



RESILIENCE & FOCUS

2017 ANNUAL REPORT





CONTENTS

Mission, Vision and Values	2
Resilience & Focus	3
Corporate Profile and Infrastructure	4
Corporate Government	5
Board of Directors	6
Management Team	8
Message to the Shareholders	10
Financial Highlights	12
Focus on innovation	14
Resilience that overcomes challenges	16
Focus on a better world	
Quality of life	18
Culture of legality	21
Value chain	22
Community engagement	23
Environment	25
Sustainable Development Goals	28
Resilience that transcends borders	30
Audit Committee Report	32
Corporate Practices Committee Report	34
Management's discussion and analysis of results	36



MISSION

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

VISION

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

VALUES

- Honesty
- Achievement focus
- Teamwork
- Trust

RESILIENCE & FOCUS

Our results-based approach and resilient portfolio during 2017 enabled us once again to reach record figures in sales and profits.

This year's achievements remind us that we are a great team, sharing the same focus on results and moved by an irrepressible collective spirit.

Net
sales
20,065
MXN

EBITDA
3,295
MXN

Net debt/
EBITDA
1.5x

Operating
cash flow
2,043
MXN

Social
investment
1.9%

Consolidated
net income
2,166
MXN

MXN: Millions of pesos

(1) EBITDA: Earnings Before Interests, Taxes, Depreciation and Amortization and other cash items



CORPORATE PROFILE

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

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

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

In addition, we have distribution agreements in Mexico with Frank's, French's, Kikkoman, Ocean Spray and Reynolds.

INFRASTRUCTURE

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

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

CORPORATE GOVERNANCE

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

Board members are ratified by shareholder vote at the Annual Meeting. To be selected, Board members must meet the following requirements: i) professional training in economic-administrative sciences, preferably with a master's degree in those areas; ii) twenty years' minimum professional experience in executive positions with consumer companies and/or the finance sector; iii) experience as a board member in manufacturing industry companies and/or the finance sector; and iv) belong to business organizations. GRI 102-24

The Board meets at least quarterly and has intermediate bodies in charge of overseeing the management and execution of the Company's objectives. The two main intermediary bodies are the Audit Committee, whose main objective is to assist the Board of Directors in the review and evaluation of audit functions, and the Corporate Practices Committee, which evaluates the policies governing

the Group's assets, related party transactions, and is responsible for determining the remuneration of the Company's senior executives, including the Chief Executive Officer. GRI 102-36

During the Board meetings, a sustainability performance report is presented, which includes environmental performance and quality of life indicators for employees. GRI 102-26 GRI 102-29 GRI 102-31

In accordance with Company bylaws, the remuneration received by Board members is three 50-peso gold coins (centenary commemoration coins) or their equivalent for attending each meeting; this remuneration is not dependent on the Group's performance. GRI 102-35

Each Board member signs a declaration of absence of conflict of interest, and each Committee has regulations that establish its functions and relationship with the Board of Directors. GRI 102-25 GRI 102-22

Governing Bodies	Women			Men		
	Less than 30 years	30 to 50 years	More than 50 years	Less than 30 years	30 to 50 years	More than 50 years
Board of Directors	-	-	1	-	-	8
Audit Committee	-	-	-	-	-	4
Corporate Practices Committee	-	-	-	-	-	6

Board Meeting Attendance				
	1Q17	2Q17	3Q17	4Q17
Meeting dates	21-April-2017	21-July-2017	20-October-2017	23-February-2018
% of attendance	88%	88%	77%	100%

BOARD OF DIRECTORS

Non-Independent Board Members

HÉCTOR HERNÁNDEZ-PONS TORRES, [M] 1991

Chairman of the Board | Chief Executive Officer

Graduated from the Faculty of Law of Universidad Anáhuac and the National University of San Diego, Ca., where he earned a master's in business administration. Joined the legal department of Herdez in 1978 and since then has performed several functions within the Company. In 2004, appointed Chairman of the Board and Chief Executive Officer of Herdez.

In addition to his responsibilities within the Group, Mr. Hernandez-Pons Torres has held positions with organizations, including: regional counselor to Banamex and NAFIN, vice president of CONCAMIN, chairman of the Mexico City chapter at the Business Alliance for Secure Commerce (BASC); chairman of the board of trustees of the Papalote Museo del Niño and of Mexico's National Chamber of the Food Preserves Industry (CANAINCA). He is currently the president of Fundación Herdez, and adviser to the Papalote Museo del Niño and CANAINCA. He participates as a member of the board trustees of the Mexican Business Council and the Communications Council.

ENRIQUE HERNÁNDEZ-PONS TORRES, [M] 1991

Vice Chairman | Deputy Chief Executive Officer

Bachelor's degree in business administration and an international graduate degree in marketing and business management. Since he joined Grupo Herdez in 1971, he has performed in several areas and positions, such as vice chairman of the board and deputy chief executive officer of Grupo Herdez. Mr. Hernández-Pons Torres is currently the Chairman of the Board for MegaMex in the United States.

His visionary and entrepreneurial spirit and business acumen have produced constant growth in the companies under his direction, forming strategic alliances with large transnational consortia, such as McCormick & Co., Hormel Foods, with the United States company MegaMex Foods, and Barilla Italia, among others, venturing into new markets and leveraging the leading-edge technology of their associates.

His results-based leadership, positive attitude, character and flare for teamwork position him as a top-level executive in the consumer products sector. His personal and business relations are an important facet of his management style, and he is a keen sports enthusiast and lover of gastronomy and architecture.

FLORA HERNÁNDEZ-PONS DE MERINO, [M] 2004

Independent Board Members

CARLOS AUTREY MAZA, [M] 1991

Independent Board Member

Chairman of the Board of Directors of Corporación Autrey, Laboratorios Autrey, Desarrolladora y Operadora Inmobiliaria Premier and Trilenio. Mr. Autrey Maza has been chairman of the board and chief executive officer of several companies, including Transportes Aero-mar, Organización Autrey, Casa Autrey and Casa de Bolsa México. He was vice chairman of the board of directors of Grupo Financiero Inverlat (now Scotiabank Inverlat). He has also served on the board of directors for a number of companies, such as NH Hoteles de México, S.A. de C.V., Rassini, Grupo Bancomer, Grupo Acerero del Norte, Globalstar and Principia. He was president and founder of the Papalote Museo del Niño, founding partner of the Centro Mexicano para la Filantropía (Mexican Center for Philanthropy) and the Centro Cívico de Solidaridad (Civic Solidarity Center), founder of Fondo México Unido (United Mexico Fund), Enlace Solidario Fundación Social (Community Liaison Welfare Foundation), member of the board of trustees of the Instituto de Estudios Superiores de Tamaulipas and member of the advisory board of the MIT Sloan School of Management.

ENRIQUE CASTILLO SÁNCHEZ MEJORADA, [M] 1991

Independent Board Member

Mr. Sánchez Mejorada holds a bachelor's degree in business administration. He began his professional career with the Banco Nacional de México. He has held several executive positions in Mexico with Nacional Financiera, Casa de Bolsa Inverlat, Seguros América, Invermexico/Banco Mexicano, Credit Suisse México and was chairman of the board of IXE Grupo Financiero. He was also vice president and president of the Asociación de Bancos de México. Mr. Sánchez Mejorada is currently the chairman of the board of Maxcom Telecomunicaciones, S.A.B. de C.V., and non-executive chairman of the board of Banco Nacional de México and a member of the board of directors of Grupo Alfa, S.A.B. de C.V., Southern Copper Corporation and Médica Sur, S.A.B. de C.V.

JOSÉ ROBERTO DANIEL DÍAZ, [M] 2003

Independent Board Member

Mr. Danel Díaz is a certified public accountant graduated from the Universidad Iberoamericana. He has graduate studies in business administration at Instituto Tecnológico Autónomo de México (ITAM); high business management at the Alta Dirección en el Instituto Panamericano de Alta Dirección de Empresa (IPADE); and corporate governance at Yale School of Management, Stanford Graduate School of Business and Harvard Business School.

