



with all
trust...

ANNUAL REPORT 2001

our reason to be

Vision

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

Mission

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

index

2	Relevant financial information
3	To our shareholders, employees, and customers
6	Becoming more efficient
8	Offer better products and services
14	Be a global company
16	Social responsibility and corporate presence
18	Board of Directors
20	Management's comments and analysis
24	Financial Statements

move towards...

Becoming more efficient.
Offer better products and services.
Be a global company.



...is

HERDEZ

relevant financial information

Expressed in thousands of constant pesos as of December 31st, 2001

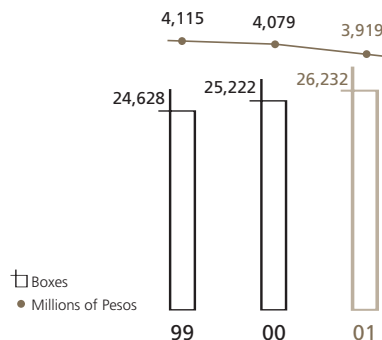
Grupo Herdez	2001	2000	1999
Sales in terms of no. of boxes (thousands)	26,232	25,222	24,628
Increase vs. previous year	4.00%	2.41%	4.33%
Net Sales	3,918,860	4,078,642	4,115,332
Increase vs. previous year	-3.92%	-0.89%	0.22%
Cost of Sales	2,199,412	2,283,372	2,503,188
As a percentage of sales	56.10%	55.98%	60.83%
Gross Profit	1,719,448	1,795,274	1,612,144
As a percentage of sales	43.90%	44.02%	39.17%
Operating Expenses	1,289,784	1,243,464	1,119,839
As a percentage of sales	32.90%	30.49%	27.21%
Operating Profit	429,665	551,810	492,305
Operating Margin	11%	13.5%	11.96%
Increase vs. previous year	-22.14%	12.08%	29.50%
Oper. profit plus dep. & amort. (EBITDA)	528,728	644,401	577,254
As a percentage of sales	13.50%	15.80%	14.03%
Integral Cost of Financing	76,407	105,367	68,364
Profit before taxes & profit sharing	382,303	468,976	435,672
As a percentage of sales	9.80%	11.50%	10.59%
Consolidated Net Profit	243,147	297,775	308,111
Consolidated Net Margin	6.20%	7.30%	7.49%
Net Profit	131,484	180,306	183,533
Net Margin	3.36%	4.42%	4.46%
Increase vs. previous year	-27.1%	-1.8%	19.8%
Fixed Assets	1,788,985	1,799,416	1,669,655
Total Assets	3,847,845	3,869,798	3,756,338
Total Liabilities	1,949,765	1,921,548	1,472,680
Bank Debt	1,103,004	1,114,975	1,069,215
Total Equity	1,898,080	1,948,250	2,283,658

Other financial information

EBITDA/Net Interest (times)	4.5	4.3	3.4
Net Cash Flow generated (used) by operations	266,224	445,525	79,749
Net Cash Flow generated (used) by financing	-227,983	-81,486	159,671
Net Cash Flow generated (used) by investing	-117,599	-286,862	-198,385
Dividends per share	0.165	0.165	0.19
EPS	0.31	0.42	0.43
Shares outstanding at end of period (thousands)	422,556	424,471	425,937

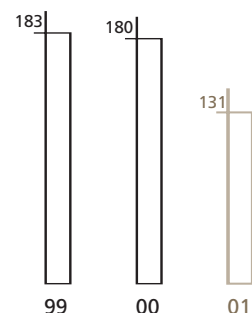
total sales

in volume and millions of pesos



net profit

in millions of pesos



valued shareholders, employees and customers

The year 2001 was marked by events without precedent, unleashing an atmosphere of great uncertainty and economic deceleration.

Reflecting the economic recession affecting our main commercial partner, the United States, our markets experienced a drop in demand. As a result, Mexico's GDP declined 0.2%. On the positive side, inflation for the year dropped to 4.4%, a figure not observed in the last few years.

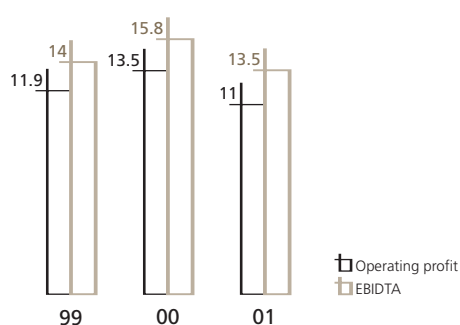
The food sector continues ruled by increasing competition, and given an increasingly discerning purchasing behavior on the part of the consumer, the tendency to offer promotions and discounts prevails, together with the implementation of extensive publicity campaigns.

As I previously mentioned, the year 2001 was particularly difficult due to a recessionary economy, domestically and internationally. In spite of this, we managed to increase our sales in unit terms by 4%, although in monetary terms this translated into a decline of 4%, as extensive promotions offered to the consumer resulted in price discounts and consequently in the reduction of profit margins.



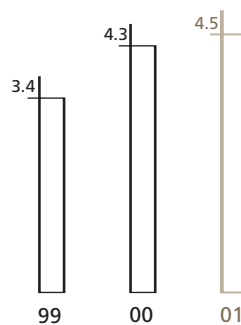
Enrique Hernández-Pons Torres
President and Chairman of the Board

margins



interest coverage

EBITDA / net interest (times)



***We implemented
changes in our organization,
consolidated and expanded
important alliances, therein
we will focus on surpassing
our results.***

The operating margin was 11% and the EBITDA margin reached 13.5%, amounts that while positive within the food sector, were disappointing to us. As a result, we will focus on the gradual improvement of these indicators. Net profit of 131.5 million pesos was below that reported last year.

Our financial position is solid as debt levels have remained stable. The decline in interest rates resulted in significant savings in the servicing of our debt.

Cash flow generated by operations allowed us to maintain our dividend policy and meet our investment requirements without incurring additional debt.

Confronted with this climate, once more Grupo Herdez, a proudly Mexican company, showed its stability by maintaining its growth and expansion plans.

With the purpose of increasing its competitiveness, at the end of this past year, the company initiated an in-depth restructuring meant to achieve a different work organization based on business units. Each of these units will contain a well structured team to efficiently manage our brands and products.

This restructuring, originating from a profound evaluation of the strengths and values defining our future and consequently our market presence, resulted in the establishment of the following business units:

**Associated Companies,
Herdez Companies,
Farming/Fishing,
Hygiene and Personal Care,
Foreign Markets and
Herdez Trading.**

All supported by centralized corporate services

We are a company in constant change ready to confront new challenges, a company leveraging its strengths, while adopting a corporate culture where

commitment, goal achievement and constant improvement are fundamental elements.

Globalization brings Herdez great challenges and opportunities, our exports already represent 10.2% of sales in terms of boxes. The group has been transformed into a company that opens markets, domestically and internationally, develops strategic alliances with global players, cements its future on the solid leadership it commands in the markets it participates, and sustains its growth based on products of the highest quality, thereby establishing world renown brands, while positioning Grupo Herdez as an important competitor of international rank. During 2002, We will introduce products under the brand "Doña Maria" in the United Kingdom, continuing with the integral development of other markets.

I'm proud to inform you that the group has formed a 50%/50% association with Barilla Alimentare, s.p.a., a leading italian company of international renown. Barilla Mexico was established with the purpose of making, commercializing and distributing Barilla brand pastas and sauces. Additionally, through this association, we acquired the Yemina and Vesta brands as well as the equipment necessary for their production.

We announce this association with great satisfaction, not only for the increase in volume this will represent for the group, from 27 to 40 million boxes, but also as it demonstrates, once more, that the efforts made by all the members of this great Herdez family continue to bear results.

We are thankful to our shareholders for their trust, to our partners McCormick & Co. and Hormel Foods, as well as our customers, suppliers and employees, for the invaluable support always provided for the growth and strengthening of the group.

Today, tomorrow and always,

With all trust is... Herdez

A handwritten signature in dark ink, appearing to read 'Enrique', with a stylized flourish at the end.

Enrique Hernandez-Pons Torres
President and Chairman of the Board

becoming more efficient...



