GRUPO
HERDEZ

GRUPO HERDEZ TODAY

ANNUAL REPORT **2010**

GRUPO HERDEZ

THANKS TO THE DAILY CONTRIBUTIONS OF EMPLOYEES, DIRECTORS AND SHAREHOLDERS, GRUPO HERDEZ IS MORE SOLID THAN EVER AND WE WANT TO SHARE THE GOOD NEWS FROM THE YEAR.

During the past few years, Grupo Herdez has registered sustained increases in sales and profitability.

The Company has proven its ability to form successful joint ventures. In 2010, it incorporated the first full year of operations of its associated company MegaMex in the United States. This is an important platform for the Company's future growth.

With five strategic alliances, more than 1,000 products, leading market positions and important infrastructure investments, Grupo Herdez has a consistent and profitable growth strategy to continue building its future with trust.

GRUPO HERDEZ TODAY

2010 ANNUAL REPORT

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Company Profile

Grupo Herdez is a leading producer of shelf-stable foods and beverages in Mexico, and a leader in the Mexican food category in the United States. The Company is engaged in the production, distribution and sale of a broad range of categories including catsup, homemade sauces, honey, marmalade, mayonnaise, mole, mustard, pasta, spices, tea, tomato puree, tuna and vegetables, among others. These products are sold through an exceptional portfolio of brands, including Chi-Chi's, Del Fuerte, Doña María, Embasa, Herdez, La Victoria, McCormick and Yemina. Grupo Herdez has 11 plants, 8 distribution centers and more than 6,500 employees.

MISSION

The mission of Grupo Herdez is to make available to consumers, particularly in Mexico and the United States, quality food and beverages under brands with growing prestige and value.

VISION

Grupo Herdez seeks to consolidate, grow and position itself as a leading organization in the food and beverages sector, to be recognized for the quality of its products and the effectiveness of its efforts to meet consumer needs and expectations, in a framework of competitive service and attention, under strict profitability criteria, strategic potential, and social responsibility.

VALUES

Honesty. Our conduct is correct, because we handle with responsibility and transparency the resources entrusted us and we show absolute respect for the property of others (material honesty), because we clearly state what we think and believe (intellectual honesty) and because we comply with the Company's standards and principles and always bear in mind the consequences of our actions (moral honesty).

Results Driven. We honor our commitments and whenever possible we surpass them; we are always trying to find better ways to do things, bearing in mind that we are accountable for ensuring that the results obtained from our activities contribute and add value to the processes in which we participate.

Teamwork. We are a team working to reach the objectives we share, adding talent and commitment; we are open to different opinions, knowledge and skills because collaboration, respect and mutual support are the basis of our relationships.

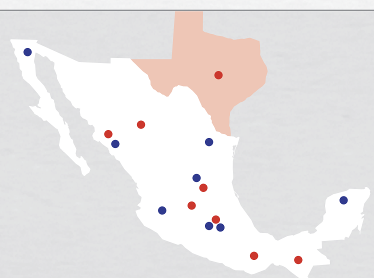
Trust is generated by our behavior which is aligned to the values of Grupo Herdez; it is the result of honesty, of focusing on results and teamwork and at the same time this links the three values and hence forms a coherent group and meaningful set. The above is reflected in the quality of the products and services derived from our work, and therefore, in the opinion of our clients and consumers.

Financial Highlights

Figures expressed in millions of nominal Mexican pesos (except per share information and financial ratios)

	2010	2009	% var.
Net Sales	8,871	8,266	7.3%
Mexico	7,740	7,414	4.4%
International	1,131	852	32.7%
Cost of Goods Sold	5,410	5,288	2.3%
Gross Income	3,462	2,978	16.2%
General Expenses	1,830	1,694	8.0%
Operting Income	1,632	1,284	27.1%
Consolidated Net Income	1,104	1,000	10.4%
Majority Net Income	790	746	5.9%
EBITDA	1,758	1,405	25.1%
Total Assets	7,305	6,009	21.6%
Total Liabilities	2,968	2,280	30.1%
Total Debt [1]	1,518	1,182	28.4%
Consolidated Stockholders' Equity	4,337	3,729	16.3%
Majority Stockholders' Equity	3,384	2,921	15.8%
Net Debt / EBITDA (times)	0.41	0.54	-24.9%
Net Debt / Consolidated Stockholders' Equity (times)	0.16	0.20	-19.2%
Return On Assets	16.6%	17.4%	-4.8%
Return On Equity	19.6%	21.8%	-10.2%
Return On Invested Capital [2]	29.4%	27.9%	5.3%
EPS	1.85	1.75	5.7%
Total Shares Outstanding [3] (millions)	432	428	1.1%
Price per Share [3]	22.15	17.50	26.6%
Ordinary Dividend per Share	0.50	0.50	
Extraordinary Dividend per Share	0.50	-	

[1] Total Debt excludes loans from holding companies to its associates
[2] Calculation before taxes
[3] Number and price of shares at year end

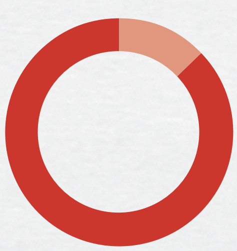


11 Plants

- 1 Mexico City
- 3 San Luis Potosí, San Luis Potosí
- 1 Puerto Chiapas, Chiapas
- 1 Guanajuato, Guanajuato
- 3 Los Mochis, Sinaloa
- 1 Oaxaca, Oaxaca
- 1 Dallas, Texas

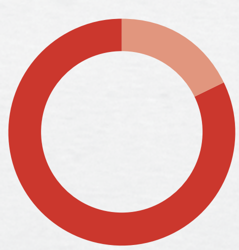
8 Distribution Centers

- Tijuana, Baja California
- Monterrey, Nuevo León
- San Luis Potosí, San Luis Potosí
- Guadalajara, Jalisco
- Mérida, Yucatán
- Los Mochis, Sinaloa
- Tepozotlán, State of Mexico
- Teoloyucan, State of Mexico



Net Sales Mix by Region

87% Mexico
13% International



Asset Mix by Region

82% Mexico
18% International

Our Brands

Barilla
- Pastas
- Pasta sauces

Chi-Chi's
- Chips
- Chiles
- Microwave meals
- Sauces
- Seasoning mixes
- Tortillas

Embasa
- Catsup

Blasón
- Coffee

Don Miguel
- Frozen Mexican appetizers
- Frozen Mexican meals

Festín
- Juices

Búfalo
- Olives
- Sauces

Del Fuerte
- Mushrooms
- Sauces
- Tomato puree
- Vegetables

Herdez
- Beverages
- Canned tuna
- Canned meat
- Chiles
- Fruits
- Mushrooms
- Sauces
- Tomato puree
- Vegetables

Carlota
- Honey
- Syrup

Doña María
- Beans
- Mole
- Sauces for stews

Hormel
- Canned bacon
- Canned meat
- Canned sausages

La Victoria
- Chiles
- Sauces

Nair
- Canned tuna

La Gloria
- Corn oil
- Gelatins

McCormick
- Dressings
- Extracts and colorants
- Mayonnaise
- Marmalade
- Mustard
- Seasonings
- Spices
- Teas

Doña María
- Chicken bouillon

Yemina
- Pastas

Distribution Agreements

Kikkoman
- Soy and teriyaki sauces

Ocean Spray
- Beverages
- Dried fruit
- Jellied sauces

Reynolds
- Aluminum foil
- Plastic wrap
- Wax paper

Letter from the Chairman and Chief Executive Officer

Dear shareholders, partners, clients and colleagues:

I am pleased to report that Grupo Herdez delivered solid results in 2010. While this was a challenging year on some fronts, we were able to attain our targets and make progress on important operational and strategic objectives.

As the leading producer of shelf-stable foods and beverages in Mexico, and one of the leaders in the Mexican foods category in the United States, our focus is on ensuring that consumers across all our markets have access to branded products of the highest quality and value. Behind that commitment is a sophisticated value chain of procurement, production, distribution and sales, and a committed workforce of more than 6,500 people.

As we expand the range of products, categories and markets in which we compete, and enhance our research, innovation and technical expertise, we remain dedicated to the core values on which this Company was built: honesty, results and teamwork, which result in trust. These factors have helped generate consistent and solid performance over the years, and once again in 2010.

At the top line, net sales growth of 7.3% benefited from improved volume performance in Mexico and strong growth in the international operations, reflecting a remarkable first full year of operations at MegaMex and the execution of our strategic objectives in that business. Gross profit increased 16.2% due to favorable costs of key inputs that largely reflected the Company's risk management strategy. Greater efficiencies at the operating level coupled with synergies obtained at MegaMex drove operating income and EBITDA up significantly in the year, by 27.1% and 25.1%, respectively, to record levels of profitability.

As a result of very solid cash flow generation, our balance sheet remains strong, with a lower net debt position and stronger leverage ratios compared to the previous year. In 2010, we diversified the Company's funding sources with the issuance of Ps. 600 million of *Certificados Bursatiles* in the local debt market, our first offering in 19 years.

Investing in long-term growth

Grupo Herdez has a unique – and proven – business model. We have partnered with world-class companies to create a dynamic portfolio of food and beverage brands that enjoy strong market leadership in their categories and markets. By having a shared vision with our partners, and focusing on operational and commercial efficiency, we have established a sound record of growth with strong future potential.

In 2010, through our MegaMex joint venture, we expanded our product portfolio with the acquisition of Don Miguel Foods, a leading producer in the United

States with premium food brands and products in the Mexican foods category, and the agreement with Reynolds Foil Inc. to distribute a full range of their well-known consumer food packaging products in Mexico. We also introduced a range of line extensions, new segments and innovative packaging as part of our organic growth efforts. The focus is on keeping our products and categories dynamic.

To support long-term growth, we are investing resources to enhance our systems and processes company-wide, including supply chain optimization, a revamped commercial strategy, new sales force tools to strengthen the collaborative relationship with our clients, and better technology and infrastructure to improve our logistics capabilities.

These partnerships and investments are in line with our remarkably straightforward profitable growth strategy. The focus is on executing organic growth through product innovation, market segmentation and penetration, and efficiency enhancements to maximize manufacturing and distribution capacity utilization. The investment in efficiency includes construction of the advanced distribution center in Teoloyucan in the State of Mexico that will start up operations in mid-2011. Among other benefits, the facility will have double the expedition flow of trucks per day as our current site, yet half of the square footage. Overall, we have invested more than $800 million pesos in capex over the past three years, excluding acquisitions, allocated to greater manufacturing capacity, as well as to warehousing and logistics infrastructure.

Through our M&A activity, we strengthen and extend the leadership position of our existing brands and products, and we continue evaluating complementary categories and territories, particularly in our international operations where we see significant long-term growth due to socio-demographic factors, evolving consumer preferences and habits.

Clearly, our people are central to the vision and strategy of the Company's growth: taking care of our people makes good business sense. To ensure that our workforce and management team are prepared to take on the compelling opportunities ahead, we officially launched the *COMPITE* program in 2010 for developing the institutional skills we see necessary to generate a unique corporate identity. These include determination to evolve, passion for results, integrity, teamwork and fellowship, which are meant to complement the development of leadership skills.

Similarly, we feel a deep responsibility as a corporate citizen, particularly given the industry in which we participate, to bettering the lives of the broader community. Grupo Herdez has taken a groundbreaking and leadership role in combating malnutrition in Mexico, and I am proud to announce that we expanded our *Herdez Nutre* program to San Luis Potosí in 2010.

Outlook 2011

We believe the consumption environment, along with other economic indicators, will improve over the course of 2011. However, pressure on commodity prices have clearly become more challenging. This cyclicality is not new to Grupo Herdez, having experienced it many times across our operating history. We take a long-term view of the market and have confidence in our ability to mitigate short-term pressures by building strong brands, managing our risks appropriately, and continuing to increase efficiency throughout the entire value chain.

For 2011, profitability should return to normalized levels, which still surpass industry standards. Nonetheless, we are confident about the opportunities ahead and anticipate continued sales growth and market expansion throughout the year.

In closing, I would like to thank my fellow Board Members and executives for their vision and service; our partners, for their shared commitment to long-term growth; shareholders for their continued confidence in our Company; and especially all the employees of Grupo Herdez for their hard work and dedication.

Sincerely,

Héctor Hernández-Pons Torres
Chairman and Chief Executive Officer

GRUPO HERDEZ TODAY / 2010 ANNUAL REPORT
Friday, December 31, 2010
OPERATIONAL SCALE AND STRENGTH
GRUPO HERDEZ'S BUSINESS MODEL INCLUDES STRONG PARTNERSHIPS
The Company has strategic alliances with well-known companies such as Barilla, Grupo Kuo, Hormel and McCormick, adding significant value and scale to its business.
By leveraging the strengths of each partner, the Company has built a world-class food company competing in a wide range of categories, segments and markets.
HERDEZ
GRUPO HERDEZ
Barilla
Hormel Foods
kuo
EXCEPTIONAL PORTF
OF QUALITY BRANDS
ENHANCING THE CLIENT RELATIONSHIP
The Company has a sales force of more than 1,400 people, focused on maximizing the client experience. In 2010, the Company restructured its commercial strategy to better coordinate account teams, inventory analytics and support services.
FOCUS ON OPERAT
EFFICIENCY AND C
Blasón
HERDEZ
McCORMICK
Del Fuerte
12 FRASCOS No. 16
McCORMICK

Grupo Herdez's Business Model Includes Strong Partnerships

THE COMPANY MAINTAINS STRATEGIC PARTNERSHIPS AND JOINT VENTURES THAT HAVE ADDED SIGNIFICANT VALUE AND SCALE TO THE BUSINESS.

These associations have resulted in a highly competitive platform for the production, marketing, sales and distribution of a broad range of shelf stable products in diverse categories, segments and markets. The Company's partners include leading groups such as McCormick (since 1947), Hormel (1994), Barilla (2002) and Grupo Kuo (2007).