He serves on the board of directors as an independent member and presides over or belongs to several committees pertaining to the board, and in public and private companies and financial institutions. He is a member of the Mexican College of Public Accountants (CCPM), the Mexican Institute of Public Accountants (IMCP) and was a member of the Mexican Institute of Finance Executives (IMEF).

Mr. Danel Díaz is chairman of the Corporate Governance Committee of the Business Coordinating Council, a member of the Instituto Latinoamericano de Gobierno Corporativo (OECD-World Bank), the National Association of Corporate Directors (USA), and the International Corporate Governance Network (UK) and its Risk Committee.

EDUARDO ORTIZ TIRADO SERRANO, [M] 2003

Independent Board Member. Responsable de Prácticas Laborales

Mr. Ortiz Tirado Serrano holds a bachelor's degree in business administration from the Universidad Anáhuac. He began his professional career in Herdez, working in the marketing area. He subsequently spent six years in marketing at Richardson Vicks and Procter and Gamble. In 1988, he joined SC Johnson and Son, S.A. de C.V., as marketing director. In 1992, he participated in a sales training program as international associate in Los Angeles, California. In 1993, he returned to Mexico as business director of SC Johnson México and in 1995 was promoted to general manager of SC Johnson in Mexico and Central America. In 2001, he was appointed corporate vice president and general manager in Mexico and Central America. He retired from SC Johnson in January 2013. He was a member of Council of Self-Regulation and Advertising Ethics (CONAR); member of the Mexican Center for Philanthropy (CEMEFI) and of the Advisory Board of Great Place To Work –Mexico. He is currently the chief executive officer of Aerobal and Gridimex, companies of Grupo INVEKRA, and board member of Herdez, where he also serves on the audit committee. He is also on the board of ENACTUS and of the Fundación Un Mañana para la Comunidad and member of the advisory board of Fundación Xochitla.

LUIS REBOLLAR CORONA, [M] 2004

Independent Board Member

Mr. Rebollar Corona graduated as a chemical engineer from the Universidad Nacional Autónoma de México (UNAM), and has served as the chief executive officer of Fábrica de Papel San Rafael, Cia. Industrial de San Cristóbal, Alcatel, Sidek and Situr. He was also a member and acting chairman of the board of Sidek and Situr. He is currently a member of the board of Grupo Gigante, Grupo Sánchez and Grupo Industrial Mexicano. He participated in the restructuring of Satélites Mexicanos, as acting chairman of the board. Mr. Rebollar Corona was chairman of the board of Sandvik de México for 18 years.

JOSÉ MANUEL RINCÓN GALLARDO, [M] 2005

Independent Board Member. [EF] Responsable Gobierno Corporativo

Mr. Rincon Gallardo graduated as a public accountant from the Universidad Nacional Autónoma (UNAM). He took several university courses in the United States and Europe. He is a member of the Mexican Institute of Public Accountants (IMCP), Mexican Institute of Finance Executives (IMEF), Corporate Governance Committee of the Business Coordinating Council, and founder member of the Mexican Council for Research and Development of Financial Information Standards (CINIF). He was a managing partner of KPMG México, a member of the firm's international board, chairman for Latin America and member of the board for the United States. He is currently an independent board member of Cementos Mexicanos, Banamex, Cinépolis, Citelis, Sonoco Operadora, Grupo Invekra, Peña Verde, Grupo CP, Fondo WAMEX and Grupo PROA (Laboratorios Chopo).

Audit Committee

JOSÉ ROBERTO DANIEL DÍAZ

Chairman

Corporate Practices Committee

JOSÉ ROBERTO DANIEL DÍAZ

Chairman

[M] Member since

[EF] Financial Expert

MANAGEMENT TEAM

HÉCTOR HERNÁNDEZ-PONS TORRES

Chairman of the Board | Chief Executive Officer

Chairman of the Board of Directors | Chief Executive Officer

Joined the Company in 1978. Holds a law degree from the Universidad Anáhuac with an MBA from the National University of San Diego. In 1999 was appointed Deputy CEO and in March 2004 was elected Chairman and CEO. Former director of Legal, Administration and Finance, Human Resources, Systems, and Corporate Services. Member of several industrial associations and groups.

ENRIQUE HERNÁNDEZ-PONS TORRES

Vice Chairman | Deputy Chief Executive Officer

Joined the Company in 1971. Bachelor's degree in business administration from the Universidad del Valle de México with graduate studies abroad, has held various positions in administrative areas, such as Sales and Marketing, and was chairman of the board for the Group. Member of several industrial associations and groups.

GERARDO CANAVATI MIGUEL

Director of Administration and Finance

Holds a bachelor's degree in economy from the Instituto Tecnológico Autónomo de México with a master's in finance from the same institution. Held several positions in financial institutions between 1987 and 2000 and subsequently served as chief finance officer for two companies in the real estate and food sectors. Joined the Group in 2002 as director of financial planning, responsible for the Strategic Planning, Budget and Investor Relations areas. In 2007, held the position of director of planning and finance and from 2014, director of administration and finance.

ANDREA FRANCESCO DEL RIZZO

Business Director

Joined the Company in 2006. Holds a bachelor's degree in business administration from the Universidad de Ca'Foscari, Venice, Italy. Worked in Italian and English companies as brand assistant and market researcher, and in 1997 joined Barilla Alimentare S.p.A., where he held various positions in sales and category administration. Moved to Mexico in 1999, occupying positions in trade marketing, category administration and key account executive for Barilla América. In 2004, appointed head of New Channels and Business in Chicago, Illinois. In 2005, appointed director of Barilla México and in 2010, director of business strategy. Appointed sales director in 2011 and since 2015 has held the position of business director.

PEDRO GRACIA-MEDRANO MURRIETA

Human Resources Director

Joined the Company in 1978. Holds a bachelor's degree in business administration from the Universidad La Salle, with a master's in business administration from the same university. Initially worked in Distribution and in 1980 moved to Industrial Relations holding several positions and reaching director of industrial relations in 1986. Appointed executive director of human resources in 2004, and currently serves as human resources director.

ENRIQUE HERNÁNDEZ-PONS MÉNDEZ

Director Aires de Campo

Joined the Company in 2000. Holds a bachelor's degree in international business from the Universidad Anáhuac de México, with a master's in business administration from the IMD in Lausanne, Switzerland. Initially worked in Sales, later moving to Marketing and then Finance. Worked in McCormick & Co. in Marketing. Has been the director of Aires de Campo since 2013.

ESTUARDO LÁRRAGA MARTÍNEZ

Supply Chain Director

Joined the Company in 1990. Holds a degree in agro-industrial engineering from the Universidad Autónoma de San Luis Potosí, with an MBA from the same university and UQAM (University of Quebec in Montreal).

Joined Grupo Herdez in Operations in the San Luis Potosí Av. Industrias plant, where from 1994 he held the position of general manager, later taking over the Celaya, tuna and tuna fleet operations. Has managed Engineering and Projects and Management and Improvement since 2013. In 2016, was appointed supply chain director.

SERGIO ZARDONI GALARZA

Director of Planning and Associated Companies

Graduated as an industrial physics engineer from the Instituto Tecnológico y de Estudios Superiores de Monterrey, obtaining a master's in engineering with a specialty in systems from the same university. After several years with Del Fuerte, Sergio moved to Herdez, S.A. de C.V. in July 2008 when the company merged with Del Fuerte. Once the merger—for which he was responsible—was complete, he was appointed director of strategic planning of Grupo Herdez and was recently appointed director of planning and associated companies, overseeing relations with our main partners.