During the year 2001 we implemented an internal reorganization as we sought to achieve higher efficiency and productivity standards. The new corporate structure will be instrumental in reaching our objectives which are focused on the complete satisfaction of our customers, shareholders, and employees.

Resulting from this restructuring, individual business units were created, each one managed by an executive office supported by a well-structured team responsible for the strategies and results of the unit.

All the business units share a common set of objectives: to be profitable, to quickly respond to the market's needs and desires, to achieve and maintain market leadership of the products under management, and to enhance customer service. These objectives are intended to generate a continuous increase in shareholders' economic value.

The business units will have at their disposal centralized services offered by the company's Finance, Human Resources and Systems departments, in addition to the support from Logistics, Technical, and Advertising and Communications areas.

Con toda Confianza... es
HERDEZ

McCORMICK

Doña María

Búfalo

Hormel

Barilla

La Carlota

Yavares

Kikkoman

Solo

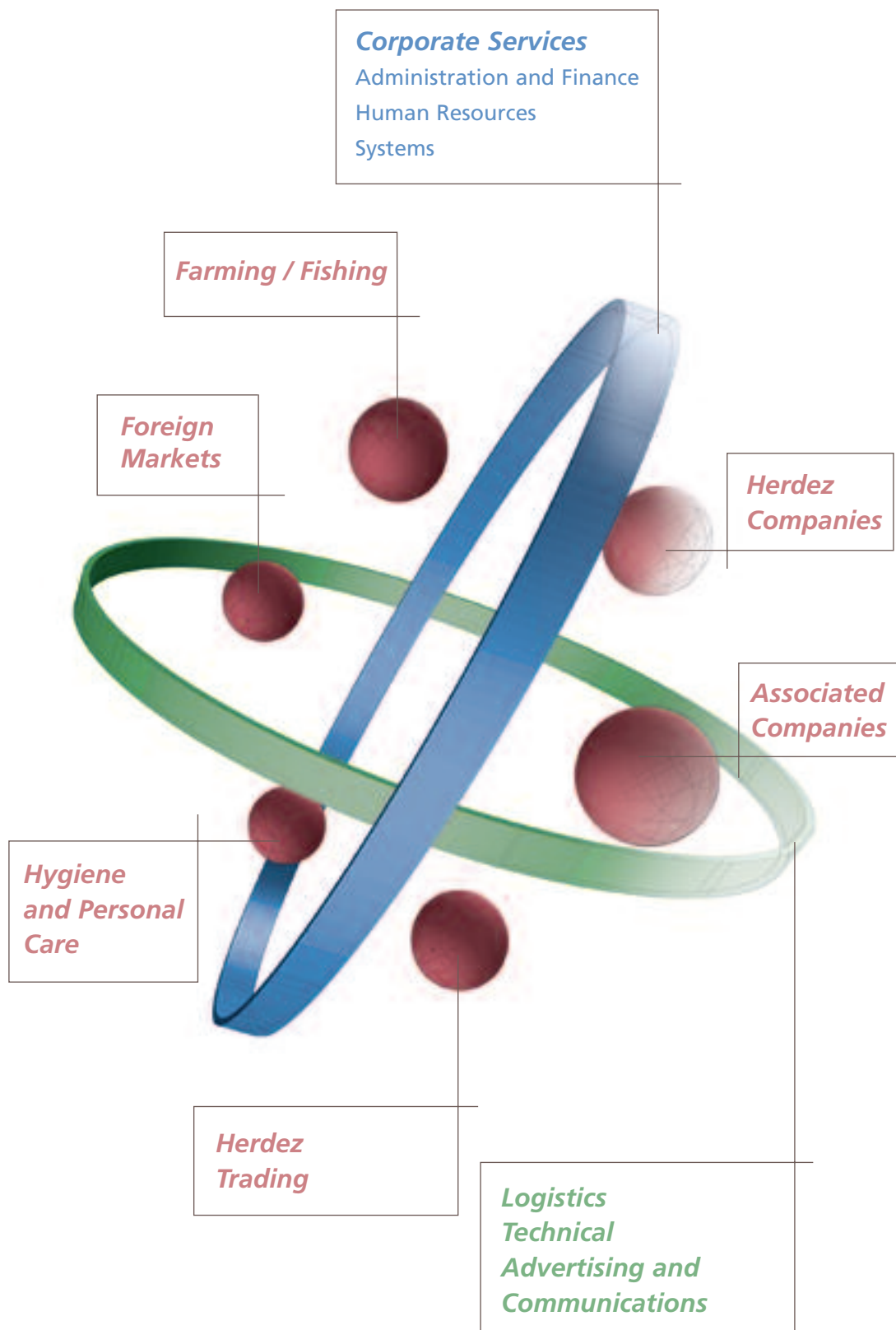
Pons

Soften
BEAUTY & CARE

Tami

Festin

*Each one of the executive offices
will have its own operations and
marketing departments responsible
for the maximization of results.*





offer better products and services...

***We formed
a strategic association
with Barilla Alimentare,
a leading company in the
production of pastas.***



Associated Companies

The executive office for the Associated Companies manages the operations for the following entities and brands:

- **McCormick:** mayonnaise, mustards, marmalades, spices, and tea.
- **Hormel:** Spam, sausages, pates, and chili.
- **Barilla:** Yemina and Vesta pastas.
- **Kikkoman:** soy sauce in various presentations.
- **Solo and Solomate:** chicken bouillon and chicken bouillon with tomato.

Relevant Activities

During the year we cemented our association with McCormick indefinitely, representing a great achievement for Grupo Herdez.

In the last quarter of 2001, we initiated negotiations with Barilla Alimentare, a global leader in the manufacturing and commercialization of pastas, for the production and distribution of Barilla products in Mexico, which will allow us to expand our product line by utilizing our logistics and sales infrastructure.

In the domestic market, we reasserted our commanding leadership in the mayonnaise, marmalade, mustards, spices, and canned ham product sectors. We expanded the McCormick plant's production capacity in San Luis Potosi, in response to growing demand for these products and favorable market expectations.

New Products

- McCormick mayonnaise in the "squeeze" bottle presentation in its three varieties: lemon, light, and dressing.
- New image (new bottles and labels) for the mayonnaise, mustard, and marmalade categories.
- New line of McCormick seasonings (ready to bake seasonings, marinades, gravies for meat and chicken, pasta sauces, dips, bacon flavored snacks, and chunky dressings for salads).
- New Spam flavors: deviled, jalapeño chilies, peppers and mushrooms.



Growth Strategy

Search for new international markets.
 Develop new products and presentations.
 Establish profitable associations with new companies.
 Implement sales programs for the benefit of the final consumer.
 Grow through the further penetration of the "Food Service" distribution channel.

We made new market introductions such as the clam flavored tomato juice "Almejito".

Herdez Companies

The executive office for the Herdez Companies is responsible for the operations related to the following companies and brands:

- **Herdez:** sauces, chilies, fruits, mushrooms, legumes, juices, and vinegars.
- **Bufalo:** bottled sauces, olives, and legumes.
- **Doña Maria:** mole sauce, legumes, beans, desserts, and cooking sauces.
- **Carlota:** bee honey, maple, and honey for infants.
- **Festin:** drinkable gelatins.





Relevant Activities

We redesigned the Herdez labels projecting a fresher and more modern image. We established unequivocal leadership with the Doña Maria mole sauce and the V8 vegetable juice in the Mexican market, while increasing the product sector's participation in the US market.

We refurbished the Veracruz plant's production bay to increase efficiency in the production of the V8 vegetable juice.

New Products

- Tomato and clam juice "Almejito".
- Doña Maria cooking sauces: Pasilla, Guajillo, Chipotle, and Green sauces.

Growth Strategy

Increase our exports by opening new markets.

Increase our sales through greater penetration of the "Food Service" channel.

Continue to freshen and update our products' image and presentations, targeting markets in all age brackets.

To be vigilant to our costumers' needs to satisfy them swiftly.

To improve the production processes for other product lines such as mushrooms, legumes, fruits, and chilies in order to cut costs.

We modernized the image of the Herdez products.



Farming / Fishing

The business unit farming / fishing is responsible for the management of the company's farms and crops and the elaboration and commercialization of canned sea products. Ownership of farms and crops enables us to be the main suppliers of agricultural products to the other business units, while also promoting their use as experimental grounds for the development of higher yielding seeds.

