

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report . . . . .

For the transition period from to

Commission File Number: 1-14852

**GRUMA, S.A.B. de C.V.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

**United Mexican States**

(Jurisdiction of incorporation or organization)

**Calzada del Valle, 407 Ote.  
Colonia del Valle  
San Pedro Garza García, Nuevo León  
66220, México**

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Name of exchange on which registered:</u>
Series B Common Shares, without par value	New York Stock Exchange*
American Depositary Shares, each representing four Series B Common Shares, without par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

[Table of Contents](#)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

563,650,709 Series B Common Shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes   No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

N/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.  GAAP

IFRS

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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\* Not for trading but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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**INDEX**

<a href="#">FORWARD LOOKING STATEMENTS</a>	2
<b><a href="#">PART I</a></b>	3
<a href="#">ITEM 1</a> <a href="#">IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</a>	3
<a href="#">ITEM 2</a> <a href="#">OFFER STATISTICS AND EXPECTED TIMETABLE</a>	3
<a href="#">ITEM 3</a> <a href="#">KEY INFORMATION</a>	3
<a href="#">ITEM 4</a> <a href="#">INFORMATION ON THE COMPANY</a>	19
<a href="#">ITEM 5</a> <a href="#">OPERATING AND FINANCIAL REVIEW AND PROSPECTS</a>	39
<a href="#">ITEM 6</a> <a href="#">DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</a>	56
<a href="#">ITEM 7</a> <a href="#">MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</a>	64
<a href="#">ITEM 8</a> <a href="#">FINANCIAL INFORMATION</a>	66
<a href="#">ITEM 9</a> <a href="#">THE OFFER AND LISTING</a>	70
<a href="#">ITEM 10</a> <a href="#">ADDITIONAL INFORMATION</a>	71
<a href="#">ITEM 11</a> <a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	89
<a href="#">ITEM 12</a> <a href="#">DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</a>	94
<b><a href="#">PART II</a></b>	95
<a href="#">ITEM 13.</a> <a href="#">DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</a>	95
<a href="#">ITEM 14.</a> <a href="#">MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</a>	95
<a href="#">ITEM 15.</a> <a href="#">CONTROLS AND PROCEDURES</a>	95
<a href="#">ITEM 16A.</a> <a href="#">AUDIT COMMITTEE FINANCIAL EXPERT</a>	96
<a href="#">ITEM 16B.</a> <a href="#">CODE OF ETHICS</a>	96
<a href="#">ITEM 16C.</a> <a href="#">PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>	96
<a href="#">ITEM 16D.</a> <a href="#">EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</a>	97
<a href="#">ITEM 16E.</a> <a href="#">PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</a>	97
<a href="#">ITEM 16F.</a> <a href="#">CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</a>	97
<a href="#">ITEM 16G.</a> <a href="#">CORPORATE GOVERNANCE</a>	97
<a href="#">ITEM 16H.</a> <a href="#">MINE SAFETY DISCLOSURE</a>	99
<b><a href="#">PART III</a></b>	99
<a href="#">ITEM 17.</a> <a href="#">FINANCIAL STATEMENTS</a>	99
<a href="#">ITEM 18.</a> <a href="#">FINANCIAL STATEMENTS</a>	99
<a href="#">ITEM 19.</a> <a href="#">EXHIBITS</a>	99

## INTRODUCTION

Gruma, S.A.B. de C.V. is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) organized under the laws of the United Mexican States, or Mexico.

In this Annual Report on Form 20-F, references to “pesos” or “Ps.” are to Mexican pesos, references to “U.S. dollars,” “U.S.\$,” “dollars” or “\$” are to United States dollars and references to “bolivars” and “Bs.” are to the Venezuelan bolivar. “We,” “our,” “us,” “our company,” “GRUMA” and similar expressions refer to Gruma, S.A.B. de C.V. and its consolidated subsidiaries, except when the reference is specifically to Gruma, S.A.B. de C.V. (parent company only) or the context otherwise requires.

## PRESENTATION OF FINANCIAL INFORMATION

This Annual Report contains our audited consolidated financial statements as of January 1, 2010 and December 31, 2010 and 2011 and for the years ended December 31, 2010 and 2011. The consolidated financial statements have been audited by PricewaterhouseCoopers, S.C., an independent registered public accounting firm and were approved by our shareholders at the annual general shareholders’ meeting held on April 26, 2012.

We publish our financial statements in pesos and prepare our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated annual financial statements herein are our first financial statements prepared in accordance with IFRS. Through 2010 we prepared our consolidated financial statements in accordance with the *Normas de Información Financiera* (Mexican Financial Reporting Standards), commonly referred to as “Mexican FRS” or “MFRS”. Our date of transition to IFRS was January 1, 2010. IFRS 1—“First-time Adoption of International Financial Reporting Standards” has been applied in preparing these financial statements. See Note 28 to our audited consolidated financial statements for an analysis of the valuation, presentation and disclosure effects of adopting IFRS and a reconciliation between Mexican FRS and IFRS as of January 1 and December 31, 2010 and for the year ended December 31, 2010. Following the Company’s adoption of IFRS, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.

The financial statements of our entities are measured using the currency of the main economic environment where the entity operates (functional currency). The consolidated financial statements are presented in Mexican pesos, which corresponds to our presentation currency. Prior to the peso translation, the financial statements of foreign subsidiaries with functional currency from a hyperinflationary environment are adjusted for inflation in order to reflect changes in purchasing power of the local currency. Subsequently, assets, liabilities, equity, income, costs, and expenses are translated to the presentation currency at the closing rate at the date of the most recent balance sheet. To determine the existence of hyperinflation, we evaluate the qualitative characteristics of the economic environment, as well as the quantitative characteristics established by IFRS, including an accumulated inflation rate equal or higher than 100% in the past three years.

## MARKET SHARE

The information contained in this Annual Report regarding our market positions is based primarily on our own estimates and internal analysis and data obtained from AC Nielsen. Market position information for the United States is also based on data from Technomic. For Mexico, information is also based on data from *Información Sistematizada de Canales y Mercados* or “ISCAM”, *Asociación Nacional de Tiendas de Autoservicio y Departamentales* (National Supermarkets and Department Stores Association) or “ANTAD”, *Asociación Nacional de Abarroteros Mayoristas* (National Groceries Wholesalers Association) or “ANAM”, and reports from industry chambers. For Venezuela, information is also based on data obtained from LatinPanel Venezuela. For Europe, information is also based on data from Symphony IRI Group. While we believe our internal research and estimates are reliable, they have not been verified by any independent source and we cannot ensure their accuracy.

## EXCHANGE RATE

This annual report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the peso amounts actually represent the U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from pesos (i) as of December 31, 2011 at the exchange rate of Ps. 13.95 to U.S.\$1.00, which was the rate established by *Banco de México* on December 30, 2011 and (ii) as of March 31, 2012 at the exchange rate of Ps. 12.81 to U.S.\$1.00, which was the rate established by *Banco de México* on March 30, 2012.

## OTHER INFORMATION

Certain figures included in this Annual Report have been rounded for ease of presentation. Percentage figures included in this Annual Report are not all calculated on the basis of such rounded figures; some are calculated on the basis of such amounts prior to rounding. For this reason, percentage amounts in this Annual Report may vary from those obtained by performing the same calculations using the figures in our audited consolidated financial statements. Certain numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

All references to “tons” in this Annual Report refer to metric tons. One metric ton equals 2,204 pounds. Estimates of production capacity contained herein assume the operation of relevant facilities on the basis of 360 days a year, on three shifts, and assume only regular intervals for required maintenance.

## FORWARD LOOKING STATEMENTS

This Annual Report includes “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including the statements about our plans, strategies and prospects under “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” Some of these statements contain words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “strategy,” “plans” and other similar words. Although we believe that our plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. Actual results could differ materially from the forward-looking statements as a result of risks, uncertainties and other factors discussed in “Item 3. Key Information—Risk Factors,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk.” These risks, uncertainties and factors include: general economic and business conditions, including changes in exchange rates, and conditions that affect the price and availability of corn, wheat and edible oils; potential changes in demand for our products; price and product competition; and other factors discussed herein.

**PART I****ITEM 1 Identity of Directors, Senior Management and Advisors.**

Not applicable.

**ITEM 2 Offer Statistics and Expected Timetable.**

Not applicable.

**ITEM 3 Key Information.****SELECTED FINANCIAL DATA**

The following tables present our selected consolidated financial data as of and for each of the years indicated. The data as of December 31, 2010 and 2011 and for the years ended December 31, 2010 and 2011 are derived from and should be read together with our audited consolidated financial statements included herein and “Item 5. Operating and Financial Review and Prospects.”

Selected financial information for 2010 differs from the information we previously published for 2010, as a result of the implementation of IFRS. See Note 28 to our audited consolidated financial statements for an analysis of the valuation, presentation and disclosure effects of adopting IFRS and a reconciliation between Mexican FRS and IFRS as of January 1 and December 31, 2010 and for the year ended December 31, 2010.

Pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, historical financial data for the years ended December 31, 2007, 2008 and 2009 has been omitted, and no audited consolidated financial statements and financial information prepared under IFRS for the year ended December 31, 2009 have been included in this annual report.

	<u>2010</u>	<u>2011</u>
	(thousands of Mexican Pesos, except per share amounts)	
<b>Income Statement Data:</b>		
<b>IFRS:</b>		
Net sales	Ps. 46,232,454	Ps. 57,644,749
Cost of sales	(31,563,342)	(40,117,952)
Gross profit	14,669,112	17,526,797
Selling and administrative expenses	(12,100,365)	(13,984,486)
Other expense, net	(518,732)	(203,850)
Operating income	2,050,015	3,338,461
Comprehensive financing cost, net	(1,163,203)	(427,200)
Equity in earnings of associated companies	592,235	3,329
Gain from divestment in associated companies	—	4,707,804
Income before income tax	1,479,047	7,622,394
Income tax expense	(839,561)	(1,806,572)
Consolidated net income	639,486	5,815,822
Attributable to:		
Shareholders	431,779	5,270,762
Non-controlling interest	207,707	545,060
Per share data(1):		
Basic and diluted earnings per share	0.77	9.35

2010
2011  
 (thousands of Mexican pesos, except per  
 share amounts and operating data)

**Balance Sheet Data (at period end):**

**IFRS:**

	Ps.	17,930,173	Ps.	20,515,633
Property, plant and equipment, net				
Total assets		38,927,394		44,542,618
Short-term debt(2)		2,192,871		1,633,207
Long-term debt(2)		15,852,538		11,472,110
Total liabilities		28,205,120		26,829,834
Common stock		6,972,425		6,972,425
Total equity(3)		10,722,274		17,712,784

**Other Financial Information:**

**IFRS:**

Capital expenditures		1,115,161		2,386,966
Depreciation and amortization		1,502,534		1,596,643
Net cash provided by (used in):				
Operating activities		3,291,138		1,751,314
Investing activities		(802,208)		6,779,129
Financing activities		(4,234,431)		(7,429,059)

- 
- (1) Based upon weighted average of outstanding shares of our common stock (in thousands), as follows: 563,651 shares for the year ended December 31, 2010 and 563,651 shares for the year ended December 31, 2011. Each of our American Depositary Shares represents four Series B Common Shares.
- (2) Short-term debt consists of bank loans and the current portion of long-term debt. Long-term debt consists of bank loans, our senior unsecured perpetual bonds and debentures.
- (3) Total equity includes non-controlling interests as follows: Ps.3,778 million as of December 31, 2010 and Ps.4,282 million as of December 31, 2011.

	2007	2008	2009 (thousands of tons)	2010	2011
<b>Operating Data:</b>					
<b>Sales volume:</b>					
Gruma Corporation (corn flour, tortillas and other)(1)	1,329	1,337	1,312	1,395	1,464
GIMSA (corn flour, and other)	1,753	1,821	1,874	1,890	1,959
Gruma Venezuela (corn flour, wheat flour and other)	480	465	459	523	528
Molinera de México (wheat flour)	488	494	508	530	564
Gruma Centroamérica (corn flour and other)	220	213	208	201	229
<b>Production capacity:</b>					
Gruma Corporation (corn flour and tortillas)(2)	2,063	2,093	2,096	2,314	2,482
GIMSA (corn flour, and other)(3)	2,964	2,964	2,964	2,965	2,965
Gruma Venezuela (corn flour, wheat flour and other)(4)	808	823	909	823	823
Molinera de México (wheat flour)	894	894	894	811	837
Gruma Centroamérica (corn flour and other)	319	307	307	343	350
Number of employees	18,767	19,060	19,093	19,825	21,318

(1) Net of intercompany transactions.

(2) Includes 59 thousand tons of temporarily idled production capacity at December 31, 2011.

(3) Includes 477 thousand tons of temporarily idled production capacity at December 31, 2011.

(4) Includes 71 thousand tons of temporarily idled production capacity at December 31, 2011.

#### Dividends

Our ability to pay dividends may be limited by Mexican law, our *estatutos sociales*, or bylaws, and by financial covenants contained in some of our credit agreements. Because we are a holding company with no significant operations of our own, we have distributable profits to pay dividends to the extent that we receive dividends from our subsidiaries. Accordingly, there can be no assurance that we will pay dividends or of the amount of any such dividends. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness.”

Pursuant to Mexican law and our bylaws, the declaration, amount and payment of dividends are determined by a majority vote of the holders of the outstanding shares represented at a duly convened shareholders’ meeting. The amount of any future dividend would depend on, among other things, operating results, financial condition, cash requirements, losses for prior fiscal years, future prospects, the extent to which debt obligations impose restrictions on dividends and other factors deemed relevant by the board of directors and the shareholders.



## [Table of Contents](#)

In addition, under Mexican law, companies may only pay dividends:

- from earnings included in year-end financial statements that are approved by shareholders at a duly convened meeting;
- after any existing losses applicable to prior years have been made up or absorbed into shareholders' equity;
- after at least 5% of net profits for the relevant fiscal year have been allocated to a legal reserve until the amount of the reserve equals 20% of a company's paid-in capital stock; and
- after shareholders have approved the payment of the relevant dividends at a duly convened meeting.

Holders of our American Depositary Receipts, or ADRs, on the applicable record date are entitled to receive dividends declared on the shares represented by American Depositary Shares, or ADSs, evidenced by such ADRs. The depositary will fix a record date for the holders of ADRs in respect of each dividend distribution. We pay dividends in pesos and holders of ADSs will receive dividends in U.S. dollars (after conversion by the depositary from pesos, if not then restricted under applicable law) net of the fees, expenses, taxes and governmental charges payable by holders under the laws of Mexico and the terms of the deposit agreement.

The ability of our subsidiaries to make distributions to us is limited by the laws of each country in which they were incorporated and by their constitutive documents. For example, our ability to repatriate dividends from Gruma Venezuela may be adversely affected by exchange controls and other recent events. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks." In the case of Gruma Corporation, our principal U.S. subsidiary, its ability to pay dividends in cash is prohibited upon the occurrence of any default or event of default under its principal credit agreements. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness."

During 2011, 2010, 2009 and 2008 we did not pay any dividends to shareholders. In 2007 we paid dividends to shareholders, in nominal terms, of Ps.410 million (per share Ps.0.85).

### **Exchange Rate Information**

Mexico has had a free market for foreign exchange since 1994, when the government suspended intervention by the *Banco de México*, and allowed the peso to float freely against the U.S. dollar. From the beginning of 2004 until August 2008, the Mexican peso was relatively stable, ranging from Ps.9.92 to Ps.11.63. Between October 1, 2008 and March 2, 2009, the Mexican peso depreciated in value from Ps.10.97 to Ps.15.40. From March 2009 to the end of May 2011, the Mexican peso appreciated in value from Ps.15.40 to Ps.11.58. From June 2011 to the end of March 2012, the Mexican peso depreciated in value from 11.58 to 12.81. There can be no assurance that the government will maintain its current policies with regard to the peso or that the peso will not depreciate or appreciate in the future. See "Item 3. Key Information —Risk Factors—Risks Related to Mexico—Devaluations of the Mexican Peso May Affect our Financial Performance."

The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar.

Year	Noon Buying Rate (Ps. Per U.S.\$)			
	High (1)	Low (1)	Average (2)	Period End
2007	11.2692	10.6670	10.9277	10.9169
2008	13.9350	9.9166	11.1415	13.8320
2009	15.4060	12.6318	13.4970	13.0576
2010	13.1940	12.1556	12.6222	12.3825
2011	14.2542	11.5050	12.4270	13.9510
October 2011	13.9310	13.1025	13.4379	13.1690
November 2011	14.2542	13.3826	13.6955	13.6201
December 2011	13.9927	13.4890	13.7746	13.9510
January 2012	13.7502	12.9251	13.4248	12.9251
February 2012	12.9514	12.6250	12.7833	12.7941
March 2012	12.9900	12.6280	12.7523	12.8115

(1) Rates shown are the actual low and high, on a day-by-day basis for each period.

(2) Average of month-end rates.

On April 20, 2012, the noon buying rate for pesos was Ps. 13.12 to U.S.\$1.00.

## RISK FACTORS

### Risks Related to Our Company

#### *Fluctuations in the Cost and Availability of Corn, Wheat and Wheat Flour May Affect Our Financial Performance*

Our financial performance may be affected by the price and availability of corn, wheat and wheat flour as each of these raw materials represented 33%, 13% and 5%, respectively, of our cost of sales in 2011. Mexican and world markets have experienced periods of either over-supply or shortage of corn and wheat, some of which have caused adverse effects on our results of operations. In recent years, there has been substantial volatility and increases in the price of corn due primarily to increased demand for corn from emerging markets, and partly due to demand for corn-based ethanol in the U.S., which increased our cost of corn and negatively affected our financial condition and results of operation. Also, there have been increases in the price of wheat, driven by negative weather conditions in certain regions of the world and increased demand worldwide, especially from emerging markets. The price of corn has remained at high levels, reaching a peak in 2011 for recent years. The price of wheat declined significantly from its peak in 2008, and thereafter increased substantially but is still below the prior peak. We believe that the demand and price for corn will increase over the long term in connection with expected rising demand for corn-based ethanol, but mainly from increased demand by emerging markets.

To manage these price risks, we regularly monitor our risk tolerance and evaluate the possibility of using derivative instruments to hedge our exposure to commodity prices. We currently hedge against fluctuations in the costs of corn and wheat using futures and options contracts according to the Company's risk management policy, but remain exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. In addition, if corn or wheat prices decrease below the levels specified in our various hedging agreements, we would lose the value of a decline in these prices.

Additionally, because of this volatility and price variations, we may not always be able to pass along our increased costs to our customers in the form of price increases. We cannot always predict whether or when shortages or over-supply of corn and wheat will occur. In addition, future Mexican or other countries' governmental actions could affect the price and availability of corn and wheat. Any adverse developments in domestic and international corn and wheat markets could have a material adverse effect upon our business, financial condition, results of operations, and prospects.

***Our Current or Future Indebtedness could Adversely Affect Our Business and, Consequently, Our Ability to Pay Interest and Repay Our Indebtedness***

Our level of indebtedness could increase our vulnerability to adverse general economic and industry conditions, including increases in interest rates, increases in prices of raw materials, foreign currency exchange rate fluctuations and market volatility. Our ability to make scheduled payments on and refinance our indebtedness when due depends on, and is subject to, several factors, including our financial and operating performance, which is subject to prevailing economic conditions and financial, business and other factors, the availability of financing in the Mexican and international banking and capital markets, and our ability to sell assets and implement operating improvements.

***We May be Adversely Affected by Increases in Interest Rates***

Interest rate risk exists primarily with respect to our floating-rate peso denominated debt, which generally bears interest based on the Mexican equilibrium interbank interest rate, which we refer to as the “TIEE.” In addition, we have additional interest rate risk with respect to floating-rate dollar-denominated debt, which generally bears interest based on the London interbank offered rate, which we refer to as “LIBOR.” We have significant exposure to exchange rate fluctuation due to our floating-rate peso and dollar-denominated debt. As a result, if the TIEE or LIBOR rates increase significantly, our ability to service our debt may be adversely affected.

***Downgrades of Our Debt May Increase Our Financing Costs or Otherwise Adversely Affect Us or Our Stock Price***

Our long-term corporate credit rating and our senior unsecured perpetual bond are rated “BB” by Standard & Poor’s Ratings Services (“Standard & Poor’s”). Our Foreign Currency Long-Term Issuer Default Rating and our Local Currency Long-Term Issuer Default Rating are rated “BB” by Fitch Ratings (“Fitch”). Our U.S.\$300 million perpetual bond is rated “BB” by Fitch Ratings. These ratings reflect the debt repayment made on February 18, 2011, after applying the net proceeds from the sale of GRUMA’s 8.8% stake in Grupo Financiero Banorte, S.A.B. de C.V. (“GFNorte”). The ratings in effect during 2009 and 2010 were lower, prior to the debt repayment on February 18, 2011, reflecting additional leverage on GRUMA’s capital structure from the termination of GRUMA’s foreign exchange derivative positions and the subsequent conversion of the realized losses into debt.

If our financial condition deteriorates, we may experience future declines in our credit ratings, with attendant consequences. Our access to external sources of financing, as well as the cost of that financing, could be adversely affected by a deterioration of our long-term debt ratings. A downgrade in our credit ratings could increase the cost of and/or limit the availability of unsecured financing, which may make it more difficult for us to raise capital when necessary. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition would be adversely affected.

***We Expect to Pay Interest and Principal on Our Debt with Cash Generated in Dollars or Pesos, as Needed, But Cannot Assure You That We Will Generate Sufficient Cash Flow in the Relevant Currency at the Required Times From Our Operations***

We had approximately 83% of our outstanding debt denominated in dollars, 14% in Mexican pesos and 3% in other currencies as of December 31, 2011. We may not generate sufficient cash in the relevant currency from our operations to service the entire amount of our debt in such currency. A devaluation of certain currencies or a change in our business could adversely affect our ability to service our debt.

***Increases in the Cost of Energy Could Affect Our Profitability***

We use a significant amount of electricity, natural gas and other energy sources to operate our corn and wheat flour mills and processing ovens for the manufacture of tortillas and related products at our domestic and international facilities. These energy costs represented approximately 4% of our cost of sales in 2011. In addition, considerable amounts of diesel fuel are used in connection with the distribution of our products. The cost of energy sources may fluctuate widely due to economic and political conditions, government policy and regulation, war, weather conditions or other unforeseen circumstances. An increase in the price of fuel and other energy sources would increase our operating costs and, therefore, could affect our profitability.

***The Presence of Genetically Modified Corn in Our Products, Which is Not Approved for Human Consumption, May Have a Negative Impact on Our Results of Operations***

As we do not grow our own corn, we are required to buy it from various producers in the United States, Mexico and elsewhere. Although we only buy corn from farmers and grain elevators who agree to supply us with approved varieties of corn and we have developed a protocol in all our operations, with the exception of Venezuela, to test and monitor our corn for certain strains of bacteria and chemicals that have not been approved for human consumption, we may unwittingly buy genetically modified corn that is not approved for human consumption, and use such raw materials in the manufacture of our products. This may result in costly recalls, subject us to lawsuits, and may have a negative impact on our results of operations.

In the past, various allegations have been made, mostly in the United States and the European Union, that genetically modified foods are unsafe for human consumption, pose risks of damage to the environment and create legal, social and ethical dilemmas. Some countries, particularly in the European Union, as well as Australia and some countries in Asia, have instituted a partial limitation on the import of grain produced from genetically modified seeds. Some countries have imposed labeling requirements and traceability obligations on genetically modified agricultural and food products, which may affect the acceptance of these products. To the extent that we may unknowingly buy or may be perceived to be a seller of products manufactured with genetically modified corn not approved for human consumption, this may have a significant negative impact on our financial condition and results of operation.

***Regulatory Developments May Adversely Affect Our Business***

We are subject to regulation in each of the territories in which we operate. The principal areas in which we are subject to regulation are health, environmental, labor, taxation and antitrust. The adoption of new laws or regulations in the countries in which we operate may increase our operating costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results of operations. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our financial condition and results of operations. See “Item 4. Information on the Company—Regulation.”

***Economic and Legal Risks Associated with a Global Business May Affect Our International Operations***

We conduct our business in many countries and anticipate that revenues from our international operations will account for a significant portion of our future revenues. There are risks inherent in conducting our business internationally, including:

- general political and economic instability in international markets;
- limitations in the repatriation, nationalization or governmental seizure of our assets, including cash;
- direct or indirect expropriation of our international assets;
- varying prices and availability of corn, wheat and wheat flour and the cost and practicality of hedging such fluctuations under current market conditions;
- different liability standards and legal systems;
- recent developments in the international credit markets, which could affect capital availability or cost, and could restrict our ability to obtain financing or refinance our existing indebtedness at favorable terms, if at all; and
- intellectual property laws of countries that do not protect our international rights to the same extent as the laws of Mexico.

In addition, we have expanded our operations to China, Malaysia, Australia, England, the Netherlands, Italy, and more recently to Ukraine, Russia and Turkey. Our presence in these and other markets could present us

[Table of Contents](#)

with new and unanticipated operational challenges. For example, we may encounter labor restrictions or shortages and currency conversion obstacles, or be required to comply with stringent local governmental and environmental regulations. Any of these factors could increase our operating expenses and decrease our profitability.

***Our Business May Be Adversely Impacted By Risks Related to Our Derivatives Trading Activities***

From time to time, we enter into currency and other derivative transactions, pursuant to the Company's risk management policy, that cover varying periods of time and have varying pricing provisions. We may incur unrealized losses in connection with potential changes in the value of our derivative instruments as a result of changes in economic conditions, investor sentiment, monetary and fiscal policies, the liquidity of global markets, international and regional political events, and acts of war or terrorism. See "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources," and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Rate Risk."

***We Cannot Predict the Impact that Changing Climate Conditions, Including Legal, Regulatory and Social Responses Thereto, May Have on Our Business***

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to droughts, hurricanes, tornadoes, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions which some believe may be chief contributors to global climate change. We cannot predict the impact that changing climate conditions, if any, will have on our results of operations or our financial condition. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business in the future.

***Our Business and Operations May Be Adversely Affected by Global Economic Conditions***

The current global macroeconomic environment, characterized by a continuing crisis in the financial markets and the potential threat of a global economic downturn, primarily as a result of the ongoing sovereign debt crisis in the Eurozone, the high degree of unemployment in certain countries, the level of public debt in the U.S. and certain European countries, and the potential impact of budget consolidation measures in the Eurozone, has adversely affected the economy in the United States, Europe and many other parts of the world, including Mexico, and has had significant consequences worldwide, including unprecedented volatility, significant lack of liquidity, loss of confidence in the financial markets, disruptions in the credit sector, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. It is uncertain how long the effects of this global macroeconomic instability will continue and how much of an impact it will have on the global economy in general, or the economies in which we operate in particular, and whether slowing economic growth in any such countries could result in our customers' reducing their spending. As a result, we may need to lower the prices of certain of our products and services in order to maintain their attractiveness, which could lead to reduced turnover and profit or a decline in demand for our products. Any such development could adversely affect our business, results of operations and financial condition and lead to a drop in the trading price of our shares.

***Our Financial Information Prepared under IFRS May Not Be Comparable to Our Financial Information Prepared Under Mexican FRS***

We adopted IFRS as of January 1, 2011 and prepared our consolidated financial statements included in this annual report in accordance with IFRS as issued by the IASB. IFRS differs in certain significant respects from Mexican FRS and U.S. GAAP. An analysis of the valuation, presentation and disclosure effects of adopting IFRS and a reconciliation between Mexican FRS and IFRS as of January 1 and December 31, 2010 and for the year ended December 31, 2010 is set forth in Note 28 to our audited financial statements included in this annual report. As a result of the adoption of IFRS, our consolidated financial information presented under IFRS for fiscal years 2010 and 2011 may not be comparable to our financial information for previous periods prepared under Mexican FRS.

## **Risks Related to Mexico**

### ***Our Results of Operations Could Be Affected by Economic and Social Conditions in Mexico***

We are a Mexican company with 34% of our consolidated assets located in Mexico and 34% of our consolidated net sales derived from our Mexican operations as of and for the year ended December 31, 2011. As a result, Mexican economic conditions could impact our results of operations.

In the past, Mexico has experienced exchange rate instability and devaluation as well as high levels of inflation, domestic interest rates, unemployment, negative economic growth and reduced consumer purchasing power. These events resulted in limited liquidity for the Mexican government and local corporations. Crime rates and civil and political unrest in Mexico and around the world could also negatively impact the Mexican economy. See “Item 3. Key Information—Risk Factors—Developments in Other Countries Could Adversely Affect the Mexican Economy, the Market Value of our Securities and Our Results of Operations.”

Mexico has experienced periods of slow growth since 2001, primarily as a result of the downturn in the U.S. economy. The Mexican economy grew by 3.3% in 2007 and by 1.5% in 2008 but contracted by 6.1% in 2009. In 2010 and 2011, the Mexican economy grew by 5.5% and by 3.9%, respectively.

Developments and trends in the world economy affecting Mexico may have a material adverse effect on our business, financial condition and results of operations. The Mexican economy is tightly connected to the U.S. economy through international trade (approximately 79% of Mexican exports are directed to the United States), international remittances (billions of dollars from Mexican workers in the United States are the country’s second-largest source of foreign exchange), foreign direct investment (approximately 55% of Mexican foreign direct investment comes from U.S.-based investors), and financial markets (the U.S. and Mexican financial systems are highly integrated). As the U.S. economy contracts, U.S. citizens consume fewer Mexican imports, Mexican workers in the United States send less money to Mexico, U.S. firms with businesses in Mexico make fewer investments, U.S.-owned banks in Mexico make fewer loans, and the quality of U.S. financial assets held in Mexico deteriorates. Moreover, the collapse in confidence in the U.S. economy may spread to other economies closely connected to it, including Mexico’s. The result may be a potentially deep and protracted recession in Mexico. If the Mexican economy falls into a deep and protracted recession, or if inflation and interest rates increase, consumer purchasing power may decrease and, as a result, demand for our products may decrease. In addition, a recession could affect our operations to the extent we are unable to reduce our costs and expenses in response to falling demand.

### ***Our Business Operations Could Be Affected by Government Policies in Mexico***

The Mexican government has exerted, and continues to exert, significant influence over the Mexican economy. Mexican governmental actions concerning the economy could have a significant effect on Mexican private sector entities, as well as on market conditions, prices and returns on securities of Mexican issuers, including our securities. Governmental policies have negatively affected our sales of corn flour in the past and may continue to do so in the future.

Following the 2006 Congressional and Presidential elections in which Felipe Calderón Hinojosa, of the political party *Partido Acción Nacional* or PAN, was elected president, and the 2009 elections for the Mexican House of Representatives, the Mexican Congress has continued to be politically divided, as no political party in Mexico holds an absolute majority in the Senate or House of Representatives.

Furthermore, Mexican Presidential and Congressional elections are scheduled for July 1, 2012. The lack of a majority party in the legislature, the lack of alignment between the legislature and the President and any changes that result from the Presidential and Congressional elections could result in political uncertainty or deadlock and prevent the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy and on our business, financial conditions and results of operations.

The Mexican government supports the commercialization of corn for Mexican corn growers through the Agricultural Incentives and Services Agency (*Apoyos y Servicios a la Comercialización Agropecuaria*, or

[Table of Contents](#)

ASERCA). To the extent that this or other similar programs are cancelled by the Mexican government, we may be required to incur additional costs in purchasing corn for our operations, and therefore we may need to increase the prices of our products to reflect such additional costs. See “Item 4. Information on the Company—Regulation.”

In 2008, the Mexican government created a program to support the corn flour industry (*Programa de Apoyo a la Industria de la Harina de Maíz* or PROHARINA). This program aimed to mitigate the impact of the rise in international corn prices through price supports designed to aid the consumer and provided through the corn flour industry. However, the Mexican government cancelled the PROHARINA program in December 2009. As a result of the cancellation of this program by the Mexican government in December of 2009, we were required to increase the prices of our products to reflect such additional costs. There can be no assurance that we will maintain our eligibility for other programs similar to PROHARINA that may be implemented, or that the Mexican government will not institute price controls or other actions on the products we sell, which could adversely affect our financial condition and results of operations. See “Item 4. Information on the Company—Regulation—Corn Flour Consumer Aid Program.”

The level of environmental regulations and enforcement in Mexico has increased in recent years. We expect the trend toward greater environmental regulation and enforcement to continue and to be accelerated as a result of international agreements between Mexico and the United States. The promulgation of new environmental regulations or higher levels of enforcement may adversely affect us. See “Item 8. Financial Information—Legal Proceedings” and “Item 4. Information on the Company—Regulation.”

***Devaluations of the Mexican Peso May Affect our Financial Performance***

Because we have significant international operations generating revenue in different currencies and debt denominated in various currencies, we remain exposed to foreign exchange risks that could affect our ability to meet our obligations and result in foreign exchange losses. In 2010 we posted a net foreign exchange gain of Ps. 144 million and a gain of Ps. 41 million in 2011. Major devaluation or depreciation of the Mexican peso may limit our ability to transfer or to convert such currency into U.S. dollars for the purpose of making timely payments of interest and principal on our indebtedness. The Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico. The government could, however, institute restrictive exchange rate policies in the future.

***High Levels of Inflation and High Interest Rates in Mexico Could Adversely Affect the Business Climate in Mexico and our Financial Condition and Results of Operations***

Mexico has experienced high levels of inflation in the past. The annual rate of inflation, as measured by changes in the National Consumer Price Index was 3.57% for 2009, 4.40% for 2010, and 3.82% for 2011. From January through March 2012, the inflation rate was 0.97%. On April 18, 2012, the 28-day CETES rate was 4.33%. While a substantial part of our debt is dollar-denominated at this time, high interest rates in Mexico may adversely affect the business climate in Mexico generally and our financing costs in the future and thus our financial condition and results of operations.

***Developments in Other Countries Could Adversely Affect the Mexican Economy, the Market Value of Our Securities and Our Results of Operations***

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors’ reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, economic conditions in Mexico have become increasingly correlated to economic conditions in the United States. Accordingly, the slow recovery of the economy in the United States, and the uncertainty of the impact it could have on the general economic conditions in Mexico and the United States could have a significant adverse effect on our businesses and results of operations. See “Item 3. Key Information—Risk Factors—Our Results of Operations Could Be Affected by Economic Conditions in Mexico,” and “Item 3. Key Information—Risk Factors—Risks Related to the United States—Unfavorable General Economic Conditions in the United States Could Negatively Impact Our Financial Performance.” In addition, economic crises

[Table of Contents](#)

in the United States as well as in Asia, Russia, Brazil, Argentina and other emerging market countries have adversely affected the Mexican economy in the past.

Our financial performance may also be significantly affected by general economic, political and social conditions in the emerging markets where we operate, particularly Mexico, Venezuela and Asia. Many countries in Latin America, including Mexico and Venezuela, have suffered significant economic, political and social crises in the past, and these events may occur again in the future. See also “Item 3. Key Information—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks.” Instability in Latin America has been caused by many different factors, including:

- Significant governmental influence over local economies;
- Substantial fluctuations in economic growth;
- High levels of inflation;
- Changes in currency values;
- Exchange controls or restrictions on expatriation of earnings;
- High domestic interest rates;
- Wage and price controls;
- Changes in governmental, economic or tax policies;
- Imposition of trade barriers;
- Unexpected changes in regulation; and
- Overall political, social and economic instability.

Adverse economic, political and social conditions in Latin America may create uncertainty regarding our operating environment, which could have a material adverse effect on our company.

We cannot assure you that the events in other emerging market countries, in the United States, Europe, or elsewhere will not adversely affect our business, financial condition and results of operations.

***You May Be Unable to Enforce Judgments Against Us in Mexican Courts***

We are a Mexican publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*). Most of our directors and executive officers are residents of Mexico, and a significant portion of the assets of our directors and executive officers, and a significant portion of our assets, are located in Mexico. You may experience difficulty in effecting service of process upon our company or our directors and executive officers in the United States, or, more generally, outside of Mexico and in enforcing civil judgments of non-Mexican courts in Mexico, including judgments predicated on civil liability under U.S. federal securities laws, against us, or our directors and executive officers. We have been advised by our General Counsel that there is doubt as to the enforceability of original actions in Mexican courts of liabilities predicated solely on the U.S. federal securities laws.

**Risks Related to Venezuela**

***Our Subsidiaries in Venezuela are Currently Involved in Expropriation Proceedings***

On May 12, 2010, the Bolivarian Republic of Venezuela (the “Republic”) published in the Official Gazette of Venezuela decree number 7,394 (the “Expropriation Decree”), which announced the forced acquisition of all goods, movables and real estate of the Company’s subsidiary in Venezuela, Molinos Nacionales, C.A. (“MONACA”). The Republic has expressed to GRUMA’s representatives that the Expropriation Decree extends to the Company’s subsidiary Derivados de Maíz Seleccionado, C.A. (“DEMASECA”).



## [Table of Contents](#)

As stated in the Expropriation Decree and in accordance with the Venezuelan Expropriation Law (the “Expropriation Law”), the taking of legal ownership can occur either through an “Amicable Administrative Arrangement” or a “Judicial Order”. Each process requires certain steps as indicated in the Expropriation Law, neither of which has occurred. Therefore, as of this date, no formal transfer of title of the assets covered by the Expropriation Decree has taken place.

GRUMA’s interests in MONACA and DEMASECA are held through two Spanish companies Valores Mundiales, S.L. (“Valores Mundiales”) and Consorcio Andino, S.L. (“Consorcio Andino”). In 2010, Valores Mundiales and Consorcio Andino (collectively, the “Investors”) commenced negotiations with the Republic with the intention of reaching an amicable settlement. GRUMA has participated in these negotiations with a view to continuing its presence in Venezuela by potentially entering into a joint venture with the Venezuelan government that could also include compensation, or, absent a joint venture arrangement, GRUMA may receive compensation for the assets subject to expropriation, which the law requires be fair and reasonable. Those negotiations are ongoing.

The Republic and the Kingdom of Spain are parties to a Treaty on Reciprocal Promotion and Protection of Investments dated November 2, 1995 (the “Investment Treaty”), under which the Investors may settle investment disputes by means of arbitration before the International Centre for Settlement of Investment Disputes (“ICSID”). On November 9, 2011, the Investors, MONACA and DEMASECA provided formal notice to the Republic that an investment dispute had arisen as a consequence of the Expropriation Decree and related measures adopted by the Republic. In that notification, the Investors, MONACA and DEMASECA consented to submit the dispute to ICSID arbitration if the parties are unable to reach an amicable agreement.

The negotiations with the government are ongoing, and the Company cannot assure that those negotiations will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award. As a result, the net impact of this matter on the Company’s consolidated financial results cannot be reasonably estimated. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated assets and investments under applicable law, including investment treaties and customary international law.

The Venezuelan government has not taken physical control of the assets of MONACA or DEMASECA and has not taken control of their operations. In consequence, GRUMA can validly and legally assert that, as of this date, Valores Mundiales and Consorcio Andino have full legal ownership of MONACA’s and DEMASECA’s rights, interest, shares and assets, respectively, and full control of all operational or managerial decisions of MONACA and DEMASECA, which will not cease until GRUMA, through Valores Mundiales and Consorcio Andino, finally agrees with the Venezuelan government on the terms and conditions to transfer such assets in accordance with the legal and business schemes that are currently being negotiated with the government of Venezuela.

Pending resolution of this matter, based on preliminary valuation reports, no impairment charge on GRUMA’s net investment in MONACA and DEMASECA has been identified. The Company is also unable to estimate the value of any future impairment charge, if one will be taken, or to determine whether MONACA and DEMASECA will need to be accounted for as a discontinued operation. The historical value as of December 31, 2011 of the net investment in MONACA and DEMASECA was Ps.2,271,178 and Ps.165,969, respectively. The Company does not maintain insurance for the risk of expropriation of its investments. For more information, please see “Item 8. Financial Information—Legal Proceedings.”

### ***Venezuela Presents Significant Economic Uncertainty and Political Risks***

Our operations in Venezuela through MONACA and DEMASECA accounted for 16% of our net sales and 14% of our total assets as of December 31, 2011. In recent years, political and social instability has prevailed in Venezuela. This unrest presents a risk to our operations in Venezuela which cannot be controlled or accurately measured or estimated.

## [Table of Contents](#)

In recent years, Venezuelan authorities have imposed foreign exchange and price controls that apply to products such as corn flour and wheat flour, which have limited our ability to increase our prices in order to compensate for higher costs in raw materials and to convert bolivars into other currencies and transfer funds out of Venezuela. Pursuant to the foreign exchange controls, the purchase and sale of foreign currency is required to be made at an official rate of exchange, as determined by the Venezuelan government (the “Official Rate”). In addition, U.S. dollars may be acquired in order to settle certain U.S. dollar-denominated debt incurred pursuant to imports and royalty agreements, and for payment of dividends, capital gains, interest payments or private debt only after proper submission and approval by the Foreign Exchange Administration Board (CADIVI). We continue to make appropriate submissions to CADIVI. We expect to be in a position to meet our foreign currency-denominated obligations; however, as long as the system of exchange controls remains in effect, there is no assurance that we will be able to secure the required approvals from CADIVI to have sufficient foreign currency for this purpose.

In addition, as described in Note 5 to our consolidated financial statements, the Venezuelan government devalued its currency and established a two tier exchange structure on January 11, 2010. On December 30, 2010, the Venezuelan government issued Exchange Agreement No. 14, which established a single exchange rate of 4.30 bolivars per U.S. dollar effective January 1, 2011. We cannot guarantee that the Venezuelan government will not impose additional price controls, or further devalue its currency or make similar decisions in the future.

Additionally, our Venezuelan operations could be adversely affected since, among other reasons: (i) 100% of the sales of our operations in Venezuela are denominated in bolivars; (ii) Gruma Venezuela produces products that are subject to price controls; (iii) part of Gruma Venezuela’s sales depend on centralized government procurement policies for its social welfare programs; (iv) we may have difficulties repatriating dividends from Gruma Venezuela, as well as importing some of its requirements for raw materials as a result of the exchange controls; and (v) Gruma Venezuela may face increasing costs in some of our raw materials due to the implementation of import tariffs.

### **Risks Related to the United States**

#### ***Unfavorable General Economic Conditions in the United States Could Negatively Impact Our Financial Performance***

Net sales in the U.S. constituted 37% of our total sales in 2011. Unfavorable general economic conditions, such as the current economic slowdown in the United States could negatively affect the affordability of and consumer demand for some of our products. Under difficult economic conditions, consumers may seek to forego purchases of our products or, if available, shift to lower-priced products offered by other companies. Softer consumer demand for our products in the United States or in other major markets could reduce our profitability and could negatively affect our financial performance.

Additionally, as the retail grocery trade continues to consolidate and our retail customers grow larger, they could demand lower pricing and increased promotional programs. Also, our dependence on sales to certain retail customers could increase. There is a risk that we will not be able to maintain our U.S. profit margin in this environment.

Demand for our products in Mexico may also be disproportionately affected by the performance of the United States economy. See also “Item 3. Key Information—Risk Factors—Risks Related to Mexico—Our Results of Operations Could Be Affected by Economic Conditions in Mexico.”

### **Risks Related to Our Controlling Shareholders and Capital Structure**

#### ***Holders of ADSs May Not Be Able to Vote at our Shareholders’ Meetings***

Our shares are traded on the New York Stock Exchange in the form of ADSs. There can be no assurance that holders of our shares through ADSs will receive notices of shareholder meetings from our ADS depository with sufficient time to enable such holders to return voting instructions to our ADS depository in a timely manner. Under certain circumstances, a person designated by us may receive a proxy to vote the shares underlying the ADSs at our discretion at a shareholder meeting.

***Holders of ADSs Are Not Entitled to Attend Shareholder Meetings, and They May Only Vote Through the Depositary***

Under Mexican law, a shareholder is required to deposit its shares with a Mexican custodian in order to attend a shareholders' meeting. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend shareholders' meetings. A holder of ADSs is entitled to instruct the depositary as to how to vote the shares represented by ADSs, in accordance with procedures provided for in the deposit agreement, but a holder of ADSs will not be able to vote its shares directly at a shareholders' meeting or to appoint a proxy to do so. In addition, such voting instructions may be limited to matters enumerated in the agenda contained in the notice to shareholders and with respect to which information is available prior to the shareholders' meeting.

***Holders of ADSs May Not Be Able to Participate in Any Future Preemptive Rights Offering and as a Result May Be Subject to a Dilution of Equity Interest***

Under Mexican law, if we issue new shares for cash as a part of a capital increase, other than in connection with a public offering of newly issued shares or treasury stock, we must generally grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally be permitted to allow holders of our shares through ADSs in the United States to exercise any preemptive rights in any future capital increases unless (i) we file a registration statement with the U.S. Securities and Exchange Commission, or SEC, with respect to that future issuance of shares or (ii) the offering qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares through ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We are under no obligation to, and there can be no assurance that we will, file a registration statement with the SEC to allow holders of our shares through ADSs in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, sales by the ADS depositary of preemptive rights and distribution of the proceeds from such sales to the holders of our shares through ADSs is not possible. As a result, the equity interest of holders of our shares through ADSs would be diluted proportionately and such holders may not receive any economic compensation. See "Item 10. Additional Information—Bylaws—Preemptive Rights."

***The Protections Afforded to Minority Shareholders in Mexico Are Different From Those in the United States***

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors, executive officers and controlling shareholders has been recently developed and there is no legal precedent to predict the outcome of any such action. Additionally, shareholders' class actions are not available under Mexican law and there are different procedural requirements for bringing shareholder derivative lawsuits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us, our directors, our executive officers or our controlling shareholders than it would be for shareholders of a U.S. company.

***We Have Significant Transactions With Affiliates That Could Create Potential Conflicts of Interest***

We purchase some of our raw materials from our shareholder and associate Archer-Daniels-Midland Company ("Archer-Daniels-Midland," or "ADM") at market rates and terms. During 2009, 2010 and 2011, we purchased U.S.\$159 million, U.S.\$97 million and U.S.\$ 147 million of raw materials, respectively, from Archer-Daniels-Midland. Transactions with affiliates may create the potential for conflicts of interest. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions."

***Exchange Rate Fluctuations May Affect the Value of Our Shares***

Fluctuations in the exchange rate between the peso and the U.S. dollar will affect the U.S. dollar value of an investment in our shares and of dividend and other distribution payments on those shares. See "Item 3. Key Information—Selected Financial Data—Exchange Rate Information" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Rate Risk."

***Mexican Law Restricts the Ability of Non-Mexican Shareholders to Invoke the Protection of Their Governments With Respect to Their Rights as Shareholders***

As required by Mexican law, our bylaws provide that non-Mexican shareholders shall be treated as Mexican shareholders in respect to their ownership interests in us, and shall be deemed to have agreed not to invoke the protection of their governments under any circumstance, under penalty of forfeit, in favor of the Mexican government, any participation or interest held in us.

Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of its own government by requesting the initiation of a diplomatic claim against the Mexican government with respect to its shareholder's rights. However, this provision shall not deem non-Mexican shareholders to have waived any other rights they may have, including any rights under the U.S. securities laws, with respect to their investment in us.

***Our Controlling Shareholder Exerts Substantial Control Over Our Company***

As of April 26, 2012, Roberto González Barrera and his family controlled approximately 54.41% of our outstanding shares. See "Item 10. Additional Information—Bylaws—Changes in Capital stock." Consequently, Mr. González Barrera and his family have the power to elect the majority of our directors and to determine the outcome of most actions requiring approval of our stockholders, including the declaration of dividends. The interests of Mr. González Barrera and his family may differ from those of our other shareholders. Mr. González Barrera and his family's holdings are described under "Item 7. Major Shareholders and Related Party Transactions—Major Shareholders."

Mr. González Barrera has pledged and may be required to further pledge part of his shares in us to secure some of his borrowings. If there is a default and the lenders enforce their rights against any or all of these shares, Mr. González Barrera and his family could lose control over us and a change of control could result. In addition, a change of control could trigger a default in some of our credit agreements and have a material adverse effect upon our business, financial condition, results of operations and prospects. For more information about this pledge, see "Item 7. Major Shareholders and Related Party Transactions."

***Archer-Daniels-Midland, Our Strategic Partner, Has Influence Over Some Corporate Decisions; Our Relationship With Archer-Daniels-Midland Could Become Adverse and Hurt Our Performance***

Archer-Daniels-Midland owns, directly or indirectly, approximately 23.22% of our outstanding shares. However, a portion of such interest is held through a Mexican corporation jointly owned with Mr. González Barrera, who has the sole authority to determine how those shares are voted. Thus, Archer-Daniels-Midland only has the right to vote 18.87% of our outstanding shares. In addition, Archer-Daniels-Midland has the right to nominate two of the 17 members of our board of directors and their corresponding alternates. As a result, Archer-Daniels-Midland may influence the outcome of actions requiring the approval of our shareholders or our board of directors. Mr. González Barrera and Archer-Daniels-Midland have also granted each other rights of first refusal in respect of their shares in our company, subject to specified conditions.

Additionally, subject to certain requirements under the *Ley del Mercado de Valores*, or Mexican Securities Law, Archer-Daniels-Midland may also: (i) request the Chairman of the board or the Chairman of the audit and corporate governance committees to convene a general shareholders' meeting; (ii) initiate civil lawsuits against members of the board of directors, members of the audit and corporate governance committees, and the chief executive officer for breach of duty; (iii) judicially oppose resolutions adopted at shareholder meetings; and (iv) request the deferral of any vote regarding an issue about which it does not believe it has been sufficiently informed.

Archer-Daniels-Midland owns, directly or indirectly, a 40% interest in our subsidiary, Molinera de México, S.A. de C.V., or Molinera de México, and a 20% interest in our subsidiary, Azteca Milling, L.P., or Azteca Milling. Additionally, Archer-Daniels-Midland owns a 3% indirect interest in Molinos Nacionales, C.A., or MONACA and a 3% indirect interest in Derivados de Maíz Seleccionado, C.A. or DEMASECA. For more information, please see "Item 4. Information on the Company—Business Overview—Gruma Venezuela." These subsidiaries account for 34% of our revenue. Although we own a majority ownership interest in each of Azteca Milling and Molinera de

[Table of Contents](#)

México, we are required to obtain the consent and cooperation of Archer-Daniels-Midland with respect to certain matters in order to increase our capital expenditures and to implement and expand upon our business strategies in respect of such subsidiaries.

We cannot assure you that our relationships with Archer-Daniels-Midland will be harmonious and successful. Disagreements with Archer-Daniels-Midland could affect the execution of our strategy and, as a result, we may be placed at a competitive disadvantage.

***Our Antitakeover Protections May Deter Potential Acquirors***

Certain provisions of our bylaws could make it substantially more difficult for a third party to acquire control of us. These provisions in our bylaws may discourage certain types of transactions involving the acquisition of our securities. These provisions could discourage transactions in which our shareholders might otherwise receive a premium for their shares over the then current market price. Holders of our securities who acquire shares in violation of these provisions will not be able to vote, or receive dividends, distributions or other rights in respect of, these securities and would be obligated to pay us a penalty. For a description of these provisions, see “Item 10. Additional Information—Bylaws—Other Provisions—Antitakeover Protections.”

***We Are a Holding Company and Depend Upon Dividends and Other Funds From Subsidiaries to Service Our Debt***

We are a holding company with no significant assets other than the shares of our subsidiaries. As a result, our ability to meet our debt service obligations depends primarily on the dividends received from our subsidiaries. Under Mexican law, companies may only pay dividends:

- from earnings included in year-end financial statements that are approved by shareholders at a duly convened meeting;
- after any existing losses applicable to prior years have been made up or absorbed into stockholders’ equity;
- after at least 5% of net profits for the relevant fiscal year have been allocated to a legal reserve until the amount of the reserve equals 20% of a company’s paid-in capital stock; and
- after shareholders have approved the payment of the relevant dividends at a duly convened meeting.

In addition, Gruma Corporation is subject to covenants in some of its debt agreements which require the maintenance of specified financial ratios and balances and, upon an event of default, prohibit the payment of cash dividends. For additional information concerning these restrictions on inter-company transfers, see “Item 3. Key Information—Selected Financial Data—Dividends” and “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

We own approximately 83% of the outstanding shares of Grupo Industrial Maseca, S.A.B. de C.V., or GIMSA, 73% of MONACA, 57% of DEMASECA, 80% of Azteca Milling, L.P. (through Gruma Corporation) and 60% of Molinera de México, S.A. de C.V. Accordingly, we are entitled to receive only our *pro rata* share of any of these subsidiaries’ dividends.

Furthermore, our ability to repatriate dividends from Gruma Venezuela may be adversely affected by exchange controls and other recent events. See “Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks.”

**ITEM 4 Information on the Company.**

**HISTORY AND DEVELOPMENT**

Gruma, S.A.B. de C.V. is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) registered in Monterrey, Mexico under the *Ley General de Sociedades Mercantiles*, or Mexican Corporations Law, on December 24, 1971, with a corporate life of 99 years. Our full legal name is Gruma, S.A.B. de C.V., but we are also known by our commercial names: GRUMA and MASECA. The address of our principal executive office is Calzada del Valle, 407 Ote., Colonia del Valle, San Pedro Garza García, Nuevo León, 66220 México and our telephone number is (52) 81 8399-3300. Our legal domicile is Monterrey, Nuevo León, México.

We were founded in 1949, when Roberto González Barrera, the Chairman of our board of directors, started producing and selling corn flour in Northeastern Mexico as an alternative raw material for producing tortillas. Prior to our founding, all corn tortillas were made using a rudimentary process. We believe that the preparation of tortillas using our dry corn flour method presents significant advantages, including greater efficiency and higher quality, which makes tortillas consistent and readily available. The corn flour process has been a significant impetus for growth, resulting in expanding corn flour and tortilla production and sales throughout Mexico, the United States, Central America, Venezuela, Europe, Asia and Oceania. In addition, we have diversified our product mix to include wheat flour in Mexico and Venezuela.

One of our most important competitive advantages is our proprietary state-of-the art technology for the manufacturing of corn flour and tortillas and other related products. We have been developing and advancing our own technology since the founding of our company. Throughout the years we have been able to achieve vertical integration which is an important part of our competitive advantage.

The following are some significant historical highlights:

- **In 1949**, Roberto González Barrera and a group of predecessor Mexican corporations founded GIMSA, which is engaged principally in the production, distribution and sale of corn flour in Mexico.
- **In 1972**, we entered the Central American market with our first operation in Costa Rica. Today, we have operations in Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua, as well as Ecuador, which we include as part of our Central American operations.
- **In 1977**, we entered the U.S. market. Our operations have grown to include products such as tortillas, corn flour, and other tortilla related products.
- **From 1989 to 1995**, we significantly increased our installed manufacturing capacity in the United States and in Mexico.
- **In 1993**, we entered the Venezuelan corn flour market through an investment in DEMASECA, a Venezuelan corporation producing corn flour.
- **In 1994**, we began our packaged tortilla operations in Mexico as part of our strategy to broaden our product lines in Mexico, achieve vertical integration of our corn flour operations and capitalize upon our experience in producing and distributing packaged tortillas in the United States. We were focused only on the northern part of Mexico. In addition, in 1994 GRUMA became a publicly listed company in both Mexico and the U.S.
- **In 1996**, we strengthened our position in the U.S. corn flour market through an association with Archer-Daniels-Midland, which currently owns approximately 23.22% of our outstanding shares. Through this association we combined our existing U.S. corn flour operations and strengthened our position in the U.S. corn flour market. This association also allowed us to enter the Mexican wheat flour market by acquiring a 60% ownership interest in Archer-Daniels-Midland's Mexican wheat flour operations.