ÓSCAR NAFARRATE SALUM

Director of Processes and Information Technology

Joined the Company in 2013. Graduated as a mechanical engineer administrator from the Instituto Tecnológico y de Estudios Superiores de Monterrey. Began his professional career in manufacturing companies and from 1996 to 2012 served as a consultant in various Latin American countries, implementing information systems applications, process re-engineering and defining commercial and operative strategies, mainly in consumer companies. Joined the Group in 2013 as director of process and information technology, responsible for Process Improvement and Systems.

JUAN RODRÍGUEZ DEL COLLADO

Director of Food Service

Joined the Company in 1990. Graduated in advertising from the Centro de Estudios en Ciencias de la Comunicación earning an AD-1 from the IPADE (Instituto Panamericano de Alta Dirección de Empresas). Between 1986 and 1990 occupied several positions in consumer companies in marketing and sales. Joined the Company as brand manager for McCormick de México and since then has served in various marketing positions. In 2002, was appointed business director of associated companies and in May 2007 appointed director of food service.



Net Sales
increase
10.4%



MESSAGE TO THE SHAREHOLDERS OF GRUPO HERDEZ,

Despite the volatility of the exchange rate at the start of the year, the increase in inflation, general uncertainty surrounding Mexico-United States relations and the natural phenomena that ravaged the country, the resilience of our portfolio and operation enabled the Group to achieve outstanding results for 2017.

Our results-based approach allowed us once again to hit new records in net sales and profits. We sold MXN 20,065 million, 10.4 percent more than the previous year, while operating and net profits grew by 18.1 and 36.0 percent, respectively. EBITDA increased by 17.0 percent, with an expansion in the margin from 90 basis points to 16.4 percent.

In the Preserves segment we reached 10.5 percent growth in net sales, with an outstanding performance in home-style salsas, pastas and tea. The success of the Herdez “Presume tu Salsa” (Show off your Salsa) campaign was particularly remarkable and one of the main catalysts of the performance in the salsa category.

This initiative is an example of our focus on innovation as a mechanism to strengthen ties with our consumers. Five new Herdez salsas—created to reclaim the essence of our country’s regional flavors through the recipes of our end consumers—will be launched in 2018.

Our resilience in the Frozen segment overcame some important challenges. We achieved growth in net sales of 11.2 percent and the EBITDA margin expanded 5.6 percentage points to 9.6 percent, benefitting primarily from the recovery in Nutrisa. Same store sales grew 9.0 percent and we sold 29.1 million liters of yogurt ice cream. At the same time, we sold 214 million Helados Nestlé popsicles, driven by product innovation and diversification of sales channels.

As a reflection of these results, we were chosen as the best supplier for the H-E-B chain and as the best supplier in Innovation in Marketing Plans by the National Wholesale Grocers Association (Asociación Nacional de Mayoristas Abarroteros).

These exceptional results have made Grupo Herdez' financial situation the best in years. In May, we restructured our short-term debt with the successful issuance of stock certificates among a large number of investors. All current debt is denominated in pesos, the majority being long term and at fixed interest rates.

The cost-bearing debt less cash to consolidated EBITDA ratio was 1.5 times.

We invested MXN 641 million pesos in fixed assets, the most important projects being the installation of the new line of bottled salsas in San Luis Potosí, which will enable us to face the growing demand in this category in the national and international market, and the investment in Helados Nestlé to strengthen distribution.

Return on equity reached 13.7 percent, 3.5 percentage points higher than in 2016, while return on invested capital was 12.2 percent, with a growth of 1.3 percentage points compared to the previous year.

Stock yield during 2017 was 20.2 percent, surpassing three-fold the 6.4 percent of the food and beverage sector on the Mexican stock market and 8.1 percent of the IPC index.

FOCUSED ON A BETTER WORLD

This year, Mexicans demonstrated the enormous power of teamwork and Grupo Herdez joined in the reconstruction of Mexico, supporting earthquake victims along three main lines of action:

We donated 100 tons of products and 19,000 liters of Nutrisa brand bottled water.

We donated 9 million pesos to the Carlos Slim Foundation—which the Foundation matched peso for peso—towards the reconstruction of education and health centers.

Our employees volunteered at collection centers and to rebuild schools and homes.

Saber Nutrir, meanwhile, continued to focus on mitigating food security problems in rural communities, directly benefitting more than 456 families and 25 communities in Estado de México and Chiapas, during the year.

One of the main objectives of 2017 was to guarantee access to drinking water, a basic necessity for proper family nutrition. To address this, we built secure water systems for 119 families in six Chiapas communities.

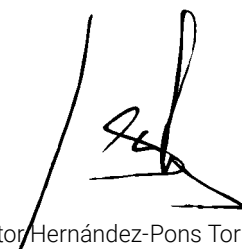
To help activate the generation of income in communities, we promoted the creation of ten groups for the commercialization of eggs, meat and vegetables.

In terms of the environment, our tuna boat, El Duque, was the first tuna vessel in the country to earn the Certificate of Environmental Quality awarded by the Secretariat of the Environment and Natural Resources (SEMARNAT, for its initials in Spanish).

To close, I would like to thank each and every one of the 9,523 employees who make up Grupo Herdez for their efforts and dedication, our suppliers, clients and consumers who choose us every day, and to you, our shareholders, for the confidence you have placed in us.

This year's achievements remind us that we are a great team, share the same focus on results and are moved by an irrepressible collective spirit.

Kind regards,



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

Financial Highlights

to the year ending on December, 31

	2017	2016
Net Sales	20,065	18,180
Preserves	15,953	14,431
Frozen	2,882	2,592
Exports	1,230	1,158
Cost of Goods Sold	12,174	10,929
Gross Profit	7,891	7,252
Preserves	5,926	5,483
Frozen	1,802	1,642
Exports	163	127
General & Administrative Expenses	5,204	4,945
Other Expenses, net	103	57
EBITDA	2,790	2,363
Preserves	2,614	2,378
Frozen	81	-61
Exports	96	46
Equity Investments in Associates	834	599
MegaMex	791	577
Others	43	22
Consolidated Net Income	2,166	1,593
Majority Net Income	1,046	717
EBITDA ^[1]	3,295	2,816
Preserves	2,888	2,634
Frozen	277	103
Exports	130	79
Total Assets	27,846	26,348
Total Liabilities	10,504	11,720
Total Debt ^[2]	6,351	7,475
Total Shareholders Equity	17,342	14,628
Majority Shareholders Equity	7,929	7,348
CAPEX ^[3]	641	981
RGO	2,043	1,385
Net Debt/Consolidated EBITDA(times)	1.5	2.3
Deuda Neta/Capital Contable Total (veces)	0.28	0.45
ROE ^[4]	13.7%	10.2%
ROIC ^[5]	12.2%	10.9%
Price per Share at Year End	45.7	37.6
Total Shares Outstanding at Year End (millions)	432	432



Cifras expresadas en millones de pesos

[1] UAFIDA = Utilidad de operación más depreciación, amortización y deterioro en el valor de los activos de larga duración.

[2] Deuda Total= Préstamos bancarios+ Documentos por pagar + Deuda corporativa

[3] Inversión en Activos = Adquisición de inmuebles, maquinaria y equipo – Recursos por venta de inmuebles, maquinaria y equipo + Adquisición de intangibles

[4] ROE (Retorno sobre el Capital) = Utilidad Neta de la participación controladora / promedio anual del Capital Contable atribuible a la participación controladora

[5] ROIC (Retorno sobre el Capital Invertido) = Utilidad de Operación / (Capital Contable Con-



FOCUS ON INNOVATION

At Grupo Herdez, innovation is in our DNA. We innovate our products and the sales channels we use to put the full flavor of our portfolio within reach of our consumers. This allows us, on one hand, to reach more Mexican families and, on the other, increase the value of the categories in which we participate.

