Management's Report and Analysis of Results

The purpose of the following Management Report and Analysis of Results is to assist those who read it to understand the operations and results of Grupo Herdez.

We are leaders in the processed food sector and an important player in the ice cream category in Mexico, in addition to being the highest growing company in the Mexican food segment in the United States through MegaMex. The management of the business is divided into three segments: Preserves, Impulse, and Exports. The results of MegaMex, the joint venture with Hormel Foods in the United States, are recorded in Equity Investment in Associated Companies item.

The main growth opportunities for all segments of the Company are increasing penetration into homes, increasing market share, reducing the distribution gaps, innovating based on understanding consumers and segmentation, as well as increasing traffic in its own stores.

Starting January 1, 2019, in accordance with International Financial Reporting Standards – Leases, which establishes the principles for the recognition, measurement, presentation, and reporting to disclose the use of right assets, lease assets, and after January 1, 2019, changes in depreciation and financial costs, the financial statements include changes related to accounting reporting of these items.

The results for the year are not comparable, as a whole, due to three main factors: i) the divestment of the tuna business, ii) the integration of the General Mills® portfolio in April, and iii) the termination of the distribution agreement with Ocean Spray® in December 2020. Additionally, it is important to mention that, as of the third quarter of the year, the Frozen segment changed its name to Impulse.

In 2021, **net consolidated sales reached a record figure of $26,153 million, an 8.8% increase year over year**, mainly due to price increases made in the last twelve months. In comparable terms, without considering sales of fresh tuna and the tuna Nair® brand, Ocean Spray®, and General Mills® brands, sales grew 10.0% for the year.

Net sales in the Preserves segment grew 8.0% to $20,977 driven by price increases. In comparable terms, sales grew 10.7% for the year. Additionally, 70% of the main categories increased their market share in the year.

Net sales of Impulse were $3,273 million, a 25.5% increase year over year, and in line with 2019. The recovery of the segment is due to a combination of i) an increase in the average ticket and ii) higher in-store traffic compared to 2020. The sales of Helados Nestlé maintained a favorable performance in the supermarket and price club channels, while **the traditional and convenience channels had a recovery during the second half of the year**. Excluding the incorporation of General Mills starting in April, net sales of the segment increased by 16.3%.

Export sales were $1,904 million, a 5.1% reduction year over year, which in 2020 were impacted by the appreciation of the peso against the US dollar.

At the end of the year, Preserves represented 80%, Impulse 13%, and Exports 7% of total net sales.

The gross consolidated margin contracted 50 basis points to 36.9%. This is explained by a 40 basis points contraction in the Preserves margin as a result of price increases of the main packaging and raw materials, as well as the incorporation of the General Mills® portfolio, which has a higher cost per ton. Additionally, in the Export segment, the margin suffered a 7.9 percentage points reduction. Likewise, the gross margin of the Impulse segment remained in line with the previous year mainly due to the incorporation of the Häagen-Dasz™ portfolio.

Consolidated SG&A was reduced by 40 basis points to 25.1% as a proportion of net sales thanks to the absorption of expenses in the Impulse segment due to sales recovery.

Consolidated operating income before other income also reached a record level of $3,085 million, an 8.3% increase year over year, maintaining the margin constant at 11.8%. The Company recorded other expenses of $78 million in the year.

Operating income was $3,007 million, which implies a 2.0 percentage points contraction in the margin to reach 11.5%, as a result of strong pressure from increases in the prices of raw materials and packaging materials in the second half of the year. **The impulse segment had a recovery of $222 million year over year.**

The net comprehensive cost of financing added up to $703 million, a 5.0% increase year over year, which is mostly explained by lower foreign exchange gains compared to 2020.

Equity Investment in Associated Companies added up to $803 million, a 6.1% increase compared to 2020, due to the volatility of the exchange rate and an increase in the results of other associates.

Consolidated net income and majority net income suffered a 12.3% contraction, to $2,078 and $726, respectively. Without considering the extraordinary income of the preceding year, net consolidated income remained unchanged, while the margin was reduced by 70 basis points to 7.9%.

Earnings before interests, taxes, depreciation, amortization (EBITDA) for the year was $3,944 million, 15.1% of net sales, a 2.4 percentage points reduction year over year. In comparable terms -without including extraordinary income from 2020- EBITDA increased 4.0% compared to 2020, with a margin contraction of 70 basis points to 15.1%.

Net CAPEX totaled $667 million and was mainly used for plant maintenance, capacity increases, and improvement projects.

Cash flow added up to $1,314 million, a $1,518 million reduction year over year, derived from net CAPEX of $667 million, interest payments, dividend payments, and repurchase of 17.8 million shares. Considering the last two items, the total shareholder return in the year was 7.2%.

As of December 31, 2021, the cash position reached $2,216 million, a 39.8% reduction compared to 2020, mainly due to share repurchases for $757 million. The total interest-bearing liabilities at year-end added up to $10,000 million, a $500 million increase year over year.

At the end of the year, debt was fully denominated in pesos, while 65% was in fixed rates, including derivatives.

Net consolidated debt to EBITDA was 2.2 times, while net debt to consolidated shareholders' equity reached 0.50 times.