## [Table of Contents](#)

- **From 1997 to 2000**, we initiated a significant plant expansion program. During this period, we acquired or built wheat flour plants, corn flour plants, bread plants and/or tortilla plants in the United States, Mexico, Central America, Venezuela (acquisition of MONACA) and Europe.
- **From 2001 to 2003**, as a result of a comprehensive review of our business portfolio and our focus on our core businesses, we sold our bread business, under the Breddy brand.
- **In 2004**, we acquired Ovis Boske, a tortilla company based in the Netherlands, Nuova De Franceschi & Figli, S.P.A., or Nuova De Franceschi & Figli, a corn flour company based in Italy and a small tortilla plant in Las Vegas, Nevada. We continued to expand capacity and upgrade several of our U.S. operations, the most relevant of which was the expansion of a corn mill in Indiana. This expansion was completed during the second half of 2005.
- **In 2005**, we began the construction of a tortilla plant in Pennsylvania, which has been operational since July 2005. We continued to expand capacity at existing plants. In addition, Gruma Corporation acquired part of the manufacturing assets of the Mexican food division of Cenex Harvest States or CHS, which consisted of three tortilla plants located in New Brighton, Minnesota; Forth Worth, Texas; and Phoenix, Arizona. Gruma Corporation also acquired a small tortilla plant near San Francisco, California. In August, GIMSA acquired 100% of the capital stock of Agroindustrias Integradas del Norte and Agroinsa de México (together, and with their subsidiaries, Agroinsa), a group of companies based in Monterrey, Mexico engaged primarily in the production of corn flour and, to a lesser extent, wheat flour and other products.
- **In 2006**, during the first quarter, we concluded the acquisitions of two small tortilla plants in Australia (Rositas Investments and Oz-Mex Foods), which strengthened our presence in the Asian and Oceania markets. In September 2006, we opened our first tortilla plant in Asia, located in Shanghai, China. We believe the plant has allowed us to strengthen our presence in the Asian markets by improving our service to customers and consumers, allowing us to introduce new products to the Asian market and offer fresher products. In October 2006, we concluded the acquisition of Pride Valley Foods, a company based in Newcastle, England, that produces tortillas, pita bread, naan, and chapatti. We believe the acquisition will strengthen our presence in the European market and will provide an opportunity to expand our product portfolio to products similar to tortillas.
- **In 2007**, we entered into a contract to sell a 40% stake in MONACA to our former partner in DEMASECA. In conjunction with this transaction, we also agreed to purchase an additional 10% ownership interest in DEMASECA from our former partner. We also purchased the remaining 49% ownership interest in Nuova De Franceschi & Figli, a corn flour company based in Italy, in which we previously held a 51% ownership interest. In addition, we made major investments in capacity expansions and upgrades in Gruma Corporation, started the construction of a new tortilla plant in Epping, Australia for Gruma Asia and Oceania, and expanded two of GIMSA's plants.
- **From 2008 to 2010**, we made significant capital expenditures for the construction of a tortilla plant in southern California, capacity expansions, general manufacturing and technology upgrades to several of our existing facilities, the construction of a tortilla plant in Epping, Australia, the construction of a wheat mill in Venezuela, and the acquisition of Altera I and Altera II, the leading producer of corn grits in Ukraine.
- **In 2011**, we acquired Semolina, the Turkish market leading producer of corn grits, two tortilla plants in the U.S. located in Omaha, Nebraska and Albuquerque, New Mexico, and Solntse Mexico, the leading tortilla manufacturer in Russia.

**ORGANIZATIONAL STRUCTURE**

We are a holding company and conduct our operations through subsidiaries. The table below sets forth our principal subsidiaries as of December 31, 2011.

<u>Name of Company</u>	<u>Principal Markets</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Owned(1)</u>	<u>Products/ Services</u>
<b>Mexican Operations</b>				
Grupo Industrial Maseca, S.A.B. de C.V. (“GIMSA”)	Mexico	Mexico	83%	Corn flour, Wheat flour, Other
Molinera de México, S.A. de C.V. (“Molinera de México”) (2)	Mexico	Mexico	60%	Wheat flour, Other
<b>U.S. and Europe Operations</b>				
Gruma Corporation	United States and Europe	Nevada	100%	Packaged tortillas, Other tortilla related products, Corn flour, Flatbreads, Grits, Other
Azteca Milling, LP.(3)	United States	Texas	80%	Corn flour
<b>Central American Operations(4)</b>				
Gruma de Guatemala, S.A., Derivados de Maíz Alimenticio, S.A., Industrializadora y Comercializadora de Palmito, S.A., Derivados de Maíz de Guatemala, S.A., Tortimasa, S.A., Derivados de Maíz de El Salvador, S.A., and Derivados de Maíz de Honduras, S.A. (“Gruma Centroamérica”)	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	100%	Corn flour, Packaged tortillas, Snacks, Hearts of palm, Rice
<b>Venezuelan Operations(5)</b>				
Molinos Nacionales, C.A. (“MONACA”) (6)	Venezuela	Venezuela	73%	Corn flour, Wheat flour, Other products
Derivados de Maíz Seleccionado, C.A. (“DEMASECA”) (6)	Venezuela	Venezuela	57%	Corn flour
<b>Other Subsidiaries</b>				
Mission Foods (Shanghai) Co. Ltd., Gruma Oceania Pty. Ltd., and Mission Foods (Malaysia) Sdn. Bhd. (“Gruma Asia and Oceania”)	Asia and Oceania	China, Malaysia and Australia	100%	Packaged tortillas, Chips, Other products
Productos y Distribuidora Azteca, S.A. de C.V. (“PRODISA”)	Mexico	Mexico	100%	Packaged tortillas, Other related products
Investigación de Tecnología Avanzada, S.A. de C.V. (“INTASA”)	Mexico	Mexico	100%	Construction, Technology and Equipment operations

(1) Percentage of equity capital owned by us directly or indirectly through subsidiaries.

(2) Archer-Daniels-Midland indirectly holds the remaining 40% interest.

(3) Archer-Daniels-Midland indirectly holds the remaining 20% interest.

(4) As part of a corporate restructuring of our Central American operations, on January 1, 2009, all subsidiaries of Gruma Centroamérica, LLC were transferred to Gruma International Foods, S.L.



[Table of Contents](#)

(5) Together these subsidiaries are referred to as “Gruma Venezuela.”(6) Archer-Daniels-Midland holds a 3% indirect interest in both companies and RFB Holdings de Mexico, S.A. de C.V. holds a 24.14% indirect interest in MONACA and 40% in DEMASECA. See “Item 3. Key Information—Risk Factors—Risks Related to Venezuela— Our Subsidiaries in Venezuela are Currently Involved in Expropriation Proceedings “—Risks Related to Our Controlling Shareholders and Capital Structure—Archer-Daniels-Midland, Our Strategic Partner, Has Influence Over Some Corporate Decisions; Our Relationship With Archer-Daniels-Midland Could Become Adverse and Hurt Our Performance,” and “Item 10. Additional Information—Material Contracts—Archer-Daniels-Midland.”

Our subsidiaries accounted for the following percentages and amount of our net sales in millions of pesos for the years ended December 31, 2010 and 2011.

	Year ended December 31,			
	2010		2011	
	In Millions of Pesos	Percentage of Net Sales	In Millions of Pesos	Percentage of Net Sales
Gruma Corporation	Ps. 21,451	46%	Ps. 23,923	42%
GIMSA	11,853	26	15,386	27
Gruma Venezuela	5,382	12	9,157	16
Molinera de México	3,757	8	4,633	8
Gruma Centroamérica	2,765	6	3,180	6
Others and eliminations	1,024	2	1,366	1
Total	Ps. 46,232	100	Ps. 57,645	100

### Association with Archer-Daniels-Midland

We entered into an association with Archer-Daniels-Midland in September 1996. Archer-Daniels-Midland is one of the world’s largest agricultural processors and traders. Through our partnership we have improved our position in the U.S. corn flour market and gained an immediate presence in the Mexican wheat flour market.

As a result of this association, we and Archer-Daniels-Midland combined our U.S. corn flour operations to form Azteca Milling, L.P., a limited partnership in which we hold indirectly, 80% and Archer-Daniels-Midland holds indirectly, 20%. We and Archer-Daniels-Midland agreed to produce and distribute corn flour in the United States through Azteca Milling. In addition, we acquired 60% of the capital stock of Archer-Daniels-Midland’s wholly-owned Mexican wheat milling operations, Molinera de México, S.A. de C.V. Archer-Daniels-Midland retained the remaining 40%. We and Archer-Daniels-Midland agreed to produce and distribute wheat flour in Mexico through Molinera de México. As part of this agreement, we also received U.S.\$258.0 million in cash and gained exclusivity rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets. In return, Archer-Daniels-Midland received 74,696,314 of our then newly issued shares, which represented at that time approximately 22% of our total outstanding shares and the right to designate two of the 17 members of our board of directors and their corresponding alternates. Currently, Archer-Daniels-Midland owns, directly and indirectly, approximately 23.22% of our outstanding shares and, indirectly, a combined 3% stake in MONACA and DEMASECA. See “Item 3. Key Information—Risk Factors—Risks Related to Our Controlling Shareholders and Capital Structure—Archer-Daniels-Midland, Our Strategic Partner, Has Influence Over Some Corporate Decisions; Our Relationship With Archer-Daniels-Midland Could Become Adverse and Hurt Our Performance” and “Item 10. Additional Information—Material Contracts—Archer-Daniels-Midland.”

### Capital Expenditures

Our capital expenditure program continues to be primarily focused on our core businesses and markets. Capital expenditures for 2010 and 2011 were U.S.\$89 million and U.S.\$191 million, respectively. During 2010, capital expenditures were mostly applied to general manufacturing and technology upgrades in Gruma Corporation and GIMSA, and the acquisition of the leading producer of corn grits in Ukraine. During 2011, capital expenditures were primarily applied to production capacity expansions, manufacturing and technology upgrades, particularly in the U.S., Mexico and Europe. We also made certain acquisitions throughout the year, including the purchase of the

[Table of Contents](#)

leading producer of corn grits in Turkey, two tortilla plants in the U.S. and the leading tortilla manufacturer in Russia.

We have budgeted approximately U.S.\$200 million for capital expenditures in 2012, which we intend to use mainly for production capacity expansions, general manufacturing and technology upgrades, especially in Gruma Corporation, GIMSA and Molinera de México. We anticipate financing these expenditures throughout the year through internally generated funds and debt. This capital expenditures budget does not include any potential acquisition.

The following table sets forth the aggregate amount of our capital expenditures during the periods indicated.

	Year ended December 31	
	2010	2011
	(in millions of U.S. dollars)(1)	
Gruma Corporation	\$ 50.0	\$ 126.9
GIMSA	13.8	19.2
Gruma Venezuela	6.9	3.5
Molinera de México	4.5	5.7
Gruma Centroamérica	3.4	7.1
Others and eliminations	10.0	28.8
Total consolidated	<u>\$ 88.6</u>	<u>\$ 191.2</u>

- (1) Amounts in respect of some of the capital expenditures were paid for in currencies other than the U.S. dollar. As a result, U.S. dollar amounts presented in the table above may not be comparable to data contained elsewhere in this Annual Report, which is expressed on the basis of the peso/dollar exchange rate as of December 31, 2011, unless otherwise specified.

For more information on capital expenditures for each subsidiary, please see the sections entitled “Operation and Capital Expenditures” under the relevant sections below.

## BUSINESS OVERVIEW

We believe we are one of the largest corn flour and tortilla producers and distributors in the world. We also believe we are one of the leading producers and distributors of corn flour and tortillas in the United States, one of the leading producers of corn flour and wheat flour in Mexico, and one of the leading producers of corn flour and wheat flour in Venezuela. We believe that we are also one of the largest producers of corn flour and tortillas in Central America, and one of the largest producers of tortilla and other flatbreads, including pita, naan, chapatti, pizza bases and piadina in Europe, Asia and Oceania. Our focus has been and continues to be the efficient and profitable expansion of our core business—corn flour, tortilla, wheat flour and flatbreads. We pioneered the dry corn flour method of tortilla production, which offers several advantages over the centuries-old traditional wet corn dough method. These advantages include higher production yields, reduced production costs, more uniform quality and longer shelf life. The dry corn flour method of production offers significant opportunities for growth. Using our technology and know-how, we expect to encourage tortilla and tortilla chip producers in the United States, Mexico, Central America, and elsewhere to convert to the dry corn flour method of tortilla and tortilla chip production. Additionally, we expect to increase the presence of our other core businesses, including packaged tortillas in the United States, Mexico, Central America, Europe, Asia and Oceania, and wheat flour in Mexico and Venezuela.

[Table of Contents](#)

The following table sets forth our revenues by geographic market for the years ended December 31, 2010 and 2011.

	Year ended December 31,	
	2010	2011
	(in millions of pesos)	
United States and Europe	Ps. 21,445	Ps. 23,901
Mexico	15,539	19,870
Venezuela	5,382	9,157
Central America	2,765	3,180
Asia and Oceania	1,101	1,537
Total	Ps. 46,232	Ps. 57,645

## Strategy

Our strategy for growth is to focus on our core business—corn flour, tortilla, and wheat flour production, as well as to expand our product portfolio towards the flatbreads category in general—and to capitalize upon our leading positions in the corn flour and tortilla industries. We have taken advantage of the increasing popularity of Mexican food and, more importantly, tortillas, in the U.S., European and Asia and Oceania markets. We have also taken advantage of the adoption of tortillas by the consumers of several regions of the world for the preparation of different recipes other than Mexican food, and from the flexibility of our wraps and flatbreads category and new product concepts we have launched such as low-fat, carb-balance and multigrain. Our strategy includes the following key elements:

*Expand in the Growing Retail and Food Service Tortilla Markets Where We Currently Have a Presence and to New Regions in the United States:* We believe that the size and growth of the U.S. retail and food service tortilla markets offer significant opportunities for expansion.

*Enter and Expand in the Tortilla and Flatbread Markets in Other Regions of the World:* We believe that markets in other continents such as Europe, Asia and Oceania offer us significant opportunities. We believe our current operations in Europe will enable us to better serve markets in Europe and in the Middle East through stronger vertical integration, improvements in logistical efficiencies, and enhanced knowledge of our local markets. Our presence in Asia and Oceania will enable us to offer our customers fresh products and respond more quickly to their needs. We will continue to evaluate ways to profitably expand into these rapidly growing markets.

*Maintain Gruma Corporation's MISSION® and GUERRERO® Tortilla Brands as the First and Second National Brands in the United States:* We intend to achieve this by increasing our efforts at building brand name recognition, and by further expanding and utilizing Gruma Corporation's distribution network, first in Gruma Corporation's existing markets, where we believe there is potential for further growth, and second, in regions where Gruma Corporation currently does not have a significant presence but where we believe strong demand for tortillas already exists.

*Encourage Transition in Certain Markets from the Traditional Cooked-Corn Method to the Dry Corn Flour Method as Well as New Uses for Corn Flour, and Continue to Establish MASECA as a Leading Brand:* We pioneered the dry corn flour method of tortilla production, which offers several advantages over the centuries-old traditional wet corn dough method. We continue to view the transition from the traditional method to the dry corn flour method of making tortillas and tortilla chips as the primary opportunity for increased corn flour sales. We will continue to encourage this transition through improving customer service, advertising and promoting principally our MASECA® brand corn flour, as well as leveraging off of our manufacturing capacity and distribution networks. We see an opportunity for further potential growth in the fact that the dry corn flour method is more environmentally friendly than the traditional method. We are also working to expand the use of corn flour in the manufacture of different types of products besides tortillas and tortilla chips.

*Expand the corn milling business in Europe through the production and supply of corn grits and other by-products of corn in Europe and the Middle East:* The company's European milling division's priority is to consolidate itself as a market leader in corn milling and related products for the snack, brewing and breakfast cereals

[Table of Contents](#)

industries, where we believe there is significant potential in these regions. We aim to expand our production capacity through a series of strategic acquisitions located near the major consumption centers, and to invest in technology in order to consolidate our competitive position in the market place.

*Continually Improve Service and Quality of Our Products to Customers and Consumers:* We continue to develop customer relationships by ensuring that our customer-service and sales representatives develop an intimate knowledge of their clients' businesses and by working with clients to help them improve their products, services, and sales to their consumers. We continuously work to improve service and the quality of our products to consumers, raise consumer awareness of our products, and stay informed of our consumers' preferences.

*Leverage Our Existing Available Production Capacity and Focus on Optimizing Operational Matters:* Our investment program during recent years in plants and operations has resulted in sufficient existing capacity to meet current and foreseeable demand. We believe that we have the capacity to operate at optimal levels and that our economies of scale and existing operating synergies permit us to remain competitive without additional material capital expenditures.

## **U.S. and European Operations**

### **Overview**

We conduct our United States and European operations principally through our subsidiary, Gruma Corporation, which manufactures and distributes corn flour, packaged tortillas, corn chips and related products. Gruma Corporation commenced operations in the United States in 1977, initially developing a presence in certain major tortilla consumption markets by acquiring small tortilla manufacturers and converting their production processes from the traditional "wet corn dough" method to our dry corn flour method. Eventually, we began to build our own state-of-the-art tortilla plants in certain major tortilla consumption markets. We have vertically integrated our operations by (i) building corn flour and tortilla manufacturing facilities; (ii) establishing corn purchasing operations; (iii) launching marketing and advertising campaigns to develop brand name recognition; (iv) expanding distribution networks for corn flour and tortilla products; and (v) using our technology to design and build proprietary corn flour, tortilla and tortilla chip manufacturing machinery.

In September 1996, we combined our U.S. corn flour milling operations with Archer-Daniels-Midland's corn flour milling operations into a newly formed limited partnership, known as Azteca Milling, L.P., in which Gruma Corporation holds an 80% interest. See "Item 10. Additional Information—Material Contracts."

During 2000, Gruma Corporation opened its first European tortilla and corn chips plant in Coventry, England, initiating our entry into the European market. During 2004, Gruma Corporation concluded two further acquisitions in Europe; a tortilla plant in Holland and a 51% ownership of a corn flour plant in Italy in an effort to strengthen our presence in the region.

In 2006, Gruma Corporation acquired a flatbread plant in the north of England, which enabled us to expand our product portfolio with new types of flatbreads; primarily naan and pita. In addition, Gruma Corporation acquired the remaining 49% ownership interest in Nuova De Franceschi & Figli, a corn flour company based in Italy, in which we previously held a 51% ownership interest. In March 2010, we acquired 100% of the share capital of Altera I and Altera II, the leading producer of corn grits in Ukraine, for U.S.\$9 million. We believe this acquisition in Eastern Europe will enable GRUMA to continue its growth strategy in emerging markets in that region.

During 2011, we acquired two tortilla plants in the United States, Albuquerque Tortilla Company and Casa de Oro Foods, for U.S.\$9 million and U.S.\$23 million, respectively. In July 2011, we acquired Solntse Mexico, the leading tortilla and corn chips manufacturer in Russia, for U.S.\$9 million. We believe this acquisition consolidates the presence of GRUMA in Russia and improves our ability to serve countries in Eastern Europe by providing access to lower costs and a closer location to major customers. In November 2011, we acquired Semolina, the Turkish market leading producer of corn grits for U.S.\$17 million. The acquisition of Semolina represents a significant milestone for GRUMA's growth strategy in Eastern Europe and the Middle East. Our European milling division's priority is to consolidate itself as a market leader in corn milling and related products for the snack, brewing and breakfast cereals industries.

**Gruma Corporation**

Gruma Corporation operates primarily through its Mission Foods division, which produces tortillas and related products, and Azteca Milling, L.P., a limited partnership between Gruma Corporation (80%) and Archer-Daniels-Midland (20%) which produces corn flour. We believe Gruma Corporation is one of the leading manufacturers and distributors of packaged tortillas and related products throughout the United States and Europe through its Mission Foods division. We believe Gruma Corporation is also one of the leading producers of corn flour in the United States through its Azteca Milling division.

*Principal Products.* Mission Foods manufactures and distributes packaged corn and wheat tortillas and related products (which include tortilla chips) under the MISSION® and GUERRERO® brand names in the United States, as well as other minor regional brands. By continuing to build MISSION® into a strong national brand for the general consumer market and GUERRERO® into a strong Hispanic consumer focused brand, Mission Foods expects to increase market penetration, brand awareness and profitability. Azteca Milling manufactures and distributes corn flour in the United States under the MASECA® brand.

*Sales and Marketing.* Mission Foods serves both retail and food service customers. In the U.S., retail customers represent approximately 77% of our business, including supermarkets, mass merchandisers and smaller independent stores. Our food service customers include major chain restaurants, food service distributors, schools, hospitals and the military. In our European business, approximately half of our tortilla production is allocated to retail sales, and the other half to the food service segment, including quick-service restaurants and food processors.

For the U.S. tortilla market, Mission Foods' current marketing strategy is to increase market penetration by increasing consumer awareness of tortilla products in general, to expand into new regions and to focus on product innovation and customer needs. Mission Foods promotes its products primarily through cooperative advertising programs with supermarkets as well as radio and television advertising, targeting both Hispanic and non-Hispanic populations. We believe these efforts have contributed to greater consumer awareness. Mission Foods also targets food service companies and works with restaurants, institutions and distributors to address their individual needs and provide them with a full line of products. Mission Foods continuously attempts to identify new customers and markets for its tortillas and related products in the United States and, more recently, in Europe.

Azteca Milling distributes approximately 40% of the corn flour it produces to Mission Foods' plants throughout the United States and Europe. Azteca Milling's third-party customers consist largely of other tortilla manufacturers, corn chip producers, retail customers and wholesalers. Azteca Milling sells corn flour in various quantities, ranging from four-pound retail packages to bulk railcar loads.

We anticipate continued growth in the U.S. market for corn flour, tortillas, and related products. We believe that the growing consumption of Mexican-style foods by non-Hispanics will continue to increase demand for tortillas and tortilla related products, particularly wheat flour tortillas. Also influential is the fact that tortillas are no longer solely used as ingredients in Mexican food; for example, tortillas are also used for wraps, which will continue to increase demand for tortillas. Growth in the U.S. corn flour market is attributable to the conversion of tortilla and tortilla chip producers from the wet corn dough process to our dry corn flour method, the increase of the Hispanic population, the consumption of tortillas and tortilla chips by the general consumer market, and stronger and increased distribution.

*Competition and Market Position.* We believe Mission Foods is one of the leading manufacturers and distributors of packaged tortillas and related products throughout the United States and Europe. We believe the tortilla market is highly fragmented, regional in nature and extremely competitive. Mission Foods' main competitors are hundreds of tortilla producers who manufacture locally or regionally and tend to be sole proprietorships. However, a few competitors have a presence in several U.S. regions such as Olé Mexican Foods and Reser's Fine Foods, among others. In addition, a few large companies have tortilla manufacturing divisions that compete with Mission Foods, for example, Tyson, Bimbo, Hormel Foods, and General Mills. Mission Food's largest competitors for branded tortilla are Olé Mexican Foods, Bimbo, and Hormel Foods.

## [Table of Contents](#)

Competitors within the corn flour milling industry include Minsa and the corn flour milling divisions of Cargill. Azteca Milling competes with these corn flour manufacturers in the United States primarily on the basis of superior quality, technical support, customer service and brand recognition. However, we believe there is great potential for growth by converting tortilla and tortilla chip manufacturers that still use the traditional method to our corn flour method. We believe Azteca Milling is one of the leading producers of corn flour in the United States.

We strongly believe there is significant growth potential for tortillas, wraps and other flatbreads in all geographic areas of Europe and also through multiple channels, for example, in the retail and foodservice channels. Mexican-based cuisine is gaining popularity in key markets. Likewise, consumer trends indicate a growing need for versatile, healthy, nutritious and tasty food on-the-go, as well as for more interesting food accompaniments. Our products address all of these needs, and their profile allows them to be easily customized to local cultures. Mission Foods is well-placed to both drive and benefit from this situation in the coming years.

We believe Mission Foods is one of the leading tortilla producers in Europe with the main competitors being Santa Maria and General Mills. There are a number of more recent players occupying niche positions in tortilla production, operating in continental Europe and the United Kingdom.

*Operation and Capital Expenditures.* Annual total production capacity for Gruma Corporation is estimated at 2.5 million metric tons as of December 31, 2011, with an average utilization of 71% in 2011. The average size of our plants as of December 31, 2011 was approximately 9,302 square meters (about 100,000 square feet).

Capital expenditures for the past two years were U.S.\$177 million, mostly for expansion and upgrades of existing facilities and the construction of a new tortilla plant in southern California, that began production during 2010. In March of 2010, we acquired 100% of Altera I and Altera II, the leading producer of corn grits in Ukraine for U.S.\$9 million. We believe this acquisition in Eastern Europe will enable GRUMA to continue its growth strategy in emerging markets of the region. During 2011, we acquired two tortilla plants in the United States, Albuquerque Tortilla Company and Casa de Oro Foods for U.S.\$9 million and U.S.\$23 million, respectively. In July 2011, we acquired Solntse Mexico, the leading tortilla and corn chips manufacturer in Russia, for U.S.\$9 million. We believe this acquisition consolidates the presence of GRUMA in Russia and improves our ability to serve countries in Eastern Europe by providing access to lower costs and a closer location to major customers. On November 2011, we acquired Semolina, the Turkish market leading producer of corn grits, for U.S.\$17 million. The acquisition of Semolina represents a significant milestone for GRUMA's growth strategy in Eastern Europe and the Middle East. Our European milling division's priority is to consolidate itself as a market leader in corn milling and related products for the snack, brewing and breakfast cereals industries.

Gruma Corporation's projected capital expenditures for 2012 will be approximately U.S.\$75 million, mainly for production capacity increases and manufacturing and technology upgrades, as well as the construction of a new plant in Florida. These budgeted capital expenditures do not include any potential acquisitions.

Mission Foods produces its packaged tortillas and other related products at 26 manufacturing facilities worldwide. Twenty two of these facilities are located in large population centers throughout the United States. During 2009, Mission Foods closed three manufacturing facilities located in Las Vegas, Fort Worth and El Paso. Mission Foods has shifted production to other plants to achieve savings in overhead costs. Mission Foods will consider reopening the Fort Worth plant should market demands require additional capacity. During 2010, Mission Foods closed an additional manufacturing facility located in Phoenix, Arizona. Outside the United States, Mission Foods has two plants in England, one plant in The Netherlands, and one plant in Russia.

Mission Foods is committed to offering the best quality products to its customers through the implementation of the American Institute of Baking ("AIB") food safety standards, and Global Food Safety Initiative ("GFSI") recognized certification schemes such as British Retail Consortium ("BRC") and Safe Quality Food ("SQF"). Additionally, our plants are regularly evaluated by other third party organizations and customers.

All of the Mission Foods manufacturing facilities worldwide have earned either a superior or excellent category rating from the AIB-GMP audits. Most of Mission Foods' U.S. plants have earned the AIB's highest award, the combined AIB-GMP and AIB-HAACP certification. One of our recently acquired plants is in the process of implementing AIB-GMP audits this year and four other plants have not yet gone through the AIB-HACCP certification process.

## [Table of Contents](#)

In 2008 Mission Foods started the BRC certification process at four plants in the U.S. By 2011, thirteen plants had completed the certification process. Additionally, one of our plants is SQF certified. Our plants in England and The Netherlands are also evaluated by third party organizations such as the AIB, International Food Standards and BRC. Our facility in Russia, which was acquired in July of 2011, operates in compliance with Russian food production laws and is audited by multiple clients. The facility is currently working towards HACCP certification.

Azteca Milling produces corn flour at six plants located in Amarillo, Edinburg and Plainview, Texas; Evansville, Indiana; Henderson, Kentucky; and Madera, California. Gruma Corporation also produces corn flour at our plants in Ceggia, Italy, Cherkassy, Ukraine, and Samsun, Turkey. The majority of our plants are located within important corn growing areas. Due to Azteca Milling's manufacturing practices and processes, all six facilities located in the U.S. have achieved ISO 9002 certification as well as the AIB certification. Our corn flour plants in Italy and Ukraine have obtained the BRC certification. Additionally, our corn flour mill in Italy obtained the OHSAS 18001 international workplace safety standards certification, and our corn flour plant in Turkey has obtained the International Featured Standards certification, among others.

*Seasonality.* We believe there is no significant seasonality in our products, however part of our products tend to experience a slight volume increase during the summer months. Tortillas and tortilla chips sell year round, with special peaks during the summer, when we increase our promotion and advertising by taking advantage of several holidays and major sporting events. Tortilla and tortilla chip sales decrease slightly towards the end of the year when many Mexicans go back to Mexico for the holidays. Sales of corn flour fluctuate seasonally as demand is higher in the fourth quarter during the holidays because of the preparation of Mexican food recipes that are very popular during this time of the year.

*Raw Materials.* Corn is the principal raw material used in the production of corn flour, which is purchased from local producers. Azteca Milling buys corn only from farmers and grain elevators that agree to supply varieties of corn approved for human consumption. Azteca Milling tests and monitors its raw material purchases for corn not approved for human consumption, for certain strains of bacteria, fungi metabolites and chemicals. In addition, Azteca Milling applies certain testing protocols to incoming raw materials to identify genetically modified products not approved for human consumption.

Because corn prices tend to be somewhat volatile, Azteca Milling engages in a variety of hedging activities in connection with the purchase of its corn supplies, including the purchase of corn futures contracts. In so doing, Azteca Milling attempts to assure corn availability approximately 12 months in advance of harvest time and guard against price volatility approximately six months in advance. The Texas Panhandle currently is the single largest source of food-grade corn. Azteca Milling is also involved in short-term contracts for corn procurement with many corn suppliers. Where suppliers fail to deliver, Azteca Milling can easily access the spot markets. Azteca Milling does not anticipate any difficulties in securing adequate corn supplies in the future.

Corn flour for Mission Foods U.S. operations is supplied by Azteca Milling, and to a much lesser extent, by GIMSA. Corn flour for Mission Foods European operations is supplied by our corn mill in Italy.

Wheat flour for the production of wheat tortillas and other types of wheat flat breads is purchased from third party producers at prices prevailing in the commodities markets. Mission Foods believes the market for wheat flour is sufficiently large and competitive to ensure that wheat flour will be available at competitive prices to supply our needs. Contracts for wheat flour supply are made on a short-term basis.

*Distribution.* An important element of Mission Foods' sales growth has been the expansion and improvement of its tortilla distribution network, including a direct-store-delivery system to distribute most of its products. Tortillas and other freshly made products are generally delivered daily to customers, especially in retail sales and in regions where we have plants. In regions where we do not have plants, there is no daily distribution and tortillas are sometimes sold refrigerated. In keeping with industry practice, Mission Foods generally does not have written sales agreements with its customers. Nevertheless, from time to time, Mission Foods enters into consumer marketing agreements with retailers, in which certain terms on how to market our products are agreed. Mission Foods has also developed a food service distribution network on the west and east coasts of the United States, and in certain areas of the Midwest.

## [Table of Contents](#)

The vast majority of corn flour produced by Azteca Milling in the U.S. is sold to tortilla and tortilla chip manufacturers and is delivered directly from the plants to the customer. Azteca Milling's retail customers are primarily serviced by a network of distributors, although a few large retail customers have their corn flour delivered directly to them from the plants.

Almost all of the corn flour and corn grits produced in Europe are sold to beer, snacks, tortilla chip and taco shell manufacturers, and are delivered directly from the plants to the customer. We also supply customers in several industries like breakfast cereals and polenta, among others. Retail customers are primarily serviced by a network of distributors, although a few large retail customers have their corn flour delivered directly to them from the plants.

## **Mexican Operations**

### *Overview*

Our largest business in Mexico is the manufacture and sale of corn flour, which we conduct through our subsidiary GIMSA. Through our association with Archer-Daniels-Midland, we have also entered the wheat milling business in Mexico through Molinera de México. Our other subsidiaries engage in the manufacturing and distribution of packaged tortillas and other related products in northern Mexico, conduct research and development regarding corn flour and tortilla manufacturing equipment, produce machinery for corn flour and tortilla production and construct our corn flour manufacturing facilities.

### *GIMSA—Corn Flour Operation*

*Principal Products.* GIMSA produces, distributes and sells corn flour in Mexico, which is then used in the preparation of tortillas and other related products. GIMSA also produces wheat flour and other related products to a much lesser extent.

In 2011, GIMSA had net sales of Ps.15,386 million. We believe GIMSA is one of the largest corn flour producers in Mexico. GIMSA estimates that its corn flour is used in one third of the corn tortillas consumed in Mexico. It sells corn flour in Mexico mainly under the brand name MASECA®. MASECA®, a standard fine-textured, white corn flour is a ready-mixed corn flour that becomes a dough when water is added. This corn dough can then be pressed to an appropriate thickness, cut to shape and cooked to produce tortillas and similar food products.

GIMSA produces over 50 varieties of corn flour for the manufacture of different food products which are developed to meet the requirements of our different types of customers according to the kind of tortillas they produce and markets they serve. It sells corn flour to tortilla and tortilla chip manufacturers as well as in the retail market.

*Sales and Marketing.* GIMSA sells packaged corn flour in bulk principally to thousands of small tortilla manufacturers, or *tortillerías*, which purchase in 20-kilogram sacks and produce tortillas on their premises for sale to local markets. To a lesser extent, GIMSA also sells corn flour in bulk to supermarkets' in-store *tortillerías* and snack manufacturers. Additionally, GIMSA sells packaged corn flour in the retail market in one-kilogram packages.

The following table sets forth GIMSA's bulk and retail sales volume of corn flour, and other products for the periods indicated.

	Year Ended December 31, (tons in thousands)					
	2009		2010		2011	
	Tons	%	Tons	%	Tons	%
Corn Flour						
Bulk	1,451	77	1,468	78	1,528	78
Retail	290	16	291	15	292	15
Other	133	7	131	7	139	7
Total	<u>1,874</u>	<u>100</u>	<u>1,890</u>	<u>100</u>	<u>1,959</u>	<u>100</u>



## [Table of Contents](#)

Retail sales of corn flour are channeled to two distinct markets: urban centers and rural areas. Sales to urban consumers are made mostly through supermarket chains that use their own distribution networks to distribute MASECA® corn flour or through wholesalers who sell the product to smaller grocery stores throughout Mexico. Sales to rural consumers are made principally through the Mexican government's social welfare retail chain, a social and distribution program named *Distribuidora Conasupo, S.A.*, or DICONSA, which consists of a network of small government-owned stores and which supplies rural areas with basic food products.

Mexico's tortilla industry is highly fragmented, consisting mostly of *tortillerías*, many of which continue to utilize, what is in our opinion, the relatively inefficient wet corn dough method of tortilla production (the traditional method). We estimate that the traditional wet corn dough method accounts for approximately half of all tortillas produced in Mexico. Tortilla producers that do not utilize corn flour buy the wet dough from dough producers or buy and mill their own corn and produce wet corn dough themselves.

We believe the preparation of tortillas using the dry corn flour method possesses several advantages over the traditional method. This traditional method is a rudimentary practice requiring more energy, time and labor because it involves cooking the corn in water and with lime, milling the cooked corn, creating and shaping the dough, and then making tortillas from that dough. We pioneered the dry corn flour method in which we mill the raw corn in our facilities into corn flour. Tortilla producers and consumers, once they acquire the corn flour, may then simply add water to transform the flour into wet dough to produce tortillas. Our internal studies show that the dry corn flour method consumes less water, electricity, fuel and labor. We estimate that one kilogram of corn processed through the dry corn flour method yields more tortillas on average than a similar amount of corn processed using the traditional method. Corn flour is also transported more easily and under better sanitary conditions than wet corn dough and has a shelf life of approximately three months, compared with one or two days for wet corn dough. The market for wet corn dough is limited due to the perishable nature of the product, restricting sales of most wet corn dough producers to their immediate geographic areas. Additionally, the corn flour's longer shelf life makes it easier for consumers in rural areas, where *tortillerías* are relatively scarce, to produce their own tortillas.

We believe in the benefits of our dry corn flour method and also believe that we have substantial opportunities for growth by encouraging a transition to our method. Corn flour is primarily used to produce corn tortillas, a principal staple of the Mexican diet. The tortilla industry is one of the largest industries in Mexico as tortillas constitute the single largest component of Mexico's food industry. However, there is still reluctance to abandon the traditional practice, particularly in central and southern Mexico, because corn dough producers and/or tortilla producers using the traditional method incur lower expenses by working in an informal economy. Additionally, such producers are generally not required to comply with environmental regulations, which also represents savings for them. To the extent regulations in Mexico are enforced and we and our competitors are on the same footing, we expect to benefit from these developments.

GIMSA has embarked on several programs to promote corn flour sales to tortilla producers and consumers. GIMSA offers incentives to potential customers, such as small independent *tortillerías*, to convert to the dry corn flour method from the traditional wet corn dough method. The incentives GIMSA offers include new, easy to use equipment designed specifically for small-volume users, financing, and individualized training. For example, in order to assist traditional tortilla producers in making the transition to corn flour, GIMSA also sells specially designed mixers made by Tecnomáiz, S.A. de C.V., or Tecnomáiz, one of our research and development subsidiaries. For more information about our research and development department, see "Item 4—Information on the Company—Miscellaneous—INTASA—Technology and Equipment Operations." GIMSA also helps its *tortillería* customers to improve sales by directing consumer promotions to heighten the desirability of their products and increase consumption, which, in turn, should increase corn flour sales and our brand equity. These efforts to improve sales and strengthen our brand equity by better positioning us among consumers include prime time advertising on television as well as radio, magazine and billboard advertising.

During 2011, GIMSA continued emphasizing the nutritional values of its products in advertising campaigns on radio and television nationwide. GIMSA also continued reinforcing MASECA's image and brand recognition, associating our brand with sports, exercise and wellness, and emphasizing the benefits of a good nutrition for general health. Following this strategy, we sponsor several professional sports teams including the Mexican Soccer Football Federation (FEMEXFUT), as the official sponsors of Mexico's national soccer team in all of its categories through the year 2014.

## [Table of Contents](#)

GIMSA is aware of the dynamism of the Mexican market. In order to adapt quickly and to anticipate new customers' needs, GIMSA continued diversifying its sales force in specialized teams to be able to satisfy different types of customers, focusing primarily in increasing product availability and achieving higher market coverage. GIMSA also continues working on the conversion of customers from the traditional process preparing tortillas to our corn flour method, mainly in the central and south regions of Mexico where the traditional method is still widely used.

GIMSA has also created specific business models for its customers to improve the viability of their businesses, primarily in the distribution and delivery process of tortillas to consumers, and the identification and recognition of the use of MASECA as a main ingredient in their products. Our strategy of developing specific sales formats has permitted us to serve customers requiring high frequency delivery and low volume orders as well as customers with high volume consumption with working capital investments needs.

Additionally, the Company undertakes the following ongoing initiatives in an effort to improve operational efficiency, increase consumption of corn flour, and improve on its successful business model to attract new customers:

- initiatives designed to strengthen commercial relations with our existing customers, primarily by offering personalized customer service and sales programs to our customers, including the development of comprehensive business models;
- initiatives designed to increase coverage in regions with low corn flour consumption with special promotions tailored specifically to these markets;
- design of individualized support regarding the type of machinery required for their business, financial advisory and training;
- assistance to customers in the development of new profitable distribution methods to increase their market penetration and sales;
- development of tailored marketing promotions to increase consumption in certain customer segments; and
- assistance to customers in the development of new higher margin products such as tortilla chips, taco shells and enchilada tortillas, reflecting current consumption trends.

*Competition and Market Position.* GIMSA faces competition on three levels—from other corn flour producers, from sellers of wet corn dough and from the many *tortillerías* that produce their own wet corn dough on their premises. Our estimates indicate that about half of tortilla producers continue to use the traditional wet corn dough method.

GIMSA's biggest challenge in increasing its market share is the prevalence of the traditional method. In the corn flour industry, GIMSA's principal competitors are Grupo Minsa, S.A. de C.V. and a few regional corn flour producers. OPTIMASA, a subsidiary of Cargill de México, built a corn flour plant and began to offer corn flour in the central region of Mexico, therefore becoming a new competitor for GIMSA since 2005. We compete against other corn flour manufacturers on the basis of quality, brand recognition, technology, customer service and nationwide coverage. We believe that GIMSA has certain competitive advantages resulting from its proprietary technology, greater economies of scale and broad geographic coverage, which may provide it with opportunities to more effectively source raw materials and reduce transportation costs.

*Operations and Capital Expenditures.* GIMSA currently owns 19 corn flour mills, all of which are located throughout Mexico, typically within corn growing regions and those of large tortilla consumption. GIMSA also owns two more plants, one of which produces wheat flour and the other, corn grits and several types of corn based products. Three of GIMSA's plants are idle. The Chalco plant has been inactive since October 1999 GIMSA will consider reopening this plant should market demands require additional capacity. The other two plants (Monterrey y Celaya) have been idle since February 2006. These assets are currently being depreciated.

## [Table of Contents](#)

Annual total production capacity for GIMSA is estimated at 2.97 million metric tons as of December 31, 2011, with an average utilization of 66% in 2011. The average size of our plants as of December 31, 2011 was approximately 19,956 square meters (approximately 214,806 square feet).

In recent years, GIMSA's capital expenditures were primarily used to upgrade technology and corn flour production processes. GIMSA spent U.S.\$33 million for these purposes from 2010 to 2011. GIMSA currently projects total capital expenditures during 2012 of approximately U.S.\$29 million, which will be used primarily for updating technology and production capacity expansion projects.

Pursuant to an agreement between GIMSA and *Investigación de Tecnología Avanzada*, or INTASA, our wholly-owned subsidiary, INTASA provides technical assistance to each of GIMSA's operating subsidiaries for which each pays to INTASA a fee equal to 0.5% of its consolidated net sales. Each of GIMSA's corn flour facilities uses proprietary technology developed by our technology and equipment operations. For more information about our in-house technology and design initiatives, see "Item 4—Information on the Company—Miscellaneous—INTASA—Technology and Equipment Operations."

*Seasonality.* The demand for corn flour varies slightly with the seasons, with some minor increases during the December holidays.

*Raw Materials.* Corn is the principal raw material required for the production of corn flour, and constituted 57% of GIMSA's cost of sales for 2011. We purchase corn primarily from Mexican growers and grain elevators, and from world markets at international prices. Most of our domestic corn purchases are made through ASERCA, a governmental program established and supported by the Mexican Ministry of Agriculture, where contracts are entered into once the corn is planted to guarantee price and delivery upon harvest. *Compañía Nacional Almacenadora, S.A. de C.V.*, a subsidiary of GIMSA, enters into contracts for and purchases the corn, and also monitors, selects, handles and ships the corn.

We believe that the diverse geographic locations of GIMSA's production facilities in Mexico enables GIMSA to achieve savings in raw material transportation and handling. In addition, by sourcing corn locally for its plants, GIMSA is better able to communicate with local growers concerning the size and quality of the corn crop and is better able to maintain quality control. In Mexico, GIMSA purchases corn on delivery in order to strengthen its ability to obtain the highest quality corn on the best terms.

Traditionally, domestic corn prices in Mexico typically follow trends in the international market. During most periods, the price at which GIMSA purchases corn depends on the price of corn in the international market. As a result, corn prices are sometimes unstable and volatile. Additionally, in the past, the Mexican government has supported the price of corn. For more information regarding the government's effect on corn prices, see "Item 3. Key Information—Risk Factors—Our Business Operations Could Be Affected by Government Policies in Mexico" and "Item 4. Information on the Company—Regulation."

In addition to corn, the other principal materials and resources used in the production of corn flour are packaging materials, water, lime, additives and energy. GIMSA believes that its sources of supply for these materials and resources are adequate, although energy, additives and packaging costs tend to be volatile.

*Distribution.* GIMSA's products are distributed through independent transport firms contracted by GIMSA. Most of GIMSA's sales are made free-on-board at GIMSA's plants, in particular those to tortilla manufacturers. With respect to other sales, in particular sales to the Mexican government, large supermarket chains, and snack producers, GIMSA pays the freight cost.

### ***Molinera de México—Wheat Flour Operation***

*Principal Products.* In 1996, in connection with our association with Archer-Daniels-Midland, we entered the wheat milling market in Mexico by acquiring a 60% ownership interest in Archer-Daniels-Midland's wheat flour operation, Molinera de México. See "Item 10. Additional Information—Material Contracts." Molinera's main product is wheat flour, although it also sells wheat bran and other byproducts. Our wheat flour brands are REPOSADA<sup>®</sup>, PODEROSA<sup>®</sup> and SELECTA<sup>®</sup>, among others.

## [Table of Contents](#)

*Sales and Marketing.* In 2011, approximately 86% of Molinera's wheat flour production was sold in bulk and 14% was sold for the retail segment. Most of the bulk sales are made to thousands of traditional bakeries and tortillerias, supermarkets' in-store bakeries and, to a lesser extent, to cookie and pasta manufacturers. Most of the retail sales are made to large supermarkets and wholesalers throughout Mexico. Through wholesalers, our products are distributed to small grocery stores.

Our marketing strategy depends on the type of customer and region. Overall, our aim is to offer products according to customers' specifications as well as technical support. We are trying to increase our market share in bakeries by offering products with consistent quality. In the retail segment we target small grocery stores through wholesalers, and supermarkets through centralized and national level negotiations. We are focusing on improving customer service, continuing to increase our distribution of products to supermarkets' in-store bakeries, and developing new types of pre-mixed flours for the supermarket in-store bakery segment. We provide direct delivery to supermarkets, supermarkets' in-store bakeries, wholesalers, industrial customers and some large bakeries. Most small bakeries and small grocery stores are served by wholesalers.

*Competition and Market Position.* We believe that we are one of Mexico's largest wheat flour producers based on revenues and sales volume. Molinera de México competes with many small wheat flour producers. We believe the wheat flour industry is highly fragmented and estimate that there are about 90 participants. Our main competitors are Altex, Trimex, Tablex, La Espiga, Elizondo, and Anáhuac.

*Operations and Capital Expenditures.* We own and operate nine wheat flour plants, including one of which we hold only a 40% ownership interest. Annual total production capacity for Molinera is estimated at 837 thousand metric tons as of December 31, 2011, with an average utilization of 83% in 2011, including production volume for third parties for which Molinera receives a fee. On average, the size of our plants as of December 31, 2011 was approximately 12,044 square meters (approximately 129,590 square feet). Capital expenditures in 2010 and 2011 amounted to U.S.\$10 million mainly for general upgrades and maintenance. Molinera de México's capital expenditures in 2012 are projected to be U.S.\$28 million, which will be used primarily for production capacity expansion on several wheat mills and general manufacturing and technology upgrades.

*Seasonality.* Molinera's sales are subject to seasonality. Higher sales volumes are achieved in the fourth and first quarters during the winter, when we believe per capita consumption of wheat-based products, especially bread and cookies, increases due in part to cold weather and the celebration of holidays occurring during these quarters.

*Raw Materials.* Wheat is the principal raw material required for the production of wheat flour and constituted 71% of Molinera's cost of sales for 2011. Molinera de México purchases approximately 63% of its wheat from Mexican growers, and 37% from international markets. Molinera de México purchases domestic wheat from local farmers and farmers' associations through ASERCA, a governmental program established and supported by the Mexican Ministry of Agriculture, where contracts are entered into once the wheat is planted to guarantee price and delivery upon harvest. Wheat is also sourced from foreign producers in the United States and Canada through different trading companies. Purchases are made based on short-term requirements with the aim of maintaining adequate levels of inventories.

In recent years the price of wheat domestically and abroad has been volatile. Volatility is due to the supply of wheat, which depends on various factors including the size of the harvest (which depends in large part on the weather).

## **Central American Operations**

### ***Overview***

In 1972, we entered the Costa Rican market. Our operations since then have expanded into Guatemala, Honduras, El Salvador and Nicaragua, as well as Ecuador, which we include as part of our Central American operations.

## **Gruma Centroamérica**

*Principal Products.* Gruma Centroamérica produces corn flour, and to a lesser extent tortillas and snacks. We also cultivate and sell hearts of palm and process and sell rice. We believe we are one of the largest corn flour producers in the region. We sell corn flour under the MASECA<sup>®</sup>, TORTIMASA<sup>®</sup>, MASARICA<sup>®</sup> and MINSA<sup>®</sup> brands. In Costa Rica, we sell packaged tortillas under the TORTI RICA<sup>®</sup> and MISIÓN<sup>®</sup> brands. We operate a Costa Rican snack operation which manufactures tortilla chips, potato chips and similar products under the TOSTY<sup>®</sup>, RUMBA<sup>®</sup>, and LA TICA<sup>®</sup> brand. Hearts of palm are exported to numerous European countries as well as the United States, Canada, Chile and Mexico.

*Sales and Marketing.* 79% of Gruma Centroamérica's sales volume in 2011 derived from the sale of corn flour.

Gruma Centroamérica corn flour bulk sales are oriented predominantly to small tortilla manufacturers through direct delivery and wholesalers. Supermarkets make up the customer base for retail corn flour. Bulk sales volume represented approximately 57% and retail sales represented approximately 43% of Gruma Centroamérica's corn flour sales volume during 2011.

*Competition and Market Position.* We believe that we are one the largest corn flour producers in Central America based on revenues and sales volume. We believe that there is significant potential for growth in Central America as corn flour is used in only approximately 15% of all tortilla production; the majority of tortilla manufacturers use the wet corn dough method. Additionally, we believe we are one of the largest producers of tortillas and snacks in Costa Rica.

Within the corn flour industry, the brands of our main competitors are: Del Comal, Doña Blanca, Selecta, Bachoza and Instamasa. However, one of our main growth potentials is to convert tortilla manufacturers that still use the traditional method to our corn flour method.

*Operations and Capital Expenditures.* We had an annual installed production capacity of 350 thousand tons for corn flour and other products as of December 31, 2011, with an average utilization of approximately 68% during 2011. We operate one corn flour plant in each of Costa Rica, Honduras, El Salvador, and Guatemala, for a total of four plants throughout the region. In Costa Rica, we also have one plant producing tortillas, one plant producing snacks, one plant processing hearts of palm and one plant processing rice. In Nicaragua and Honduras we have small tortilla plants, while in Guatemala we have a small plant that produces snacks and in Ecuador we have a small facility which processes hearts of palm. On average, the size of our plants as of December 31, 2011 was approximately 75,574 square meters (approximately 813,472 square feet).

During 2010 and 2011 most of our capital expenditures were oriented towards general manufacturing upgrades and production capacity expansions at existing tortilla plants. Total capital expenditures for the past two years were approximately U.S.\$3.4 and U.S.\$7.1 million, respectively. Capital expenditures for 2012 are projected to be U.S.\$9 million, which will be used primarily for general manufacturing and technology upgrades.

*Seasonality.* Typically, corn flour sales volume is lower during the first and fourth quarters of the year due to higher corn availability and lower corn prices.

*Raw Materials.* Corn is the most important raw material needed in our operations, representing 41% of the cost of sales during 2011, and is obtained primarily from imports from the United States and from local growers. None of the countries in which we have corn flour plants restrict corn import permits granted by the United States. Price fluctuation and volatility are subject to domestic conditions, such as annual crop results and international conditions.

## **Gruma Venezuela**

### **Overview**

In 1993, we entered the Venezuelan corn flour industry through a participation in DEMASECA, a corn flour company in Venezuela. In August 1999, we acquired 95% of DAMCA International Corporation, a Delaware

## [Table of Contents](#)

corporation which owned 100% of MONACA, Venezuela's second largest corn and wheat flour producer at that time, for approximately U.S.\$94 million. Additionally, Archer-Daniels-Midland acquired the remaining 5% interest in MONACA.

In April of 2006, we entered into a series of transactions to: (i) purchase an additional 10% ownership interest in DEMASECA at a price of U.S.\$2.6 million; (ii) purchase a 2% stake in MONACA from Archer-Daniels-Midland at a price of U.S.\$3.28 million; and (iii) sell a 3% interest in DEMASECA to Archer-Daniels-Midland at a price of U.S.\$780,000.

Additionally, in April of 2006, we entered into a contract for the sale of a stake in MONACA to Rotch Energy Holdings, N.V. ("Rotch"), a controlled entity of our former indirect partner in DEMASECA, Ricardo Fernández Barrueco. As a result Rotch acquired a 24.14% interest in MONACA, and subsequently pledged its equity interests for the benefit of a Mexican financial institution (the "Rotch Lender") as security for a loan to a controlled entity of Rotch. In June of 2010, Rotch defaulted under the loan and the stake in MONACA was sold and assigned to a third investor, whose interest is held by a Mexican company, RFB Holdings de Mexico, S.A. de C.V. RFB Holdings de Mexico, S.A. de C.V. is not affiliated with our former indirect partner in DEMASECA, Ricardo Fernández Barrueco.

As a result of the aforementioned transactions, we currently own 72.86% in MONACA, RFB Holdings de Mexico, S.A. de C.V. owns 24.14% and Archer-Daniels-Midland owns the remaining 3% in MONACA. In addition, we own 57% in DEMASECA, RFB Holdings de Mexico, S.A. de C.V. indirectly owns 40% and Archer-Daniels-Midland owns the remaining 3% in DEMASECA. MONACA and DEMASECA are collectively referred to as "Gruma Venezuela."

On May 12, 2010, the Bolivarian Republic of Venezuela published in the Official Gazette of Venezuela decree number 7,394, which announced the forced acquisition of all goods, movables and real estate of our subsidiary company in Venezuela, MONACA. The Republic has expressed to GRUMA's representatives that the Expropriation Decree extends to our subsidiary DEMASECA. As of this date, no formal transfer of title of the assets covered by the Expropriation Decree has taken place. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela— Our Subsidiaries in Venezuela are Currently Involved in Expropriation Proceedings," and "Item 8. Financial Information—Legal Proceedings."

### **DEMASECA and MONACA**

*Principal Products.* Gruma Venezuela produces and distributes corn flour as well as wheat flour, rice, oats and other products. We sell corn flour under the brand names JUANA® and DEMASA®. We sell wheat flour under the ROBIN HOOD®, FLOR DE TRIGO® and POLAR® brand, rice under the MONICA® brand and oats under the LASSIE® brand.

*Sales and Marketing.* Venezuelans use corn flour to produce and consume *arepas*, which are made at home or in restaurants for household consumption rather than manufactured by specialty shops or other large manufacturers. We sell corn flour in the retail market in one kilogram bags to independent distributors, supermarkets, wholesalers, and governmental social welfare and distribution programs. We also sell wheat flour, distributing it in 45 kilogram bags and in one kilogram bags. Bulk sales to customers made up approximately 42% of our total sales volume in 2011. The remaining 58% of sales in 2011 were in the retail market, which includes independent distributors, supermarkets and wholesalers.

*Competition and Market Position.* With the MONACA acquisition in 1999, we significantly increased our share of the corn flour market and entered the wheat flour market. We believe we are one of the largest corn flour and wheat flour producers in Venezuela.

In corn flour, our main competitor is Alimentos Polar, and, to a lesser extent, Industria Venezolana Maizera PROAREPA, Asoportuguesa and La Lucha. In wheat flour, our principal competitor is Cargill.

*Operation and Capital Expenditures.* We operate five corn flour plants, five wheat flour plants, two rice plants, one pasta plant, and two plants that produce oats and spices in Venezuela with a total annual production

## [Table of Contents](#)

capacity of 823 thousand tons as of December 31, 2011 and an average utilization of approximately 68% during 2011. Two rice plants, representing 71 thousand tons, are temporarily idle. On average, the size of our plants measured in square meters is approximately 8,961 (approximately 96,454 square feet) as of December 31, 2011.

Capital expenditures for the past two years were U.S.\$10.3 million. Most of this was applied to general upgrades. Capital expenditures for 2012 are budgeted to be U.S.\$15 million and expected to be focused on general manufacturing and technology upgrades mostly related to production efficiencies and compliance with applicable regulations.

*Seasonality.* Sales fluctuate seasonally as demand for flour-based products is lower during those months when most schools are closed for vacation. In addition, sales are higher in November as customers build inventory to satisfy increased demand during the holiday season in December.

*Raw Materials.* Corn and wheat are our most important raw materials. Corn is purchased in Venezuela and is subject to the corn market's volatility and governmental regulations related to prices, quantities and storage facilities. Corn prices are fixed by a government agency. 100% of our wheat is purchased from the U.S. and Canada, with its availability and price volatility dependent upon those markets. We do not engage in any type of hedging activity for our supplies since exchange rate policies and country risk for Venezuela constrain our capacity to transfer funds abroad in order to fund any hedging strategy.

### **Miscellaneous—INTASA—Technology and Equipment Operations**

We have developed our own technology operations since our founding. Since 1976 our technology and equipment operations have been conducted principally through INTASA, which has two subsidiaries: Tecномаíz, S.A. de C.V., or Tecномаíz, and Constructora Industrial Agropecuaria, S.A. de C.V., or CIASA. The principal activity of these subsidiaries is to provide research and development, equipment, and construction services to us and small equipment to third parties. Through Tecномаíz, we also engage in the design, manufacture and sale of machines for the production of tortillas and tortilla chips. The machinery for the tortilla industry includes a range of capacities, from machines that make 15 to 300 corn tortillas per minute to dough mixers. The equipment is sold under the TORTEC® and BATITEC® trademarks in Mexico. Tecномаíz also manufactures high volume energy efficient corn tortilla, wheat tortilla and tortilla chip systems that can produce up to 1,200 corn tortillas per minute, 600 wheat tortillas per minute and 3,000 pounds of chips per hour.

We carry out proprietary technological research and development for corn milling and tortilla production as well as all engineering, plant design and construction through INTASA and CIASA. These companies administer and supervise the design and construction of our new plants and also provide advisory services and training to employees of our corn flour and tortilla manufacturing facilities. We manufacture corn tortilla-making machines for sale to tortilla manufacturers and for use in “in-store *tortillerías*,” as well as high-capacity corn and flour tortilla-makers that are supplied only to us.