Brands encompassing this sector include:

- Yavaros sardines
- Herdez tuna in water and oil presentations (tuna salad, tuna spread, and tuna with peas).

Relevant Activities

The activation of the ship Arkos I in March of 2001, resulted in a 21% increase in the production of tuna which allowed us to satisfy 100% of our production needs internally. Additionally, greater production efficiency achieved in the tomatoes line and an improved supply of tomatoes in the year 2001 resulted in an important increase of 6% in the production of tomato paste, enabling us to meet the input needs for the production of our canned Yavaros sardines as well as other Herdez products.

We achieved the automation of a system that manages production processes and quality from any part of the world in real time. This system has resulted in a reduction of costs reflected in a drop in prices to the consumer as we confronted a price war among producers in 2001. We implemented maintenance projects and acquired canning, refrigeration, and warehousing equipment.

One key function of the Farming / Fishing business unit is to increase the productivity of the Mexican farm industry.



***We consolidated
our investments in
fishing in order to
reach self-sufficiency.***

Herdez tuna maintained its market position within the five biggest domestic brands in the country. In respect to Yavaros sardines, we achieved an important presence and brand recognition in the highly competitive domestic market.

New Products

- We introduced tuna in water in the 340 grams can presentation.

Growth Strategy

- Develop new packages and presentations for the domestic and international markets.
- Diversify and develop other seafood products.
- Implement quality processes consistent with Mexican and international standards to enable us to infiltrate foreign markets.
- Leverage our plants' modern technology, self-sufficiency, and production efficiency to participate in the foreign markets and increase our share of the domestic market.
- Guarantee the timely and steady supply of products during the year.

Hygiene and Personal Care

This business unit is responsible for all cleaning and personal care related products such as soaps, creams, and shampoos of high quality marketed under the following brands:

- **Pons:** Soaps
- **Tami:** Toothpaste and toothbrushes
- **Soften:** Creams and Soaps

Relevant Activities

We obtained important contracts for the manufacturing of third party products which increased the level of utilization of the plant, while reducing operating expenses.

Advertising expenses were cut and were channeled to the points of sale by using product demonstrators and price promotions, strategy that contributed to an increase in sales.

New Products

During the year 2001 we did not introduce any new products or presentations in this category.

Growth Strategies

- Increase production of third parties' products leveraging our production capacity.
- Penetrate alternative markets such as the natural products market.
- Seek strategic alliances with companies in the same sector.
- Purge unprofitable product lines.





Herdez Trading

This executive office provides the Associated Companies, Herdez Companies, Agricultural/Fishing, and Hygiene and Personal Care business units, support in the commercialization and distribution of the Grupo's products by taking care of our clients with a level of excellence. Its mandate focuses on the timely and efficient delivery of merchandise, sales planning, and the negotiation of better terms regarding prices, shelf placement, payment requirements, and promotions.

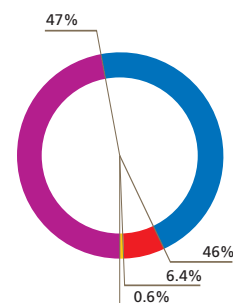
In order to perform its function, Herdez Trading maintains a close relationship with the Logistics department, reaching the various distribution channels in accordance to their individual needs. One of the most significant opportunities arises from our recent incursion into the pasta market, from our association with Barilla, further reinforcing commercial relationships with our clients while increasing our products' presence at the shelf level.

Growth Strategies

- Intensify visits to our self-service accounts in order to gain an insight into their current needs while striving to increase our shelf space.
- Implement and offer efficient promotional strategies and incentives to our wholesale customers to increase our presence at grocery stores.
- Continuously support small retail customers through direct product deliveries in order to increase our presence at such points of sale.
- Continue with the implementation of our customer service optimization system designed to improve customer service.

In the year 2001, the Grupo's products reached their distribution channels in the following manner:

sales by channel of distribution



- Autoservices
- Wholesalers
- Grocery stores
- Others



be a global company...

Foreign Markets

This business unit is in charge of the commercialization and the timely and steady supply of our products in the international markets. Additionally, it is responsible for the purchase of inputs overseas, contributing to lower costs. The Foreign markets business unit also provides support to other business units, namely the Associated Companies, Herdez Companies, Farming/Fishing, and Hygiene and Personal Care, by promoting their products in the export markets, considered desirable given its high growth potential, consequence of the growing popularity of Mexican food.

Our strength is rooted in the products we offer - authentically Mexican and of the highest quality.

Herdez Corporation and McCormick Corp. are responsible for the distribution of our products in the United States where, this year, we realized 87% of our total exports. Through Herdez Central America, we reached different countries in Central America where our sales totaled 9% of our exports.

Through Herdez Europe, a company established in Barcelona in 2001, we sold 3% of our exports. South America, where currently our sales are small, was reached through various distributors.

In 2001, the products with the highest export sales participation included: Doña Maria mole sauce and cactus leaves, Herdez chilies and juices, Bufalo sauces, Yavaros sardines, and McCormick mayonnaise and teas.

Relevant Activities

We increased our exports significantly through a more efficient distribution and greater product variety.

We created an image for the products to be sold under the Doña Maria brand in the European Continent.

In the year 2001, we expanded our export markets which now include countries such as Canada, Costa Rica, and Chile.

We held negotiations with an important distributor to commercialize our products in the United Kingdom, where Mexican food enjoys significant preference.

***Exports increased
from 8% of sales
in the year 2000,
to 10% in 2001.***





We adapted our products' image for the European market.

We performed individualized market planning in order to achieve greater efficiency in terms of brand registration, certification processes, health requirements, and market research for the purpose of product introductions.

Growth Strategies

- Develop new markets such as the Anglo-Saxon in the United States.
- Manufacture complementary products in other countries.
- Continuously innovate products and presentations.
- Implement strategic promotional and publicity campaigns.





social responsibility and corporate presence

Grupo Herdez has upheld its responsibility of meeting the important social role of providing a stable source of employment while encouraging the integral development of its personnel.

In the year 2001, our labor relations with the unions as well as with the individual employees were harmonious, in a corporate climate characterized by dialogue and mutual understanding. The number of our employees this year totaled 5,402 reflecting an increase of 2% versus the previous year.

Training has always been of vital importance for Grupo Herdez, and as a result it has become a critical tool for the attainment of greater levels of efficiency and quality.

The Grupo's investment in technology has demanded a significant effort in the training of the work force particularly in the technical, operations, finance, and administrative areas. As a result, more than 46,000 hours of training/per employee were imparted in the year 2001, in addition to various other actualization sessions.

In order to maintain the highest quality standards, Grupo Herdez practices a permanent policy that calls for the improvement of processes at all of its plants, identifying areas of opportunity and meeting current requirements in accordance to ISO regulations. This mandate permits already certified plants to continue to consolidate, maintain, and improve their quality systems, supported by the close supervision from our independent auditors, while initiating the transition to the new ISO 9001 rules in revision 2000.

The Mexico City plant completed the last finishing touches towards the certification of its quality system and is expected to obtain its ISO 9000 certification early in the year 2002.



Herdez Foundation

Through Herdez Foundation we implemented a variety of educational, social, and scientific activities. As part of our educational activities, the gallery "Our Kitchen Duke of Herdez" realized various events to promote and spread our culinary traditions including a "Mexican Gastronomic Conference", and programs for children and adults. One of these programs "Strolling through Museums" was organized as part of the children's summer program carried out by the Museum network of Mexico City's Historic Center.

Currently, the Library of the Mexican Gastronomy has over 1,469 books servicing users interested in the subject, on a daily basis. This year we concentrated our efforts in expanding the Mexican cuisine's field of study with books that put in perspective the origin of a particular dish, its historical context, its customs and traditions, and its nutritional value.

To support the dissemination of our rich culinary tradition, in the month of June we concluded the course "Our Kitchen, the Art and Culture of the Mexican Gastronomy", conducted in collaboration with the Universidad Nacional Autonoma de Mexico.

The Herdez Foundation, aware of its social responsibility, supported more than 75 charitable institutions through its monthly food donation program. As a special donation to international institutions, food items were delivered to the United Nations' Food and Agriculture Organization (FAO), in observance of World Food Day.