Innovation in Products and Packaging

In Grupo Herdez, we keep a close eye on consumer lifestyle trends so we can anticipate any change in their consumption habits. During 2017, we launched a solution for people who want the best taste from a balanced diet but have little time to cook: four varieties of Herdez tuna in pouch, two in alliance with McCormick and Kikkoman.

Furthermore, we renewed the image of Herdez canned tuna with a fresh look that speaks to superior quality and is easily identifiable on the shelf. This initiative was accompanied by a digital education program to highlight our nutritional and quality aspects, which reached 7.3 million people and enabled us to increase our market share in this category.

During the year, we focused our attention on improving the visibility of our three brands of pasta products at points of sale with prefilled pallets. This initiative helped grow the category by 30 percent in our portfolio.

We continue to promote responsible consumption habits, this year with the successful launch of the recycling campaign, Por un mundo más vivo (For a World More Alive), in which we invite consumers to deposit aluminum tuna cans in collection machines located in twenty Walmart stores in Mexico City.

We used the collected cans to manufacture ecological stoves that benefitted eighty families in the Mazahua community in Estado de México.

The response from consumers to this initiative surpassed all our expectations. In 2018, we will expand our coverage to include additional stores in Mexico City and others in Guadalajara and Monterrey. This campaign is an example of our commitment to waste reduction and responsible management.

In Grupo Herdez we are focused on creating experiences with unique flavors for our consumers. The Presume tu Salsa (Show off your Salsa) campaign has made a decisive contribution towards growing our brand at a rate almost twice that of the category, increasing market share at national level and strengthening our leadership.

The five finalists representing each region of the country presented the winning salsas. These will feature among the Herdez launches for 2018.

McCormick was also part of the innovative force of Grupo Herdez in 2017 with the launch of Mil Islas (Thousand Island) mayonnaise. The new variety is part of the promotion campaign for flavored mayonnaise.

Mil Islas mayonnaise seeks to repeat the success of bacon and habanero chili flavors, launched in 2016, and is part of the Mayonesa McCormick strategy to strengthen brand recall, increase market share and consolidate its leadership in the category.

Focus on increasing the value of the categories in which we participate

The initiatives mentioned above demonstrate our focus on innovation and allow us to continue to add value to the categories in which we participate. As a result, the majority of the portfolio achieved growth above the industry average.

Mayonesa McCormick recorded higher growth than the category. The positioning of this product is such that its increase in sales represents 90 percent of the entire category's growth. Del Fuerte tomato puree had a similar story, with growth in 2017 that represented 74 percent of the category, despite competing against very low prices for fresh tomatoes.

We successfully launched five varieties of McCormick special selection teas, made with a triangular, fabric bag that allows the ingredients to release more flavor and aroma. In addition, towards the end of the year, we presented functional teas as a new option for our consumers. Both launches made a significant contribution to the value of this category, which is undoubtedly one of the biggest growth bets in our portfolio.

Our growth in pastas represented 40 percent of the category's growth and was 1.3 times higher than other competitors. The launches of Barilla Collezione, a new line of pasta, and Mulino Bianco, a sweet and savory snack line, helped to increase our market share and add value to the category through relevant innovation.

As a result of all of the above, in 2017 the Preserves division grew 10.5 percent compared to the previous year, generated a total of MXN 15,953 million and represented 80 percent of the Group's consolidated net sales. The best performing categories during the year were pastas, home-style salsas and vegetables.

In addition, the National Wholesale Grocers Association (ANAM) named us Best Supplier of 2017 in Business Plan Innovation, while H-E-B gave us the Strategic Partner Award 2017 for our continuing contribution to optimization in sales, profitability and level of service.

Execution in Sales Channels

Wholesale is a constantly evolving sales channel. Thanks to our results-based approach, a profound understanding of the market and the indisputable negotiating ability of our business team, in 2017 we once again surpassed the year's target and grew double digits.

Retail sales volumes during the year remained stable and during 2018 we will exploit the areas of opportunity we have detected to continue strengthening our position in this channel.

Our growth rate in convenience stores has meant our sales in this channel have doubled over the last five years; in 2017 we once again recorded double digit growth.

Superb product portfolio management, innovative presentations and efficient media campaigns have contributed to the price club channel representing close to 10 percent of Grupo Herdez' total revenues. In recent years we have gained deeper insight into this channel, giving us an advantageous position going forward.

As far as digital business, in addition to investing more than three times the amount channeled into digital media in 2016, last year we focused on two fronts that support the innovative movement of Grupo Herdez: on one hand, we worked with three of our major clients on the development of their digital platforms; on the other, we explored two important personal shopper platforms to improve our positioning in e-commerce. Our indicators in this channel are promising and we are convinced that 2018 will be a good year.



RESILIENCE THAT OVERCOMES CHALLENGES

Since 1914, Grupo Herdez has faced huge challenges that we have been able to convert into opportunities for growth and innovation.

The Frozen segment is an example of our resilience. During the year, this division achieved a total of MXN 2,882 million in revenue, a figure that represents 14 percent of Grupo Herdez' consolidated net sales.

This year, the main goals of the division were a) to continue to capitalize on the growth potential of the ice cream category in Mexico, and b) improve profitability. Thus, net sales grew by 11.2 percent and the operating margin went from -2.3 percent in 2016 to 2.8 percent in 2017.

We sold 31.8 million Nutrisa yogurt ice creams and 225.8 million Helados Nestlé popsicles.

Nutrisa

Nutrisa is a Mexican company that since its origins has contributed to the adoption of a healthy lifestyle. A pioneer when it was created in 1979, today it is the segment leader.

This business showed a steady recovery in sales and profits in 2017, recording growth in same store sales during the year of 9 percent, traffic 8 percent, and average ticket, 1 percent.

This year we had a record number of successful launches with different versions of Greek yogurt, lactose-free yogurt, popsicles with Nutriesferas (tiny balls filled with fruit juice), choco-mint and Mexican Neapolitan ice cream flavors, which produced excellent sales results.

Nutrisa is the first brand to launch Greek yogurt in Mexico, with versions in soft ice cream, hard scoop ice cream and ice popsicles. As well as strengthening the category, this innovation was the most sold flavor in the history of Nutrisa soft ice cream.

In April, we recorded the best sales month since 2012, due mainly to the Children's Day promotion, which besides allowing us to reach a new segment, gave us an increase in visits and sales.

To show of our commitment to the welfare of our consumers, and leverage the proximity afforded by the network of over 470 Nutrisa stores, in October we launched the Festeja la Vida (Celebrate Life) campaign. The aim of the campaign was to raise awareness among the Mexican population about the prevention of chronic diseases. The initiative enabled us to reach more than 25 million Mexicans, while donating MXN 1 million to the National Cancerology Institute towards the implementation of an education program.

The commercial products portfolio, meanwhile, consisting of food, beverages, personal care, sport nutrition and food supplements, reached a growth in net sales of 7 percent. This was the result of:

- Cataloging new products, particularly under the Nutrisa brand, whose participation in the portfolio increased 3 percentage points to reach 25 percent.
- The execution of promotional activities that generated more than MXN 16 million in incremental sales.
- The restructuring of the product catalog through a rotation and profitability analysis, resulting in the removal of more than 750 slow-moving and stagnant products.

In 2018, we will revamp the brand architecture of Nutrisa with a wellness approach, to strengthen its leadership and position it among new markets without losing its essence, honoring its origins and projecting it always as an innovator in its field.

We will offer an innovative Whole Wellness experience based on four pillars:

- Natural indulgence: guilt-free Wellness.
- Mexicanness: united for Wellness.
- Innovation: pioneers of Wellness.
- Sustainability: Wellness for the planet.

Helados Nestlé

The evolution of Helados Nestlé sales is en route to double the size of the business by 2020, a goal we set on its acquisition, in 2015.