### ***GFNorte Investment***

As of December 31, 2010, we held approximately 8.8% of the outstanding shares of GFNorte, a Mexican financial services holding company and parent of Banco Mercantil del Norte, S.A., or Banorte, a Mexican bank. As of the same date, our investment in GFNorte represented Ps.4,296 million. GFNorte's results of operations were accounted for in our consolidated results of operations using the equity method of accounting. For the period ended December 31, 2010, we received Ps.91 million in dividends in respect of our investment in GFNorte.

On February 15, 2011, we concluded the sale of 177,546,496 shares of the capital stock of GFNorte at a price of Ps.52 per common share (the “GFNorte Sale”), resulting in cash proceeds of Ps.9,232,417,792 before fees and expenses. As a result of the sale of the GFNorte's shares, we no longer hold shares of GFNorte's capital stock.

## REGULATION

### Mexican Regulation

#### *Corn Commercialization Program*

To support the commercialization of corn for Mexican corn growers, Mexico's Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food Ministry (*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, or SAGARPA), through the Agricultural Incentives and Services Agency (*Apoyos y Servicios a la Comercialización Agropecuaria*, or ASERCA), a government agency founded in 1991, implemented a program designed to promote corn sales in Mexico. The program includes the following objectives:

- Ensure that the corn harvest is brought to market, providing certainty to farmers concerning the sale of their crops and supply security for the buyer.
- Establish a minimum price for the farmer, and a maximum price for the buyer, which are determined based on international market prices, plus a basic formula specific for each region.
- Implement a corn hedging program to allow both farmers and buyers to minimize their exposure to price fluctuations in the international markets.

To the extent that this or other similar programs are canceled by the Mexican government, we may be required to incur additional costs in purchasing corn for our operations, and therefore we may need to increase the prices of our products to reflect such additional costs.

#### *Corn Flour Consumer Aid Program*

Since the end of 2006, the price of corn set by the Chicago Board of Trade and the average price of Mexican corn has increased dramatically due to a number of factors, including the increased use of corn in the manufacture of ethanol, a substitute for gasoline, as well as other bio-fuels. Consequently, the price of corn flour and corn tortillas, the main food staple in Mexico, increased due to such increases in the international and domestic prices of corn. In order to stabilize the price of tortillas and provide Mexican families with a consistent supply of corn, corn flour and tortillas at a reasonable price, the Mexican government promoted two agreements among the various parties involved in the corn-flour-tortilla production chain. The second and last agreement was effective until December 31, 2007. However, the parties to that agreement voluntarily continued to operate under its terms until October 2008.

Upon the expiration of the above-mentioned agreements, the Mexican government created a program to support the corn flour industry (*Programa de Apoyo a la Industria de la Harina de Maíz or PROHARINA*) in October of 2008. This program aimed to mitigate the impact of the rise in international corn prices through price supports designed to aid the consumer and provided through the corn flour industry. Corn flour manufacturers were entitled to receive a subsidy conditioned on selling the corn flour below a maximum price set by the Mexican government. Beginning in June 2009, the maximum price per kilogram of corn flour established to receive the government subsidy was Ps.5.875. The total amount of subsidized funds allotted to the Company by the Mexican government under this program in 2009 totaled Ps.1,465 million. However, the Mexican government cancelled the PROHARINA program in December 2009.

As a result of the cancellation of this program by the Mexican government in December of 2009, we were required to increase the prices of our products to reflect such additional costs. In addition, there can be no assurance that we will maintain our eligibility for other programs similar to PROHARINA that may be implemented, or that the Mexican government will not institute price controls or other actions on the products we sell, which could adversely affect our financial condition and results of operations.

#### *Environmental Regulations*

Our Mexican operations are subject to Mexican federal, state and municipal laws and regulations relating to the protection of the environment. The principal federal environmental laws are the *Ley General de Equilibrio*



## [Table of Contents](#)

*Ecológico y Protección al Ambiente*, or General Law of Ecological Equilibrium and Protection of the Environment, or the Mexican Environmental Law, which is enforced by the Secretaría de Medio Ambiente y Recursos Naturales, or Ministry of the Environment and Natural Resources, or SEMARNAT and the *Ley Federal de Derechos* or the Mexican Federal Law of Governmental Fees. Under the Mexican Environmental Law, each of our facilities engaged in the production of corn flour, wheat flour, and packaged tortillas is required to obtain an operating license from state environmental regulations upon initiating operations, and then periodically submit a certificate of operation to maintain the operating license. Furthermore, the Mexican Federal Law of Governmental Fees requires that Mexican manufacturing plants pay a fee for water consumption and the discharge of residual waste water to drainage, whenever the quality of such water exceeds mandated thresholds. Rules have been issued concerning hazardous substances and water, air and noise pollution. In particular, Mexican environmental laws and regulations require that Mexican companies file periodic reports with respect to air and water emissions and hazardous wastes. Additionally, they also establish standards for waste water discharge. We must also comply with zoning regulations as well and rules regarding health, working conditions and commercial matters. SEMARNAT and the Federal Bureau of Environmental Protection can bring administrative and criminal proceedings against companies that violate environmental laws, as well as close non-complying facilities.

We believe we are currently in compliance in all material respects with all applicable Mexican environmental regulations. The level of environmental regulation and enforcement in Mexico has increased in recent years. We expect this trend to continue and to be accelerated by international agreements between Mexico and the United States. To the extent that new environmental regulations are issued in Mexico, we may be required to incur additional remedial capital expenditures to comply. Management is not aware of any pending regulatory changes that would require additional remedial capital expenditures in a significant amount.

### **Competition Regulations**

The *Ley Federal de Competencia Económica* or Mexican Competition Law, and the *Reglamento de la Ley Federal de Competencia Económica* or Regulations of the Mexican Competition Law, regulate monopolies and monopolistic practices, and require Mexican government approval for certain mergers and acquisitions. The Mexican Competition Law grants the government the authority to establish price controls for products and services of national interest through Presidential decree, and established the *Comisión Federal de Competencia*, or Federal Competition Commission, to enforce the law. Mergers and acquisitions and other transactions that may restrain trade or that may result in monopolistic or anti-competitive practices or combinations must be approved by the Federal Competition Commission. The Mexican Competition Law may potentially limit our business combinations, mergers and acquisitions and may subject us to greater scrutiny in the future in light of our market presence, and we do not believe that this legislation will have a material adverse effect on our business operations.

### **U.S. Federal and State Regulations**

Gruma Corporation is subject to regulation by various federal, state and local agencies, including the Food and Drug Administration, Department of Labor, the Occupational Safety and Health Administration, the Federal Trade Commission, the Department of Transportation, the Environmental Protection Agency and the Department of Agriculture. We believe that we are in compliance in all material respects with all environmental and other legal requirements. Our food manufacturing and distribution facilities are subject to periodic inspection by various federal, state and local agencies, and the equipment utilized in these facilities must generally be governmentally approved prior to operation.

### **European Regulation**

We are subject to regulation in each country in which we operate in Europe. We believe that we are currently in compliance with all applicable legal requirements in all material respects.

### **Central American and Venezuelan Regulation**

Gruma Centroamérica and Gruma Venezuela are subject to regulation in each country in which they operate. We believe that Gruma Centroamérica and Gruma Venezuela are currently in compliance with all applicable legal requirements in all material respects. See “Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks” and “Item 3. Key Information—Risk Factors— Our Subsidiaries in Venezuela are Currently Involved in Expropriation Proceedings.”

## Asia and Oceania Regulation

We are subject to regulation in each country in which we operate in Asia and Oceania. We believe that we are currently in compliance with all applicable legal requirements in all material respects.

### ITEM 4A. Unresolved Staff Comments.

Not applicable.

### ITEM 5 Operating and Financial Review and Prospects.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*You should read the following discussion in conjunction with our audited consolidated financial statements and the notes thereto contained elsewhere herein. Our audited consolidated financial statements have been prepared in accordance with IFRS as issued by IASB. Such consolidated annual financial statements are our first financial statements prepared in accordance with IFRS. Until and including our financial statements for the year ended December 31, 2010, we prepared our consolidated financial statements in accordance with Mexican FRS. See Note 28 to our audited consolidated financial statements for an analysis of the valuation, presentation and disclosure effects of adopting IFRS and a reconciliation between Mexican FRS and IFRS as of January 1 and December 31, 2010 and for the year ended December 31, 2010. Following the Company's adoption of IFRS, the Company is no longer required to reconcile its financial statements prepared in accordance with IFRS to U.S. GAAP.*

*Pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS no audited consolidated financial statements and financial information prepared under IFRS for the year ended December 31, 2009 have been included in this annual report. Consequently no discussion is included for the year 2009. For more information about our financial statements in general, see "Presentation of Financial Information" and "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness."*

#### Overview of Accounting Presentation

We began reporting under IFRS for the year ending December 31, 2011, with an IFRS adoption date of January 1, 2011 and a transition date to IFRS of January 1, 2010. IFRS has certain mandatory exceptions, as well as limited optional exceptions, in connection with the initial adoption of IFRS, which do not require the retrospective application of IFRS.

We relied on the following applicable mandatory exceptions in IFRS 1:

- a) Hedge accounting: Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39, "Financial instruments: Recognition and measurement", at that date. Hedging relationships cannot be designated retrospectively, and the supporting documentation cannot be created retrospectively. All of the Company's hedge contracts satisfy the hedge accounting criteria as of January 1, 2010 and, consequently, these transactions were reflected as hedges in the Company's balance sheets.
- b) Estimates: IFRS estimates as at January 1, 2010 are consistent with the estimates as at the same date made in conformity with Mexican FRS.

Additionally, we applied prospectively the following mandatory exceptions starting January 1, 2010: de-recognition of financial assets and liabilities and non-controlling interest, with no significant effect, since the requirements under Mexican FRS are the same.

## [Table of Contents](#)

Below we describe the optional exceptions on which we relied, together with a discussion of the impact that the treatment specified by IFRS would have had absent our election to rely on the relevant exception. See Note 28 to our audited consolidated financial statements.

- a) Business combinations. IFRS 1 provides the option to apply IFRS 3, “Business Combinations”, prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. We elected to apply IFRS 3 prospectively to business combinations occurring after the transition date. Had we not exercised this exception, we would have applied IFRS 3 to all acquisitions prior to the transition date. IFRS differs from Mexican FRS particularly with respect to recognition and valuation of employee benefits obligations, property, plant and equipment and other liabilities. As a result, the assignment of net values would have been different under IFRS.
- b) Cumulative translation differences. IFRS 1 allows cumulative translation gains and losses to be reset to zero at the transition date. This provides relief from determining cumulative currency translation differences in accordance with IAS 21, “The effects of changes in foreign exchange rates”, from the date a subsidiary or equity method investee was formed or acquired. We elected to reset all cumulative translation gains and losses to zero in retained earnings at the transition date. Had we not applied this exception, we would have been able to reclassify the translation effect only for subsidiaries in countries experiencing hyperinflation as defined under IFRS.
- c) Deemed cost. We elected to use as the deemed costs at transition date the restated cost of property, plant and equipment under Mexican FRS at December 31, 2009. Had we adopted the historical cost methodology under IFRS, the cost of property, plant and equipment would have been recognized based on their historical cost and we would have reversed inflation adjustments. Had we adopted the fair value methodology under IFRS, the cost of our property, plant and equipment would have been determined based on an appraisal at transition date and following periods.

Note 27 to our audited consolidated financial statements discusses new accounting pronouncements under IFRS that will become effective in 2012 or thereafter. We do not currently expect that any of these will have a significant impact on the presentation of our financial statements.

### ***Effects of Inflation***

To determine the existence of hyperinflation, we evaluate the qualitative characteristics of the economic environment of each country, as well as the quantitative characteristics established by IFRS, including an accumulated inflation rate equal or higher than 100% in the past three years. Pursuant to this analysis, Mexico is not considered to be hyperinflationary, with annual inflation rates of 3.6% in 2009, 4.4% in 2010 and 3.8% in 2011. Meanwhile, Venezuela is considered a hyperinflationary economy, with annual inflation rates of 25.1% in 2009, 27.2% in 2010 and 27.6% in 2011.

### ***Effects of Devaluation***

Because a significant portion of our net sales are generated in U.S. dollars, changes in the peso/dollar exchange rate can have a significant effect upon our results of operations as reported in pesos. When the peso depreciates against the U.S. dollar, Gruma Corporation’s net sales in U.S. dollars represent a larger portion of our net sales in peso terms than when the peso appreciates against the U.S. dollar. When the peso appreciates against the dollar, Gruma Corporation’s net sales in U.S. dollars represent a smaller portion of our net sales in peso terms than when the peso depreciates against the dollar. For a description of the peso/dollar exchange rate see “Item 3. Key Information—Exchange Rate Information.”

On January 8, 2010, the Venezuelan government announced the devaluation of its currency and established a two tier exchange structure. Pursuant to Exchange Agreement No.14, the official exchange rate of the Venezuelan bolivar (“Bs.”) was devalued from Bs.2.15 to each U.S. dollar to Bs.4.30 for non-essential goods and services and to Bs.2.60 for essential goods. On December 30, 2010, the Venezuelan government modified Exchange agreement No. 14 and established a single exchange rate of 4.30 bolivars per U.S. dollar effective January 1, 2011.

## [Table of Contents](#)

In addition to the above, our net income may be affected by changes in our foreign exchange gain or loss, which may be impacted by significant variations in the peso/dollar exchange rate. During 2010 and 2011, we recorded a net foreign exchange gain of Ps.144 million and Ps.41 million, respectively.

### ***Monaca Consolidation***

Under IFRS we consolidate all subsidiaries in which the Company, directly or indirectly, owns the majority of the common shares, has control, or is the primary beneficiary of the subsidiary's risks and rewards.

As of this date, no formal transfer of title of the assets of MONACA has occurred. As a result, as of the date hereof, our subsidiary Valores Mundiales, S.L. has full control of MONACA's rights, interest, shares and assets and full control of the operational and managerial decisions concerning MONACA. Accordingly, we have consolidated the balance sheet and income statement of MONACA as of December 31, 2011.

Pending the resolution of this matter, based on preliminary valuation reports, no impairment charge on GRUMA's net investment in MONACA and DEMASECA has been identified; however, we are unable to estimate the value of any future impairment charge, if any, or to determine whether MONACA and DEMASECA will need to be accounted for as a discontinued operation. As a result, the net impact of this matter on the Company's consolidated financial results cannot be reasonably estimated. See Notes 5-A and 25 to our audited consolidated financial statements.

### ***Currency Issues in Venezuela***

Historically, we have been able to convert bolivars into U.S. dollars at the Official Rate in order to settle certain U.S. dollar-denominated debt incurred pursuant to imports and royalty agreements and to pay dividends from our business in Venezuela. We expect to continue to be able to convert bolivars into U.S. dollars for these purposes. Accordingly, as of December 31, 2011, the Company's Venezuelan subsidiaries accounted for U.S. dollar-denominated transactions, monetary assets and liabilities into bolivars using the Official Rate, which may not reflect economic reality. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks." In addition, the Company's Venezuelan subsidiaries' bolivar-denominated financial statements were translated into Mexican pesos using the buying rate published by *Banco de México* on the applicable balance sheet dates.

### **Critical Accounting Policies**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

We have identified below the most critical accounting principles that involve a higher degree of judgment and complexity and that management believes are important to a more complete understanding of our financial position and results of operations. These policies are outlined below.

Additional accounting policies that are also used in the preparation of our financial statements are outlined in the notes to our consolidated financial statements included in this Annual Report.

### ***Property, Plant and Equipment***

We depreciate our property, plant and equipment over their respective estimated useful lives. Useful lives are based on management's estimates of the period that the assets will remain in service and generate revenues. Estimates are based on independent appraisals and the experience of our technical personnel. We review the assets' residual values and useful lives each year to determine whether they should be changed, and adjusted if appropriate. To the extent that our estimates are incorrect, our periodic depreciation expense or carrying value of our assets may be impacted.

## [Table of Contents](#)

Under IFRS, we are required to test long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable for property, plant and equipment. When the carrying amount exceeds the recoverable amount, the difference is accounted for as an impairment loss. The recoverable amount is the higher of (1) the long-lived asset's (asset group) fair value less costs to sell, representing the amount obtainable from the sale of the long-lived asset (asset group) in an arm's length transaction between knowledgeable, willing parties less the costs of disposal and (2) the long-lived asset's (asset group) value in use, representing its future cash flows discounted to present value by using a rate that reflects the current assessment of the time value of money and the risks specific to the long-lived asset (asset group) for which the cash flow estimates have not been adjusted.

The estimates of cash flows take into consideration expectations of future macroeconomic conditions as well as our internal strategic plans. Therefore, inherent to the estimated future cash flows is a certain level of uncertainty which we have considered in our valuation; nevertheless, actual future results may differ.

Primarily as a result of plant rationalization, certain facilities and equipment are not currently in use in operations. We have recorded impairment losses related to certain of those assets and additional losses may potentially occur in the future if our estimates are not accurate and/or future macroeconomic conditions differ significantly from those considered in our analysis.

### ***Goodwill and Other Intangible Assets***

Intangible assets with definite lives are amortized on a straight-line basis over estimated useful lives. Management exercises judgment in assessing the useful lives of other intangible assets including patents and trademarks, customers lists and software for internal use. Under IFRS, goodwill and indefinite-lived intangible assets are not amortized, but are subject to impairment tests either annually or earlier in the case of a triggering event.

A key component of the impairment test is the identification of cash-generating units and the allocation of goodwill to such cash-generating units. Estimates of fair value are primarily determined using discounted cash flows. Cash flows are discounted at present value and an impairment loss is recognized if such discounted cash flows are lower than the net book value of the cash-generating units.

These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. We perform internal valuation analyses and consider relevant internal data as well as other market information that is publicly available.

This approach uses significant estimates and assumptions including projected future cash flows (including timing), a discount rate reflecting the risk inherent in future cash flows and a perpetual growth rate. Inherent in these estimates and assumptions is a certain level of risk which we believe we have considered in our valuation. Nevertheless, if future actual results differ from estimates, a possible impairment charge may be recognized in future periods related to the write-down of the carrying value of goodwill and other intangible assets.

### ***Deferred Income Tax***

We record deferred income tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax basis of assets and liabilities. If enacted tax rates change, we adjust the deferred tax assets and liabilities through the provision for income tax in the period of change, to reflect the enacted tax rate expected to be in effect when the deferred tax items reverse. Under IFRS, a deferred tax asset must be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

### ***Derivative Financial Instruments***

We use derivative financial instruments in the normal course of business, primarily to hedge certain operational and financial risks to which we are exposed, including without limitation: (i) future and options contracts for certain key production requirements like natural gas, heating oil and some raw materials such as corn and wheat, in order to minimize the cash flow variability due to price fluctuations; (ii) interest rate swaps, with the purpose of managing the interest rate risk related to our debt; and (iii) exchange rate contracts (mainly Mexican peso — U.S. dollar and in other currencies).

We account for derivative financial instruments used for hedging purposes either as cash-flow hedges or fair value hedges with changes in fair value reported in other comprehensive income and earnings, respectively. Derivative financial instruments not designated as an accounting hedge are recognized at fair value, with changes in fair value recognized currently in income.

When available, we measure the fair value of the derivative financial instruments based on quoted market prices. If quoted market prices are not available, we estimate the fair value of derivative financial instruments using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market observable inputs, including interest rates and currency rates, among others. Also included in the determination of the fair value of the Company's liability positions is the Company's own credit risk, which has been classified as an unobservable input.

Many of the factors used in measuring fair value are outside the control of management, and these assumptions and estimates may change in future periods. Changes in assumptions or estimates may materially affect the fair value measurement of derivative financial instruments.

### ***Employee Benefits***

We recognize liabilities in our balance sheet and expenses in our income statement to reflect our obligations related to our post-employment benefits (retirement plan and seniority premium). The amounts we recognize are determined on an actuarial basis that involve many estimates and accounts for these benefits in accordance with IFRS.

We use estimates in four specific areas that have a significant effect on these amounts: (a) the rate of return we assume our plans will achieve on its investments, (b) the rate of increase in salaries that we assume we will observe in future years, (c) the discount rate that we use to calculate the present value of our future obligations and (d) the expected rate of inflation. The assumptions we have applied are identified in Note 18 to our audited consolidated financial statements. These estimates are determined based on actuarial studies performed by independent experts using the projected unit credit method. The latest actuarial computation was prepared as of December 31, 2011. We review the estimates each year, and if we change them, our reported expense for post-employment benefits may increase or decrease according to market conditions.

### **Factors Affecting Financial Condition and Results of Operations**

In recent years, our financial condition and results of operations have been significantly influenced by some or all of the following factors:

[Table of Contents](#)

- the level of demand for tortillas, corn flour and wheat flour;
- the effects of government policies on imported and domestic corn prices in Mexico;
- the cost and availability of corn and wheat;
- the cost of energy and other related products;
- our acquisitions, plant expansions and divestitures;
- the effect of government initiatives and policies, in particular on price controls and cost of grains in Venezuela; and
- the effect from variations on interest rates and exchange rates.

**RESULTS OF OPERATIONS**

The following table sets forth our consolidated income statement data on an IFRS basis for the years ended December 31, 2010 and 2011, expressed as a percentage of net sales. All financial information has been prepared in accordance with IFRS. For a description of the method, see “Presentation of Financial Information” and “Item 5. Operating and Financial Review and Prospects—Overview of Accounting Presentation.”

	Year Ended December 31,	
	2010	2011
<b>Income Statement Data</b>		
Net sales	100%	100%
Cost of sales	68.3	69.6
Gross profit	31.7	30.4
Selling and administrative expenses	26.2	24.3
Other expenses, net	(1.1)	(0.4)
Operating income	4.4	5.8
Net comprehensive financing cost	(2.5)	(0.7)
Current and deferred income taxes	1.8	3.1
Other items	1.3	8.2
Non-controlling interest	0.4	0.9
Majority net income	0.9	9.1

The following table sets forth our net sales and operating income as represented by our principal subsidiaries for 2010 and 2011. Net sales and operating income of our subsidiary PRODISA are part of “others and eliminations.” Financial information with respect to GIMSA includes sales of Ps.419 million and Ps.587 million in 2010 and 2011, respectively, in corn flour to Gruma Corporation, Molinera de México, PRODISA and Gruma Centroamérica. Financial information with respect to Molinera de México includes sales of Ps.231 million and Ps.277 million in 2010 and 2011, respectively, to GIMSA, Gruma Corporation and PRODISA; financial information with respect to PRODISA includes sales of Ps.97 million and Ps.114 million in 2010 and 2011, respectively, in tortilla related products to Gruma Corporation.

Financial information with respect to INTASA includes sales of, Ps.609 million and Ps.727 million in 2010 and 2011, respectively, in technological support to certain subsidiaries of Gruma, S.A.B. de C.V. In the process of consolidation, all the aforementioned intercompany transactions are eliminated from the financial statements.

	Year Ended December 31,			
	2010		2011	
	Net Sales	Operating Income	Net Sales	Operating Income
	(in millions of pesos)			
Gruma Corporation	Ps. 21,451	Ps. 1,303	Ps. 23,923	Ps. 947
GIMSA	11,853	1,147	15,386	1,771
Gruma Venezuela	5,382	(26)	9,157	674
Molinera de México	3,757	72	4,633	104
Gruma Centroamérica	2,765	(73)	3,180	(46)
Others and eliminations	1,024	(373)	1,366	(112)
<b>Total</b>	<b>Ps. 46,232</b>	<b>Ps. 2,050</b>	<b>Ps. 57,645</b>	<b>Ps. 3,338</b>

**Year Ended December 31, 2011 Compared with Year Ended December 31, 2010****Consolidated Results**

GRUMA's sales volume increased by 5% to 4,740 thousand metric tons compared with 4,526 thousand metric tons in 2010. This increase was driven mainly by Gruma Corporation and GIMSA. Net sales increased by 25% to Ps.57,645 million compared with Ps.46,232 million in 2010. The increase was due primarily to higher net sales at Gruma Venezuela, GIMSA, and Gruma Corporation, associated with price increases, sales volume growth, and the inflation effect in Venezuela. Sales from non-Mexican operations constituted 66% of consolidated net sales in 2011 and 2010.

**Net Sales by Subsidiary:** By major subsidiary, the percentages of consolidated net sales in 2011 and 2010 were as follows:

Subsidiary	Percentage of Consolidated Net Sales	
	2011	2010
Gruma Corporation	42%	46%
GIMSA	27	26
Gruma Venezuela	16	12
Molinera de México	8	8
Gruma Centroamérica	6	6
Others and eliminations	1	2

Cost of sales increased by 27% to Ps. 40,118 million compared with Ps.31,563 million in 2010, due primarily to higher cost of sales at Gruma Venezuela, GIMSA, and Gruma Corporation associated with higher raw-material costs, sales volume growth, and the inflation effect in Gruma Venezuela. Cost of sales as a percentage of net sales increased to 69.6% from 68.3% in 2010 due primarily to Gruma Corporation, as raw-material cost increases were not fully reflected in our prices.

Selling, general, and administrative expenses (SG&A) increased by 16% to Ps. 13,984 million compared with Ps.12,100 million in 2010, due primarily to higher SG&A at Other and Eliminations and Gruma Corporation and, to a lesser extent, Gruma Venezuela and GIMSA. SG&A as a percentage of net sales decreased to 24.3% from 26.2% in 2010, driven mainly by better expense absorption at Gruma Venezuela and, to a lesser extent, GIMSA and Gruma Corporation.

Other expenses, net, were Ps. 204 million compared with Ps.519 million in 2010. The decrease is a result of a one-time charge during 2010 related to the expropriation procedure of our operations in Venezuela, which the company did not have during 2011.

GRUMA's operating income increased by 63% to Ps.3,338 million compared with Ps.2,050 in 2010, and operating margin improved to 5.8% from 4.4% in 2010, due primarily to Gruma Venezuela, Other and Eliminations and, to a lesser extent, GIMSA.

Net comprehensive financing cost was Ps. 427 million compared with Ps.1,163 million in 2010. The decrease resulted mainly from lower financial expenses in connection with GRUMA's debt reduction and better interest rates achieved during 2011, and gains on foreign-exchange-rate hedging related to corn procurement. See



[Table of Contents](#)

“Item 5. Operating and Financial Review and Prospects —Liquidity and Capital Resources—Indebtedness,” and “Item 5. Operating and Financial Review and Prospects —Liquidity and Capital Resources—Market Risk.”

GRUMA’s equity in earnings of associated companies, net, primarily from GFNorte, represented income of Ps. 4,711 million in 2011 compared with income of Ps.592 million in 2010 primarily derived from the gain on the sale of GRUMA’s stake in GFNorte during February 2011.

Taxes increased 115% to Ps.1,807 million compared with Ps.840 million in 2010 primarily as a result of higher pre-tax income.

GRUMA’s net income was Ps.5,816 million compared with Ps.639 million in 2010. Majority net income was Ps. 5,271 million compared with Ps.432 million in 2010. Both improvements were caused mainly by the gain on the sale of GRUMA’s stake in GFNorte.

***Subsidiary Results***

***Gruma Corporation***

Sales volume increased 6% to 1,478 thousand metric tons compared with 1,395 thousand metric tons in 2010. This increase was due mainly to several acquisitions made throughout the year, the one-time effect of one more week of operations during 2011, which occurs every five-to-six years according to Gruma Corporation’s fiscal year-end accounting closings; and organic growth at the European operations.

Net sales increased by 12% to Ps. 23,923 million, compared with Ps.21,451 million in 2010. The increase was driven mostly by the aforementioned sales volume growth coupled with price increases implemented during 2011 in connection with higher raw-material costs.

Cost of sales increased by 16% to Ps. 15,452 million compared with Ps.13,302 million in 2010 due to higher raw-material cost (corn, wheat, and oil) and sales volume growth. As a percentage of net sales, cost of sales increased to 64.6% from 62.0% because the aforementioned higher raw-material costs were not fully reflected in our prices.

SG&A increased by 9% to Ps. 7,435 million compared with Ps.6,829 million in 2010 due to sales volume growth, higher sales commissions related to price increases, and higher promotion and advertising expenses . SG&A as a percentage of net sales improved to 31.1% from 31.8% in 2010 in connection with better expense absorption.

Operating income decreased by 27% to Ps. 947 million from Ps.1,303 million in 2010, and operating margin declined to 4% from 6.1%.

***GIMSA***

Sales volume increased by 4% to 1,959 thousand metric tons compared with 1,890 thousand metric tons in 2010. The increase was a result of the growth in the supermarket segment associated with their organic growth, market-share gains in the snack producers segment, and customers’ build-up of corn flour inventories at the end of 2011 in anticipation of price increases.

Net sales increased by 30% to Ps. 15,386 million compared with Ps.11,853 million in 2010. The increase was due mainly to price increases and, to a lesser extent, the aforementioned sales volume growth and a non-recurring sale of corn for Ps.574 million.

Cost of sales increased by 30% to Ps. 11,284 million compared with Ps.8,648 million in 2010 due to higher corn costs and, to a lesser extent, the cost of the aforementioned non-recurring sale of corn during 2011 and the sales volume growth. As a percentage of net sales, cost of sales increased slightly to 73.3% from 73.0% due to the non- recurring sale of corn which had no margin contribution For a discussion of the discontinuation of Mexican government price supports, please see “Mexican Regulation——Corn Flour Consumer Aid Program.”

SG&A increased by 15% to Ps. 2,286 million compared with Ps.1,981 million in 2010. The increase resulted mainly from the continued strengthening of several programs aimed at attracting traditional tortilla makers,

## [Table of Contents](#)

higher promotion and advertising expenses and, to a lesser extent, higher freight expenses coming from capacity constraints at some plants and from increased sales to supermarkets and snack producers (as for transactions with these customers we usually pay freight expenses). SG&A as a percentage of net sales decreased to 14.9% from 16.7% in 2010 due to better expense absorption.

Operating income increased by 54% to Ps. 1,771 million from Ps.1,147 million in 2010, and operating margin increased to 11.5% from 9.7%.

### ***Gruma Venezuela***

Sales volume increased 1% to 528 thousand metric tons compared with 523 thousand metric tons in 2010 due to production efficiencies at some plants, which allowed us to expand distribution in certain channels.

Net sales increased by 70% to Ps. 9,157 million compared with Ps.5,382 million in 2010. The increase was due mainly to the inflation effect and price increases and, to a lesser extent, the devaluation of the Mexican Peso and the aforementioned sales volume growth.

Cost of sales increased by 67% to Ps. 6,747 million from Ps.4,047 million in 2010. This increase was primarily due to the inflation effect and higher cost of raw materials (corn and wheat), salary increases and larger benefits for manufacturing employees and, to a lesser extent, the devaluation of the Mexican Peso and the aforementioned sales volume growth. As a percentage of net sales, cost of sales decreased to 73.7% from 75.2% due mainly to a better cost absorption as a result of the aforementioned.

SG&A increased by 30% to Ps. 1,736 million compared with Ps.1,335 million in 2010. The increase was due primarily to the inflation effect and, to a lesser extent, the devaluation of the Mexican Peso. SG&A as a percentage of net sales decreased to 19% from 24.8% due to a better expenses absorption.

Operating income increased to Ps. 674 million compared with an operating loss of Ps.26 million in 2010, and operating margin improved to 7.4% from negative 0.5%.

### ***Molinera de México***

Sales volume increased by 7% to 564 thousand metric tons compared with 530 thousand metric tons in 2010. This increase was driven by regional pricing strategies, increased market coverage and strengthening of commercial programs, higher demand for pre-mixed flours by the supermarkets, and introduction of new products to the foodservice segment.

Net sales increased by 23% to Ps. 4,633 million compared with Ps.3,757 million in 2010. The increase resulted from higher prices to reflect higher cost of wheat and, to a lesser extent, from the sales volume growth.

Cost of sales increased by 26% to Ps. 3,894 million compared with Ps.3,095 million in 2010 in connection with these higher wheat costs and volume growth . As a percentage of net sales, cost of sales increased to 84% from 82.4% due to higher wheat costs, which were not fully reflected in our prices.

SG&A increased by 9% to Ps. 631 million compared with Ps.578 million in 2010. The increase was due to the ongoing programs oriented towards the aforementioned market coverage expansion and better customer service, higher freight expenses in connection with sales volume growth, and higher intercompany shipments due to capacity constraints at some plants. SG&A as a percentage of net sales decreased to 13.6% from 15.4% in 2010 due to a better expense absorption.

Operating income increased by 45% to Ps. 104 million from Ps.72 million in 2010, and operating margin increased to 2.2% from 1.9%.

### ***Gruma Centroamérica***

Sales volume increased by 14% to 229 thousand metric tons compared with 201 thousand metric tons in 2010. The increase was due mainly to shortage of corn within the region due to bad weather conditions, which

[Table of Contents](#)

affected corn crops, the elimination of the subsidy for natural gas in El Salvador by mid-2011, which encouraged the conversion from the traditional method of making tortillas to the corn flour method, and aggressive promotions and advertising campaigns.

Net sales increased by 15% to Ps. 3,180 million from Ps.2,765 million in 2010. The increase was due mainly to the aforementioned sales volume growth.

Cost of sales increased by 17% to Ps. 2,368 million compared with Ps.2,022 million in 2010, due mainly to the sales volume growth, as well as higher corn and energy costs. Cost of sales as a percentage of net sales increased to 74.5% from 73.1% due to these cost increases, which was not fully reflected in our prices.

SG&A increased by 5% to Ps.858 million compared with Ps.816 million in 2010, due to sales volume growth, higher promotion and advertising, salary increases, and higher freight tariffs in connection with higher fuel costs. As a percentage of net sales, SG&A declined to 27% from 29.5% in 2010 due to a better expense absorption.

Operating loss was Ps. 46 million compared with a loss of Ps.73 million in 2010, and operating margin improved to negative 1.5% from negative 2.6%.

## LIQUIDITY AND CAPITAL RESOURCES

We fund our liquidity and capital resource requirements, in the ordinary course of business, through a variety of sources, including:

- cash generated from operations;
- uncommitted short-term and long-term lines of credit;
- occasional offerings of medium- and long-term debt; and
- sales of our equity securities and those of our subsidiaries and affiliates from time to time.

Extreme exchange rate volatility in the financial markets during the last two quarters of 2008 and the first quarter of 2009 resulted in significant fluctuations in the mark-to-market value of GRUMA's foreign exchange derivative instruments, which in turn resulted in downgrades in our debt ratings. As of October 28, 2008, GRUMA's foreign exchange derivative instruments represented an aggregate negative mark-to-market non-cash unrealized loss of U.S.\$788 million. On November 12, 2008 we entered into a loan agreement with Bancomext in the amount of Ps.3,367 million and applied the proceeds to terminate our commitments arising under all the currency derivative instruments that we had entered into with one of our derivative counterparties and to pay other commitments arising under the currency derivative instruments maturing from the date of such loan agreement with Bancomext (the "2008 Bancomext Peso Facility").

In addition, we entered into agreements on October 16, 2009 with our remaining derivative counterparties to convert a total of U.S.\$738.3 million dollars owing under our terminated foreign exchange derivative instruments into medium- and long-term loans. On February 18, 2011, GRUMA made an early payment of outstanding balances of such bank facilities. The total amounts of the payments made were U.S.\$752.6 million and Ps.773.3 million, payments for which GRUMA used the entirety of the net proceeds from the GFNorte Sale, which totaled Ps.9,005.5 million after fees and expenses, as well as its own resources and others obtained through short-term facilities. As a result of these early payments the aforementioned agreements with our derivative counterparties were terminated.

The reduction in our credit rating and the liquidity scarcity experienced in the global financial markets resulted in a reduction in our ability to issue new debt and reduced the availability of our uncommitted short-term lines of credit during most of 2009. However, since the significant debt repayment on February 18, 2011 and the rating upgrades by Fitch and Standard & Poor's, our ability to access credit lines has improved. See "Item 5—Operating and Financial Review and Prospects—Outstanding Indebtedness."

On June 16, 2011, we concluded a series of transactions to refinance and terminate our obligations under the 2008 Bancomext Peso Facility. As a result, we entered into the Syndicated Loan Facility, the Peso Syndicated Loan Facility, the Rabobank Loan Facility and the 2011 Bancomext Peso Facility (as defined below). The proceeds of these transactions as well as proceeds from uncommitted short term lines of credit were applied to make an early payment on the outstanding balance of the 2008 Bancomext Peso Facility in the amount of Ps.3,367 million. Additionally, on June 20, 2011 we refinanced and extended the Gruma Corporation Loan Facility. See "Item 5. Operating and Financial Review and Prospects —Indebtedness" below for a description of our current principal debt instruments.

Our long-term corporate credit rating and our senior unsecured perpetual bond are rated BB by Standard & Poor's. Our Foreign Currency Long-Term Issuer Default Rating and our Local Currency Long-Term Issuer Default Rating are rated BB by Fitch. Our U.S.\$300 million perpetual bond is rated BB by Fitch Ratings. These ratings reflect the debt repayment made on February 18, 2011, after applying the net proceeds from the sale of GRUMA's 8.8% stake in GFNorte. The ratings in effect during 2009 and 2010, prior to the debt repayment on February 18, 2011, reflected additional leverage on GRUMA's capital structure from the termination of GRUMA's foreign exchange derivative positions and the subsequent conversion of the realized losses into debt.

If our financial condition deteriorates, we may experience future declines in our credit ratings, with attendant consequences. Our access to external sources of financing, as well as the cost of that financing, has been and may continue to be adversely affected by a deterioration of our long-term debt ratings. A downgrade in our

[Table of Contents](#)

credit ratings may continue to increase the cost of and/or limit the availability of unsecured financing, which may make it more difficult for us to raise capital when necessary. If we cannot obtain adequate capital on favorable terms, or at all, our business, operating results and financial condition would be adversely affected. However, management believes that its working capital and available external sources of financing are sufficient for our present requirements.

The following is a summary of the principal sources and uses of cash for the two years ended December 31, 2010 and 2011.

	<u>2010</u>	<u>2011</u>
	(thousands of Mexican pesos)	
Resources provided by (used in):		
Operating activities	Ps. 3,291,138	Ps. 1,751,314
Financing activities	(4,234,431)	(7,429,059)
Investing activities	(802,208)	6,779,129

During 2011, net cash generated from operations was Ps.1,751 million after changes in working capital of Ps.3,611 million, of which Ps.1,422 million was due to an increase in accounts receivable, Ps.3,063 million reflected an increase in inventory and Ps. 1,624 million reflected an increase in accounts payable. Net cash used by financing activities during 2011 was Ps.7,429 million, including Ps.21,374 million in borrowing payments related to derivative instruments, Ps.992 million in cash interest payments, Ps.523 million of dividends paid to minority shareholders of GIMSA and Ps.156 million in cash receipts in respect of derivative instruments. Cash used for investment activities during 2011 reflected cash expenditures for Ps.6,779 of which Ps. 1,632 were applied to general manufacturing upgrades and efficiency improvements in our subsidiaries in the U.S. and, to a lesser extent, in our subsidiaries in Mexico and Europe, Ps.709 million for the acquisitions in the U.S. and Europe, and Ps. 9,004 for the sale of our stake in GFNorte. As of December 31, 2010 and 2011, there were no significant restricted net assets of the consolidated subsidiaries of the Company, as defined by Rule 4-08(e)(3) of Regulation S-X.

Factors that could decrease our sources of liquidity include a significant decrease in the demand for, or price of, our products, each of which could limit the amount of cash generated from operations, and a lowering of our corporate credit rating or any other credit downgrade, which could impair our liquidity and increase our costs with respect to new debt and cause our stock price to suffer. Our liquidity is also affected by factors such as the depreciation or appreciation of the peso and changes in interest rates. See “Item 5. Operating and Financial Review and Prospects —Indebtedness.”

As further described below, Gruma, S.A.B. de C.V. is subject to financial covenants contained in its debt agreements which require it to maintain certain financial ratios and balances on a consolidated basis, among other limitations. Gruma Corporation is also subject to financial covenants contained in one of its debt agreements which require it to maintain certain financial ratios and balances on a consolidated basis. A default under any of our existing debt obligations for borrowed money could result in acceleration of the due dates for payment of the amounts owing thereunder and, in certain cases, in a cross-default under some of our existing credit agreements and the indenture governing our perpetual bonds. See “Item 10. Additional Information—Material Contracts.”

Gruma, S.A.B. de C.V. and its consolidated subsidiaries are required to maintain a leverage ratio no greater than 3.5:1, and an interest coverage ratio no lower than 2.5:1. As of March 31, 2012, Gruma, S.A.B. de C.V.’s leverage ratio was 2.5:1, and the interest coverage ratio was 5.9:1. The amount of interest that Gruma Corporation pays on its debt may increase if its overall leverage ratio increases above 1.0:1. See “Item 5. Operating and Financial Review and Prospects —Indebtedness.” As of March 31, 2012, Gruma Corporation’s leverage ratio was 1.2:1, therefore the applicable interest rate range under the Gruma Corporation Loan Facility is LIBOR + 150 bp.

Mr. González Barrera has pledged part of his shares in our company to secure some of his borrowings. If there is a default and the lenders enforce their rights against any or all of these shares, Mr. González Barrera and his family could lose control over us and a change of control could result. This could trigger a default in some of our credit agreements and the indenture governing our perpetual bonds which have an aggregate principal amount outstanding as of March 31, 2012 of U.S.\$715 million and have a material adverse effect upon our business, financial condition, results of operations and prospects. For more information about this pledge, see “Item 7. Major Shareholders and Related Party Transactions.”

## **Indebtedness**

Our indebtedness bears interest at fixed and floating rates. As of March 31, 2012, approximately 29% of our outstanding indebtedness bore interest at fixed rates and approximately 71% bore interest at floating rates, with almost all U.S. dollar and Mexican peso floating-rate indebtedness bearing interest based on LIBOR and THIE, respectively. From time to time, we partially hedge both our interest rate exposure and our foreign exchange rate exposure as discussed below. For more information about our interest rate and foreign exchange rate exposures, see “Item 11. Quantitative and Qualitative Disclosures About Market Risk.”

## **Outstanding Indebtedness**

As of March 31, 2012, we had total outstanding long-term debt aggregating approximately Ps.11,541 million (approximately U.S.\$901 million). Approximately 84% of our long-term debt at such date was dollar-denominated, and 16% denominated in Mexican Pesos.

### ***Perpetual Bonds***

On December 3, 2004, Gruma, S.A.B. de C.V. issued U.S.\$300 million 7.75% senior unsecured perpetual bonds, which at the time were rated BBB- by Standard & Poor’s Ratings and by Fitch Ratings. The bonds which have no fixed final maturity date, have a call option exercisable by GRUMA at any time beginning five years after the issue date. In connection with our refinancing under the Term Loan, the Three-Year Term Loans, the BNP Term Loan and the Refinanced 2005 Facility, Gruma, S.A.B. de C.V. entered into a supplemental indenture on October 21, 2009 that provided holders of our perpetual bonds with an equal and ratable security interest in certain of our subsidiaries (the “Pledged Shares”). Due to the early payment of the outstanding balances of several of our current bank facilities using proceeds from the GFNorte Sale, cash and short-term lines of credit, the security interests in the Pledged Shares have been released. As of December 31, 2011 we have not hedged any interest payments on our U.S.\$300 million 7.75% senior unsecured perpetual bonds.

### ***Gruma Corporation***

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions, which was refinanced and extended on June 20, 2011 to U.S.\$200 million for an additional 5-year term (the “Gruma Corporation Loan Facility”). The facility, as refinanced in 2011, has an interest rate based on LIBOR plus a spread of 1.375% to 2% that fluctuates in relation to Gruma Corporation’s leverage and contains less restrictive provisions than those in the facility replaced. This facility contains covenants that limit Gruma Corporation’s ability to merge or consolidate, and require it to maintain a ratio of total funded debt to consolidated EBITDA of not more than 3.0:1. In addition, this facility limits Gruma Corporation’s, and certain of its subsidiaries’ ability, among other things, to create liens; make certain investments; make certain restricted payments; enter into any agreements that prohibit the payment of dividends; and engage in transactions with affiliates. This facility also limits Gruma Corporation’s subsidiaries’ ability to incur additional debt.

Gruma Corporation is also subject to covenants which limit the amounts that may be advanced to, loaned to, or invested in us under certain circumstances. Upon the occurrence of any default or event of default under its credit agreements, Gruma Corporation generally would be prohibited from making any cash dividend payments to us. The covenants described above and other covenants could limit our and Gruma Corporation’s ability to help support our liquidity and capital resource requirements

### ***Syndicated Loan Facility***

On March 22, 2011 we obtained a U.S.\$225 million, five-year senior credit facility through a syndicate of banks (the “Syndicated Loan Facility”). The Syndicated Loan Facility consists of a term loan (“Term Loan Facility”) and a revolving loan facility (the “Revolving Loan Facility”). The interest rate for the Term Loan Facility and for the Revolving Loan Facility is either (i) LIBOR or (ii) an interest rate determined by the administrative agent based on its “prime rate” or the federal funds rate, respectively, plus, in either case, (a) 2.25% if the Company’s ratio of total funded debt to EBITDA (the “Maximum Leverage Ratio”) is greater than or equal to 3.0x, (b) 2.0% if the Company’s Maximum Leverage Ratio is greater than or equal to 2.5x and less than 3.0x, (c) 1.75% if the

## [Table of Contents](#)

Company's Maximum Leverage Ratio is greater than or equal to 2.0x and less than 2.5x and (d) 1.50% if the Company's Maximum Leverage Ratio is less than 2.0x. The Syndicated Loan Facility contains covenants that require the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 3.5:1. The Syndicated Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Syndicated Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

### ***Peso Syndicated Loan Facility***

On June 15, 2011 we obtained a Ps.1,200 million, seven-year senior credit facility through a syndicate of banks (the "Peso Syndicated Loan Facility"). The Peso Syndicated Loan Facility consists of a term loan maturing in June 2018 with yearly principal amortizations beginning on December 2015, at an interest rate of 91-day TIE plus a spread between 137.5 and 225 basis points based on the Company's ratio of total funded debt to EBITDA. The Peso Syndicated Loan Facility contains covenants that require the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and to maintain a Maximum ratio of total funded debt to EBITDA of not more than 3.5:1. The Peso Syndicated Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Peso Syndicated Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

### ***Rabobank Loan Facility***

On June 15, 2011 we obtained a U.S.\$50 million, five-year senior credit facility from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (the "Rabobank Loan Facility"). The Rabobank Loan Facility consists of a revolving loan facility, at an interest rate of LIBOR plus (a) 2.25% if the Maximum Leverage Ratio is greater than or equal to 3.0x, (b) 2.0% if the Company's Maximum Leverage Ratio is greater than or equal to 2.5x and less than 3.0x, (c) 1.75% if the Company's Maximum Leverage Ratio is greater than or equal to 2.0x and less than 2.5x and (d) 1.50% if the Company's Maximum Leverage Ratio is less than 2.0x. The Rabobank Loan Facility contains covenants that requires the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 3.5:1. The Rabobank Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Rabobank Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

### ***2011 Bancomext Peso Facility***

On June 16, 2011 we obtained a Ps.600 million, seven-year senior credit facility from Bancomext (*Banco Nacional de Comercio Exterior*) (the "2011 Bancomext Peso Facility"). The 2011 Bancomext Peso Facility consists of a term loan maturing in June 2018 at an interest rate of 91-day TIE plus a spread between 137.5 and 225 basis points based on the Company's ratio of total funded debt to EBITDA. The 2011 Bancomext Peso Facility contains a covenant that requires us to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1 as well as a covenant that requires us to maintain a maximum ratio of total funded debt to EBITDA of not more than 3.5:1. The 2011 Bancomext Peso Facility also limits our ability, and our subsidiaries' ability in certain cases to create liens.

### **Other Information**

As of December 31, 2011 we were in compliance with all of the covenants and obligations under our existing debt agreements.

As of March 31, 2012, the Company had committed lines of credit for the amount of U.S.\$325 million from banks in Mexico and the United States of which we have drawn U.S.\$306 million dollars.

[Table of Contents](#)

As of March 31, 2012, we had total cash and cash equivalents of Ps.1,292 million.

The following table presents our amortization requirements with respect to our total indebtedness as of March 31, 2012.

<b>Year</b>	<b>In Millions of U.S. Dollars</b>
2012	117
2013	14
2014	26
2015	32
2016	420
2017 and thereafter	419
<b>Total</b>	<b>1,028</b>

The following table sets forth our ratios of consolidated debt to total capitalization (i.e., consolidated debt plus total stockholders' equity) and consolidated liabilities to total stockholders' equity as of the dates indicated. For purposes of these ratios, consolidated debt includes short-term debt.

<b>Date</b>	<b>Ratio of Consolidated Debt to Total Capitalization</b>	<b>Ratio of Consolidated Liabilities to Total Stockholders' Equity</b>
December 31, 2010	0.63	2.63
December 31, 2011	0.43	1.51
March 31, 2012	0.43	1.50

### Capital Expenditures

During 2010, capital expenditures of U.S.\$89 million mostly applied to general manufacturing and technology upgrades in Gruma Corporation and GIMSA, and the acquisition of the leading producer of corn grits in Ukraine. During 2011, capital expenditures were U.S.\$191 million, most of which were primarily applied to production capacity expansions, manufacturing and technology upgrades especially in the U.S. and, to a lesser extent, in Mexico and Europe. We also made several acquisitions throughout the year, including the leading producer of corn grits in Turkey, two tortilla plants in the U.S. and the leading tortilla manufacturer in Russia .

We have budgeted approximately U.S.\$200 million for capital expenditures in 2012, which we intend to use mainly for production capacity expansions, general manufacturing and technology upgrades, especially in Gruma Corporation, GIMSA and Molinera de Mexico. We anticipate financing these expenditures throughout the year through internally generated funds and debt. This capital expenditures budget does not include any potential acquisition.

### Concentration of Credit Risk

Our regular operations expose us to potential defaults when our suppliers and counterparties are unable to comply with their financial or other commitments. We seek to mitigate this risk by entering into transactions with a diverse pool of counterparties. However, we continue to remain subject to unexpected third party financial failures that could disrupt our operations.

We are also exposed to risk in connection with our cash management activities and temporary investments, and any disruption that affects our financial intermediaries could also adversely affect our operations.

Our exposure to risk due to trade receivables is limited given the large number of our customers located in different parts of Mexico, the United States, Central America, Venezuela, Europe, Asia and Oceania. However, we still maintain reserves for potential credit losses. Our operations in Venezuela represented 16% of our sales and 14% of total assets as of December 31, 2011. The severe political and economic situation in Venezuela presents a risk to our business that we cannot control and that cannot be accurately measured or estimated. For example, the Venezuelan government devalued its currency and established a two tier exchange structure on January 11, 2010. Pursuant to Exchange Agreement No.14, the official exchange rate of the Venezuelan bolivar ("Bs.") was devalued



[Table of Contents](#)

from Bs.2.15 to each U.S. dollar to Bs.4.30 for non-essential goods and services and to Bs.2.60 for essential goods. However, effective January 4, 2011, the fixed exchange rate became 4.30 bolivars for all goods and services.

At this time, we cannot predict the effect that the Venezuelan government's decision to devalue its currency, or similar decisions the government may take in the future, will have on our suppliers and counterparties. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risks."

Our financial condition and results of operations could be adversely affected since, among other reasons: (i) 100% of the sales of our operations in Venezuela are denominated in bolivars; (ii) Gruma Venezuela produces products that are subject to price controls; (iii) part of Gruma Venezuela's sales depend on centralized government procurement policies for its social welfare programs; (iv) we may have difficulties repatriating dividends from Gruma Venezuela, as well as importing some of its requirements for raw materials as a result of the exchange controls; and (v) Gruma Venezuela may face increasing costs in some of our raw materials due to the implementation of import tariffs. In the case of some of our raw materials, we may also face increasing costs due to the implementation of import tariffs. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risk."

From time to time, we enter into currency and other derivative transactions that cover varying periods of time and have varying pricing provisions. Our credit exposure on derivatives contracts is primarily to professional counterparties in the financial sector, arising from transactions with banks, investment banks and other financial institutions. As of March 31, 2012, the Company had foreign exchange derivative transactions in effect for a nominal amount of U.S.\$378 million. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk."

### **Market Risk**

Market risk is the risk of loss generated by fluctuations in market prices such as commodities, interest rates and foreign exchange rates. These are the main market risks to which we are exposed.

During 2011, GIMSA entered into forward transactions in order to hedge the Mexican peso to U.S. dollar foreign exchange rate risk related to the price of the corn purchases for the summer and winter corn harvests in Mexico.

As of March 31, 2012, the Company had foreign exchange derivative transactions in effect for a nominal amount of U.S.\$378 million with different maturities from April through July 2012. The purpose of these contracts was to hedge the risks related to exchange rate fluctuations on the price of corn and wheat, which is denominated in U.S. dollars. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk."

## **RESEARCH AND DEVELOPMENT**

We continuously engage in research and development activities that focus on, among other things: increasing the efficiency of our proprietary corn flour and corn/wheat tortilla production technology; maintaining high product quality; developing new and improved products and manufacturing equipment; improving the shelf life of certain corn and wheat products; improving and expanding our information technology system; engineering, plant design and construction; and compliance with environmental regulations. We have obtained 57 patents in the United States since 1968. Twenty of these patents are in force and effect in the United States as of the date hereof and the remaining 37 have expired. We currently have five new patents in process, four in the United States and one in other countries. Additionally, two of our registered patents are currently in the process of being published in other countries.

Our research and development is conducted through our subsidiaries INTASA, Tecnomáiz and CIASA. Through Tecnomáiz, we engage in the design, manufacture and sale of machines for the production of corn/wheat tortillas and tortilla chips. We carry out proprietary technological research and development for corn milling and tortilla production as well as all engineering, plant design and construction through INTASA and CIASA. These companies administer and supervise the design and construction of our new plants and also provide advisory services and training to employees of our corn flour and tortilla manufacturing facilities. We spent Ps.77 million and Ps. 91 million on research and development in 2010 and 2011, respectively.

## TREND INFORMATION

Our financial results will likely continue to be influenced by factors such as changes in the level of consumer demand for tortillas and corn flour, government policies regarding the Mexican tortilla and corn flour industry, and the cost of corn, wheat and wheat flour. In addition, we expect our financial results in 2012 to be influenced by:

- volatility in corn and wheat prices;
- increased competition from tortilla manufacturers, especially in the U.S.;
- increase or decrease in the Hispanic population in the United States;
- increases in Mexican food consumption by the non-Hispanic population in the United States; as well as projected increases in Mexican food consumption and use of tortillas in non-Mexican cuisine as tortillas continue to be assimilated into mainstream cuisine in the U.S., Europe, Asia and Oceania, each of which could increase sales;
- volatility in energy costs;
- increased competition in the corn flour business;
- exchange rate fluctuations, particularly increases and decreases in the value of the Mexican peso relative to the Venezuelan bolivar and U.S. dollar;
- civil and political unrest, currency devaluation and other governmental economic policies in Venezuela which may negatively affect the profitability of Gruma Venezuela;
- unfavorable general economic conditions in the United States and globally, such as the recession or economic slowdown, which could negatively affect the affordability of and consumer demand for some of our products; and

## OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011 we do not have any outstanding off-balance sheet arrangements.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

We have commitments under certain firm contractual arrangements to make future payments for goods and services. These firm commitments secure the future rights to various assets to be used in the normal course of operations. For example, we are contractually committed to making certain minimum lease payments for the use of property under operating lease agreements. The following table summarizes separately our material firm commitments at December 31, 2011 and the timing and effect that such obligations are expected to have on our liquidity and cash flow in future periods. In February of 2011, we prepaid approximately U.S.\$753 million and Ps.773 million of indebtedness. In addition, the table reflects the timing of principal and interest payments on outstanding debt, which is discussed in “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness.” We expect to fund the firm commitments with operating cash flow generated in the normal course of business.

[Table of Contents](#)

Contractual Obligations and Commercial Commitments	Total	Less than 1 Year	From 1 to 3 Years	From 3 to 5 Years	Over 5 Years
(in millions of U.S. dollars)					
Long-term debt obligations	822.3	—	28.8	402.7	390.8
Operating lease obligations(1)	194.7	44.7	58.1	34.4	57.5
Finance lease obligations	2.4	0.9	1.5	—	—
Purchase obligations(2)	606.9	606.9	—	—	—
Interest payments on our indebtedness (3)	261.5	46.8	81.9	76.1	56.7
Other liabilities(4)	117.1	117.1	—	—	—
<b>Total</b>	<b>2,004.9</b>	<b>816.4</b>	<b>170.3</b>	<b>513.2</b>	<b>505.0</b>
Total in millions of peso equivalent amounts	27,968.4	11,388.8	2,375.7	7,159.1	7,044.8

(1) Operating lease obligations primarily relate to minimum lease rental obligations for our real estate and operating equipment in various locations.