GRUPO HERDEZ

CORPORATE STRUCTURE LEVERAGES EACH PARTNER'S STRENGTHS

Exceptional Portfolio of Quality Brands

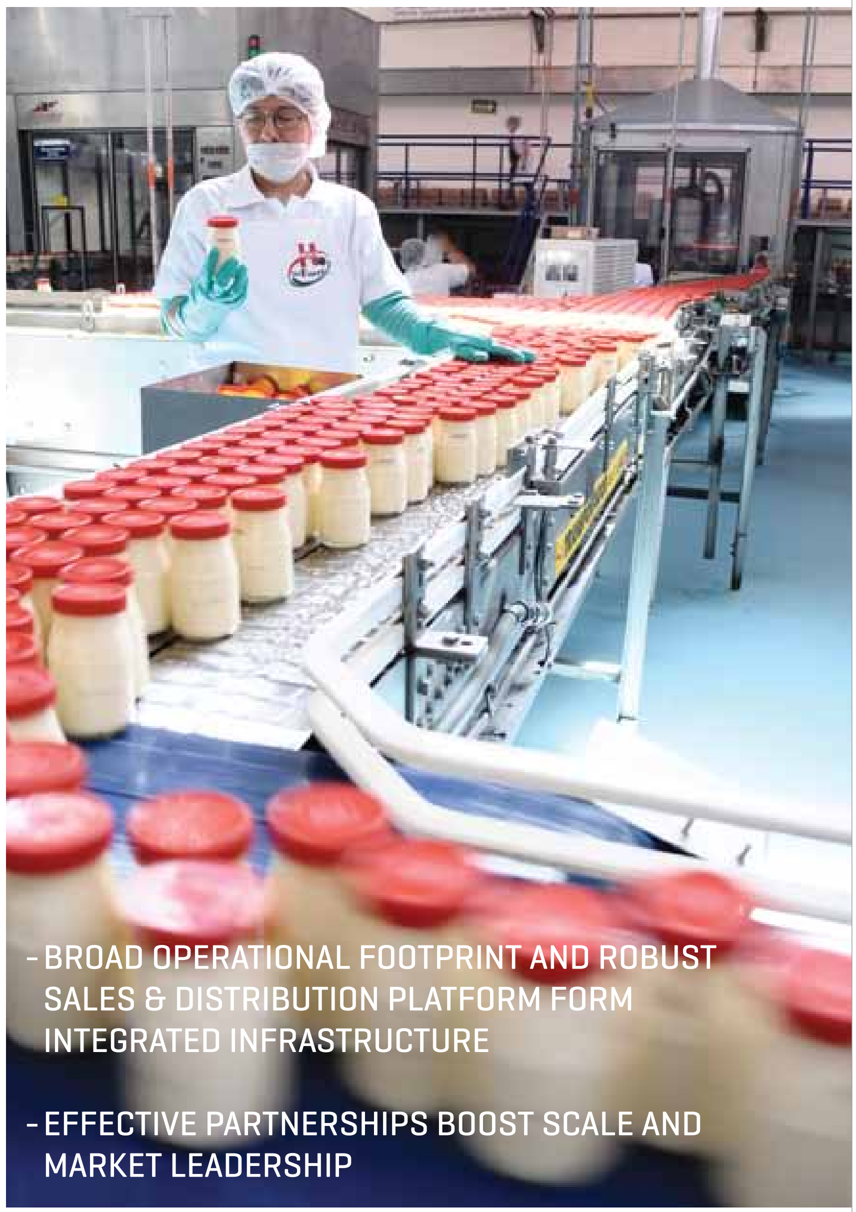
For generations, consumers have trusted Grupo Herdez to deliver high quality products they can count on, for every meal and every day. This brand loyalty is the result of significant and long-term investment in aligning quality and value. As a result of numerous initiatives over the years, today Grupo Herdez enjoys leadership positions in multiple categories in Mexico, including canned vegetables, tuna, mayonnaise, marmalades, tomato puree, catsup, sauces, moles, mustard and honey, among others, as well as in pasta, spices and teas in the retail channel. In the United States, the Company has strong market leadership in sauces, moles, nopalitos, chipotles and other authentic Mexican products that position it as the authority in the Mexican food experience.

In 2010 the Company initiated a number of major marketing initiatives to enhance the positioning and competitiveness of its brands, including the re-launch of Herdez canned chiles; reentry to the beans category with four Doña María preparations; updated packaging and imaging for McCormick spices and marmalades that further strengthened the brand's category leadership; new messaging for Del Fuerte, Blasón and La Gloria to reach target consumers; and the re-launch of Barilla pasta sauces that significantly strengthened sales in the supermarket channel.

Focus on Operational Efficiency and Quality

Grupo Herdez generated record profits in 2010 by reducing costs even as price pressures increased towards year end in the commodities markets. This was achieved by maximizing capacity utilization, improving operating logistics, enhancing productivity in the distribution network and executing risk management strategies. **"We have an ongoing process of reviewing our practices, procedures, methodologies, infrastructure, organization and technologies to keep our performance the best-in-class in order to maintain our competitive advantages,"** said Alberto Garza, Supply Chain Director.

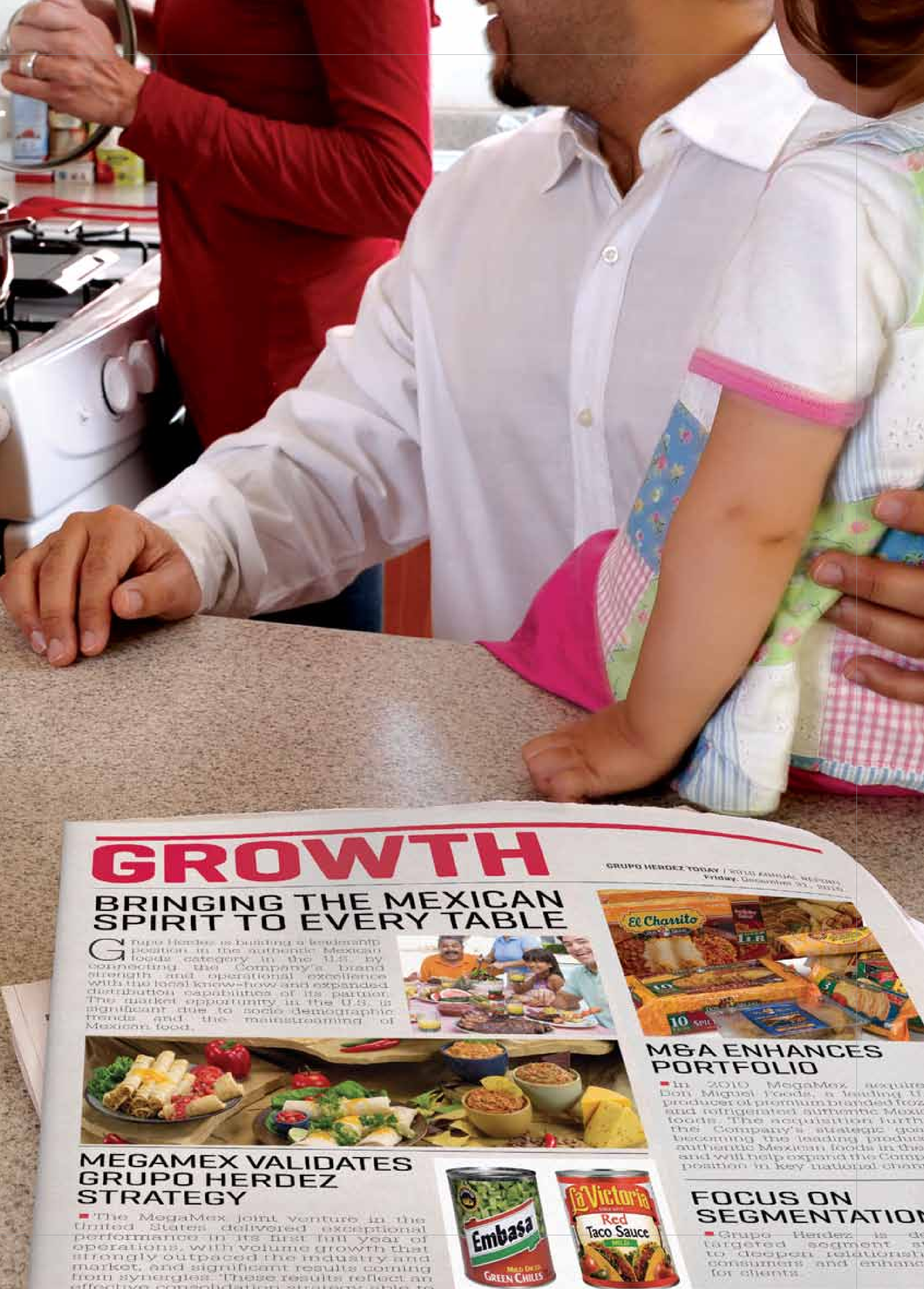
The focus on operational efficiency ensures that growth remains profitable from procurement and production to packaging and distribution. Projects such as the new distribution center under construction and the planned investment in tuna vessels are aligned with this strategic focus. Furthermore, the Company has established rigorous quality guidelines to which each step of the supply chain must adhere. Quality measures include strict control of plants and distribution centers, extensive follow-through on consumer comments, and a focus on food safety backed by ISO 22000 certification.



Enhancing the Client Relationship

In 2010 Grupo Herdez restructured its commercial strategy to enhance client relationships by focusing on closer coordination of accounts teams, better inventory analytics and dedicated support services. The Company received the 2010 Excellence in Business Award from the National Association of Retail and Department Stores, a trade organization in Mexico. Grupo Herdez has a sales force of more than 1,400 people, attending directly more than 15,000 points of sale.


HERDEZ
McCORMICK
Del Fuerte
NAIR


GROWTH
BRINGING THE MEXICAN SPIRIT TO EVERY TABLE
El Charrito
M&A ENHANCES PORTFOLIO
MEGAMEX VALIDATES GRUPO HERDEZ STRATEGY
Embasa
GREEN CHILES
La Victoria
Red Taco Sauce
FOCUS ON SEGMENTATION

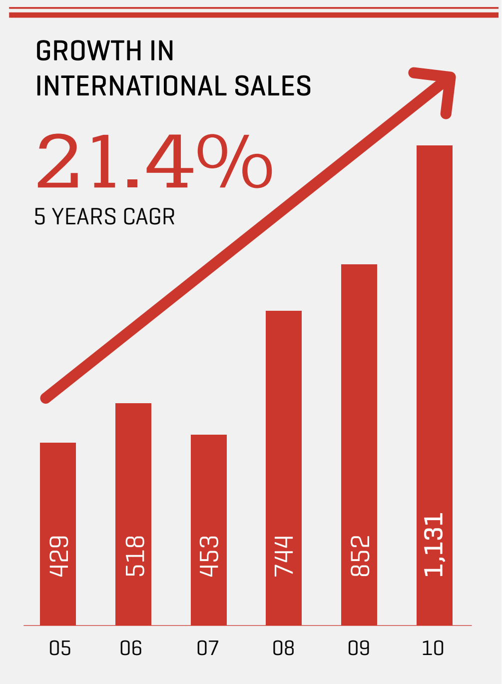
Bringing the Mexican Spirit to Every Table

THE INTERNATIONAL EXPANSION STRATEGY OF GRUPO HERDEZ AIMS TO SHARE THE EXCEPTIONAL FLAVORS AND FOODS OF MEXICO ACROSS THE COUNTRY'S BORDERS.

By connecting the Company's brand strength and operational excellence with the local know-how and expanded regional distribution capabilities of its partner, Grupo Herdez is building a leadership position through its MegaMex division in the authentic Mexican foods category in the U.S. The market opportunity in this market is clear: the US Hispanic population is the fastest growing in the country, while consumption of Mexican food has become mainstream and today comprises a multi-billion dollar segment of the food market. These factors point to the significant and long-term growth potential for MegaMex.

MegaMex Validates Grupo Herdez Strategy

The MegaMex joint venture in the United States was created in 2009, and delivered exceptional performance in its first full year of operations in 2010, including the acquisition of Don Miguel Foods. Volume growth exceeded expectations and strongly outpaced industry and market growth, while operational synergies in the joint venture helped reduce operating expenses. These results reflect the continued execution of the Company's consolidation strategy, and the ability of the joint venture with Hormel to achieve organic growth through expanded penetration and market share gains. MegaMex is expected to continue increasing its contribution to Grupo Herdez's results with the acquisition of Don Miguel and a robust portfolio strategy.



Figures expressed in millions of Mexican pesos

MEGAMEX IS EXPECTED TO CONTINUE INCREASING ITS CONTRIBUTION TO GRUPO HERDEZ'S RESULTS WITH THE ACQUISITION OF DON MIGUEL AND A ROBUST PORTFOLIO STRATEGY.

- INTERNATIONAL SALES ROSE TO PS. 1,131 MILLION IN 2010 BOOSTED BY SOLID ORGANIC GROWTH AND THE INTEGRATION OF DON MIGUEL INTO MEGAMEX

- CONSUMER SEGMENTATION AND MARKET PENETRATION STRATEGIES HELPED DRIVE GROWTH

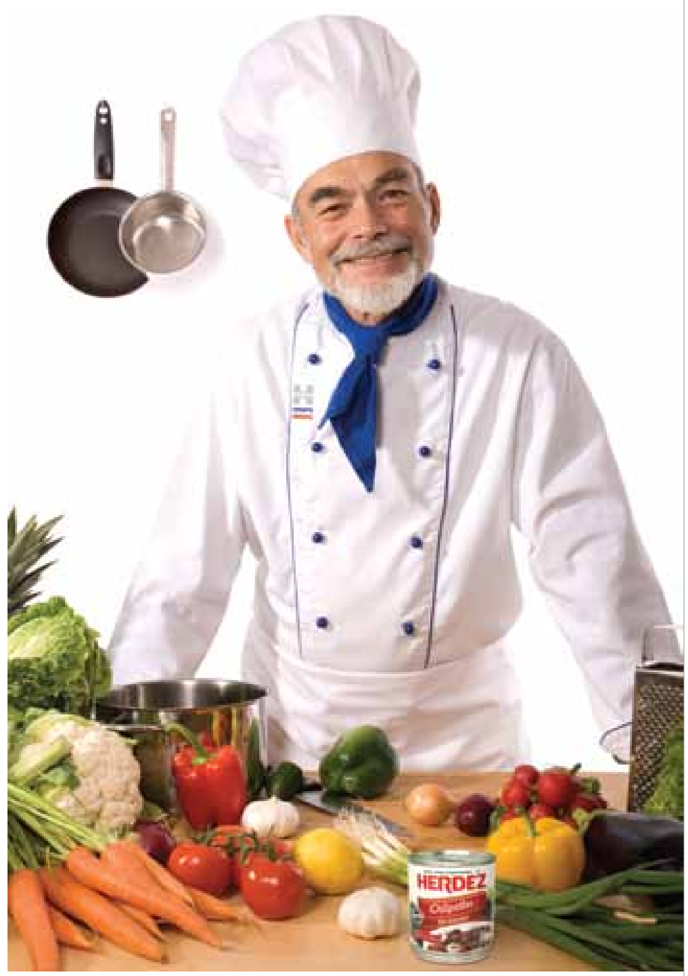
M&A Enhances Portfolio

In October 2010 MegaMex completed the acquisition of Don Miguel Foods, a leading producer in the United States of premium branded frozen and refrigerated authentic Mexican flavored appetizers, snacks and handheld items.

The incorporation of Don Miguel furthers the Company's strategic goal of becoming the leading producer of authentic Mexican foods in the U.S. with enhanced category offerings such as mini tacos, flautas, taquitos, empanadas, burritos and roller grill items. Don Miguel will help expand MegaMex's position in the national convenience store, club and supermarket channels. **"Growth through the strategic acquisition of Don Miguel Foods is an important step towards making us stronger for the future,"** said Enrique Hernández-Pons Torres, Chairman of MegaMex. **"Adding these leading product categories to our portfolio brings us closer to achieving our goal of being a one-stop-shop for Mexican foods for our customers."**

Focus on Segmentation

Grupo Herdez has long utilized its extensive understanding of consumer tastes and preferences for product development, and now, as part of its organic growth strategy, the Company is taking that expertise to the area of sales and marketing. By developing targeted strategies for each segment, it aims to foster more meaningful relationships with consumers and enhanced services for clients. As an example of this innovative approach, the Company has added professional chefs to its foodservice group to conduct courses in industrial kitchens, showcasing the use of Grupo Herdez products, fostering greater loyalty to its brands and expediting service to these accounts.




HERDEZ
GRUPO HERDEZ
Friday, December 31,
FORWARD-LOOKING INITIATIVES
GRUPO HERDEZ TODAY / 2010 ANNUAL REPORT
DYNAMIC PORTFOLIO TIED TO CONSUMER INSIGHT
Grupo Herdez's brands and products are core staples in the Mexican kitchen. The Company continues to focus on innovation by launching line extensions, new flavors, formulations, packaging and portion sizes. Numerous new products were successfully introduced in 2010 following extensive market research and consumer analytics.
TUNA FISHING CAPACITY WILL INCREASE
Grupo Herdez is seeking to add at least one new tuna fishing boat to its fleet in 2011 to increase capacity and improve profitability.
ADVANCED DISTRIBUTION CENTER NEARS COMPLETION
The Teoloyucan Distribution Center will start up operations in 2011 as a state-of-the-art facility unique in Latin America that will have an important impact on the efficiency of the Company's distribution network in Mexico and on the level of service to clients.
MIDLAND

Dynamic portfolio tied to consumer insight

THE STRENGTH OF GRUPO HERDEZ'S PRODUCT PORTFOLIO IS DIRECTLY TIED TO THE COMPANY'S DEEP UNDERSTANDING OF ITS CONSUMERS.

