTIES

Parent and ultimate controlling party

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, it is the main holding Company with 51% of the Group shares. The remaining 49% of the shares is owned by numerous stockholders.

Related party transactions

The main balances of account receivables and payable with related parties are shown below:

	2017		2016	
	Debtor	Creditor	Debtor	Creditor
Holding company:				
Hechos Con Amor, S. A. de C. V.	$ -	(3,954)	-	-
Joint ventures:				
Megamex Foods LLC	172,121	-	112,956	-
Don Miguel Mexican Foods Inc.	7,977	-	-	-
Intercafé, S. A. de C. V.	12,319	-	17,361	-
Avomex Inc.	5,450	-	1,006	-
Associated companies:				
Incubadora Orgánica, S. A. de C. V.	-	-	392	-
Other related parties:				
McCormick and Company, Inc.	-	(19,789)	-	(417,537) [1]
Barilla G. e. R. Fratelli, S. p. A.	-	(51,009)	-	(18,290)
Barilla America Inc.	-	(4,375)	-	(1,675)
Suministradora de Combustibles y Lubricanes del Puerto Madero, S. A. de C. V.	-	(27,043)	-	(466)
Hormel Foods, Corp.	-	(7)	-	-
Desc Corporativo, S. A. de C. V.	-	(5,375)	-	(2,378)
Fideicomiso AAA Herfin Nacional Financiera SNC	-	(1,804)	-	(4,860)
Others, net	20,130	(1,582)	14,000	(64)
	$ 217,997	(114,938)	$ 145,715	(445,270)

[1] *Includes $400,000 of dividends payable in 2016.*

During the years ended December 31, 2017 and 2016, operations conducted with related parties which were performed at market value are shown below:

	2017		2016	
Holding company:				
Lease expenses	$	(47,378)	$	(46,151)
Other expenses	$	-	$	146
Joint venture:				
Commissions on sales	$	12,022	$	10,454
Interest collected	$	2,067	$	1,068
Sales of finished goods and materials	$	849,824	$	767,970
Other income	$	336	$	198
Associated companies:				
Purchase of materials	$	(600,474)	$	(557,729)
Lease income	$	1,500	$	1,500
Other related parties:				
Lease expenses	$	(41,270)	$	(39,598)
Interests earned		-		16
Interests paid		(36,250)		(67,850)
Royalties paid [1]		(311,564)		(279,584)
Administrative services paid		(25,937)		(20,919)
Fuel purchase [2]		(196,255)		(146,039)
Payments for import of finished products		(77,796)		(51,522)
Sale of finished goods and materials		346,206		338,395
Other expenses	$	5,169		4,480

[1] *Payment for the use of trademarks McCormick and Barilla to McCormick and Company, Inc. and Barilla G. e. R. Fratelli, S. p. A.*

[2] *Purchases to the Fuel Terminal, mainly for the Tuna Fishing fleet to Suministradora de Combustibles y Lubricantes del Puerto Madero, S. A. de C. V.*

Key management personnel compensation

The key management members received the following compensations, which are included in personnel costs under general expenses in the corresponding consolidated statements of income:

	2017		2016	
Short and long-term direct benefits	$	25,582	$	26,465
Termination benefits		15,538		25,132
	$	41,120	$	51,597

8. INVENTORIES

Inventories are comprised as follows:

	2017	2016
Finished goods	$ 2,080,341	$ 1,881,830 [1]
Semi-finished goods	818	285
Raw materials and packaging materials	608,409	655,396 [2]
Materials held by contract manufacturers or consignee and goods in transit	381,594	357,741
Spare parts warehouse	149,799	141,734
Total	$ 3,220,961	$ 3,036,986

Turnover of spare parts inventory is below 365 days (average 271 days), therefore, its cost of goods sold application is handled based on consumption.

[1] *At December 31, 2017 and 2016, the Company has recognized an allowance for finished goods inventories of $28,261 and $28,218, respectively.*

[2] *At December 31, 2017 and 2016, the Company has recognized an allowance for Raw materials and packaging materials of $9,476 and $5,410, respectively.*

9. ACCOUNT RECEIVABLES

Account receivables consist of the following:

	2017	2016
Customers	$ 2,532,432	$ 1,999,169
Debtors	202,895	132,876
	2,735,327	2,132,045
Less allowance for doubtful accounts	31,063	25,695
Account receivables – Net	$ 2,704,264	$ 2,106,350

10. PROPERTY, MACHINERY AND EQUIPMENT

At December 31, 2017 and 2016, property, machinery and equipment are comprised as shown in the following table:

	Balances at December 31, 2016	Additions	Disposals	Transfers	Reserve	Balances at December 31, 2017
Building	$ 2,363,389	16,801	(36,865)	302,343	(184)	2,645,484
Machinery and tools	3,603,970	126,939	(67,661)	188,961	(39,395)	3,812,814
Fishing equipment	1,567,706	102,616	(162,510)	6,803	-	1,514,615
Office furniture and equipment	166,409	7,604	(1,528)	3,918	(17)	176,386
Stowing and transportation equipment	471,258	14,444	(5,236)	150,395	(339)	630,522
Electronic data processing equipment	229,633	10,462	(377)	17,228	-	256,946
Original investment (OI)	8,402,365	278,866	(274,177)	669,648	(39,935)	9,036,767
Accumulated depreciation	(4,022,339)	(439,293)	82,879	-	30,676	(4,348,077)
OI less depreciation	4,380,026	(160,427)	(191,298)	669,648	(9,259)	4,688,690
Land	382,941	-	(7,500)	-	-	375,441
Allowance for impairment	(100,271)	-	-	-	9,259	(91,012)
Impairment loss	(10,667)	-	-	-	-	(10,667)
Construction in progress	899,290	362,152	(11,539)	(669,648)	-	580,255
Total fixed assets	$ 5,551,319	201,725	(210,337)	-	-	5,542,707

	Balances at December 31, 2015	Additions	Disposals	Transfers	Reserve	Reclassif.	Balances at December 31, 2016
Building	$ 2,267,781	26,841	(17,597)	86,364	-	-	2,363,389
Machinery and tools	3,444,790	78,798	(16,267)	91,209	(564)	6,004	3,603,970
Fishing equipment	1,250,933	80,391	(110,166)	352,552	-	(6,004)	1,567,706
Office furniture and equipment	152,014	10,714	(877)	4,558	-	-	166,409
Stowing and transportation equipment	456,140	20,222	(5,104)	-	-	-	471,258
Electronic data processing equipment	228,648	16,835	(21,403)	5,553	-	-	229,633
Original investment (OI)	7,800,306	233,801	(171,414)	540,236	(564)	-	8,402,365
Accumulated depreciation	$ (3,653,272)	(403,858)	34,594	-	197	-	(4,022,339)
OI less depreciation	4,147,034	(170,057)	(136,820)	540,236	(367)	-	4,380,026
Land	360,389	64,645	(42,093)	-	-	-	382,941
Allowance for impairment	(100,271)	-	-	-	-	-	(100,271)
Impairment loss	-	-	-	-	(10,667)	-	(10,667)
Construction in progress	798,159	682,590	(41,223)	(540,236)	-	-	899,290
Total fixed assets	$ 5,205,311	577,178	(220,136)	-	(11,034)	-	5,551,319

At December 31, 2017 and 2016, the depreciation expense of $266,434 and $264,392, respectively, was charged to the cost of sales, $154,911 and $126,931 to selling expenses, respectively, and $17,948 and $12,535 to administrative expenses, respectively.

During 2016, the Group's Management recognized an impairment loss applied to Juice segment of $11,034 which was accounted in cost of goods sold in 2016.

Allowance for unused fixed assets

During 2014, as a result of the replacement occurred for the plant "La Corona", located on Los Mochis, Sinaloa, an allowance for unused fixed assets was recognized by the Group arising $142,338 in relation with plant and equipment. The effect was charged within other expenses. During 2017, $9,259 was applied to the reserve, leaving an amount of $91,012.

Construction in progress

During 2017, the Group developed projects that will increase production capacity for $362,152, which are estimated to be completed in 2018; in addition, the outstanding estimated investment related to such constructions in progress amounts to $148,237.

11. INTANGIBLE ASSETS AND GOODWILL

Intangible assets as at December 31, 2017 and 2016, include the following:

	Goodwill	Patents and trademarks	Licenses	Computer programs	Defined life intangible assets[1]	Total intangible assets
Balance at December 31, 2015	$ 4,262,552	1,954,581	350,613	62,414	147,658	6,777,818
Additions	-	2,054	-	85,173	24,302	111,529
Disposals	(3,289)	-	-	-	-	(3,289)
Amortization for the period	-	-	(18,318)	(4,405)	(26,428)	(49,151)
Balance at December 31, 2016	$ 4,259,263	1,956,635	332,295	143,182	145,532	6,836,907
Additions	-	-	-	52,947	21,127	74,074
Disposals	-	-	-	(41,892)	-	(41,892)
Impairment	-	(32,900)	-	-	-	(32,900)
Amortization for the period	-	-	(18,319)	(6,104)	(28,282)	(52,705)
Balance at December 31, 2017	$ 4,259,263	1,923,735	313,976	148,133	138,377	6,783,484

[1] *Corresponds to non-competence contracts, developed technology and customer relationships.*

During 2017, the Group's Management recognized a trademark impairment loss of $32,900 which was registered in selling expenses in the period of 2017.

Amortization

Amortization of intangible assets for the years ended December 31, 2017 and 2016, was recognized under cost of sales, administrative and selling expenses in the consolidated statement of income.

Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the Group's cash-generating units (operating division).