(2) Purchase obligations relate to our minimum commitments to purchase commodities, raw materials, machinery and equipment.

(3) In the determination of our future estimated interest payments on our floating rate denominated debt, we used the interest rates in effect as of December 31, 2011.

(4) Other relates to liabilities for short-term bank loans and the current portion of long-term debt.

**ITEM 6 Directors, Senior Management and Employees.**

**MANAGEMENT STRUCTURE**

Our management is vested in our board of directors. Our day to day operations are handled by our executive officers.

Our bylaws require that our board of directors be composed of a minimum of five and a maximum of twenty-one directors, as decided at our Ordinary General Shareholders' Meeting. Pursuant to the Mexican Securities Law, at least 25% of the members of the board of directors must be independent. Under our bylaws and the Archer-Daniels-Midland association, as long as Archer-Daniels-Midland owns at least 20% of our capital stock, it will have the right to designate two of our directors and their corresponding alternates. Archer-Daniels-Midland has designated Federico Gorbea, President and Chief Operating Officer of Archer-Daniels-Midland's operations in Mexico, and Mark Kolkhorst, Corporate Vice President of Archer-Daniels-Midland and President of Archer-Daniels-Midland's Cocoa and Milling divisions, as members of our board of directors. Archer-Daniels-Midland has elected Ray G. Young, its Senior Vice President and Chief Financial Officer, and Vikram Luthar, its Group Vice President of Finance, to serve as alternates for Mr. Gorbea and Mr. Kolkhorst, respectively. In addition, under Mexican law, any holder or group of holders representing 10% or more of our capital stock may elect one director and its corresponding alternate.

The board of directors, which was elected at the Ordinary General Shareholders' Meeting held on April 26, 2012, currently consists of 17 directors, with each director having a corresponding alternate director. The following table sets forth the current members of our board of directors, their ages, years of service, principal occupations, outside directorships, other business activities and experience, their directorship classifications as defined in the Code of Best Corporate Practices issued by a committee formed by the *Consejo Coordinador Empresarial*, or Mexican Entrepreneur Coordinating Board, and their alternates. The terms of their directorships are for one year, or for up to thirty additional days if no designation of their substitute has been made or if the substitute has not taken office.

Roberto González Barrera	Age: Years as Director: Principal Occupation: Outside Directorships:	81 30 Chairman of the Board of GRUMA and GIMSA. Chairman Emeritus of the Board of Grupo Financiero Banorte, Chairman of the Boards of Fundación GRUMA, Fundación Banorte and Patronato de Cerralvo, Director of Patronato del Hospital Infantil de México.
	Directorship Type: Alternate:	Shareholder, Related Joel Suárez Aldana

[Table of Contents](#)

Alejandro Barrientos Serrano	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:	46 Since April 2012 Chief Financial Officer of GRUMA. Director of GIMSA. President of the Mexico Office of BLADDEX and CALYON, Senior Account Executive at Banco Nacional de México, and Senior Auditor at Ruiz, Urquiza & CIA.
	Directorship Type: Alternate:	Related Homero Huerta Moreno
José de la Peña y Angelini	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:	63 3 Chief Executive Officer of Corporativo Obama. Director of GIMSA. President of the Mexico Office of FCB Worldwide, Chief Operating Officer of Chrysler de México, Executive Vice President Sales and Marketing of GRUMA, Chief Operating Officer of Gruma Latin America.
	Directorship Type: Alternate:	Independent Mario Ernesto Medina Ramírez
Juan Diez-Canedo Ruiz	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:	61 7 Chief Executive Officer of Financiera Local. Director of GIMSA. Chief Executive Officer of Fomento y Desarrollo Comercial, Alternate Director of Grupo Financiero Banorte and Banco Mercantil del Norte, Chief Executive Officer of Cintra, Executive Vice President of GRUMA and Grupo Financiero Banorte, Banking Director of Grupo Financiero Probusa, Alternate Chief Executive Officer of Banco Internacional.
	Directorship Type: Alternate:	Shareholder, Independent Felipe Diez-Canedo Ruiz
Bertha Alicia González Moreno	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:	58 4 Honorary Life President of Patronato para el Fomento Educativo y Asistencial de Cerralvo. Director of Grupo Financiero Banorte, Director of GIMSA, Centro Educativo Universitario Panamericano, Adanec, and Grafo Industrial. Owner and Chief Executive Officer of Uniformes Profesionales de Monterrey and Comercializadora B.A.G.M., Majority Shareholder of Grupo Beryllium.
	Directorship Type: Alternate:	Shareholder, Related Javier Morales González
Juan Antonio González Moreno	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:	54 18 Chief Executive Officer of Gruma Asia and Oceania. Alternate Director of Grupo Financiero Banorte, Chairman of the Board and Chief Executive Officer of Car Amigo USA. Several positions in GRUMA, including Senior Vice President of Special Projects of Gruma Corporation, President of Azteca Milling, Vice President of Central and Eastern Regions of Mission Foods, President and Vice President of Sales of Azteca Milling, Chief Operating Officer of GIMSA.
	Directorship Type:	Related

[Table of Contents](#)

	Alternate:	Alejandro Vazquez Salido
Federico Gorbea Quintero	Age:	48
	Years as Director:	5
	Principal Occupation:	President and General Manager of Archer Daniels Midland Mexico.
	Outside Directorships:	Chairman of the Board of Terminales de Carga Especializadas, Director of Asociación de Proveedores de Productos Agropecuarios de México.
	Business Experience:	President and General Manager of Compañía Continental de México.
	Directorship Type:	Independent
	Alternate:	Ray G. Young
Carlos Hank Rhon	Age:	64
	Years as Director:	18
	Principal Occupation:	Chairman of the Board of Grupo Financiero Interacciones, Grupo Hermes and Grupo Coin/La Nacional.
	Outside Directorships:	None.
	Business Experience:	Chairman of the Board of Laredo National Bancshares, Director of Banamex-Accival and Mexican Stock Exchange.
	Directorship Type:	Related
	Alternate:	Carlos Hank González
Mark Kolkhorst	Age:	48
	Years as Director:	1
	Principal Occupation:	Corporate Vice President of ADM and President of Cocoa and Milling divisions.
	Outside Directorships:	None.
	Business Experience:	President of Milling Division, President of Specialty Feed Ingredients, Vice President of Sales of Specialty Feed Ingredients, Vice President of ADM/GROWMARK and Tabor Grain.
	Directorship Type:	Independent
	Alternate:	Vikram Luthar
Mario Martín Laborín Gómez	Age:	60
	Years as Director:	3
	Principal Occupation:	Chairman of the Board of ABC Holding and Chief Executive Officer of ABC Holding and ABC Capital.
	Outside Directorships:	Director of GIMSA, CYDSA, XIGNUX, and Megacable.
	Business Experience:	Chief Executive Officer of Bancomext, Nacional Financiera, Bancomer and Grupo Vector, Chairman of Casa de Bolsa Bancomer.
	Directorship Type:	Independent
	Alternate:	Alan Castellanos Carmona
Juan Manuel Ley López	Age:	79
	Years as Director:	18
	Principal Occupation:	Chairman of the Board of Casa Ley and Chief Executive Officer of Grupo Ley.
	Outside Directorships:	Director of Grupo Financiero Banamex-Accival and Telmex.
	Business Experience:	Chief Executive Officer of Casa Ley, Chairman of the Board of the Latin American Association of Supermarkets, Sinaloa-Baja California Consultant Council of Grupo Financiero Banamex-Accival and National Association of Supermarket and Retail Stores.
	Directorship Type:	Independent
	Alternate:	Juan Manuel Ley Bastidas

[Table of Contents](#)

Bernardo Quintana Isaac	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience: Directorship Type: Alternate:	70 17 Chairman of the Board of Empresas ICA. Director of BANAMEX and CEMEX. Chief Executive Officer of Empresas ICA. Independent Diego Quintana Kawage
Juan Antonio Quiroga García	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:  Directorship Type: Alternate:	62 12 Chief Corporate Officer of GRUMA. Director of GIMSA. Vice President of Administration of Gruma Corporation, Chief Administrative and Internal Auditing Officer of GRUMA, Vice President of Operations Control of Gruma Corporation. Shareholder, Related Alejandro Cortina Gallardo
Alfonso Romo Garza	Age: Years as Director: Principal Occupation:  Outside Directorships:  Business Experience:  Directorship Type: Alternate:	61 18 Chairman of the Board and Chief Executive Officer of Plenus. Director of Synthetic Genomics, Donald Danforth Plant Science Center, Agradis and J. Craig Venter Institute. Investor in different industries and companies. He has been involved in the food and beverage, telecommunications, information technology, insurance and financial services, biotechnology, agriculture and real estate industries. Independent Adrián Rodríguez Macedo
Adrián Sada González	Age: Years as Director: Principal Occupation: Outside Directorships:  Business Experience:  Directorship Type: Alternate:	67 18 Chairman of the Board of Vitro. Director of ALFA, CYDSA, Regio Empresas, Consejo Mexicano de Hombres de Negocios, and Grupo de Industriales de Nuevo León. Chairman of the Board of Grupo Financiero Serfin, Chief Executive Officer of Banpais. Independent Manuel Güemes de la Vega
Alejandro Valenzuela del Río	Age: Years as Director: Principal Occupation: Outside Directorships: Business Experience:  Directorship Type: Alternate:	50 Since April 2012 CEO of Grupo Financiero Banorte Director of Grupo Financiero Banorte Mexico's Country Head of European Aeronautic, Defense and Space Company, and held several positions in the Ministry of Finance and <i>Banco de México</i> Related Sylvia Hernández Benítez
Javier Vélez Bautista	Age: Years as Director: Principal Occupation: Outside Directorships:  Business Experience:	55 9 Managing Director of Value Link, Chiapas Granjas Orgánicas and Financiamiento Progreseemos., Chief Executive Officer of ValueLink, Chief Executive Officer of Nacional Monte de Piedad, Executive Vice President and Chief Financial Officer of GRUMA, project director at Booz Allen Hamilton

[Table of Contents](#)

Directorship Type: Independent  
Alternate: Jorge Vélez Bautista

Ms. Bertha Alicia González Moreno and Mr. Juan Antonio González Moreno, members of our board of directors, are children of Mr. Roberto González Barrera, Chairman of our board of directors. Mr. Carlos Hank Rhon, a member of our board of directors, is the son-in-law of Mr. Roberto González Barrera. Mr. Carlos Hank González, an alternate member of our board of directors, is the son of Mr. Carlos Hank Rhon and the grandson of Mr. Roberto González Barrera. Furthermore, Mr. Javier Morales González, an alternate member of our board of directors, is the son of Ms. Bertha Alicia González Moreno and the grandson of Mr. Roberto González Barrera.

**Secretary**

The secretary of the board of directors is Mr. Salvador Vargas Guajardo, and his alternate is Mr. Guillermo Elizondo Ríos. Mr. Vargas Guajardo is not a member of the board of directors.

**Senior Management**

The following table sets forth our executive officers, their ages, years of service, current positions, and prior business experience:

Joel Suárez Aldana	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	59 Since February 2012 24 Chief Executive Officer. Various positions within GRUMA including President and Chief Executive Officer of Gruma Corporation, Chief Financial Officer of Gruma Corporation, Chief Financial Officer of Mission Foods, and several senior management positions in the banking sector.
Alejandro Barrientos Serrano	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	46 1 1 Chief Financial Officer. President of the Mexico Office of BLADEX and CALYON, Senior Account Executive at Banco Nacional de México, and Senior Auditor at Ruiz, Urquiza & CIA.
Raúl Cavazos Morales	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	52 1 24 Chief Treasury Officer. Several finance positions within GRUMA, including Vice President of Corporate Treasury.
Nicolás Constantino Coppola	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	64 6 12 Chief Executive Officer, Gruma Venezuela. Vice President Sales and Exports and National Commercialization Manager of the Beverage Division of the Polar's Group, Director of Sales for the Reynolds Company, National Manager of Sales for Warner Lambert of Venezuela and for the Aliven Company (Best Foods).
Alejandro Cortina Gallardo	Age: Years as Executive Officer: Years at GRUMA: Current Position:	41 1 8 Chief Strategic Planning Officer.

[Table of Contents](#)

	Business Experience:	Finance and Strategic Planning Officer for Marrakech Ltd., International Commerce Officer for Market Access Negotiations for the Ministry of Trade and Development (SECOFI).
Leonel Garza Ramírez	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	62 13 26 Chief Procurement Officer. Manager of Quality and Corn Procurement and Vice President of Corn Procurement at GRUMA, Chief Procurement Officer at GAMESA, Quality Control and Research and Development Manager at Kellogg de México.
Roberto Jorge González Alcalá	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	48 17 17 Chief Executive Officer, Gruma Mexico and Latin America. Chief Executive Officer of GIMSA. Several positions within GRUMA's Central American operations, including Chief Operating Officer, President of the Tortilla Division in Costa Rica, President of the Corn Division in Central America.
Juan Antonio González Moreno	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	54 8 32 Chief Executive Officer, Gruma Asia and Oceania. Senior Vice President of Special Projects of Gruma Corporation, President of Azteca Milling, Vice President of Central and Eastern Regions of Mission Foods, President and Vice President of Sales of Azteca Milling, Chief Operating Officer of GIMSA.
Sylvia Elisa Hernández Benítez	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	47 9 9 Chief Marketing Officer. Senior Vice President of Marketing for Gruma Latin America, Executive Vice President at FCB Worldwide, different positions at Chrysler de México, including General Marketing Manager, Marketing Manager for automobiles, Brand Manager for imported automobiles and MOPAR brand coordinator.
Homero Huerta Moreno	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	49 10 27 Chief Administrative Officer. Various positions within GRUMA including Finance and Administrative Vice President of Gruma Venezuela.
José Antonio Jaikel Aguilar	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	45 Since July 2011 14 Chief Executive Officer, Gruma Centroamérica. Several positions within GRUMA including Commercial VP of Gruma Mexico, Operations VP of GRUMA's tortilla division in Mexico.
Heinz Kollmann	Age: Years as Executive Officer: Years at GRUMA:	42 6 6



[Table of Contents](#)

	Current Position:	Chief Technology Officer, Wheat Flour Production.
	Business Experience:	Technical Officer of MAISCAM in Camerun, Head miller for BUHLER in Uzwil, Switzerland, Responsible Technician for Argentina, Uruguay, Paraguay, Peru and Bolivia for BUHLER in its Buenos Aires branch office, Production Manager and Special Project Manager for GRAMOVEN/CARGILL in Venezuela, Production Manager and Special Project Manager for Harinera La Espiga in Mexico.
Juan Antonio Quiroga García	Age:	62
	Years as Executive Officer:	14
	Years at GRUMA:	39
	Current Position:	Chief Corporate Officer.
	Other Positions:	Senior Corporate Controller of GIMSA, Director of GIMSA.
	Business Experience:	Vice President of Administration of Gruma Corporation, Chief Administrative and Internal Auditing Officer of GRUMA, Vice President of Operations Control of Gruma Corporation.
Felipe Antonio Rubio Lamas	Age:	54
	Years as Executive Officer:	10
	Years at GRUMA:	29
	Current Position:	Chief Technology Officer, Corn Flour and Tortilla Production.
	Business Experience:	Several managerial and Senior Vice President positions within Gruma Corporation related to manufacturing processes, engineering, design, and construction of production facilities.
Salvador Vargas Guajardo	Age:	59
	Years as Executive Officer:	15
	Years at GRUMA:	15
	Current Position:	General Counsel.
	Other Positions:	General Counsel of GIMSA.
	Business Experience:	Positions at Grupo Alfa, Protexa and Proeza, Senior Partner of two law firms, including Margáin-Rojas-González-Vargas-De la Garza y Asociados.
David Camilo Vargas Zepeda	Age:	49
	Years as Executive Officer:	Since September 2011
	Years at GRUMA:	Since September 2011
	Current Position:	Chief Human Resources Officer.
	Business Experience:	Several executive positions in HSBC and Bolsa Mexicana de Valores related to human resources.
Alejandro Vázquez Salido	Age:	41
	Years as Executive Officer:	Since April 2012
	Years at GRUMA:	Since April 2012
	Current Position:	Chief Communication and Image Officer.
	Business Experience:	Deputy Officer of Government Relations in Banorte.
Francisco Yong García	Age:	38
	Years as Executive Officer:	2
	Years at GRUMA:	15
	Current Position:	Chief Executive Officer, Gruma Europe.
	Business Experience:	Several managerial and Vice President positions within Gruma Corporation related to Finance and Administration in the United States and Europe.

Mr. Roberto Jorge González Alcalá, Chief Executive Officer of Gruma Mexico and Latin America, and Mr. Juan Antonio González Moreno, Chief Executive Officer of Gruma Asia and Oceania, are sons of Mr. Roberto

[Table of Contents](#)

González Barrera, Chairman of our board of directors. Mr. Homero Huerta Moreno, our Chief Administrative Officer, is the cousin of Mr. Juan Antonio González Moreno and Ms. Bertha Alicia González Moreno, members of our board of directors.

**Audit and Corporate Governance Committees**

As required by the Mexican Securities Law, the Sarbanes-Oxley Act of 2002 and our bylaws, an audit committee and a corporate governance committee were appointed by the meeting of the board of directors held on April 25, 2012. Members of the audit and corporate governance committees were selected from members of the board of directors. Consequently, as required by the Mexican Securities Law and our bylaws, a chairman for each committee was elected by the General Ordinary Shareholders' Meeting held on April 26, 2012, from among the members appointed by the board.

The current audit and corporate governance committees are comprised of three members, all of whom are independent directors. Set forth below are the names of our audit and corporate governance committees members, their positions within the committees, and their directorship type:

Juan Diez-Canedo Ruiz	Position:	Chairman of the audit and corporate governance committees.
	Directorship Type:	Shareholder, Independent
Mario Martín Laborín Gómez	Position:	Financial Expert of the audit and corporate governance committees.
	Directorship Type:	Independent
José de la Peña y Angelini	Position:	Member of the audit and corporate governance committees.
	Directorship Type:	Independent

**COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Members of the board of directors are paid a fee of Ps.80,000 for each board meeting they attend. Additionally, members of the audit and corporate governance committees are paid a fee of Ps.40,000 for each committee meeting they attend.

For 2011, the aggregate amount of compensation paid to all directors, alternate directors, executive officers and audit and corporate governance committees members was approximately Ps.207 million. The contingent or deferred compensation reserved as of December 31, 2011 was Ps.50 million.

We offer an Executive Bonus Plan that applies to managers, vice presidents, and executive officers. The variable compensation under this plan can range from 20% to 100% of annual base compensation, depending upon the employee's level, his individual performance and the results of our operations.

**EMPLOYEES**

As of December 31, 2011, we had a total of 21,318 employees, including 13,224 unionized and 8,094 non-unionized full- and part-time employees. Of this total, we employed 7,824 persons in Mexico, 6,868 in the United States, 2,045 in Central America, 2,462 in Venezuela, 796 in Asia & Oceania, and 1,323 in Europe. Total employees for 2009 and 2010 were 19,093 and 19,825, respectively. Of our total employees as of December 31, 2011, approximately 38% were white-collar and 62% were blue collar.

In Mexico, workers at each of our plants are covered by a separate contract, under which salary revisions take place once each year, usually in January or February. Non-salary provisions of these contracts are revised bi-annually. We renewed agreements with the three unions that represent our workers in 2012.

In the United States, Gruma Corporation has five collective bargaining agreements that represent a total of 659 workers at five separate facilities (Pueblo, Tempe, Madera, Henderson and Omaha). We renewed such agreements on April 25, 2010, March 27, 2011, July 1, 2009 and January 22, 2011, respectively, and have entered

[Table of Contents](#)

into a new agreement in Omaha on April 10, 2012.

In England, we have one collective bargaining agreement covering 25 employees at a facility, which is renewed every 12 months.

In the Netherlands, we are covered by a national labor agreement for bakery workers. This agreement is reviewed every 6 - 24 months, depending on the term of the agreement.

In Australia, we have a collective bargaining agreement covering 102 employees at our facility, which is renewed every 3 years.

Wages are reviewed during the negotiations and wage increases processed according to the terms of each agreement as well as non-monetary provisions of the agreement. Wage reviews for non-union employees are conducted once each year, typically in March for Mission Foods and depending on the non-union plant, wages reviews are conducted from June through October for Azteca Milling, L.P. We believe our current labor relations are good.

### SHARE OWNERSHIP

The following Directors and Senior Managers have GRUMA shares which in each case represent less than 1% of our capital stock: Ms. Bertha Alicia González Moreno, Mr. Juan Diez-Canedo Ruiz, Mr. Joel Suárez Aldana, Mr. Juan Antonio Quiroga García, Mr. Leonel Garza Ramírez, Mr. Javier Morales González, and Mr. Alejandro Vázquez Salido. In addition, Mr. Roberto González Barrera owns directly and indirectly 279,301,152 shares representing approximately 49.6% of our outstanding shares.

### ITEM 7 Major Shareholders And Related Party Transactions.

#### MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our capital stock as of April 26, 2012 (which consists entirely of Series B Shares) with respect to Mr. González Barrera and Archer-Daniels-Midland and its affiliates, the only shareholders we know to own beneficially more than 5% of our capital stock. See “Item 9. The Offer and Listing” for a further discussion of our capital stock. With the exception of Archer-Daniels-Midland’s right to appoint two members of our board of directors, and their corresponding alternates, the major shareholders do not have different or preferential voting rights with respect to those shares they own. As of April 26, 2012, our Series B shares were held by more than 442 record holders in Mexico.

Name	Number of Series B Shares	Percentage of Outstanding Shares
Roberto González Barrera and family (1)	282,131,752	50.05%
Archer-Daniels-Midland (2)	130,901,630	23.22%
Other shareholders (3)	150,617,327	26.73%
Total	563,650,709(4)	100%

- (1) The shares beneficially owned by Mr. González Barrera and his family include: 249,275,356 shares held indirectly by Mr. González Barrera through a trust controlled by him; 30,025,796 shares held indirectly by the aforementioned trust through a Mexican corporation jointly owned with Archer-Daniels-Midland and controlled by Mr. González Barrera; and 2,830,600 shares held by Ms. Bertha Alicia González Moreno.
- (2) Of the shares beneficially owned by Archer-Daniels-Midland, 2,630,716 are held by Archer-Daniels-Midland through its Mexican subsidiary, and 24,566,561 shares are held indirectly by Archer-Daniels-Midland through a Mexican corporation jointly owned with a trust controlled by Mr. González Barrera. Mr. González Barrera has sole authority to determine how these 24,566,561 shares are voted, and the shares cannot be transferred without the consent of both Archer-Daniels-Midland and Mr. González Barrera.
- (3) This includes the shares held by our directors and officers (other than Mr. Roberto González Barrera and Ms. Bertha González Moreno) which in each case represent less than 1% of our capital stock.

[Table of Contents](#)

(4) As of April 26, 2012, our capital stock was represented by 565,174,609 issued Series B, class I, no par value shares (“Series B shares”), of which 563,650,709 shares were outstanding, fully subscribed and paid, and 1,523,900 shares were held in our treasury.

Mr. González Barrera and his family control approximately 54.41% of our outstanding shares and therefore have the power to elect a majority of our 17 directors. In addition, under Mexican law, any holder or group of holders representing 10% or more of our capital stock may elect one director. Under our bylaws and the Archer-Daniels-Midland association, as long as Archer-Daniels-Midland owns at least 20% of our capital stock, it will have the right to designate two members of our board of directors and their corresponding alternates. As of April 26, 2012, Archer-Daniels-Midland, directly and indirectly, owned approximately 23.22% of our outstanding shares and controlled the right to vote approximately 18.87% of our outstanding shares. Under the terms of our agreement, Archer-Daniels-Midland may not, without the consent of Mr. Roberto González Barrera, the Chairman of our board of directors, acquire additional shares of us.

We have been informed that Mr. González Barrera has pledged or has been required to pledge part of his shares in us as collateral for loans made to him. In the event of a default, should the lenders enforce their rights with respect to these shares, Mr. González Barrera and his family could lose their controlling interest in us. In addition, Mr. González Barrera must give Archer-Daniels-Midland a right of first refusal on any sale of his GRUMA shares if at the time of the sale, he owns directly or indirectly, or as a result of the sale will own directly or indirectly, less than 30% of our outstanding shares. Should Archer-Daniels-Midland exercise its right, then it could control us. Archer-Daniels-Midland must also give Mr. González Barrera a right of first refusal on any sale of our shares.

We are not aware of any significant changes in the percentage of ownership of any shareholders which held 5% or more of our outstanding shares during the past three years.

### **RELATED PARTY TRANSACTIONS**

The transactions set forth below were made in the ordinary course of business, on substantially the same terms as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

#### **Transactions with Subsidiaries**

We periodically enter into short-term credit arrangements with our subsidiaries, where we provide them with funds for working capital at market interest rates.

At their peak on March 24, 2011, the outstanding balance of loans from GIMSA to GRUMA were Ps.2,835 million and U.S.\$20 million. The average interest rate for these loans for the years 2008 to 2011 was 8.8% for the loans in pesos and 3.86% for the loans in U.S. dollars. As of March 31, 2012, the outstanding balance of loans from GIMSA to Gruma was Ps.1,298 million, the average interest rate for this year up to March 31, 2012 was 5.52%.

In September of 2001, Gruma Corporation started to make loans to us which, at their peak on September 29, 2009, reached the amount of U.S.\$100.0 million. We borrowed money from Gruma Corporation at an average rate of 1% from 2009 to 2011. As of March 31, 2012 we have no outstanding balance owing to Gruma Corporation or vice versa. During 2011 we made loans to Gruma Corporation at an average interest rate of 1.75% and Gruma Corporation issued several promissory notes related to indebtedness originated by dividends payments owned to us at an average interest rate of 3.6% which were fully paid. As of December 31, 2011, Gruma Corporation had paid off the balance of these loans.

## **Transactions with Archer-Daniels-Midland**

We entered into an association with Archer-Daniels-Midland in September 1996. As a result of this association, (i) we received U.S.\$258.0 million in cash, (ii) GRUMA and Archer-Daniels-Midland combined their U.S. corn flour operations under Azteca Milling, our wholly-owned U.S. corn flour operations, and, as a result, Archer-Daniels-Midland received a 20% partnership interest in Azteca Milling, and (iii) we received 60% of the capital stock of Molinera de México, Archer-Daniels-Midland's wholly-owned Mexican wheat milling operations. We also gained exclusivity rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets.

In return, Archer-Daniels-Midland received 74,696,314 of our then newly issued shares, which represented approximately 22% of our total outstanding shares at that time, and 20% partnership interest in Azteca Milling, and retained 40% of the capital stock of Molinera de México. Archer-Daniels-Midland also obtained the right to designate two of our 17 directors and their corresponding alternates. In addition, Archer-Daniels-Midland acquired 5% of MONACA. Archer-Daniels-Midland has designated Federico Gorbea, President and Chief Operating Officer of Archer-Daniels-Midland's operations in México, and Mark Kolkhorst, Corporate Vice President of Archer-Daniels-Midland and President of Archer-Daniels-Midland's Cocoa and Milling divisions, as members of our Board of Directors. Archer-Daniels-Midland has elected Ray G. Young, its Senior Vice President and Chief Financial Officer, and Vikram Luthar, its Group Vice President of Finance, to serve as alternates for Mr. Gorbea and Mr. Kolkhorst, respectively. As of April 26, 2011, Archer-Daniels-Midland, directly and indirectly, owned approximately 23.22% of our outstanding shares and controlled the right to vote approximately 18.87% of our outstanding shares.

During 2009, 2010 and 2011, we purchased U.S.\$159 million, U.S.\$97 million and U.S.\$147 million, respectively, of inventory, including primarily wheat and corn, from Archer-Daniels-Midland Corporation, a shareholder, at market rates and terms. For more information regarding these transactions, please see "Item 4. Information on the Company—Business Overview—Gruma Venezuela."

## **Other Transactions**

As of December 31, 2010, we held approximately 8.8% of the outstanding shares of GFNorte, a Mexican financial institution. In the past, we obtained financing from GFNorte's subsidiaries at market rates and terms. For the past eight years, the highest outstanding loan amount has been Ps.600 million (in nominal terms) with an interest rate of 7.3% in June 2011. In addition, we have insurance contracts in place with Seguros Banorte Generali, S.A. de C.V., a subsidiary of GFNorte, to manage certain risks associated with some of our subsidiaries. In 2010 and 2011, we paid insurance premiums of approximately Ps.113,004 and Ps.110,239, respectively.

On February 15, 2011, we concluded the sale of all of our shares of GFNorte's capital stock. As a result of the sale, GRUMA no longer holds any stake in GFNorte.

For more information, please see Note 22 to our audited consolidated financial statements.

## **ITEM 8 Financial Information.**

See "Item 18. Financial Statements." For information on our dividend policy, see "Item 3. Key Information—Selected Financial Data—Dividends." For information on legal proceedings related to us, see "—Legal Proceedings."

## **LEGAL PROCEEDINGS**

In the ordinary course of business, we are party to various legal proceedings, none of which has had or we reasonably expect will have a material adverse effect on us.

## United States

### Labor and Employment Related Claims.

On March 24, 2009, Guadalupe Arevalo, a former employee, filed a class action complaint for damages and equitable relief, currently being heard by the Superior Court of the State of California, County of Los Angeles, for an alleged: (1) failure to pay minimum or contractual wages, pay overtime, and provide accurate wage statements, in violation of the California Labor Code; (2) failure to pay wages due to former employees at the time of resignation and/or discharge; and (3) violation to certain provisions of the California Business and Professions Code. On June 10, 2010, the plaintiff filed a second amended complaint incorporating an additional cause of action for failure to provide meal periods as required by law. The parties reached a court approved settlement on March 26, 2012 and the case has been dismissed.

### Other Claims.

Mary Henderson brought a class action lawsuit against Gruma Corporation for (1) false advertising under the Lanham Act, (2) violations of California's Unfair Competition Law, (3) violations of California's False Advertising Law, and (4) violations of the California Consumer Legal Remedies Act. The complaint alleged that Gruma Corporation's labeling of its guacamole flavored dip and spicy bean dip products is false and misleading. The complaint was subsequently amended to dismiss the Company under the Lanham Act claim. The case was settled on November 21, 2011 for U.S.\$3,000 and has been dismissed.

## Mexico

### Asset Tax Claim.

The *Secretaría de Hacienda y Crédito Público*, or Ministry of Finance and Public Credit, has lodged tax assessments against our Company for an amount of Ps.34.3 million plus penalties, updates and charges, in connection with our asset tax returns for the year 1997. The Company has filed several appeals to obtain an annulment of these assessments.

### Income Tax Claim.

The *Secretaría de Hacienda y Crédito Público* has lodged tax assessments against our company for the amount of Ps.93.5 million in connection with withholding on interest payments to our foreign creditors for the years 2000, 2001 and 2002. Mexican authorities claim that our company should have withheld a higher rate than the 4.9% withheld by the Company. We intend to defend against these claims vigorously.

We believe that the outcome of these claims will not have a material effect on our financial position, results of operation or cash flows.

### CNBV Investigation.

On December 8, 2009, the Surveillance Office of the *Comisión Nacional Bancaria y de Valores* (the Mexican National Banking and Securities Commission, or CNBV) began an investigation into the Company in respect of the timely disclosure of material events reported through the Mexican Stock Exchange during the end of 2008 and throughout 2009 in connection with the Company's foreign exchange derivative losses and the subsequent conversion of the realized losses into debt. In 2011, the CNBV commenced an administrative proceeding against the Company for alleged infringements to applicable legislation. The Company has participated in this proceeding in order to demonstrate its compliance with current legislation and to adopt applicable defenses as deemed appropriate in order to protect Gruma's interests. As of this date, the aforementioned proceeding is ongoing, and the CNBV has not issued a final resolution in connection therewith.

We intend to vigorously defend against these actions and proceedings. It is the opinion of the Company that the outcome of this proceeding will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

## Venezuela

### **Expropriation Proceedings by the Venezuelan Government.**

On May 12, 2010, the Bolivarian Republic of Venezuela published the Expropriation Decree, which announced the forced acquisition of all goods, movables and real estate of the Company's subsidiary in Venezuela, MONACA. The Republic has expressed to GRUMA's representatives that the Expropriation Decree extends to the Company's subsidiary DEMASECA.

As stated in the Expropriation Decree and in accordance with the Venezuelan Expropriation Law, the taking of legal ownership can occur either through an "Amicable Administrative Arrangement" or a "Judicial Order". Each process requires certain steps as indicated in the Expropriation Law, neither of which has occurred. Therefore, as of this date, no formal transfer of title of the assets covered by the Expropriation Decree has taken place.

GRUMA's interests in MONACA and DEMASECA are held through two Spanish companies: Valores Mundiales and Consorcio Andino. In 2010, Valores Mundiales and Consorcio Andino commenced negotiations with the Republic with the intention of reaching an amicable settlement. GRUMA has participated in these negotiations with a view to continuing its presence in Venezuela by potentially entering into a joint venture with the Venezuelan government that could also include compensation, or, absent a joint venture arrangement, GRUMA may receive compensation for the assets subject to expropriation, which the law requires be fair and reasonable. Those negotiations are ongoing.

The Republic and the Kingdom of Spain are parties to the Investment Treaty, under which the Investors may settle investment disputes by means of arbitration before the ICSID. On November 9, 2011, the Investors, MONACA and DEMASECA provided formal notice to the Republic that an investment dispute had arisen as a consequence of the Expropriation Decree and related measures adopted by the Republic. In that notification, the Investors, MONACA and DEMASECA also agreed to submit the dispute to ICSID arbitration if the parties are unable to reach an amicable agreement.

The negotiations with the government are ongoing, and the Company cannot assure that those negotiations will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award. As a result, the net impact of this matter on the Company's consolidated financial results cannot be reasonably estimated. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated assets and investments under applicable law, including investment treaties and customary international law.

The Venezuelan government has not taken physical control of the assets of MONACA or DEMASECA and has not taken control of their operations. In consequence, GRUMA can validly and legally assert that, as of this date, Valores Mundiales and Consorcio Andino have full legal ownership of MONACA's and DEMASECA's rights, interest, shares and assets, respectively, and full control of all operational or managerial decisions of MONACA and DEMASECA, which will not cease until GRUMA, through Valores Mundiales and Consorcio Andino, finally agrees with the Venezuelan government on the terms and conditions to transfer such assets in accordance with the legal and business schemes that are currently being negotiated with the government of Venezuela.

Pending resolution of this matter, based on preliminary valuation reports, no impairment charge on GRUMA's net investment in MONACA and DEMASECA has been identified. The Company is also unable to estimate the value of any future impairment charge, if one will be taken, or to determine whether MONACA and DEMASECA will need to be accounted for as a discontinued operation. The historical value as of December 31, 2011 of the net investment in MONACA and DEMASECA was Ps.2,271,178 and Ps.165,969, respectively. The Company does not maintain insurance for the risk of expropriation of its investments. Please see Note 25 to our Consolidated Financial Statements for a breakdown of financial information concerning MONACA.

### **Intervention Proceedings by the Venezuelan Government.**

On December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of assets of all corporations in which Ricardo Fernández Barrueco had any direct or indirect interest. As a result of Mr. Ricardo Fernández Barrueco's former indirect ownership of MONACA and DEMASECA, these subsidiaries were subject to the precautionary seizure. The Ministry of Finance of Venezuela, in light of the precautionary measure ordered by the Eleventh Investigations Court for Criminal Affairs of Caracas, has made several designations of individuals as special managers and representatives on behalf of the Republic of Venezuela of the shares that were previously owned indirectly by Mr. Ricardo Fernández Barrueco in MONACA and DEMASECA. The last designation was on January 14, 2011.

As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino, S.L. and Valores Mundiales, S.L., as holders of our Venezuelan subsidiaries, have filed a petition as aggrieved third-parties to the proceedings against Mr. Ricardo Fernández Barrueco, as a challenge to the precautionary measures, the seizure and all related actions. MONACA has also filed for corresponding legal remedies. On November 19, 2010, the Eleventh Investigations Court for Criminal Affairs of Caracas issued a ruling regarding the petitions, in which, the court recognized that MONACA and DEMASECA are companies wholly controlled by Valores Mundiales, S.L. and Consorcio Andino, S.L, respectively. However, the precautionary measures of seizure issued on December 4, 2009 were upheld by the court, despite the court's recognition of MONACA and DEMASECA's ownership. In virtue of the aforementioned, an appeal has been filed, which is pending resolution as of this date. The People's Defense Institute for the Access of Goods and Services of Venezuela ("INDEPABIS") issued an order, on a precautionary basis, authorizing the temporary occupation and operation of MONACA for a period of 90 calendar days from December 16, 2009, which was renewed for the same period on March 16, 2010. The order expired on June 16, 2010 and as of the date hereof MONACA has not been notified of any extension or similar measure. INDEPABIS has also initiated a regulatory proceeding against MONACA in connection with alleged failure to comply with regulations governing precooked corn flour and for allegedly refusing to sell this product as a result of the December 4, 2009 precautionary asset seizure described above. We filed an appeal against these proceedings which has not been resolved as of the date hereof.

Additionally, INDEPABIS initiated an investigation of DEMASECA and issued an order, on a precautionary basis, authorizing the temporary occupation and operation of DEMASECA for a period of 90 calendar days from May 25, 2010, which was extended until November 21, 2010. INDEPABIS issued a new precautionary measure of occupation and temporary operation of DEMASECA, valid for the duration of this investigation. DEMASECA has challenged these measures but as of the date hereof, no resolution has been issued. The proceedings are still ongoing.

We intend to exhaust all legal remedies available in order to safeguard and protect the Company's legitimate interests.

### **Tax Claims.**

The Venezuelan tax authorities have lodged certain assessments against MONACA, one of our Venezuelan subsidiaries, related to income tax returns for the years 1998 and 1999, which amounted to U.S.\$696 thousand plus related Value Added Tax deficiencies in the amount of U.S.\$33.2 thousand. The case has been appealed and is pending a final decision. Any tax liability arising from the resolution of these claims will be assumed by the previous shareholder, International Multifoods Corporation, in accordance with the purchase agreement by which the Company acquired MONACA. Likewise, MONACA has filed claims with the fiscal authorities in the corresponding tax courts for the amount of U.S.\$650 thousand. This matter is pending resolution.

### **Labor Lawsuits.**

In the past, our subsidiary MONACA was named in three labor lawsuits (two brought by Caleteros, as defined below, and one stemming from a workplace accident) seeking damages in the amount of U.S.\$1.25 million. The lawsuits and claims are related to issues and rights such as profit sharing, social security, vacation, seniority and indemnity payment issues. The "Caleteros" who brought the claims are third parties who help freighters unload goods.



[Table of Contents](#)

Finally, the Company and its subsidiaries are involved in various pending litigations filed in the normal course of business. It is the opinion of the Company that the outcome of these proceedings will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

**ITEM 9 The Offer And Listing.**

**TRADING HISTORY**

Our Series B Shares have been traded on the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, or Mexican Stock Exchange, since 1994. The ADSs, each representing four Series B Shares, commenced trading on the New York Stock Exchange in November 1998. As of December 31, 2011, our capital stock was represented by 563,650,709 issued Series B shares, of which 565,650,709 shares were outstanding, fully subscribed and paid, and 1,523,900 shares were held in our treasury. As of December 31, 2011, 72,940,304 Series B shares of our common stock were represented by 18,235,076 ADSs held by 7 record holders in the United States.

On October 13, 2008, our Series B Shares were suspended as required by the Mexican Stock Exchange in connection with pending information regarding the publication of events related to the Company's currency derivative instruments. Accordingly, our ADSs were also suspended on the New York Stock Exchange on October 20, 2008. On October 29, 2008, our Series B Shares and our ADSs began trading again as the aforementioned information was released.

**PRICE HISTORY**

The following table sets forth, for the periods indicated, the annual high and low closing sale prices for the Series B Shares and the ADSs as reported by the Mexican Stock Exchange and the New York Stock Exchange, respectively.

	Mexican Stock Exchange		NYSE	
	Common Stock		ADS(2)	
	High	Low	High	Low
	(Ps. Per share(1))		(U.S.\$ per ADS)	
<b>Annual Price History</b>				
2007	41.43	32.32	15.71	11.94
2008	35.01	5.85	13.03	1.76
2009	25.67	3.67	7.89	9214
2010	28.70	16.97	8.99	5.20
2011	28.66	19.61	8.96	6.33
<b>Quarterly Price History</b>				
2010				
1 <sup>st</sup> Quarter	28.70	23.80	8.98	7.33
2 <sup>nd</sup> Quarter	27.77	19.20	8.99	5.81
3 <sup>rd</sup> Quarter	21.28	16.97	6.63	5.20
4 <sup>th</sup> Quarter	24.94	17.96	8.05	5.67
2011				
1 <sup>st</sup> Quarter	27.24	22.17	8.96	7.19
2 <sup>nd</sup> Quarter	24.71	19.61	8.36	6.63
3 <sup>rd</sup> Quarter	25.39	20.00	8.60	6.33
4 <sup>th</sup> Quarter	28.66	23.10	8.54	6.90
2012				
1 <sup>st</sup> Quarter	34.39	26.45	10.77	7.79
<b>Monthly Price History</b>				
October 2011	26.05	23.10	7.96	6.90
November 2011	28.66	25.38	8.54	7.34
December 2011	28.23	25.69	8.27	7.25
January 2012	28.84	26.45	8.79	7.79
February 2012	31.42	28.75	9.73	8.89
March 2012	34.39	30.85	10.77	9.40
April 2012(3)	37.40	34.08	11.27	10.49

- (1) Pesos per share reflect nominal price at trade date.
- (2) Price per ADS in U.S.\$; one ADS represents four Series B Shares.
- (3) As of April 20, 2012.

On April 20, 2012, the last reported sale price of the B Shares on the Mexican Stock Exchange was Ps.36.42 per B Share. On April 20, 2012, the last reported sale price of the ADSs on the New York Stock Exchange was U.S.\$11.09 per ADS.

### **MEXICAN STOCK EXCHANGE**

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a corporation whose shares were originally held by brokerage firms, which are exclusively authorized to trade on the exchange. As of June 13, 2008 the Mexican Stock Exchange became a publicly traded company. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be performed off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the *Comisión Nacional Bancaria y de Valores* (the Mexican National Banking and Securities Commission, or CNBV). Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.*, or Indeval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

As of June 2, 2001, the Mexican Securities Law requires issuers to increase the protections offered to minority shareholders and to impose corporate governance controls on Mexican listed companies in line with international standards. The Mexican Securities Law expressly permits Mexican listed companies, with prior authorization from the CNBV, to include in their bylaws antitakeover defenses such as shareholder rights plans, or poison pills. Our bylaws include certain of these protections. See “Additional Information—Bylaws—Antitakeover Protections.”

### **MARKET MAKER**

On September 30, 2009, we entered into an agreement with UBS Casa de Bolsa (“UBS”) pursuant to which UBS acts as a market maker for our common shares listed on the Mexican Stock Exchange. The purpose of the agreement is to provide liquidity for the Company’s shares. This agreement has been extended in several occasions throughout 2010 and 2011. On October 11, 2011 the agreement was extended until September 15, 2012.

### **ITEM 10 Additional Information.**

#### **BYLAWS**

Set forth below is a brief summary of certain significant provisions of our bylaws, according to their last comprehensive amendment. This description does not purport to be complete and is qualified by reference to our bylaws, which are incorporated as an exhibit to this Annual Report.

The new Mexican Securities Law of 2006 included provisions seeking to improve the applicable regulations on disclosure of information, minority shareholder rights and corporate governance of the issuers, among other matters. It also imposes additional duties and liabilities on the members of the board of directors as well as

[Table of Contents](#)

senior officers. Thus, we were required to carry out a comprehensive amendment of our bylaws through an extraordinary general shareholders' meeting held on November 30, 2006.

### **Incorporation and Register**

We were incorporated in Monterrey, Mexico on December 24, 1971 as a corporation (*Sociedad Anónima de Capital Variable*) under the Mexican Corporations Law, for a term of 99 years. On November 30, 2006 we became a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*), a special corporate form for all Mexican publicly traded companies pursuant to the regulations of the new Mexican Securities Law.

### **Corporate Purpose**

Our main corporate purpose, as fully described in Article Second of our bylaws, is to serve as a holding company and to engage in various activities such as: (i) purchasing, selling, importing, exporting, and manufacturing all types of goods and products, (ii) issuing any kind of securities and taking all actions in connection therewith (iii) creating, organizing and managing all types of companies, (iv) acting as an agent or representative, (v) purchasing, selling and holding real property, (vi) performing or receiving professional, technical or consulting services, (vii) establishing branches, agencies or representative offices, (viii) acquiring, licensing, or using intellectual or industrial property, (ix) granting and receiving loans, (x) subscribing, issuing and negotiating all types of credit instruments, and (xi) performing any acts necessary to accomplish the foregoing.

### **Directors**

Our bylaws provide that our management shall be vested in the board of directors and our Chief Executive Officer. Each director is elected by a simple majority of the shares. Under Mexican law and our bylaws, any holder or group of holders owning 10% or more of our capital stock may elect one director and its corresponding alternate. The board of directors must be comprised of a minimum of five and a maximum of twenty-one directors, as determined by the shareholders at the annual ordinary general shareholders' meeting. Additionally, under the Mexican Securities Law, at least 25% of the members of the board of directors must be independent. Currently, our board of directors consists of 17 members.

The board of directors shall meet at least four times a year. These meetings can be called by the Chairman of the board of directors, the Chairman of the Audit and Corporate Governance Committees, or by 25% of the members of the board of directors. The directors serve for a one year term, or for up to 30 (thirty) additional days, if no designation of their substitute has been made or if the substitute has not taken office. Directors receive compensation as determined by the shareholders at the annual ordinary general shareholders' meeting. The majority of directors are needed to constitute a quorum, and board resolutions must be passed by a majority of the votes present at any validly constituted meeting or by unanimous consent if no meeting is convened.

Under the terms of our association with Archer-Daniels-Midland, it has the right to appoint two of our directors and their corresponding alternates as long as it owns at least 20% of our capital stock.

Our bylaws provide that the board of directors has the authority and responsibility to: (i) set the general strategies for the business of the Company; (ii) oversee the performance and conduction of business of the Company; (iii) oversee the main risks encountered by the Company, identified by the information submitted by the committees, the Chief Executive Officer and the firm providing the external auditing services; (iv) approve the information and communication policies with shareholders and the market; and (v) instruct the Chief Executive Officer to disclose to the investor public any material information when known.

Additionally, the board of directors has the authority and responsibility to approve, with the previous opinion of the corresponding Committee: (i) the policies for the use of the Company's assets by any related party; (ii) related party transactions other than those occurring in the ordinary course of business, those of insignificant amount, and those deemed as done within market prices; (iii) the purchase or sale of 5% or more of our corporate assets; (iv) granting of warranties or the assumption of liabilities for more than 5% of our corporate assets; (v) the appointment, and in its case, removal of the Chief Executive Officer, as the designation of integral compensation policies for all other senior officers; (vi) internal control and internal audit guidelines; (vii) the Company's accounting guidelines; (viii) the Company's financial statements; and (ix) the hiring of the firm providing external

[Table of Contents](#)

audit services and, in its case, any services additional or supplemental to the external audit. The approval of the board in all of these matters is non-delegable.

See “Item 6. Directors, Senior Management and Employees” for further information about the board of directors.

**Audit and Corporate Governance Committees**

Under our bylaws and in accordance with the Mexican Securities Law, the board of directors, through the Audit and Corporate Governance Committees as well as through the firm performing the external audit, shall be in charge of the surveillance of the Company. Such Committees should be exclusively comprised by independent directors and by a minimum of three members, elected by the board of directors at the proposal of the Chairman of the Board. The Chairman of such Committees shall be exclusively designated and/or removed from office by the annual ordinary general shareholders’ meeting.

For the performance of its duties, the Corporate Governance Committee shall: (i) render its opinion to the board of directors, pursuant to the Mexican Securities Law; (ii) request the opinion of independent experts, when deemed convenient; (iii) convene shareholders meetings and include issues in the agenda they deem appropriate; (iv) assist the board of directors when making the annual reports; and (v) be responsible for other activity provided by law or our bylaws.

Likewise, for the performance of its duties, the Audit Committee shall: (i) render its opinion to the board of directors, pursuant to the Mexican Securities Law; (ii) request the opinion of independent experts when deemed convenient; (iii) convene shareholders meetings and include issues in the agenda they deem appropriate; (iv) assess the performance of the external auditing firm, as well as analyze the opinions and reports rendered by the external auditor; (v) discuss the financial statements of the Company and, if appropriate, recommend its approval to the board of directors; (vi) inform the board of directors of the condition of the internal controls and internal auditing systems, including any irregularities detected therein; (vii) prepare the opinion of the report rendered by the Chief Executive Officer; (viii) assist the board of directors when making the annual reports; (ix) request from the senior officers and from other employees, reports relevant to the preparation of the financial information and of any other kind deemed necessary for the performance of their duties; (x) investigate possible irregularities within the Company, as well as carry out the actions deemed appropriate; (xi) request meetings with senior officers in connection with the internal control and internal audit; (xii) inform the board of directors about the material irregularities detected while exerting their duties, and in case of any irregularities, notify the board of directors of any corrective measures taken; (xiii) ensure that the Chief Executive Officer complies with the resolutions taken by the Shareholders’ Meetings and by the board of directors; (xiv) oversee the establishment of internal controls in order to verify that the transactions of the Company conform to the applicable legal regulations; and (xv) be responsible of any other activity provided by law or our bylaws.

**Fiduciary Duties - Duty of Diligence**

Our bylaws and the Mexican Securities Law provide that the directors shall act in good faith and in our best interest. In order to fulfill its duty, our directors may: (i) request information about us that is reasonably necessary to take actions; (ii) require the presence of any officers or other key employees, including the external auditors, that may contribute elements for taking actions at board meetings; (iii) postpone board meetings when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and (iv) discuss and vote on any item requesting, if deemed convenient, the exclusive presence of the members and the secretary of the board of directors.

Our directors may be liable for damages caused when breaching their duty of diligence if such failure causes economic damage to the Company or our subsidiaries, as well as if the director: (i) fails to attend board or committee meetings and, as a result of such absence, the board was unable to take action, unless such absence is approved by the shareholders meeting; (ii) fails to disclose to the board of directors or the committees material information necessary to reach a decision; and/or (iii) fails to comply with its duties imposed by the Mexican Securities Law or our bylaws. Members of the board of directors may not represent shareholders at any shareholders’ meeting.

## **Fiduciary Duties - Duty of Loyalty**

Our bylaws and the Mexican Securities Law provide that the directors and secretary of the board shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors must abstain from participating, attending or voting at meetings related to matters where they have or may have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated their duty of loyalty and will be liable for any damages when they, directly or through third parties, obtain an economic benefit by virtue of their position without legitimate cause. Furthermore, the directors will fail to comply with their duty of loyalty if they: (i) vote at a board meeting or take any action where there is a conflict of interest; (ii) fail to disclose a conflict of interest they may have during a board meeting; (iii) knowingly favor a particular shareholder of the Company against the interests of other shareholders; (iv) approve related party transactions without complying with the requirements of the Mexican Securities Law; (v) use Company assets in a manner which infringes upon the policies approved by the board of directors; (vi) unlawfully use material non-public information of the Company; and/or (vii) usurp a corporate business opportunity for their own benefit, or the benefit of a third party, without the prior approval of the board of directors. Our directors may be liable for damages when breaching their duty of loyalty if such failure causes economic damage to the Company or our subsidiaries.

## **Civil Actions Against Directors**

Under Mexican law, shareholders can initiate actions for civil liabilities against directors through resolutions passed by a majority of the shareholders at a general ordinary shareholders' meeting. In the event the majority of the shareholders decide to bring such action, the director against whom such action is brought will immediately cease to be a member of the board of directors. Additionally, shareholders representing not less than 5% of our outstanding shares may directly bring such action against directors. Any recovery of damages with respect to such action will be for our benefit and not for the benefit of the shareholders bringing the action.

## **Chief Executive Officer**

According to our bylaws and the Mexican Securities Law, the Chief Executive Officer shall be in charge of running, conducting and executing the Company's business, complying with the strategies, policies and guidelines approved by the board of directors.

For the performance of its duties the Chief Executive Officer shall: (i) submit, for the approval of the board of directors, the business strategies of the Company; (ii) execute the resolutions of the Shareholders' Meetings and of the board of directors; (iii) propose to the Audit Committee, the internal control system and internal audit guidelines of the Company, as well as execute the guidelines approved thereof by the board of directors; (iv) disclose any material information and events that should be disclosed to the investor public; (v) comply with the provisions relevant to the repurchase and placement transactions of the Company's own stock; (vi) exert any corresponding corrective measures and liability suits; (vii) assure that adequate accounting, registry and information systems are maintained by the Company; (viii) prepare and submit to the board of directors his annual report; (ix) establish mechanisms and internal controls permitting certification that the actions and transactions of the Company conform to the applicable regulations; and (x) exercise his right to file the liability suits referred to in the Mexican Securities Law against related parties or third parties that allegedly cause damage to the Company.

## **Voting Rights and Shareholders' Meetings**

Each share entitles the holder thereof to one vote at any general meeting of our shareholders. Shareholders may vote by proxy. At the ordinary general shareholders' meeting, any shareholder or group of shareholders representing 10% or more of the outstanding capital stock has the right to appoint one director and his corresponding alternate, with the remaining directors being elected by majority vote.

General shareholders' meetings may be ordinary or extraordinary. Extraordinary general shareholders' meetings are called to consider matters specified in Article 182 of the Mexican Corporations Law, including, principally, changes in the authorized fixed share capital and other amendments to the bylaws, the issuance of preferred stock, the liquidation, merger and spin-off of the Company, changes in the rights of security holders, and

## [Table of Contents](#)

transformation from one corporate form to another. All other matters may be approved by an ordinary general shareholders' meetings. Ordinary general shareholders' meetings must be called to consider and approve matters specified in Article 181 of the Mexican Corporations Law, including, principally, the appointment of the members of the board of directors and the Chairman of the Audit and Corporate Governance Committees, the compensation paid to the directors, the distribution of our profits for the previous year, and the annual reports presented by the board of directors and the Chief Executive Officer. Our shareholders establish the number of members that will serve on our board of directors at the ordinary general shareholders' meeting.

A general ordinary shareholders' meeting must be held during the first four months after the end of each fiscal year. In order to attend a general shareholders' meeting, the day before the meeting shareholders must deposit the certificates representing their capital stock or other appropriate evidence of ownership either with the secretary of our board of directors, with a credit institution, or with Indeval. The secretary, credit institution or Indeval will hold the certificates until after the general shareholders' meeting has taken place.

Under our bylaws, the quorum for an ordinary general shareholders' meeting is at least 50% of the outstanding capital stock, and action may be taken by the affirmative vote of holders representing a majority of the shares present. If a quorum is not present, a subsequent meeting may be called at which the shareholders present, whatever their number, will constitute a quorum and action may be taken by a majority of the shares present. A quorum for extraordinary general shareholders' meetings is at least 75% of the outstanding capital stock, but if a quorum is not present, a subsequent meeting may be called. A quorum for the subsequent meeting is at least 50% of the outstanding shares. Action at an extraordinary general shareholders' meeting may only be taken by a vote of holders representing at least 50% of the outstanding shares.

Shareholders' meetings may be called by the board of directors, the Chairman of the Audit and/or Corporate Governance Committees, or a court. The Chairman of the board of directors or the Chairman of the Audit or Corporate Governance Committees may be required to call a shareholders' meeting if holders of at least 10% of our outstanding share capital request a meeting in writing, or at the written request of any shareholder if no shareholders' meeting has been held for two consecutive years, or, if during a period of two consecutive years, the board of directors' annual report for the previous year and the Company's financial statements were not presented to the shareholders, or if the shareholders did not elect directors.

Notice of shareholders' meetings must be published in the Federal Official Gazette or in a newspaper of general circulation in Monterrey, Nuevo León at least 15 days prior to the meeting. Shareholders' meetings may be held without such publication provided that 100% of the outstanding shares are represented. Shareholders' meetings must be held within the corporate domicile in Monterrey, Nuevo León.