As a result, most of the Company's brands and products have become core staples in the Mexican kitchen. Ongoing product innovation is tied to new and better formulations including improved nutritional profiles, better packaging and portions, new flavors and line extensions, all of which are determined following extensive market research and consumer analytics. In 2010 the Company's R&D function was enhanced with the addition of small-scale production lines.

Product launches this year included new flavors of tea, soft squeeze bottles for marmalades, no added sugar marmalades and new mayonnaise flavors, among numerous other line extensions.

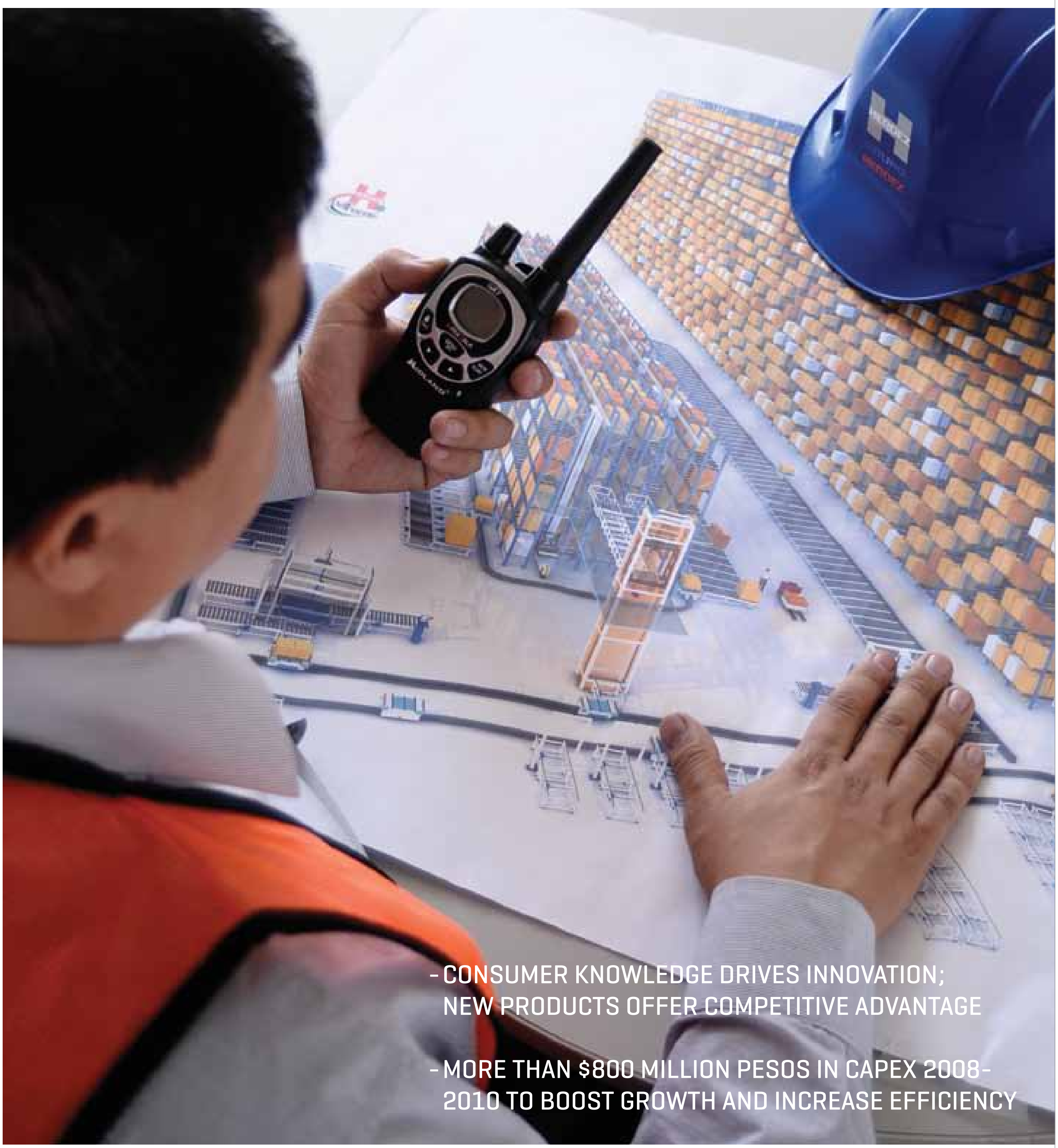
Advanced Distribution Center Nears Completion

The Teoloyucan Distribution Center (DC), located in Zumpango, State of Mexico, will start up operations in mid-2011. Unique in Latin America, the state-of-the-art facility was conceived after the creation of the Herdez Del Fuerte JV generated significant growth in case volume. The semi-automated warehouse will have an important impact on the efficiency of the Company's distribution network in Mexico, as well as improved levels of service to clients once the benefits are fully realized in 2012.

The square footage is half that of the Company's current leased facility, and will have 17 multimodal doors compared to the 46 reception / 47 expedition doors currently in use. However, the capacity of the DC will be significantly greater, with more than 37,000 pallet positions compared to about 27,000 today, and more than double the expedition flow as measured in trucks per day, rising from 60 to 124. Grupo Herdez funded half of the more than Ps.500 million investment for the project.

Tuna Fishing Capacity Will Increase

Grupo Herdez is seeking to expand its fleet of tuna fishing vessels in order to become self-sufficient in the supply of this key raw material. This will create added value for the Company by increasing profitability in a highly competitive sector. **"We are changing our strategy for tuna by looking to participate in the tuna business instead of solely commercializing it,"** said Alberto Garza, Supply Chain Director.



- CONSUMER KNOWLEDGE DRIVES INNOVATION; NEW PRODUCTS OFFER COMPETITIVE ADVANTAGE

- MORE THAN $800 MILLION PESOS IN CAPEX 2008-2010 TO BOOST GROWTH AND INCREASE EFFICIENCY

HERDEZ
Improve
the intern
challenging
level results
exchange rate.
reached Ps. 1,632
McCORMICK
McCORMI


FINANCIAL PERFORMANCE
GRUPO HERDEZ TODAY / 2010 ANNUAL REPORT
GRUPO HERDEZ
GENERATES RECORD SALES
ND PROFITS IN 2010
d volumes in Mexico and continued growth in
ational operations drove top line growth despite the
consumption environment, while at the operating
ere mainly driven by favorable input costs and
Net sales totaled Ps. 8,871 million, while EBIT
million, which represents a margin of 18.4%.
EBIT: 15.4%
5-YEARS CAGR
Compounded annual EBIT
growth was15.4% in the last
five years, while net sa
increased 9.2% over the sa
period, demonstrating
Company's ability to gen
operational efficiencies.
EBIT PERFORMANCE
15.4%
HEALTHY CASH
FLOW, ROBUST
BALANCE SH

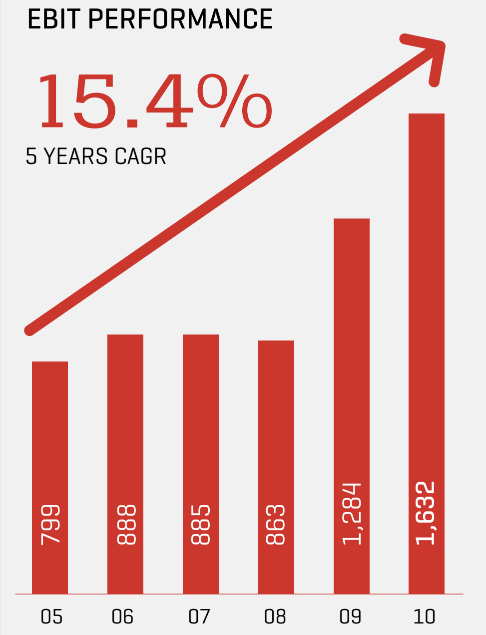
Grupo Herdez Generates Record Sales and Profits in 2010

THE COMPANY REGISTERED THE BEST RESULTS OF ITS HISTORY IN 2010. YEAR OVER YEAR SALES ROSE 7.3% TO PS. 8,871 MILLION, AND EBIT GREW TO A RECORD PS. 1,632 MILLION, A 27.1% RISE FROM THE PREVIOUS YEAR.

"We are glad to have reached our targets for the year and attain record sales and profitability levels in 2010. In a very challenging consumption environment, top line performance benefited from improved volumes throughout the year in Mexico and continued growth in our international operations, including the incorporation of Don Miguel in the United States. At the operating level, results were mainly driven by favorable input costs and exchange rate," said Héctor Hernández-Pons Torres, Chairman and Chief Executive Officer of Grupo Herdez.

EBIT: 15.4% 5-Years CAGR

Grupo Herdez registered 15.4% compounded annual EBIT growth since 2005, while compounded net sales growth over the same period was 9.2%. This demonstrates the Company's ability to generate operational efficiencies through process improvements, including teamwork-based initiatives that improve capacity utilization and streamline production and distribution processes.



Figures expressed in millions of Mexican pesos

- RECORD NET SALES OF PS. 8.9 BILLION AND OPERATING PROFIT OF PS. 1.6 BILLION IN 2010

- HEALTHY FINANCIAL STRUCTURE GIVES COMPANY OPERATING FLEXIBILITY

Healthy Cash Flow, Robust Balance Sheet

With strong operating and free cash flow, and limited debt on the balance sheet, Grupo Herdez maintained a solid financial profile in 2010. Consolidated net debt, which does not include loans granted from holding companies to associated companies, totaled Ps. 712 million at year-end 2010, 6.0% lower than in 2009.

"Our focus is to fund growth through a flexible and balanced capital structure," said Gerardo Canavati, Chief Financial Officer and Planning Director. The net debt to EBITDA ratio at year-end 2010 was 0.4 times, compared to 0.5 times in 2009. As part of its efforts to diversify funding sources and have a more efficient capital structure, Grupo Herdez entered the debt market with its first issuance in almost 20 years, a Ps. 600 million domestic bond issue whose proceeds, along with some cash reserves, were used to refinance a short-term bank loan.

THE NET DEBT TO EBITDA RATIO AT YEAR END 2010 WAS 0.4 TIMES.


SOCIAL RESPONSIBILITY
GRUPO HERDEZ TODAY / 2010 ANNUAL
A BUSINESS
CORPORATE VALUES GUIDE BUSINESS AND PHILANTHROPY
The values of Grupo Herdez extend beyond the execution of its business plan to a broad group of stakeholders: employees, consumers, clients, suppliers, shareholders, government and the community. Through open and transparent communications and a range of activities, the Company's social responsibility efforts have significant societal impact.
COMMITTED
HERDEZ

Faithful to our values — honesty, results oriented and teamwork, that combined generate trust — in 2010 we upheld our focus on social responsibility.

WE MAINTAIN CLOSE, OPEN, TRANSPARENT AND ETHICAL RELATIONS WITH OUR EMPLOYEES, CONSUMERS, CLIENTS, SUPPLIERS, SHAREHOLDERS, GOVERNMENT AND THE COMMUNITY IN GENERAL. TO BENEFIT ALL THESE STAKEHOLDERS WE HAVE LAUNCHED A SERIES OF INITIATIVES WITH SIGNIFICANT ECONOMIC, SOCIAL AND ENVIRONMENTAL IMPACT.

Fundación HERDEZ

HERDEZ nutre

A Business Vision with a Sustainable Perspective

One of the priorities of Grupo Herdez is to promote the corporate ethic among its more than 6,500 employees, for whom optimal conditions are provided in order to support their comprehensive development. Aside from guaranteeing wages and benefits higher than those provided by law, the Company is redoubling its efforts in training and safety, and promotes education and health programs.

With the aim of fostering a culture of competence, both on the institutional and executive fronts, in 2010 the "Compite" [Compete] program was implemented. In the area of health, the "Vive Mejor" [Live Better] program, developed in 2009 to combat excess weight and obesity among personnel, was extended to the San Luis Potosí plant.

Grupo Herdez also has a procedural manual for the approval of suppliers, while working closely with the government on a training program for agricultural suppliers.

Committed to Society and the Planet

The Company and its employees actively participate in a number of non-profit organizations and in a range of social development activities. On this note it is important to highlight the San Luis Potosí expansion of the "Herdez Nutre" program designed to improve the nutritional conditions of women and children living in extreme poverty in rural areas of our country.

Also, in 2010 we implemented a sustainable garden project at preschools in Mexico City; conducted the Herdez Nutre Academic tour: "Community Child Nutrition"; took up a collection for items for the communities neighboring the Chiapas plant; promoted the social food project "Ecological preservation of Xochimilco"; strengthened activities to preserve our rich cuisine; delivered toys to several orphanages; and donated approximately 25,000 cases of food to victims in Haiti, Monterrey, Michoacán and Veracruz, among others activities.

In order to contribute to the care and preservation of the environment, Grupo Herdez is dedicated to encouraging efficient use of resources, innovation in clean technologies and recycling programs, and cultivating a culture of environmentalism among employees.

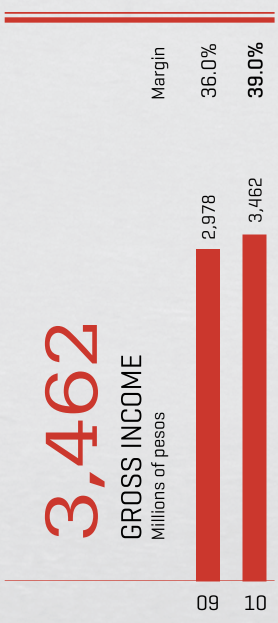
Some of the main environmental activities in 2010 included: Clean Industry certification at five plants; design of the Environmental Guidelines Manual; assessment of alternative energy sources; implementation of a recycling and water treatment program; measurement of CO_2 emissions and a plan for comprehensive solid waste management; and dissemination of procedures for protecting marine life while fishing for tuna.

ESR EMPRESA SOCIALMENTE RESPONSABLE TRES

- ONGOING DIALOGUE WITH OUR STAKEHOLDERS HAS RESULTED IN GREAT ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS.

- FOR THE THIRD CONSECUTIVE YEAR, GRUPO HERDEZ WAS RECOGNIZED AS A SOCIALLY RESPONSIBLE COMPANY.

Management's Discussion and Analysis of Results



Unless otherwise stated, all figures herein are expressed in millions of nominal Mexican pesos and are prepared in accordance with Mexican Financial Reporting Standards.

Overview

Grupo Herdez reached record levels of net sales and profitability in 2010. Net sales totaled Ps. 8,871, while operating and net majority income were Ps. 1,632 and Ps. 790, respectively. The above is mainly explained by improved volume performance throughout the year in Mexico, continued growth in the international operations, favorable input costs and stable operating expenses.