Additionally during the year, we developed studies focusing in the production of foods with high nutritional value and made advances in the design of a project that will support the application of scientific findings in the food sector.

Competition Herdez

Through Competition Herdez we support competitive sports in a wide variety of disciplines including: car racing, tennis, and football among others, with a project that promotes our products by establishing a link between our brands and a huge market, while meeting its social responsibility of supporting Mexican athletes.

Herdez Competition functions as a powerful tool that positions our brands with a global image of leadership and dynamism. Through the Cart series we reach large domestic and international audiences as we can obtain significant air time and coverage through other mediums.



Fundación
HERDEZ



Enrique Hernández-Pons Torres (left)
Héctor Hernández-Pons Torres

board of directors

Enrique Hernández-Pons Torres
President and Chairman of the Board
Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Héctor Hernández-Pons Torres
Vice President and Chief Executive Officer, Corporate Services
Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

João Alves de Quiroz Filho
President Monte Cristalina, S.A.

Member of the Board of Directors of Grupo Herdez since 2001

Carlos Autrey Maza
President of the Board of Directors
Corporación Autrey, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Enrique Castillo Sánchez Mejorada
President of the Board of Directors
Ixe Grupo Financiero

Member of the Board of Directors of Grupo Herdez since 1991

Pedro Gracia-Medrano Murrieta
Director Human Resources
Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1998

management team

Leonel Camps Pérez
Executive Director
Hygiene and Personal Care

Alberto Dappen Guerrero
Director Systems

Iñigo Dávila Fernández
Executive Director Herdez Companies

Luis Garcés Benito
Executive Director Farming / Fishing

Jorge Gardner Gómez
Director Farming / Fishing Operations

Alberto Garza Cabañas
Director of Marketing and Sales
Herdez Companies

Esteban Malpica Fomperosa
Counsel

Member of the Board of Directors of Grupo Herdez since 2000

Alejandro Martínez Gallardo de Portualés
Executive Director Empresas Asociadas
Grupo Herdez S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 2001

Juan Guillermo Mijares Dávalos
Partner
Mijares, Angoitia, Cortés y Fuentes, S.C.

Member of the Board of Directors of Grupo Herdez since 1991

Luis Nieto Martínez
Director Counsel
Grupo Herdez S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1991

Ernesto Ramos Ortíz
Executive Director, Administration and Finance
Grupo Herdez, S.A. de C.V.

Member of the Board of Directors of Grupo Herdez since 1996

Olympia Torres de Hernández-Pons
Counsel

Member of the Board of Directors of Grupo Herdez since 1991

Antonio Damián Basurto
Partner
Pricewaterhouse Coopers, S.C.
Commissioner

Pedro Gracia-Medrano Murrieta
Director Human Resources

Roberto González Rosas
Executive Director
Herdez Trading

Héctor Lebrija Guiot
Director
Advertising and Communications

Pablo Lezama Velez
Director Finance

Alejandro Martínez Gallardo
Executive Director Associated Companies

Luis Nieto Martínez
Director Counsel

Emilio Mahuad Gantus
Executive Director Foreign Commerce

Jorge Obregón Parlange
Director Logistics

Ernesto Ramos Ortíz
Executive Director
Administration and Finance

Rafael de Regil y Gómez Muriel
Technical Director and Director of Operations
Associated Companies

Juan Rodríguez del Collado
Director of Marketing and Sales
Associated Companies

Carlos T. Velázquez Osuna
Director of Operations Herdez Companies

management's discussion and analysis of operating results and financial position

The following analysis must be read in conjunction with the President's Letter to Shareholders, the Consolidated and Audited Financial Statements, as well as the accompanying notes and the Relevant Financial Information table, which lists some of the key numbers taken from Grupo Herdez, S.A de C.V. consolidated Financial Statements. Following is a comparative analysis of the fiscal year ending December 31st, 2001. The amounts are expressed in thousands of constant pesos as of December 31st, 2001, unless otherwise noted.

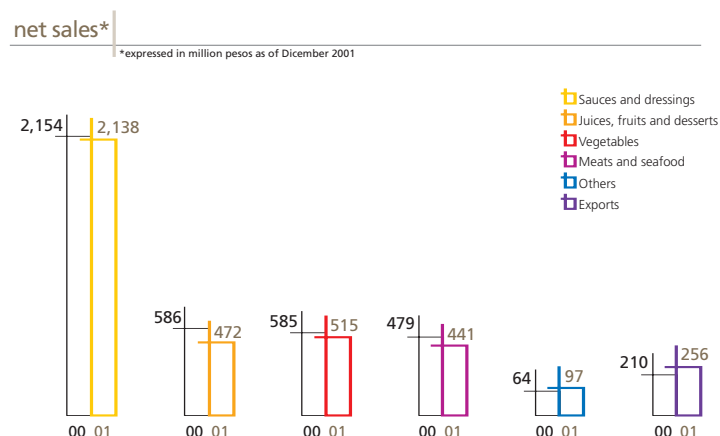
Net Sales

Net sales during the year 2001 reached \$3,918.8 million pesos, registering a decrease of 3.9% versus net sales in the year 2000. In volume terms, Grupo Herdez reported a 4% growth in the number of boxes sold compared to the previous year, rising from 25,222,246 boxes in the year 2000, to 26,232,493 boxes in the year 2001.

In the year 2001, the sauces and dressings segment presented an increase of 4.09% in boxes compared to the year 2000, while in monetary terms, the segment reported a decline of 0.73%. These figures reflected a reduction in prices maintained through the entire year, consistent with a strategy implemented in the last quarter of the year 2000 which called for lower prices for some of our leading products, resulting in a negative comparison basis of year 2001 versus 2000.

In regards to the juices, fruits, and desserts segment, the sector showed a decline both in number of boxes and in peso terms of 7.98% and 19.44% respectively. While some of the products that comprise this segment reported an increase in terms of boxes as well as in pesos, aggressive competition in the beverage sector combined with a reduction in the price of fruit negatively impacted the entire segment.

The vegetables segment reported a decline in terms of boxes of 6.62% and of 11.95% in monetary terms, for the year 2001. The appreciation of the peso opened the door to imported products at very competitive prices. However, there is great potential to increase efficiency in the production processes which will allow us to confront the aforementioned situation.



The meat and seafood segment showed an increase of 6.59% in terms of boxes in the year 2001, and a drop of 7.89% in monetary terms. We achieved growth in sales of tuna, both in boxes and value terms. As with tuna, sales of sardines rose in terms of boxes compared to the year 2001, however, they declined in terms of value as sardine prices dropped, contributing to the decline for the segment as mentioned above.

Sales of Personal Care and Hygiene products, included in the other category, continued to make a small contribution to sales. This sector presented interesting growth numbers in terms of boxes and value specifically the creams and soaps lines, as well as in the production of various products for third parties.

For the year 2001, as a percentage of sales, sauces and dressings contributed to 55%, both in boxes and value terms, for juices and desserts the contribution amounted to 15% in boxes and 12% in value terms respectively, while vegetables contributed 12% in boxes and 13% in value, with meats and seafood contributing to 7% in boxes and 11% in value.

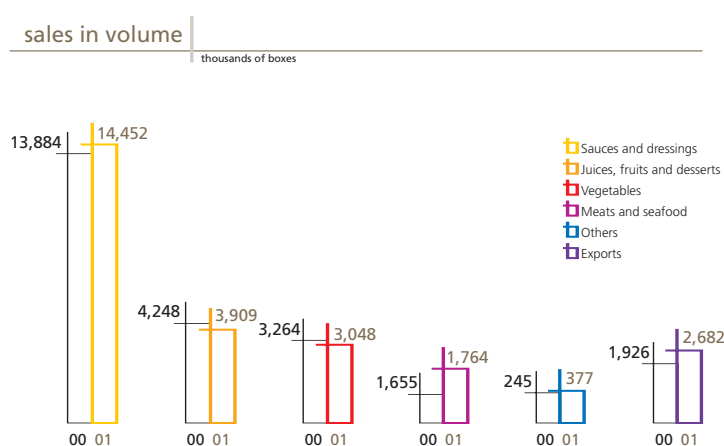
Exports for the Grupo showed a positive tendency during the year 2001, with growth of 39.25% in unit terms, surpassing the 1,926,080 boxes in 2000, to reach 2,682,066 in 2001. Additionally, in terms of boxes, exports rose from 8% of the total sales for the Grupo in the year 2000, to 10% in 2001. In value terms, exports expanded by 21.55% in the year 2001 versus the year 2000, and representing 7% of sales which compares favorably with the proportion observed in the year 2000 of 5%.