Under Mexican law, holders of 20% of our outstanding capital stock may have any shareholder action set aside by filing a complaint with a Mexican court of competent jurisdiction within 15 days after the close of the meeting at which such action was taken, by showing that the challenged action violates Mexican law or our bylaws. Relief under these provisions is only available to holders who were entitled to vote on the challenged shareholder action and whose shares were not represented when the action was taken or, if represented, voted against it.

### **Dividend Rights and Distribution**

Within the first four months of each year, the board of directors must submit our company's financial statements for the preceding fiscal year to the shareholders for their approval at the ordinary general shareholders' meeting. They are required by law to allocate 5% of any new profits to a legal reserve which is not thereafter available for distribution until the amount of the legal reserve equals 20% of our capital stock (before adjusting for inflation). Amounts in excess of those allocated to the legal reserve fund may be allocated to other reserve funds as the shareholders determine, including a reserve for the repurchase of our shares. The remaining balance of new profits, if any, is available for distribution as dividends prior to their approval at the shareholders' meeting. Cash dividends on the shares held through Indeval will be distributed by us through Indeval. Cash dividends on the shares evidenced by physical certificates will be paid when the relevant dividend coupon registered in the name of its holder is delivered to us. No dividends may be paid, however, unless losses for prior fiscal years have been paid up or absorbed. See "Item 3. Key Information—Selected Financial Data—Dividends."

## **Liquidation**

Upon our dissolution, one or more liquidators must be appointed by an extraordinary shareholders' general meeting to wind up its affairs. If the extraordinary general shareholders' meeting does not make said appointment, a Civil or District Judge can do so at the request of any shareholder. All fully paid and outstanding common stock will be entitled to participate equally in any distribution upon liquidation after the payment of the Company's debts, taxes and the expenses of the liquidation. Common stock that has not been paid in full will be entitled to these proceeds in proportion to the paid-in amount.

If the extraordinary general shareholders' meeting does not give express instructions on liquidation, the bylaws stipulate that the liquidators will (i) conclude all pending matters they deem most convenient, (ii) prepare a general balance and inventory, (iii) collect all credits and pay all debts by selling assets necessary to accomplish this task, (iv) sell assets and distribute income, and (v) distribute the amount remaining, if any, pro rata among the shareholders.

## **Changes in Capital stock**

Our outstanding capital stock consists of Class I and Class II series B shares. Class I shares are the fixed portion of our capital stock and have no par value. Class II shares are the variable portion of our capital stock and have no par value. The fixed portion of our capital stock cannot be withdrawn. The issuance of variable capital shares, unlike the issuance of fixed capital shares, does not require an amendment of the bylaws, although it does require approval at an ordinary general shareholders' meeting. The fixed portion of our capital stock may only be increased or decreased by resolution of an extraordinary general shareholders' meeting and an amendment to our bylaws, whereas the variable portion of our capital stock may be increased or decreased by resolution of an ordinary general shareholders' meetings. Currently, our outstanding capital stock consists only of fixed capital.

An increase of capital stock may generally be made through the issuance of new shares for payment in cash or in kind, by capitalization of indebtedness or by capitalization of certain items of shareholders' equity. An increase of capital stock generally may not be made until all previously issued and subscribed shares of capital stock have been fully paid. A reduction of capital stock may be effected to absorb losses, to redeem shares, to repurchase shares in the market or to release shareholders from payments not made.

As of April 26, 2012, our capital stock was represented by 565,174,609 issued Series B shares, of which 563,650,709 shares were outstanding, fully subscribed and paid, and 1,523,900 shares were held in our treasury.

## **Preemptive Rights**

In the event of a capital increase through the issuance of shares, other than in connection with a public offering of newly issued shares or treasury stock, a holder of existing shares of a given series at the time of the capital increase has a preferential right to subscribe for a sufficient number of new shares of the same series to maintain the holder's existing proportionate holdings of shares of that series. Preemptive rights must be exercised within the period and under the conditions established for such purpose by the shareholders at the corresponding shareholders' meeting. Under Mexican law and our bylaws, the exercise period may not be less than 15 days following the publication of notice of the capital increase in the Federal Official Gazette or following the date of the shareholders' meeting at which the capital increase was approved if all shareholders were represented; otherwise such rights will lapse.

Furthermore, shareholders will not have preemptive rights to subscribe for common stock issued in connection with mergers, upon the conversion of convertible debentures, or in the resale of treasury stock as a result of repurchases on the Mexican Stock Exchange.

Under Mexican law, preemptive rights may not be waived in advance by a shareholder, except under limited circumstances, and cannot be represented by an instrument that is negotiable separately from the corresponding share. Holders of ADRs may be restricted in their ability to participate in the exercise of preemptive rights. See "Item 3. Key Information—Risk Factors—Risks Related to Our Controlling Shareholders and Capital Structure—Holders of ADSs May Not Be Able to Participate in Any Future Preemptive Rights Offering and as a Result May Be Subject to a Dilution of Equity Interest."

## **Restrictions Affecting Non-Mexican Shareholders**

Foreign investment in capital stock of Mexican corporations is regulated by the 1993 Foreign Investment Law and by the 1998 Foreign Investment Regulations to the extent they are not inconsistent with the Foreign Investment Law. The Ministry of Economy and the National Commission on Foreign Investment are responsible for the administration of the Foreign Investment Law and the Foreign Investment Regulations.

Our bylaws do not restrict the participation of non-Mexican investors in our capital stock. However, approval of the National Foreign Investment Commission must be obtained for foreign investors to acquire a direct or indirect participation in excess of 49% of the capital stock of a Mexican company that has an aggregate asset value that exceeds, at the time of filing the corresponding notice of acquisition, an amount determined annually by the National Foreign Investment Commission.

As required by Mexican law, our bylaws provide that any non-Mexicans who acquire an interest or participation in our capital at any time will be treated as having Mexican nationality for purposes of their interest in us, and with respect to the property, rights, concessions, participations or interests that we may own or rights and obligations that are based on contracts to which we are a party with the Mexican authorities. Such shareholders cannot invoke the protection of their government under penalty of forfeiting to the Mexican State the ownership interest that they may have acquired.

Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government with respect to his rights as a shareholder, but is not deemed to have waived any other rights he may have with respect to its investment in us, including any rights under U.S. securities laws. If a shareholder should invoke governmental protection in violation of this provision, his shares could be forfeited to the Mexican government. Mexican law requires that such a provision be included in the bylaws of all Mexican companies unless such bylaws prohibit ownership of shares by non-Mexicans. See “Item 3. Key Information—Risk Factors—Risks Related to Our Controlling Shareholders and Capital Structure—Mexican Law Restricts the Ability of Non-Mexican Shareholders to Invoke the Protection of Their Governments with Respect to Their Rights as Shareholders.”

## **Registration and Transfer**

Our shares are evidenced by certificates in registered form. We maintain a stock registry and, in accordance with Mexican law, only those persons whose names are recorded on the stock registry are recognized as owners of the series B shares.

## **Other Provisions**

### ***Appraisal Rights***

Under Mexican law, whenever the shareholders approve a change of corporate purpose, change of our nationality or transformation from one type of corporate form to another, any shareholder entitled to vote on such change or transformation who has voted against it has the right to tender its shares and receive the amount attributable to its shares, provided such shareholder exercises its right to withdraw within 15 days following the adjournment of the meeting at which the change or transformation was approved. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock according to our most recent balance sheet approved by an ordinary general shareholders’ meeting. The reimbursement may have certain tax consequences.

### ***Share Repurchases***

We may repurchase our common stock on the Mexican Stock Exchange at any time at the then market price. The repurchase of shares will be made by charging our equity, in which case we may keep them without reducing our capital stock, or charging our capital stock, in which case we must convert them into unsubscribed treasury stock. The ordinary general shareholders’ meeting shall determine the maximum amount of funds to be allocated for the repurchase of shares, which amount shall not exceed our total net profits, including retained earnings.



## [Table of Contents](#)

Repurchased common stock will either be held by us or kept in our treasury, pending future sales thereof through the Mexican Stock Exchange. If the repurchased shares are kept in our treasury, we may not exercise their economic and voting rights, and such shares will not be deemed to be outstanding for purposes of calculating any quorum or voting at any shareholders' meeting. The repurchased shares held by us as treasury shares may not be represented at any shareholder meeting. The decrease or increase of our capital stock as a result of the repurchase does not require the approval of a shareholders' meeting or of the board of directors.

Under Mexican securities regulation, our directors, officers, external auditors, the secretary of the board of directors and holders of 10% or more of our outstanding stock may not sell stock to us, or purchase repurchased stock from us, unless the sale or purchase is made through a tender offer. The repurchase of stock representing 3% or more of our outstanding share capital in any 20 trading-day period must be conducted through a public tender offer.

### ***Repurchase in the Event of Delisting***

In the event of the cancellation of the registration of our shares at the *Registro Nacional de Valores*, or National Registry of Securities, or RNV, whether at our request or at the request of the CNBV, under our bylaws and the regulations of the CNBV, we will be obligated to make a tender offer to purchase all of our shares held by non-controlling shareholders. Such tender offer shall be made at least at the greater price of the following: (i) the closing sale price under the terms of the following paragraph, or (ii) the book value of the shares according to the most recent quarterly report submitted to the CNBV and the Mexican Stock Exchange.

The quoted share price on the Mexican Stock Exchange referred to in the preceding paragraph shall be the weighted average share price as quoted on the Mexican Stock Exchange for the last 30 days in which our shares were traded, in a period not greater than six months prior to the date of the public tender offer. If the number of days in which our shares have traded during the period referred to above is less than 30, then only the actual number of days in which our shares have traded during such period will be taken into account. If shares have not been exchanged during such period, then the tender offer shall be made at a price equal to at least the book value of the shares.

In connection with any such cancellation of the registration of our shares, we will be required to deposit sufficient funds into a trust account for at least six months following the date of cancellation to ensure adequate resources to purchase at the public tender offer price any remaining outstanding shares from non-controlling shareholders that did not participate in the offer.

If we ask the RNV to cancel the registration of our shares, we will be exempt from carrying out a public tender offer, provided that: (i) we have the consent of the holders of at least 95% of our outstanding common shares, by a resolution at a shareholders' meeting; (ii) the aggregate amount offered for the securities in the market is less than 300,000 investment units (UDIs); (iii) the trust referred to in the preceding paragraph is executed, and (iv) notice is given to the CNBV of the execution and cancellation of the trust through the established electronic means.

Within ten business days of the commencement of a public tender offer, our board of directors must prepare and disclose to public investors its opinion with respect to the reasonableness of the tender offer price as well as any conflicts of interest that its members may have in connection with the tender offer. The opinion of the board of directors may be accompanied by another opinion issued by an independent expert that we may hire.

We may request the approval from the CNBV to use different criteria to determine the price of the shares. In requesting such approval, the following must be submitted to the CNBV: (i) the resolution of the board of directors approving such request, (ii) the opinion of the Corporate Governance Committee addressing the reasons why it deems appropriate the use of a different price, and (iii) a report from an independent expert indicating that the price is consistent with the terms of the Mexican Securities Law.

### ***Shareholder's Conflicts of Interest***

Any shareholder that has a direct or indirect conflict of interest with respect to any transaction must abstain from voting thereon at the relevant shareholders' meeting. A shareholder that votes on a business transaction in

which its interest conflicts with ours may be liable for damages if the transaction would not have been approved without such shareholder's vote.

### ***Rights of Shareholders***

The protections afforded to minority shareholders under Mexican law are different from those in the United States and other jurisdictions. The law concerning duties and responsibilities of directors and controlling shareholders has not been the subject of extensive judicial interpretation in Mexico, unlike the United States where judicial decisions have been issued regarding the duties of diligence and loyalty, which more effectively protect the rights of minority shareholders. Additionally, shareholder class actions are not available under Mexican law and there are different procedural requirements for bringing shareholder derivative lawsuits, which permit shareholders in U.S. courts to bring actions on behalf of other shareholders or to enforce rights of the corporation itself. Shareholders cannot challenge corporate action taken at a shareholders' meeting unless they meet certain procedural requirements.

In addition, under U.S. securities laws, as a foreign private issuer we are exempt from certain rules that apply to domestic U.S. issuers with equity securities registered under the Exchange Act, including the proxy solicitation rules, the rules requiring disclosure of share ownership by directors, officers and certain shareholders. We are also exempt from certain of the corporate governance requirements of the New York Stock Exchange, including certain requirements concerning audit committees and independent directors. A summary of significant ways in which our corporate governance standards differ from those followed by U.S. companies pursuant to NYSE listing standards is available on our website at [www.gruma.com](http://www.gruma.com). The information found at this website is not incorporated by reference into this document.

As a result of these factors, in practice it may be more difficult for our minority shareholders to enforce rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company. See "Item 3. Key Information—Risk Factors—Risks Related to Our Controlling Shareholders and Capital Structure—The Protections Afforded to Minority Shareholders in Mexico Are Different From Those in the United States."

### ***Antitakeover Protections***

Our bylaws provide that, subject to certain exceptions as explained below, prior written approval from the board of directors shall be required for any person (as defined hereunder), or group of persons to acquire, directly or indirectly, any of our common shares or rights to our common shares, by any means or under any title whether in a single event or in a set of consecutive events, such that its total shares or rights to shares would represent 5% or more of our outstanding shares.

Prior approval from the board of directors must be obtained each time such ownership threshold (and multiples thereof) is intended to be exceeded, except for persons who, directly or indirectly, are competitors (as such term is defined below) of the Company or of any of its subsidiaries, who must obtain the prior approval of the board of directors for future acquisitions where a threshold of 2% (or multiples thereof) of our common shares is intended to be exceeded.

Pursuant to our bylaws, a "person" is defined as any natural person, corporate entity, trust or similar form of venture, vehicle, entity, corporation or economic or mercantile association or any subsidiaries or affiliates of any of the former or, as determined by the board of directors, any group of persons who may be acting jointly, coordinated or as a whole; and a "competitor" is defined as any person engaged, directly or indirectly, in (i) the business of production and/or marketing of corn or wheat flour, and/or (ii) any other activity carried on by the Company or by any of its subsidiaries or affiliates.

Persons that acquire our common shares in violation of these requirements will not be considered the beneficial owners of such shares under our bylaws and will not be able to vote such shares or receive any dividends, distributions or other rights in respect of these shares. In addition, pursuant to our bylaws, these holders will be obligated to pay us a penalty in an amount equal to the greater of (i) the market value of the shares such party acquired without obtaining the prior approval of the board of directors and (ii) the market value of shares representing 5% of our capital stock.

## [Table of Contents](#)

*Board Notices, Meetings, Quorum Requirements and Approvals.* To obtain the prior approval of our board of directors, a potential purchaser must properly deliver a written application complying with the applicable requirements set forth in our bylaws. Such application shall state, among other things: (i) the number and class of our shares the person beneficially owns or to which such person has any right, (ii) the number and class of shares the Person intends to acquire, (iii) the number and class of shares with respect to which such Person intends to acquire any right, (iv) the percentage that the shares referred to in (i) represent of our total outstanding shares and of the class or series to which such shares belong, (v) the percentage that the shares referred to in (ii) and (iii) represent of our total outstanding shares and of the class or series to which such shares belong, (vi) the person's identity and nationality, or in the case of a purchaser which is a corporation, trust or legal entity, the nationality and identity of its shareholders, partners or beneficiaries as well as the identity and nationality of each person effectively controlling such corporation, trust or legal entity, (vii) the reasons and purpose behind such acquisition, (viii) if such person is, directly or indirectly, a competitor of the Company or any of its subsidiaries or affiliates, and if such person has the authority to legally acquire the shares pursuant to our bylaws and Mexican law, (ix) its source of financing the intended acquisition, (x) if the Person is part of an economic group, formed by one or more of its related parties, which intends to acquire shares of our common stock or rights to such shares, (xi) if the person has obtained any financing from one of its related parties for the payment of the shares, (xii) the identity and nationality of the financial institution, if any, that will act as the underwriter or broker in connection with any tender offer, and (xiii) the person's address for receiving notices.

Either the Chairman, the Secretary or the Alternate Secretary of our board of directors must call a meeting of the board of directors within 10 business days following the receipt of the written application. The notices for the meeting of the board of directors shall be in writing and sent to each of the directors and their alternates at least 45 calendar days prior to the meeting. Action by unanimous written consent is not permitted.

Any acquisition of capital shares representing at least 2% or 5%, as the case may be, of our outstanding capital stock, must be approved by at least the majority of the members of our board of directors present at a meeting at which at least the majority of the members is present. Such acquisitions must be resolved by our board of directors within 60 calendar days following the receipt of the written application described above, unless the board of directors determines that it does not have sufficient information upon which to base its decision. In such case, the board of directors shall deliver a written request to the potential purchaser for any additional information that it deems necessary to make its determination. The 60 calendar days referred to above will commence following the receipt of the additional information from the potential purchaser.

*Mandatory Tender Offers in the Case of Certain Acquisitions.* If our board of directors authorizes an acquisition of capital shares which increases the purchaser's ownership to 30% or more, but not more than 50%, of our capital stock, then the purchaser must effect its acquisition by way of a cash tender offer for a specified number of shares equal to the greater of (i) the percentage of common shares intended to be acquired or (ii) 10% of our outstanding capital stock, in accordance with the applicable Mexican securities regulations.

No approval of the board of directors will be required if the acquisition would increase the purchaser's ownership to more than 50% of our capital stock or result in a change of control, in which case the purchaser must effect its acquisition by way of a tender offer for 100% minus one of our total outstanding capital stock, which tender shall be made pursuant to applicable Mexican laws.

The aforementioned tender offers must be made simultaneously in the Mexican and US stock markets. Furthermore, an opinion issued by the board of directors regarding any such tender offer must be made available to the public through the authorized means of communication within 10 days after commencement of the tender offer. In the event of any tender offer, the shareholders shall have the right to hear more competitive offers.

*Notices.* In addition to the aforementioned approvals, if a person increases its beneficial ownership by 1% in the case of competitors, or 2% in the case of non-competitors, written notice must be submitted to the board of directors within five days of reaching or exceeding such thresholds.

*Exceptions.* The provisions of our bylaws summarized above will not apply to: (i) transfers of shares by operation of the laws of succession; (ii) acquisitions of shares by (a) any person who, directly or indirectly, has the authority or possibility of appointing the majority of the directors of our board of directors, (b) any company, trusts or similar form of venture, vehicle, entity, corporation or economic or mercantile association, which may be under

the control of the aforementioned person, (c) the heirs of the aforementioned person, (d) the aforementioned person when such person is repurchasing the shares of any corporation, trust or similar form of venture, vehicle, entity, corporation or economic or mercantile association referred to in the item (b) above, and (e) the Company or by trusts created by the Company; (iii) any person(s) that as of December 4, 2003 hold(s), directly or indirectly, more than 20% of the shares representing the Company's capital stock; and (iv) any other exceptions provided for in the Mexican Securities Law and other applicable legal dispositions.

## MATERIAL CONTRACTS

### **Archer-Daniels-Midland**

We entered into an association with Archer-Daniels-Midland in September 1996. We believe that this association improved our position in the U.S. corn flour market by combining our proprietary corn flour technology, our leading position in the corn flour industry in Mexico, the United States, Central America and Venezuela and our operational expertise with Archer-Daniels-Midland's logistical resources and financial strength.

As a result of this association, (i) we received U.S.\$258.0 million in cash, (ii) GRUMA and Archer-Daniels-Midland combined their U.S. corn flour operations under Azteca Milling, our wholly-owned U.S. corn flour operations, and, as a result, Archer-Daniels-Midland received a 20% partnership interest in Azteca Milling, and (iii) we received 60% of the capital stock of Molinera de México, Archer-Daniels-Midland's wholly-owned Mexican wheat milling operations. We also gained exclusivity rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets. In return, Archer-Daniels-Midland received 74,696,314 of our then newly issued shares, which represented at that time approximately 22% of our total outstanding shares and a 20% partnership interest in Azteca Milling in addition to retaining 40% of the capital stock of Molinera de México. Archer-Daniels-Midland also obtained the right to designate two of the 17 members of our board of directors and their corresponding alternates.

Under the terms of this association, Archer-Daniels-Midland may not, without the consent of Mr. Roberto González Barrera, the Chairman of our board of directors, acquire additional shares of our company. As of April 26, 2012, Archer-Daniels-Midland owned, directly and indirectly, approximately 23.22% of our outstanding shares. A total of 24,566,561 of these shares are held by Archer-Daniels Midland through a Mexican corporation jointly owned with Mr. González Barrera and controlled by him. Thus, Archer-Daniels-Midland only has the right to vote 18.87% of our outstanding shares. In addition, Archer-Daniels-Midland has the right to nominate two of the 17 members of our board of directors and their corresponding alternates. Archer-Daniels-Midland did not participate in a preemptive rights offering we completed on May 20, 2008. Prior to the preemptive rights offering, Archer-Daniels-Midland, directly and indirectly, owned approximately 27.1% of our outstanding shares and controlled the right to vote approximately 22% of our outstanding shares.

Furthermore, Archer-Daniels-Midland must give Mr. González Barrera a right of first refusal on any sale of our shares. Mr. González Barrera must give Archer-Daniels-Midland a similar right on any sale of his shares in us if at the time of the sale, he owns directly or indirectly, or as a result of the sale will own directly or indirectly, less than 30% of our outstanding shares. See "Item 7. Major Stockholders and Related Party Transactions—Related Party Transactions."

The documents which detail the terms of the association include the Shareholders Agreement by and among us, Roberto González Barrera, Archer-Daniels-Midland and ADM Bioproductos, S.A. de C.V., the Asset Contribution Agreement among Gruma Corporation, Gruma Holding, Inc., ADM Milling Co., Valley Holding, Inc., GRUMA-ADM, and Azteca Milling, L.P., and the Investment Agreement by and between us and Archer-Daniels-Midland, all dated as of August 21, 1996, as well as Amendment No. 1 and Amendment No. 2 to the Shareholders Agreement, dated as of September 13, 1996 and August 18, 1999, respectively. See "Item 19. Exhibits."

### ***Perpetual Bonds***

On December 3, 2004, Gruma, S.A.B. de C.V. issued U.S.\$300 million 7.75% senior unsecured perpetual bonds. The bonds which have no fixed final maturity date, have a call option exercisable by GRUMA at any time beginning five years after the issue date. As of December 31, 2011 we have not hedged any interest payments on our U.S.\$300 million 7.75% senior unsecured perpetual bonds.

### ***Gruma Corporation***

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions, which was refinanced and extended on June 20, 2011 to U.S.\$200 million for an additional 5-year term. The facility, as refinanced in 2011, has an interest rate based on LIBOR plus a spread of 1.375% to 2.0% that fluctuates in relation to Gruma Corporation's leverage and contains less restrictive provisions than those in the facility replaced. This facility contains covenants that limit Gruma Corporation's ability to merge or consolidate, and require it to maintain a ratio of total funded debt to consolidated EBITDA of not more than 3.0:1. In addition, this facility limits Gruma Corporation's, and certain of its subsidiaries' ability, among other things, to create liens; make certain investments; make certain restricted payments; enter into any agreements that prohibit the payment of dividends; and engage in transactions with affiliates. This facility also limits Gruma Corporation's subsidiaries' ability to incur additional debt.

Gruma Corporation is also subject to covenants which limit the amounts that may be advanced to, loaned to, or invested in us under certain circumstances. Upon the occurrence of any default or event of default under its credit agreements, Gruma Corporation generally is prohibited from making any cash dividend payments to us. The covenants described above and other covenants could limit our and Gruma Corporation's ability to help support our liquidity and capital resource requirements.

### ***Syndicated Loan Facility***

On March 22, 2011 we obtained a U.S.\$225 million, five-year senior credit facility through a syndicate of banks. The Syndicated Loan Facility consists of a term loan and a revolving loan facility. The interest rate for the Term Loan Facility and for the Revolving Loan Facility is either (i) LIBOR or (ii) an interest rate determined by the administrative agent based on its "prime rate" or the federal funds rate, respectively, plus, in either case, (a) 2.25% if the Company's ratio of total funded debt to EBITDA (the "Maximum Leverage Ratio") is greater than or equal to 3.0x, (b) 2.0% if the Company's Maximum Leverage Ratio is greater than or equal to 2.5x and less than 3.0x, (c) 1.75% if the Company's Maximum Leverage Ratio is greater than or equal to 2.0x and less than 2.5x and (d) 1.50% if the Company's Maximum Leverage Ratio is less than 2.0x. The Syndicated Loan Facility contains covenants that requires the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 3.5:1. The Syndicated Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Syndicated Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

### ***Peso Syndicated Loan Facility***

On June 15, 2011 we obtained a Ps.1,200 million, seven-year senior credit facility through a syndicate of banks. The Peso Syndicated Loan Facility consists of a term loan maturing in June 2018 with yearly principal amortizations beginning on December 2015, at an interest rate of 91-day THIE plus a spread between 137.5 and 225 basis points based on the Company's ratio of total funded debt to EBITDA. The Peso Syndicated Loan Facility contains covenants that requires the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and a maximum ratio of total funded debt to EBITDA of not more than 3.5:1. The Peso Syndicated Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Peso Syndicated Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

### ***Rabobank Loan Facility***

On June 15, 2011 we obtained a U.S.\$50 million, five-year senior credit facility from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.. The Rabobank Loan Facility consists of a revolving loan facility, at in interest rate of LIBOR plus (a) 2.25% if the Maximum Leverage Ratio is greater than or equal to 3.0x, (b) 2.0% if the Company's Maximum Leverage Ratio is greater than or equal to 2.5x and less than 3.0x, (c) 1.75% if the Company's Maximum Leverage Ratio is greater than or equal to 2.0x and less than 2.5x and (d) 1.50% if the

[Table of Contents](#)

Company's Maximum Leverage Ratio is less than 2.0x. The Rabobank Loan Facility contains covenants that requires the Company to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 3.5:1. The Rabobank Loan Facility also limits our ability, and our subsidiaries' ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, the Rabobank Loan Facility limits our subsidiaries' ability to guarantee additional indebtedness issued by the Company and to incur additional indebtedness under certain circumstances.

**2011 Bancomext Peso Facility**

On June 16, 2011 we obtained a Ps.600 million, seven-year senior credit facility from Bancomext (*Banco Nacional de Comercio Exterior*). The 2011 Bancomext Peso Facility consists of a term loan maturing in June 2018 at an interest rate of 91-day TIE plus a spread between 137.5 and 225 basis points based on the Company's ratio of total funded debt to EBITDA. The 2011 Bancomext Peso Facility contains a covenant that requires us to maintain a ratio of consolidated EBITDA to interest charges of not less than 2.5:1 as well as a covenant that requires us to maintain a maximum ratio of total funded debt to EBITDA of not more than 3.5:1. The 2011 Bancomext Peso Facility also limits our ability, and our subsidiaries' ability in certain cases to create liens.

**EXCHANGE CONTROLS**

Mexican law does not restrict our ability to remit dividends and interest payments, if any, to Mexican or non-Mexican holders of our securities. Payments of dividends to equity-holders generally will not be subject to Mexican withholding tax. See "—Taxation—Mexican Tax Considerations—Payment of Dividends." Mexico has had a free market for foreign exchange since 1991, and the government has allowed the peso to float freely against the U.S. dollar since December 1994.

Our ability to repatriate dividends from Gruma Venezuela may be adversely affected by exchange controls and other recent events. See "Item 3. Key Information—Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risk."

**TAXATION**

The following summary contains a description of certain Mexican federal and U.S. federal income tax consequences of the acquisition, ownership and disposition of Series B Shares or Series B Share ADSs (which are evidenced by ADRs), but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or hold Series B Shares or ADSs, such as the tax treatment of holders that are dealers or that own (actually or constructively under rules prescribed in the Internal Revenue Code of 1986, as amended, or the Code), 10% or more of the voting shares of GRUMA.

The Convention for the Avoidance of Double Taxation and Protocols thereto, or the Tax Treaty, between the United States and Mexico entered into force on January 1, 1994. The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

The summary is based upon tax laws of the United States and Mexico as in effect on the date of this document, which are subject to change, including changes that may have retroactive effect. Holders of Series B Shares or ADSs should consult their own tax advisers as to the Mexican, U.S. or other tax consequences of the purchase, ownership and disposition of shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws.

**Mexican Tax Considerations**

The following is a general summary of the principal consequences under the *Ley del Impuesto sobre la Renta*, or Mexican Income Tax Law, and rules and regulations thereunder, as currently in effect, of an investment in Series B Shares or ADSs by a holder that is not a resident of Mexico and that will not hold Series B Shares or ADSs

[Table of Contents](#)

or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Mexico.

For purposes of Mexican taxation, a natural person is a resident of Mexico for tax purposes if he has established his home in Mexico, unless he has resided in another country for more than 183 days, whether consecutive or not, in any one calendar year and can demonstrate that he has become a resident of that country for tax purposes, and a legal entity is a resident of Mexico if it was incorporated in Mexico or maintains the principal administration of its business or the effective location of its management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless such person can demonstrate the contrary. If a non-resident of Mexico is deemed to have a permanent establishment or fixed base in Mexico for tax purposes, all income attributable to such permanent establishment or fixed base will be subject to Mexican taxes, in accordance with applicable tax laws.

***Tax Treaties***

Provisions of the Tax Treaty that may affect the taxation of certain U.S. holders are summarized below. The United States and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters.

Mexico has also entered into and is negotiating several other tax treaties that may reduce the amount of Mexican withholding tax to which payment of dividends on Series B Shares or ADSs may be subject. Holders of Series B Shares or ADSs should consult their own tax advisors as to the tax consequences, if any, of such treaties.

Under the Mexican Income Tax Law, in order for any benefits from the Tax Treaty or any other tax treaties to be applicable, residence for tax purposes must be demonstrated.

***Payment of Dividends***

Under the Mexican Income Tax Law, dividends, either in cash or in kind, paid with respect to Series B Shares represented by ADSs are not subject to Mexican withholding tax. A Mexican corporation will not be subject to any tax if the amount of declared dividends does not exceed the net tax profit account (*cuenta de utilidad fiscal neta*, or CUFIN).

If we pay a dividend in an amount greater than our CUFIN balance (which may occur in a year when net profits exceed the balance in such accounts), then we are required to pay 30% income tax in 2011 and 2012 (29% income tax in 2013 and 28% in 2014) on an amount equal to the product of the portion of the grossed-up amount which exceeds such balance multiplied by 1.4286 in 2011 and 2012 (1.4085 in 2013 and 1.3889 in 2014).

***Taxation of Dispositions***

The sale or other disposition of ADSs by a non-resident holder will not be subject to Mexican tax. Deposits of Series B Shares in exchange for ADSs and withdrawals of Series B Shares in exchange for ADSs will not give rise to Mexican tax or transfer duties.

The sale of Series B Shares by a non-resident holder will not be subject to any Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other securities markets approved by the Mexican Ministry of Finance. Sales or other dispositions of Series B Shares made in other circumstances generally would be subject to Mexican tax, regardless of the nationality or residence of the transferor.

Under the Mexican Income Tax Law, gains realized by a nonresident holder of shares on the sale or disposition of Series B Shares not conducted through a recognized stock exchange generally are subject to a Mexican tax at a rate of 25% of the gross sale price. However, if the holder is a resident of a country which (i) is not considered to be a low tax rate country, (ii) its legislation does not contain territorial taxation, and (iii) such income is not subject to a preferential tax regime, the holder may elect to designate a resident of Mexico as its representative, in which case taxes would be payable at the applicable income tax rate on the gain on such disposition of Series B Shares.

## [Table of Contents](#)

Pursuant to the Tax Treaty, gains realized by qualifying U.S. holders from the sale or other disposition of Series B Shares, even if the sale is not conducted through a recognized stock exchange, will not be subject to Mexican income tax except that Mexican taxes may apply if:

- 50% or more of our assets consist of fixed assets situated in Mexico;
- such U.S. holder owned 25% or more of the Series B Shares representing the capital stock of GRUMA (including ADSs), directly or indirectly, during the 12-month period preceding such disposition; or
- the gain is attributable to a permanent establishment or fixed base of the U.S. holder in Mexico.

### ***Other Mexican Taxes***

A non-resident holder will not be liable for estate, inheritance or similar taxes with respect to its holdings of Series B Shares or ADSs; provided, however, that gratuitous transfers of Series B Shares may in certain circumstances result in imposition of a Mexican tax upon the recipient. There are no Mexican stamp, issue registration or similar taxes payable by a non-resident holder with respect to Series B Shares or ADSs.

Reimbursement of capital pursuant to a redemption of Series B Shares will be tax exempt up to an amount equivalent to the adjusted contributed capital corresponding to the Series B Shares that will be redeemed. Any excess distribution pursuant to a redemption will be considered a dividend for tax purposes and we may be taxed as described above.

### **U.S. Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax consequences to U.S. holders, as defined below, of the acquisition, ownership and disposition of Series B Shares or ADSs. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the “Code”), Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (the “IRS”) and judicial decisions, all as in effect on the date of this Annual Report, including the provisions of the Tax Treaty, and all of which are subject to change, possibly with retroactive effect, and to different interpretations. This summary does not describe any state, local, or non-U.S. tax law consequences, or any aspect of U.S. federal tax law other than U.S. federal income tax law (such as the estate tax, gift tax and the Medicare tax on net investment income).

The summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership or disposition of Series B Shares or ADSs. The summary applies only to U.S. holders that will hold their Series B Shares or ADSs as capital assets and does not apply to special classes of holders such as dealers in securities or currencies, holders with a functional currency other than the U.S. dollar, holders that own or are treated as owning 10% or more of our voting Series B Shares (whether held directly or through ADSs or both), tax-exempt entities, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, certain U.S. expatriates, holders liable for the alternative minimum tax, securities traders electing to account for their investment in their Series B Shares or ADSs on a mark-to-market basis, partnerships and other pass-through entities and persons holding their Series B Shares or ADSs in a hedging transaction or as part of a straddle, conversion or other integrated transaction. The following summary assumes that we are not a passive foreign investment company (a “PFIC”), which we do not believe that we were for our 2011 taxable year and do not currently expect to become for our current taxable year or the foreseeable future.

For purposes of this discussion, a “U.S. holder” is a beneficial owner of Series B Shares or ADSs that is:



## [Table of Contents](#)

- a citizen or resident of the United States of America;
- a corporation (or an entity taxable as a corporation) organized in or under the laws of the United States of America or any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal taxation regardless of its source;
- a trust if (i) a court within the U.S. is able to exercise primary supervision over the administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) such trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- otherwise subject to U.S. federal income taxation on a net income basis with respect to the Series B Shares or ADSs.

If a partnership (or any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of Series B Shares or the ADSs, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of Series B Shares or ADSs that is a partnership, and partners in such partnership, should consult their tax advisors about the United States federal income tax consequences of acquiring, holding and disposing of the Series B Shares or the ADSs, as the case may be.

Prospective investors in the Series B Shares or ADSs should consult their own tax advisors as to the U.S. federal, Mexican or other tax consequences of the acquisition, ownership and disposition of the Series B Shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws and their entitlement to the benefits, if any, afforded by the Tax Treaty.

### ***Treatment of ADSs***

The following summary assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement will be complied with in accordance with their terms. In general, a U.S. holder of ADSs will be treated as the beneficial owner of the Series B Shares represented by those ADSs for U.S. federal income tax purposes. Deposits or withdrawals of Series B Shares by U.S. holders in exchange for the ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes. U.S. holders that withdraw any Series B Shares should consult their own tax advisors regarding the treatment of any foreign currency gain or loss on any pesos received in respect of such Series B Shares.

### ***Taxation of Distributions***

In this discussion, the term “dividends” is used to mean distributions paid out of our current or accumulated earnings and profits (calculated for U.S. federal income tax purposes) with respect to Series B Shares or ADSs. In general, the gross amount of any dividends will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder in the case of Series B Shares, or by the depository in the case of ADSs. Dividends paid by us will not be eligible for the dividends-received deduction allowed to corporations under the Code. To the extent that a distribution exceeds the amount of our earnings and profits (calculated for U.S. federal income tax purposes), it will be treated as a non-taxable return of capital to the extent of the U.S. holder’s basis in the Series B Shares or ADSs, and thereafter as capital gain. We do not intend to calculate our earnings and profits in accordance with U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution on Series B Shares or ADSs generally will be treated as a dividend. Distributions will be paid in pesos and will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day that they are received by the U.S. holder in the case of Series B Shares, or by the depository in the case of ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received by a U.S. holder or depository that are converted into U.S. dollars on a date subsequent to receipt.

## [Table of Contents](#)

Distributions of additional Series B Shares or ADSs to U.S. holders with respect to their Series B Shares or ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Dividends paid on Series B Shares or ADSs generally will be treated for U.S. foreign tax credit purposes as foreign source passive category income. In the event Mexican withholding taxes are imposed on such dividends, any such withheld taxes would be treated as part of the gross amount of the dividend includible in income of a U.S. holder for U.S. federal income tax purposes, and such taxes may be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. federal income tax law, for credit against a U.S. holder's U.S. federal income tax liability or, at the U.S. holder's election, for deduction from gross income in computing the U.S. holder's taxable income. The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a U.S. holder's particular circumstances. In the event Mexican withholding taxes are imposed, U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits.

U.S. holders should be aware that the IRS has expressed concern that parties to whom ADSs are transferred may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Mexican withholding taxes could be affected by future actions that may be taken by the IRS.

### ***Qualified Dividend Income***

Certain dividends received by non-corporate U.S. holders that constitute "qualified dividend income" will be subject to a reduced maximum marginal U.S. federal income tax rate. Qualified dividend income generally includes, among other dividends, dividends received prior to January 1, 2013, from "qualified foreign corporations." In general, the term "qualified foreign corporation" includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory, and which includes an exchange of information program. The Tax Treaty has been approved for this purpose by the U.S. Treasury Department. In addition, a foreign corporation is treated as a qualified foreign corporation with respect to any dividend paid by the corporation with respect to stock of the corporation that is readily tradable on an established securities market in the United States. For this purpose, a share is treated as readily tradable on an established securities market in the United States if an ADR backed by such share is so traded.

Notwithstanding the previous rule, dividends received from a foreign corporation that is a PFIC, as discussed below, in the year in which the dividend was paid (or was a PFIC in the year prior to the year in which the dividend was paid) will not constitute qualified dividend income. In addition, the term "qualified dividend income" will not include, among other dividends, any (i) dividends on any share of stock or ADS which is held by a taxpayer for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which such share or the Series B Shares backing the ADS become ex-dividend with respect to such dividends (as measured under section 246(c) of the Code) or (ii) dividends to the extent that the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respects to positions in substantially similar or related property. Moreover, special rules apply in determining a taxpayer's foreign tax credit limitation under section 904 of the Code in the case of qualified dividend income.

Individual U.S. holders should consult their own tax advisors to determine whether or not amounts received as dividends from us will constitute qualified dividend income subject to a reduced maximum marginal U.S. federal income tax rate and, in such case, the effect, if any, on the individual U.S. holder's foreign tax credit.

### ***Taxation of Dispositions***

Gain or loss realized by a U.S. holder on the sale, redemption or other taxable disposition of Series B Shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S. holder's adjusted basis in the Series B Shares or the ADSs and the amount realized on the disposition (including any amounts withheld in respect of Mexican withholding tax). Any such gain or loss will be long-term capital gain or loss if the Series B Shares or ADSs have been held for more than one year as of the time of the sale, redemption or other taxable disposition. Under current law, certain non-corporate U.S. holders may be

## [Table of Contents](#)

eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

If Mexican income tax is withheld on the sale, redemption or other taxable disposition of Series B Shares or ADSs, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale, redemption or other taxable disposition before deduction of the Mexican income tax. Capital gain or loss realized by a U.S. holder on a sale, redemption or other taxable disposition of Series B Shares or ADSs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a common share that is subject to Mexican income tax, the U.S. holder may not be able to benefit from the foreign tax credit for that Mexican income tax (i.e., because the gain from the disposition would be U.S. source), unless the U.S. holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. holder may take a deduction for the Mexican income tax if it does not elect to claim a foreign tax credit with respect to any foreign income taxes paid or accrued during the taxable year.

U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, Series B Shares or ADSs.

### ***Information Reporting and Backup Withholding***

Dividends on, and proceeds from the sale or other disposition of, the Series B Shares or ADSs paid to a U.S. holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding at the applicable rate unless the holder:

- establishes that it is an exempt holder; or
- provides an accurate taxpayer identification number on a properly completed Internal Revenue Service Form W-9 and certifies that no loss of exemption from backup withholding has occurred.

The amount of any backup withholding from a payment to a holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the Internal Revenue Service.

Recently enacted legislation requires individual U.S. Holders to report information to the IRS with respect to their investment in Series B Shares or ADSs unless certain requirements are met. Investors who are individuals and fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in Series B Shares or ADSs.

### ***U.S. Tax Consequences for Non-U.S. Holders***

#### *Distributions:*

A holder of Series B Shares or ADSs that is not a U.S. holder or a partnership (or any entity treated as a partnership for U.S. federal income tax purposes) (a "non-U.S. holder") generally will not be subject to U.S. federal income or withholding tax on dividends received on Series B Shares or ADSs, unless such income is effectively connected with the conduct by the holder of a U.S. trade or business.

#### *Dispositions:*

A non-U.S. holder of Series B Shares or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares or ADSs, unless:

- such gain is effectively connected with the conduct by the holder of a U.S. trade or business, or
- in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

[Table of Contents](#)

*Information Reporting and Backup Withholding:*

Although non-U.S. holders generally are exempt from backup withholding, a non-U.S. holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

**DOCUMENTS ON DISPLAY**

We are subject to the information requirements of the Exchange Act and, in accordance therewith, we are required to file reports and other information with the SEC. These materials, including this Form 20-F and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

**ITEM 11 Quantitative And Qualitative Disclosures About Market Risk.**

We are exposed to market risks arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. We use derivative instruments from time to time, on a selective basis, to manage these risks. In addition, we have also historically used certain derivative instruments for trading purposes. We adopted a risk management policy that precludes the use of derivative instruments for trading purposes. We maintain and control our treasury operations and overall financial risk through practices approved by our senior management.

**RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

In 2008 we implemented specific improvements to our internal controls concerning the use of derivative financial instruments. In addition, we implemented a new risk management policy that besides consolidating such improvements, prohibits the Company from entering into derivative financial instruments for trading purposes with the aim of obtaining profits based on changes in market values. However, the use of financial derivative instruments for hedging purposes is allowed if used with the objective of mitigating financial risks and associated with a hedged item that is relevant to business activities.

**INTEREST RATE RISK**

We depend upon debt financing transactions, including debt securities, bank and vendor credit facilities and leases, to finance our operations. All such financial instruments, as well as the related interest rate derivatives discussed further below, are entered into for other than trading purposes. These transactions expose us to interest rate risk, with the primary interest-rate risk exposure resulting from changes in the relevant base rates (mostly LIBOR and to a lesser extent, Prime, TIIE and *Tasa Promedio Ponderada* in Venezuela) which are used to determine the interest rates that are applicable to borrowings under our credit facilities. We are also exposed to interest rate risk in connection with refinancing of maturing debt. We had U.S.\$322.9 million (Ps.4,505.4 million) of fixed rate debt and U.S.\$635.3 million (Ps.8,862.7 million) in floating rate debt as of December 31, 2011. A hypothetical 100 basis point increase or decrease in interest rates would not have a significant effect on the fair value of our fixed rate debt. The following table sets forth, as of December 31, 2011, principal cash flows and the related weighted average interest rates by expected maturity dates for our debt obligations.

	Maturity Dates					Total	Fair Value
	2012	2013	2014	2015	Thereafter		
	(in millions of pesos, except percentages)						
<b>Liabilities</b>							
<b>Debt</b>							
Fixed Rate (Ps.)	291.57	28.91	0	0	4,185	4,505	4,512.6
Average Rate	13%	13%	0%	0%	7.75%		
Floating Rate (Ps.)	1341.63	17.14	355.8	441.07	6,707.07	8,862.7	8,934.5
Average Rate	4.96%	7%	2.59%	3.39%	3.3%		

From time to time, we use derivative financial instruments such as interest rate swaps for purposes of hedging a portion of our debt, in order to reduce our exposure to increases in interest rates. Several of these contracts, however, do not qualify for accounting treatment as hedging transactions.

On November 2, 2004, we entered into an interest rate swap transaction with five banks with an aggregate notional amount of U.S.\$150 million maturing on April 5, 2008, whereby we fixed the 6-month LIBOR rate associated with the term portion of the 2004 Facility at an average rate of 3.2725%. The swap transaction provided that the counterparty pay us unless 6-month LIBOR reached 6%, in which case the parties had no obligation to pay any amount for the applicable period. On September 30, 2005, this interest rate swap was modified resulting in an average fixed rate of 3.2775% and a maturity date of March 30, 2008. The swap transaction provided that the counterparty pay us unless 6-month LIBOR reached 6%, in which case the parties had no obligation to pay any amount for the applicable period. However, on March 8, 2006 we modified this 6% level up to 6.5% and 6.75% for the interest payment dates due in 2007, obtaining a fixed average rate of 3.6175% for this year. In addition, in December 12, 2005 we entered into a new interest rate swap for the 2005 Facility with a single bank, which started on March 30, 2008 and matured on March 30, 2009, whereby we fixed the 6-month LIBOR rate associated with the term portion at an average rate of 4.505%. The swap transaction provided that the counterparty would pay us unless 6-month LIBOR reached 7%, in which case the parties had no obligation to pay any amount for the applicable period. After the March 30, 2009 maturity we have not entered into additional swap transactions.

During 2010, the Company had only one interest rate swap contract outstanding, which was entered into by Derivados de Maíz Alimenticio, S.A., our Costa Rican subsidiary, on July 2008 to hedge the interest rate risk associated with certain long-term credit facilities. This swap has an aggregate notional amount of U.S.\$20 million and a maturity date of December 28, 2010. After the December 28, 2010 maturity we did not enter into any additional swap transactions.

Additionally, we entered into some exchange rate forward and option contracts to financially hedge part of the interest payments due in 2006, 2007, 2008 and the first two coupon dates of 2009 corresponding to our U.S.\$300 million 7.75% senior unsecured perpetual bonds. These forward and option contracts have either expired by their own terms or been terminated by the Company.

In the case of our cash and short-term investments, declines in interest rates decrease the interest return on floating rate cash deposits and short-term investments. A hypothetical 100 basis point decrease in interest rates would not have a significant effect on our results of operations.

In the case of our floating interest rate debt, a rise in interest rates increases the interest expense on floating rate debt. A hypothetical 100 basis point increase in interest rates would not have a significant effect on our results of operations.

#### **FOREIGN EXCHANGE RATE RISK**

Our net sales are denominated in U.S. dollars, Mexican pesos and other currencies. During 2011, 38% of our revenues were generated in U.S. dollars, 34% in pesos and 28% in other currencies. In addition, as of

[Table of Contents](#)

December 31, 2011, 67% of our total assets were denominated in currencies other than Mexican pesos, particularly U.S. dollars. A significant portion of our operations is financed through U.S. dollar-denominated debt.

We believe that we have natural foreign exchange hedges incorporated in our balance sheet, in significant part because we have subsidiaries outside Mexico, and the peso-denominated value of our equity in these subsidiaries is also exposed to fluctuations in exchange rates. Changes in the peso value of equity in our subsidiaries caused by movements in foreign exchange rates are recognized as a component of equity. See Note 19 to our audited consolidated financial statements.

As of December 31, 2011, 83.29% of our debt obligations was denominated in U.S. dollars. The following table sets forth information concerning our U.S. dollar-denominated debt as of December 31, 2011. The table does not reflect our U.S. dollar sales or our U.S. dollar-denominated assets.

	Expected Maturity Date (U.S. dollar-denominated Debt) as of December 31, 2011					Total	Fair Value
	2012	2013	2014	2015	Thereafter		
U.S. dollar-denominated debt	(in millions of pesos)						
Syndicated Loan Facility	0	0	348.75	348.75	2,441.25	3,138.75	3,257.6
Rabobank Loan Facility	0	0	0	0	697.5	697.5	721.1
7.75% Perpetual Bond	0	0	0	0	4,185.00	4,185.00	4,192.1
Other U.S. dollar loans	1,247.44	7.39	0	0	1,858.10	3,112.93	3,112.9
<b>TOTAL</b>	<b>1,247.44</b>	<b>7.39</b>	<b>348.75</b>	<b>348.75</b>	<b>9,181.85</b>	<b>11,134.18</b>	<b>11,283.7</b>

An important part of our foreign exchange rate risk relates to our substantial U.S. dollar-denominated debt for our non-U.S. subsidiaries.

During 2007, we entered into forward contracts and exchange rate option contracts (Mexican peso — U.S. dollar) with respect to our foreign exchange exposure related to the 7.75% perpetual notes. These contracts covered four coupon dates for 2007, as well as four additional dates for 2008 and two for 2009. Accordingly, the maturity dates for these contracts ranged from March 2007 to June 2009. These financial instruments have either expired by their terms or were terminated by the Company.

During 2007, we also entered into exchange rate option contracts expiring during 2008 and 2009. On an average basis, by maturity date, the purchase trades were U.S.\$370.5 million against U.S.\$420 million of sale trades. In addition, for 2008 and for the remaining two dates in 2009, we entered into exchange rate options contracts, under which GRUMA could either sell or buy U.S. dollars depending on the behavior of the spot rate, for an aggregate notional amount of U.S.\$115 million for each date. Additionally, at the end of 2007, twelve call contracts maturing on February 28, 2008, were sold with an exchange rate of Ps.12.00 per U.S. dollar. These contracts were not recognized under hedge accounting principles. The favorable effect of the contracts due in 2007 of Ps.290.7 million was recognized in our income statement for 2007. As of December 31, 2007, the unfavorable effect for changes in the fair value of outstanding contracts was Ps.16.8 million, which was also recognized in our income statement.

During 2008, GRUMA entered into foreign exchange derivative instruments which covered varying periods of time and had varying pricing provisions. The Company primarily entered into swap forwards and options contracts, for which the periodic settlement results depended on the behavior of the spot rate at a future maturity date. In the first quarter of 2008, we entered into foreign exchange derivative instruments covering a basket of currencies. In the second quarter of 2008 and through July, August and September of 2008, we entered into foreign exchange derivative instruments mainly in respect of the dollar/peso and the dollar/euro exchange rate. These derivative instruments were entered into for trading purposes and did not qualify for hedge accounting treatment.

During 2008, we entered into foreign exchange derivative instruments with several counterparties maturing in 2008, 2009, 2010 and 2011. These financial instruments have either expired by their terms or were terminated by the Company. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

## [Table of Contents](#)

We account for our currency derivative instruments using the mark-to-market accounting method. Extreme exchange rate volatility in the financial markets during the last two quarters of 2008 and the first quarter of 2009 resulted in significant fluctuations in the mark-to-market value of GRUMA's foreign exchange derivative instruments. These fluctuations were further exacerbated by the leverage features included in certain of these instruments. As of September 30, 2008, these instruments represented a negative mark-to-market net value of U.S.\$291.4 million. As of October 8, 2008, these instruments represented a mark-to-market unrealized loss of U.S.\$684 million. As of October 28, 2008, these instruments represented an aggregate mark-to-market non-cash charge of U.S.\$788 million; of which U.S.\$105 million, U.S.\$354 million, U.S.\$220 million, and U.S.\$109 million on instruments scheduled to mature in 2008, 2009, 2010, and 2011, respectively.

On November 12, 2008, we entered into a loan agreement with Bancomext in the amount of Ps.3,367 million and applied the proceeds to terminate our commitments arising under all the currency derivative instruments that we had entered into with one of our derivative counterparties and to pay other commitments arising under the currency derivative instruments maturing from the date of such loan agreement with Bancomext. In addition, we entered into agreements on October 16, 2009 with our remaining derivative counterparties to convert a total of U.S.\$738.3 million dollars owing under our terminated foreign exchange derivative instruments into medium- and long-term loans, as described below.

In connection with most of its obligations under its foreign exchange derivative instruments, the Company entered into a term sheet on March 19, 2009 that provided for the financing of the obligations that would result from the termination of all of its foreign exchange derivative instruments that it had entered into with the Major Derivative Counterparties. On March 23, 2009, GRUMA and the Major Derivative Counterparties agreed to terminate all of these derivative instruments and fixed the total amount of obligations payable by GRUMA to the Major Derivative Counterparties at U.S.\$668.3 million. On October 16, 2009, the Company reached an agreement with the Major Derivative Counterparties to convert these derivatives obligations into the Term Loan in the amount of U.S.\$668.3 with a tenor of seven and one-half years. The Term Loan was secured by the Company's shares in GIMSA, Gruma Corporation and Molinera de México.

In connection with the balance of its foreign exchange derivative instruments, the Company entered into separate term sheets with Barclays, RBS and Standard Chartered during June and July 2009 that provided for the financing of the obligations that would result from the termination of all of its foreign exchange derivative instruments that it had entered into with each of Barclays, RBS and Standard Chartered. GRUMA and Barclays, RBS and Standard Chartered agreed to terminate all of the derivative instruments owing to these parties and fixed the total amount of obligations payable by GRUMA to Barclays at U.S.\$21.5 million, RBS at U.S.\$13.9 million and Standard Chartered at U.S.\$22.9 million for a total aggregate amount of U.S.\$58.3 million. In addition, during June of 2009, GRUMA entered into a term sheet with BNP that fixed the amount payable by GRUMA to BNP at U.S.\$11.8 million.

On October 16, 2009, the Company reached separate agreements with Barclays, RBS and Standard Chartered to convert the obligations that resulted from the termination of all of its foreign exchange derivative instruments entered into with these parties into loans in the amount of U.S.\$21.5 million, U.S.\$13.9 million and U.S.\$22.9 million, respectively, with a tenor of three years. On October 16, 2009, GRUMA also reached a separate agreement with BNP to convert the obligations that resulted from the scheduled maturity of all of its foreign exchange derivative instruments entered into with BNP into a loan in the amount of U.S.\$11.8 million with a tenor of approximately one and one-half years (the "BNP Term Loan"). As a result of the Term Loan, the Three-Year Term Loans and the BNP Term Loan, the Company converted a total of U.S.\$738.3 million dollars owing under our terminated foreign exchange derivative instruments into medium- and long-term loans.

On February 18, 2011, we made an early payment of outstanding balances of several of our current bank facilities, including the Term Loan, the Three-Year Term Loans and the BNP Term Loan, using proceeds from the GFNorte Sale. As a result of such repayment, the loan agreements relating to the Term Loan, the Three-Year Term Loans and the BNP Term Loan have been terminated. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk."

As indicated in Note 5 to our consolidated financial statements, during 2011, we entered into forward transactions in order to hedge the Mexican peso to U.S. dollar foreign exchange rate risk related to the price of corn purchases for the summer and winter corn harvests in Mexico. Since these exchange rate derivative financial

[Table of Contents](#)

instruments did not qualify for hedge accounting treatment, they were recognized at their estimated fair value and periodic mark-to-market measurement was made. As of December 31, 2011, we had foreign exchange derivative transactions in effect for a nominal amount of U.S.\$106 million with different maturities from January through March 2012, the open positions of these instruments represented a favorable effect of approximately Ps.88.5 million recognized in income.

As of March 31, 2012, the Company had foreign exchange derivative transactions in effect for a nominal amount of U.S.\$378 million with different maturities from April through July 2012. The purpose of these contracts was to hedge the risks related to exchange rate fluctuations on the price of corn and wheat, which is denominated in U.S. dollars.

As indicated in Note 5 to our consolidated financial statements, operations in Venezuela represented 16% of net sales and 14% of total assets as of December 31, 2011. In recent years, political and social instability has prevailed in Venezuela, and as described in Note 5 to our consolidated financial statements, the Venezuelan government devalued its currency and established a two tier exchange structure on January 11, 2010. On December 30, 2010, the Venezuelan government issued Exchange Agreement No. 14, which established a single exchange rate of 4.30 bolivars per U.S. dollar effective January 1, 2011.

### **COMMODITY AND DERIVATIVE PRICE RISK**

The availability and price of corn and other agricultural commodities are subject to wide fluctuations due to factors outside our control, such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand/supply and global production of similar and competitive crops. We hedge a portion of our production requirements through commodity futures and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas and soy oils which exist as part of ongoing business operations. The open positions for hedges of purchases do not exceed the maximum production requirements for a one-year period.

During 2011, we entered into short-term hedge transactions through commodity futures and options for a portion of our requirements. All derivative financial instruments are recorded on the consolidated balance sheet at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive income in stockholders' equity, depending on whether the derivative qualifies for hedge accounting and is effective as part of a hedge transaction. Ineffectiveness results when the change in the fair value of the hedge instruments differs from the change in the fair value of the hedged item.

For hedge transactions that qualify and are effective, gains and losses are deferred until the underlying asset or liability is settled, and then are recognized as part of that transaction.