The following is a summary of goodwill assigned to each operating segment
:

	Balance at December 31, 2017
Goodwill related to national segment	$ 2,883,575
Goodwill related to frozen segment	1,375,688
	$ 4,259,263

	December 31, 2016		
	Opening balance	Disposals	Closing balance
Goodwill related to national segment	$ 2,886,864	(3,289)	2,883,575
Goodwill related to frozen segment	1,375,688	-	1,375,688
	$ 4,262,552	(3,289)	4,259,263

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 estimation of value in use in 2017, are as follows:

	National segment	Frozen segment
Gross margin	36.93%	62.33%
Long-term growth rate	3.00%	3.00%
Discount rate	10.03%	10.26%

The key assumptions used in estimation of value in use in 2016, are as follows:

	National segment	Frozen segment
Gross margin	35.60%	63.30%
Long-term growth rate	3.46%	3.40%
Discount rate	9.71%	11.21%

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.

As at December 31, 2017, the discount rate corresponds to a pre-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 28 percent at a market interest rate of 3 percent.

It was included five to seven years of cash flows 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.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five or ten years and the estimates sales volume and price growth for the next five or ten years according to the line of business. It was assured that sales prices would grow at a constant margin above forecasted inflation over the next five or ten years, in line with information obtained from external brokers who publish a statistical analysis of market trends.

12. EQUITY-ACCOUNTED INVESTEES

At December 31, 2017 and 2016, the investments in associates for $6,625,954 and $6,448,560, respectively, Corresponding to the investment in Megamex by $6,177,680 and $6,094,848, respectively, and other investments for $448,274 and $353,712, respectively (see note 13).

The Group's profit share for the year ended as at December 31, 2017 of its associated entities recognized by the equity method amounted to $834,423, and as at December 31, 2016 to $599,309.

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

	2017	2016
Non-current assets	$ 10,847,785	$ 11,385,640
Current assets	2,963,036	2,696,023
Non-current liabilities	581,114	1,015,080
Current liabilities	874,595	877,130
Net assets (100%)	$ 12,355,112	$ 12,189,453
Group's shares of net assets (50%)	$ 6,177,680	$ 6,094,848
Net sales	$ 12,167,738	$ 10,839,869
Interest income	2,240	135
Profit and total comprehensive income (100%)	1,580,980	1,154,765
Group's share of earnings and other comprehensive income (50%)	$ 790,506	$ 577,394
Received dividends from MegaMex Foods	$ 512,434	$ 658,601

As at December 31, 2017 and 2016, the Group received dividends from its associate, Megamex Foods, LLC in the amounts of 27 and 36 million dollars, respectively.

In December 2016, MegaMex decreed dividends in favor of the shareholders in the amount of 5 million dollars, which are included into the dividends received in 2017.

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

December 31, 2017

	Share holding	Investment
Incubadora Orgánica, S. A. de C. V.	50%	$ 2,572
Intercafé, S. A. de C. V.	50%	42,619
Fábrica de Envases del Pacífico, S. A. de C. V.	50%	206,535
Ubongo, S. A. P. I. de C. V.	50%	30
		$ 251,756

December 31, 2016

	Share holding	Investment
Incubadora Orgánica, S. A. de C. V.	50%	$ 3,032
Intercafé, S. A. de C. V.	50%	36,131
Fábrica de Envases del Pacífico, S. A. de C. V.	50%	167,420
		$ 206,583

Other investments are comprised as follows:

December 31, 2017

	Investment
AUA Private Equity Parallel Fund, LP *	$ 82,690
AUA Indulge Corp	107,191
Anteris Capital Venture Lending Fund I, LP	6,637
	196,518

December 31, 2016

	Investment
AUA Private Equity Parallel Fund, LP	$ 59,755
AUA Indulge Corp	83,374
Anteris Capital Venture Lending Fund I, LP	4,000
	147,129

** The Group has a commitment to invest five million dollars ($98,677) as at December 31, 2017*

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 (see note 6 ii)).

Notes payable as well as short and long term debts are analyzed as shown below.

	2017	2016
Bank loan in Mexican pesos with HSBC LC, maturing on May 15, 2020, with interest payable at the variable rate TIIE 28 plus 1.35%	$ 400,000	-
Bank loan in Mexican pesos with HSBC LC, maturing on May 15, 2020, with interest payable at the variable rate TIIE 28 plus 1.35%	380,000	-
Bank loan in Mexican pesos with HSBC LC, maturing on May 15, 2020, with interest payable at the variable rate TIIE 28 plus 1.35%	150,000	-
Bank loan for 70 million dollars contracted with BBVA Bancomer, maturing on February 23, 2021 with interest payable at the variable quarterly rate Libor plus 1.95%	-	1,446,480
Bank loan in Mexican pesos with Inbursa, maturing on January 31, 2017, with interest payable at the variable rate TIIE 28 plus 2%	-	50,000
Carried forward	$ 930,000	1,496,480