The above was a result of improved distribution in the United States (our main market) and greater diversification of exports.

To these markets we exported sauces, dressings, vegetables, juices, fruits, and seafood.

Cost of Sales

In the year 2001, the cost of sales showed a decline of 3.68%, dropping from \$2,283.4 million pesos in 2000, to \$2,199.4 million pesos in the year 2001, reflecting mostly the decline in sales.



Gross Profit

Gross profit for the year 2001 totaled \$1,719.4 million pesos, for a decline of 4.22% versus the year 2000; gross margin equaled 43.9% compared to 44% for the year 2000. Lower sales were the major factor impacting results.

Operating Expenses

In the year 2001 operating expenses rose to \$1,289.8 million pesos for an increase of 3.72% versus the year 2000, resulting from higher advertising and promotional expenses necessary to maintain our market share.

Operating Profit

Operating profit for the year 2001 reached \$429.6 million pesos, an amount 22.14% lower versus the year 2000. Lower sales resulting from discounts and promotions and higher advertising costs were the main causes for this drop. The operating margin totaled 11% in the year 2001, and although lower than the 13.5% reported in the year 2000, it is in line with the average for the industry. The corporate restructuring implemented is intended to increase the Grupo's operating profitability.

Integral Cost of Financing

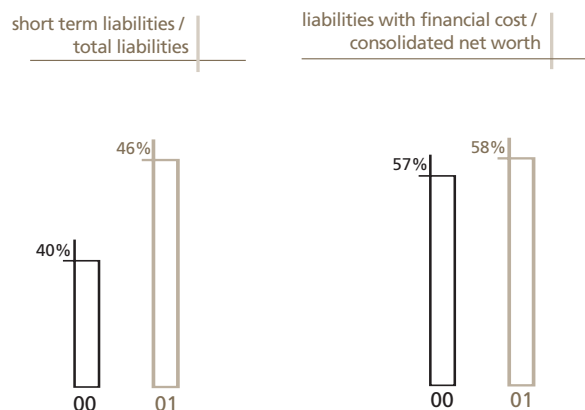
The integral cost of financing showed favorable results in the year 2001, as it declined from \$105.3 million pesos in the year 2000, to \$76.4 million pesos in the year just ended, representing a drop of 27.5%. Interest paid dropped from \$160.4 million in 2000 to \$141.5 million in 2001, or a decline of 11.8% resulting from lower interest rates. Additionally, a currency gain was recorded, compared to a loss in 2000, and higher interest earned in 2001.

Provision for income taxes and employees' profit sharing

Income taxes and employees' profit sharing reached \$142.6 million pesos in the year 2001 versus \$167.7 million pesos in the year 2000 for a decline of 14.9%. This drop was due to a lower taxable base resulting from lower profits.

Net Income

Net income in the year 2001 totaled \$131.4 million pesos, for a decline of 27% versus the year 2000 and a 3.4% of sales.



Changes in Financial Position

Cash Flow generation

Cash flow generated by operations dropped in 2001 by 40% from \$445.5 million pesos to \$266.2 million pesos, reflecting the decline in operating profits and net profits as well as lower working capital levels, due to prepayments mainly related to advertising.

Financing Activities

Financing activities increased in 2001, reflecting higher dividends paid to minority shareholders as they included a payment corresponding to the year 2000 scheduled for payment in the year 2001.

Investments

Cash used for investment activities declined by 59% in the year 2001 compared to the year 2000, in line with our strategy of consolidation of investments.

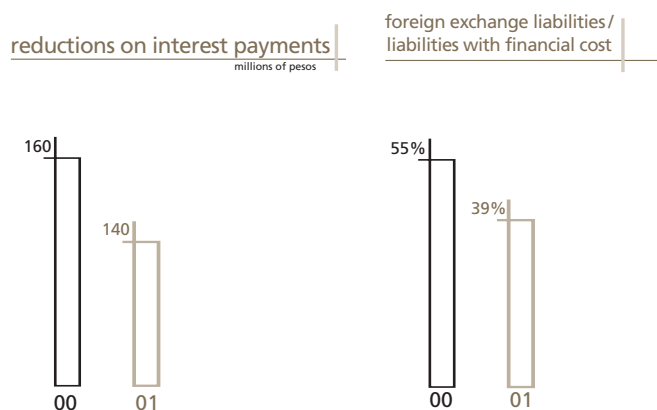
The main investments implemented in 2001 included the expansion of production capacity at the McCormick plant in San Luis Potosi and the remodeling of the production chamber of the V8 vegetable juice at the Veracruz plant. The resources used for these investments were generated by operations, avoiding the need to increase interest bearing debt.

Interest bearing debt

Debt in the year 2001 declined 1% versus the year 2000, totaling \$1,103 million pesos. At the end of 2001, short-term debt represented 46% of total debt compared to 40% in the year 2000 reflecting mostly the expiration of long-term debt which was amortized in 2001. Due to a decline in interest rates in Mexico, we reduced our exposure to foreign currency denominated debt to potential exchange fluctuations. As a result, foreign currency denominated debt represented 39% of interest bearing debt, compared to 55% in 2000.

Other

A the end of the year 2001, we initiated negotiations with Barilla Alimentare, the global leader in the production and commercialization of pastas, with the goal of producing and distributing these products in Mexico, a market that represents great potential for Grupo Herdez. This association was formalized in the month of January 2002.



report of independent accountants

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

(Translation from the original issued in Spanish)

Tlalnepantla, Mex., February 4, 2002

1. We have examined the consolidated and individual balance sheets of Grupo Herdez, S. A. de C. V. and subsidiaries and of Grupo Herdez, S. A. de C. V. (as an individual legal entity) as of December 31, 2001 and 2000, and the related consolidated and individual statements of income, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with generally accepted accounting principles. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

2. As mentioned in Note 1 to the financial statements, as from the period ended December 31, 2001, the company adopted the provisions of new Statement D-4, "Accounting Treatment of Income Tax, Asset Tax and Employees' Statutory Profit Sharing", issued by the Mexican Institute of Public Accountants with the effects described in that note.

3. In our opinion, the aforementioned consolidated and individual financial statements present fairly, in all material respects, the financial position of Grupo Herdez, S. A. de C. V. and subsidiaries and of Grupo Herdez, S. A. de C. V. (as an individual legal entity) at December 31, 2001 and 2000, and the consolidated and individual results of their operations, the changes in their stockholders' equity and in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

PricewaterhouseCoopers



Luis A. Martínez Gómez

statutory auditor's report

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

(Translation from the original issued in Spanish)

Mexico City, February 4, 2002

In my capacity as Statutory Auditor, in compliance with article 166 of the Corporations Law and the company's bylaws, I hereby submit my report on the veracity, sufficiency and reasonability of the financial information presented to you by the Board of Directors concerning the company's business for the year ended December 31, 2001.

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

In my opinion, the accounting and reporting policies and procedures followed by the company and considered by management in preparing the financial information to be submitted to the stockholders are adequate and sufficient and were applied on a basis consistent with that of the preceding year. Therefore, said information accurately, reasonably and sufficiently reflects the financial situation of Grupo Herdez, S. A. de C. V. at December 31, 2001, the results of its operations and the changes in its stockholders' equity and in its financial position for the year ended on that date, in conformity with generally accepted accounting principles.