Gains and losses which represent hedge ineffectiveness and derivative transactions that do not qualify for hedge accounting are recognized in income.

As of December 31, 2011, financial instruments that qualify as hedge accounting represented a favorable effect of Ps.14.9 million, which was recognized as comprehensive income in equity. From time to time we hedge commodity price risks utilizing futures and options strategies that do not qualify for hedge accounting. As a result of non-qualification, these derivative financial instruments are recognized at their estimated fair values and are marked to market with the associated effect recorded in current period earnings. For the year ended December 31, 2011, we recognized an unfavorable effect of Ps.40.2 million from these contracts. Additionally, as of December 31, 2011, we realized Ps.52.6 million in net losses on commodity price risk hedges that did not qualify for hedge accounting.

Based on our overall commodity exposure at December 31, 2011, a hypothetical 10 percent decline in market prices applied to the fair value of the instruments would result in a charge to income of Ps.40.4 million (for non-qualifying contracts).



## COUNTERPARTY RISK

We maintain centralized treasury operations in Mexico for our Mexican operations and in the United States for our U.S. operations. Liquid assets are invested primarily in government bonds and short-term debt instruments with a minimum “A1/P1” rating for our U.S. operations and “A” for our Mexican operations. We face credit risk from the potential non-performance by the counterparties in respect of the financial instruments that we utilize. Substantially all of these financial instruments are unsecured. We do not anticipate non-performance by the counterparties, which are principally licensed commercial banks with long-term credit ratings. In addition, we minimize counterparty solvency risk by entering into derivative instruments only with major national and international financial institutions using standard International Swaps and Derivatives Association, Inc. (“ISDA”) forms and long form confirmation agreements. For our Central American operations and Gruma Venezuela, we only invest cash reserves with well-known local banks and local branches of international banks. In addition, we also keep small investments abroad.

The above discussion of the effects on us of changes in interest rates, foreign exchange rates, commodity prices and equity prices is not necessarily indicative of our actual results in the future. Future gains and losses will be affected by actual changes in interest rates, foreign exchange rates, commodity prices, equity prices and other market exposures, as well as changes in the actual derivative instruments employed during any period.

### ITEM 12 Description Of Securities Other Than Equity Securities.

#### American Depositary Shares

Our Series B Shares have been traded on the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, or Mexican Stock Exchange, since 1994. The ADSs, each representing four Series B Shares, commenced trading on the New York Stock Exchange in November 1998. As of April 26, 2012, our capital stock was represented by 565,174,609 issued Series B shares, of which 563,650,709 shares were outstanding, fully subscribed and paid, and 1,523,900 shares were held in our treasury. As of December 31, 2011, 72,940,304 Series B shares of our common stock were represented by 18,235,076 ADSs held by 7 record holders in the United States.

On October 13, 2008, our Series B Shares were suspended as required by the Mexican Stock Exchange in connection with pending information regarding the publication of events related to the Company’s currency derivative instruments. Accordingly, our ADSs were also suspended on the New York Stock Exchange on October 20, 2008. On October 29, 2008, our Series B Shares and our ADSs began trading again as the aforementioned information was released.

#### Fees and Expenses

The following table summarizes the fees and expenses payable by holders of ADSs to Citibank, N.A. (the “Depository”) pursuant to the Deposit Agreement dated September 18, 1998:

Service	Rate	By Whom Paid
(1) Issuance of ADSs upon deposit of Series B Shares (excluding issuances contemplated by paragraphs 3(b) and (5) below)	Up to U.S.\$5.00 per 100 ADSs (or fraction thereof) issued	Party for whom deposits are made or party receiving ADSs
(2) Delivery of Series B Shares, property and cash against surrender of ADSs	Up to U.S.\$5.00 per 100 ADSs (or fraction thereof) surrendered	Party surrendering ADSs or making withdrawal
(3) Distribution of (a) cash dividend or (b) ADSs pursuant to stock dividends (or other free distribution of stock)	No fee, so long as prohibited by the exchange upon which ADSs are listed	N/A

[Table of Contents](#)

<u>Service</u>	<u>Rate</u>	<u>By Whom Paid</u>
(4) Distribution of cash proceeds (i.e. upon sale of rights or the sale of any securities or property pursuant to Sections the Deposit Agreement)	Up to \$2.00 per 100 ADSs held	Party to whom distribution is made
(5) Distribution of ADSs pursuant to exercise of rights	Up to \$2.00 per 100 ADSs issued	Party to whom distribution is made

In addition to the foregoing, holders of our ADSs are responsible for the following charges pursuant to the Deposit Agreement: (i) taxes (including applicable interest and penalties) and other governmental charges; (ii) such registration fees as may from time to time be in effect for the registration of Series B Shares on the share register and applicable to transfers of Series B Shares to or from the name of Citibank, S.A. (the “Custodian”), the Depository or any nominees upon the making of deposits and withdrawals, respectively; (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing Series B Shares or holders of ADSs; (iv) the customary expenses and charges incurred by the Depository in the conversion of foreign currency; and (v) such fees and expenses as are incurred by the Depository in connection with compliance with exchange control regulatory requirements applicable to Series B Shares, ADSs and ADRs.

Pursuant to the Deposit Agreement, the Depository may deduct the amount of any taxes or other governmental charges owed from any payments to holders. It may also sell deposited securities to pay any taxes owed. Holders may be required to indemnify the Depository, the Company and the Custodian from any claims with respect to taxes.

## PART II

### ITEM 13. Defaults, Dividend Arrearages And Delinquencies.

Not applicable.

### ITEM 14. Material Modifications To The Rights Of Security Holders And Use Of Proceeds.

Not applicable.

### ITEM 15. Controls and Procedures.

(a) *Disclosure controls and procedures.* We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Management’s annual report on internal controls over financial reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our Board of Directors, Chief Executive Officer, Chief Financial Officer, Chief Corporate Officer and other personnel, we conducted an evaluation of the

[Table of Contents](#)

effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

PricewaterhouseCoopers, an independent registered public accounting firm, our independent auditor, issued an attestation report on our internal control over financial reporting on April 30, 2012.

(c) *Attestation Report of the registered public accounting firm.* The report of PricewaterhouseCoopers, an independent registered public accounting firm, on our internal control over financial reporting is included herein at page F-2.

(d) *Changes in internal control over financial reporting.* There has been no change in our internal control over financial reporting during 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting:

**ITEM 16A. Audit Committee Financial Expert.**

Our Board of Directors has determined that Mr. Mario Laborín Gómez qualifies as an independent member of the board and as an “audit committee financial expert”, within the meaning of this Item 16A.

**ITEM 16B. Code of Ethics.**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies, among others, to our Chief Executive Officer, Chief Financial Officer and Chief Corporate Officer, and persons performing similar functions. Our code of ethics is available on our web site at [www.gruma.com](http://www.gruma.com). If we amend any provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer, Chief Corporate Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

**ITEM 16C. Principal Accountant Fees and Services.**

**Audit and Non-Audit Fees**

The following table sets forth the fees billed to us and our subsidiaries by our independent auditors, PricewaterhouseCoopers, during the fiscal years ended December 31, 2010 and 2011:

	Year ended December 31,			
	2010		2011	
	(thousands of Mexican pesos)			
Audit fees	Ps.	40,405	Ps.	40,424
Tax fees		6,410		7,397
Other fees		11,941		4,985
Total fees	Ps.	58,756	Ps.	52,806

Audit fees in the above table are the aggregate fees billed by PricewaterhouseCoopers and its affiliates in connection with the audit of our annual financial statements, the review of our interim financial statements and statutory and regulatory audits.

Tax fees in the above table are fees billed by PricewaterhouseCoopers and its affiliates for tax compliance services, tax planning services and tax advice services.

Other fees in the above table are fees billed by PricewaterhouseCoopers and its affiliates for non-audit services, mainly related to accounting advice on the implementation of new accounting standards as well as accounting advice on derivative financial instruments, as permitted by the applicable independence rules.

#### **Audit Committee Approval Policies and Procedures.**

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee. Any service proposals submitted by external auditors need to be discussed and approved by the audit committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our audit committee. In addition, the members of our board of directors are briefed on matters discussed in the meetings of the audit committee.

#### **ITEM 16D. Exemptions from the Listing Standards for Audit Committees.**

Not Applicable.

#### **ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

We did not repurchase any of our Series B Shares or ADSs in 2011.

#### **ITEM 16F. Change in Registrant's Certifying Accountant.**

During the years ended December 31, 2010 and 2011 and through the date of this Annual Report, the principal independent accountant engaged to audit our financial statements, PricewaterhouseCoopers, S.C., has not resigned, indicated that it has declined to stand for re-election after the completion of its current audit or been dismissed.

#### **ITEM 16G. Corporate Governance.**

We are a Mexican corporation with shares listed on the Mexican Stock Exchange and on the NYSE. Our corporate governance practices are governed by our bylaws and the Mexican corporate governance practices, including those set forth in the Mexican Securities Law, the *Circular Única de Emisoras* (the "Mexican Circular Única") issued by the Mexican Banking and Securities Commission and the *Reglamento Interior de la Bolsa Mexicana de Valores* (the "Mexican Stock Exchange Rules"), and to applicable US securities laws including the Sarbanes-Oxley Act of 2002 ("SOX") and the rules of the NYSE (the "NYSE Rules") to the extent SOX and the NYSE Rules apply to foreign private issuers like us. Certain NYSE Rules relating to corporate governance are not applicable to us because of our status as a foreign private issuer. Specifically, we are permitted to follow home country practices in lieu of certain provisions of Section 303A of the NYSE Rules. In accordance with the requirement of Section 303A.11 of the NYSE Rules, the following is a summary of significant ways in which our

[Table of Contents](#)

corporate governance practices differ from those required to be followed by U.S. domestic companies under the NYSE's listing standards.

**Independence of our Board of Directors**

Under the NYSE Rules, controlled companies like us (regardless of our status as a foreign private issuer) are not required to have a board of directors composed of a majority of independent directors. However, the Mexican Securities Law requires that, as a listed company in Mexico, at least 25% of the members of our Board of Directors be independent as determined under the Mexican Securities Law. We have an alternate director for each of our directors. The Mexican Securities Law further provides that alternates of independent directors be independent as well. The Mexican Securities Law sets forth detailed standards for establishing independence which differ from those set forth in the NYSE Rules.

**Executive Sessions**

Under the NYSE Rules, non-management directors must meet at executive sessions without management. We are not required, under Mexican law, to hold executive sessions in which non-management directors meet without the management or to hold meetings of only independent directors. Our Board of Directors must meet at least four times per year.

**Audit Committee**

Under the NYSE Rules, listed companies must have an audit committee with a minimum of three members who are independent directors. Under the Mexican Securities Law, listed companies are required to have an Audit Committee comprised solely of independent directors. The members of the Audit Committee are appointed by the Board of Directors, with the exception of its Chairman, who is appointed by the shareholders at the Shareholders' Meeting. Currently, our Audit Committee is comprised of 3 members. Our Audit Committee operates pursuant to the provisions of the Mexican Securities Law and our Bylaws. A description of the specific functions of our Audit Committee can be found in Item 10. See "Item 10. Additional Information—Audit and Corporate Governance Committees" for further information about our Audit Committee.

**Audit Committee Reports**

Under the NYSE Rules, Audit Committees are required to prepare an Audit Committee Report as required by the SEC to be included in the listed company's annual proxy statement. As a foreign private issuer, we are not required by the SEC to prepare and file proxy statements. In this regard, we are subject to Mexican securities law requirements. We have chosen to follow Mexican law and practice in this regard.

**Corporate Governance Committee**

Under both NYSE Rules and Mexican securities laws and regulations, listed companies are also required to have a Corporate Governance Committee comprised solely of independent directors. The Company's Board of Directors appoints the members of the Corporate Governance Committee, with the exception of its Chairman, who is appointed by the shareholders at a Shareholders' Meeting. Currently, our Corporate Governance Committee is comprised of the same three members of our Audit Committee. Our Corporate Governance Committee operates pursuant to the provisions of the Mexican Securities Law and our Bylaws. A description of the specific functions of our Corporate Governance Committee can be found in Item 10. See "Item 10. Additional Information—Audit and Corporate Governance Committees" for further information about our Corporate Governance Committee.

**Compensation Committee**

Under NYSE Rules, listed companies must have a compensation committee composed entirely of independent directors. Under our Bylaws and the Mexican securities laws and regulations, we are not required to have a compensation committee. Currently, we do not have such a committee.

## Corporate Governance Guidelines and Code of Ethics

Domestic issuers listed on the NYSE are required to adopt and disclose corporate governance guidelines and a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of such code for directors or executive officers. We are not required to adopt and disclose corporate governance guidelines under Mexican law to the same extent as the NYSE Rules. However, pursuant to regulations of the *Bolsa Mexicana de Valores* or Mexican Stock Exchange we are required to annually file with the Mexican Stock Exchange a statement relating to our level of adherence to the Mexican Code of Best Corporate Practices. Our statement can be found on our corporate web page. We are not required to adopt a Code of Ethics under Mexican law. However, in April 2003, we adopted a Code of Ethics applicable to our directors, officers and employees. Our Code of Ethics can also be found on our corporate web page under “Corporate Governance.”

## Solicitation of Proxies

Under NYSE Rules, listed companies are required to solicit proxies and provide proxy materials for all meetings of shareholders. Such proxy solicitations are to be provided to the NYSE. We are not required to solicit proxies from our shareholders. Under our Bylaws and Mexican securities laws and regulations, we inform shareholders of all meetings by public notice, which states the requirements for admission to the meeting. Under the deposit agreement relating to our ADSs, holders of our ADSs receive notice of shareholders’ meetings together with information explaining how to instruct the depository bank to exercise the voting rights of the securities represented by ADSs.

## ITEM 16H. Mine Safety Disclosure.

Not Applicable.

## PART III

## ITEM 17. Financial Statements.

Not Applicable.

## ITEM 18. Financial Statements.

See pages F-1 through F-189, incorporated herein by reference.

## ITEM 19. Exhibits.

Pursuant to the rules and regulations of the SEC, we have filed certain agreements as exhibits to this annual report on Form 20-F. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the Company’s filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors, and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof.

Documents filed as exhibits to this annual report:

### Exhibit No.

- |         |  |
|---------|--|
| 1       | Our bylaws ( <i>estatutos sociales</i> ) as amended through May 26, 2008, together with an English translation.(4)   |
| 2(a)(1) | Deposit Agreement, dated as of September 18, 1998, by and among us, Citibank, N.A. as Depositary and the Holders and Beneficial Owners of American Depositary Shares Evidenced by American Depositary Receipts Issued Thereunder (including form of American Depositary Receipt).(2) |

## [Table of Contents](#)

### Exhibit No.

2(b)(1)	Indenture, dated as of December 3, 2004, between us and JPMorgan Chase Bank, N.A., as Indenture Trustee representing up to U.S.\$300,000,000 of our 7.75% Perpetual Bonds.(3)
2(b)(2)	U.S.\$225 million credit facility by and among us, the Lenders party thereto and BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Administrative Agent, dated March 22, 2011.(5)
2(b)(3)	U.S.\$200 million revolving credit facility among Gruma Corporation, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, Documentation Agent, Swing Line Lender, and Letter of Credit Issuer, dated June 20, 2011.
2(b)(4)	Ps.600 million term loan by and among us and Banco Nacional de Comercio Exterior, S.N.C. dated June 16, 2011.
2(b)(5)	Ps.1,200 million credit facility by and among us, the Lenders party thereto and BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Administrative Agent, dated June 15, 2011.
2(b)(6)	U.S.\$50 million credit facility by and among us and Centrale Raiffeisen-Boerenleenbank B.A. dated June 15, 2011.
4(a)(1)	Shareholders Agreement by and among us, Roberto González Barrera, Archer Daniels-Midland Company and ADM Bioproductos, S.A. de C.V., dated August 21, 1996.(1)
4(a)(2)	Amendment No. 1 to Shareholders Agreement by and among us, Roberto González Barrera, Archer Daniels-Midland Company and ADM Bioproductos, S.A. de C.V., dated September 13, 1996.(3)
4(a)(3)	Amendment No. 2 to Shareholders Agreement by and among us, Roberto González Barrera, Archer Daniels-Midland Company and ADM Bioproductos, S.A. de C.V., dated August 18, 1999.(3)
4(a)(4)	Asset Contribution Agreement among Gruma Corporation, Gruma Holding, Inc., ADM Milling Co., Valley Holding, Inc., GRUMA-ADM, and Azteca Milling, L.P., dated August 21, 1996.(1)
4(a)(5)	Investment Agreement by and between us and Archer-Daniels-Midland Company, dated August 21, 1996.(1)
8	List of Principal Subsidiaries.
12(a)(1)	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 30, 2012.
12(a)(2)	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 30, 2012.
13	Officer Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 30, 2012.

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- (1) Previously filed in Registration Statement on Form F-4 (File No. 333-8266), originally filed with the SEC on January 28, 1998. Incorporated herein by reference.
  - (2) Previously filed in Registration Statement on Form F-6 (File No. 333-9282), originally filed with the SEC on August 13, 1998. Incorporated herein by reference.

[Table of Contents](#)

- (3) Previously filed in Annual Report on Form 20-F (File No. 1-14852), originally filed with the SEC on July 1, 2002. Incorporated herein by reference.
- (4) Previously filed in Annual Report on Form 20-F (File No. 1-14852), originally filed with the SEC on June 27, 2008. Incorporated herein by reference.
- (5) Previously filed in Annual Report on Form 20-F (File No. 1-14852), originally filed with the SEC on June 8, 2011. Incorporated herein by reference.



[Table of Contents](#)

**SIGNATURES**

The registrant, Gruma, S.A.B. de C.V., hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GRUMA, S.A.B. de C.V.

/s/ Juan Antonio Quiroga García

Juan Antonio Quiroga García

Chief Corporate Officer

Dated: April 30, 2012

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[Table of Contents](#)

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011

CONTENT

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-2
Consolidated financial statements:	
<a href="#">Balance sheets</a>	F-3
<a href="#">Income statements</a>	F-4
<a href="#">Statements of comprehensive income</a>	F-5
<a href="#">Statements of changes in equity</a>	F-6
<a href="#">Statements of cash flows</a>	F-7
<a href="#">Notes to the consolidated financial statements</a>	F-8
<b>Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries</b>	
<b>Report of Independent Registered Public Accounting Firm and Consolidated Financial Statements as of December 31, 2010, 2009 and 2008</b>	
<b><u>Table of Contents</u></b>	<b><u>Page</u></b>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-90
<a href="#">Consolidated Balance Sheets</a>	F-92
<a href="#">Consolidated Statements of Income</a>	F-94
<a href="#">Consolidated Statements of Changes in Stockholders' Equity</a>	F-95
<a href="#">Consolidated Cash Flow Statements for the years ended December 31, 2010 and 2009</a>	F-97
<a href="#">Consolidated Statement of Changes in Financial Position For the year ended December 31, 2008</a>	F-98
<a href="#">Notes to Consolidated Financial Statements</a>	F-99

**Report of Independent Registered Public Accounting Firm**

To the Stockholders of  
Gruma, S. A. B. de C. V.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows, present fairly, in all material respects, the financial position of Gruma, S. A. B. de C. V. and its subsidiaries (the "Company"), as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated income statements, of comprehensive income, of changes in equity and of cash flows for each of the two years in the period ended December 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing in Item 15. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The consolidated financial statements as of December 31, 2011 and 2010, include assets in the amount of Ps.5,839,051 and Ps.3,621,404, respectively, liabilities in the amount of Ps.2,721,870 and Ps.1,931,565, respectively and profit (loss) for the two years in the period ended December 31, 2011 in the amounts of Ps.681,586 and Ps.(169,225), respectively, related to a foreign subsidiary. As mentioned in Note 25, during 2010 an expropriation decree was issued for the above mentioned subsidiary. At the date of this report, and as explained in such Note, management of the Company is still in negotiations and therefore the outcome of this matter is uncertain.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers, S. C.

/s/ Miguel Angel Puente Buentello  
C.P. Miguel Angel Puente Buentello

Monterrey, Nuevo Leon, Mexico  
April 30, 2012

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 4)

	Note	As of January 1, 2010	As of December 31, 2010	As of December 31, 2011
<b>A s s e t s</b>				
Current:				
Cash and cash equivalents	7	Ps. 1,880,663	Ps. 21,317	Ps. 1,179,651
Trading investments		127,293	79,577	140,255
Derivative financial instruments	20	55,749	13,137	103,413
Accounts receivable, net	8	5,670,752	5,017,797	7,127,208
Inventories	9	7,536,588	7,264,234	10,700,831
Recoverable income tax		427,805	642,474	505,069
Prepaid expenses		336,970	306,557	231,489
Total current assets		<u>16,035,820</u>	<u>13,345,093</u>	<u>19,987,916</u>
Non-current:				
Long-term notes and accounts receivable	10	543,295	598,961	626,874
Investment in associates	11	4,020,339	4,436,401	143,700
Property, plant and equipment, net	12	20,043,444	17,930,173	20,515,633
Intangible assets, net	13	2,483,254	2,406,437	2,954,359
Deferred tax assets	14	152,292	210,329	314,136
Total non-current assets		<u>27,242,624</u>	<u>25,582,301</u>	<u>24,554,702</u>
<b>Total Assets</b>		<u>Ps. 43,278,444</u>	<u>Ps. 38,927,394</u>	<u>Ps. 44,542,618</u>
<b>L i a b i l i t i e s</b>				
Current:				
Short-term debt	15	Ps. 2,203,392	Ps. 2,192,871	Ps. 1,633,207
Trade accounts payable		3,564,372	3,601,829	5,544,105
Derivative financial instruments	20	11,935	4,863	46,013
Provisions	16	247,590	308,801	401,116
Income tax payable		231,574	152,307	624,378
Other current liabilities	17	2,368,388	2,894,694	2,732,215
Total current liabilities		<u>8,627,251</u>	<u>9,155,365</u>	<u>10,981,034</u>
Non-current:				
Long-term debt	15	19,572,002	15,852,538	11,472,110
Deferred tax liabilities	14	2,576,819	2,768,015	3,838,316
Employee benefits obligations	18	302,083	350,179	370,402
Provisions	16	82,776	21,353	114,714
Other non-current liabilities		37,751	57,670	53,258
Total non-current liabilities		<u>22,571,431</u>	<u>19,049,755</u>	<u>15,848,800</u>
<b>Total Liabilities</b>		<u>31,198,682</u>	<u>28,205,120</u>	<u>26,829,834</u>
<b>E q u i t y</b>				
Shareholders' equity:				
Common stock	19	Ps. 6,972,425	Ps. 6,972,425	Ps. 6,972,425
Reserves		16,945	(1,350,082)	(144,236)
Retained earnings	19	908,460	1,322,218	6,603,014
Total shareholders' equity		<u>7,897,830</u>	<u>6,944,561</u>	<u>13,431,203</u>
Non-controlling interest		<u>4,181,932</u>	<u>3,777,713</u>	<u>4,281,581</u>
<b>Total Equity</b>		<u>12,079,762</u>	<u>10,722,274</u>	<u>17,712,784</u>
<b>Total Liabilities and Equity</b>		<u>Ps. 43,278,444</u>	<u>Ps. 38,927,394</u>	<u>Ps. 44,542,618</u>

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

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except per-share data)  
(Notes 1, 2 and 4)

	Note	2010	2011
Net sales		Ps. 46,232,454	Ps. 57,644,749
Cost of sales		(31,563,342)	(40,117,952)
<b>Gross profit</b>		<b>14,669,112</b>	<b>17,526,797</b>
Selling and administrative expenses		(12,100,365)	(13,984,486)
Other expenses, net	21	(518,732)	(203,850)
<b>Operating income</b>		<b>2,050,015</b>	<b>3,338,461</b>
Interest expense		(1,424,152)	(1,017,122)
Interest income		33,753	126,389
(Loss) gain from derivative financial instruments		(82,525)	207,816
Monetary position gain, net		165,869	214,832
Gain from foreign exchange differences, net		143,852	40,885
Comprehensive financing cost, net		(1,163,203)	(427,200)
Share of profits of associates		592,235	3,329
Gain from the sale of shares of associate	11	—	4,707,804
<b>Income before income tax</b>		<b>1,479,047</b>	<b>7,622,394</b>
Income tax expense:			
Current	23	(578,730)	(1,004,246)
Deferred	23	(260,831)	(802,326)
		(839,561)	(1,806,572)
<b>Consolidated net income</b>		<b>Ps. 639,486</b>	<b>Ps. 5,815,822</b>
Attributable to:			
Shareholders		431,779	5,270,762
Non-controlling interest		207,707	545,060
		Ps. 639,486	Ps. 5,815,822
Basic and diluted earnings per share (pesos)		Ps. 0.77	Ps. 9.35
Weighted average shares outstanding (thousands)		563,651	563,651

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

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos)**  
**(Notes 1, 2 and 4)**

	<u>Note</u>	<u>2010</u>	<u>2011</u>
<b>Consolidated net income</b>		Ps. 639,486	Ps. 5,815,822
Other comprehensive income, net:			
Foreign currency translation adjustments		(1,818,311)	1,597,671
Actuarial gains and losses	18	(18,949)	14,061
Share of other comprehensive income of associates		(85,623)	(5,014)
Cash flow hedges		—	4,969
Other	14	781	678
		<u>(1,922,102)</u>	<u>1,612,365</u>
<b>Comprehensive (loss) income</b>		<u>Ps. (1,282,616)</u>	<u>Ps. 7,428,187</u>
Attributable to:			
Shareholders		(953,269)	6,486,642
Non-controlling interest		(329,347)	941,545
		<u>Ps. (1,282,616)</u>	<u>Ps. 7,428,187</u>

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

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 4)

	Common stock (Note 19-A)		Reserves			Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
	Number of shares (thousands)	Amount	Foreign currency translation adjustment (Note 19-D)	Share of equity of associates	Other reserves				
<b>Balances at January 1, 2010</b>	563,651	Ps. 6,972,425	Ps. —	Ps. 19,420	Ps. (2,475)	Ps. 908,460	Ps. 7,897,830	Ps. 4,181,932	Ps. 12,079,762
Transactions with owners of the Company:									
Dividends paid							—	(74,872)	(74,872)
							—	(74,872)	(74,872)
Comprehensive income:									
Net income of the year						431,779	431,779	207,707	639,486
Foreign currency translation adjustment			(1,282,185)				(1,282,185)	(536,126)	(1,818,311)
Actuarial gains and losses						(18,021)	(18,021)	(928)	(18,949)
Share of other comprehensive income of associates				(85,623)			(85,623)		(85,623)
Other					781		781		781
Comprehensive loss of the year	—	—	(1,282,185)	(85,623)	781	413,758	(953,269)	(329,347)	(1,282,616)
<b>Balances at December 31, 2010</b>	563,651	6,972,425	(1,282,185)	(66,203)	(1,694)	1,322,218	6,944,561	3,777,713	10,722,274
Transactions with owners of the Company:									
Dividends paid							—	(524,303)	(524,303)
Contribution from non-controlling interest							—	86,626	86,626
							—	(437,677)	(437,677)
Comprehensive income:									
Net income of the year						5,270,762	5,270,762	545,060	5,815,822
Foreign currency translation adjustment			1,205,213				1,205,213	392,458	1,597,671
Actuarial gains and losses						10,034	10,034	4,027	14,061
Share of other comprehensive income of associates				(5,014)			(5,014)		(5,014)
Cash flow hedges					4,969		4,969		4,969
Other					678		678		678
Comprehensive income of the year	—	—	1,205,213	(5,014)	5,647	5,280,796	6,486,642	941,545	7,428,187
<b>Balances at December 31, 2011</b>	563,651	Ps. 6,972,425	Ps. (76,972)	Ps. (71,217)	Ps. 3,953	Ps. 6,603,014	Ps. 13,431,203	Ps. 4,281,581	Ps. 17,712,784

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

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 4)

	<u>2010</u>	<u>2011</u>
<b>Income before taxes</b>	Ps. 1,479,047	Ps. 7,622,394
Restatement effect from companies in hyperinflationary environment	64,899	27,771
Foreign exchange loss (gain) from working capital	434,326	(59,187)
Net cost of the year for employee benefit obligations	56,148	35,347
Items related with investing activities:		
Depreciation and amortization	1,502,534	1,596,643
Impairment of long-lived assets	—	93,808
Written-down fixed assets	—	52,271
Interest income	(7,531)	(86,846)
Foreign exchange (gain) loss from cash	(9,635)	36,797
Share of profit of associates	(592,235)	(3,329)
Gain from the sale of shares of associate	—	(4,707,804)
Loss in sale of fixed assets and damaged assets	64,659	20,812
Items related with financing activities:		
Derivative financial instruments	82,525	(207,816)
Foreign exchange gain from bank borrowings	(561,821)	(23,953)
Interest expense	1,391,631	965,128
	<u>3,904,547</u>	<u>5,362,036</u>
Accounts receivable, net	(275,595)	(1,422,010)
Inventories	(747,758)	(3,063,148)
Prepaid expenses	(126,655)	101,106
Trade accounts payable	759,773	1,623,802
Accrued liabilities and other accounts payables	561,910	(341,743)
Income taxes paid	(786,796)	(561,279)
Employee benefits obligations and others, net	1,712	52,550
	<u>(613,409)</u>	<u>(3,610,722)</u>
<b>Net cash flows from operating activities</b>	<u>3,291,138</u>	<u>1,751,314</u>
Investing activities:		
Acquisitions of property, plant and equipment	(999,546)	(1,631,571)
Sale of property, plant and equipment	139,066	100,726
Acquisition of subsidiaries, net of cash acquired	(106,970)	(708,664)
Acquisition of intangible assets	(3,879)	(22,724)
Sale of shares of associate	—	9,003,700
Interests collected	7,086	86,403
Dividends received from associates	90,550	—
Acquisition of trading investments	(19,423)	(49,837)
Sale of securities held until maturity and others	90,908	1,096
<b>Net cash flows from investing activities</b>	<u>(802,208)</u>	<u>6,779,129</u>
<b>Cash in excess to be used in financing activities</b>	<u>2,488,930</u>	<u>8,530,443</u>
Financing activities:		
Proceeds from debt	458,710	15,219,575
Payment of debt	(3,257,291)	(21,373,729)
Interests paid	(1,341,991)	(991,784)
Derivative financial instruments (paid) collected	(18,987)	154,556
Acquisition of subsidiary shares by non-controlling interest	—	86,626
Dividends paid	(74,872)	(524,303)
<b>Net cash flows from financing activities</b>	<u>(4,234,431)</u>	<u>(7,429,059)</u>
Net (decrease) increase in cash and cash equivalents	(1,745,501)	1,101,384
Exchange differences and effects from inflation on cash and cash equivalents	(113,845)	56,950
<b>Cash and cash equivalents at the beginning of the year</b>	1,880,663	21,317
<b>Cash and cash equivalents at the end of the year</b>	<u>Ps. 21,317</u>	<u>Ps. 1,179,651</u>

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



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**1. ENTITY AND OPERATIONS**

Gruma, S.A.B. de C.V. (GRUMA) is a Mexican company with subsidiaries located in Mexico, the United States of America, Central America, Venezuela, Europe, Asia and Oceania, together referred to as the “Company”. The Company’s main activities are the production and sale of corn flour, wheat flour, tortillas and related products.

Gruma, S.A.B. de C.V. is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) organized under the laws of Mexico. The address of its registered office is Rio de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico.

The consolidated financial statements were authorized by the Chief Corporate Office and the Chief Administrative Office of the Company on April 30, 2012.

**2. BASIS OF PREPARATION**

The consolidated financial statements of Gruma, S.A.B. de C.V. and Subsidiaries as of December 31, 2011 have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The IFRS also include the International Accounting Standards (IAS) in force, as well as all the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

In accordance with the amendments to the Rules for Public Companies and Other Participants in the Mexican Stock Exchange, issued by the Mexican Banking Securities Exchange Commission on January 27, 2009, the Company is required to prepare its financial statements under IFRS starting in 2012.

The Company decided to adopt IFRS earlier, starting January 1, 2011, therefore, these are the Company’s first consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

For comparative purposes, the consolidated financial statements as of and for the year ended December 31, 2010 have been prepared in accordance with IFRS, as required by the IFRS 1 — First-Time Adoption of International Financial Reporting Standards.

The Company modified its accounting policies from Mexican Financial Reporting Standards (Mexican FRS) in order to comply with IFRS starting January 1, 2011. The transition from Mexican FRS to IFRS was recognized in accordance with IFRS 1, setting January 1, 2010 as the transition date. The reconciliation of the effects of the transition from Mexican FRS to IFRS in equity as of January 1, 2010 and December 31, 2010, in net income and cash flows for the year ended December 31, 2010 are disclosed in Note 28 to these financial statements.

**A) BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared on the basis of historical cost, except for the fair value of certain financial instruments as described in the policies below.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**2. BASIS OF PREPARATION (continued)**

The preparation of financial statements requires that management make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

**B) FUNCTIONAL AND PRESENTATION CURRENCY**

The consolidated financial statements are presented in Mexican pesos, which is the functional currency of Gruma, S.A.B. de C.V.

**C) USE OF ESTIMATES AND JUDGMENTS**

The relevant estimates and assumptions are reviewed on a regular basis. The review of accounting estimates are recognized in the period in which the estimate was reviewed and in any future period that is affected.

In particular, the information for assumptions, uncertainties from estimates, and critical judgments in the application of accounting policies that have the most significant effect in the recognized amounts in these consolidated financial statements, are described below:

- The useful lives and residual values of property, plant and equipment (Note 12) and of intangible assets (Note 13).
- The assumptions used for the determination of fair values of financial instruments (Note 20).
- The assumptions and uncertainties with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income (Notes 14 and 23).
- The key assumptions in impairment testing for long-lived assets used for the determination of the recoverable amount for the different cash generating units (Notes 12 and 13).
- The actuarial assumptions used for the determination of employee benefits (Note 18).

**3. BUSINESS COMBINATIONS**

**A) ALBUQUERQUE TORTILLA COMPANY**

On April 15, 2011, the Company, through its subsidiary Gruma Corporation, acquired the business of manufacturing, distributing and selling of corn and wheat flour tortillas of Albuquerque Tortilla Company, which is located in New Mexico, United States, for Ps.102,410 (U.S.\$8,882 thousand) paid in cash. This purchase was accounted for using the acquisition method, following the business combination rules. The purpose of this acquisition is to contribute to the growth and strengthening of the Company's tortilla business in the south-central region of the United States under a strong and recognized brand.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

The following table summarizes the consideration paid and the estimated fair value of the net assets acquired:

Inventories	Ps.	1,753
Property, plant and equipment		47,700
Non-compete agreement		8,993
Customer lists		5,189
Trademarks		17,641
Fair value of identifiable assets	Ps.	81,276
Goodwill		21,134
Total consideration paid in cash	Ps.	<u>102,410</u>

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in the south-central region of the United States. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.2,497 and were recognized in the income statement as follows: Ps.416 as cost of sales and Ps.2,081 as selling and administrative expenses.

No contingent liabilities and contingent consideration arrangements have arisen from this acquisition.

From January 1, 2011 to the acquisition date, this business recorded an estimated revenue of Ps.64,979 and a net loss of approximately Ps.29,475.

As of December 31, 2011, the Company is concluding the process of allocating the purchase price to the fair value of assets acquired, based on the assessments made by independent appraisers. The Company estimates that this process will be completed within a period of twelve months from the acquisition date.

**B) CASA DE ORO FOODS**

On August 25, 2011, the Company, through its subsidiary Gruma Corporation, acquired the business of manufacturing, distributing and selling of corn and wheat flour tortillas of Casa de Oro Foods, which is located in Nebraska, United States for Ps.280,615 (U.S.\$22,722 thousand) paid in cash. This purchase was accounted for using the acquisition method, following the business combination rules. The strategic location of Casa de Oro will help improve and increase the Company's coverage in the midwest region of the United States, generating savings in transportation and increasing the production of corn flour tortillas and tortilla chips.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

The following table summarizes the consideration paid and the estimated fair value of the net assets acquired:

Accounts receivable	Ps.	40,026
Inventories		16,808
Prepaid expenses		185
Current liabilities		<u>(21,489)</u>
Working capital	Ps.	35,530
Property, plant and equipment		122,351
Wheat futures		1,099
Non-compete agreement		7,163
Customer lists		41,372
Trademarks		<u>4,817</u>
Fair value of identifiable assets	Ps.	212,332
Goodwill		68,283
Total consideration paid in cash	Ps.	<u><u>280,615</u></u>

The accounts receivable fair value is not significantly different from its contractual value as the receivables are short term, with the full value being collected 30 to 45 days after the acquisition.

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in the midwest region of the United States. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.4,415 and were recognized in the income statement as follows: Ps.1,565 as cost of sales and Ps.2,850 as selling and administrative expenses.

From January 1, 2011 to the acquisition date, this business recorded an estimated revenue of Ps.193,938 and a net income of approximately Ps.11,747.

As of December 31, 2011, the Company is concluding the process of allocating the purchase price to the fair value of assets acquired, based on the assessments made by independent appraisers. The Company estimates that this process will be completed within a period of twelve months from the acquisition date.

The Company has filed an indemnification claim with the seller for approximately Ps.15,869 (U.S.\$1,186 thousand) for failure of the seller to disclose that one of its major customers had notified the seller that it would discontinue two products. Based upon the seller's initial responses, it is possible that this claim may not be resolved quickly and may result in litigation. Due to the uncertainty of the outcome of this claim, it was not considered in the purchase price allocation. If the claim results in a favorable resolution for the Company, it will be applied as a reduction of the goodwill recognized for this acquisition.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

**C) SOLNTSE MEXICO**

On July 13, 2011, the Company, through its subsidiary Gruma International Foods, S.L., acquired all issued and outstanding shares of Solntse Mexico, which is located in Russia, for Ps.104,923 (U.S.\$8,781 thousand). Solntse Mexico is the leading producer of corn and wheat flour tortillas, corn chips and other products, under the brand Delicados. This company introduced tortillas and corn chips to the Russian market and currently commands the leading market position in Russia's retail and foodservice segments. This acquisition represents the Company's entry into Russia and other Eastern Europe countries.

The following table summarizes the consideration paid and the estimated fair value of the net assets acquired:

Cash	Ps.	6,268
Accounts receivable		11,389
Prepaid expenses		240
Inventories		15,000
Current liabilities		<u>(7,329)</u>
Working capital	Ps.	25,568
Property, plant and equipment		34,173
Intangible assets		1,358
Long term debt		<u>(22,242)</u>
Deferred tax liabilities		<u>(1,426)</u>
Fair value of identifiable assets	Ps.	37,431
Goodwill		<u>67,492</u>
Purchase price	Ps.	104,923
Outstanding payment due to contingent consideration		<u>(22,320)</u>
Total consideration paid in cash	Ps.	<u>82,603</u>

The accounts receivable fair value is not significantly different from its contractual value as the receivables are short term with the full value being collected 30 to 45 days after the acquisition.

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in the Eastern Europe and Middle East regions. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.16,367 (U.S.\$1,313 thousand) and were recognized in the income statement as selling and administrative expenses.

As of December 31, 2011, the Company was finalizing the process of allocating the purchase price to the fair value of assets acquired, based on the assessments made by independent appraisers. The Company estimates that this process will be completed within a period of twelve months from the acquisition date.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

For the period from July 1, 2011 to December 31, 2011, this business contributed revenues of Ps.84,002 and a net income of Ps.5,556. If the acquisition had taken place on January 1, 2011, revenues and net income would have increased by approximately Ps.28,034 and Ps.2,711, respectively.

**D) SEMOLINA A.S.**

On November 16, 2011, the Company, through its subsidiary Gruma International Foods, S.L., acquired all issued and outstanding shares of Semolina A.S., which is located in Turkey, for Ps.230,388 (U.S.\$17,035 thousand). Semolina is the leading corn miller in Turkey, and specializes in supplying corn grits for the snack and breakfast cereals industries. The acquisition of Semolina represents a significant milestone for the Company's growth strategy in Eastern Europe and the Middle East. The Company's European milling division's priority is to consolidate itself as a market leader in corn milling and related products for the snack, brewing and breakfast cereals industries.

The following table summarizes the consideration paid and the estimated fair value of the net assets acquired:

Cash	Ps.	3,405
Accounts receivable		33,742
Prepaid expenses		1,237
Inventories		580
Current liabilities		(45,310)
Working capital	Ps.	(6,346)
Property, plant and equipment		48,959
Intangible assets		41
Fair value of identifiable assets	Ps.	42,654
Goodwill		187,734
Purchase price	Ps.	230,388
Outstanding payment due to contingent consideration		(24,413)
Total consideration paid in cash	Ps.	<u>205,975</u>

The accounts receivable fair value is not significantly different from its contractual value as the receivables are short term with the full value being collected 30 to 45 days after the acquisition.

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in the Eastern Europe and Middle East regions. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.11,259 (U.S.\$903 thousand) and were recognized in the income statement as selling and administrative expenses.

As of December 31, 2011, the Company was finalizing the process of allocating the purchase price to the fair value of assets acquired, based on the assessments made by independent appraisers. The Company estimates that this process will be completed within a period of twelve months from the acquisition date.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

For the period from November 17, 2011 to December 31, 2011, this business contributed revenues of Ps.42,624 and a net loss of Ps.12,798. If the acquisition had taken place on January 1, 2011, revenues would have increased by approximately Ps.296,988 and net loss would have decreased by approximately Ps.12,762.

**E) ALTERA LLC AND ALTERA-II LLC**

On March 4, 2010, the Company, through its subsidiary Gruma International Foods, S.L., acquired all issued and outstanding shares of Altera LLC and Altera-II LLC (together known as “Altera”), which are considered as the leading producers of corn grits in Ukraine for a total of Ps.107,484 (U.S.\$8,717 thousand). The acquisition of Altera represents a significant milestone for the Company’s growth strategy in Russia and Eastern Europe to consolidate itself as a market leader in corn flour and corn grits for the snack and brewing industries. Altera represents a stable business, with an important customer portfolio in the local market and in Russia. Altera has a strategic logistics position due to the fact that it is located in a region with substantial corn production.

The following table summarizes the consideration paid and the estimated fair value of the net assets acquired:

Cash	Ps.	514
Accounts receivable		19,630
Prepaid expenses		2,722
Inventories		3,316
Deferred tax assets		7,968
Current liabilities		(11,307)
Working capital	Ps.	<u>22,843</u>
Property, plant and equipment		12,636
Long term debt		(18,475)
Fair value of identifiable assets	Ps.	<u>17,004</u>
Goodwill		90,480
Purchase price	Ps.	107,484
Outstanding payment due to contingent consideration		(8,645)
Total consideration paid in cash	Ps.	<u><u>98,839</u></u>

The accounts receivable fair value is not significantly different from its contractual value as the receivables are short term with the full value being collected 30 to 45 days after the acquisition.

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in Russia and Eastern Europe. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.30,965 (U.S.\$2,449 thousand) and were recognized in the income statement as selling and administrative expenses.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**3. BUSINESS COMBINATIONS (continued)**

For the period from April 1, 2010 to December 31, 2010, this business contributed revenues of Ps.187,742 and a net income of Ps.2,244. If the acquisition had taken place on January 1, 2010, revenues would have increased by approximately Ps.80,134 and net income would have decreased by approximately Ps.2,781.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) BASIS OF CONSOLIDATION**

**a. Subsidiaries**

The subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The financial statements of subsidiaries are incorporated in the consolidated financial statements commencing on the date on which the control begins, until the date when that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

At January 1, 2010 and at December 31, 2010 and 2011, the main subsidiaries included in the consolidation were:

	% of ownership		
	At January 1, 2010	At December 31, 2010	At December 31, 2011
Gruma Corporation and subsidiaries	100.00	100.00	100.00
Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries	83.18	83.18	83.18
Molinos Nacionales, C.A.	72.86	72.86	72.86
Derivados de Maíz Seleccionado, C.A.	57.00	57.00	57.00
Molinera de México, S.A. de C.V. and subsidiaries	60.00	60.00	60.00
Gruma International Foods, S.L. and subsidiaries	100.00	100.00	100.00
Productos y Distribuidora Azteca, S.A. de C.V.	100.00	100.00	100.00
Investigación de Tecnología Avanzada, S.A. de C.V. and subsidiaries	100.00	100.00	100.00

**b. Transactions with non-controlling interest without change of control**

The Company applies a policy of treating transactions with non-controlling interest as transactions with equity owners of the Company. When purchases from non-controlling interest take place, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recognized as operations with holders of equity instruments; therefore, no goodwill is recognized with these acquisitions. Disposals to non-controlling interests result in gains and losses for the group and are also recorded in equity when there is no loss of control.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Business combinations**

Business combinations are recognized through the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets given, the liabilities incurred by the Company with the previous owners and the equity instruments issued by the Company. The cost of an acquisition also includes the fair value of any contingent payment.

The related acquisition costs are recognized in the income statement when incurred.

Identifiable assets acquired, liabilities assumed and contingent liabilities in a business combination are measured at fair value at the acquisition date.

The Company recognizes any non-controlling interest as the proportional share of the net identifiable assets of the acquired entity.

The Company recognizes goodwill when the cost including any amount of non-controlling interest in the acquired entity exceeds the fair value at acquisition date of the identifiable assets acquired and liabilities assumed.

**B) FOREIGN CURRENCY**

**a. Transactions in foreign currency**

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. The differences that arise from the translation of foreign currency transactions are recognized in the income statement.

**b. Foreign currency translation**

The financial statements of the Company's entities are measured using the currency of the main economic environment where the entity operates (functional currency). The consolidated financial statements are presented in Mexican pesos, currency that corresponds to the presentation currency of the Company.

The financial position and results of all of the group entities that have a functional currency which differs from the presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate of the period.
- Income and expenses are translated at average exchange rates.
- All resulting exchange differences are recognized in other comprehensive income as a separate component of equity denominated "Foreign currency translation adjustments".

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company applies hedge accounting to foreign exchange differences originated between the functional currency of a foreign subsidiary and the functional currency of the Company. Exchange differences resulting from the translation of a financial liability designated as hedge for a net investment in a foreign subsidiary, are recognized in other comprehensive income as a separate component denominated “Foreign currency translation adjustments” while the hedge is effective. See Note 4-L for the accounting of the net investment hedge.

Previous to the peso translation, the financial statements of foreign subsidiaries with functional currency from a hyperinflationary environment are adjusted by inflation in order to reflect the changes in purchasing power of the local currency. Subsequently, assets, liabilities, equity, income, costs, and expenses are translated to the presentation currency at the closing rate at the date of the most recent balance sheet. To determine the existence of hyperinflation, the Company evaluates the qualitative characteristics of the economic environment, as well as the quantitative characteristics established by IFRS of an accumulated inflation rate equal or higher than 100% in the past three years.

The exchange rates used for preparing the financial statements are as follows:

	As of January 1, 2010	As of December 31, 2010	As of December 31, 2011
Pesos per U.S. dollar	13.07	12.35	13.95
Pesos per Euro	18.7358	16.4959	18.0764
Pesos per Swiss franc	12.63	13.22	14.87
Pesos per Venezuelan bolivar	6.0791	2.8721	3.2442
Pesos per Australian dollar	11.7565	12.6341	14.2178
Pesos per Chinese yuan	1.9145	1.8692	2.2161
Pesos per Pound sterling	21.1041	19.3352	21.6797
Pesos per Malaysian ringgit	3.8143	4.0313	4.4035
Pesos per Costa Rica colon	0.0231	0.0239	0.0270
Pesos per Ukrainian hryvnia	—	1.5550	1.7553
Pesos per Russian ruble	—	—	0.4341
Pesos per Turkish lira	—	—	7.3935

**C) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash and short term highly liquid investments with original maturities of less than three months. These items are recognized at historical cost, which do not differ significantly from its fair value.

**D) ACCOUNTS RECEIVABLE**

Trade receivables are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method, less provision for impairment. The Company has determined that the amortized cost does not represent significant differences with respect to the invoiced amount from short-term trade receivables, since the transactions do not have relevant associated costs.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Allowances for doubtful accounts or impairment represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due. These estimates are based on the ageing of customers' balances, specific credit circumstances and the Company's historical bad receivables experience.

**E) INVENTORIES**

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the average cost method. The net realizable value is the estimated selling price of inventory in the normal course of business, less applicable variable selling expenses. The cost of finished goods and production in process comprises raw materials, direct labor, other direct costs and related production overheads. Cost of inventories may also include the transfer from equity of any gains or losses on qualifying cash flow hedges for purchases of raw materials.

**F) INVESTMENTS IN ASSOCIATES**

Associates are all entities over which the Company has significant influence over, but does not control the financial and operative decisions. It is assumed that significant influence exists when there is a shareholding of between 20% and 50% of the voting rights of the other entity or less than 20% when it is clearly demonstrated that such significant influence exists.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Company's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains and losses from transactions held with associates are eliminated from the investment in proportion to the Company's share in the entity.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

**G) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are valued at acquisition cost, less accumulated depreciation and recognized impairment losses. Cost includes expenses that are directly attributable to the asset acquisition.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Subsequent costs, including major improvements, are capitalized and are included in the carrying value of the asset or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Company and the costs can be measured reliably. Repairs and maintenance are recognized in the income statement when incurred. Major improvements are depreciated during the remaining useful life of the related asset. Leasehold improvements are depreciated using the lower of the lease term or useful life. Land is not depreciated.

Costs of borrowings associated to financing of qualifying assets that require a substantial period of time for acquisition or construction, are capitalized as part of the acquisition cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Depreciation is calculated over the asset cost less residual value, considering its components separately. Depreciation is recognized in income using the straight-line method and applying annual rates that reflect the estimated useful lives of the assets. The estimated useful lives are summarized as follows:

	<u>Years</u>
Buildings	25 - 50
Machinery and equipment	5 - 25
Leasehold improvements	10 *

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\* The lesser of 10 years or the term of the leasehold agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant, and equipment are subject to impairment tests when certain events and circumstances indicate that the carrying value of the assets may not be recovered. An impairment loss is recognized for the excess of book value over its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Gains and losses from sale of assets result from the difference between revenues of the transaction and the book value of the assets, which is included in the income statement as other expenses, net.

**H) INTANGIBLE ASSETS**

**a. Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or whenever the circumstances indicate that the value of the asset might be impaired. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b. Intangible assets with finite lives**

Intangible assets with finite lives are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

	<u>Years</u>
Non-compete agreements	20
Patents and trademarks	20
Customer lists	20
Software for internal use	3 - 7

**c. Indefinite-lived intangible assets**

Indefinite-lived intangible assets are not amortized, but subject to impairment tests on an annual basis or whenever the circumstances indicate that the value of the asset might be impaired.

**d. Research and development**

Research costs are expensed when incurred.

Costs from development activities are recognized as an intangible asset when such costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits will be obtained, and the Company pretends and has sufficient resources in order to complete the development and use or sell the asset. The amortization is recognized in income based on the straight-line method during the estimated useful life of the asset.

Development costs that do not qualify as intangible assets are recognized in income when incurred.

**D) IMPAIRMENT OF LONG-LIVED ASSETS**

The Company performs impairment tests for its property, plant and equipment, intangible assets with finite lives, and investment in associates, when certain events and circumstances suggest that the carrying value of the assets might not be recovered. Indefinite-lived intangible assets and goodwill are subject to impairment tests at least once a year.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of an asset's fair value less costs to sell and value in use. To determine value in use, estimated future cash flows are discounted at present value, using a pre-tax discount rate that reflects time value of money and considering the specific risks associated with the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment losses on goodwill are not reversed. For other assets, impairment losses are reversed if a change in the estimates used for determining the recoverable amount has occurred. Impairment losses are reversed to the extent that the book value does not exceed the book value that was determined, net of depreciation or amortization, if no impairment loss was recognized.

**J) LONG-LIVED ASSETS HELD FOR SALE**

Long-lived assets are classified as held for sale when (a) their carrying amount is to be recovered mainly through a sale transaction, rather than through continuing use, (b) the assets are held immediately for sale and (c) the sale is considered highly probable in its current condition.

For the sale to be considered highly probable:

- Management must be committed to a sale plan.
- An active program must have begun in order to locate a buyer and to complete the plan.
- The asset must actively be quoted for its sale at a price that is reasonable to its current fair value; and
- The sale is expected to be completed within a year starting the date of classification.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

**K) FINANCIAL INSTRUMENTS**

Regular purchases and sales of financial instruments are recognized in the balance sheet on the trade date, which is the date when the Company commits to purchase or sell the instrument.

**a. Financial assets**

**Classification**

In its initial recognition and based on its nature and characteristics, the Company classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) financial assets held until maturity, and (iv) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

**i. Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss when designated as held for trading or classified as such in its initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are carried at fair value, and directly attributable transaction costs and corresponding changes of fair value are recognized in the income statement. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**ii. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

**iii. Financial assets held until maturity**

When the Company has the intention and capacity to keep debt instruments until maturity, these financial assets are classified as held until maturity. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

**iv. Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in current assets, except for assets with maturities greater than 12 months. These assets are initially recognized at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at fair value. If these assets cannot be measured through an active market, then its fair value is determined through a valuation technique. Profit or losses from changes in the fair value are recognized in other comprehensive income in the period when incurred. At disposition date, such profit or losses are recognized in income.

**b. Debt and financial liabilities**

Debt and financial liabilities that are non-derivatives are initially recognized at fair value, net of transaction costs directly attributable to them; subsequently, these liabilities are recognized at amortized cost. The difference between the net proceeds and the amount payable is recognized in the income statement during the debt term, using the effective interest rate method.

**c. Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. See Note 4-D for the accounting policy for the impairment of accounts receivable.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**L) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivative financial instruments are initially recognized at fair value and are subsequently re-measured at their fair value; the transaction costs are recognized in the income statement when incurred. Derivative financial instruments are classified as current, except for maturities exceeding 12 months.

Fair value is determined based on recognized market prices. When not quoted in markets, fair value is determined using valuation techniques commonly used in the financial sector. Fair value reflects the credit risk of the instrument and includes adjustments to consider the credit risk of the Company or the counterparty, when applicable.

The method for recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge and, if so, the nature of the item being hedged. The Company designates derivative financial instruments as follows:

- Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, including objectives, strategies for risk management and the method for assessing effectiveness in the hedge relationship.

**a. Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

**b. Cash flow hedges**

For cash flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in equity, based on the evaluation of the hedge effectiveness, and are reclassified to the income statement in the periods when the projected transaction is realized.

Hedge effectiveness is determined when changes in the fair value or cash flows of the hedged position are compensated with changes in the fair value or cash flows of the hedge instrument in a quotient that ranges between 80% and 125% of inverse correlation. Ineffective portions from changes in the fair value of derivative financial instruments are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecasted transaction is ultimately registered in the income statement.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

**M) LEASES**

**a. Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the period of the lease.

**b. Finance leases**

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases.

Under finance leases, at the initial date, both assets and liabilities are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. In order to discount the minimum payments, the Company uses the interest rate implicit in the lease, if this practicable to determine; if not, the Company's incremental borrowing rate is used.

Lease payments are allocated between the interest expense and the reduction of the pending liability. Interest income is recognized in each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**N) EMPLOYEE BENEFITS**

**a. Post-employment benefits**

In Mexico, the Company has the following defined benefit plans:

- Single-payment retirement plan, when employees reach the required retirement age, which is 60.
- Seniority premium, after 15 years of service.

The Company has established trust funds in order to meet its obligations for the seniority premium. Employees do not contribute to these funds.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation, less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using discount rates in accordance with IAS-19, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the income statement, unless the changes to the plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past-service costs are amortized on a straight-line basis over the vesting period.

In the United States, the Company has a savings and investment plan that incorporates voluntary employee 401 (k) contributions with matching contributions of the Company in this country. The Company's contributions are recognized in the income statement when incurred.

In Venezuela, the Company determines severance amounts for employment termination in accordance with the local Labor Law and collective agreements, and transfers these amounts to a trust for each worker. Contributions to each trust are recognized in income when incurred.

**b. Termination benefits**

Termination benefits are payable when employment is terminated by decision of the Company, before the normal retirement date.

The Company recognizes termination benefits as a liability only when there has been a commitment to a detailed formal plan without possibility of withdrawal. Termination benefits that do not meet this requirement are recognized in the income statement in the period when incurred.

**c. Short term benefits**

Short term employee benefits are measured at nominal base and are recognized as expenses as the service is rendered. If the Company has the legal or constructive obligation to pay as a result of a service rendered by the employee in the past and the amount can be estimated, an obligation is recognized for short term bonuses or profit sharing.