	2017	2016
Brought forward	$ 930,000	1,496,480
Domestic bonds in Mexican pesos, maturing on September 20, 2017, with interest payable in semiannual at the rate of 7.93%	-	600,000
Domestic bonds in Mexican pesos, maturing on November 9, 2018, with interest payable in monthly at the TIIE 28 plus 0.54%	-	1,000,000
Domestic bonds in Mexican pesos, maturing on November 4, 2019, with interest payable in monthly at the TIIE 28 plus 0.35%	400,000	600,000
Bank loan in Mexican pesos, maturing on December 5, 2019, with amortizations as from 2015 and interest payable at a variable rate TIIE 91, plus 2.00%	-	350,000
Domestic bonds in Mexican pesos, maturing on May 26, 2022, with interest payable in monthly at the TIIE 28 plus 0.77%	1,000,000	-
Domestic bonds in Mexican pesos, maturing on May 20, 2027, with interest payable semiannual at the rate of 9.22%	2,000,000	-
Domestic bonds in Mexican pesos, maturing on November 3, 2023, with interest payable semiannual at the rate of 8.02%	2,000,000	2,000,000
Total short and long term notes payable	6,330,000	6,046,480
Less current installments	200,000	950,000
Long term notes payable, excluding current installments	6,130,000	5,096,480
Cost of issuance of unamortized traded notes (domestic bonds and bank loans)	(27,983)	(11,579)
Long-term maturity - Net, excluding current installments	$ 6,102,017	$ 5,084,901

Loan covenants

The main covenants are listed as follows:

- Not to reduce stockholders equity to under $10,000,000.
- Debt with its cash cost net must not exceed than 3 times the EBITDA.
- Not to reduce interest hedge (EBITDA/net financing expenses) to less than 3 times.

As at the end of December 2017, the Company has committed lines of credit in the amount of $2,500,000 executed for 3 years with financial institutions.

Long-term debt

At December 31, 2017 and 2016, the long-term debt is comprised as followsn:

	2017		2016	
Loans payable (related party)	$	-	$	1,366,665 [2][4]
Commercial sale contract		48,7683 [1]		73,353 [1]
	$	48,768	$	1,440,018

[1] *It relates to the quarterly payments made for the acquisition of machinery and equipment which have quarterly basis mature until 2020 and it includes an agreement with GE capital with interest payable rate of 6.5%.*

December 31, 2016

Company	Acquisition date	Maturity date		Amount	Interest rate
Grupo Kuo, S. A. B. de C. V.	Sep 30-15	Dec 31-18	$	250,000	TIIE (91 days) + 4.50 points
Grupo Kuo, S. A. B. de C. V.	Aug 12-15	Dec 31-18		74,683	TIIE (91 days) + 4.50 points
Grupo Kuo, S. A. B. de C. V.	Aug 12-15	Dec 31-18		422,062	Libor 3 (three) months + 3.5% [3]
Grupo Kuo, S. A. B. de C. V.	Sep 30-15	Dec 31-18		619,920	Libor 3 (three) months + 3.5% [3]
			$	1,366,665 [2][4]	

[2] *Simple credits.*

[3] *Debt in dollars.*

[4] *Debt settled on June 16, 2017.*

15. OPERATING LEASE

Leases as lessee

The Group leases a number of warehouses and factory facilities under operating leases. The leases typically run for a 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.

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.

Amounts recognized in consolidated statement of income

During the year ended December 31, 2017, an amount of $250,803 were recognized as an expense in the income statement in regards with operating leases ($246,953 in 2016). An amount of $1,500 was included as “other income” in respect of sub-leases in 2017 and 2016.

Future minimum lease payments

At the end of the reported period, the future minimum lease payments under non-cancellable operating leases were made as follows.

	2017	2016
Less than a year	$ 247,246	$ 254,531
Between one year and five years	853,676	805,089
	$ 1,100,922	$ 1,059,620

Leases as lessor

The Group does not have leases as lessor.

16. EMPLOYEE BENEFITS

	2017	2016
Obligations in the statement of consolidated financial position arising from:		
Pension plan and seniority premiums:	$ (347,827)	$ (324,591)
Projected liability	(161,504)	(141,504)
Pension plan and seniority premiums:		
Net period cost	28,949	28,415
Actuarial losses recognized in the consolidated statement of comprehensive income for the period before income tax	1,578	(5,309)
Accumulative actuarial losses recognized in prior years in the consolidated statement of comprehensive income	14,380	12,802

(a) 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 trustees (or equivalent) and their composition thereof.

The following is an integration of the PA defined benefit:

	2017	2016
Variable rent	$ 47,751	$ 45,732
Debt instrument	97,519	118,795
Cash	45,741	20,004
Fair value of plan assets	$ 191,011	$ 184,531

The amounts recognized in the consolidated statement of financial position, as at December 31, 2017 and 2016, are as follows:

	2017	2016
Defined benefit obligations	$ (347,827)	$ (324,591)
Fair value of PA	191,011	184,531
Variations in assumptions and adjustments	(4,688)	(1,444)
Net projected liabilities	$ (161,504)	$ (141,504)

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

	2017	2016
As at January 1	$ 324,591	$ 321,673
Cost of current service	17,943	17,286
Financial cost	22,069	19,777
Actuarial losses	3,071	(8,601)
Benefits paid	(19,847)	(25,904)
Personnel transfer	-	360
As at December 31	$ 347,827	$ 324,591

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

	2017	2016
As at January 1	$ 184,531	$ 186,139
Expected return on plan assets	13,448	7,748
Employer´s contribution	-	900
Benefits paid from PA	(6,968)	(10,256)
As at December 31	$ 191,011	184,531

The amounts recognized in the consolidated statement of income are as follows:

	2017	2016
Cost of current service	$ 324,591	$ 321,673
Financial cost (a)	22,069	19,777
Expected return on PA (b)	(11,063)	(10,658)
Net interest (a + b)	11,006	9,119
Cost of prior services	-	1,832
Effect by reducing obligations	-	178
Total included in personnel costs and expenses	$ 28,949	28,415

The charge for the 2017 period of $28,949 was included in the cost of sales for $16,455, administrative expenses $1,925 and selling expenses $10,569.