Factors Affecting Performance

The key factors and trends that impacted the Company's operating and financial execution results in 2010 included:

- A gradual recovery in consumption over the course of the year in Mexico and a solid performance of the Company's growth strategy in the United States.
- The acquisition by MegaMex Foods LLC of Don Miguel Foods, a leading producer in the United States of premium branded frozen and refrigerated Mexican flavored appetizers, snacks and handheld items. This acquisition included a manufacturing facility located in Dallas, Texas, as well as the Don Miguel and Gourmet Olé brands, among others. The proportionate purchase price amount of this transaction corresponding to Grupo Herdez totaled Ps. 541.
- A distribution agreement with Reynolds Foil Inc., a leading producer of food packaging products, under which the Company distributes a full range of consumer products in Mexico. This agreement allows Grupo Herdez to leverage its commercial strength and distribution capabilities, making available to its clients a leading portfolio of packaging for food, such as aluminum foil, wax paper and plastic wrap, under the brand name Reynolds.
- Favorable gross profit performance driven by the Company's risk management strategies that helped offset increasing pressure from the international prices of some key inputs, particularly in the second half of the year.

Net Sales

Net sales totaled Ps. 8,871 in 2010, a 7.3% increase over the previous year. In Mexico, net sales rose 4.4% to Ps. 7,740, reflecting: i) sequential volume growth during the year, ii) good performance in the vegetable, condiment, sauces and beverages categories, and iii) the incorporation of Reynolds sales as of the third quarter. In the United States, net sales rose 32.8% to Ps. 1,131, as a result of solid organic growth reflecting the Company's efforts to expand distribution, as well as the incorporation of Don Miguel in the fourth quarter.

Cost of Goods Sold

Cost of goods sold as a percentage of net sales was 61.0% in the year, a 3.0 percentage point decline when compared to 2009, reflecting favorable prices for the main raw materials used by the Company and, to a lesser extent, a stronger Mexican peso vs the U.S. dollar and greater absorption of fixed production costs.

Operating Expenses

Operating expenses remained practically unchanged when compared to the previous year, representing 20.6% of net sales. The above is explained by the combined effect of: i) a lower proportion of selling and administrative expenses to net sales, derived mainly from a greater absorption of fixed expenses, and ii) an increase in the advertising expense aimed at boosting consumption throughout the year.

Operating Income

Operating income registered a record level of Ps. 1,632, 27.1% higher than the previous year, with a 2.9 percentage point margin expansion to 18.4%. This performance is explained by the aforementioned gross margin improvement.

Comprehensive Financial Result

Comprehensive financial result represented a cost of Ps. 95, 17.8% lower than in the previous year. This reduction is mainly explained by higher interest income throughout the year resulting from a higher average cash position.

Net Majority Income

Net majority income rose 5.9% to Ps. 790, while the margin remained nearly unchanged at 8.9%. It is important to mention that the expansion of the operating income was practically offset by an extraordinary income of Ps. 97 registered in 2009.

Earnings Before Interests, Taxes, Depreciation and Amortization (EBITDA)

EBITDA totaled Ps. 1,758, a 25.1% increase compared to 2009. EBITDA margin was 19.8% or 2.8 percentage points greater than in the year ago period, mainly due to the aforementioned gross margin expansion.

Capital Expenditures

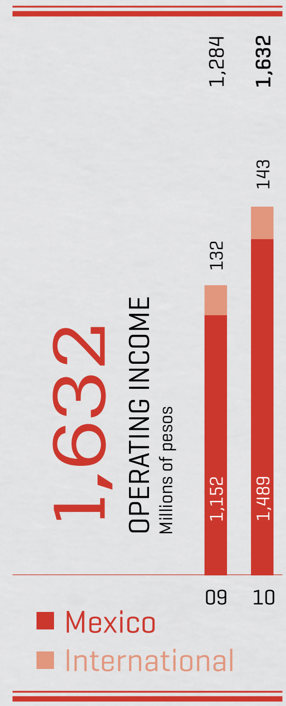
Net capex in the year, excluding acquisitions, totaled Ps. 221 and was primarily allocated to its associate Herdez Del Fuerte for the ongoing construction of the Teoloyucan distribution center located in the State of Mexico. The Company expects that this new distribution center, which is scheduled to start up operations at the end of the second quarter of 2011, will increase the efficiency of the distribution network in Mexico.

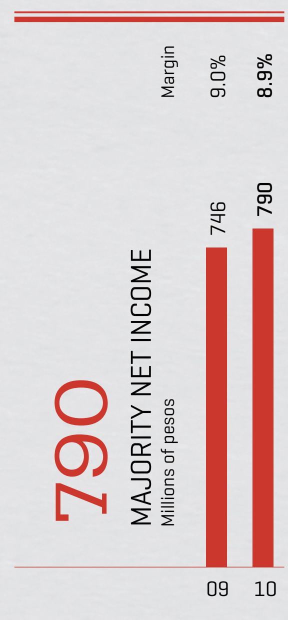
Financial Structure

As of December 31, 2010, the cash position of the Company totaled Ps. 806, a 89.9% increase over the previous year. On the other hand, consolidated debt, excluding loans from holding companies to its associates, was Ps. 1,518, an increase of 28.4% when compared to the previous year, mainly explained by the loan contracted for the acquisition of Don Miguel Foods in the United States in the third quarter of the year.

As a result, consolidated net debt at the end of 2010 was Ps. 712, 6.0% lower than in the year ago period. Average maturity of the Company's debt was extended from 0.6 years in 2009 to 6.2 years mainly as a result of Grupo Herdez's local bond issuance of Ps. 600 in the third quarter of 2010, as part of the authorized program of Ps. 1,500. It should be noted that on February 18, 2011, Grupo Herdez made a subsequent offering of Ps. 600 million of local bonds, as part of the same program, to refinance the loan secured for the acquisition of Don Miguel, extending the average maturity of the Company's debt to 6.4 years.

The Company's leverage ratios at the end of 2010 remained solid and without significant changes when compared to the previous year. Net debt to stockholders' equity and net debt to EBITDA were 0.2x and 0.4x, respectively.





Board of Directors and Key Executives

BOARD OF DIRECTORS

Patrimonial, Related Directors
Héctor Hernández-Pons Torres
Chairman
Enrique Hernández-Pons Torres
Vice-Chairman
Flora Hernández-Pons de Merino

Independent Directors
Carlos Autrey Maza
Enrique Castillo Sánchez Mejorada
José Roberto Danel Díaz
Eduardo Ortíz Tirado Serrano
Luis Rebollar Corona
José Manuel Rincón Gallardo

Secretary of the Board (not member)
Ernesto Ramos Ortíz

Audit Committee
José Roberto Danel Díaz
President
Carlos Autrey Maza
Eduardo Ortíz Tirado Serrano
José Manuel Rincón Gallardo

Corporate Practices Committee
José Roberto Danel Díaz
President
Enrique Hernández-Pons Torres
Héctor Hernández-Pons Torres
Luis Rebollar Corona
José Manuel Rincón Gallardo

KEY EXECUTIVES

Chief Executive Officer
Héctor Hernández-Pons Torres

Vice-President, General and International Business Director
Enrique Hernández-Pons Torres

Chief Financial Officer and Planning Director
Gerardo F. Canavati Miguel

Marketing Director
Héctor J. Castillo Guerrero

Supply Chain Director
Alberto Garza Cabañas

Sales Director
Roberto González Rosas

Human Resources Director
Pedro G. Gracia-Medrano Murrieta

Associated Companies Business Unit Director
Alejandro Martínez-Gallardo y de Pourtales

Administrative and Corporate Practices Director
Ernesto Ramos Ortíz

Food Service Director
José J. Rodríguez del Collado

Audit Committee Report

Mr. Héctor Hernández-Pons Torres
Chairman of the Board of Directors
Grupo Herdez, S.A.B. de C.V.
Monte Pelvoux 215, 5th Floor
Mexico, D.F. 11000

March 23, 2011

Dear Mr. Hernández-Pons:

I am herein presenting the Annual Report on the activities of the Board of Directors' Audit Committee for the 2010 fiscal year, referred to in Article 43, Section II of the Securities Market Law.

In the development our work, we have taken into consideration the Securities Market Law regulations, the General Rules Applicable to Securities Issuers and other Participants of the Securities Market, the Best Corporate Practices Code's recommendations, the Audit Committee Rules and the Annual Program with the issues to be treated during the year.

During the reported period, the Committee punctually held the meetings as scheduled, an agenda was prepared based on the issues to be discussed at each meeting, and the respective minutes were also prepared. The meetings were attended by the designated directors and invitees.

A report was presented to the Board of Directors with the issues treated 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 Consolidated Financial Statements for the year ended on December 31, 2009, and their respective Notes were duly analyzed.

   Considering its relative significance, the information of the subsidiary Herdez Del Fuerte, S.A. de C.V. was also analyzed.

   We learned about the 2010 Quarterly Financial Statements that have been sent to the Mexican Stock Exchange.

2. We learned about the Letter of Observations from the Company's external auditor for the year 2009 and due follow up has been given to its implementation during the year.

3. The internal control survey and assessment performed by the Company's external auditor during the normal course of the revision have been analyzed.

   The report indicates that the applied audit procedures over the internal control design and operation, in which a high level of trust has been deposited during the audit development, confirm that it is working in an effective manner, with none of the detected and reported remarks submitted to the management be considered as a significant material weakness or short coming. We have learned about improvement areas and follow up has been given to their implementation.

4. The work plan of the internal audit area for the year 2010 was validated, and due follow up has been done to development of its work and to the implementation of observations.

5. The new financial information standards used during the 2010 fiscal year, as well as those already in force were consistently applied with no significant effects.

6. We learned about the Plan prepared by the company for converging with the international financial reporting standards (IFRS) starting in 2012, and due follow up has been done.

7. The performance of the external audit firm PricewaterhouseCoopers has been assessed, having been considered as satisfactory and in accordance with the criteria established in the services contract. Likewise, work carried out by the partner in charge of the audit, who has in due time confirmed his professional and economic independence, has been acknowledged.

   Consequently, confirmation of the firm PricewaterhouseCoopers as the external audit firm for the 2010 fiscal year, as well as for the subsidiary Herdez Del Fuerte, S.A. de C.V. and its designation at Megamex Foods LLC has been recommended.

8. In addition to the external audit, other services provided by the society's external auditors firm have included fiscal advisory, transfer pricing survey; report on IMSS, and advisory on different matters, for a total amount of 3.7 million pesos.

9. We have learned and assessed the mechanisms implemented by the Chief Executive Officer for the identification, analysis, management and control of the main risks to which the society is subject to, as well as the established criteria for their adequate disclosure.

10. We have learned about and follow up has been given to the outstanding fiscal and legal matters, as well as to the adequate implementation of the Securities Market Law provisions, and the Shareholders' and Board of Directors' meetings resolutions.

11. Complementary, at the Committee's meeting held on February 17, 2011, the Reported Consolidated Financial Statements for the year ended on December 31, 2010 were analyzed, as well as their respective Notes, and the Letter of Observations of the society's external auditor.

Attentively,

Roberto Danel
Chairman of the Audit Committee

Corporate Practices Committee Report

Mr. Héctor Hernández-Pons Torres
Chairman of the Board of Directors
Grupo Herdez, S.A.B. de C.V.
Monte Pelvoux 215, 5th Floor
Mexico, D.F. 11000

March 23, 2011

Dear Mr. Hernández-Pons:

I am herein presenting the Annual Report of the activities of the Board of Director's Corporate Practices Committee, carried out during the 2010 fiscal year, referred to in Article 43, Section I of the Securities Market Law.

In the development of our work, we have considered the Securities Market Law regulations, the General Rules Applicable to Securities Issuers and other Participants of the Securities Market, the Corporate Best Practices Code's recommendations, the Corporate Practices Committee Rules and the Annual Program with the issues to be treated during the year.

During the reported period, the Committee punctually held the meetings as scheduled, an agenda was prepared based on the issues to be discussed in each meeting and the respective minutes were also prepared. The meetings were attended by the designated directors and invitees.

A report was presented to the Board of Directors with the issues treated in every meeting of the Committee.

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

1. We have learned the policies for designation and integral compensation of the Chief Executive Officer and other relevant executive officers.

2. The performance of the relevant executive officers was considered to be adequate, having been determined on the basis of the established policies.

3. We analyzed the integral remuneration package of the Chief Executive Officer and other relevant executive officers.

4. The external auditor report on operations with related parties was analyzed, having revealed that the transactions correspond to the normal business purposes, that they were carried out at market value, and that they have been adequately recorded.

   Such transactions have included sales services, selling of materials, royalties, real state and transportation equipment leasing, finished product imports, personnel services, interests, and freights for a total amount of 1,036 million pesos.

5. No exemption was granted by the Board of Directors to allow a director, a relevant executive officer or an individual with decision-making power, to take advantage for his own benefit or in favor of any third party, from business opportunities corresponding to the society or to a legal entity under their control, or in which they have a significant influence.

6. During the second semester of the year, the program for the issuance of domestic bonds was approved seeking the diversification of the counterpart risk and the refinancing of the short term maturities. The acquisition of Don Miguel Foods, a company dedicated to the production and commercialization of frozen Mexican food in the United States, through its associated company Megamex Foods has been approved.

Attentively,

Roberto Danel
Chairman of the Corporate Practices Committee

GRUPO HERDEZ

Consolidated Financial Statements

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

DECEMBER 31, 2010 AND 2009

Report of Independent Auditors
(Translated from original issued in Spanish)

Tlalnepantla, Mex., February 17, 2011

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

We have audited the consolidated balance sheets of Grupo Herdez, S. A. B. de C. V. and subsidiaries at December 31, 2010 and 2009, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of 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 in order to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with Mexican Financial Reporting Standards (NIF for their acronym in Spanish). An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial reporting standards 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.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of Grupo Herdez, S. A. B. de C. V. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of its operations, the changes in its stockholders' equity and its cash flows for the years then ended, in conformity with NIF.

PricewaterhouseCoopers

JOSÉ IGNACIO TOUSSAINT PURÓN

Audit Partner

Consolidated Balance Sheets

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

(amounts stated in thousands of Mexican pesos)

		December 31,		
Assets		2010		2009
CURRENT ASSETS:				
Cash and cash equivalents	Ps	805,507	Ps	424,197
Trade accounts receivable, net of allowance for doubtful accounts of Ps42,770 in 2010 and Ps19,065 in 2009		772,612		744,628
Other accounts receivable		17,788		20,627
Value added tax and income tax recoverable		186,985		145,227
Related parties (Note 5)		983,312		888,120
		1,960,697		1,798,602
Inventories (Note 6)		963,664		936,094
Other current assets (Note 4)		200,348		98,816
Total current assets		3,930,216		3,257,709
PROPERTY, MACHINERY AND EQUIPMENT - Net (Note 7)		1,826,233		1,634,576
INVESTMENT IN ASSOCIATED COMPANIES (Note 9)		84,461		98,895
INTANGIBLE ASSETS (Note 8)		1,463,975		1,017,952
Total assets	Ps	7,304,885	Ps	6,009,132
Liabilities and Stockholders' Equity				
CURRENT LIABILITIES:				
Notes payable (Note 10)	Ps	313,743	Ps	1,173,644
Suppliers		596,860		463,534
Other accounts payable and accrued expenses		213,858		162,911
Income tax payable		58,078		149,414
Employees' statutory profit sharing payable		13,517		12,654
Total current liabilities		1,196,056		1,962,157
LONG-TERM LIABILITIES:				
Notes payable (Note 10)		1,204,200		8,400
Long-term debt (Note 10)		293,691		125,000
Deferred taxes (Note 14)		252,117		164,997
Employees' benefits (Note 12)		21,443		19,719
Total long-term liabilities		1,771,451		318,116
Total liabilities		2,967,507		2,280,273
STOCKHOLDERS' EQUITY (Note 13):				
Capital stock		965,541		961,048
Reserve for purchase of shares		400,000		219,504
Retained earnings		1,779,221		1,501,510
Premium on the subscription of shares		220,959		220,959
Financial instruments		12,850		
Cumulative translation adjustment		5,540		18,195
Majority stockholders' investment in the controlling equity		3,384,111		2,921,216
Non controlling equity		953,267		807,643
		4,337,378		3,728,859
Total liabilities and stockholders' equity	Ps	7,304,885	Ps	6,009,132

The accompanying eighteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 17, 2011 by the undersigned officers.