**O) PROVISIONS**

Provisions are recognized when (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

**P) SHARE CAPITAL**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**Q) REVENUE RECOGNITION**

Sales are recognized upon shipment to, and acceptance by, the Company's customers or when the risk of ownership has passed to the customers. Revenue comprises the fair value of the consideration received or receivable, net of returns, discounts, and rebates. Provisions for discounts and rebates to customers, returns and other adjustments are recognized in the same period that the related sales are recorded and are based upon either historical estimates or actual terms.

**R) INCOME TAXES**

The tax expense of the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized from the analysis of the balance sheet considering temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been enacted at the date of the balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for tax loss carry-forwards not used, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In each period-end deferred income tax assets are reviewed and reduced to the extent that it is not probable that the benefits will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to set off assets against liabilities and these are related to income tax levied by the same tax authority on the same taxable entity.

**S) EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, which include convertible debt and share options.

**T) SEGMENT REPORTING**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity. Operating results from an operating segment are regularly reviewed by the entity's chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**5. RISK AND CAPITAL MANAGEMENT**

**A) RISK MANAGEMENT**

The Company is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. The Company uses derivative financial instruments to hedge some of these risks.

**Currency risk**

The Company operates internationally and thus, is exposed to currency risks, particularly with the U.S. dollar. Currency risks arise from commercial operations, recognized assets and liabilities and net investments in foreign subsidiaries.

The following tables detail the exposure of the Company to currency risks at January 1, 2010 and at December 31, 2010 and 2011. The tables show the carrying amount of the Company's financial instruments denominated in foreign currency.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

At January 1, 2010:

Amounts in thousands of Mexican pesos						
	U.S. Dollar	Pound sterling	Venezuelan bolivar	Euros	Costa Rica colons and others	Total
Monetary assets:						
Current	Ps. 2,061,769	Ps. 38,249	Ps. 1,722,114	Ps. 234,904	Ps. 555,074	Ps. 4,612,110
Non-current	27,536	—	13,822	1,973	15,712	59,043
Monetary liabilities:						
Current	(3,908,767)	(146,826)	(2,261,136)	(145,376)	(364,208)	(6,826,313)
Non-current	(16,898,484)	(745)	(47,316)	(58,442)	(46,246)	(17,051,233)
Net position	<u>Ps. (18,717,946)</u>	<u>Ps. (109,322)</u>	<u>Ps. (572,516)</u>	<u>Ps. 33,059</u>	<u>Ps. 160,332</u>	<u>Ps. (19,206,393)</u>

At December 31, 2010:

Amounts in thousands of Mexican pesos						
	U.S. Dollar	Pound sterling	Venezuelan bolivar	Euros	Costa Rica colons and others	Total
Monetary assets:						
Current	Ps. 1,777,322	Ps. 82,151	Ps. 1,057,283	Ps. 129,748	Ps. 454,600	Ps. 3,501,104
Non-current	24,021	1,270	8,089	2,793	3,642	39,815
Monetary liabilities:						
Current	(4,069,370)	(158,958)	(1,392,016)	(222,625)	(332,376)	(6,175,345)
Non-current	(13,550,278)	(20,049)	(26,713)	(34,963)	(53,075)	(13,685,078)
Net position	<u>Ps. (15,818,305)</u>	<u>Ps. (95,586)</u>	<u>Ps. (353,357)</u>	<u>Ps. (125,047)</u>	<u>Ps. 72,791</u>	<u>Ps. (16,319,504)</u>

At December 31, 2011:

Amounts in thousands of Mexican pesos						
	U.S. Dollar	Pound sterling	Venezuelan bolivar	Euros	Costa Rica colons and others	Total
Monetary assets:						
Current	Ps. 2,867,933	Ps. 313,652	Ps. 1,085,573	Ps. 172,257	Ps. 935,694	Ps. 5,375,109
Non-current	20,809	1,428	522	33,608	42,170	98,537
Monetary liabilities:						
Current	(4,627,116)	(173,062)	(1,970,433)	(273,115)	(515,808)	(7,559,534)
Non-current	(11,615,016)	(1,074)	(22,356)	(33,253)	(69,899)	(11,741,598)
Net position	<u>Ps. (13,353,390)</u>	<u>Ps. 140,944</u>	<u>Ps. (906,694)</u>	<u>Ps. (100,503)</u>	<u>Ps. 392,157</u>	<u>Ps. (13,827,486)</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

For the years ended December 31, 2010 and 2011, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	<u>2010</u>	<u>2011</u>
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investment in foreign subsidiaries, recorded directly to equity as an effect of foreign currency translation adjustments	Ps. 296,636	Ps. (813,101)
Exchange differences arising from foreign currency transactions recognized in the income statement	143,852	40,885
	<u>Ps. 440,488</u>	<u>Ps. (772,216)</u>

Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. During 2011, 34% of sales were generated in Mexican pesos and 38% in U.S. dollars. Additionally, at December 31, 2011, 67% of total assets were denominated in different currencies other than Mexican pesos, mainly in U.S. dollars. An important portion of operations are financed through debt denominated in U.S. dollars. For the years ended December 31, 2010 and 2011, net sales in foreign currency amounted to Ps. 30,732,369 and Ps.37,819,919, respectively.

An important currency risk for the debt denominated in U.S. dollars is present in subsidiaries that are not located in the United States, which represented 83% of total debt denominated in U.S. dollars.

During 2010 and 2011, the Company carried out forward transactions with the intention of hedging the currency risk of the Mexican peso with respect to the U.S. dollar, related with the price of corn purchases for domestic and imported harvest. These foreign exchange derivative instruments that did not qualify for hedging accounting were recognized at their fair value. At December 31, 2010 and 2011, the open positions of these instruments represented an unfavorable effect of approximately Ps.4,863 and a favorable effect of approximately Ps.88,537, respectively, which was recognized in the income statement.

At December 31, 2011 the Company had foreign exchange derivative instruments for a nominal amount of U.S.\$106 million with different maturities, ranging from January to March 2012. The purpose of these instruments is to hedge the risks related to foreign exchange differences in the price of corn, which is denominated in U.S. dollars.

The effect of foreign exchange differences recognized in the income statements for the years ended December 31, 2010 and 2011, related with the assets and liabilities denominated in foreign currency, totaled a gain of Ps.143,852 and Ps.40,885, respectively. Considering the exposure at December 31, 2010 and 2011, and assuming an increase or decrease of 10% in the exchange rates while keeping constant the rest of the variables such as interest rates, the effect after taxes in the Company's consolidated results will be Ps.605,597 and Ps.128,673, respectively.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

**Interest rate risk**

The variations in interest rates could affect the interest income or expense of financial liabilities bearing variable interest rates, and could also modify the fair value of financial liabilities bearing fixed interest rates.

For the Company, interest rate risk is mainly derived from debt financing transactions, including debt securities, bank and vendor credit facilities and leases. These financing transactions generate exposure to interest rate risk, principally due to changes in relevant base rates (mainly, LIBOR, and to a lesser extent, TIEE and Venezuela's weighted average rate) that are used to determine the interest rates applicable to the borrowings. The Company had Ps.4,281 million in fixed rate debt and Ps.8,824 million in variable rate debt at December 31, 2011.

The following table shows, at December 31, 2010 and 2011, the Company's debt at fixed and variable rates:

	<u>Amounts in thousands of Mexican pesos</u>	
	<u>2010</u>	<u>2011</u>
Debt at fixed interest rate	Ps. 3,994,945	Ps. 4,280,821
Debt at variable interest rate	14,050,464	8,824,496
Total	<u>Ps. 18,045,409</u>	<u>Ps. 13,105,317</u>

From time to time, the Company uses derivative financial instruments such as interest rate swaps for the purposes of hedging a portion of its debt, in order to reduce the Company's exposure to increases in interest rates.

For variable rate debt, an increase in interest rates will increase interest expense. A hypothetical increase of 100 basis points in interest rates on debt at December 31, 2011 will have an effect on the results of the Company of Ps.88,246, considering debt and interest rates at that date, and assuming that the rest of the variables remain constant.

**Commodity price risk and derivatives**

The availability and price of corn, wheat and other agricultural commodities and fuels are subject to wide fluctuations due to factors outside of the Company's control, such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand/supply and global production of similar and competitive crops. The Company hedges a portion of its production requirements through commodity futures and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas, diesel and soy oils which exist as part of ongoing business operations. The open positions for hedges of purchases do not exceed the maximum production requirements for a period no longer than 18 months.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

During 2011, the Company entered into short-term hedge transactions through commodity futures and options to hedge a portion of its requirements. All derivative financial instruments are recorded at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive income in equity, depending on whether the derivative qualifies for hedge accounting and is effective as part of a hedge transaction. Ineffectiveness results when the change in the fair value of the hedge instruments differs from the change in the fair value of the position.

For hedge transactions that qualify and are effective, gains and losses are deferred until the underlying asset or liability is settled, and then are recognized as part of that transaction.

Gains and losses which represent hedge ineffectiveness and derivative transactions that do not qualify for hedge accounting are recognized in the income statement.

At December 31, 2011, financial instruments that qualify as hedge accounting represented a favorable effect of Ps.14,876, which was recognized as comprehensive income in equity.

From time to time the Company hedges commodity price risks utilizing futures and options strategies that do not qualify for hedge accounting. As a result of non-qualification, these derivative financial instruments are recognized at their fair values and the associated effect is recorded in current period earnings. For the years ended December 31, 2010 and 2011, the Company recognized an unfavorable effect of Ps.13,228 and Ps.40,207, respectively, from not-settled financial instruments that did not qualify as hedge accounting. Additionally, as of December 31, 2010 and 2011, the Company realized Ps.42,970 and Ps.52,626, respectively, in net losses on commodity price risk hedges that did not qualify for hedge accounting.

During 2010, the Company entered into hedge contracts for corn purchases, which were designated as fair value hedges. Therefore, the derivative financial instruments, as well as the assets and liabilities being hedged, are recognized at fair value at the trade date. Changes in the fair value of the derivative financial instruments and the assets and liabilities being hedged are recognized in income for the year. All contracts were settled in November 2010. As a result of the valuation at fair value, as of December 31, 2010, the balance of Inventories included Ps.162,254 for these contracts.

Based on the Company's overall commodity exposure at December 31, 2011, a hypothetical 10 percent decline in market prices applied to the fair value of these instruments would result in an effect to the income statement of Ps.40,431 (for non-qualifying contracts).

In Mexico, to support the commercialization of corn for Mexican corn growers, Mexico's Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food Ministry (Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación, or SAGARPA), through the Agricultural Incentives and Services Agency (Apoyos y Servicios a la Comercialización Agropecuaria, or ASERCA), a government agency founded in 1991, implemented a program designed to promote corn sales in Mexico. The program includes the following objectives:



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

- Ensure that the corn harvest is brought to market, providing certainty to farmers concerning the sale of their crops and supply security for the buyer.
- Establish a minimum price for the farmer, and a maximum price for the buyer, which are determined based on international market prices, plus a basic formula specific for each region.
- Implement a corn hedging program to allow both farmers and buyers to minimize their exposure to price fluctuations in the international markets.

To the extent that this or other similar programs are canceled by the Mexican government, we may be required to incur additional costs in purchasing corn for our operations, and therefore we may need to increase the prices of our products to reflect such additional costs.

**Credit risk**

The Company's regular operations expose it to potential defaults when customers, suppliers and counterparties are unable to comply with their financial or other commitments. The Company seeks to mitigate this risk by entering into transactions with a diverse pool of counterparties. However, the Company continues to remain subject to unexpected third party financial failures that could disrupt its operations.

The Company is also exposed to risks in connection with its cash management activities and temporary investments, and any disruption that affects its financial intermediaries could also adversely affect its operations.

The Company's exposure to risk due to trade receivables is limited given the large number of its customers located in different parts of Mexico, the United States, Central America, Venezuela, Europe, Asia and Oceania. However, the Company still maintains reserves for potential credit losses. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Since a portion of the clients do not have an independent rating of credit quality, the Company's management determines the maximum credit risk for each one, taking into account its financial position, past experience, and other factors. Credit limits are established according to policies set by the Company, which also includes controls that assure its compliance.

During 2010 and 2011, credit limits were complied with and, consequently, management does not expect any important losses from trade accounts receivable.

At December 31, 2011 the Company has certain accounts receivable that are neither past due or impaired. The credit quality of such receivables does not present indications of impairment, since the sales are performed to a large variety of clients that include supermarkets, government institutions, commercial businesses and tortilla sellers. At December 31, 2011, none of these accounts receivable presented non-performance by these counterparties.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

The Company has centralized its treasury operations in Mexico, and in the United States for its operations in that country. Liquid assets are invested primarily in government bonds and short term debt instruments with a minimum grade of “A1/P1” in the case of operations in the United States and “A” for operations in Mexico. The Company faces credit risk from potential defaults of their counterparts with respect to financial instruments they use. Substantially all of these financial instruments are not guaranteed. Additionally, it minimizes the risk of default by the counterparts contracting derivative financial instruments only with major national and international financial institutions using contracts and standard forms issued by the International Swaps and Derivatives Association, Inc. (“ISDA”) and operations standard confirmation formats. For operations in Central America and Venezuela, the Company only invests cash reserves with leading local banks and local branches of international banks. Additionally, they maintain small investments abroad.

**Investment risk in Venezuela**

The Company’s operations in Venezuela represented approximately 16% of consolidated net sales and 14% of total consolidated assets as of December 31, 2011. The recent political and civil instability that has prevailed in Venezuela represents a risk to the business that cannot be controlled and that cannot be accurately measured or estimated.

Also, in recent years the Venezuelan authorities have imposed foreign exchange controls and price controls on certain products such as corn flour and wheat flour. These price controls may limit the Company’s ability to increase prices in order to compensate for the higher cost of raw materials. The foreign exchange controls may limit the Company’s capacity to convert bolivars to other currencies and also transfer funds outside Venezuela.

Various fixed exchange rates have been established by the Venezuelan Government since 2003. Effective January 1, 2010, the Venezuelan Government established an exchange rate of 4.30 bolivars per U.S. dollar.

The Company does not have insurance for the risk of expropriation of its investments. See Note 25 for additional information about the expropriation proceedings of MONACA assets and the measures taken by the People’s Defense Institute for the Access of Goods and Services of Venezuela (Instituto para la Defensa de las Personas en el Acceso a los Bienes y Servicios de Venezuela, or INDEPABIS) in Demaseca.

Given the Company’s operations in Venezuela, the financial position and results of the Company may be negatively affected by a number of factors, including:

- a. Decrease in consolidated income due to a possible devaluation of the Venezuelan bolivar against the U.S. dollar;
- b. Subsidiaries in Venezuela manufacture products subject to price controls;
- c. The enactment of the Just Costs and Prices Law (Ley de Costos y Precios Justos) on July 18, 2011, that controls the prices of products affecting the Company’s sales;
- d. It may be difficult for subsidiaries in Venezuela to pay dividends, as well as to import some of their requirements of raw materials as a result of the foreign exchange control;

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

- e. The costs of some raw materials used by the Venezuelan subsidiaries may increase due to import tariffs, and
- f. Inability to obtain a just and reasonable compensation for MONACA's assets subject to expropriation and if obtained, whether such compensation could be collected.

**Liquidity risk**

The Company funds its liquidity and capital resource requirements, in the ordinary course of business, through a variety of sources, including:

- cash generated from operations;
- committed and uncommitted short-term and long-term lines of credit;
- offerings of medium- and long-term debt; and
- sales of its equity securities and those of its subsidiaries and affiliates from time to time.

Factors that could decrease the sources of liquidity include a significant decrease in the demand for, or price of, products, each of which could limit the amount of cash generated from operations, and a lowering of the corporate credit rating or any other credit downgrade, which could further impair the liquidity and increase costs with respect to new debt and cause stock price to suffer. The Company's liquidity is also affected by factors such as the depreciation or appreciation of the peso and changes in interest rates.

The following table shows the remaining contractual maturities of financial liabilities of the Company:

	<u>Less than a year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short and long term debt	Ps. 1,621,446	Ps. 380,334	Ps. 5,618,137	Ps. 5,715,000	Ps. 13,334,917
Interest payable from short and long term debt	652,883	1,142,966	1,061,734	791,437	3,649,020
Operating leases	624,026	810,297	480,002	801,660	2,715,985
Financing leases	11,762	21,521	—	—	33,283
Trade accounts and other payables	9,301,814	—	—	—	9,301,814
Derivative financial instruments	46,013	—	—	—	46,013
	<u>Ps. 12,257,944</u>	<u>Ps. 2,355,118</u>	<u>Ps. 7,159,873</u>	<u>Ps. 7,308,097</u>	<u>Ps. 29,081,032</u>

The Company expects to meet its obligations with cash flows generated by operations. Additionally, the Company has access to credit lines with various banks to address potential cash needs.

**B) CAPITAL MANAGEMENT**

The Company's objectives when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) are to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk, to safeguard the Company's ability to continue as a going concern while taking advantage of strategic opportunities in order to provide sustainable returns for shareholders and benefits to stakeholders.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**5. RISK AND CAPITAL MANAGEMENT (continued)**

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase shares currently issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

In addition, to monitor capital, debt agreements contain financial covenants which are disclosed in Note 15.

**6. SEGMENT INFORMATION**

The Company's reportable segments are strategic business units that offer different products in different geographical regions. These business units are managed separately because each business segment requires different technology and marketing strategies.

The Company's reportable segments are as follows:

- Corn flour and packaged tortilla division (United States and Europe):

Manufactures and distributes more than 20 varieties of corn flour that are used mainly to produce and distribute different types of tortillas and tortilla chip products in the United States. The main brands are MASECA for corn flour and MISSION and GUERRERO for packaged tortillas.

- Corn flour division (Mexico):

Engaged principally in the production, distribution and sale of corn flour in Mexico under MASECA brand. Corn flour produced by this division is used mainly in the preparation of tortillas and other related products.

- Corn flour, wheat flour and other products division (Venezuela):

Engaged mainly in producing and distributing grains used principally for industrial and human consumption. The main brands are JUANA, TIA BERTA and DECASA for corn flour; ROBIN HOOD and POLAR for wheat flour; MONICA for rice and LASSIE for oats.

- Other segments:

This section represents those segments whose amounts on an individual basis do not exceed 10% of the consolidated total of net sales, operating income and assets. These segments are:

- a) Corn flour, hearts of palm, rice, and other products (Central America).
- b) Wheat flour (México).
- c) Packaged tortillas (México).
- d) Wheat flour tortillas and snacks (Asia and Oceania).
- e) Technology and equipment, which conducts research and development regarding flour and tortilla manufacturing equipment, produces machinery for corn flour and tortilla production and is engaged in the construction of the Company's corn flour manufacturing facilities.

All inter-segment sales prices are market-based. The Chief Executive Officer evaluates performance based on operating income of the respective business units. The accounting policies for the reportable segments are the same as the policies described in Notes 2 and 4.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**6. SEGMENT INFORMATION (continued)**

Segment information as of January 1, 2010:

	Corn flour and packaged tortilla division (United States and Europe)	Corn flour division (Mexico)	Corn flour, wheat flour and other products (Venezuela)	Other segments	Eliminations and corporate expenses	Total
Total assets	Ps. 15,168,451	Ps. 9,878,418	Ps. 6,777,968	Ps. 8,606,853	Ps. 2,846,754	Ps. 43,278,444
Investment in associates	—	—	—	139,139	3,881,200	4,020,339
Total liabilities	7,109,967	2,703,780	3,211,329	4,346,606	13,827,000	31,198,682

Segment information as of and for the year ended December 31, 2010:

	Corn flour and packaged tortilla division (United States and Europe)	Corn flour division (Mexico)	Corn flour, wheat flour and other products (Venezuela)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers	Ps. 21,444,929	Ps. 11,434,119	Ps. 5,381,849	Ps. 7,947,115	Ps. 24,442	Ps. 46,232,454
Inter-segment net sales	66,997	418,647	—	981,806	(1,467,450)	—
Operating income (loss)	1,303,038	1,146,697	(26,200)	(70,558)	(302,962)	2,050,015
Depreciation and amortization	880,457	365,179	112,399	245,252	(100,753)	1,502,534
Total assets	13,757,697	10,276,449	3,983,891	8,627,963	2,281,394	38,927,394
Investment in associates	—	—	—	140,505	4,295,896	4,436,401
Total liabilities	6,165,517	2,680,233	2,095,555	4,189,938	13,073,877	28,205,120
Expenditures for fixed assets	522,741	174,680	84,752	205,917	20,101	1,008,191

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**6. SEGMENT INFORMATION (continued)**

Segment information as of and for the year ended December 31, 2011:

	Corn flour and packaged tortilla division (United States and Europe)	Corn flour division (Mexico)	Corn flour, wheat flour and other products (Venezuela)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers	Ps. 23,900,928	Ps. 14,799,007	Ps. 9,156,603	Ps. 9,643,075	Ps. 145,136	Ps. 57,644,749
Inter-segment net sales	196,857	586,733	—	1,128,926	(1,912,516)	—
Operating income (loss)	946,806	1,770,725	674,068	(183,752)	130,614	3,338,461
Depreciation and amortization	1,004,467	356,171	135,335	323,051	(76,302)	1,742,722
Total assets	16,860,083	11,618,882	6,430,234	10,460,321	(826,902)	44,542,618
Investment in associates	—	—	—	143,700	—	143,700
Total liabilities	7,074,787	3,451,518	3,021,882	3,919,903	9,361,744	26,829,834
Expenditures for fixed assets	858,475	238,958	43,058	404,051	133,762	1,678,304

A summary of information by geographic segment for the years ended December 31, 2010 and 2011 is presented below:

	2010		%		2011		%	
<u>Net sales to external customers:</u>								
United States and Europe	Ps.	21,444,929	46	Ps.	23,900,928	41		
Mexico		15,539,076	34		19,870,195	34		
Venezuela		5,381,849	12		9,156,603	16		
Central America		2,765,134	6		3,180,155	6		
Asia and Oceania		1,101,466	2		1,536,868	3		
	Ps.	46,232,454	100	Ps.	57,644,749	100		
<u>Capital expenditures:</u>								
United States and Europe	Ps.	522,741	52	Ps.	858,475	51		
Mexico		329,863	33		470,977	28		
Venezuela		84,752	8		43,058	3		
Central America		43,477	4		88,508	5		
Asia and Oceania		27,358	3		217,286	13		
	Ps.	1,008,191	100	Ps.	1,678,304	100		

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**6. SEGMENT INFORMATION (continued)**

A summary of information by geographic segment at January 1, 2010 and at December 31, 2010 and 2011, is presented below:

	At January 1, 2010		At December 31, 2010		At December 31, 2011	
		%		%		%
<b>Identifiable assets</b>						
United States and Europe	Ps. 15,168,451	35	Ps. 13,757,697	35	Ps. 16,860,083	38
Mexico	16,664,251	38	16,480,632	43	15,052,360	34
Venezuela	6,777,968	16	3,983,891	10	6,430,234	14
Central America	2,168,294	5	1,928,120	5	2,408,555	5
Asia and Oceania	2,499,480	6	2,777,054	7	3,791,386	9
	<u>Ps. 43,278,444</u>	<u>100</u>	<u>Ps. 38,927,394</u>	<u>100</u>	<u>Ps. 44,542,618</u>	<u>100</u>

**7. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Cash at bank	Ps. 791,745	Ps. 2,524	Ps. 1,161,899
Short-term investments (less than 3 months)	1,088,918	18,793	17,752
	<u>Ps. 1,880,663</u>	<u>Ps. 21,317</u>	<u>Ps. 1,179,651</u>

**8. ACCOUNTS RECEIVABLE**

Accounts receivable comprised the following:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Trade accounts and notes receivable	Ps. 4,707,528	Ps. 4,350,763	Ps. 6,434,327
Related parties	500,669	238,289	—
Employees	26,752	17,567	31,628
Recoverable value-added tax	216,737	260,308	368,239
ASERCA receivables (Note 5)	30,518	61,097	321,958
Other debtors	440,484	380,152	287,168
Allowance for doubtful accounts	(251,936)	(290,379)	(316,112)
	<u>Ps. 5,670,752</u>	<u>Ps. 5,017,797</u>	<u>Ps. 7,127,208</u>

The age analysis of accounts receivable is as follows:

	Total	Not past due date balances	Past due balances		
			1 to 120 days	121 to 240 days	More than 240 days
Accounts receivable	Ps. 5,922,688	Ps. 3,351,286	Ps. 1,599,902	Ps. 339,089	Ps. 632,411
Allowance for doubtful accounts	(251,936)	—	(27,062)	(49,637)	(175,237)
Total at January 1, 2010	<u>Ps. 5,670,752</u>	<u>Ps. 3,351,286</u>	<u>Ps. 1,572,840</u>	<u>Ps. 289,452</u>	<u>Ps. 457,174</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**8. ACCOUNTS RECEIVABLE (continued)**

	Total	Not past due date balances	Past due balances		
			1 to 120 days	121 to 240 days	More than 240 days
Accounts receivable	Ps. 5,308,176	Ps. 3,166,147	Ps. 1,571,514	Ps. 116,407	Ps. 454,108
Allowance for doubtful accounts	(290,379)	—	(30,583)	(36,765)	(223,031)
<b>Total at December 31, 2010</b>	<b>Ps. 5,017,797</b>	<b>Ps. 3,166,147</b>	<b>Ps. 1,540,931</b>	<b>Ps. 79,642</b>	<b>Ps. 231,077</b>

	Total	Not past due date balances	Past due balances		
			1 to 120 days	121 to 240 days	More than 240 days
Accounts receivable	Ps. 7,443,320	Ps. 4,635,346	Ps. 2,174,062	Ps. 255,623	Ps. 378,289
Allowance for doubtful accounts	(316,112)	—	(31,130)	(48,289)	(236,693)
<b>Total at December 31, 2011</b>	<b>Ps. 7,127,208</b>	<b>Ps. 4,635,346</b>	<b>Ps. 2,142,932</b>	<b>Ps. 207,334</b>	<b>Ps. 141,596</b>

For the years ended December 31, 2010 and 2011, the movements on the allowance for doubtful accounts are as follows:

	2010	2011
Beginning balance	Ps. (251,936)	Ps. (290,379)
Allowance for doubtful accounts	(73,976)	(130,885)
Receivables written off during the year	26,232	117,254
Exchange differences	9,301	(12,102)
<b>Ending balance</b>	<b>Ps. (290,379)</b>	<b>Ps. (316,112)</b>

**9. INVENTORIES**

Inventories consisted of the following:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Raw materials, mainly corn and wheat	Ps. 5,815,253	Ps. 5,641,754	Ps. 8,633,094
Finished products	845,178	724,516	917,014
Materials and spare parts	433,148	389,352	639,307
Production in process	217,841	160,239	149,714
Advances to suppliers	153,383	256,829	194,297
Inventory in transit	71,785	91,544	167,405
	<b>Ps. 7,536,588</b>	<b>Ps. 7,264,234</b>	<b>Ps. 10,700,831</b>

For the years ended December 31, 2010 and 2011, the cost of raw materials consumed and the changes in the inventories of production in process and finished goods, recognized as cost of sales amounted to Ps.26,697,273 and Ps.34,374,608, respectively.

For the years ended December 31, 2010 and 2011, the Company recognized Ps.62,964 and Ps.76,086, respectively, for inventory that was damaged, slow-moving and obsolete.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**10. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE**

Long-term notes and accounts receivable are as follows:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Long-term recoverable asset tax	Ps. 119,996	Ps. 119,996	Ps. 209,940
Long-term notes receivable from sale of tortilla machines	8,768	175,653	189,044
Prepaid rent deposits	—	124,127	111,396
Guarantee deposits	119,217	118,842	38,827
Long-term recoverable value-added tax	—	—	35,019
Others	295,314	60,343	42,648
	<u>Ps. 543,295</u>	<u>Ps. 598,961</u>	<u>Ps. 626,874</u>

At December 31, 2011 long-term notes receivable are denominated in pesos, maturing from 2013 to 2016 and bearing an average interest rate of 16.5%.

**11. INVESTMENT IN ASSOCIATES**

At December 31, 2011 investment in common stock of associated companies consisted of an investment in Harinera de Monterrey, S.A. de C.V., which produces wheat flour and related products in Mexico.

During January 2011, the Company decided to sell its 8.7966% interest in the capital stock of Grupo Financiero Banorte, S.A.B. de C.V. (GFNorte). On February 15, 2011, the sale of 177,546,496 shares of the capital stock of GFNorte was concluded, resulting in cash proceeds of Ps.9,232,418, before fees and expenses. The accounting result was a profit before taxes of approximately Ps.4,707,804 net of fees and expenses. The sale was authorized by the Mexican Banking Securities and Exchange Commission (CNBV) and was carried out through a secondary public offering in Mexico and a private offering in the United States and other foreign markets, for a simultaneous global offering.

Until the date of GFNorte's sale, the Company had significant influence over this associate due to its representation on the Board of Directors and the equity interest of the Company's principal shareholder in GFNorte.

Investment in associates is comprised of the following:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
GFNorte	Ps. 3,881,200	Ps. 4,295,896	Ps. —
Harinera de Monterrey, S.A. de C.V.	139,139	140,505	143,700
	<u>Ps. 4,020,339</u>	<u>Ps. 4,436,401</u>	<u>Ps. 143,700</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**11. INVESTMENT IN ASSOCIATES (continued)**

The percentage of interest held in associates is:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
GFNorte	8.7966%	8.7966%	—
Harinera de Monterrey, S.A. de C.V.	40%	40%	40%

During 2010, the Company received dividends from GFNorte for a total of Ps.90,549.

In accordance with accounting rules set by the *Comisión Nacional Bancaria y de Valores*, at December 31, 2010 GFNorte presented total assets of Ps.590,558 million and total liabilities of Ps.540,331 million; and for the year ended December 31, 2010 GFNorte presented total revenue of Ps.41,479 million and net income of Ps.6,705 million.

At January 1, 2010 and December 31, 2010, the market value of the investment in common stock of GFNorte, which is publicly traded, amounted to Ps.8,493,824 and Ps.10,450,387, respectively.

**12. PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant and equipment for the years ended December 31, 2010 and 2011 were as follows:

	Land and buildings	Machinery and equipment	Leasehold improvements	Construction in progress	Total
<b>At January 1, 2010</b>					
Deemed cost	Ps. 8,443,983	Ps. 26,446,725	Ps. 999,649	Ps. 400,610	Ps. 36,290,967
Accumulated depreciation	(2,410,623)	(13,417,420)	(419,480)	—	(16,247,523)
Net book value	6,033,360	13,029,305	580,169	400,610	20,043,444
<b>For the year ended December 31, 2010</b>					
Opening net book value	6,033,360	13,029,305	580,169	400,610	20,043,444
Exchange differences	(413,909)	(812,890)	(29,413)	(209,409)	(1,465,621)
Additions	73,770	364,080	10,536	559,805	1,008,191
Disposals	(4,802)	(167,519)	(4,038)	(27,366)	(203,725)
Depreciation charge	(177,095)	(1,163,277)	(63,977)	(8,535)	(1,412,884)
Transfers and reclassifications (1)	(46,033)	212,196	17,029	(235,060)	(51,868)
Acquisitions through business combinations	5,510	7,038	—	88	12,636
Closing net book value	5,470,801	11,468,933	510,306	480,133	17,930,173
<b>At December 31, 2010</b>					
Cost	7,876,090	24,962,403	943,548	480,133	34,262,174
Accumulated depreciation	(2,405,289)	(13,493,470)	(433,242)	—	(16,332,001)
Net book value	5,470,801	11,468,933	510,306	480,133	17,930,173

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

	Land and buildings	Machinery and equipment	Leasehold improvements	Construction in progress	Total
<b>For the year ended December 31, 2011</b>					
Opening net book value	5,470,801	11,468,933	510,306	480,133	17,930,173
Exchange differences	610,538	1,486,807	74,047	93,434	2,264,826
Additions	148,380	636,835	12,730	880,359	1,678,304
Disposals	(8,607)	(142,496)	(175)	(22,531)	(173,809)
Depreciation charge	(198,856)	(1,217,848)	(71,244)	—	(1,487,948)
Transfers and reclassifications (1)	63,064	662,119	48,011	(721,643)	51,551
Acquisitions through business combinations	82,928	169,663	—	592	253,183
Impairment	(647)	—	—	—	(647)
Closing net book value	<u>6,167,601</u>	<u>13,064,013</u>	<u>573,675</u>	<u>710,344</u>	<u>20,515,633</u>
<b>At December 31, 2011</b>					
Cost	8,914,511	28,427,554	1,043,612	710,344	39,096,021
Accumulated depreciation	(2,746,910)	(15,363,541)	(469,937)	—	(18,580,388)
Net book value	<u>Ps. 6,167,601</u>	<u>Ps. 13,064,013</u>	<u>Ps. 573,675</u>	<u>Ps. 710,344</u>	<u>Ps. 20,515,633</u>

(1) Transfers and reclassifications mainly correspond to capitalizations of construction in progress.

For the years ended December 31, 2010 and 2011, depreciation expense was recognized as follows:

	2010	2011
Cost of sales	Ps. 1,146,514	Ps. 1,195,318
Selling and administrative expenses	266,370	292,630
	<u>Ps. 1,412,884</u>	<u>Ps. 1,487,948</u>

At January 1, 2010 and at December 31, 2010 and 2011, property, plant and equipment included idle assets with a carrying value of approximately Ps.1,725,797, Ps.1,051,698 and Ps.1,072,382, respectively, resulting from the temporary shut-down of the productive operations of various plants in Mexico, the United States and Venezuela, mainly in the corn flour division in Mexico and packaged tortilla division in the United States.

The Company recognized equipment under finance lease arrangements that are described in Note 24-B.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**13. INTANGIBLE ASSETS**

Changes in intangible assets for the years ended December 31, 2010 and 2011 were as follows:

	Intangible assets acquired						Internally generated intangible assets	Total
	Goodwill	Covenants not to compete	Patents and trade-marks	Customer lists	Software for internal use			
<b>At January 1, 2010</b>								
Cost	Ps. 2,169,473	Ps. 461,126	Ps. 107,951	Ps. 100,422	Ps. 735,949	Ps. 105,756	Ps. 3,680,677	
Accumulated amortization	—	(306,524)	(61,908)	(48,414)	(687,847)	(92,729)	(1,197,422)	
Net book value	<u>2,169,473</u>	<u>154,602</u>	<u>46,043</u>	<u>52,008</u>	<u>48,102</u>	<u>13,027</u>	<u>2,483,255</u>	
<b>For the year ended December 31, 2010</b>								
Opening net book value	2,169,473	154,602	46,043	52,008	48,102	13,027	2,483,255	
Exchange differences	(111,254)	—	(80)	(3,081)	(11,357)	11,230	(114,542)	
Additions	—	—	3,459	—	—	420	3,879	
Disposals	—	—	(4)	—	(8)	(2,243)	(2,225)	
Amortization	—	(22,631)	(8,158)	(4,345)	(7,429)	(11,817)	(54,380)	
Additions through business combinations	90,480	—	—	—	—	—	90,480	
Closing net book value	<u>2,148,699</u>	<u>131,971</u>	<u>41,260</u>	<u>44,582</u>	<u>29,308</u>	<u>10,617</u>	<u>2,406,437</u>	
<b>At December 31, 2010</b>								
Cost	2,148,699	461,126	107,471	93,719	563,328	67,606	3,441,949	
Accumulated amortization	—	(329,155)	(66,211)	(49,137)	(534,020)	(56,989)	(1,035,512)	
Net book value	<u>2,148,699</u>	<u>131,971</u>	<u>41,260</u>	<u>44,582</u>	<u>29,308</u>	<u>10,617</u>	<u>2,406,437</u>	
<b>For the year ended December 31, 2011</b>								
Opening net book value	2,148,699	131,971	41,260	44,582	29,308	10,617	2,406,437	
Exchange differences	214,138	2,587	8,710	12,652	6,829	13,457	258,373	
Additions	—	—	18	—	3,841	18,865	22,724	
Disposals	—	—	—	—	73	(14,607)	(14,534)	
Amortization	—	(24,905)	(8,738)	(8,719)	(6,715)	(7,889)	(56,966)	
Additions through business combinations	344,643	16,156	22,458	46,562	292	1,107	431,218	
Impairment	(92,893)	—	—	—	—	—	(92,893)	
Closing net book value	<u>2,614,587</u>	<u>125,809</u>	<u>63,708</u>	<u>95,077</u>	<u>33,628</u>	<u>21,550</u>	<u>2,954,359</u>	
<b>At December 31, 2011</b>								
Cost	2,614,587	480,098	147,577	158,516	640,799	77,166	4,118,743	
Accumulated amortization	—	(354,289)	(83,869)	(63,439)	(607,171)	(55,616)	(1,164,384)	
Net book value	<u>Ps. 2,614,587</u>	<u>Ps. 125,809</u>	<u>Ps. 63,708</u>	<u>Ps. 95,077</u>	<u>Ps. 33,628</u>	<u>Ps. 21,550</u>	<u>Ps. 2,954,359</u>	

At December 31, 2010 and 2011 the Company did not have indefinite-lived intangible assets.

For the years ended December 31, 2010 and 2011, amortization expense of intangible assets amounted to Ps.54,380 and Ps.56,966, respectively, which were recognized in the income statement as selling and administrative expenses.

Research and development costs of Ps.76,604 and Ps.91,011 were recognized in the income statement for the years ended December 31, 2010 and 2011, respectively.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**13. INTANGIBLE ASSETS (continued)**

Goodwill acquired in business combinations is allocated at acquisition date to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combinations. The carrying values of goodwill allocated to the CGU or a group of CGU are as follows:

<u>Cash-generating unit</u>	<u>At January 1, 2010</u>	<u>At December 31, 2010</u>	<u>At December 31, 2011</u>
Mission Foods Division	Ps. 725,869	Ps. 667,283	Ps. 856,474
Gruma Seaham Ltd.	409,171	360,257	339,222
Gruma Corporation	212,765	212,765	212,765
Rositas Investments Pty, Ltd.	173,403	186,354	209,709
Gruma Holding Netherlands B.V.	149,325	141,099	120,877
Agroindustrias Integradas del Norte, S.A. de C.V.	115,099	115,099	115,099
Altera LLC	—	90,480	99,149
Grupo Industrial Maseca, S.A.B. de C.V.	98,622	98,622	98,622
NDF Azteca Milling Europe SRL	82,720	78,163	93,614
Azteca Milling, L.P.	71,192	67,270	75,986
Gruma Centroamérica	51,207	51,207	51,207
Molinos Azteca de Chiapas, S.A. de C.V.	28,158	28,158	28,158
Harinera de Yucatán, S.A. de C.V.	18,886	18,886	18,886
Harinera de Maíz de Mexicali, S.A. de C.V.	17,424	17,424	17,424
Molinos Azteca, S.A. de C.V.	8,926	8,926	8,926
Harinera de Maíz de Jalisco, S.A. de C.V.	6,706	6,706	6,706
Goodwill not yet allocated	—	—	261,763
	<u>Ps. 2,169,473</u>	<u>Ps. 2,148,699</u>	<u>Ps. 2,614,587</u>

With respect to the determination of the CGU's value in use, the Company's management considered that a reasonably possible change in the key assumptions used, will not cause that the CGU's carrying value to materially exceed their value in use.

At December 31, 2011, goodwill acquired in Semolina A.S. and Solntse Mexico for a total of Ps.261,763 had not been allocated to a CGU since the initial accounting for these businesses had not been completed.

For the year ended December 31, 2011, the Company recognized impairment losses on goodwill by Ps.92,893 within "Other expenses" for Gruma Holding Netherlands B.V. and Gruma Seaham Ltd., which are part of the segment "Corn flour and packaged tortilla division (United States and Europe)". This impairment loss reflected a decrease in the recoverable value of these CGU due to its continued operating losses.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**14. DEFERRED TAX ASSETS AND LIABILITIES**

**A) COMPONENTS OF DEFERRED TAX**

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	<u>At January 1, 2010</u>	<u>At December 31, 2010</u>	<u>At December 31, 2011</u>
Deferred tax asset:			
To be recovered after more than 12 months	Ps. (1,736,858)	Ps. (1,742,919)	Ps. (460,365)
To be recovered within 12 months	(514,890)	(572,660)	(698,798)
	<u>(2,251,748)</u>	<u>(2,315,579)</u>	<u>(1,159,163)</u>
Deferred tax liability:			
To be recovered after more than 12 months	4,505,879	4,744,465	4,615,240
To be recovered within 12 months	170,396	128,800	68,103
	<u>4,676,275</u>	<u>4,873,265</u>	<u>4,683,343</u>
Deferred tax liability, net	<u>Ps. 2,424,527</u>	<u>Ps. 2,557,686</u>	<u>Ps. 3,524,180</u>

The principal components of deferred tax assets and liabilities are summarized as follows:

	<u>(Asset) Liability</u>		
	<u>At January 1, 2010</u>	<u>At December 31, 2010</u>	<u>At December 31, 2011</u>
Net operating loss carryforwards and other tax credits	Ps. (1,650,267)	Ps. (1,644,733)	Ps. (326,954)
Customer advances	(189)	(154)	(163)
Allowance for doubtful accounts	(12,279)	(15,360)	(14,791)
Accrued liabilities	(482,869)	(541,729)	(672,821)
Recoverable asset tax	(19,553)	(15,417)	(11,023)
Other	(86,591)	(98,186)	(133,411)
Deferred tax asset	<u>(2,251,748)</u>	<u>(2,315,579)</u>	<u>(1,159,163)</u>
Property, plant and equipment	2,026,879	1,959,515	2,060,121
Prepaid expenses	53,748	39,895	4,999
Inventories	116,648	88,905	63,104
Intangible assets and others	174,620	194,118	277,414
Investment in associates	1,020,318	1,054,891	494,137
Tax consolidation effect	1,121,038	1,534,650	1,696,886
Other	163,024	1,291	86,682
Deferred tax liability	<u>4,676,275</u>	<u>4,873,265</u>	<u>4,683,343</u>
Net deferred tax liability	<u>Ps. 2,424,527</u>	<u>Ps. 2,557,686</u>	<u>Ps. 3,524,180</u>

At December 31, 2011, the Company did not recognize a deferred income tax asset of Ps.3,199,289 for tax loss carryforwards, since sufficient evidence was not available to determine that these tax loss carryforwards will be realizable during their amortization period. These tax losses expire in the year 2021.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**14. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

The changes in the temporary differences during the year were as follows:

	Balance at January 1, 2010	Recognized in income	Recognized in other comprehen- sive income	Foreign currency translation and others	Balance at December 31, 2010
Net operating loss carryforwards and other tax credits	Ps. (1,650,267)	Ps. (25,135)	Ps. 63	Ps. 30,606	Ps. (1,644,733)
Customer advances	(189)	35	—	—	(154)
Allowance for doubtful accounts	(12,279)	(3,017)	183	(247)	(15,360)
Accrued liabilities	(482,869)	(142,562)	—	83,702	(541,729)
Recoverable asset tax	(19,553)	4,122	20	(6)	(15,417)
Others	(86,591)	(17,485)	4,583	1,307	(98,186)
Deferred tax asset	<u>(2,251,748)</u>	<u>(184,042)</u>	<u>4,849</u>	<u>115,362</u>	<u>(2,315,579)</u>
Property, plant and equipment	2,026,879	(31,382)	(1,291)	(34,691)	1,959,515
Prepaid expenses	53,748	(13,853)	—	—	39,895
Inventories	116,648	(23,676)	—	(4,067)	88,905
Intangible assets and others	174,620	56,041	—	(36,543)	194,118
Investment in associates	1,020,318	13,280	—	21,293	1,054,891
Tax consolidation effect	1,121,038	414,393	(781)	—	1,534,650
Others	163,024	30,069	(28,282)	(163,520)	1,291
Deferred tax liability	<u>4,676,275</u>	<u>444,872</u>	<u>(30,354)</u>	<u>(217,528)</u>	<u>4,873,265</u>
Net deferred tax liability	<u>Ps. 2,424,527</u>	<u>Ps. 260,830</u>	<u>Ps. (25,505)</u>	<u>Ps. (102,166)</u>	<u>Ps. 2,557,686</u>
	Balance at January 1, 2011	Recognized in income	Recognized in other comprehen- sive income	Foreign currency translation and others	Balance at December 31, 2011
Net operating loss carryforwards and other tax credits	Ps. (1,644,733)	Ps. 1,342,088	Ps. 53	Ps. (24,362)	Ps. (326,954)
Customer advances	(154)	(125)	—	116	(163)
Allowance for doubtful accounts	(15,360)	1,260	(1)	(690)	(14,791)
Accrued liabilities	(541,729)	(59,614)	(11,724)	(59,754)	(672,821)
Recoverable asset tax	(15,417)	4,394	—	—	(11,023)
Others	(98,186)	(30,973)	—	(4,252)	(133,411)
Deferred tax asset	<u>(2,315,579)</u>	<u>1,257,030</u>	<u>(11,672)</u>	<u>(88,942)</u>	<u>(1,159,163)</u>
Property, plant and equipment	1,959,515	(8,368)	297	108,677	2,060,121
Prepaid expenses	39,895	(37,779)	—	2,883	4,999
Inventories	88,905	(28,839)	—	3,038	63,104
Intangible assets and others	194,118	44,885	—	38,411	277,414
Investment in associates	1,054,891	(620,090)	—	59,336	494,137
Tax consolidation effect	1,534,650	162,914	(678)	—	1,696,886
Others	1,291	32,574	(8,933)	61,750	86,682
Deferred tax liability	<u>4,873,265</u>	<u>(454,703)</u>	<u>(9,314)</u>	<u>274,095</u>	<u>4,683,343</u>
Net deferred tax liability	<u>Ps. 2,557,686</u>	<u>Ps. 802,327</u>	<u>Ps. (20,986)</u>	<u>Ps. 185,153</u>	<u>Ps. 3,524,180</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**14. DEFERRED TAX ASSETS AND LIABILITIES (continued)****B) TAX LOSS CARRYFORWARDS**

At December 31, 2011, the Company had tax loss carryforwards which amounted to approximately Ps.11,703,953. Based on projections prepared by the Company's management of expected future taxable income, it has been determined that only tax losses for an amount of Ps.311,351 will be used. Therefore, the Company did not recognize a deferred tax asset for the difference.

**C) UNCERTAIN TAX POSITIONS**

At December 31, 2010 and 2011, the Company recognized a liability for uncertain tax positions of Ps.35,865 and Ps.41,264, respectively, excluding interest and penalties. The following table presents a reconciliation of the Company's uncertain tax positions, excluding interest and penalties:

	2010	2011
Uncertain tax positions at beginning of year	Ps. 85,452	Ps. 40,511
Translation adjustment of the initial balance	(4,720)	(4,646)
Increase as result of uncertain tax positions taken in the year	4,570	9,347
Settlements	(46,028)	(851)
Reductions due to a lapse of the statute of limitations	(3,409)	(3,097)
Uncertain tax positions at end of year	<u>Ps. 35,865</u>	<u>Ps. 41,264</u>

It is expected that the amount of uncertain tax positions will change in the next 12 months; however, the Company does not expect the change to have a significant impact on its consolidated financial position or results of operations. The Company had accrued interest and penalties of approximately Ps.2,322 and Ps.3,572 related to uncertain tax positions for fiscal 2010 and 2011, respectively.

**D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME**

Deferred taxes related to other comprehensive income are comprised of:

	At December 31, 2010	At December 31, 2011
Foreign currency translation adjustments	Ps. (24,724)	Ps. (8,583)
Actuarial gains and losses	—	(11,725)
Other movements	(781)	(678)
Total	<u>Ps. (25,505)</u>	<u>Ps. (20,986)</u>

**E) TAX CONSOLIDATION**

Gruma, S.A.B. de C.V. is authorized to determine income tax under the tax consolidation regime, together with its subsidiaries in Mexico, according to the authorization of the Ministry of Finance and Public Credit on July 14, 1986, under what is stated in the applicable Law.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**14. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

In 2011, the Company determined a consolidated tax profit of Ps.8,103,641; which was amortized against consolidated tax loss of 2008. As of December 31, 2011, the Company did not have consolidated tax loss carryforwards. The consolidated tax result differs from the accounting result, mainly in such items taxed and deducted during different timing for accounting and tax purposes, from the recognition of the inflation effects for tax purposes, as well as such items only affecting either the consolidated accounting or taxable income.

Certain Income Tax Law provisions which were reformed, added or derogated for 2010 were published on December 7, 2009, including the following:

- The income tax rate applicable from 2010 to 2012 will be 30%, for 2013 it will be 29% and as of 2014 it will be 28%. At December 31, 2009, the previously described rate change produced a reduction in the income tax deferred balance of Ps.58,228, with its corresponding effect in the income statement for the year, which was determined based on an expectation of temporary reversion to the effective rates.
- Eliminated the possibility of using credits for the excess of deductions on taxable income for Flat tax purposes (credit of tax loss of flat tax) in order to reduce the income tax to be paid while could be credited against the flat tax base.
- The tax consolidation regime was modified in order to establish that the income tax payment related to the tax consolidation benefits obtained as of 1999 should be partially paid during the sixth to tenth years subsequent to the date when those benefits were embraced.

The tax consolidation benefits previously mentioned come from:

- i) Tax losses embraced in the tax consolidation which were not amortized individually by the entity which produced them;
  - ii) special consolidation items derived from transactions held between the consolidating partnerships and producing benefits;
  - iii) loss on disposal of shares individually outstanding of deduction by the holding which produced them; and
  - iv) dividends distributed by the holding and which do not come from the net tax profit account (CUFIN) balance and reinvested CUFIN.
- It is stated that the existing differences between the consolidated CUFIN and reinvested CUFIN balances and the balances of these same accounts of the controlled entities by the Company can produce profits resulting in income tax.

At December 31, 2011, the liability arising from the aforementioned changes in the Income Tax Law amounted to Ps.1,696,886 and is estimated to be incurred as follows:

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**14. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

	Year of payment					Total
	2012	2013	2014	2015	2016 and thereafter	
Tax losses	Ps. 55,168	Ps. 56,335	Ps. 142,852	Ps. 204,027	Ps. 1,236,124	Ps. 1,694,506
Special consolidation items	274	206	206	—	—	686
Dividends distributed by the subsidiaries not paid from CUFIN or reinvested CUFIN	678	508	508	—	—	1,694
<b>Total</b>	<u>Ps. 56,120</u>	<u>Ps. 57,049</u>	<u>Ps. 143,566</u>	<u>Ps. 204,027</u>	<u>Ps. 1,236,124</u>	<u>Ps. 1,696,886</u>

The Company, through time, has been recognizing a tax liability compensated with income tax from tax loss carryforwards. At December 31, 2011, income tax payable with defined payment dates was classified in the statement of financial position as short and long-term income tax payable for Ps.56,120 and Ps.107,218, respectively. In addition, the remaining liability, for which a settlement date has not yet determined in accordance with the requirements of the Income Tax Law, was included as a component of the deferred income taxes.

**15. DEBT**

Debt is summarized as follows:

Short-term:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Bank loans	Ps. 912,141	Ps. 616,722	Ps. 1,577,873
Current portion of long-term debt	1,273,193	1,555,126	43,572
Financing lease liabilities	18,058	21,023	11,762
	<u>Ps. 2,203,392</u>	<u>Ps. 2,192,871</u>	<u>Ps. 1,633,207</u>

Long-term:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Bank loans	Ps. 15,808,764	Ps. 12,303,810	Ps. 7,490,256
Perpetual notes	3,661,872	3,463,116	3,960,333
Financing lease liabilities	101,366	85,612	21,521
	<u>Ps. 19,572,002</u>	<u>Ps. 15,852,538</u>	<u>Ps. 11,472,110</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**In thousands of Mexican pesos, except where otherwise indicated)**

**15. DEBT (continued)**

The terms, conditions and carrying values of loans are as follows:

	Currency	Interest rate	Maturity date	At January 1, 2010	At December 31, 2010	At December 31, 2011
Secured bank loan	USD	LIBOR + 2.875%(a)	2010-2017	Ps. 8,634,389	Ps. 7,902,929	Ps. —
Perpetual notes	USD	7.75%	(b)	3,661,872	3,463,116	3,960,333
Secured bank loans	Pesos	TIEE + 6.21%	2012-2019	3,302,558	3,310,403	—
Credit line	USD	LIBOR + 0.375%	2016	914,900	—	1,858,098
Credit line	USD	LIBOR + 2%	2016	—	—	1,046,250
Secured bank loans	USD	LIBOR + 2.875%(a)	2010-2014	1,517,151	1,150,094	—
Secured bank loans	Pesos	TIEE + 2.875%(a)	2010-2014	1,014,401	814,755	—
Syndicated loan	Pesos	TIEE + 1.5%	2015-2018	—	—	1,189,919
Credit	USD	LIBOR + 2%	2014-2016	—	—	2,071,783
Credit	USD	LIBOR + 2%	2016	—	—	693,296
Credit	USD	2.78% - 4.7%	2010-2012	466,502	336,132	773,142
Credit	Pesos	8.09% - 11.2%	2010-2016	212,121	64,902	70,301
Credit	Bolivars	8.0% y 13.0%	2010-2012	267,479	229,767	279,813
Credit	Euros	1.9% - 3.11%	2011-2012	—	50,821	50,617
Credit	USD	LIBOR + 2%	2013	49,208	5,558	7,394
Credit	Pesos	TIEE + 1.5%	2015-2018	—	—	596,786
Credit	USD	LIBOR + 2%	2012	—	—	474,302
Credit	USD	LIBOR + 2.875%	2010-2012	761,929	569,965	—
Credit	USD	LIBOR + 2%	2010-2011	145,126	40,332	—
Credit	Pesos	11.301% - 11.875%	2010-2014	394,654	—	—
Credit	USD	2.23%	2010	313,680	—	—
Financing lease liability	Pesos	13.02%	2010-2013	119,424	106,635	33,283
<b>Total</b>				<u>Ps. 21,775,394</u>	<u>Ps. 18,045,409</u>	<u>Ps. 13,105,317</u>

(a) Interest rate in effect until July 20, 2012 and annual step-ups thereafter.

(b) Redeemable starting 2009 at the Company's option.

At January 1, 2010 and at December 31, 2010 and 2011, short-term debt bore interest at an average rate of 8.43%, 8.16% and 4.34%, respectively.

At December 31, 2011, the annual maturities of long-term debt outstanding were as follows:

Year	Amount
2013	Ps. 35,295
2014	366,560
2015	441,071
2016	5,177,066
2017 and thereafter	5,452,118
<b>Total</b>	<u>Ps. 11,472,110</u>

On February 18, 2011, the Company paid in advance the outstanding balance of several credit facilities as of December 31, 2010. The total amount of payments made were U.S.\$753.3 million and Ps.773.3 million, payments for which the Company used the entirety of the net proceeds from the sale of shares of GFNorte (Note 11), as well as its own resources and others obtained through short term facilities.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**15. DEBT (continued)**

Due to the aforementioned payments, the following loan agreements have been terminated:

- Payment of U.S.\$618.3 million corresponding to the loan agreement executed with Deutsche Bank Trust Company Americas, as administrative agent, several banks, and The Bank of New York Mellon as collateral agent, for the financing of U.S.\$668.3 million, dated October 16, 2009;
- Payment of U.S.\$88.7 million and Ps.773.3 million corresponding to the syndicated loan agreement executed with BBVA Bancomer, S.A. Institución de Banca Múltiple Grupo Financiero BBVA Bancomer, as administrative agent, several banks, and The Bank of New York Mellon as collateral agent, for the financing of U.S.\$197.0 million, dated October 16, 2009;
- Payment of U.S.\$10.4 million corresponding to the unsecured loan agreement executed with ABN Amro Bank, N.V. (which has been transferred to the Royal Bank of Scotland, N.V.) for the financing of U.S.\$13.9 million, dated October 16, 2009;
- Payment of U.S.\$16.1 million corresponding to the unsecured loan agreement executed with Barclays Bank, PLC for the financing of U.S.\$21.5 million, dated October 16, 2009;
- Payment of U.S.\$17.2 million corresponding to the unsecured loan agreement executed with Standard Chartered Bank (which has been transferred to Mercantil Commercebank, N.A.) for the financing of U.S.\$22.9 million, dated October 16, 2009; and
- Payment of U.S.\$2.6 million corresponding to the unsecured loan agreement executed with BNP Paribas for the financing of U.S.\$11.8 million, dated October 16, 2009.

On February 21, 2011, the Company concluded all necessary actions required for canceling all pledges granted pursuant to some of the foregoing loan agreements and those related to the Company's perpetual notes.

As part of the anticipated payment of the debt, the Company canceled debt issuance costs related to these liabilities amounting to Ps.63,815.