The charge for the 2016 period of $28,415 was included in the cost of sales for $10,619, administrative expenses $7,493 and selling expenses $10,303.

(b) Defined benefit obligations

i) *Actuarial*

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

Discount rate

To determine the discount rate the actuary used a methodology in which a zero coupon government bond curve is constructed where each payment flow is discounted with the zero coupon rate, which are converted “Bootstrapping” to zero coupon bonds (“spot” rates) over a period from 6 months to 30 years. Each payment flow is discounted with the applicable “spot” zero coupon rate according to the time in which the payment is being made, then the discount rate represents the single rate whose present value of flows is equal to that obtained with the zero coupon rates, in this sense, the recommended discount rate to determine the obligations at year-end 2017 and 2016 is 7.75%

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, it has been observe that the salary increases have been presented based on the annual inflation, thus a nominal rate of 4.50% was maintained, the same as in 2016.

Expected return on plan assets

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 actuarial variables assumptions used:

	2017	2016
Discount rate	7.75%	7.75%
Salary increase rate	4.50%	4.50%
Minimum wage increase rate	3.50%	3.50%
Long-term inflation rate	3.50%	3.50%

ii) *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 defined benefit obligation amounts included in the following table:

December 31, 2017

Seniority premium	Total	
	Increase	Decrease
A. Defined benefit obligations		
Discount rate (change of 1%)	$ (3,753)	4,306
Salary increase rate (change of 1%)	177	(159)
Future mortality (change of 1 year)	33	(35)

Pension plans	Total	
	Increase	Decrease
A. Defined benefit obligations		
Discount rate (change of 1%)	$ (18,773)	21,798
Salary increase rate (change of 1%)	21,698	(19,020)
Future mortality (change of 1 year)	834	(800)

December 31, 2016

Seniority premium	Total	
	Increase	Decrease
A. Defined benefit obligations		
Discount rate (change of 1%)	$ (3,644)	3,959
Salary increase rate (change of 1%)	303	(399)
Future mortality (change of 1 year)	31	(30)

Pension plans	Total	
	Increase	Decrease
A. Defined benefit obligations		
Discount rate (change of 1%)	$ (17,175)	21,062
Salary increase rate (change of 1%)	20,966	(18,273)
Future mortality (change of 1 year)	739	(788)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Share based payment plan

At the Ordinary General Meeting of Shareholders on April 23, 2015, it was agreed to create a trust of which the objective is to manage of a share-based payment plan to employees. In April 2017, a modification agreement was made, the main change contemplated the voluntary adhesion of the participants to the trust. On September 30, 2017, the initial contribution of $7,000 was withdrawn from the trust.

17. INCOME TAXES

Income Tax (IT)

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.

The Income Tax Law in force as of January 1, 2014 establishes an income tax rate of 30% for 2014 and beyond.

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. For this reason, in 2014, the Group decided not to consolidate its taxable profit for income tax purposes.

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 and those items that only affect either book or tax results.

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

	Income tax liabilities	
	2017	2016
Opening balance at January 1 of every year	$ 191,228	$ 168,000
Increases:		
IT for loss on disposal of shares of subsidiaries	21,024	65,573
Decrease:		
Payment the installment	(4,357)	(9,573)
Transfer to current liabilities	(34,649) (2)	(32,772) (1)
Closing balance at December 31	$ 173,246	$ 191,228

(1) *This amount is net of income tax receivable.*

(2) *This amount is included in the income tax payable.*

Amounts recognized in consolidated statement of income

The income tax expense, as at December 31, 2017 and 2016, are comprised as shown below:

	2017	2016
Current tax expense	$ 1,008,565	935,660
Deferred tax expense	(47,319)	(31,594)
Total income tax	$ 961,246	904,066

Amounts recognized in other comprehensive income

	2017			2016		
	Before tax	Income tax effect	Net of tax	Before tax	Income tax effect	Net of tax
Remeasurements of defined benefit (liability) asset	$ (606)	(404)	(1,010)	$ 4,574	(992)	3,582
Foreign business-conversion effect	65,396	-	(65,396)	379,960	-	379,960
Derivate Financial Instruments	(86,403)	(25,336)	(61,067)	168,496	(50,167)	118,329
Valuation of investment funds	40,190	(12,057)	28,133	24,751	(7,425)	17,326
	$ 18,577	12,875	31,452	$ 577,781	(58,584)	519,197