Antonio Damián Basurto
Statutory auditor

consolidated balance sheet

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	December 31,	
Assets	2001	2000
CURRENT:		
Cash and marketable securities	Ps 44,786	Ps 124,144
Customers	709,641	726,593
Other accounts receivable	132,913	66,952
Value added tax and income tax recoverable	171,570	191,443
Related parties (Note 3)	48,695	15,876
	1,062,819	1,000,864
Inventories (Note 4)	760,612	763,833
Prepaid expenses	82,606	85,303
Total current assets	1,950,823	1,974,144
PROPERTY, PLANT AND EQUIPMENT - Net (Note 5)	1,663,700	1,660,942
INVESTMENT IN ASSOCIATED COMPANIES (Note 6)	41,047	38,204
OTHER ASSETS	108,037	96,238
GOODWILL (Note 6)	241,028	241,028
ACCUMULATED AMORTIZATION	(156,790)	(140,758)
	84,238	100,270
	Ps 3,847,845	Ps 3,869,798

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

December 31,

Liabilities and Stockholders' Equity	2001	2000
SHORT-TERM LIABILITIES:		
Bank loans	Ps 473,932	Ps 384,701
Suppliers	287,225	234,856
Other accounts payable and accrued expenses	119,970	112,102
Income tax payable	12,679	27,571
Employees' statutory profit sharing payable	5,538	6,056
	899,344	765,286
Deferred income tax (Notes 1f. and 9)	404,182	405,195
LONG-TERM LIABILITIES:		
Bank loans (Note 7)	629,072	730,274
Accrued seniority premiums (Note 1g.)	16,519	16,253
	645,591	746,527
NEGATIVE GOODWILL (Note 6)	19,458	19,458
ACCUMULATED AMORTIZATION	(18,810)	(14,918)
	648	4,540
STOCKHOLDERS' EQUITY (Note 8):		
Capital stock		
Nominal value	422,825	424,741
Restatement increment	315,033	315,056
	737,858	739,797
Retained earnings	2,270,831	2,214,089
Accumulated deferred income tax effect (Note 1f.)	18,007	18,007
Capital stock subscription premiums	171,370	171,370
Deficit in the restatement of capital	(1,690,789)	(1,620,266)
	769,419	783,200
MINORITY INTEREST	390,803	425,253
	1,898,080	1,948,250
COLLATERAL GRANTED (Note 10)	Ps 3,847,845	Ps 3,869,798

consolidated statement of income

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	Year ended December 31,	
	2001	2000
Net sales	Ps 3,918,860	Ps 4,078,642
Other income	29,045	22,535
	3,947,905	4,101,177
Costs and expenses:		
Cost of sales	2,199,411	2,283,372
Selling expenses	535,976	516,249
Administrative expenses	238,542	206,785
Advertising expenses	503,126	507,878
Amortization of goodwill	16,032	16,442
Amortization of negative goodwill	(3,892)	(3,892)
	3,489,195	3,526,834
Operating income	458,710	574,343
Comprehensive financing cost:		
Interest paid - Net	116,623	148,949
Exchange (gain) loss - Net	(19,077)	3,099
Gain on net monetary position	(21,139)	(46,681)
	76,407	105,367
Income before income tax, equity in net income of associated companies and minority interest	382,303	468,976
Provisions for (Note 9):		
Income tax	135,189	174,196
Deferred income tax	2,190	(12,538)
	137,379	161,658
Employees' statutory profit sharing	5,275	6,047
	142,654	167,705
Income before equity in net income of associated companies and minority interest	239,649	301,271
Equity in net income of associated companies	3,498	(3,496)
Consolidated net income	243,147	297,775
Minority interest	111,663	117,469
Net income of majority shareholders	Ps 131,484	Ps 180,306
Net income per share (Note 11.)	Ps 0.311	Ps 0.425

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

consolidated and individual statement of changes

in stockholders' equity

Thousands of Mexican pesos (Note 1)

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

For the two years ended December 31, 2001 and 2000

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	Capital stock	Retained earnings	Capital stock subscription premiums	Deficit in the restatement of capital	Accumulated deferred income tax effect	Minority interest
Balances at January 1, 2000	Ps 741,510	Ps 2,126,147	Ps 171,370	Ps (1,173,101)		Ps 417,407
Capital stock increase in subsidiary						27,814
Dividends paid		(88,829)				(66,384)
Share reacquisition (Note 8)		(5,248)				
Capital reductions by share reacquisition (Note 8)	(1,713)	1,713				
Comprehensive income 2000 (Note 1m.)		180,306		(447,165)	Ps 18,007	46,416
Balances at December 31, 2000	739,797	2,214,089	171,370	(1,620,266)	18,007	425,253
Share reacquisition (Note 8)		(4,845)				
Capital reductions by share reacquisition (Note 8)	(1,939)	1,939				
Dividends paid (Note 8)		(71,836)				(144,177)
Comprehensive income 2001 (Note 1m.)		131,484		(70,523)		109,727
Balances at December 31, 2001	Ps 737,858	Ps 2,270,831 ⁽¹⁾	Ps 171,370	Ps (1,690,789)	Ps 18,007	Ps 390,803

⁽¹⁾ Includes Ps59,881 and Ps51,011 of statutory legal reserve at December 31, 2001 and 2000.

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

consolidated statement of changes in financial position

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	Year ended December 31,	
	2001	2000
Operation:		
Net income	Ps 131,484	Ps 180,306
Charges (credits) to income not affecting resources:		
Minority interest in income for the year	111,663	117,469
Equity in net income of associated companies	(3,498)	3,496
Depreciation	87,042	80,156
Deferred income tax	2,190	(12,538)
Amortization of goodwill	16,032	16,442
Amortization of negative goodwill	(3,892)	(3,892)
Net change in inventories, other assets, accounts receivable and payable	(74,797)	64,086
Resources provided by operations	266,224	445,525
Financing:		
Increase of capital stock in subsidiary		27,814
Dividends paid to minority interest	(144,177)	(66,384)
Dividends paid to stockholders	(71,836)	(88,829)
Bank loans (paid) received - Net	(11,970)	45,913
Resources used in financing activities	(227,983)	(81,486)
Investment:		
Reacquisition of shares	(4,845)	(5,248)
Acquisition of fixed assets	(112,754)	(281,614)
Resources used in investment activities	(117,599)	(286,862)
(Decrease) increase in cash and marketable securities	(79,358)	77,177
Cash and marketable securities at beginning of year	124,144	46,967
Cash and marketable securities at end of year	Ps 44,786	Ps 124,144

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

balance sheet

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	December 31,	
Assets	2001	2000
CURRENT:		
Cash and marketable securities	Ps 361	Ps 291
Other accounts receivable	276	183
Related parties (Note 3)	6,997	8,618
Value added tax and income tax recoverable	2,488	25,854
Total current assets	10,122	34,946
MACHINERY AND EQUIPMENT - Net (Note 5)	11,760	13,698
INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (Note 6)	1,499,170	1,569,967
GOODWILL (Note 6)	178,272	178,272
ACCUMULATED AMORTIZATION	(96,635)	(85,484)
	81,637	92,788
DEFERRED INCOME TAX (Notes 1f. and 9)	27,929	24,082
	Ps 1,630,618	Ps 1,735,481
Liabilities and Stockholders' Equity		
SHORT-TERM LIABILITIES:		
Bank loans	Ps 101,000	Ps 146,207
Income tax payable	1,855	
Other accounts payable	19,838	27,979
Total short-term liabilities	122,693	174,186
LONG-TERM LIABILITIES:		
BANK LOANS (Note 7)		33,758
NEGATIVE GOODWILL (Note 6)	19,458	19,458
ACCUMULATED AMORTIZATION	(18,810)	(14,918)
	648	4,540
STOCKHOLDERS' EQUITY (Note 8):		
Capital stock		
Nominal value	422,825	424,741
Restatement	315,033	315,056
	737,858	739,797
Retained earnings	2,270,831	2,214,089
Accumulated deferred income tax effect (Note 1f.)	18,007	18,007
Capital stock subscription premiums	171,370	171,370
Deficit in the restatement of capital	(1,690,789)	(1,620,266)
	769,419	783,200
COLLATERAL GRANTED (Note 10)		
	Ps 1,630,618	Ps 1,735,481

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

statement of income

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	Year ended December 31,	
	2001	2000
Equity in net income of subsidiaries	Ps 143,911	Ps 191,550
Other income	3,925	6,611
	147,836	198,161
Operating expenses:		
Administrative expenses	4,744	7,930
Amortization of goodwill	11,151	11,151
Amortization of negative goodwill	(3,892)	(3,892)
	12,003	15,189
Operating income	135,833	182,972
Comprehensive financing cost:		
Interest paid - Net	14,606	19,727
Exchange loss - Net	558	331
Gain on net monetary position	(7,452)	(12,034)
	7,712	8,024
Income before the following provision	128,121	174,948
Provision for deferred income tax (Note 9)	(3,363)	(5,358)
Net income	Ps 131,484	Ps 180,306
Net income per share	Ps 0.311	Ps 0.425