The brands comprising Helados Nestlé are stronger year after year. The successful relaunch of Danesa 33 in 2017 has brought us even closer to our consumers, and the brand now occupies an important space both in the minds of consumers and in store freezers; today, Helados Nestlé can be found in 56,000 points of sale nationwide.

- In Helados Nestlé we have four strategic priorities to achieve profitable growth:
- Consolidate our leadership in the children and youth segment.
- Offer a differentiated, disruptive and innovative portfolio.
- Continue to develop new consumption occasions that guarantee us a relevant position in the sales channels in which we participate.
- Develop alternative sales channels that improve profitability.

During 2018, we will focus on these priorities to achieve accelerated, profitable growth.



QUALITY OF LIFE

Thanks to our more than 9,500 employees, we were able to bring our wide range of top quality products to the tables of our customers and consumers.

Our Workforce

At year-end, our workforce was made up as follows:

Year	Classification	Permanent	Temporary	Total
2017	Administration	2,392	149	2,541
	Operations	5,319	1,663	6,982
	Total			9,523

We have a diversified workforce, with 42 percent women and 58 percent men.

Furthermore, in order to encourage inclusion in the workforce, this year will see the introduction of the Alianza Éntrale, driven by the Mexican Business Council, whose aim is to create a culture of work inclusion for people with disabilities.

We currently have 19 workers with different types of disability, in different locations. By being part of the Éntrale initiative, we seek to include workers with disability in our workforce. (GRI 102-8)

Year	Gender	Type of Disability	Age Range	Total
2017	Male	Hearing impairment (5)	27-40	6
		Visual impairment (1)		
	Female	Hearing impairment (8)	21-42	13
		Visual impairment (3)		
		Intellectual disability (2)		
	Total			19

In addition to promoting work inclusion and gender equality, we respect the right of collective bargaining. In 2017, 38 percent of our workers were part of a collective agreement. (GRI 102-41)

Training and Development

Year after year we encourage the continued development of our employees with ongoing plans for communication, feedback and recognition; employee benefits that surpass industry standards, with no gender distinction; and the application of codes, values and policies that enable them to perform their work with an ethical approach.

During 2017, we increased our training budget by more than half a million pesos, investing a total of MXN 9 million, allowing us to give 13 percent more training and development hours, amounting to 160,356 hours on topics including administration, technical training, environmental management, health, safety and corporate values. (GRI 404-1)

During 2017, the high-impact training projects were the WCM efficiency program in Herdez Del Fuerte, and the Code of Ethics reinforcement campaign. (GRI 404-2)

Ongoing assessment and improvement

At least once a year, 38 percent of our full-time employees receive a performance review by using a variety of approaches, such as adherence to profile, goal management and three or four-monthly evaluations. These reviews enable us to objectively establish productivity incentives, horizontal promotions or changes within the organization, and wage increases.

Union personnel are evaluated monthly, in relation to the production rates in the corresponding plants or distribution centers. (GRI 404-3)

Health, Safety and Risk Prevention

Through the Environmental Control, Safety and Hygiene (CASH for its initials in Spanish) area, we safeguard the integrity and wellbeing of our employees; we prevent and mitigate incidents that affect the environment and maintain a culture of safety and risk prevention.

Each of our sites has a work program aligned with these goals. The program is based on risk studies and backed by safety and hygiene regulations to measure risks pertaining to machinery, equipment, storage, chemical control, work environment, noise, and high and low temperatures.

The Safety and Hygiene Commission of each plant conducts a Workplace Safety Analysis covering health and safety risks. In addition, we make accident prevention plans and run internal civil protection programs.

Since 2016, CASH has been developing Environmental Control, Safety and Hygiene within the World Class Manufacturing (WCM) outline; the project is expected to be finished in 2018.

Similarly, we have a major emergency plan, designed to respond to any contingency in plants and distribution centers concerning environmental risks and prevention of damage to personnel and installations. The plan involves brigades which support and coordinate communication between affected, adjoining and corporate areas. Five contingencies arose in 2017.

Participation in Associations and Certifications

We coordinated with the Industrial Zone Users Union (UUZI) on mutually beneficial works concerning prevention, safety, hygiene and the environment. In addition, we participated in Coparmex as consultant and adviser on safety and hygiene and environmental matters, and were active members of the CONMEXICO safety committee.

We hold several certifications pertaining to environment and safety, including the Clean Industry Certification, issued by the Federal Environmental Protection Agency (PROFEPA). In 2017, we maintained our certification in six plants and distribution centers. In addition, two sites have an Environmental Leadership program, as well as tobacco smoke-free space initiatives in eight sites, of which six have now been verified.

We hold the Safe Industry certification issued by the Secretariat of Labor and Social Welfare (STPS). In 2017, four plants and a distribution center joined the program. Each year, Civil Protection runs the internal protection program, which is audited by its own personnel, and is focused on preventive measures against fire, spills, leaks and other risks. (GRI 102-11)

Since 2012, Environmental Control, Safety and Hygiene has operated under a strategic plan to monitor incidents and prevent workplace injuries and environmental damage.



As a result of these ongoing efforts, in 2017 we reduced our injury rate by 4 percent and our lost day rate by 21 percent. (GRI 403-2)

Year	Gender	Accidents	Accidents Rate	Lost days due to accidents	Lost days due to accidents rate
2017	Female	68	1.5	1,024	22.5
	Male	147	2.0	2,423	33.0
Total		215	1.8	3,447	29.0

The total number of injuries reported is based on the Sistema Único de Autodeterminación (SUA) report, which includes work injuries, occupational diseases and relapses.

The injuries and lost days presented match the report delivered to the Social Security.

It includes only those indicators that the Company manages, and which are calculated according to the methodology of the Global Reporting Initiative version G4, considering:

() The injury rate expresses the number of injuries during the year relative to the total man-hours worked multiplied by a factor of 200,000. (**) The lost day rate is expressed by comparing the total lost days during the year to the total man-hours worked multiplied by a factor of 200,000.*

Healthy Eating

This year, the Healthy Eating Program spread to Los Mochis, Sinaloa, bringing the number of locations in the program to four, along with Mexico City, Estado de México and San Luis Potosí.

The program provides our employees with dietary assessment through healthy eating plans and monthly follow-ups. In 2017, 2,570 consultations were given, and our employees lost a total of 1,341 kg. (IP-4)

CULTURE OF LEGALITY

In Grupo Herdez we continue to work on strengthening a culture of legality with workers, clients, suppliers and civil society organizations. Year after year, we reinforce the knowledge and diffusion of the Code of Ethics, our Corporate Values and grievance channels, to promote an ethical approach that incorporates our entire value chain.

Having employees and partners who share this view gives us the opportunity to monitor illegal acts—such as bribery and other forms of corruption, or any breach of human rights—from different angles and anonymously. We have a number of grievance channels, including:

- E-mail: confianza@herdez.com, etica@nutrisa.com
- E-mail and direct line to the supervisors of Human Resources, Internal Audit and Legal
- Physical mail-boxes in different locations
- Toll-free line 01 800 CONFIANZA (01 800 266 342 692) or (Nutrisa 01800 312 98 32)

These mechanisms are available 24 hours a day, 365 days a year.

During 2017, the toll-free line 01 800 CONFIANZA received 31 grievances and 55 complaints, 95 percent of which had been resolved at the close of this report. The remaining 5 percent relate to four complaints which were under review. (GRI 102-7)

The complaints received are monitored by an external supplier, which regularly shares a consolidated report with the management of Human Resources and the General Management of Internal Audit. The Internal Audit area is responsible for following up, investigating and issuing an opinion on all complaints.

