

# INDEPENDENT AUDITORS' REPORT

[Translation from Spanish Language Original]

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

We have audited the accompanying consolidated financial statements of Grupo Herdez, S. A. B. de C. V. and subsidiaries (the "Company" or the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of income, statements of other comprehensive income, statements of changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of the accounting policies and additional explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In

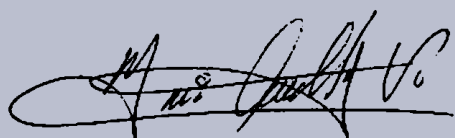
making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Grupo Herdez, S. A. B. de C. V. and subsidiaries as at December 31, 2015 and 2014, and of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG CARDENAS DOSAL, S. C.



MARIO CARRILLO VILLALPANDO  
FEBRUARY 26, 2016

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands of Mexican pesos)

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,483,095	2,450,883
Trade receivables (notes 6 and 9)	1,432,678	1,597,246
Debtors (note 9)	116,768	99,096
Value added tax recoverable	551,915	495,996
Related parties (note 7)	80,925	104,630
	<u>2,182,286</u>	<u>2,296,968</u>
Inventories (note 8)	2,437,824	1,939,019
Derivative financial instruments (note 5)	12,131	23,641
Advanced payments	<u>83,133</u>	<u>58,315</u>
Total current assets	6,198,469	6,768,826
Property, machinery and equipment (note 10)	5,205,311	4,245,744
Equity-accounted investees (note 12)	5,683,178	5,226,855
Intangible assets and goodwill (note 11)	6,777,818	6,636,241
Deferred income tax (note 18)	487,404	350,377
Other assets	53,294	33,209
	<u>\$ 24,405,474</u>	<u>23,261,252</u>
<b>Total assets</b>	<b>\$ 24,405,474</b>	<b>23,261,252</b>

	2015	2014
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>SHORT-TERM LIABILITIES:</b>		
Current installements of long-term bankloans and notes payable (note 14)	\$ 542,757	900,000
Suppliers	1,253,634	991,594
Accounts payable	628,323	487,437
Related parties (note 7)	99,362	273,221
Derivative financial instruments (note 5)	15,834	36,478
Income tax payable	66,673	243,388
Employees' statutory profit sharing payable	23,588	11,673
Total short-term liabilities	2,630,171	2,943,791
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, excluding current installments (note 14)	5,401,530	4,880,479
Long-term debt (note 14)	1,316,360	1,127,662
Derivative financial instruments (note 5)	30,367	31,706
Deferred income tax (note 18)	816,876	785,124
Taxes under tax consolidation (note 18)	168,000	207,903
Employee benefits (note 17)	135,079	108,665
Total long-term liabilities	7,868,212	7,141,539
Total liabilities	10,498,383	10,085,330
<b>STOCKHOLDERS' EQUITY (NOTE 19):</b>		
Capital stock	575,625	575,625
Reserve for repurchase of shares	630,702	385,886
Retained earnings	5,051,371	5,035,707
Legal reserve	141,862	141,862
Premium on the subscription of shares	125,387	113,110
Financial instruments	(22,553)	(26,882)
Cumulative translation adjustment	242,155	83,730
Capital attributable to controlling interest	6,744,549	6,309,038
Capital attributable to non-controlling interest	7,162,542	6,866,884
Total stockholders' equity	13,907,091	13,175,922
Contingencies and commitments (notes 27 and 28)		
Subsequent event (note 29)		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 24,405,474</b>	<b>23,261,252</b>

See accompanying notes to consolidated financial statements.

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

# CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

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

	2015	2014
Net sales (note 20)	\$ 16,356,291	14,318,529
Cost of goods sold (note 21)	<u>9,577,471</u>	<u>8,736,508</u>
Gross profit	<u>6,778,820</u>	<u>5,582,021</u>
Operating expenses:		
Selling (note 22)	3,644,339	2,811,284
Administrative (note 22)	<u>646,062</u>	<u>593,549</u>
	<u>4,290,401</u>	<u>3,404,833</u>
Income before other expenses and incomes	2,488,419	2,177,188
Other expenses, net (note 23)	<u>(452,458)</u>	<u>(64,569)</u>
Operating income	<u>2,035,961</u>	<u>2,112,619</u>
Financial result:		
Interest earned and exchange gain (note 24)	1,386,196	891,076
Interest paid and exchange loss (note 24)	<u>(1,849,307)</u>	<u>(1,149,546)</u>
Financial result, net	<u>(463,111)</u>	<u>(258,470)</u>
Equity investment in associates (note 12)	<u>446,123</u>	<u>414,334</u>
Income before income taxes	2,018,973	2,268,483
Income taxes (note 18)	<u>726,473</u>	<u>764,195</u>
Consolidated net income for the year	<b>\$ 1,292,500</b>	<b>1,504,288</b>
Net income attributable to non-controlling interests	\$ 903,812	733,294
Net income attributable to controlling interests	<u>388,688</u>	<u>770,994</u>
Consolidated net income for the year	<b>\$ 1,292,500</b>	<b>1,504,288</b>
Basic earnings per common and diluted share in Mexican pesos (note 26)	<b>\$ 0.907</b>	<b>1.794</b>