HÉCTOR HERNÁNDEZ-PONS TORRES
General Director

ERNESTO RAMOS ORTÍZ
Administration and Corporate Practices Director

Consolidated Statement of Income

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

(amounts stated in thousands of Mexican pesos)

	Year ended December 31,			
		2010		2009
Net sales	Ps	8,871,260	Ps	8,265,640
Cost of sales		5,409,699		5,287,533
Gross profit		3,461,561		2,978,107
Operating expenses:				
Selling		1,205,292		1,151,468
Management		221,082		218,878
Advertising		403,174		323,354
		1,829,548		1,693,700
Operating income		1,632,013		1,284,407
Other (expenses) income - Net (Note 15)		(20,799)		96,855
Comprehensive financing result:				
Interest paid - Net		76,116		95,958
Exchange loss - Net		18,915		19,712
		95,031		115,670
Equity share in earnings of associated companies (Note 9)		24,452		43,810
Earnings before income tax		1,540,635		1,309,402
Income tax (Note 14)		424,897		300,431
Earnings before discontinued operations		1,115,738		1,008,971
Net discontinued operations (Note 17)		(12,024)		(9,153)
Consolidated net income for the year	Ps	1,103,714	Ps	999,818
Net income corresponding to non controlling equity	Ps	313,493	Ps	253,691
Net income corresponding to holding company stockholders	Ps	790,221	Ps	746,127
Basic income per common share (Note 2s.)	Ps	1.854	Ps	1.745

The accompanying eighteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 17, 2011 by the undersigned officers.

HÉCTOR HERNÁNDEZ-PONS TORRES
General Director

ERNESTO RAMOS ORTÍZ
Administration and Corporate Practices Director

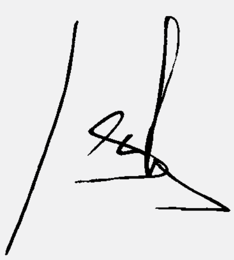
Consolidated Statement of Changes in Stockholders' Equity for the Two Years Ended December 31, 2010 (Note 13)
Grupo Herdez, S. A. B. de C. V. and subsidiaries

(amounts stated in thousands of Mexican pesos)

	Capital stock	Reserve for the purchase of shares	Retained earnings
Balances at January 1, 2009	Ps 961,897	Ps 229,471	Ps 969,428 [1]
Capital decrease from repurchase of shares	(890)	890	
Repurchase of outstanding shares		(11,474)	
Capital increase from placement of shares	41	(41)	
Placement of shares		658	
Payment of dividends			(214,045)
Comprehensive income (Note 2p.)			746,127
Balances at December 31, 2009	961,048	219,504	1,501,510 [1]
Capital decrease from repurchase of shares	(14,136)	14,136	
Repurchase of outstanding shares		(253,512)	
Capital increase from placement of shares	18,629	(18,629)	
Placement of shares		350,683	
Changes to the reserve for repurchase of shares		87,818	(87,818)
Payment of dividends			(424,692)
Comprehensive income (Note 2p.)			790,221
Balances at December 31, 2010	**Ps 965,541**	**Ps 400,000**	**Ps 1,779,221 [1]**

(1) Includes Ps141,861 of the legal reserve in both years.

The accompanying eighteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 17, 2011 by the undersigned officers.



HÉCTOR HERNÁNDEZ-PONS TORRES
General Director

ERNESTO RAMOS ORTÍZ
Administration and Corporate Practices Director

Premium on the subscription of shares	Financial instruments	Cumulative translation adjustment	Controlling equity	Non-controlling equity	Total
Ps 220,959		Ps 25,660	Ps 2,407,415	Ps 702,038	Ps 3,109,453
					–
			(11,474)		(11,474)
					–
			658		658
			(214,045)	(145,000)	(359,045)
		(7,465)	738,662	250,605	989,267
220,959		18,195	2,921,216	807,643	3,728,859
					–
			(253,512)		(253,512)
					–
			350,683		350,683
					–
			(424,692)	(190,000)	(614,692)
	$ 12,850	(12,655)	790,416	335,624	1,126,040
Ps 220,959	**$ 12,850**	**Ps 5,540**	**Ps 3,384,111**	**Ps 953,267**	**Ps 4,337,378**

Consolidated Statement of Cash Flows

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

(amounts stated in thousands of Mexican pesos)

	Year ended December 31,	
Operations:	2010	2009
Earnings before income tax	Ps 1,540,635	Ps 1,309,402
Items related to investment activities:		
Discontinued operations	(12,024)	(9,153)
Depreciation	125,668	120,445
Loss on sale of fixed assets	17,431	4,245
Net pension cost of employees' benefits	16,872	17,191
Interest earned	(54,099)	(33,965)
Equity share in earnings of associated companies	(24,452)	(43,810)
Other income without cash flow	4,987	22,636
Items related to financing activities:		
Interest expense	130,215	129,923
Subtotal of items related to investment and financing activities	1,745,233	1,516,914
Increase in accounts receivable	(135,094)	(64,794)
Decrease in inventories	8,124	48,320
(Increase) decrease in other assets	(96,943)	26,586
Increase (decrease) in suppliers	105,491	(140,990)
Increase (decrease) in other accounts payable	95,392	(25,831)
Income tax paid	(511,005)	(178,745)
Net cash flows from operating activities	1,211,198	1,181,460
Investment activities:		
Business acquired (Note 1)	(541,227)	(176,793)
Disposition of investments (Note 1)	5,000	
Collected interests	55,409	33,480
Dividends collected	18,750	
Acquisitions of property, machinery and equipment	(286,356)	(296,075)
Collections on sale of property, machinery and equipment	47,858	101,840
Net cash flows from investment activities	(700,566)	(337,548)
Cash surplus to be used in financing activities	510,632	843,912
Financing activities:		
Cash in flows for issuance of Certificados Bursatiles (domestic bonds)	600,000	
Long-term loans paid	(264,102)	(139,806)
Loans-term loans obtained from associated companies	154,771	
Other long-term liabilities	13,920	
Placement of shares (repurchase) - Net	97,171	(10,816)
Interests paid	(116,390)	(121,633)
Dividends paid	(614,692)	(359,045)
Net cash flows from financing activities	(129,322)	(631,300)
Net increase of cash and other cash equivalents	381,310	212,612
Cash and cash equivalents at beginning of year	424,197	211,585
Cash and cash equivalents at end of year	Ps 805,507	Ps 424,197

The accompanying eighteen notes are an integral part of these consolidated financial statements, which were authorized for issuance on February 17, 2011 by the undersigned officers.

HÉCTOR HERNÁNDEZ-PONS TORRES
General Director

ERNESTO RAMOS ORTÍZ
Administration and Corporate Practices Director

Amounts stated in thousands of Mexican pesos,
except exchange rates

NOTE 1 - COMPANY ACTIVITIES AND BASES FOR PRESENTATION:

Grupo Herdez, S. A. B. de C. V. (Grupher) and its subsidiaries are mainly engaged in the manufacture, purchase, distribution and commercialization of canned and bottled food products, as well as of pasta, in Mexico and with significant presence in the United States of America (U.S.) and Canada. The Company produces and sells products pertaining to the following brands: Herdez, Del Fuerte, McCormick, Doña María, Barilla, Yemina, Vesta, Nair, Embasa, La Victoria, Búfalo, La Gloria, Carlota, Blasón, Hormel, Sólo Doña María, Solomate Doña María, Kikkoman and Ocean Spray, among others. For these purposes, Grupher and subsidiaries have forged alliances with leading companies worldwide, such as: McCormick and Company Inc., Hormel Foods Corp. (Hormel), Barilla GeR Fratelli S.p.A. (Barilla) and Grupo KUO, S. A. B. de C. V. (Grupo KUO) for the creation of Herdez del Fuerte, S. A. de C. V. (HDF).

Basis of preparation

The accompanying consolidated financial statements at December 31, 2010 and 2009 are in compliance with the provisions of Mexican Financial Reporting Standards (NIF, for its acronym in Spanish) to ensure fair presentation of the Company's financial position. The Company prepared its statements of income under the classification criterion based on the nature of the items thereof, whose main characteristic is that it separtes the cost of sales from other costs and expenses. Additionally, for a better analysis of its income position, the Company has considered it necessary to show the operating income separately in the statement of income, which is a common disclosure practice in the industry to which the Company belongs.

According with the guidelines of NIF B-10 "Effects of inflation", the Mexican economy is currently in a non-inflationary environment, as cumulative inflation has remained below 26% in the past three years (threshold for an economy to be considered non-inflationary). Therefore, as of January 1, 2008, recognition of the effects of inflation on the financial information is no longer required (disconnection from inflationary accounting). Consequently, the figures contained in the accompanying financial statements at December 31, 2010 and 2009 are stated in historical Mexican pesos, modified by the cumulative effects of inflation on the financial information recognized up to December 31, 2007.

The inflation rates are as shown below:

	December 31,	
	2010	2009
Year's inflation	**4.40%**	3.57%
Cumulative inflation of the past three years	**15.19%**	14.48%

Creation of Megamex Foods LLC (Megamex)

Through a number of agreements entered into on October 26, 2010, HDF and Hormel formalized their association in a joint venture, thus creating Megamex to be engaged in the production, sale and distribution of food products (prepared food and Mexican style salsa, tortillas and vegetables) in the U.S. Said company was incorporated in the state of California in the U.S.

The transaction was conducted through the contribution of the joint venture that both had in the U.S. denominated Herdez Corporation, the contribution by Herdez of the business managed by its subsidiary, Authentic Specialty Foods (ASF), also located in the U.S., and the contribution of the businesses of certain commercial brands related to Mexican foods, mainly salsas and tortillas, operated by Hormel.

In making the contributions of the businesses as a whole, the difference in fair value resulted in a cash payment by Hormel, that generated a profit of Ps149,735. See Note 15.

Megamex began operations on October 26, 2009, with a 50% partnership interest and as from that date, results thereof are included in the financial statements of HDF by the proportional consolidation method.

Acquisition of Don Miguel Foods (Don Miguel)

On October 6, 2010, HDF acquired, through its associated company, Megamex, the company denominated Don Miguel, which in engaged in the production, marketing, distribution and sale of frozen and refrigerated foods through premium brands in the U.S. This acquisition includes a production plant located in Dallas, Texas, as well as the Don Miguel, Gourmet Olé and other brands. The effective amount of the acquisition of Don Miguel corresponding to Grupher, in the corresponding proportion, totaled Ps541,227. See Note 8.

Basis for consolidation

The consolidated financial statements at December 31, 2010 and 2009 include those pertaining to Grupher and the subsidiaries mentioned below. All balances and transactions among them have been eliminated in consolidation.

The subsidiaries are consolidated at 100%, except for HDF, which is consolidated in proportion to its interest, as control is exercised jointly.

Company	Percentage of shareholding 2010	2009	Activity
Food:			
Herdez del Fuerte and subsidiaries (HDF)	**50%**	50%	Gathering, manufacturing, commercialization and distribution of food products.
McCormick de México, S. A. de C. V. (McCormick)	**50%**	50%	Preparation and packaging of food products.
Barilla México, S. A. de C. V. (Barilla México)	**50%**	50%	Purchase, importation, sale and distribution of all types of pasta.
Hormel Alimentos, S. A. de C. V. (Hormel Alimentos)	**50%**	50%	Purchase, sale, production, distribution, importation and exportation of all types of foods products.
Sociedad de Desarrollo Agrícola H. P., S. A. de C. V. (SDA) [1]		100%	All types of agricultural, livestock, agroindustrial and forestry activities.
Services:			
Herport, S. A. de C. V. (Herport)	**50%**	50%	Shipping company engaged in the exploitation of fishing vessels.
Herdez Europa	**97%**	97%	Distributor.
Litoplas, S. A. de C. V. (Litoplas)	**100%**	100%	Purchase-sale of all types of plastic articles, sale and contract manufacturing of lithography products and plastic arts.
Seramano, S. A. de C. V. (Seramano)	**100%**	100%	Rendering of personnel services in the technical, administrative and accounting areas.
Herdez Capital, S. A. de C. V. SOFOM, E.N.R. (Herdez Capital)	**75%**	75%	Loan granting, capital lease operations.
Real Estate group:			
Alimentos HP, S. A. de C. V. (Alimentos)	**100%**	100%	Leasing of property, machinery and equipment to group companies.
Comercial de Finanzas Netesa, S. A. de C. V. (Netesa)	**100%**	100%	Real estate company.
Quicolor de México, S. A. de C. V. (Quicolor)	**100%**	100%	Real estate company.
Promotora Hercal, S. A. de C. V. (Hercal)	**100%**	100%	Real estate company.
Herpons Continental, S. A. de C. V. (Herpons Co.)	**100%**	100%	Leasing of real property and storage services provided to group companies.

(1) Through an agreement entered into on May 20, 2010, Grupher sold its SDA shares in the amount of Ps5,000, generating an income of Ps3,151.

In accordance with the provisions of the NIF B-15: investment in foreign subsidiaries are identified as foreign operations, and were converted to the reporting currency as described in Note 2u.

New NIF in effect as from January 1, 2010

The following Mexican Financial Reporting Standards (NIF) or changes thereto, as well as interpretations to said NIF (INIF), issued by the Mexican Financial Reporting Standards Board (CINIF) went into effect in 2010 and have been adopted with no major effects by the Company in preparing its financial statements. Note 2 discloses the new accounting policies aplicable to the Company.

NIF B-1 "Accounting changes and misstatement correction"
NIF B-2 "Statements of cash flows"
NIF B-7 "Business acquisitions"
NIF C-1 "Cash and cash equivalents"
NIF C-7 "Investment in associated companies and other permanent investments"
NIF C-13 "Related parties"
INIF 14 "Contracts of construction, sale and provision of services related to real state"
INIF 17 "Service concession contracts"
INIF 19 "Change derived from adoption of IFRS"

Adoption of International Financial Reporting Standards (IFRS)

In January 2009, the National Banking and Securities Commission (NBSC) published modifications to the general provisions applicable to issuers of securities and other securities market participants, establishing the requirements for issuers to prepare and disclose their financial information as from 2012, based on IFRS, and allowing for early adoption thereof.

The Company has informed the NBSC of progress made in the implementation of the NIIF, including 2012 as the estimated year for their adoption. The Company has complied with the different stages of the conversion project; however, at the date of issuance of the financial statements, the estimated amounts corresponding to said changes have not yet been determined.

Authorization of financial statements

The accompanying consolidated financial statements and notes thereto were authorized for issuance on February 17, 2011 by Héctor Hernández-Pons Torres and Ernesto Ramos Ortíz.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Following is a summary of the most significant accounting policies, which have been consistently applied in the reporting years, unless otherwise indicated.