In 2017:

- Seven cases of corruption were confirmed, related to breach of confidence, acceptance of gifts, preference to transport providers, undue payments and increased quotation prices.
- In addition, thirteen employees were dismissed from the Company as a result of complaints filed during 2016. (GRI 205-3)

Promoting a Culture of Legality

In Grupo Herdez we promote a culture of legality among our employees. The main lines of action during 2017 were:

- The rolling out of reinforcement campaigns for our Code of Ethics in 40 percent of our locations.
- Training on “Intelligence and Prevention of Illicit Transactions, Money-Laundering, Fraud and Corruption,” a course coordinated by the Legal area attended by employees from Strategic Supply, Internal Audit, Accounts Payable, Treasury, Supplier Development and Legal.
- Diffusion of corporate communications to publicize the new General Law of Administrative Responsibilities, and mechanisms for the prevention of money-laundering. (GRI 205-2)

Supply Chain Transparency

Our Code of Conduct for Suppliers contains the minimum guidelines that must be met by all our suppliers on matters of working and environmental conditions, both real and potential. This document is based on the standards of the International Labor Organization (ILO), the ten principles of the United Nations Global Compact, the Human Rights Policy and Grupo Herdez Code of Ethics.

It is worth underlining that Grupo Herdez rejects, without exception, all forms of forced or compulsory labor, and any kind of full or part-time child labor, whether for remuneration or otherwise, regardless of the purpose. (GRI 409-1)



VALUE CHAIN

The traceability of our raw materials and our relationship with suppliers are of prime importance to ensure that our products reach the consumer's table in good time, in good condition and with the quality for which we are known.

For Grupo Herdez, local or national suppliers are defined as those with manufacturing and transformation plants within Mexican territory.

All our producers of agricultural raw materials are located within the Mexican Republic, in the states of Sinaloa, Guanajuato, San Luis Potosí, Zacatecas, Chihuahua, Michoacán, Puebla, Coahuila, Durango, Tamaulipas, Veracruz, Sonora, Baja California, Morelos, Yucatán, Campeche and Chiapas; in 2017, 100 percent of our agricultural purchases were local.

In terms of raw materials and materials for packaging, 92 percent of our purchases are local and only 8 percent are sourced from foreign suppliers. (GRI 204-1)

Regardless of the type of product or service they provide, all our business partners must sign and adhere to the Code of Conduct for Suppliers, which describes the minimum environmental and social requirements they must meet and evaluates their compliance with labor standards and current environmental regulations. In 2017, 77 new suppliers signed the Code.

Agricultural Sustainability

Aided by our Good Practices Manual, training sessions and environmental audits, we accompanied our agricultural suppliers in the adoption of best labor and environmental practices. In 2017, we gave two training sessions on Sustainable Agriculture for integrated crop management, followed up on the regulations concerning the proper use of agricultural chemicals, and monitored compliance with the Good Agricultural Practices Manual.

In addition, to give continuity to the development of these initiatives and to the progress of the Sustainable Agriculture Plan, we have a team of six auditors who evaluate and follow up on the condition of premises, monitor whether the suppliers are located in ecologically sensitive areas and the measures being introduced to protect them, and the measures being adopted to improve soil quality, increase recycling and reduce waste generation, as well as the working conditions and health of agricultural workers. All this is done through an evaluation list which measures the progress and points of improvement for each supplier. In 2017, 48 agricultural suppliers were audited. (GRI 308-1, GRI 308-2, GRI 414-1, GRI 414-2)



COMMUNITY ENGAGEMENT

In 2017, we invested 1.95 percent of consolidated net profits in social programs.

Saber Nutrir®

Through our Saber Nutrir® program, we promoted access to a healthy, nutritious and adequate diet, thereby contributing to the integral development of increasingly more Mexicans.

Whether through our own programs or in conjunction with other institutions, we work to ensure the food security of the communities in which we operate. In 2017, Saber Nutrir® collaborated with associations like Pro Mazahua and Child Fund to multiply efforts and thus contribute to mitigating food security issues in rural communities.

Pro Mazahua

Since 2013, Saber Nutrir® and Pro Mazahua have joined forces to train the population in the construction of productive projects like cisterns, ecological stoves, chicken coops and micro tunnels, which enable Mazahua communities to have a supply of nutritious, varied and sufficient food all year round, both for their own consumption and for sale or exchange.

In the framework of this alliance, 891 productive projects have been completed over the last four years, benefiting 337 families in nineteen rural communities in Estado de México.

These projects have helped their beneficiaries to save an average of MXN145 a week on the purchase of food and obtain weekly earnings of MXN 405 from the sale of products like vegetables, eggs and chicken.

Based on annual monitoring and nutrition assessments of the 59 families and 76 children in the follow-up program, 89 percent of the children are stable, 4 percent have improved while 7 percent have worsened since last year's assessment.

Child Fund

In September 2014, we began work on the integral care, development and growth of the children of Tapachula, Chiapas, in alliance with Child Fund. The aim of the program is to improve child development and nutrition through early stimulation, the promotion of healthy lifestyles and proper eating habits. During 2017, 45 new families from three communities were incorporated into the initiative, bringing the number of benefiting families at year end to 119.

Each family benefits from its own vegetable plot and chicken coop. Quarterly egg production gives them an important source of protein and an additional income from the sale of surplus eggs.

Furthermore, with the aim of ensuring access to drinking water, we began the Secure Water project, through which we installed cisterns, water tanks, purifiers and biodigesters to the 119 families in the program.

The annual monitoring of nutritional oversight for this year provided care and supervision to 478 children, of whom 45 recovered from anemia and 25 improved their nutritional status.

Saber Nutrir Sponsors and Corporate Volunteering

Through the Sponsors program, the Group's employees fund food supplements for children with serious malnutrition, enabling them to improve more rapidly.

In 2017, the Saber Nutrir Sponsors program added 113 sponsored children, ranging in age from one to fifteen years. Moreover, twelve children recovered from various degrees of malnutrition and improved their quality of life.

Through corporate volunteering, one hundred employees gave 450 hours of work to maintain nine micro tunnels, five chicken coops and five cisterns, to benefit Mazahua families in the Trampa Grande community, Estado de México.

Herdez Foundation

The Herdez Foundation contributes to the furthering of gastronomic research and education and food development along four main lines: academic, editorial, professional practices and in-kind donations.

During 2017, the Herdez Foundation gave 85 courses in which it trained more than 4,900 people on matters concerning the conservation of our country's gastronomic heritage.

Library and Editorial Program

Created in 1997, the Library of Mexican Gastronomy provides literary and audiovisual tools that enable the continued preservation and research into the culture of Mexican gastronomy. The library currently has a collection of 5,834 books.

2017 saw the beginnings of the project to form an Ibero American Cuisines Collection, whose main goal is to understand the culture, diversity and gastronomy tourism of Latin American and Caribbean countries. At year end, the collection amounted to 24 books from different countries, including Argentina, Chile, Cuba and Peru, among others.

This year, a new book, *El Nopal: Emblema Nacional*, was added to the collection, *Tonacayotl: Nuestro Sustento*, available for download at: <http://biblioteca.herdez.com.mx>. This work was presented at different fairs and exhibitions, such as the Traditional Cuisine Book Fair (Feria del Libro de Cocina Tradicional, FLICO), the International Book Fair of Guadalajara, and the First Colloquium, Documentary Heritage of the Library and Archives Network of Mexico City, (Patrimonio Documental de la Red de Bibliotecas y Archivos del Centro Histórico de la Ciudad de México), among others.

Food Development

The Herdez Foundation, in alliance with the Food Bank of Mexico, provides support to communities which are affected by natural disasters through in-kind donations in a monthly food donation program. During 2017, 425,654 cases of product were delivered, to the value of 1.9 million pesos.

In Grupo Herdez, we sympathize with the affected families and recognize the brave work of all the individuals and institutions who collaborated, in one way or another, to mitigate the damage caused by the September earthquakes across several Mexican states.