Effective tax rate reconciliation

The following table represents the reconciliation between the rates incurred and the effective IT rate:

	2017	2016
Income before taxes	$ 3,127,225	$ 2,496,882
Statutory rate	30%	30%
IT at the legal rate	$ 938,168	$ 749,065
Plus (less) tax effect of permanent items:		
Inflationary effects	27,765	20,377
Results reported by associates and joint ventures, net of tax	(24,979)	1,832
Others	392	20,431
Other permanent items [1]	5,888	50,311
Recognition of deferred tax assets previously unrecognized	(7,012)	(3,523)
	940,222	838,493
IT for loss on disposal of shares of subsidiaries	21,024	65,573
Income tax recognized in income	$ 961,246	$ 904,066
Effective income tax rate	31%	36%

[1] *Including non-deductible expenses from 2017 for $28,777 ($37,399 in 2016).*

The main effects of temporary differences for which deferred income tax are analyzed are shown as follows:

Movement in deferred tax balances

	2017			2016		
	Asset	Liability	Net	Asset	Liability	Net
Deferred assets:						
Estimates and accruals	$ 242,965	95,910	147,055	206,946	77,671	129,275
Tax losses	107,729	-	107,729	105,395	-	105,395
Investment in joint ventures	51,580	-	51,580	51,580	-	51,580
Employee benefits[2]	25,296	-	25,296	21,548	-	21,548
Deferred tax asset	$ 427,570	95,910	331,660	385,469	77,671	307,798

	2017			2016		
	Asset	Liability	Net	Asset	Liability	Net
Deferred liabilities:						
Inventories	11,734	34,900	(23,166)	10,986	69,181	(58,195)
Derivative financial instruments[1]	-	34,092	(34,092)	-	47,371	(47,371)
Prepayments	-	18,359	(18,359)	-	21,105	(21,105)
Other assets	-	95,077	(95,077)	-	71,710	(71,710)
Property, machinery and equipment, net	159,974	57,368	102,606	162,134	68,173	93,961
Intangibles Nutrisa Trademark	-	297,840	(297,840)	-	297,840	(297,840)
Other trademarks	-	262,000	(262,000)	-	262,000	(262,000)
Deferred tax liability	$ 171,708	799,636	(627,928)	173,120	837,380	(664,260)
Net deferred tax assets (liabilities)	$ 599,278	895,546	(296,268)	558,589	915,051	(356,462)

[1] *These effects are recorded as part of other comprehensive income.*

[2] *There is an effect of $1,776 corresponding to deferred income tax on actuarial losses recorded in other comprehensive income of 2017 ($2,180 in 2016).*

The gross movement on deferred income tax is as follows:

		2017		2016
Opening balance	$	(356,462)	$	(329,472)
Valuation of financial instruments		13,279		(57,592)
Debit for components of other comprehensive income		(404)		(992)
Recorded in income statement		47,319		31,594
	$	(296,268)	$	(356,462)

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

Deferred assets		Estimates and accruals	Derivate financial instruments	Fiscal cost of join venture shares	Employee benefits	Tax losses and incentives	Total
Balance at December 31, 2015	$	136,575	12,972	51,580	23,045	43,270	267,442
Credit for other comprehensive income components		-	(12,972)	-	(992)	-	(13,964)
Debit (credit) to statement of income		(7,300)	-	-	(505)	62,125	54,320
Balance as at December 31, 2016	$	129,275	-	51,580	21,548	105,395 [1]	307,798
Balance as at December 31, 2016		-	-	-	(404)	-	(404)
Debit (credit) to statement of income		17,780	-	-	4,152	2,334	24,266
Balance as at December 31, 2017	$	147,055	-	51,580	25,296	107,729 [1]	331,660

Deferred liabilities		Inventories	Derivative financial instruments	Prepayments	Property machinery and equipment	Intangible assets	Other assets	Total
Balance at December 31, 2015	$	(15,136)	(2,751)	(16,199)	45,316	(559,840)	(48,304)	(596,914)
Credit for other comprehensive income components		-	(44,620)	-	-	-	-	(44,620)
Debit (credit) to statement of income		(43,059)	-	(4,906)	48,645	-	(23,406)	(22,726)
Balance at December 31, 2016		(58,195)	(47,371)	(21,105)	93,961	(559,840)	(71,710)	(664,260)
Debit for other comprehensive income components		-	13,279	-	-	-	-	13,279
Debit (credit) to statement of income		35,029	-	2,746	8,645	-	(23,367)	23,053
Balance at December 31, 2017	$	(23,166)	(34,092)	(18,359)	102,606	(559,840)	(95,077)	(627,928)

[1] *Accumulated tax losses*

		2017	Expiration date		2016	Expiration date
Accumulated tax losses expire as follows	$	359,095	2026-2027	$	351,317	2023-2026

Unrecognized deferred tax liabilities

At December 31, 2017, there was a deferred tax liability of $1,326,356 ($1,226,004 in 2016) for temporary differences of $3,351,563 ($3,091,229 in 2016) 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 is likely not be reversed in the foreseeable future.