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

statement of changes in financial position

Thousands of Mexican pesos (Note 1)

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

	Year ended December 31,	
Operation:	2001	2000
Net income	Ps 131,484	Ps 180,306
Charges (credits) to income not affecting resources:		
Equity in net income of subsidiaries	(143,911)	(191,550)
Depreciation	1,937	2,419
Amortization of goodwill	11,151	11,151
Amortization of negative goodwill	(3,892)	(3,892)
Deferred tax	(3,363)	(5,358)
Net change in accounts receivable and payable	18,132	72,862
Resources provided by operations	11,538	65,938
Financing:		
Dividends received from subsidiaries	144,177	66,384
Dividends paid to stockholders	(71,835)	(88,829)
Loans paid - Net	(78,965)	(8,850)
Resources used in financing activities	(6,623)	(31,295)
Investment:		
Increase of capital stock in associated companies		(27,814)
Reacquisition of shares	(4,845)	(5,248)
Acquisition of fixed assets		(1,911)
Resources used in investment activities	(4,845)	(34,973)
Increase (decrease) in cash and marketable securities	70	(330)
Cash and marketable securities at beginning of year	291	621
Cash and marketable securities at end of year	Ps 361	Ps 291

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

notes to the consolidated and individual financial statement

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

(a wholly-owned subsidiary of Hechos con Amor, S. A. de C. V.)

DECEMBER 31, 2001 AND 2000

Figures stated in thousands of Mexican pesos of December 31, 2001 purchasing power

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

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

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

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

- The financial statements are stated in thousands of Mexican pesos (Ps) of constant purchasing power as of December 31, 2001.
- All significant intercompany transactions are eliminated for consolidation purposes. The individual financial statements of Grupher as of December 31, 2001 and 2000 are included, in which the investment in subsidiaries (eliminated from consolidation against stockholders' equity of the subsidiaries) is valued by the equity method. Goodwill is amortized over 15 years, and the negative goodwill derived from the Yavaros acquisition is amortized over 5 years.
- Marketable securities are stated at cost, which approximates market value.
- Inventories are expressed at the last purchase price or production cost, which does not exceed market. Cost of sales is determined by the last-in first-out method.
- Property, plant and equipment and the related accumulated depreciation are restated by applying the National Consumer Price Index (NCPI) in accordance with the Fifth Series of Amendments to Statement B-10 of the Mexican Institute of Public Accountants (MIPA).

Company management considered that after the 2001 adjustment, the property of Grupo Inmobiliario (the Herdez building and other specific assets owned by its subsidiaries) would exceed market value and it was therefore decided to limit their value to that determined at December 31, 2001.

Management also decided to restate the value of the Yavaros ships as from 2001 by applying the NCPI of the country of origin from which they were acquired in order to properly value said assets.

Depreciation is calculated by the straight-line method based on the company's management estimate of the useful lives of these assets, for both the original acquisition cost and the actualization increases. (See Note 5).

- f. Starting on January 1, 2000, the company adopted the guidelines of amended Statement D-4 "Accounting Treatment of Income Tax, Tax on Assets and Employees' Statutory Profit Sharing" issued by the MIPA. As a result of the foregoing, for recognition of deferred income tax (IT), the company switched from the partial liability method to the comprehensive assets and liability method, which consists of calculating deferred IT by applying the respective IT rate to temporary differences between the accounting and tax values of assets and liabilities at the date of the financial statements.

The accrued consolidated and individual effect at the beginning of the period arising from the above-mentioned change increased the deferred tax asset and increased the stockholders' equity by Ps18,007 and recognized a liability from holding non-monetary assets by Ps365,158, increased the deficit in the restatement of capital in the same amount, while the consolidated and individual effect in the year 2000 was a Ps12,538 decrease in the deferred tax liability and increase the deferred asset tax in Ps5,358 and an increase of the same amount in profit for the period.

- g. Seniority premiums to which employees are entitled upon termination of employment after 12 years of service, in accordance with the collective labor contract, are recognized as expenses for the year in which the corresponding services are rendered, through contributions to an irrevocable trust fund, based on actuarial studies.

As from 2001, the Herdez subsidiary established a pension plan for non-union personnel, which will be recorded as cost in the years in which the respective services are rendered. For this purpose, it set up an irrevocable trust fund based on actuarial studies to which the employees do not contribute.

The aforementioned plans are calculated based on the projected unit credit method. Below is a summary of the main financial data for said plans at December 31, 2001 and 2000:

	December 31,	
	2001	2000
Projected benefit obligation	Ps (44,333)	Ps (18,920)
Plan assets at market value	5,515	2,265
Unamortized prior service cost	21,763	87
Unamortized variation in assumptions and actuarial adjustments	536	315
Projected net liability	Ps (16,519)	Ps (16,253)
Accumulated benefit obligation	Ps (15,430)	Ps (15,214)
Unamortized transition (asset) liability	Ps (1,089)	Ps 87
Net cost for the period	Ps 6,426	Ps 1,967

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

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

- h. Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in such currencies are stated at the Mexican peso equivalents resulting from applying the year-end rates. Exchange differences arising from fluctuations in the exchange rates between the dates on which transactions are entered into and those on which they are settled, or the balance sheet dates, are charged or credited to income.
- i. The gain or loss on net monetary position represents the effects of inflation, as measured in terms of the NCPI, on monthly net monetary assets and liabilities during the year.

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

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

- k. The gain or loss from holding nonmonetary assets represents the amount by which the increase in the restated value of these assets, applying specific costs, exceeded or fell short of inflation, measured in terms of the NCPI.
- l. Net income per share is determined based on the weighted average of shares in circulation in accordance with Statement B-14 issued by the MIPA.
- m. Statement B-4, "Comprehensive Profit" went into effect as from January 1, 2001. This statement requires the different items comprising capital earned (lost) over the year to be shown in the statement of changes in stockholders' equity under the "comprehensive profit" caption. Therefore, the statement was restructured in order to facilitate comparing such different items.

Comprehensive income for the years ended December 31, 2001 and 2000, is analyzed as follows:

December 31, 2001					
	Retained earnings	Deficit in the restatement of capital	Minority interest	Comprehensive income	
Net income	Ps 131,484		Ps 111,663	Ps	243,147
Loss from holding nonmonetary assets		Ps (70,523)	(1,936)		(72,459)
	Ps 131,484	Ps (70,523)	Ps 109,727	Ps	170,688

December 31, 2000					
	Retained earnings	Deficit in the restatement of capital	Accumulated deferred income tax	Minority interest	Comprehensive income
Net income	Ps 180,306			Ps 117,468	Ps 297,774
Accumulated deferred income tax effect		Ps (365,158)	Ps 18,007	(57,479)	(404,630)
Loss from holding nonmonetary assets		(82,007)		(13,573)	(95,580)
	Ps 180,306	Ps (447,165)	Ps 18,007	Ps 46,416	(Ps 202,436)

NOTE 2 - FOREIGN CURRENCY:

At December 31, 2001, the exchange rate was Ps9.17 to the US dollar (Ps9.58 at December 31, 2000). At February 4, 2002, date of issuance of the audited financial statements, there had been no significant changes in the exchange rate.

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

At December 31, 2001 and 2000, the company and its subsidiaries had the following US dollar monetary assets and liabilities:

	Consolidated		Grupher	
	2001	2000	2001	2000
Assets	US 4,642	US 14,387	US 679	US 671
Liabilities	(47,238)	(61,856)		(6,412)
Net short position	US (42,596)	US (47,469)	US 679	US (5,741)

At December 31, 2001 and 2000, the company and its subsidiaries had the following position with respect to nonmonetary assets of foreign origin or whose replacement cost can be determined only in dollars:

	Consolidated		Grupher	
	2001	2000	2001	2000
Inventories	US 2,297	US 931		
Machinery and equipment	75,360	71,824	US 1,938	US 1,938
	US 77,657	US 72,755	US 1,938	US 1,938

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

	Year ended December 31,	
	2001	2000
Exports of merchandise	US 27,420	US 20,482
Imports of finished goods	(6,573)	(4,508)
Technical services and royalties	(7,864)	(7,177)
Interest expenses	(5,617)	(7,582)
Royalty income	723	762
Net	US 8,089	US 1,977

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

Following are shown the main balances and transactions with the parent company and subsidiaries at December 31, 2001 and 2000.