Once again, the Mexican people demonstrated the great power of teamwork. Grupo Herdez participated in this important work along three main lines of action:

- The donation of one hundred tons of product, such as tuna, juice, mayonnaise, jam, pasta and canned vegetables, and 19,000 liters of Nutrisa® brand bottled water.
- The donation of MXN 9 million to the Carlos Slim Foundation, in turn multiplied by five, and channeled to the reconstruction of education and health centers.
- The participation of fifty Group employees as volunteers in the collection centers.

It should be highlighted that all these actions were carried out in coordination with civil organizations and government agencies.



Microsoft Updates Available
Would you like to install these updates now?

ENVIRONMENT

Grupo Herdez has a priority to identify the major impacts and risks that may influence the continuity and permanence of our operations. We have strategies, guidelines and policies in place to ensure that our processes are efficient, while minimizing our environmental footprint.

Through the efficient use of resources, closure of productive cycles, reduction of emissions and water consumption, and together with our employees, suppliers and consumers, we promote an environmental culture that permeates throughout the Company.

Below are the most important environmental performance indicators. The extended version can be seen at the GRI Workzone.

Water

In 2017, we consumed a total of 1,561,559 m³ of water, down 0.02 percent from the previous year. Water saving actions were implemented in the Celaya and Santa Rosa Vegetables plants, where the washing and water recovery systems were improved. Awareness campaigns on the care of water were also held among our employees.

In addition, we recycled or reused 2.7 percent of the total water volume used throughout the year, equivalent to 41,792 m³. (GRI 303-1, GRI 303-1)

Water	2014	2015	2016	2017
Annual Consumption m ³ /Ton Produced	3.0	3.1	3.1	3.0
Annual Reduction/Increase	-23%	3%	0%	0%

Emissions

During 2017, we were able to reduce our emissions by 277 ton CO₂e, thanks to the reduction in fuel use in the Celaya, Chiapas and San Luis Potosí plants, the Cuautitlán and Tijuana distribution centers and the tuna fleet. Similarly, the energy management system project enabled us to achieve a reduction of 2.8 ton CO₂e.

Emission intensity was 0.198 ton CO₂e/ton produced, 3.2 percent higher than 2016. This was due to the increase in electrical power sourced from the Federal Electricity Board (CFE) because the renewable energy supply from the Isthmus de Tehuantepec wind farm was compromised by damages to the network caused by the September earthquakes.



Energy

The total energy intensity produced by the Group in GJ/ton was 2.60, 2.9 percent lower than the previous year. The consumption of renewable energy was also affected by the damages caused to the wind farm by the earthquakes. (GRI 302-1)

Energy	2014	2015	2016	2017
Annual Consumption Kw/H/ Ton Produced	0.09	0.07	0.08	0.07
Annual Reduction/Increase Rate	-10%	-22%	-14%	-10%
Renewable Energy				
Annual Consumption Kw/H/Ton Produced	15,959,316	19,503,276	31,086,801	22,339,045
Annual Reduction/Increase Rate	24%	30%	40%	-28%

Waste

This year, we managed to reduce waste generation by 10 percent, mainly due to projects to reduce waste sludge and solid urban waste in the Barilla, Chiapas, Mexico and Santa Rosa Vegetables plants. We recycled 73 percent of the waste we generated in 2017. (GRI 306-2)

Waste	2014	2015	2016	2017
Generated Waste/ Ton Produced	0.09	0.07	0.08	0.07
Annual Reduction/Increase	-10%	-22%	-14%	-10%
Recycled Waste	42%	55%	76%	73%



SUSTAINABLE DEVELOPMENT GOALS

In Grupo Herdez, we work hard towards global goals to eradicate poverty, protect the planet and ensure prosperity for all. We therefore align our efforts with four Sustainable Development Goals:

Community Engagement

In community development, food security is a priority as an empowerment and skill development mechanism. In 2017, Saber Nutrir, our community development program, not only renewed its image, but refocused the efforts and resources of the nutrition education program to the generation of productive projects in rural communities facing food security issues in Estado de México and Chiapas. During the year, in collaboration with the Pro Mazahua Foundation and Child Fund Mexico, we installed 90 projects, bringing the number of projects since 2014 to 981.

These projects enhanced the quality of life and nutritional status of our beneficiaries by improving the bioavailability of nutrients and socio-environmental conditions.



Ethics and Transparency

In ethics and transparency, we reinforce the culture of legality year after year, in our workers, our suppliers and other stakeholder groups.

We use grievance channels and codes of conduct to promote an ethical work environment and operations, free from bribery, corruption and any breach of human rights.

In order to achieve this goal, this year we joined forces with México Unido Contra la Delincuencia (Mexico United Against Crime), a non-profit association working on causes and actions in favor of security, justice and legality.





Environment

Our environment goal is to ensure we fulfill our commitment to produce the highest quality food products without affecting the environment through the efficient and sustainable use of natural resources. Thus, besides continuing the cogeneration project in San Luis Potosí, we began the first stage of two highly challenging and important projects concerning climate change: life cycle analysis and climate change risks.

These projects will enable us to detect environmental risks from climate change in our operations and design strategies and initiatives that allow us to anticipate environmental events that may have a negative or positive impact on our operations.



Quality of Life

To meet our quality of life goal, we furthered employee development through various initiatives, including ongoing assessment and feedback, performance bonuses, respect for collective organization, benefits that surpass industry standards, continuous training, and our most recent initiative, work inclusion of people with disabilities, in collaboration with the Éntrale alliance.

We encourage healthy eating habits and lifestyle and provide safe working areas in order to mitigate the risks of work injuries and improve the quality of life of our employees.

In 2017, we reduced our injury rate by 4 percent and extended our healthy eating program to Los Mochis, Sinaloa.





RESILIENCE THAT TRANSCENDS BORDERS

MegaMex products carry the quality, flavor and versatility of Mexican food across the United States. MegaMex takes the spirit of Mexico to every table with a diversified and attractive portfolio.

In 2017, MegaMex net sales reached 12,168 million pesos, a growth of 12.3 percent over the previous year. During the year, we gained share in different markets around the United States, as a result of the following activities:

Wholly Guacamole created the Guac Stops Summer 2017 program, installing a public guacamole bar where people could try our product varieties in different ways. Through the initiative, we gave out more than 24,000 guacamole samples, which were received enthusiastically by consumers.



La Victoria celebrated its one hundredth year with the participation of artists, chefs and musicians. During the festivities, we gave out 200,000 product samples, enabling us to spread our incomparable flavor.



Grupo Herdez teamed up with Disney Pixar for the distribution of the animated film, "Coco", whose great success was a unique opportunity to spread our message of authentic Mexican food to a broad audience. In many ways, Disney Pixar's treatment of the Day of the Dead is a reflection of our brand's intention with respect to real Mexican food.



Among our activities to bring Mexican food to the United States, we celebrated 5 de mayo with a live Facebook event featuring the famous chef Marcela Valladolid, who prepared original Mexican recipes such as esquites (corn kernels topped with cream, cheese and chili), tacos al pastor (with spit-grilled meat), tacos gobernador (with shrimp, peppers and cheese) and queso fundido (melted cheese), all accompanied by our iconic Herdez guacamole salsa. More than 50,000 people connected to the event, and a further 500,000 potential consumers are expected to view it online.



Doña María launched a campaign to promote and preserve Mexican culture, offering four packaging versions with designs of the traditional Mexican Maria dolls.



Committed to our goal of reaching one billion dollars in net sales by 2020, we continue our United as One program to improve teamwork and promote inclusion, expansion of channels, innovation and the creation of new initiatives.

The operating plan to achieve our goal is based on five main pillars:

- Increase sales by means of innovation and the expansion of channels.
- Accelerate brand growth.
- Improve gross margins through efficient portfolio management.
- Reduce general expenses as a proportion of net sales.
- Reduce production costs.

During the second quarter, we created MegaMex International, whose approach is to take the spirit of Mexico beyond the United States.