NIF require the use of certain critical accounting estimates in the preparation of the financial statements. Also, Management judgment is required in the process of determining the Company's accounting policies.

a. Consolidation -

All significant balances and transactions among the consolidated companies have been eliminated in the consolidation. Consolidation was carried out on the basis of the subsidiaries' financial statements.

b. Cash and cash equivalents -

Cash and cash equivalents, include cash balances, bank deposits and other highly liquid investments, with immaterial risks arising from changes in value.

c. Derivative financial instruments -

All derivative financial instruments classified as for trading or to hedge against market risk, are recognized in the balance sheet as assets and/or liabilities at their fair value. Fair value is determined based on recognized market prices and when not quoted in the stock market, fair value is determined based on valuation techniques accepted in the financial domain.

Changes in the fair value of said derivative financial instruments are applied to stockholders' equity, when said instruments are contracted to hedge against risks and meet all hedging requirements, including the documentation supporting their designation at the outset of the hedging operation, describing the purpose, primary position, risks to be hedged, type of derivatives and the measure of effectiveness applicable to that operation, when these requirements are not met, said changes are included in the Comprehensive Financing Result (RIF, for its acronym in Spanish).

The fair value hedging, both the derivative and the item hedged are valued at fair value and fluctuations in valuation are applied to income in the same line of the position they cover. In cash flows hedges, the effective portion is temporary shown in comprehensive income, under stockholders' equity and is reclassified to income when the position hedged affects income, the ineffective portion is immediately applied to income.

d. Inventories -

At December 31, 2010 and 2009, inventories and the cost of sales are expressed at their historical cost, determined by the first-in first-out method. Values so determined do not exceed market value. See Note 6.

The allowance for obsolete and/or slow moving inventory is determined based on studies conducted by Company Management and is sufficient to absorb any related loss.

Agricultural production in process corresponds to expenses incurred during the cultivation to harvest period at their historical costs. Values so determined do not exceed their net realization value.

e. Permanent investments in associated companies -

Permanent investments in subsidiaries and associated companies are initially recognized on the basis of the invested amount, contributed or of acquisition. Subsequently, said investments are valued by the equity method, which consists of adjusting the value o f the investment, contribution or acquisition of the shares, the latter denominated by the purchase method, by the proportional part of comprehensive profits or losses and the distribution of earnings from capital reimbursements subsequent to the date of acquisition Losses in associated companies, due to reductions in the shareholding percentage, are recognized in the corresponding proportion, as follows: a) in the permanent investments, until it reaches zero; b) if there is a surplus after applying the matters described in prior point a), it is recognized in asset accounts until they reach zero; c) any surplus is recognized as a liability arising from legal obligations or assumed on behalf of the associated company, and d) loss surpluses, if any, not recognized in accordance with the above, must not be recognized by the holding company.

The Company's equity in the result of associated companies is shown separately in the statement of income.

Investments in associated companies recognize impairment losses, if any, by applying the equity method to the values recognized.

f. Investment in joint ventures -

Investments in joint ventures are recognized when there are contractual agreements with other entities in which there is shared control over the entity. Said investments are recorded by the proportional consolidation method, which consists of recognizing, in the participants' financial statements, the proportional part of assets, liabilities, capital, income and/or expenses of the controlled entity in the aggregate.

Proportional consolidation of joint ventures is recognized in the financial statements as from the date on which common control commences and up to the date on which it ends.

g. Property, machinery and equipment -

Property, machinery and equipment, including financial-leasing acquisitions, are stated as follows: i) acquisitions subsequent to January 1, 2008 at their historical cost, and ii) acquisitions up to December 31, 2007 of domestic origin at their restated value determined by applying factors derived from the National Consumer Price Index (NCPI) to their acquisition cost, up to December 31, 2007.

Depreciation is calculated by the straight-line method based on the useful lives of the assets, estimated by Company Management, and applied to the values of property, machinery and equipment. See Note 7.

Property, machinery and equipment are subject to annual impairment testing, only when signs of impairment are identified. Consequently, said items are stated at their modified historical cost, less accumulated depreciation and, if applicable, impairment losses. See Note 7.

Property, machinery and equipment intended for sale are valued at the lesser of their book value or at their net realization value. Said long-lived assets are not subject to depreciation. See Note 7.

h. Intangible assets -

Intangible assets are recognized in the balance sheet when they meet the following conditions: are identifiable, provide future economic benefits and the Company has control over such benefits. Intangible assets are classified as follows: i) definite life: those which are amortized systematically, based on the best estimate of their useful life determined on the basis of expected future economic benefits, and are subject to impairment testing as signs thereof are identified, and ii) indefinite useful life, which are not amortized, but subject to annual impairment testing. See Note 8.

These intangible assets, either acquired or developed, are stated as follows: i) as of January 1, 2008, at their historical cost, and ii) up to December 31, 2007, at indexed values determined through the application factors derived from the NCPI to their acquisition costs up to that date. Consequently, these assets are stated at their modified historical cost, less the corresponding accumulated amortization and, if any, impairment losses.

i. Goodwill -

Goodwill is considered as indefinite life and represents the cost of subsidiaries' shares in excess of the fair value of the net assets acquired and its value is subject to annual impairment testing. Accordingly, goodwill is stated at its modified historical costs, less impairment losses, if any.

j. Liability provisions -

Liabilities and liability provisions represent present obligations arising from past events, likely to require the use of economic resources to settle the obligation. These provisions have been recorded according to Management's best estimate.

k. Deferred Income Tax (IT) -

Deferred IT is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred tax on all temporary differences between the book and tax values of assets and liabilities to be materialized over time, at the rates established in the tax provisions in effect at the date of the financial statements. The Company recognized deferred IT, as its financial and tax projections show that the Company will essentially pay IT in the future. See Note 14.

l. Deferred Employees' Statutory Profit Sharing (ESPS) -

Deferred ESPS is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred ESPS for all differences between the book and ESPS value of assets and liabilities, in which payment or recovery thereof is likely.

At December 31, 2010 and 2009, the Company has recorded no effect of deferred ESPS, which is debtor in nature and the amount thereof is not considered to be important in the context of the accompanying consolidated financial statements.

ESPS currently payable is shown in the income statements under other income and expenses. See Note 15.

m. Employee benefits -

Employee benefits granted by the Company to its employees, including defined benefit plans (or defined contribution plans) are described as follows:

Direct benefits (salaries, overtime, vacations, holidays and paid leave of absence, among others) are applied to income as they arise and the related liabilities are stated at their nominal value, due to their short-term nature. Absences payable under legal or contractual provisions are noncumulative.

Employee benefits upon termination of employment for reasons other than restructuring (severance, seniority premium, bonuses, special compensation or resignation, etc.), as well as retirement benefits (pensions, seniority premium and indemnities, etc.) are recorded based on actuarial studies conducted by independent experts by the projected unit credit method.

The net cost for the period of each benefit plan is recognized as an operating expense in the year in which it becomes payable, which includes, among other items, amortization of the labor cost of past services and prior years' actuarial gains (losses). See Note 12.

Items still unamortized at December 31, 2007, known as transition liabilities, which include the labor cost of past services and unamortized actuarial gains (losses), are amortized as of January 1, 2008, over a five-year period, rather than the estimated working lifetime of employees (12 years up to 2008).

Actuarial studies of employee benefits incorporate the expected career salary increase hypothesis.

The breakdown of the personnel benefit plans is described in Note 12.

n. Financial instruments with liability-like features -

The financial instruments with liability-like features issued by the Company are recorded as liabilities as from their issuance, depending on the components thereof. Initial costs incurred in issuing said instruments are assigned to liabilities in the same proportion as the amounts of their components. Gains and losses related to financial instrument components classified as liabilities are recorded in the comprehensive financing cost.

o. Stockholders' equity -

Capital stock, the reserve for the purchase of shares, the legal reserve, the premium on the subscription of shares and retained earnings are expressed as follows: i) movements as of January 1, 2008, at their historical cost, and ii) movements before January 1, 2008, at their indexed values determined by applying factors derive from the NCPI to their restated values of up to December 31, 2007. Accordingly, the different stockholders equity items are stated at their modified historical cost.

The net premium on the placement of shares represents the the payment on the subscription of shares in excess of the par value thereof.

p. Comprehensive income -

Comprehensive income is comprised of net income, financial instruments and the effects of conversion, which are reflected in stockholders' equity and do not constitutes capital contributions, reductions and/or distributions. The comprehensive income for 2010 and 2009 is expressed in historical pesos.

q. Revenue recognition -

Income from the sale of goods is recognized in the income statement when the overall following requirements are met: a) the risks and benefits of the goods have been transferred to the buyer and no significant control thereon is retained, b) the revenue, costs incurred or to be incurred are reliably determined and c) the Company is likely to receive economic benefits from the sale.

r. Other income allowance -

The allowance for doubtful account, rebates and discounts, is recognized based on studies conducted by Management and is considered to be sufficient to absorb losses, rebates, discounts and reimbursements as per Company policies.

s. Earnings per share -

Earnings per basic ordinary share are stated in pesos and are the result of dividing net income for the year by the weighted average of shares outstanding, which was Ps426,231,201 and Ps427,509,963 during 2010 and 2009, respectively, resulting as follows:

	Year ended December 31,			
		2010		2009
Basic income per ordinary share in the controlling equity before discontinued operations	Ps	**1.882**	Ps	1.766
Discontinued operations effect		**(0.028)**		(0.021)
Basic income per common share	Ps	**1.854**	Ps	1.745

t. Exchange gain -

Transactions in foreign currencies are initially recorded in the recording currency, applying the exchange rates prevailing on the dates they are entered into and/or settled. Assets and liabilities denominated in such currencies are translated at the exchange rate prevailing on the balance sheet date. Exchange gains or losses arising from fluctuations in exchange rates between the transaction and settlement dates, or valuation at the period close, are applied to income, as a component of the RIF, except for exchange differences, which are capitalized along with other components of the RIF, as part of the cost of ratable assets.

u. Foreign currency transactions -

The financial statements of foreign subsidiaries (foreign currency transactions) maintain the same recording and functional currency. Therefore, said figures served as the basis to convert the financial information of foreign operations to the Company's reporting currency, considering a non-inflationary environment, as shown as follows:

- The balances at December 31, 2010 and 2009 shown for assets and liabilities stated in the recording currency were translated at the closing exchange rate of Ps12.38 and Ps13.04 to the U.S. dollar, respectively.

- Stockholders' equity at December 31, 2007 was translated applying the exchange rate at that date and movements from 2008 to 2010 were translated at the historical exchange rate.

- Revenue, costs and expenses of 2010 and 2009 were translated at the historical exchange rate was of Ps12.63 and Ps13.51 to the U.S. dollar, respectively.

- In light of the above, a conversion effect was recognized in stockholders' equity.

v. Information per segment -

The Standard B-5 "Financial information by segments" of NIF, requires that the Company analyze its organizational structure and its reporting system for the purpose of identifying segments. With respect to the years presented, the Company has operated the following business segments: domestic and foreign.

These segments are managed independently, since the goods they handle and the markets they serve are different. Their activities are performed through different subsidiaries. Operations between operating segments are recorded at market value.

Revenue by segment is shown according to the manner by which Management analyzes, directs and controls the business and operating income. See Note 11.

NOTE 3 - FOREIGN CURRENCY POSITION:

a. At December 31, 2010 and 2009, the Company had the following foreign currency assets and liabilities. The information is stated in thousands of U.S. dollars (Dls.), which is the prevailing foreign currency.

	Consolidated			
		2010		2009
Assets	Dls.	**27,237**	Dls.	25,542
Liabilities		**(49,849)**		(20,935)
Net (short) long position	Dls.	**(22,612)**	Dls.	4,607

At December 31, 2010 and 2009, the exchange rate was Ps12.38 and Ps15.04 to the dollar, respectively. At February 17, 2011, date of issuance of the audited financial statements, the exchange rate is Ps12.09.

At December 31, 2010 and 2009, the Company and its subsidiaries maintained hedging instruments to protect against exchange risks, as described in Note 4.

b. Following is a summary of the main transactions conducted by the subsidiaries in foreign currency (excluding the acquisition or sale of machinery and equipment for own use), along with income and expenses stated in thousands of U.S. dollars:

	Year ended December 31,			
		2010		2009
Exported merchandise, including overseas sales	**Dls.**	**89,532**	Dls.	71,532
Importations of finished products, including foreign purchases		**(52,014)**		(22,315)
Royalties and technical service expenses		**(13,892)**		(12,129)
Net	**Dls.**	**23,626**	Dls.	37,088

NOTE 4 - OTHER CURRENT ASSETS:

At December 31, 2010 and 2009, other current assets are comprised as shown below:

	December 31,			
		2010		2009
Financial instruments	**Ps**	**103,609**	Ps	44,990
Advertising paid in aduance		**96,739**		53,826
	Ps	**200,348**	Ps	98,816

The Company's activities expose it to a number of different financial risks: market risk (including exchange-rate risks, cash flow and fair value, interest rate risks and price risks), credit risk and liquidity risk. The risk management general program considers the unpredictability of the financial markets and seeks to minimize the potential negative effects on the group's financial performance. The group uses derivative financial instruments to hedge against risk exposure.

Financial risk management is handled by the finance department, as per the policies approved by the Board of Directors. The entity identifies, assesses and hedges the financial risks in close co-operation with its subsidiaries. The Board has approved written general policies in connection with the financial risk management, as well as policies for specific risks, such as exchange rate, interest rate and credit for the use of trading and/or hedging derivative financial instruments and of non-derivative financial instruments for the investment of treasury surplus.

As part of the raw materials hedging strategy during 2010 and 2009, the Company used derivative financial instruments to decrease the risk of price fluctuations. At December 31, 2010 and 2009, the related balances included in "Other current assets" are as follows:

		2010		2009
Investments in financial instruments	**Ps**	**35,638**	Ps	21,716
Fair value of derivative financial instruments		**67,971**		23,274
Net value of financial instruments	**Ps**	**103,609**	Ps	44,990

The total amounts of hedge agreements for the purchase of raw materials in effect at December 31, 2010 and 2009 are as follows:

		Notional amount (Dls.)		Notional amount pesos	Starting	Dates Maturity	Position		Fair value (Dls.)		Pesos
2010	**Dls.**	**27,217**	**$**	**336,995**	**Various**	**Various**	**Short**	**Dls.**	**5,490**	**$**	**67,971**
2009	Dls.	12,403	$	161,814	Various	Various	Long	Dls.	1,781	$	23,274

For the period ended December 31, 2009, the Company recorded a Ps48,616 benefit in the cost of sales, stemming from financial instruments contracted in 2008, realized during 2009. Due to the fact that these financial instruments were intended to hedge the price of raw materials, Company management considered that recording this amount in the cost of sales reflects the hedge effect more clearly. As required in Interpretation (INIF) to NIF -6 "Timeliness in formal designation of hedging", the Company documented the efficiency of derivative financial instruments at a date subsequent to contracting thereof, as a result of which, said instruments were recorded as for hedging purposes.

Exchange-rate derivative financial instruments

In the purchase of its raw materials, the Company is exposed to fluctuations in the exchange rate of the Mexican peso to the U.S. dollar, due to which the Board of Directors has approved a hedging strategy with forwards, with a view to minimizing the exchange risk for those transactions.

At December 31, 2010 and 2009, the characteristics of the forwards designated as hedging are as follows:

		Notional amount (Dls.)		Notional amount pesos	Beginning date	Expiration date	Type of underlying asset		Fair value
2010	**Dls.**	**20,000**	**$**	**250,392**	**Various**	**Various**	**U.S. dollar**	**Ps**	**(2,355)**
2009	Dls.	16,000	$	210,600	Various	Various	U.S. dollar	Ps	121

Interest rate swaps

To reduce the risk of adverse movements attributable to the interest rate profile contracted with Financial Institutions in long-term debt subject to interest recognized in the balance sheet, to be paid as from July 2017 and up to December 2019, Company management entered into the following interest rate swap agreement:

Year		Notional amount (thousands of pesos)	Date of start	Date of expiration	Interest rates fixed - variable			Fair value (thousands of pesos)
2010	**Ps**	**300,000**	**July 5,** 2009	**December 5,** de 2019	**7.79%**	**TIIE** 91 days	**Ps**	**(14,582) ***

* These derivative financial instruments were designated from the outset as cash flow hedges and effectiveness thereof is measured periodically.