See accompanying notes to consolidated financial statements.

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

# CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

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	2015	2014
Consolidated net income for the year	\$ 1,292,500	1,504,288
Items that will not be reclassified to income:		
Actuarial losses on employee benefit obligations	21,016	(292)
Items that will be reclassified subsequently to income:		
Foreign currency translation results	316,850	194,974
Change in valuation of derivative financial instruments	7,721	(12,852)
Consolidated comprehensive income	<b>\$ 1,638,087</b>	<b>1,686,118</b>
Comprehensive income attributable to non-controlling interest	\$ 1,075,634	825,763
Comprehensive income attributable to controlling interest	562,453	860,355
Consolidated comprehensive income	<b>\$ 1,638,087</b>	<b>1,686,118</b>

See accompanying notes to consolidated financial statements.

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

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

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	CAPITAL STOCK	RESERVE FOR REPURCHASE OF SHARES	RETAINED EARNINGS
<b>BALANCES AS OF DECEMBER 31, 2013</b>	\$ 575,625	601,911	4,265,071
Repurchase of outstanding shares (note 19(a))	-	(237,141)	-
Placement of shares (note 19(a))	-	21,116	-
Decree of dividends (note 19(e))	-	-	-
Reimbursement to stockholders for non-controlling interest	-	-	-
Decrease in stockholders' equity for non-controlling interest	-	-	-
	-	(216,025)	-
Comprehensive income:			
Net income for the year	-	-	770,994
Cumulative effect of translation	-	-	-
Change in valuation of derivative financial instruments	-	-	-
Actuarial losses on employees' benefit obligations	-	-	(358)
Comprehensive income for the year	-	-	770,636
<b>BALANCES AS OF DECEMBER 31, 2014</b>	575,625	385,886	5,035,707
Repurchase of outstanding shares (note 19(a))	-	(62,583)	-
Placement of shares (note 19(a))	-	197,205	-
Decree of dividends (note 19(e))	-	110,194	(384,035)
Reimbursement to stockholders for non-controlling interest (note 19(d))	-	-	-
Premium on the subscription of shares (note 19(c))	-	-	-
	-	244,816	(384,035)
Comprehensive income:	-	-	-
Net income for the year	-	-	388,688
Cumulative effect of translation	-	-	-
Change in valuation of derivative financial instruments	-	-	-
Actuarial losses on employees' benefit obligations	-	-	11,011
Comprehensive income for the year	-	-	399,699
<b>BALANCES AS OF DECEMBER 31, 2015</b>	<b>\$ 575,625</b>	<b>630,702</b>	<b>5,051,371</b>

See accompanying notes to consolidated financial statements.