Our objective with MegaMex International is to deploy a business model that will give us presence in different countries, including Australia, Canada, Chile, England, New Zealand and other South American nations, developing retail, price clubs and food service, among other channels.

During the trial period, Wholly Guacamole and Don Miguel were well received in price clubs and retail outlets in Canada. Trials were also conducted in the food service channel in Canada and Costa Rica.



AUDIT COMMITTEE REPORT

February 14, 2018

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

I am pleased to present herewith the Annual Report on the activities of the Board of Directors' Audit Committee for the 2017 fiscal year, in accordance with the provisions of Article 43, Section II of the Securities Market Law.

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

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

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

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

1. The Reported Financial Statements as of December 31, 2016, with consolidated figures and their respective Notes were duly analyzed.

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

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

2. We have learned about the document "Communication with those charged with governance", which based on ISA 260 International Standard on Auditing has been issued by the society's external auditor, with the information required to be known by the Audit Committee.
3. We have analyzed the Report on the Internal Control Assessment performed by the society's external auditor, during the normal course of the revision for the 2017 fiscal year audit.

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

4. We have learned about the 2017 Quarterly Financial Statements, and we have issued our recommendation for its submission to the Mexican Stock Exchange.
5. We have analyzed and approved the Work Plan of the Internal Audit area for the 2017 fiscal year. Due follow up has been done to its development, and we have learned about its findings and the implementation of its recommendations.
6. The new International Financial Reporting Standards used during the 2017 fiscal year, as well as those already in force, were consistently applied with no significant effects.

7. We have assessed the performance of the external audit firm KPMG Cárdenas Dosal, which has been considered as satisfactory and in accordance with the criteria established in the services contract. Likewise, the partner in charge of the audit has in due time confirmed their professional and economic independence.

In this manner, confirmation of the firm KPMG Cárdenas Dosal as the external auditor of the society and its subsidiaries for the 2017 fiscal year was recommended, with exception made of the components Herdez Del Fuerte, S.A. de C.V., and its subsidiaries, as well as McCormick de México, S.A. de C.V., which external auditors are other firms.

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

8. Additional services to those of auditing provided by the society's external audit firm were related to transfer prices, local contributions, tax-financial advisory and social security report, for a total amount of 5.7 million pesos.

9. We have learned and assessed the activities of the Risks Committee, including the mechanisms implemented by the Chief Executive Office for the identification, analysis, management and control of the strategic risks to which the society is subject to, as well as the established criteria for their appropriate disclosure.

10. In every meeting we have been informed about the complaints received due to lack of observance of the Ethics Code, the way in which they have been addressed and the protection given to the informants.

11. We have learned about and follow up has been given to the outstanding tax and legal matters, as well as to the adequate implementation of the Securities Market regulatory authorities' provisions, and the Shareholders' and the Board of Directors' resolutions.

Sincerely,



Roberto Danel Díaz
Chairman of the Audit Committee



CORPORATE PRACTICES COMMITTEE REPORT

March 23, 2018

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

I am pleased to present herewith the Annual Report on the activities of the Board of Directors' Corporate Practices Committee corresponding to 2017 fiscal year, as provided in Article 43, Section I of the Securities Market Law.

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

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

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

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

1. We have learned the policies for designation and for integral compensation of the Chief Executive Officer and other relevant executives.
2. We have learned about the mechanism to measure and disclose the observations on the performance of the relevant executives. During the year, the performance of the relevant executives was considered to be adequate, having been determined on the basis of the established policies.
3. We have learned about the integral remuneration package of the Chief Executive Officer and other relevant executives.

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

Such transactions have included sales fees and services, export sales, finished product and materials sale, royalties, maquila, freight services, fuels, real estate and transportation equipment leasing, interests, administrative services, storage, personnel services, and other, amounting to a total of 5,047 million pesos.

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

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

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

Sincerely,



Roberto Danel Díaz

Chairman of the Corporate Practices Committee





MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS

Overview

- Consolidated net sales grew by 10.4 percent to a record MXN 20,065 million.
- Consolidated operating margins and EBITDA were 13.9 percent and 16.4 percent, respectively, both with an expansion of 90 basis points.
- Majority net income reached a record MXN 1,046 million, 45.8 percent higher than 2016, with a margin of 5.2 percent, partially benefitted by a lower deferred tax liability in the United States.

Net Sales

Consolidated net sales grew by 10.4 percent to MXN 20,065 million, due mainly to price increases in Preserves and the improved performance of the Frozen division.

Institutional, wholesale and traditional were the best performing channels. By category, pasta, salsa and vegetables exceeded the average growth of the portfolio, driven by price increases and innovation initiatives, such as new product launches, marketing campaigns to promote responsible consumption, and the co-creation of new products with the end consumer.

In the Frozen division, net sales grew by 11.2 percent, due mainly to: i) solid performance in Nutrisa, driven by growth in same store sales and traffic; ii) diversification of sales channels in Helados Nestlé; and iii) the performance of recently launched products, such as the Danesa 33 varieties.

Exports grew by 6.2 percent as a result of the weak performance of volumes in the third quarter.

In 2017, the Preserves segment represented 80 percent of net sales, Frozen 14 percent and Exports the remaining 6 percent.

Gross Profit

Gross profit margin was 39.3 percent, a contraction of 60 basis points compared to the previous year, mainly due to the increase in costs denominated in pesos and dollars.

General Expenses

General expenses represented 25.9 percent of net sales, an improvement of 1.3 percentage points compared to the previous year, mainly explained by a decrease of 5.3 percentage points in the Frozen segment and greater cost absorption in Preserves.

Operating Income

Operating income rose to MXN 2,790 million, a growth of 18.1 percent over the previous year, with an expansion of 90 basis points in the operating margin to 13.9 percent. The above due to the improvement in Frozen together with lower general expenses in Preserves.

Comprehensive Financing Result

The net financing cost amounted to MXN 496 million, 6.4 percent higher than the previous year, derived from an additional MXN 64 million in net interest paid.

Investments in Associates

For 2017, investments in associates was MXN 834 million, 39.2 percent higher than in 2016 due mainly to a strong organic performance by MegaMex together with the extraordinary benefit explained earlier. Without this effect, investments in associates would have grown by 14.0 percent.

MegaMex Consolidated Income (100 percent)

In 2017, net sales rose to MXN 12,168 million, an increase of 12.3 percent compared to the previous year, driven by a solid performance in the guacamole and salsa categories across all sales channels.

For the same period, the gross margin reached 30.2 percent, 1.9 percentage points lower than the previous year due to a 15.4 percent cost increase, mainly attributed to avocado. The EBIT margin dropped 80 basis points to 11.9 percent and the EBITDA margin was 15.0 percent.

Consolidated Net Profit

The consolidated net margin for the year was 10.8 percent, 2.0 percentage points higher than in 2016, while the majority net margin improved 1.3 percentage points to reach 5.2 percent.

Earnings before Interest, Taxes, Depreciation, Amortization and other Non-Cash Charges (EBITDA)

Cumulative EBITDA amounted to MXN 3,295 million, representing growth of 17.0 percent, with a margin of 16.4 percent. The above represented an expansion of 90 basis points compared to 2016.

Capital Expenditure (CAPEX)

Capital expenditure for the year was MXN 641 million, destined mainly to the expansion of production capacity for salsas and to new freezers for the Frozen segment.

Financial Structure

As of December 31, 2017, the Company's cash position rose to MXN 1,485 million, while debt ended at MXN 6,351 million. As a result of the debt restructuring process executed during the year, the average maturity of the Company's debt stands at 6.0 years, of which 100 percent is denominated in Mexican Pesos, and 97 percent is long-term.

The consolidated net debt to EBITDA ration remained at 1.5 times, while net debt to consolidated shareholders' equity was 0.28 times.

Cash Flow

At year end, cash flow from operations amounted to MXN 2,043 million, MXN 1,285 million higher than in 2016.



www.grupoherdez2017.com