At December 31, 2010, Company management has evaluated the effectiveness of its hedge accounting and considers its hedges to be highly effective.

The net effect recorded in stockholders' equity with deferred income tax at December 31, 2010 of financial instrument hedging and interest rate swaps totaled Ps12,850. The amount included in comprehensive income, under stockholders' equity, is to be simultaneously recycled to income when affected by the items hedged. Said amount is subject to changes in market conditions.

NOTE 5 - ANALYSIS OF BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

The principal net balances at December 31, 2010 and 2009 with subsidiaries and affiliates are as shown as follows:

	Year ended December 31,			
Accounts receivable (payable):		2010		2009
Hechos con Amor, S. A. de C. V.	Ps	541	Ps	(989)
Herdez Del Fuerte - proportional consolidated [1]		884,717		787,411
Herimex Corporation				3,118
McCormick and Company, Inc.		(15,757)		(18,078)
Herflot, S. A. de C. V.		(253)		(1,694)
Herflot Tijuana, S. A. de C. V.				650
Barilla Alimentare		(14,807)		(14,483)
Duque Jet, S. A. de C. V.		(287)		(1,124)
Desc Corporativo, S. A. de C. V.		(2,882)		(2,377)
Stafford de México, S. A. de C. V.		34,266		34,227
Fábrica de Envases del Pacifico, S. A. de C. V.		100,138		100,503
Other - Net		(2,364)		956
Net receivable	Ps	983,312	Ps	888,120

(1) Corresponding to net balances receivable from Herdez del Fuerte subsidiaries, in the 50% that corresponds to the non-consolidating proportion. (See Note 10).

During the years ended December 31, 2010 and 2009, the Company carried out the following transactions with related parties using prices equivalent to those used in operations conducted among independent third parties.

Transactions:	Year ended December 31, 2010		2009
Interests earned	Ps 11,237	Ps	4,183
Interests paid	(27,190)		(28,995)
Service income	6,439		6,096
Corporate expenses	(51,388)		(58,250)
Leasing expenses	(60,664)		(63,135)
Administrative services	(37,188)		(21,362)
Freight services	(15,102)		(13,122)
Commissions on sales	(326,842)		(61,681)
Purchase of labels and other materials	(318,720)		(487,897)
Other	(8,304)		(16,162)
	Ps (827,722)	Ps	(740,325)

During August and November 2009, Grupher acquired the overall shares of Seramano, S. A. de C. V. (Seramano), Herpons Continental, S. A. de C. V. (Herpons Co) and Litoplas, S. A. de C. V. (Litoplas), known as a whole as Grupo Colibrí. Due to the fact that the value of the assets and shares pertaining to the companies acquired is considered to have been determined at fair value, goodwill of Ps68,625 was recognized, arising from the difference between the purchase price of the shares and the value of the companies' net assets at the date of acquisition. This acquisition was made from a related party.

The total amount of the benefits granted to key managerial personnel or relevant directors is equivalent to that of similar operations conducted with other independent parties, as shown in Note 12 k.

NOTE 6 - ANALYSIS OF INVENTORIES:

	Year ended December 31, 2010		2009
Finished products	Ps 608,946	Ps	577,939
Semi-finished and in-process products	6,495		2,699
Raw materials and packaging materials	250,715		246,437
Inventory held by contract manufacturers (maquiladores) and agents	46,515		70,715
Spare-parts warehouse	50,993		38,304
	Ps 963,664	Ps	936,094

NOTE 7 - PROPERTY, MACHINERY AND EQUIPMENT:

	Year ended December 31, 2010		2009	Annual depreciation %
Buildings	Ps 890,763	Ps	854,931	3 and 5
Machinery and tools	1,660,010		1,594,741	7 and 10
Fishing equipment	456,189		456,189	6
Furniture and office equipment	60,320		62,574	8
Stowing and transportation equipment	48,563		58,161	10 and 25
Electronic data processing equipment	85,218		82,916	25
Other			4,911	
	3,201,063		3,114,423	
Accumulated depreciation	(1,731,652)		(1,737,975)	
	1,469,411		1,376,448	
Land	237,527		233,290	
Reserve for asset disposal [1]	(142,056)		(156,535)	
Construction in process, machinery in transit and advances to suppliers [2]	261,351		181,373	
	Ps 1,826,233	Ps	1,634,576	

(1) The allowance for the disposal of assets is for the expected impairment due to the closing of the Veracruz, Ensenada and Mazatlán plants. As mentioned in Note 17, and includes estimations of the realization value of assets and real property available for sale.

(2) During 2009, the construction of a new distribution center in Teoloyucan, Estado de Mexico began, its conclusion and start-up is estimated for 2011.

At December 31, 2010 and 2009, Company property, machinery and equipment show no indication of impairment that would require additional adjustments to the reserves.

NOTE 8 - ANALYSIS OF OTHER INTANGIBLE ASSETS:

At December 31, 2010 and 2009, other assets are comprised as shown below:

	Balance at December 31,			
		2010		2009
Trademarks and patents	Ps	172,588	Ps	176,378
Goodwill of subsidiaries:				
Grupo Colibrí		68,671		68,625
HDF		1,131,495 [1]		691,792
Barilla		71,523		71,523
		1,271,689		831,940
Other		19,698		9,634
	Ps	1,463,975	Ps	1,017,952

[1] Includes Ps439,703 corresponding to provisional goodwill recorded as a result of the acquisition of Don Miguel in the last quarter of 2010. At the end of the year, recognition of the acquisition had not been completed. Once the determination of the fair value of assets acquired and liabilities assumed is completed, goodwill will be reviewed within the terms set out in the NIF.

The reconciliation of the values of intangible assets at the beginning and end of the period is as follows:

		Investment
Balance at beginning of period	Ps	1,017,952
Plus:		
Patents and trademarks		(3,790)
Goodwill recognized in the period		439,703
Other		10,110
Balance at end of period	Ps	1,463,975

During the year ended December 31, 2010, these assets were not subject to amortization, and suffered no impairment adjustments.

NOTE 9 - INVESTMENT IN ASSOCIATED COMPANIES:

The investment in shares of associated companies at December 31, 2010 and 2009 is comprised as shown below:

	Investment in shares				Equity share in earnings of associated companies at year end			
		2010		2009		2010		2009
Associates of Grupher	Ps	84,457	Ps	98,852	Ps	24,452	Ps	25,544
Associates of subsidiaries		4		43				18,266
Total	Ps	84,461 [1]	Ps	98,895 [2]	Ps	24,452	Ps	43,810

[1] The balance at December 31, 2010 is comprised by the 50% investment in Fábrica de Envases del Pacífico, S. A. de C. V shares.

[2] Corresponds to the associated companies of HDF and Herdez Corp. (subsidiaries), as well as to the associated companies of Grupher and Fábricas de Envases del Pacífico, S. A. de C. V.

Merger of subsidiaries -

During 2009, the following two mergers took place: Hermarcas, S. A. de C. V. into Grupher and Arpons, S. A. de C. V., Inmobiliaria Enna, S. A. de C. V. and Yavaros Industrial, S. A. de C. V. into Comercial de Finanzas Netesa, S. A. de C. V. (Netesa). Due to the fact that the above were consolidated companies, these mergers had no effect on the accompanying consolidated financial statements, except for the Ps37,874 tax effect arising from withdrawal of subsidiaries from the tax consolidation regime.

NOTE 10 - ANALYSIS OF NOTES PAYABLE AND LONG-TERM DEBT:

Notes payable

On September 30, 2010, Grupher placed unsecured notes known as Certificados Bursátiles (domestic bonds) totaling Ps600,000, whose resources were used to replace short-term bank loans maturing in December 2010.

Notes payable and short-term debt at December 31, 2010 and 2009 are analyzed as follows:

		2010		2009
Diverse bank loans in pesos, at different rates expiring in 2010 that were fully liquidated			Ps	1,169,444
Bank loan in U.S. dollars due on March 2, 2011 with interest payable monthly at variable rate over LIBOR 1 m plus 2.90%.	Ps	**309,543**		
Bank loan in pesos due on December 18, 2012 with amortizations and interest payable quarterly at variable rate TIIE 91 plus 1.40%.		**8,400**		12,600
Certificados Bursatiles (domestic bonds) due on September 20, 2017 with interest payable semiannually at a 7.93% rate.		**600,000**		
Bank loan in pesos due on December 5, 2019 with amortizations from year 2017 and interest payable quarterly with variable rate TIIE 91 plus 4.05%.		**600,000**		
Total		**1,517,943**		1,182,044
Minus short-term liabilities		**313,743**		1,173,644
Long-term liabilities	Ps	**1,204,200**	Ps	8,400

The main loan convenants are listed as follows:

- Not exceeding 2.75 and 3 times leverage (net consolidated liabilities with cost/EBITDA).
- Not reducing interest coverage (EBITDA/net financing expenses) to less than 3 times.
- Not to reduce capital stock to under Ps2,800,000.
- Grant any kind of loan or credit, secured or unsecured, except for those entered into with the borrower's subsidiaries and/or affiliates.

At December 31, 2010 and at the date of this report, there is no default that could modify loan conditions.

Long-term liabilities

At December 31, 2010 and 2009, long-term liabilities are as shown below:

		2010		2009
Loans payable (1)	Ps	**279,771**	Ps	125,000
Commercial sale contracts (2)		**18,560**		
Total long-term liabilities		**298,331**		125,000
Minus-short term maturity		**4,640**		
Long-term maturity	Ps	**293,691**	Ps	125,000

(1) At December 31, 2010, HDF has two loans payable to Grupo Kuo totaling Ps250,000 (Average Interbank Interest Rate (TIIE) + 4.5%) and Ps309,542 (Libor + 3.5%), maturing at December 31, 2011 and at September 28, 2012, respectively, subject to no covenants. As a result of the proportional consolidation mentioned in Note 1, the Ps279,771 balance corresponds to 50% of the two loans. In addition, in Note 5 to the financial statements, Grupher shows an account receivable – net with HDF equivalent to the non-consolidated proportion, which includes Ps279,771 for the same item and conditions.

(2) Corresponds to two purchase-sale agreements, payable in five yearly installments, maturing in December 2013.

NOTE 11 - FINANCIAL INFORMATION PER SEGMENT:

The Company manages and evaluates its operation through fundamental economic operating segments, which are segmented geographically. These economic segments are managed and controlled independently.

Following is the condensed financial information on the geographic segments to be reported on.

	Amounts in million of pesos December 31,											
	2010						2009					
		Mexico		U.S.		Total		Mexico		U.S.		Total
Net sales	Ps	7,740	Ps	1,131	Ps	8,871	Ps	7,414	Ps	852	Ps	8,266
Operating income		1,489		143		1,632		1,152		132		1,284
Net profit		723		67		790		669		77		746
Depreciation and amortization		111		15		126		108		12		120
EBITDA		1,600		158		1,758		1,260		144		1,404
Total assets		5,978		1,327		7,305		5,390		619		6,009
Total liabilities		2,254		714		2,968		2,045		235		2,280

NOTE 12 – EMPLOYEES' BENEFITS:

a. The reconciliation between the initial and final balances of the present value of Defined Benefit Obligations (DBO) for the year 2010 and 2009 are as follows:

	Pensions				Other benefits at retirement			
		2010		2009		2010		2009
DBO at January 1, 2009	Ps	55,339	Ps	45,225	Ps	32,819	Ps	32,244
Plus (less):								
Labor cost of current service		3,146		2,860		4,682		4,111
Financial cost		4,855		3,944		2,768		2,629
Benefits paid		(5,711)		(2,816)		(6,164)		(3,956)
DBO at December 31	Ps	57,629	Ps	49,213	Ps	34,105	Ps	35,028

b. The value of acquired benefits obligations at December 31, 2010 and 2009 totaled Ps32,586 and Ps39,210, respectively.

c. Reconciliation of fair value of Plan Assets (PA).
Following is a reconciliation between the initial and final balances for 2010 and 2009, and the fair value of employee benefit PA:

	December 31,			
		2010		2009
PA at January 1	Ps	43,452	Ps	33,774
Plus (less):				
Interest for the period		5,583		5,362
Company contributions		9,250		7,750
Benefits paid		(1,906)		(3,184)
PA at December 31	Ps	56,379	Ps	43,702

d. Reconciliation of DBO, PA and Net Projected Liability (NPL).
Following is a reconciliation between the present value of the DBO and the fair value of PA and NPL recognized in the balance sheet:

	December 31,			
Labor liabilities:		2010		2009
DBO	Ps	(83,650)	Ps	(83,609)
Less unamortized:				
Actuarial (gains) losses		(4,831)		5,022
Transition liability		10,659		15,166
Market value of fund		56,379		43,702
NPL	Ps	(21,443)	Ps	(19,719)

e. Analysis of Periodic Pension Cost.

	December 31,			
		2010		2009
Labor cost of current service	Ps	**7,828**	Ps	6,971
Financial cost		**7,623**		6,573
Expected yield of plan assets		**(3,710)**		(3,104)
Net amortization of transition liability and improvements to plan		**4,843**		4,590
Actuarial gain or loss - Net		**288**		2,161
Total	Ps	**16,872**	Ps	17,191

f. Breakdown of Plan Assets.
Following is a breakdown of the PA valued at fair value, their percentage with respect to total PA, as well as the value of the assets used by the entity included in PA.

At December 31, the breakdown of the PA of defined benefits is as follows:

	Retirement plan						Other benefits					
	2010	%		2009	%		2010	%		2009	%
Debt instruments	**Ps 41,328**	**77**	Ps	32,367	79	**Ps**	**1,764**	**73**	Ps	1,647	76
Capital instruments										30	1
Variable rate	**12,644**	**23**		9,168	21		**641**	**27**		490	23
Fair value of PA	**Ps 53,972**	**100**	Ps	41,535	100	**Ps**	**2,405**	**100**	Ps	2,167	100

g. Criteria to determine the rate of return of Plan Assets.
The expected rate of return per type of PA is based on projections on historical market rates. The difference with respect to real rates is shown in the actuarial gains (losses) for the year.

h. Main actuarial hypotheses.
The main actuarial hypotheses used, stated in absolute terms, as well as discount rates, PA yields, salary increases and changes in indexes or other referred variables at December 31, are as shown below:

	Pensions		Other benefits	
Item	2010	2009	2010	2009
Discount rate	**7.75%**	9.00%	**7.75%**	8.50%
Expected rate of return on assets	**7.75%**	9.75%	**7.75%**	9.75%
Rate of salary increases	**5.00%**	4.25%	**5.00%**	4.25%

i. Value of DBO, PA and plan position for the last two annual periods:
The value of the DBO, the fair value of PA's, the plan position, as well as the experience adjustments for the last two years are as shown below:

			Retirement plan Historical values		
Year		DBO		PA		Plan position
2010	**Ps**	**57,629**	**Ps**	**53,972**	**Ps**	**3,657**
2009		49,213		41,535		7,678

			Other benefits Historical values		
Year		DBO		PA		Plan position
2010	**Ps**	**34,105**	**$**	**2,405**	**Ps**	**31,700**
2009		35,028		2,167		32,861

j. Reserve for contributions to the plan for the following period:
It is estimated that for next year, payments to the employee benefit plans assets will be as follows:

Pensions and retirement	Ps	9,000
Other benefits at retirement		1,000
Total	Ps	10,000

k. Benefits granted to key management personnel or relevant officers:
Total benefits granted to key management personnel or relevant officers are as follows:

	December 31,			
		2010		2009
Short and long-term direct benefits	**Ps**	**6,100**	Ps	12,500
Termination benefits		**100**		5,000
Total	**Ps**	**6,200**	Ps	17,500

NOTE 13 - STOCKHOLDERS' EQUITY:

At December 31, 2010, the Company's subscribed and paid-in capital stock totaled Ps432,275, plus an increase of Ps533,266, to express it in modified historical pesos of December 31, 2010, and is represented by 432,000,000 common nominative shares, with no par value.