18. STOCKHOLDERS' EQUITY AND RESERVES

(a) Common shares

At December 31, 2017 and 2016, the Company's subscribed and paid-in capital stock totaled $432,275, plus an increase of $143,350, to express it in modified historical Mexican 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 2017 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, 2017		December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Purchases	(3,982,725)	(155,119)	(565,040)	(22,104)
Sales	1,096,439	43,774	-	-
Net	(2,886,286)	(111,345)	(565,040)	(22,104)

At December 31, 2017 and 2016, the Company held 3,451,326 and 565,040 treasury shares, respectively.

(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 at 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.

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, 2017 and 2016, the statutory reserve amounts to $141,862 and has reached the required amount.

(c) Capital contributions

On June 16, 2017, a capital contribution was decreed in Extraordinary General Subsidiaries Assembly by $1,238,152, corresponding to non-controlling shareholders.

On May 16, 2017, a capital contribution was decreed in Extraordinary General Subsidiaries Assembly by $1,789, corresponding to non-controlling shareholders.

On May 11, 2017, a capital contribution was decreed in Ordinary General Subsidiaries Assembly by $18,000, corresponding to non-controlling shareholders.

On December 27, 2016 a capital contribution was decreed in Extraordinary General Subsidiaries Assembly by $1, further, a premium in capital was paid by $9,929 corresponding to non-controlling shareholders.

On October 22, 2016 a capital contribution was decreed in Ordinary General Subsidiaries Assembly by $36,001 corresponding to non-controlling shareholders.

(d) Capital reductions

On August 29, 2016, a capital reduction of the non-controlling shareholders in Extraordinary General Subsidiaries Assembly in the amount of $196 was decreed.

On May 19, 2016, a capital reduction of the non-controlling shareholders in Extraordinary General Subsidiaries Assembly in the amount of $64,316 was decreed.

(e) Dividends

On December 14, 2017, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $30,001 were decreed.

On September 29, 2017, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $84,593 were decreed.

On September 18, 2017, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $40,000 were decreed.

On April 27, 2017, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $47,780 were decreed.

At the Ordinary General Meeting of Shareholders held on April 20, 2017, it was agreed to decree dividends of 90 cents per share, the dividend is charged to retained earnings. The total dividends was $387,434.

On March 31, 2017, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $40,000 were decreed.

At the Ordinary General Meeting of Shareholders held on April 21, 2016, it was agreed to decree dividends of 90 cents per share, the dividend is charged to retained earnings. The total dividends was $388,762.

On December 21, 2016, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $19,857 were decreed.

On December 20, 2016, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $102,150 were decreed.

On November 18, 2016, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $400,000 were decreed.

On April 7, 2016, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $50,000 were decreed.

On March 23, 2016, dividends in favor of the non-controlling shareholders in the Ordinary General Meeting of subsidiaries in the amount of $400,000 were decreed.

Tax incurred is payable by the Company and may be credited against IT of the period or 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 starting from 2014, therefore the company shall carry two separate accounts to identify the profits generated before and after 2014.

19. INCOME FROM ORDINARY ACTIVITIES

The earned income for the years ended December 31, 2017 and 2016, comes entirely from the sale of products. Revenues from the sales of products at December 31, 2017 and 2016 were $20,064,915 and $18,180,456, respectively.

Seasonality of operations

Most of the products manufactured and traded by the Group are seasonal, increasing their sales in the last fourth months of the year. Additionally, consumption of certain products (mayonnaise, mole and tuna fish) increases during lent, and others increase such as tea and marmalades in the winter. Seasonality is also a factor in the harvest cycle of certain raw materials used by the Company. Due to this, during those periods, the Group increases its safety inventories.

20. COST OF GOODS SOLD

Cost of goods sold for the periods ended December 31, 2017 and 2016, is comprised as shown as follows:

	2017	2016
Direct cost of sales	$ 11,277,248	$ 10,145,375
Maintenance and conservation	472,875	416,311
Electricity	139,606	91,096
Employee benefits	16,455	10,619
Depreciation and amortization expenses	267,575	265,117
Total cost of sales	$ 12,173,759	$ 10,928,518

21. OPERATING EXPENSES

	2017	2016
Salaries and related benefits	$ 2,445,541	$ 2,325,267
Distribution and associated expenses	2,078,162	2,033,040
Conservation and fuels	455,588	399,007
Depreciation and amortization	224,422	187,892
	$ 5,203,713	$ 4,945,206

22. OTHER INCOME AND OTHER EXPENSES

Other income incurred for the years ended December 31, 2017 and 2016 is comprised as follows:

	2017	2016
Other income:		
True up in equity investment	$ -	$ 9,129
Inflationary effects of favorable tax balances	23,025	9,130
Claims recovery	2,649	1,050
Income from sale of fixed assets	568	2,139
Income from distribution alliances	57,962	32,382
Scrap and waste materials sales	15,749	15,851
Franchise income	20,805	-
Cancellation of provisions	8,081	13,741
Other income	22,225	23,191
Total other income	151,064	106,613
True up in equity investment	1,759	13,870
Loss on sale of fixed assets	25,702	4,498
Expenses for material sales	5,698	-
Unused productive plants	8,190	3,051
Other expenses	6,745	28,523
Total other expenses	48,094	49,942
	$ 102,970	$ 56,671

23. FINANCIAL INCOME AND COSTS

	2017	2016
Earned interests:		
Bank interests	$ 71,610	27,541
Related parties interests	2,067	1,084
Total earned interests	73,677	28,625
Exchange rate profit	624,502	1,462,214
Financial income	698,179	1,490,839
Interests paid:		
Bank interests paid	535,399	398,145
Related parties interests paid	38,092	65,078
Total interests paid	573,491	463,223
Exchange rate loss	622,299	1,493,446
Financial costs	1,195,790	1,956,669
Financial result, net	$ 497,611	$ 465,830

24. OPERATING SEGMENTS

Segmentation basis

The Group has three segments on which it should inform, as described on the next page, 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 summary shown in next page describes the operations of each reportable segment.

	2017			
	Frozen	National	Export	Total
Net sales	$ 2,881,772	15,953,019	1,230,124	20,064,915
Cost of sales	1,080,220	10,026,784	1,066,755	12,173,759
Gross profit	1,801,552	5,926,235	163,369	7,891,156
Operating expenses	1,736,173	3,400,223	67,317	5,203,713
Income before other expenses (income)	65,379	2,526,012	96,052	2,687,443
Other expenses (income), net	(15,268)	(87,702)	-	(102,970)
Operating income	80,647	2,613,714	96,052	2,790,413
Depreciation and amortization	196,130	274,757	34,075	504,962
Financial result, net	27,363	470,248	-	497,611
Equity in associate´s investment	-	834,423	-	834,423
Income before tax	53,284	2,977,889	96,052	3,127,225
Income tax	(736)	933,166	28,816	961,246
Consolidated net income	54,020	2,044,723	67,236	2,165,979
Net income from non-controlling interest	85	1,087,373	32,410	1,119,868
Net income from controlling interest	53,935	957,350	34,826	1,046,111
Total assets	2,762,169	23,243,913	1,839,937	27,846,019
Total liabilities	1,171,653	8,840,524	492,045	10,504,222

	2016			
	Frozen	National	Export	Total
Net sales	$ 2,591,503	14,431,437	1,157,516	18,180,456
Cost of sales	949,320	8,948,283	1,030,915	10,928,518
Gross profit	1,642,183	5,483,154	126,601	7,251,938
Operating expenses	1,696,348	3,168,493	80,365	4,945,206
Income before other expenses (income)	(54,165)	2,314,661	46,236	2,306,732
Other expenses (income), net	6,711	(63,382)	-	(56,671)
Operating income	(60,876)	2,378,043	46,236	2,363,403
Depreciation and amortization	163,977	256,111	32,921	453,009
Financial result, net	32,650	433,180	-	465,830
Equity in associate´s investment	-	599,309	-	599,309
Income before tax	(93,526)	2,544,172	46,236	2,496,882
Income tax	(12,053)	902,248	13,871	904,066
Consolidated net income	(81,473)	1,641,924	32,365	1,592,816
Net income from non-controlling interest	(128)	859,610	15,876	875,358
Net income from controlling interest	(81,345)	782,314	16,489	717,458
Total assets	2,455,928	22,236,041	1,655,857	26,347,826
Total liabilities	932,976	10,060,890	726,382	11,720,248

Major customer

At December 31, 2017 and 2016, the Company commercialized its products with a large number of customers, and only one (Wal-Mart de México, S. A. B. de C. V.) represented approximately 22% and 23% of the total revenues, respectively.

25. EARNING PER SHARE

The calculation of basic earnings per share and diluted earnings per share at December 31, 2017 was based on the profit of $1,046,111 attributable to controlling interest stockholders ($717,458 in 2016) and a weighted average number of ordinary shares outstanding of 429,983 thousands of shares (431,735 thousands of shares in 2016).

26. 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 future results of operations.

(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 independent parties in arm's-length transactions.

(d) There are contingent liabilities arising from tax differences, which the authorities attempt to collect in the event of an official review of the tax returns filed by some of its subsidiaries, if the criteria applied in interpreting the legal provision differ from those of the authorities.

27. COMMITMENTS

(a) The Company leases facilities for administrative offices and warehouses, as well as transportation equipment, under defined and undefined term lease agreements. Total rental expense, summed $250,803 in 2017 and $246,953 in 2016 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 2030 are as shown below.

Less than a year	$	247,246
Between one year and five years		853,676
	$	1,100,922

(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.

(c) The Company has entered into contracts for the payment of royalties in which it is obliged to pay different percentages on sales of certain brands and in different terms. Payments for such royalties are with McCormick and Company Inc., Barilla G. e. R. Fratelli, S. p. A. and Société des Produits Nestlé, S. A.

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