	Consolidated		Grupher	
	2001	2000	2001	2000
Accounts receivable (payable):				
Hechos con Amor, S. A. de C. V.	Ps 44,035	Ps 16,951	Ps 12,055	Ps 3,365
Créame, S. A. de C. V.	60	3,118		
Herdez Corporation	1,287	1,380		
Herimex Corporation	3,709	3,872		
Herport, S. A. de C. V.		3,957		
Empresas H. P., S. A. de C. V.	2,685	2,664		
Yavaros			5,306	5,646
Herdez			(10,864)	(909)
Corporativo Cinco, S. A. de C. V.	(5,357)	(8,108)		
McCormick and Company, Inc.	(16,915)	(15,864)		
Herflot, S. A. de C. V.	(3,856)			
Herflot Tijuana, S. A. de C. V.	4,074	2,265		
Others - Net	18,973	5,641	500	516
	Ps 48,695	Ps 15,876	Ps 6,997	Ps 8,618

Year ended December 31,				
	Consolidated		Grupher	
	2001	2000	2001	2000
Transactions:				
Acquisition of fixed assets	Ps 15,640			
Interest gain	1,628	1,266	Ps 556	Ps 2,366
Interest expense			206	
Service income	19,367	13,866	3,925	6,360
Rent expense	(29,967)	(30,272)		
Contract work income	3,925	3,107		
Administrative services	(99,015)	(82,625)		(482)
Royalty	(49)	(111)		
Freight services	14,747			
Packaging services	10,711			

NOTE 4 - ANALYSIS OF INVENTORIES:

December 31,		
	2001	2000
Finished goods	Ps 318,674	Ps 447,047
Work in process	13,337	5,002
Raw and packaging materials	164,687	153,222
Inventory in the hands of consignee	239,089	126,173
Spare parts	24,825	32,389
	Ps 760,612	Ps 763,833

NOTE 5 - ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT:

Year ended December 31,				
	Consolidated		Grupher	
	2001	2000	2001	2000
Buildings	Ps 441,692	Ps 446,146		
Machinery and equipment	1,483,869	1,510,536	Ps 19,372	Ps 19,372
Furniture and fixtures	50,051	49,444		
Transportation and stowing equipment	50,866	46,686		
Electronic equipment	37,090	23,223		
Beehives	3,763	3,929		
	2,067,331	2,079,964	19,372	19,372
Less - Accumulated depreciation	(845,448)	(766,817)	(7,612)	(5,674)
	1,221,883	1,313,147	11,760	13,698
Land	180,555	187,797		
Constructions in progress, machinery in transit and advances to suppliers	261,262	159,998		
	Ps 1,663,700	Ps 1,660,942	Ps 11,760	Ps 13,698

NOTE 6 - INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES:

Company ⁽¹⁾	Equity	Total	Goodwill
Consolidated subsidiaries:			
Herdez	100%	Ps 759,129	
McCormick	50%	341,415	
Yavaros	100%	96,403	Ps (19,458)
Grupo Búfalo	100%	85,151	101,136
ADB	100%	38,216	13,420
Almacenadora Herpons	100%	40,140	20,012
Miel Carlota	95%	19,599	17,343
Hormel Alimentos	50%	45,334	460
Hersea	100%	37,772	
SDA	50%	2,055	
Associated companies		33,956	25,902
		Ps 1,499,170	Ps 158,815
Associated companies of the subsidiaries		Ps 7,091	Ps 62,755

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

NOTE 7 - BANK LOANS:

Bank loans at December 31, 2001 are analyzed as follows:

Maturity	Average interest rate	Consolidated
2003		
Dollars	6.26%	Ps 87,110
Mexican pesos	8.81%	260,000
2004		
Dollars	5.25%	114,619
2005		
Dollars	7.56%	29,801
2009		
Dollars	8.9%	137,542
Total long term loan		Ps 629,072

Some loan agreements contain certain obligations for one of the subsidiaries. At December 31, 2001, the subsidiary is in compliance with those covenants.

NOTE 8 - STOCKHOLDERS' EQUITY:

At the General Ordinary Stockholders' meeting held on April 13, 2000, it was agreed to pay dividends amounting to Ps88,829 (Ps80,742 nominal value).

At the General Ordinary Stockholders' meeting held on April 19, 2001, it was agreed to pay dividends amounting to Ps71,836 (Ps69,932 nominal value).

Dividends arising from the after-tax earnings account (CUFIN) are free from IT, while the excess is subject to 35% on the result of multiplying the dividend paid by the factor of 1.5385. The respective tax is payable by the company and may be credited against IT incurred by the company in the three subsequent years. Dividends paid are subject to no tax withholding.

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

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

	Nominal value	Restatement increment
Retained earnings	Ps 1,197,043	Ps 1,073,788
Subscription premiums	Ps 43,572	Ps 127,798

During 2001 and 2000, the company repurchased 1,915,037 and 1,566,000 shares, respectively, of current shares which it had on the Mexican Stock Market for Ps4,845 (Ps4,793 nominal value) and Ps5,248 (Ps4,773 nominal value), respectively, which means that Ps1,939 (Ps1,916 nominal value) and Ps1,713 were reduced from the capital stock at December 2001 and 2000.

The capital stock subscribed and paid amounts to Ps422,825 plus a restatement increment of Ps315,033 to express it in Mexican pesos of purchasing power as of December 31, 2001, and is represented by 422,555,963 registered common shares with no par value.

NOTE 9 - INCOME TAX (IT), ASSET TAX (AT), EMPLOYEES' STATUTORY PROFIT SHARING (ESPS) AND TAX LOSS CARRYFORWARDS:

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

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

At December 31, 2001 and 2000, the main temporary differences on which deferred income tax is recorded are as follows:

	2001		2000	
	Consolidated	Grupher	Consolidated	Grupher
Estimation for valuing assets and liabilities	Ps (20,504)		Ps 2,013	
Inventories	(711,820)		(720,703)	
Fixed assets - Net	(657,585)	Ps (6,271)	(669,145)	Ps (7,922)
Advance expenses	(70,362)		(70,694)	
Excess in cost of shares	74,107	74,107	67,164	67,164
Royalties payable abroad	18,285		16,862	
Uamortized tax losses	273,119	10,212	283,964	7,591
Others	(401)		(3,904)	
	(1,095,161)	78,048	(1,094,443)	66,833
IT rate	35%	35%	35%	35%
Recoverable AT	(383,306)	27,317	(383,055)	23,392
	3,120	612	4,461	690
Deferred tax	(380,186)	27,929	(378,594)	24,082
Deferred tax arising from reinvested tax profit	(23,996)		(26,601)	
Total deferred taxes	Ps (404,182)	Ps 27,929	Ps (405,195)	Ps 24,082

The company determined tax losses of Ps10,133 and Ps7,464, respectively, for the years ended December 31, 2001 and 2000.

The company incurred in individual AT of Ps612 in the year ended December 31, 2001.

NOTE 10 - COLLATERAL GRANTED:

At December 31, 2001 and 2000, Grupher and a subsidiary are guaranteeing bank loans of certain subsidiary and affiliated companies amounting to Ps1,102,840 and Ps916,410, respectively.

shareholders information



HERDEZ

Share Information:

BMV code: Herdez

ADR Level I: 25:1

Market: OTC

Symbol: GUZBY

Cusip: 40050P109

Closing share price as of:

December 29, 2000: \$3.70

December 31, 2001: \$3.19

Depository Bank

The Bank of New York
Investor Relations
P.O. Box 11258
Church Street Station
New York, N.Y. 10286-1258
Tel. 1-888-BNY-ADRS (269-2377)
1-610-312-5315
E-mail: shareowner-svcs@bankofny.com

Corporate Offices

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This annual report may contain some statements about expectations with respect to the future performance of Grupo Herdez and its subsidiaries.

The estimates contained in this document are based on the analysis performed by management, however, the actual results are subject to changes in economic conditions and the financial markets, which could have a material impact on the performance of the company.

today, tomorrow
and always...



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