At the April 2010 Ordinary General Stockholders' Meeting, the stockholders agreed to decree dividends in cash payable to its majority stockholders, with a charge to retained earnings of Ps424,692 (equivalent to 50 cents per share in ordinary dividends and 50 cents per share in extraordinary dividends) and to its minority stockholders, as agreed at the April Ordinary General Stockholders' Meetings of its subsidiaries, in the amount of Ps190,000.

At the April 2009 Ordinary General Stockholders' Meeting , the stockholders agreed to decree dividends to the majority stockholders to be paid out from retained earnings in the amount of Ps214,045 (equivalent to 50 cents per share) and to the minority stockholders in the amount of Ps145,000 decreed at the April Ordinary General Stockholders' Meeting.

Dividends paid are not subject income tax if paid out from the After Tax Earnings Account (CUFIN for its acronym in Spanish), which balance at December 31, 2010 and 2009 amounting to Ps1,074,231 and Ps1,070,169, respectively, and will be taxed at a rate fluctuates between 4.62 and 7.69%, if paid out from the reinvested after tax earnings account (CUFINRE). Dividends exceeding the CUFIN and Reinvested CUFIN (CUFINRE) are subject to 42.86% tax if paid in 2011. Tax incurred is payable by the company and may be credited against income tax for the period and for the following two periods or, if applicable, against Flat Tax (FT) for the period. Dividends paid from previously taxed for income tax purposes are not subject to tax withholding or additional tax payment.

According to the procedures established in the Income Tax Law, in the event of a capital reduction, any excess of stockholders' equity over the capital contributions account (CUCA), which at December 31, 2010 and 2009 amounts to Ps1,357,009 and Ps1,299,817, respectively, is accorded the same tax treatment as dividends.

During 2010, the Company decided to take the following measures, whose main purpose is to increase the securitization and liquidity of its shares outstanding in the securities market.

a. At the April 2010 Stockholders' Meeting, the stockholders agreed on a maximum amount of Ps400,000 of resources the Company can use to repurchase its own shares.

b. In July 2010, an agreement was signed with a financial institution to act as market developer for its shares.

As a result of said measures, HERDEZ (ticker symbol) share activities in the securities market have increased with respect to the past few years. The stock repurchase fund, the purpose of which is to promote share liquidity, showed greater activity, as shown below:

	December 31, 2010			December 31, 2009		
	Number of shares		Amount	Number of shares		Amount
Purchases	**14,127,363**	**Ps**	**253,512**	889,400	Ps	11,474
Sales	**(18,617,400)**		**(350,683)**	(41,000)		(658)
Net	**(4,490,037)**	**Ps**	**(97,171)**	848,400	Ps	10,816

Up until December 31, 2010, the Company reported each movement with a charge to capital stock, reflecting the nominal increases and decreases shown in the statement of changes in stockholders' equity. At December 31, 2010, all repurchased shares had been placed, as a result of which, no shares are held in the Company's treasury.

NOTE 14 - INCOME TAX (IT) AND FLAT TAX (FT):

IT

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

In 2010, the Company determined a tax profit of Ps190,695 (consolidated tax profit of Ps225,181 in 2009), which exceeds that determined for FT purpose. Consolidated book and tax results differ mainly due to items taxed or deducted over time, differently for book and tax purposes, due to recognition of the effects of inflation for tax purposes, as well as to items only affecting either consolidated book or consolidated tax results.

On December 7, 2009, a decree was published amending, adding to and revoking a number provisions of the IT Law, as shown below:

a. The IT rate applicable from 2010 to 2012 will be 30%, 29% for 2013 and 28% from 2014 onward. At December 31, 2010 and 2009, the aforementioned change in rates gave rise to a decrease in the deferred income tax balance of Ps1,048 in 2010 and a Ps5,404 increase in 2009, with the corresponding effect on income for the year, which was determined based on the expected reversal of temporary items at the rates in effect at the time.

b. The possibility of using credits for the excess of deductions on taxable income for FT purposes (credit of tax loss for FT purposes) to reduce the IT payable is eliminated, although they can be credited against the FT base.

c. The tax consolidation regime was modified to require that IT related to the tax consolidation benefits obtained as from 1999 be paid in installments during the period from the sixth to the tenth year following that in which said benefits were made use of.

The aforementioned tax consolidation benefits stem from:

- Tax losses used in tax consolidation that were not authorized on an individual basis by the controlled company that generated them.
- Special consolidation items arising from operations conducted between the consolidating entities, and that generated benefits.
- Losses from the sale of shares not yet deducted individually by the controlled company that generated those losses.
- Dividends distributed by the consolidating controlled companies not paid out from the after tax earnings account (CUFIN) or reinvested CUFIN.

d. Differences between the consolidated CUFIN and the reinvested CUFIN and the balances of these same accounts pertaining to the Group's consolidated companies can give rise to income subject to IT.

   In light of the above, at December 31, 2009, the Company recognized a liability corresponding to CUFIN differences of Ps61,924, to be paid as from 2014. Of this amount, Ps29,011 corresponds to the change in the aforementioned legislation. Management decided to reflect this amount in the statement of income.

   At December 31, 2010, the Company recognized an income tax liability related to CUFIN differences of Ps88,117.

e. At December 31, 2009, the Company had unamortized consolidated tax losses of Ps355,700 expiring in 2018. During 2010, the Company amortized Ps190,695 of said losses, generating a tax benefit of Ps57,209. The balance still unamortized is of approximately Ps165,005 (tax effect of approximately Ps49,500). Management decided not to recognize Ps72,849 (tax effect of approximately Ps21,854) until the events that would allow for its recovery were in place, given the uncertainty regarding the recoverability of the corresponding benefits.

f. Following is a reconciliation of tax-consolidation-related IT balances.

	IT liability			
		2010		2009
Initial balance at January 1	Ps	62,648	Ps	38,598
Increases:				
IT from differences in CUFIN and reinvested CUFIN		88,117		61,924
Decreases:				
Withdrawal from the tax consolidation regime of merged consolidated companies				(37,874)
Final balance at December 31	Ps	150,765	Ps	62,648

Estimated deferred tax for 2010 and 2009 is as shown below:

		2010		2009
Deferred tax for tax consolidation	Ps	150,765	Ps	62,648
Deferred tax		101,352		102,349
Total Deferred tax	Ps	252,117	Ps	164,997

The IT provision at 2010 and 2009 is analyzed as follows:

		2010		2009
IT currently payable	Ps	434,052	Ps	336,319
Deferred IT		5,219		(35,888)
Applied FT credits		(15,337)		
FT currently payable		963		
Total provision	Ps	424,897	Ps	300,431

Following is a reconciliation between the current and effective IT rate:

	Year ended December 31,			
		2010		2009
Income before tax and discontinued operations	Ps	1,540,635	Ps	1,309,402
IT at statutory tax rate		30%		28%
IT at statutory rate		462,191		366,633
Plus (minus) the effect of the following permanent items on IT:				
Non-deductible expenses		1,809		236
Effect on reserves		252		22,982
Annual inflation adjustment and other permanent items		(8,613)		(60,784)
Change in tax consolidation				29,011
Effect of change in rate		(1,048)		5,404
Tax loss amortization		(57,209)		(63,051)
		397,382		300,431
Valuation Allowance		41,889		
FT credits		(15,337)		
FT currently payable		963		
IT provision	Ps	424,897	Ps	300,431
Effective IT rate		28%		23%

At December 31, 2010 and 2009, the main temporary differences on which deferred IT was recognized are analyzed as follows:

	December 31,	
	2010	2009
Asset and liability provisions	Ps 7,745	Ps 14,132
Inventories	(217,547)	(245,259)
Fixed assets - Net	(307,001)	(302,450)
Prepaid expenses	(158,556)	(45,279)
Surplus in cost of shares	124,540	174,888
Royalties	13,701	14,081
Tax losses	359,583	
Other	(32,106)	29,616
	(209,641)	(360,271)
IT rate	29.5%	29.5%
	(61,844)	(106,280)
Asset tax recoverable	2,793	4,343
Deferred tax	(59,051)	(101,937)
Valuation allowance	(41,889)	
Deferred tax arising from reinvested tax profit	(412)	(412)
Total deferred taxes	Ps (101,352)	Ps (102,349)

FT

FT for the period is calculated at the 17.5% rate (17% for 2009) on the profit determined on a cash-flow basis. Said profit is determined by subtracting authorized deductions from total income arising from taxable operations. The so-called flat tax credits are subtracted from the foregoing result, as established in current legislation.

In accordance with the current tax legislation, the Company is required to pay the greater of IT and FT on an annual basis.

According to tax and financial projections, it has been determined that the tax that the Company will be paying in the future, will be IT, so the deferred IT has been considered.

NOTE 15 - ANALYSIS OF OTHER INCOME/EXPENSES:

Other income/expenses incurred for the years ended December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Profit on the creation of Megamex (Note 1)		Ps 149,735
Profit on sales of fixed assets - Net		26,107
Sale of waste materials		10,431
Provision cancellation	Ps 20,348	
Other income		5,174
Total other income	20,348	191,447
Loss on the sale of fixed assets - Net	17,431	
Allowance for doubtful accounts		39,171
Employees'Statutory Profit Sharing	13,680	12,402
Restructuring expenses		22,730
Employees' benefits transition liability	3,560	4,584
Integration expenses		2,168
Provision for assets no longer in use	6,476	9,382
Other expenses		4,155
Total expenses	41,147	94,592
Other (expenses) income - Net	Ps (20,799)	Ps 96,855

NOTE 16 - COLLATERAL GRANTED:

At December 31, 2009, Grupher and some of its subsidiaries granted collateral on loans obtained by other subsidiaries and affiliates of Ps447,222, one of which is consolidated at 50%.

NOTE 17 - DISCONTINUED OPERATIONS:

As a result of the steps taken by Grupher Management to streamline its operations and future economic results, certain operations were identified that were determined, after in-depth analysis, not to generate the results originally expected, as a result of which management decided to cancel said operations. The operations in question are shown in the statement of income as discontinued operations. Net IT items are shown as follows:

		2010		2009
Closing of Veracruz plant [1]	Ps	**555**	Ps	1,285
Closing of Ensenada plant [1]				2,554
Closing of Mazatlán plant [1]		**2,682**		8,873
Restructuring expenses [2]		**13,095**		
Total		**16,332**		12,712
Income tax on discontinued item		**(4,308)**		(3,559)
Discontinued operations	**Ps**	**12,024**	Ps	9,153

(1) Close down of operations at the Veracruz and Ensenada plants, which are being relocated to the San Luis Potosí (SLP) Plant. Operations at the Mazatlán Plant are being relocated to the Chiapas Plant. These reserves include disposal of assets, dismantling expenses and personnel layoffs.

(2) Severance paid to personnel in the U.S. business restructuring, as well as expenses incurred in closing down leased facilities.

NOTE 18 - NEW ACCOUNTING PRONOUNCEMENTS:

The NBSC made amendments to establish the requirements for certain entities disclosing their financial information to the public through the Mexican Stock Market (BMV for its acronym in Spanish), so that as from 2010, they will prepare and disclose, on a mandatory basis, their financial information in accordance with Mexican Financial Reporting Standards (NIF in Spanish), allow for early adoption thereof during the periods from 2008 to 2011.

In December 2009 and 2010, the Mexican Financial Reporting Standards Board (CINIF) issued a number of NIF and NIF interpretations (INIF), which became effective on January 1, 2011. Said NIF and INIF are expected to have no significant effect on the financial information presented by the Company.

NIF B-5 "Financial information per segment" - Establishes the general standards for disclosure of financial information per segment, and allows the user of said information to analyze the entity from the same perspective as that of management and to present more coherent information per segment in the financial statements. This standard is to supersede Statement B-5 "Financial information per segment", in effect up until December 31, 2010.

NIF B-9 "Financial information at interim dates" - Establishes the standards for the determination and filing of financial information at interim dates for external use, which requires, among other matters, filing of statements of changes in stockholders' equity and of cash flows, which were not required under Statement B-9 "Financial information at interim dates", which is to become effective on December 31, 2010.

NIF C-4 "Inventories", applied retrospectively, establishes the standards for valuation, presentation and disclosure for initial and subsequent recognition of inventories, and eliminates the direct cost method as the allowed valuation system and the formula for assigning costs known as last in first out (LIFO). This standard supersedes Statement C-4 "Inventories" in effect up to December 31, 2010.

NIF C-5 "Advance payments" - For retrospective application. This standard establishes, among others, the standards for valuation, presentation and disclosure of advance payments. It also establishes that advances for the purchase of inventory or real property, machinery and equipment must be shown under advance payments rather than under inventory or real property, machinery and equipment, as was previously done, and that advance payments for the acquisition of goods must be shown in the balance sheet based on the classification of the item under which it is to be recorded, i.e., either currents assets or noncurrent assets. This standard supersedes Statement C-5 "Advance payments" in effect up to December 31, 2010.

NIF C-6 Property, plant and equipment, effective retrospectively (except for matters of disclosure), establishes, among other things, the specific standards for valuation, presentation and disclosure of property, plant and equipment; it also establishes a) property, plant and equipment used in developing or maintaining biological assets and the assets of extraction industries already within their scope and b) the requirement to depreciate components representing a component of property, plant and equipment, aside from depreciating the rest of the item as if it were a single component. This NIF went into effect on January 1, 2011, except for the changes pertaining to segregation of its components with a useful lifetime clearly distinct from the principal asset. In this case, for entities that have not yet made said segregation, the applicable provisions will go into effect for the periods beginning on January 1, 2012. This standard replaces Statement C-6, "Real property, machinery and equipment", which was in effect up to December 31, 2010.

NIF C-18 "Obligations associated with the withdrawal of assets and restoration of the environment", applicable retrospectively, establishes, among other things, the specific standards for initial and subsequent recognition of a provision pertaining to the obligations associated with the withdrawal of the components of property, plant and equipment, as well as the requirements for valuation of an obligation associated with the withdrawal of a component and the disclosures required to be presented by an entity having an obligation associated with the withdrawal of a component.

HÉCTOR HERNÁNDEZ-PONS TORRES
General Director

ERNESTO RAMOS ORTÍZ
Administration and Corporate Practices Director

All efforts are important, and although the press run of this annual report is relatively small, we reiterate our commitment to the environment by using environmentally-safe materials.

The following are savings resulting from the use of recycled fiber. We used 800 lb of paper containing 10% recycled material, which resulted in:

- 1.06 trees preserved
- 386.65 gal less water consumed
- 183.6 lbs greenhouse gas prevented
- .74 million BTUs energy not consumed
- This report was printed on Earth.Aware® paper, FSC® certified, elemental chlorine free.

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