	LEGAL RESERVE	PREMIUM ON THE SUBSCRIPTION OF SHARES	FINANCIAL INSTRUMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	CAPITAL ATRIBUTABLE TO CONTROLLING INTEREST	CAPITAL ATRIBUTABLE TO NON- CONTROLLING INTEREST	TOTAL STOCK HOLDERS' EQUITY
	141,862	113,110	(19,114)	(13,757)	5,664,708	6,465,314	12,130,022
	-	-	-	-	(237,141)	-	(237,141)
	-	-	-	-	21,116	-	21,116
	-	-	-	-	-	(384,625)	(384,625)
	-	-	-	-	-	(28,500)	(28,500)
	-	-	-	-	-	(11,068)	(11,068)
	-	-	-	-	(216,025)	(424,193)	(640,218)
	-	-	-	-	770,994	733,294	1,504,288
	-	-	-	97,487	97,487	97,487	194,974
	-	-	(7,768)	-	(7,768)	(5,084)	(12,852)
	-	-	-	-	(358)	66	(292)
	-	-	(7,768)	97,487	860,355	825,763	1,686,118
	141,862	113,110	(26,882)	83,730	6,309,038	6,866,884	13,175,922
	-	-	-	-	(62,583)	-	(62,583)
	-	-	-	-	197,205	-	197,205
	-	-	-	-	(273,841)	(600,000)	(873,841)
	-	-	-	-	-	(192,253)	(192,253)
	-	12,277	-	-	12,277	12,277	24,554
	-	12,277	-	-	(126,942)	(779,976)	(906,918)
	-	-	-	-	388,688	903,812	1,292,500
	-	-	-	158,425	158,425	158,425	316,850
	-	-	4,329	-	4,329	3,392	7,721
	-	-	-	-	11,011	10,005	21,016
	-	-	4,329	158,425	562,453	1,075,634	1,638,087
	<b>141,862</b>	<b>125,387</b>	<b>(22,553)</b>	<b>242,155</b>	<b>6,744,549</b>	<b>7,162,542</b>	<b>13,907,091</b>



# STATEMENTS OF CONSOLIDATED CASH FLOW

Years ended December 31, 2015 and 2014

(Thousands of Mexican pesos)

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	2015	2014
Operating activities:		
Income before taxes	\$ 2,018,973	2,268,483
Adjustments for:		
Depreciation and amortization	401,225	302,587
Other items without cash flow	66,895	75,570
Profit on sale of property, machinery and equipment	9,389	(23,159)
Net cost for the period	27,106	12,602
Interest income	(39,115)	(23,399)
Loss (gain) from exchange	88,897	(144,874)
Investment in subsidiaries and associates	(446,123)	(414,334)
Impairment losses on intangible assets	450,000	29,787
Allowance for impairment on plant and equipment	-	142,338
Other expenses without cash flow	10,583	-
Cancellation of provisions	-	(24,569)
Employees' statutory profit sharing	21,854	11,058
Interest expense	413,329	400,447
Subtotal	3,023,013	2,612,537
Decrease of accounts receivable	146,896	26,045
(Increase) decrease of inventories	(413,862)	46,750
Decrease in accounts receivable from related parties, net	62,971	158,039
Increase in advanced payments and recoverable taxes	(80,737)	(30,531)
Increase (decrease) in suppliers	262,040	(102,792)
Increase (decrease) in other accounts payable and creditors	156,758	(25,387)
Income tax paid	(1,047,918)	(639,064)
Net cash by operating activities	2,109,161	2,045,597
Investing activities:		
Business acquired	(1,060,000)	-
Increased equity interest in subsidiaries	(30,776)	(42,116)
Dividends collected	511,008	129,577
Interest collected	38,986	23,044
Acquisition of property, machinery and equipment	(1,080,892)	(710,160)
Collections on sale of property, machinery and equipment	118,590	85,091
Acquisition of intangible	(77,142)	(40,138)
Net cash used in investing activities	(1,580,226)	(554,702)

(Continued)

	2015	2014
Financing activities:		
Cash in flow from issuance of domestic bonds "certificados bursátiles"	-	1,000,000
Long-term bank loans obtained	3,775,538	1,300,000
Decrease in capital stock on non-controlling interest	-	(11,068)
Premium on issue of shares	24,555	-
Long-term bank loans paid	(2,970,827)	(1,500,000)
Domestic bonds payment	(800,000)	-
Other long-term liabilities	-	63,443
Repurchase of shares	(172,777)	(237,141)
Placement of shares	307,399	21,116
Interest paid	(414,386)	(407,477)
Dividends paid	(1,086,967)	(171,500)
Reimbursement to stockholders	<u>(191,448)</u>	<u>(28,500)</u>
Net cash (used in) provided by financing activities	<u>(1,528,913)</u>	<u>28,873</u>
(Decrease) increase in cash and cash equivalents	<u>(999,978)</u>	<u>1,519,768</u>
Effect from exchange rates on cash and cash equivalents	<u>32,190</u>	<u>26,296</u>
(Decrease) increase in cash and cash equivalents	<u>(967,788)</u>	<u>1,546,064</u>
Cash and cash equivalents:		
At beginning of the year	<u>2,450,883</u>	<u>904,819</u>
At end of the year	<u><b>\$ 1,483,095</b></u>	<u><b>2,450,883</b></u>

See accompanying notes to consolidated financial statements.