The Company has credit line agreements for Ps.4,534 million (U.S.\$325 million), from which Ps.935 million (U.S.\$67 million) are available as of December 31, 2011. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.2% to 0.9% over the unused amounts.

The outstanding credit agreements contain covenants mainly related to compliance with certain financial ratios and delivery of financial information, which, if not complied with during the period, as determined by creditors, may be considered a cause for early maturity of the debt.

Financial ratios are calculated according to formulas established in the credit agreements. The main financial ratios contained in the credit agreements are the following:

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**15. DEBT (continued)**

- Interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) to consolidated interest charges, should not be less than 2.50 to 1.00.
- Leverage ratio, defined as the ratio of total consolidated indebtedness (as described in the credit agreements) to consolidated EBITDA, should not exceed 3.5 to 1.00.

At December 31, 2011, the Company was in compliance with the financial covenants, as well as the delivery of the required financial information.

**16. PROVISIONS**

The movements of provisions are as follows:

	Labor provisions	Restoration provision	Tax provision	Unregulated labor security obligations
<b>Balance at January 1, 2010</b>	Ps. 211,288	Ps. 65,912	Ps. 16,864	Ps. 35,872
Charge (credit) to income:				
Additional provisions	110,062	13,199	6,755	10,750
Unused amounts reversed	—	—	(1,014)	—
Used during the year	(107,133)	(3,502)	(12,481)	—
Exchange differences	(14,035)	(3,855)	627	(18,924)
<b>Balance at December 31, 2010</b>	<u>200,182</u>	<u>71,754</u>	<u>10,751</u>	<u>27,698</u>
Charge (credit) to income:				
Additional provisions	157,324	31,148	6,048	15,892
Unused amounts reversed	—	—	(488)	—
Used during the year	(72,696)	—	(1,523)	—
Exchange differences	31,751	12,995	1,830	3,588
<b>Balance at December 31, 2011</b>	<u>Ps. 316,561</u>	<u>Ps. 115,897</u>	<u>Ps. 16,618</u>	<u>Ps. 47,178</u>
Of which current	Ps. 316,561	Ps. 17,801	Ps. —	Ps. 47,178
Of which non-current	—	98,096	16,618	—

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**16. PROVISIONS (continued)**

	Provision for operating plant closure expenditures	Other	Total
<b>Balance at January 1, 2010</b>	Ps. —	Ps. 430	Ps. 330,366
Charge (credit) to income:			
Additional provisions	19,681	144,170	304,617
Unused amounts reversed	—	—	(1,014)
Used during the year	—	(144,287)	(267,403)
Exchange differences	—	(225)	(36,412)
<b>Balance at December 31, 2010</b>	<u>19,681</u>	<u>88</u>	<u>330,154</u>
Charge (credit) to income:			
Additional provisions	—	4,604	215,016
Unused amounts reversed	—	—	(488)
Used during the year	(7,256)	(99)	(81,574)
Exchange differences	2,550	8	52,722
<b>Balance at December 31, 2011</b>	<u>Ps. 14,975</u>	<u>Ps. 4,601</u>	<u>Ps. 515,830</u>
Of which current	Ps. 14,975	Ps. 4,601	Ps. 401,116
Of which non-current	—	—	114,714

**Labor provisions**

a. Workers' compensation

In the United States, when permitted by law, the Company self insures against workers' compensation claims. As claims are filed for workers' compensation, the Company recognizes an obligation to settle these claims. Actuarial information is used to estimate the expected outflows of economic resources and projected timing of the settlement of these claims.

b. Legal reserve

The Company's subsidiaries in the United States have established a provision for the probable settlement of a lawsuit presented by a former employee.

c. Labor liabilities

Subsidiaries in Venezuela established a provision for labor claims filed against the Company related to work accidents and the payment of certain labor benefits, and to meet the terms of the collective labor contracts that, as of the date hereof, are still being negotiated with workers' unions.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**16. PROVISIONS (continued)**

**Restoration provision**

In the United States, the Company has recognized an obligation to remove equipment and leasehold improvements from certain of its leased manufacturing facilities in order to restore the facilities to their original condition, less normal wear and tear as determined by the terms of the lease. The Company has estimated the expected outflows of economic resources associated with these obligations and the probability of possible settlement dates based upon the terms of the lease. These estimates are used to calculate the present value of the estimated expenditures using the pre-tax rate and taking into account any specific risks associated with these obligations.

**Tax provision**

In Central America, for the periods from 2005 to 2011, tax authorities have lodged tax assessments against the Company for an amount of Ps.33.7 million (1,250 million colons) in connection with sales and income tax. Based on the criteria of the Company's management and the opinion of tax consultants hired for the Company's defense, there is a high probability that a part of these tax assessments will be settled. For this reason, the Company has accrued the necessary amounts to cover the payment of these obligations.

**Unregulated labor security obligations**

In Venezuela, the Organic Law of Prevention, Conditions and Work Environment (Ley Orgánica de Prevención, Condiciones y Medio Ambiente de Trabajo) establishes the substitution of certain security obligations for other more onerous obligations. This regulation has not been officially released by the Venezuelan government, making it difficult to determine the payment date for this obligation.

**Provision for operating plant closure expenditures**

This provision was created to cover all expenses related to the closure of a production plant in Venezuela which was surrendered to a government institution due to the expiration of the lease contract, and to cover any damage to the assets to be returned; however, the legal settlement has yet to be concluded.

**Other provisions**

Estimates due to commitments of the Company in Venezuela including, among others, point of sale promotions to its customers for the exchange of different products, for which it is difficult to determine the specific date to deliver these commitments.

**17. OTHER CURRENT LIABILITIES**

At January 1, 2010 and at December 31, 2010 and 2011, Other current liabilities include employee benefits payable of Ps.777,481, Ps.730,533 and Ps.959,975, respectively.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**18. EMPLOYEE BENEFITS OBLIGATIONS**

Employee benefits obligations recognized in the balance sheet, by country, were as follows:

Country	At January 1, 2010	At December 31, 2010	At December 31, 2011
Mexico	Ps. 212,976	Ps. 265,834	Ps. 275,799
United States	61,926	64,553	72,247
Venezuela	27,181	19,792	22,356
Total	<u>Ps. 302,083</u>	<u>Ps. 350,179</u>	<u>Ps. 370,402</u>

**A) MEXICO**

In Mexico, labor obligations recognized by the Company correspond to the single-payment retirement plan and seniority premium. The benefits for the retirement plan and seniority premium are defined benefit plans, based on the projected salary at the date in which the employee is assumed to receive the benefits. Currently, the plan operates under Mexican law, which does not require minimum funding.

The Company has decided to recognize actuarial gains and losses immediately in other comprehensive income.

The reconciliation between the initial and final balances of the present value of the defined benefit obligations (DBO) is as follows:

	2010	2011
DBO at beginning of the year	Ps. 248,726	Ps. 306,098
Add (deduct):		
Current service cost	23,435	17,496
Financial cost	20,441	20,964
Actuarial losses for the period	18,949	(14,061)
Benefits paid	(5,453)	(15,848)
DBO at end of the year	<u>Ps. 306,098</u>	<u>Ps. 314,649</u>

At January 1, 2010 and at December 31, 2010 and 2011, liabilities relating to vested employee benefits amounted to Ps.156,153, Ps.180,440 and Ps.193,225, respectively.

The reconciliation between the initial and final balances of the employee benefit plan assets at fair value for the years 2010 and 2011 is shown below:

	2010	2011
Plan assets at fair value at beginning of the year	Ps. 35,750	Ps. 40,264
Add (deduct):		
Actual return	5,160	(184)
Benefits paid	(646)	(1,230)
Plan assets at fair value at end of the year	<u>Ps. 40,264</u>	<u>Ps. 38,850</u>



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**18. EMPLOYEE BENEFITS OBLIGATIONS (continued)**

The following table shows the reconciliation between the present value of the defined benefit obligation and the plan assets at fair value, and the projected net liability included in the balance sheet:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Employee benefit (assets) liabilities:			
DBO	Ps. 248,726	Ps. 306,098	Ps. 314,649
Plan assets	(35,750)	(40,264)	(38,850)
Projected net liability	<u>Ps. 212,976</u>	<u>Ps. 265,834</u>	<u>Ps. 275,799</u>

At December 31, 2010 and 2011, the components of net cost comprised the following:

	2010	2011
Current service cost	Ps. 23,435	Ps. 17,496
Financial cost	20,441	20,964
Estimated return on plan assets	(3,102)	(4,447)
Net cost for the year	<u>Ps. 40,774</u>	<u>Ps. 34,013</u>

The net cost for the year 2010 and 2011 of Ps.40,774 and Ps.34,013, respectively, was recognized as follows:

	2010	2011
Cost of sales	Ps. 4,596	Ps. 2,138
Selling and administrative expenses	36,178	31,875
Net cost for the year	<u>Ps. 40,774</u>	<u>Ps. 34,013</u>

The total amount recognized in other comprehensive income is described below:

	2010	2011
Balance at the beginning of the year	Ps. —	Ps. 18,949
Actuarial losses that occurred during the year	18,949	(14,061)
Balance at the end of the year	<u>Ps. 18,949</u>	<u>Ps. 4,888</u>

At January 1, 2010 and at December 31, 2010 and 2011, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	At January 1, 2010		At December 31, 2010		At December 31, 2011	
Equity securities	Ps. 21,093	59%	Ps. 23,755	63%	Ps. 23,692	61%
Fixed rate securities	14,657	41%	16,509	37%	15,158	39%
Fair value of plan assets	<u>Ps. 35,750</u>	<u>100%</u>	<u>Ps. 40,264</u>	<u>100%</u>	<u>Ps. 38,850</u>	<u>100%</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**18. EMPLOYEE BENEFITS OBLIGATIONS (continued)**

The Company has a policy of maintaining at least 30% of its trust assets in Mexican Federal Government instruments. Guidelines have been established for the remaining 70% and investment decisions are taken in accordance with these guidelines to the extent market conditions and available funds allow it.

As of December 31, 2011, the funds maintained in plan assets were considered sufficient to face the Company's short-term needs; therefore, the Company's management has determined that for the time being there is no need for additional contributions to increase these assets.

The estimated long-term return on assets is based on the annual recommendations issued by the Actuarial Commission of the Mexican Association of Actuaries. These recommendations consider historical information and future market expectations. The actual return on plan assets during the year 2011 was 11%.

The main actuarial assumptions used were as follows:

	At January 1, 2010	At December 31, 2010	At December 31, 2011
Discount rate	9.00%	7.50%	7.75%
Future increase rate in compensation levels	4.50%	4.50%	4.50%
Estimated return rate on plan assets	9.00%	11.50%	11.00%
Long-term inflation rate	3.50%	3.50%	3.50%

The impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.4,598.

The Company does not expect to contribute during the next fiscal year.

**B) OTHER COUNTRIES**

In the United States, the Company has a savings and investment plan that incorporates voluntary employee 401(k) contributions with matching contributions from the Company in this country. For the years ended December 31, 2010 and 2011, total expenses related to this plan amounted to Ps.6,219 and Ps.1,334, respectively (U.S.\$492 and U.S.\$107 thousand, respectively). At January 1, 2010 and at December 31, 2010 and 2011, the liability recognized for these items amounted to Ps.61,926, Ps.64,553 and Ps.72,247, respectively (U.S. \$4,738, U.S.\$5,227 and U.S.\$5,179 thousand, respectively).

In Venezuela, the Company determines severance payments for employment termination, in accordance with the local Labor Law and collective agreements, and transfers these amounts to a trust for each worker. Contributions to each trust are recognized in the income statement when incurred. Collective agreements include additional benefits upon employment termination and the Company recognizes a liability when the right to receive these benefits is irrevocable. At January 1, 2010 and at December 31, 2010 and 2011, the liability recognized for these items amounted to Ps.27,181, Ps.19,792, and Ps.22,356, respectively.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**19. EQUITY****A) COMMON STOCK**

At January 1, 2010 and at December 31, 2010 and 2011, the Company's outstanding common stock consisted of 563,650,709 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval, and 1,523,900 shares held in Treasury.

**B) RETAINED EARNINGS**

In accordance with Mexican Corporate Law, the legal reserve must be increased annually by 5% of annual net profits until it reaches a fifth of the fully paid common stock amount. The legal reserve is included within retained earnings.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN) and will be taxed at a rate that fluctuates between 32% and 35% if they are paid from the reinvested Net Tax Profit Account. Dividends paid that exceed CUFIN and reinvested CUFIN are subject to an income tax payable at a rate of 30% if paid in 2011. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years or, if appropriate, against the flat rate tax for the year. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment.

**C) PURCHASE OF COMMON STOCK**

The Stockholders' Meeting approved a Ps.650,000 reserve to repurchase the Company's own shares. The total amount of repurchased shares cannot exceed 5% of total equity. The difference between the acquisition cost of the repurchased shares and their stated value, composed of common stock and share premium, is recognized as part of the reserve to repurchase the Company's own shares, which is included within retained earnings from prior years. The gain or loss on the sale of the Company's own shares is recorded in retained earnings. As of December 31, 2011, the Company carried out net purchases of 1,523,900 of its own shares with a market value of Ps.40,231 at that date.

**D) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS**

Foreign currency translation adjustments consisted of the following as of December 31:

	<u>2010</u>	<u>2011</u>
Balance at beginning of year	Ps. —	Ps. (1,282,185)
Effect of the year from translating net investment in foreign subsidiaries	(1,578,821)	2,018,314
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries	296,636	(813,101)
	<u>Ps. (1,282,185)</u>	<u>Ps. (76,972)</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**19. EQUITY (continued)**

The investment that the Company maintains in its operations in the United States and Europe generated a hedge of up to U.S.\$375 and U.S.\$478 million at December 31, 2010 and 2011, respectively.

At December 31, 2010 and 2011, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.(536,126) and Ps.(143,668), respectively.

**20. FINANCIAL INSTRUMENTS**

**A) FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying values of financial instruments by category are presented below:

	At January 1, 2010			
	Loans, receivables and liabilities at amortized cost	Financial assets at fair value through profit or loss	Hedge derivatives	Total categories
<b>Financial assets:</b>				
Cash and cash equivalents	Ps. 1,880,663	Ps. —	Ps. —	Ps. 1,880,663
Trading investments	—	127,293	—	127,293
Derivative financial instruments	—	55,749	—	55,749
Accounts receivable	5,670,752	—	—	5,670,752
Non-current notes and accounts receivable	543,295	—	—	543,295
<b>Financial liabilities:</b>				
Current debt	Ps. 2,203,392	Ps. —	Ps. —	Ps. 2,203,392
Trade accounts payable and other accounts payable	3,564,372	—	—	3,564,372
Derivative financial instruments	—	11,935	—	11,935
Long-term debt	19,572,002	—	—	19,572,002
Other liabilities (excludes non-financial liabilities)	107,668	—	—	107,668

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**20. FINANCIAL INSTRUMENTS (continued)**

	At December 31, 2010			
	Loans, receivables and liabilities at amortized cost	Financial assets at fair value through profit or loss	Hedge derivatives	Total categories
<b>Financial assets:</b>				
Cash and cash equivalents	Ps. 21,317	Ps. —	Ps. —	Ps. 21,317
Trading investments	—	79,577	—	79,577
Derivative financial instruments	—	13,137	—	13,137
Accounts receivable	5,017,797	—	—	5,017,797
Non-current notes and accounts receivable	474,834	—	—	474,834
<b>Financial liabilities:</b>				
Current debt	Ps. 2,192,871	Ps. —	Ps. —	Ps. 2,192,871
Trade accounts payable and other accounts payable	3,601,829	—	—	3,601,829
Derivative financial instruments	—	4,863	—	4,863
Long-term debt	15,852,538	—	—	15,852,538
Other liabilities (excludes non-financial liabilities)	96,834	—	—	96,834

	At December 31, 2011			
	Loans, receivables and liabilities at amortized cost	Financial assets at fair value through profit or loss	Hedge derivatives	Total categories
<b>Financial assets:</b>				
Cash and cash equivalents	Ps. 1,179,651	Ps. —	Ps. —	Ps. 1,179,651
Trading investments	—	140,255	—	140,255
Derivative financial instruments	—	88,537	14,876	103,413
Accounts receivable	7,127,208	—	—	7,127,208
Non-current notes and accounts receivable	515,478	—	—	515,478
<b>Financial liabilities:</b>				
Current debt	Ps. 1,633,207	Ps. —	Ps. —	Ps. 1,633,207
Trade accounts payable and other accounts payable	5,544,105	—	—	5,544,105
Derivative financial instruments	—	46,013	—	46,013
Long-term debt	11,472,110	—	—	11,472,110
Other liabilities (excludes non-financial liabilities)	45,734	—	—	45,734

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**20. FINANCIAL INSTRUMENTS (continued)**

**B) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts of cash and cash equivalents, accounts receivable, recoverable income tax, trade accounts payable, short-term debt, and other current liabilities approximate their fair value, due to their short maturity. In addition, the net book value of accounts receivable and recoverable taxes represent the expected cash flow to be received.

The estimated fair value of the Company's financial instruments is as follows:

	<u>At January 1, 2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
<b>Assets:</b>		
Interest and capital bonds	Ps. 127,293	Ps. 127,293
Derivative financial instruments - corn	14,217	14,217
Derivative financial instruments - other raw materials	39,353	39,353
Long-term notes receivable	8,768	4,859
<b>Liabilities:</b>		
Perpetual bonds in U.S. dollars bearing fixed interest at an annual rate of 7.75%	3,661,900	3,666,135
Long-term debt	17,201,352	18,231,481
Derivative financial instruments - other raw materials	4,526	4,526
Derivative financial instruments - interest rate	7,133	7,133
	<u>At December 31, 2010</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
<b>Assets:</b>		
Interest and capital bonds	Ps. 79,577	Ps. 79,577
Derivative financial instruments - other raw materials (1)	(4,863)	(4,863)
Long-term notes receivable	175,653	153,285
<b>Liabilities:</b>		
Perpetual bonds in U.S. dollars bearing fixed interest at an annual rate of 7.75%	3,463,116	3,667,950
Long-term debt	13,965,569	15,007,339
Derivative financial instruments - exchange rate	4,863	4,863

(1) At December 31, 2010, the balance of derivative financial instruments for Ps.13,137 was comprised of: (a) margin calls required due to price variations of the underlying asset for Ps.17,258, to be applied against payments, and (b) an unfavorable effect in the valuation of open positions of derivatives at the end of the year for Ps.4,121.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**20. FINANCIAL INSTRUMENTS (continued)**

	At December 31, 2011	
	Carrying amount	Fair value
<b>Assets:</b>		
Interest and capital bonds	Ps. 140,255	Ps. 140,255
Derivative financial instruments - exchange rate	88,537	88,537
Derivative financial instruments - corn	14,876	14,876
Long-term notes receivable	189,044	165,157
<b>Liabilities:</b>		
Perpetual bonds in U.S. dollars bearing fixed interest at an annual rate of 7.75%	3,960,333	4,192,115
Long-term debt	7,567,111	7,621,786
Derivative financial instruments - other raw materials	45,922	45,922

The fair values were determined by the Company as follows:

- The fair values of perpetual bonds and derivative financial instruments were determined based on available market prices and/or estimates using market data information and appropriate valuation methodologies for similar instruments.
- The fair value for the rest of the long-term debt was based on the present value of the cash flows discounted at interest rates based on readily observable market inputs.

**C) DERIVATIVE FINANCIAL INSTRUMENTS**

At January 1, 2010 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures	2,520,000 Bushels	Ps. 6,934	Ps. —
Corn options	4,410,000 Bushels	7,283	—
Natural gas swaps and options 2011	1,710,000 Mmbtu	1,201	—
Diesel swaps	9,324,000 Gallons	38,152	—
Diesel swaps	441,000 Gallons	—	4,526
Interest rate swaps	\$ 20,000,000 USD	—	7,133

At December 31, 2009, open positions of corn, natural gas and diesel derivatives were recorded at fair value. These instruments did not qualify as hedge accounting and represented a favorable effect of Ps.63,769, which was recognized in income.

Operations terminated at December 31, 2009 on corn, natural gas and diesel derivatives represented an unfavorable effect of Ps.121,631.

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2009, there were no open positions on these instruments.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**20. FINANCIAL INSTRUMENTS (continued)**

Operations terminated at December 31, 2009 on exchange rate derivatives represented a loss of Ps.485,261, which was recognized in income.

At December 31, 2009, the Company had margin calls of Ps.2,180, which were required due to price variations of the underlying asset to be applied against payments.

At December 31, 2010 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Natural gas swaps and options 2011	2,090,000 Mmbtu	Ps. —	Ps. 5,714
Diesel swaps	252,000 Gallons	1,593	—
Exchange rate forwards	\$ 42,739,822 USD	—	4,863

At December 31, 2010, the Company had no open positions of corn derivatives. Open positions of natural gas and diesel were recorded at fair value. These instruments did not qualify as hedge accounting and represented an unfavorable effect of Ps.13,228, which was recognized in income.

Operations terminated at December 31, 2010 on corn, natural gas and diesel derivatives represented an unfavorable effect of Ps.42,970.

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2010, open positions on these instruments represented an unfavorable effect of approximately Ps.4,863, which was recognized in income for that year.

Operations terminated at December 31, 2010 on exchange rate derivatives represented a loss of Ps.21,464, which was recognized in income.

At December 31, 2010, the Company had margin calls of Ps.17,258, which were required due to price variations of the underlying asset to be applied against payments.

At December 31, 2011 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures	2,090,000 Bushels	Ps. 6,915	Ps. —
Corn options	2,560,000 Bushels	7,961	—
Natural gas swaps 2012-2013	3,840,000 Mmbtu	—	45,922
Exchange rate forwards	\$ 106,000,000 USD	88,537	—

At December 31, 2011, open positions of corn and natural gas derivatives were recorded at fair value. Financial instruments that qualify as hedge accounting represented a favorable effect of Ps.14,876, which was recognized as comprehensive income in equity. Financial instruments that did not qualify as hedge accounting represented an unfavorable effect of Ps.40,207, which was recognized in the income statement.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**20. FINANCIAL INSTRUMENTS (continued)**

Operations terminated at December 31, 2011 on corn and natural gas derivatives represented an unfavorable effect of Ps.52,626.

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2011, open positions on these instruments represented a favorable effect of approximately Ps.93,400 thousand, which was recognized in income for the year.

Operations terminated at December 31, 2011 on exchange rate derivatives represented a favorable effect of Ps.207,250.

At December 31, 2011, the Company had no revolving funds denominated “margin calls”, which were required due to price variations of the underlying asset to be applied against payments.

**D) FAIR VALUE HIERARCHY**

A three-level hierarchy is used to measure and disclose fair values. An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

**a. Determination of fair value**

When available, the Company generally uses quoted market prices to determine fair value and classifies such items in Level 1. If quoted market prices are not available, fair value is valued using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rates, currency rates, volatilities, etc. Items valued using such inputs are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some inputs that are readily observable. In addition, the Company considers assumptions for its own credit risk and the respective counterparty risk.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**20. FINANCIAL INSTRUMENTS (continued)**

**b. Measurement**

Assets and liabilities measured at fair value are summarized below:

	At January 1, 2010			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Interest and capital bonds	Ps. —	Ps. 127,293	Ps. —	Ps. 127,293
Plan assets — seniority premium fund	35,750	—	—	35,750
Derivative financial instruments — corn and other raw materials	55,768	—	—	55,768
	<u>Ps. 91,518</u>	<u>Ps. 127,293</u>	<u>Ps. —</u>	<u>Ps. 218,811</u>

<i>Liabilities:</i>				
Derivative financial instruments — other raw materials	Ps. 4,810	Ps. —	Ps. —	Ps. 4,810
Derivative financial instruments — interest rate	—	—	7,133	7,133
	<u>Ps. 4,810</u>	<u>Ps. —</u>	<u>Ps. 7,133</u>	<u>Ps. 11,943</u>

	At December 31, 2010			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Interest and capital bonds	Ps. —	Ps. 79,577	Ps. —	Ps. 79,577
Plan assets — seniority premium fund	40,264	—	—	40,264
Derivative financial instruments — corn and other raw materials	13,137	—	—	13,137
	<u>Ps. 53,401</u>	<u>Ps. 79,577</u>	<u>Ps. —</u>	<u>Ps. 132,978</u>

<i>Liabilities:</i>				
Derivative financial instruments — exchange rate	Ps. —	Ps. —	Ps. 4,863	Ps. 4,863

	At December 31, 2011			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Interest and capital bonds	Ps. —	Ps. 140,255	Ps. —	Ps. 140,255
Plan assets — seniority premium fund	38,850	—	—	38,850
Derivative financial instruments — corn	14,876	—	—	14,876
Derivative financial instruments — exchange rate	—	88,537	—	88,537
	<u>Ps. 53,726</u>	<u>Ps. 228,792</u>	<u>Ps. —</u>	<u>Ps. 282,518</u>

<i>Liabilities:</i>				
Derivative financial instruments — other raw materials	Ps. —	Ps. —	Ps. 46,013	Ps. 46,013

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**20. FINANCIAL INSTRUMENTS (continued)**

Level 1 - Quoted prices for identical instruments in active markets

Financial instruments that are negotiated in active markets are classified as Level 1. The valuation techniques and the inputs used in the Company's financial statements to measure the fair value include the following:

- Quoted market prices of corn listed on the Chicago Board of Trade.
- Quoted market prices of natural gas listed on the NYMEX Exchange.

Level 2 - Quoted prices for similar instruments in active markets

Financial instruments that are classified as Level 2 refer mainly to quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, as well as model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 - Valuation techniques

The Company has classified as Level 3 those financial instruments whose fair values are obtained using valuation models that include observable inputs but also include certain unobservable inputs. For the Company, the unobservable input included in the valuation of its liability positions refers solely to the Company's own credit risk.

The table below includes a roll-forward of the balance sheet amounts for the years ended December 31, 2010 and 2011 for financial instruments classified by the Company within Level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within Level 3, it is due to the use of significant unobservable inputs. However, Level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due, in part, to observable factors that are part of the valuation methodology:

	Derivative financial instruments — interest rate	Derivative financial instruments — exchange rate	Derivative financial instruments — other raw materials
Initial balance at January 1, 2010	Ps. 7,133	Ps. —	Ps. —
Losses recognized in the income statement	811	4,863	—
Net settlements paid	(7,944)	—	—
Ending balance as of December 31, 2010	Ps. —	Ps. 4,863	Ps. —
Losses recognized in the income statement	—	—	46,013
Net settlements paid	—	(4,863)	—
Ending balance as of December 31, 2011	Ps. —	Ps. —	Ps. 46,013

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**21. OTHER EXPENSES, NET**

Other expenses, net comprised the following:

	<u>2010</u>	<u>2011</u>
Expenses related to Venezuela legal proceedings	Ps. (403,712)	Ps. —
Net loss from sale of fixed assets	(26,912)	(4,201)
Net (loss) gain from sale of scrap	(704)	1,084
Impairment loss on long-lived assets	—	(93,808)
Cost of written-down fixed assets	—	(52,271)
Current employees' statutory profit sharing	(50,361)	(36,959)
Non-recoverable cost of damaged assets	(37,043)	(17,695)
Total	<u>Ps. (518,732)</u>	<u>Ps. (203,850)</u>

**22. EMPLOYEE BENEFIT EXPENSES**

Employee benefit expenses are comprised of the following:

	<u>2010</u>	<u>2011</u>
Salaries, wages and benefits (including termination benefits)	Ps. 3,836,491	Ps. 4,814,297
Social security contributions	338,119	399,078
Employment benefits (Note 18)	56,148	35,347
Total	<u>Ps. 4,230,758</u>	<u>Ps. 5,248,722</u>

**23. INCOME TAX EXPENSE**

**A) INCOME BEFORE INCOME TAX**

The domestic and foreign components of income before income tax are the following:

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Domestic	Ps. 665,708	Ps. 5,995,927
Foreign	813,339	1,626,467
	<u>Ps. 1,479,047</u>	<u>Ps. 7,622,394</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**23. INCOME TAX EXPENSE (continued)**

**B) COMPONENTS OF INCOME TAX EXPENSE**

The components of income tax expense are the following:

	<u>2010</u>	<u>2011</u>
<b>Current tax:</b>		
Current tax on profits for the year	Ps. (669,498)	Ps. (866,734)
Adjustments in respect of prior years	90,768	(137,512)
Total current tax	<u>(578,730)</u>	<u>(1,004,246)</u>
<b>Deferred tax:</b>		
Origin and reversal of temporary differences	(260,831)	(1,035,147)
Offsetting of income tax from foreign dividends	—	232,821
Total deferred tax	<u>(260,831)</u>	<u>(802,326)</u>
<b>Total income tax expense</b>	<u>Ps. (839,561)</u>	<u>Ps. (1,806,572)</u>

Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
<b>Current:</b>		
Domestic federal	Ps. (179,565)	Ps. (316,407)
Foreign federal	(355,500)	(644,174)
Foreign state	(43,665)	(43,665)
	<u>(578,730)</u>	<u>(1,004,246)</u>
<b>Deferred:</b>		
Domestic federal	(271,451)	(896,374)
Foreign federal	17,765	88,634
Foreign state	(7,145)	5,414
	<u>(260,831)</u>	<u>(802,326)</u>
<b>Total income taxes</b>	<u>Ps. (839,561)</u>	<u>Ps. (1,806,572)</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**23. INCOME TAX EXPENSE (continued)**

**C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME**

For the years ended December 31, 2010 and 2011, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	<u>2010</u>	<u>2011</u>
Statutory federal income tax (30% for 2010 and 2011, respectively)	Ps. (443,714)	Ps. (2,286,719)
Foreign dividends	(278,705)	—
Effects related to inflation	(197,016)	119,454
Foreign income tax rate differences	(88,238)	(67,105)
Offsetting of income tax from foreign dividends	—	232,821
Tax loss carryforwards used	248,031	186,772
Non-deductible expenses related with legal proceedings in Venezuela	(80,727)	—
Prior year adjustments and others	808	8,204
Effective income tax (56.8% and 23.7% for 2010 and 2011, respectively)	<u>Ps. (839,561)</u>	<u>Ps. (1,806,572)</u>

On December 7, 2009 several dispositions of the Income Tax Law were reformed, added or derogated. Among these modifications was the establishment of an income tax rate of 30% for the years 2010 through 2012, 29% for 2013 and 28% from 2014 onwards.

**24. COMMITMENTS**

**A) OPERATING LEASES**

The Company is leasing certain facilities and equipment under long-term lease agreements in effect through 2026, which include an option for renewal. These agreements are recognized as operating leases, since the contracts do not transfer substantially all risks and advantages inherent to ownership.

Future minimum lease payments under operating lease agreements are as follows:

	<u>2010</u>	<u>2011</u>
No later than 1 year	Ps. 514,493	Ps. 624,025
Later than 1 year and no later than 5 years	1,050,232	1,290,301
Later than 5 years	523,946	801,660
	<u>Ps. 2,088,671</u>	<u>Ps. 2,715,986</u>

Rental expense was approximately Ps.745,613 and Ps.701,370 for the years ended December 31, 2010 and 2011, respectively.

The Company has a lease agreement of an aircraft for a 10-year term, which includes an early purchase option on the following dates: (a) on the fifth anniversary for a total of U.S.\$34.7 million and (b) on the seventh anniversary for a total of U.S.\$31.6 million.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**24. COMMITMENTS (continued)****B) FINANCE LEASES**

At January 1, 2010 and at December 31, 2010 and 2011, the net carrying values of assets recorded under finance leases totaled Ps.162,446, Ps.138,407 and Ps.20,922, respectively, and corresponded to transportation and production equipment.

Future minimum lease payments under finance lease agreements are as follows:

	2010	2011
No later than 1 year	Ps. 37,516	Ps. 13,515
Later than 1 year and no later than 5 years	91,406	23,805
	<u>128,922</u>	<u>37,320</u>
Future finance charges on finance leases	(22,287)	(4,037)
Present value of finance lease liabilities	<u>Ps. 106,635</u>	<u>Ps. 33,283</u>

The present value of finance lease liabilities is as follows:

	2010	2011
No later than 1 year	Ps. 33,545	Ps. 12,432
Later than 1 year and no later than 5 years	73,090	20,851
Total	<u>Ps. 106,635</u>	<u>Ps. 33,283</u>

Finance lease agreements include purchase options at fair value at the end of the lease. Additionally, the contracts include the option to renew or extend the lease term for the same amount for each respective contract.

**C) OTHER COMMITMENTS**

At December 31, 2011, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps.3,742,213 (U.S.\$268,259 thousand) and in Mexico for approximately Ps.4,491,900 (U.S.\$322,000 thousand), which will be delivered during 2012. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2011, the Company had outstanding commitments to purchase machinery and equipment in Mexico and the United States amounting to approximately Ps.255,724.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**25. CONTINGENCIES**

**MEXICO**

**Asset Tax Claim.-** The *Secretaría de Hacienda y Crédito Público*, or Ministry of Finance and Public Credit, has lodged tax assessments against the Company for an amount of Ps.34.3 million plus penalties, updates and charges, in connection with the asset tax returns for the year 1997. The Company has filed several appeals to obtain an annulment of these assessments.

**Income Tax Claim.-** The *Secretaría de Hacienda y Crédito Público* has lodged tax assessments against the Company for the amount of Ps.93.5 million in connection with withholding on interest payments to its foreign creditors for the years 2000, 2001 and 2002. Mexican authorities claim that the Company should have withheld a higher rate than the 4.9% withheld. The Company intends to defend against these claims vigorously.

The Company believes that the outcome of these claims will not have an adverse effect on its financial position, results of operations, or cash flows.

**CNBV Investigation.-** On December 8, 2009, the Surveillance Office of the *Comisión Nacional Bancaria y de Valores* (the Mexican National Banking and Securities Commission, or CNBV) began an investigation into the Company in respect of the timely disclosure of material events reported through the Mexican Stock Exchange during the end of 2008 and throughout 2009, in connection with the Company's foreign exchange derivative losses and the subsequent conversion of the realized losses into debt. In 2011, the CNBV commenced an administrative proceeding against the Company for alleged infringements to applicable legislation. The Company has participated in this proceeding in order to demonstrate its compliance with current legislation and to adopt applicable defenses as deemed appropriate in order to protect Gruma's interests. As of this date, the aforementioned proceeding is ongoing, and the CNBV has not issued a final resolution in connection therewith.

The Company intends to vigorously defend against these actions and proceedings. It is the opinion of the Company that the outcome of this proceeding will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

**UNITED STATES**

**Labor and Employment Related Claim.-** On March 24, 2009, Guadalupe Arevalo, a former employee, filed a class action complaint for damages and equitable relief, currently being heard by the Superior Court of the State of California, County of Los Angeles, for an alleged: (1) failure to pay minimum or contractual wages, pay overtime, and provide accurate wage statements, in violation of the California Labor Code; (2) failure to pay wages due to former employees at the time of resignation and/or discharge; and (3) violation to certain provisions of the California Business and Professions Code. On June 10, 2010, the plaintiff filed a second amended complaint incorporating an additional cause of action for failure to provide meal periods as required by law. The parties reached a court approved settlement on March 26, 2012, and the case has been dismissed.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**25. CONTINGENCIES (continued)**

**Product Labeling Claim.-** Mary Henderson brought a class action lawsuit against Gruma Corporation for (1) false advertising under the Lanham Act, (2) violations of California’s Unfair Competition Law, (3) violations of California’s False Advertising Law, and (4) violations of the California Consumer Legal Remedies Act. The complaint alleged that Gruma Corporation’s labeling of its guacamole flavored dip and spicy bean dip products is false and misleading. The complaint was subsequently amended to dismiss the Company under the Lanham Act claim. The case was settled for Ps.42 (U.S.\$3 thousand) and has been dismissed.

**VENEZUELA**

**Expropriation Proceedings by the Venezuelan Government.-** On May 12, 2010, the Bolivarian Republic of Venezuela (the “Republic”) published in the Official Gazette of Venezuela decree number 7,394 (the “Expropriation Decree”), which announced the forced acquisition of all goods, movables and real estate of the Company’s subsidiary in Venezuela, Molinos Nacionales, C.A. (“MONACA”). The Republic has expressed to GRUMA’s representatives that the Expropriation Decree extends to the Company’s subsidiary Derivados de Maíz Seleccionado, C.A. (“DEMASECA”).

As stated in the Expropriation Decree and in accordance with the Venezuelan Expropriation Law (the “Expropriation Law”), the taking of legal ownership can occur either through an “Amicable Administrative Arrangement” or a “Judicial Order”. Each process requires certain steps as indicated in the Expropriation Law, neither of which has occurred. Therefore, as of this date, no formal transfer of title of the assets covered by the Expropriation Decree has taken place. The negotiations are ongoing.

GRUMA’s interests in MONACA and DEMASECA are held through two Spanish companies Valores Mundiales, S.L. (“Valores Mundiales”) and Consorcio Andino, S.L. (“Consorcio Andino”). In 2010, Valores Mundiales and Consorcio Andino (collectively, the “Investors”) commenced negotiations with the Republic with the intention of reaching an amicable settlement. GRUMA has participated in these negotiations with a view to continuing its presence in Venezuela by potentially entering into a joint venture with the Venezuelan government, that could also include compensation, or, absent a joint venture arrangement, GRUMA may receive compensation for the assets subject to expropriation, which the law requires be fair and reasonable. Those negotiations are ongoing.

The Republic and the Kingdom of Spain are parties to a Treaty on Reciprocal Promotion and Protection of Investments, dated November 2, 1995 (the “Investment Treaty”), under which the Investors may settle investment disputes by means of arbitration before the International Centre for Settlement of Investment Disputes (“ICSID”). On November 9, 2011, the Investors, MONACA and DEMASECA provided formal notice to the Republic that an investment dispute had arisen as a consequence of the Expropriation Decree and related measures adopted by the Republic. In that notification, the Investors, MONACA and DEMASECA also agreed to submit the dispute to ICSID arbitration if the parties are unable to reach an amicable agreement.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**25. CONTINGENCIES (continued)**

The negotiations with the government are ongoing, and the Company cannot assure that those negotiations will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award. As a result, the net impact of this matter on the Company's consolidated financial results cannot be reasonably estimated. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated assets and investments under applicable law, including investment treaties and customary international law.

The Venezuelan government has not taken physical control of the assets of MONACA or DEMASECA and has not taken control of their operations. In consequence, GRUMA can validly and legally assert that, as of this date, Valores Mundiales and Consorcio Andino have full legal ownership of MONACA's and DEMASECA's rights, interest, shares and assets, respectively, and full control of all operational or managerial decisions of MONACA and DEMASECA, which will not cease until GRUMA, through Valores Mundiales and Consorcio Andino, finally agree with the Venezuelan government on the terms and conditions to transfer such assets in accordance with the legal and business schemes that are currently in negotiations with the government of Venezuela.

Pending resolution of this matter, based on preliminary valuation reports, no impairment charge on GRUMA's net investment in MONACA and DEMASECA has been identified. The Company is also unable to estimate the value of any future impairment charge, if one will be taken, or to determine whether MONACA and DEMASECA will need to be accounted for as a discontinued operation. The historical value as of December 31, 2011 of the net investment in MONACA and DEMASECA was Ps.2,271,178 and Ps.165,969, respectively. The Company does not maintain insurance for the risk of expropriation of its investments.

Below is financial information regarding MONACA as of December 31, 2010 and 2011 (there are no material transactions between MONACA and the Group that need to be eliminated):

	At December 31, 2010	At December 31, 2011
Current assets	Ps. 2,139,422	Ps. 3,656,758
Non-current assets	1,481,982	2,182,293
Total assets	3,621,404	5,839,051
<i>Percentage from consolidated total assets</i>	9.3%	13.1%
Current liabilities	1,904,852	2,699,514
Non-current liabilities	26,713	22,356
Total liabilities	1,931,565	2,721,870
<i>Percentage from consolidated total liabilities</i>	6.8%	10.1%
Total net assets	1,689,839	3,117,181
<i>Percentage from consolidated total net assets</i>	15.8%	17.6%
Non-controlling interest	458,622	846,003
Interest of Gruma in total net assets	Ps. 1,231,217	Ps. 2,271,178

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**25. CONTINGENCIES (continued)**

The condensed statements of income for MONACA for the years ended December 31, 2010 and 2011, are as follows:

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Net sales	Ps. 5,331,063	Ps. 9,080,552
<i>Percentage from consolidated net sales</i>	11.4%	15.8%
Operating income	37,647	673,588
<i>Percentage from consolidated operating income</i>	1.5%	20.2%
Net (loss) income	(169,225)	681,586
<i>Percentage from consolidated net income</i>	(26.5)%	11.7%

**Intervention Proceedings by the Venezuelan Government.-** On December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of assets of all corporations in which Ricardo Fernández Barrueco had any direct or indirect interest. As a result of Ricardo Fernández Barrueco's former indirect ownership of MONACA and DEMASECA, these subsidiaries were subject to the precautionary seizure. The Ministry of Finance of Venezuela, in light of the precautionary measure ordered by the Eleventh Investigations Court for Criminal Affairs of Caracas, has made several designations of individuals as special managers and representatives on behalf of the Republic of Venezuela of the shares that were previously owned indirectly by Ricardo Fernández Barrueco in MONACA and DEMASECA, the last designation was on January 14, 2011.

As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino, S.L. and Valores Mundiales, S.L., as holders of the Venezuelan subsidiaries, have filed a petition as aggrieved third-parties to the proceedings against Ricardo Fernández Barrueco, as a challenge to the precautionary measures, the seizure and all related actions. MONACA has also filed for corresponding legal remedies. On November 19, 2010, the Eleventh Investigations Court for Criminal Affairs of Caracas issued a ruling regarding the petitions, in which, the court recognized that MONACA and DEMASECA are companies wholly controlled by Valores Mundiales, S.L. and Consorcio Andino, S.L, respectively. However, the precautionary measures of seizure issued on December 4, 2009 were upheld by the court, despite the court's recognition of MONACA and DEMASECA's ownership. In virtue of the aforementioned, an appeal has been filed, which is pending resolution as of this date.

The People's Defense Institute for the Access of Goods and Services of Venezuela ("INDEPABIS") issued an order, on a precautionary basis, authorizing the temporary occupation and operation of MONACA for a period of 90 calendar days from December 16, 2009, which was renewed for the same period on March 16, 2010. The order expired on June 16, 2010 and as of the date hereof MONACA has not been notified of any extension or similar measure. INDEPABIS has also initiated a regulatory proceeding against MONACA in connection with alleged failure to comply with regulations governing precooked corn flour and for allegedly refusing to sell this product as a result of the December 4, 2009 precautionary asset seizure described above. The Company filed an appeal against these proceedings which has not been resolved as of the date hereof.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**25. CONTINGENCIES (continued)**

Additionally, INDEPABIS initiated an investigation of DEMASECA and issued an order, on a precautionary basis, authorizing the temporary occupation and operation of DEMASECA for a period of 90 calendar days from May 25, 2010, which was extended until November 21, 2010. INDEPABIS issued a new precautionary measure of occupation and temporary operation of DEMASECA, valid for the duration of this investigation. DEMASECA has challenged these measures but as of the date hereof, no resolution has been issued. The proceedings are still ongoing.

The Company intends to exhaust all legal remedies available in order to safeguard and protect the Company's legitimate interests.

**Tax Claims.-** The Venezuelan tax authorities have lodged certain assessments against MONACA, one of the Company's Venezuelan subsidiaries, related to income tax returns for the years 1998 and 1999, which amounted to Ps.9,709 (U.S.\$696 thousand), plus related Value Added Tax deficiencies in the amount of Ps.460 (U.S.\$33.2 thousand). The case has been appealed and is pending a final decision. Any tax liability arising from the resolution of these claims will be assumed by the previous shareholder, International Multifoods Corporation, in accordance with the purchase agreement by which the Company acquired MONACA. Likewise, MONACA has filed claims with the fiscal authorities in the corresponding tax courts for the amount of Ps.9,068 (U.S.\$650 thousand). This matter is pending resolution.

**Labor Lawsuits.-** In the past, MONACA was named in three labor lawsuits (two brought by Caleteros, as defined below, and one stemming from a workplace accident) seeking damages in the amount of Ps.17,438 (U.S.\$1,250 thousand). The lawsuits and claims are related to issues and rights such as profit sharing, social security, vacation, seniority and indemnity payment issues. The "Caleteros" who brought the claims are third parties who help freighters unload goods.

Finally, the Company and its subsidiaries are involved in various pending litigations filed in the normal course of business. It is the opinion of the Company that the outcome of these proceedings will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

**26. RELATED PARTIES**

Related party transactions were carried out at market value.

**A) SALES OF GOODS**

	<b>For the year ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
Entities that have significant influence over the entity	Ps. 21,599	Ps. 41,519

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**26. RELATED PARTIES (continued)**

**B) PURCHASES OF GOODS AND SERVICES**

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Purchases of goods:		
Entities that have significant influence over the entity	Ps. 1,239,716	Ps. 1,836,942
Purchases of services:		
Entities that have significant influence over the entity	113,004	110,239
	<u>Ps. 1,352,720</u>	<u>Ps. 1,947,181</u>

**C) KEY MANAGEMENT PERSONNEL COMPENSATION**

Key management includes Board members, alternate Board members, officers and members of the Audit Committee and Corporate Practice Committee. The compensation paid to key management for employee services is shown below:

	<u>2010</u>	<u>2011</u>
Salaries and other short-term employee benefits	Ps. 149,588	Ps. 186,707
Termination benefits	—	20,227
Total	<u>Ps. 149,588</u>	<u>Ps. 206,934</u>

At December 31, 2010 and 2011, the reserve for deferred compensation amounted to Ps.53.7 and Ps.49.8 million, respectively.

**D) BALANCES WITH RELATED PARTIES**

At January 1, 2010 and at December 31, 2010 and 2011, the balances with related parties were as follows:

	<u>Nature of the transaction</u>	<u>At January 1, 2010</u>	<u>At December 31, 2010</u>	<u>At December 31, 2011</u>
<i>Receivables from related parties:</i>				
Entities that have significant influence over the entity	Commercial and services	<u>Ps. 500,669</u>	<u>Ps. 238,289</u>	<u>Ps. —</u>
<i>Payables from related parties:</i>				
Entities that have significant influence over the entity	Commercial and services	<u>Ps. 207,559</u>	<u>Ps. 75,999</u>	<u>Ps. 131,772</u>

The balances payable to related parties at December 31, 2011 expired during 2012 and do not bear interest.

Additionally, during 2011 the Company obtained financing for Ps.600 million from a subsidiary of GFNorte, bearing an interest rate of 7.335%.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**27. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The new IFRS, which will become effective after the issuance of the Company's financial statements, are explained below. This list includes those IFRS standards which the Company reasonably expects to apply in the future. The Company has the intention of adopting these new IFRS on the date they become effective.

**A) NEW STANDARDS**

a. IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" was published in November 2009 and contained requirements for the classification and measurement of financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. In December 2011, the IASB amended IFRS 9 in order to require its application for annual periods beginning on or after January 1, 2015.

b. IFRS 10, "Consolidated Financial Statements"

In May 2011 the IASB issued IFRS 10, "Consolidated Financial Statements". This standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the financial statements. The standard also sets out the accounting requirements for the preparation of consolidated financial statements, as well as the requirements on how to apply the control principle. IFRS 10 supersedes IAS 27, "Consolidated and Separate Financial Statements" and SIC 12, "Consolidation — Special Purpose Entities", and is effective for annual periods beginning on or after January 1, 2013.

c. IFRS 11, "Joint Arrangements"

In May 2011 the IASB issued IFRS 11, "Joint Arrangements". IFRS 11 classifies joint arrangements into two types: joint operations and joint ventures. An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations. For a joint operation, the assets, liabilities, revenues and expenses are measured in relation to its interest in the arrangement. For a joint venture, an investment is recognized and accounted using the equity method. Proportional consolidation of joint ventures is no longer allowed. IFRS 11 is effective for those annual periods beginning on or after January 1, 2013.

d. IFRS 12, "Disclosure of Interests in Other Entities"

IASB issued IFRS 12, "Disclosure of Interests in Other Entities" in May 2011. IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature and the risks associated with its interest in other entities, such as joint arrangements, associates and special purpose entities. The standard is effective for annual periods beginning on or after January 1, 2013.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**27. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

e. IFRS 13, “Fair Value Measurement”

In May 2011 the IASB issued IFRS 13, “Fair Value Measurement”. The objective of IFRS 13 is to provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements, when it is required or allowed by other IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

**B) AMENDMENTS**

a. IFRS 7, “Financial Instruments: Disclosures”

In October 2010 the IASB issued the revised IFRS 7, “Financial Instruments: Disclosures”. The standard amended the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position. The revised IFRS is effective for annual periods beginning on or after July 1, 2011.

b. IAS 1, “Presentation of Financial Statements”

In June 2011 the IASB issued the revised IAS 1, “Presentation of Financial Statements”. The main change resulting from this amendment was a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially classifiable to profit or loss subsequently. The amendment did not address which items are presented in OCI. The standard is effective for annual periods beginning on or after July 1, 2012.

c. IAS 12, “Income Taxes”

In 2010 the IASB issued the revised IAS 12, “Income Taxes”. The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, “Income taxes - recovery of revalued non-depreciable assets”, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The standard is effective for annual periods beginning on or after January 1, 2012.

d. IAS 19, “Employee Benefits”

In June 2011 the IASB issued the revised IAS 19, “Employee Benefits”. The amendments eliminate the corridor approach and establish the calculation of interest expense on a net basis. The standard is effective for annual periods beginning on or after January 1, 2013.

e. IAS 27, “Separate Financial Statements”

In May 2011 the IASB issued a revised IAS 27 with a new title: “Separate Financial Statements”. This standard includes the provisions on separate financial statements that remained after the control provisions of IAS 27 were included in the new IFRS 10. The standard is effective for annual periods beginning on or after January 1, 2013.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**27. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

f. IAS 28, “Investments in Associates and Joint Ventures”

In May 2011 the IASB issued a revised IAS 28 with a new title: “Investments in Associates and Joint Ventures”. This standard includes the requirements for joint ventures, as well as associates, to be accounted using the equity method. The standard is effective for annual periods beginning on or after January 1, 2013.

The Company’s management expects that the adoption of the new standards and amendments explained above will not have significant effects in its financial statements.

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Until 2010, the Company prepared its consolidated financial statements in accordance with Mexican Financial Reporting Standards. Starting in 2011, the Company prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In accordance with IFRS 1, “First-time adoption of International Financial Reporting Standards”, the Company considered January 1, 2010 as the transition date and January 1, 2011 as the adoption date. The amounts included in the consolidated financial statements for the year 2010 have been reconciled in order to be presented with the same standards and criteria applied in 2011.

In order to determine the balances for adoption of IFRS, the Company considered January 1, 2010 as the date of transition. In preparing these consolidated financial statements in accordance with IFRS 1, the Company applied certain optional exceptions from full retrospective application of IFRS.

IFRS optional exceptions

The Company applied the following optional exceptions allowed by IFRS:

- a. The accounting of business combinations occurred prior to January 1, 2010 was not modified (exception for IFRS 3).
- b. The depreciated cost for property, plant and equipment at January 1, 2010 was considered the deemed cost on transition to IFRS, including asset revaluations held in the different countries in which the Company operates (exception for IAS 16).
- c. Foreign currency translation adjustments recognized prior to January 1, 2010 were classified in retained earnings (exception to IAS 21).
- d. The Company recognized accumulated actuarial gains and losses within retained earnings at the date of transition (exception for IAS 19).



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Set out below are the exceptions that do not apply to the Company:

- a. Share-based payment, since the Company does not have these benefits to employees;
- b. Investments in subsidiaries, associates and joint ventures, since these financial statements were prepared on a consolidated basis, therefore, the Company applied the corresponding IFRS to these investments;
- c. Assets and liabilities of subsidiaries, associates, and joint ventures, since the date of IFRS adoption for subsidiaries and associates was the same as the date for the parent company;
- d. Compound financial instruments, because the Company does not have these types of financial instruments at the date of transition to IFRS;
- e. Decommissioning liabilities included in the cost of land, buildings, and equipment, as the Company does not have liabilities of this type;
- f. Financial assets or intangible assets accounted for under IFRIC 12, “Service Concession Agreements”, as the Company has not entered into agreements within the scope of IFRIC 12; and
- g. Designation of financial instruments previously recognized; measurement of fair value for financial assets and liabilities at initial recognition; transfers of assets from customers; borrowing costs and derecognition of financial liabilities with equity instruments, since the Company does not have these transactions.

IFRS mandatory exceptions

Set out below are the applicable mandatory exceptions in IFRS 1.

a. Hedge accounting

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39, “Financial instruments: Recognition and measurement”, at that date. Hedging relationships cannot be designated retrospectively, and the supporting documentation cannot be created retrospectively. All of the Company’s hedge contracts satisfy the hedge accounting criteria as of January 1, 2010 and, consequently, these transactions are reflected as hedges in the Company’s balance sheets.

b. Estimates

IFRS estimates as at January 1, 2010 are consistent with the estimates as at the same date made in conformity with Mexican FRS.

Additionally, the Company applied prospectively the following mandatory exceptions starting January 1, 2010: derecognition of financial assets and liabilities and non-controlling interest, with no significant effect, since the requirements under Mexican FRS are the same.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The Company has determined that its functional currency is the Mexican peso and the functional currency of its subsidiaries is the currency of the country where each company is located.

The following reconciliations to IFRS are presented below:

- A) Reconciliation of consolidated equity as of January 1, 2010
- B) Reconciliation of consolidated equity as of December 31, 2010
- C) Reconciliation of consolidated net income for the year ended December 31, 2010
- D) Reconciliation of consolidated comprehensive income for the year ended December 31, 2010
- E) Description of the effects from the transition to IFRS
- F) Description of significant effects from the transition to IFRS in the consolidated cash flow statement for the year ended December 31, 2010

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**A) RECONCILIATION OF CONSOLIDATED EQUITY AS OF JANUARY 1, 2010**

	Notes of effects from transition to IFRS	Mexican FRS	IFRS Adjustments	IFRS Reclassifications	IFRS
<b>Assets</b>					
Current:					
Cash and cash equivalents		Ps. 1,880,663	Ps. —	Ps. —	Ps. 1,880,663
Trading investments		127,293	—	—	127,293
Derivative financial instruments	q	—	—	55,749	55,749
Accounts receivable, net	q	5,754,256	—	(83,504)	5,670,752
Inventories	a, c	7,589,080	3,246	(55,738)	7,536,588
Recoverable income tax	f	632,688	—	(204,883)	427,805
Prepaid expenses	b, c	496,012	(27,932)	(131,110)	336,970
Total current assets		<u>16,479,992</u>	<u>(24,686)</u>	<u>(419,486)</u>	<u>16,035,820</u>
Non-current:					
Long-term notes and accounts receivable		543,295	—	—	543,295
Investment in associates	n	3,975,652	44,687	—	4,020,339
Property, plant and equipment, net	c, m	19,958,405	(6,496)	91,535	20,043,444
Intangible assets, net	a, d, e	3,009,171	(194,142)	(331,775)	2,483,254
Deferred tax assets	f	—	3,552	148,740	152,292
Total non-current assets		<u>27,486,523</u>	<u>(152,399)</u>	<u>(91,500)</u>	<u>27,242,624</u>
<b>Total Assets</b>		<u>Ps. 43,966,515</u>	<u>Ps. (177,085)</u>	<u>Ps. (510,986)</u>	<u>Ps. 43,278,444</u>
<b>Liabilities</b>					
Current:					
Short-term debt		Ps. 2,203,392	Ps. —	Ps. —	Ps. 2,203,392
Trade accounts payable	q	3,630,974	—	(66,602)	3,564,372
Derivative financial instruments		11,935	—	—	11,935
Provisions	q	—	—	247,590	247,590
Income tax payable	f	219,722	—	11,852	231,574
Other current liabilities	i, q	2,883,570	(22,955)	(492,227)	2,368,388
Total current liabilities		<u>8,949,593</u>	<u>(22,955)</u>	<u>(299,387)</u>	<u>8,627,251</u>
Non-current:					
Long-term debt	e, g	20,039,868	(90,031)	(377,835)	19,572,002
Deferred tax liabilities	f	2,476,245	(48,138)	148,712	2,576,819
Deferred employees' statutory profit sharing	h	272,910	(272,910)	—	—
Employee benefits obligations	i	245,761	56,322	—	302,083
Provisions	k, l, q	—	—	82,776	82,776
Other non-current liabilities	k, l, q	170,575	(67,572)	(65,252)	37,751
Total non-current liabilities		<u>23,205,359</u>	<u>(422,329)</u>	<u>(211,599)</u>	<u>22,571,431</u>
<b>Total Liabilities</b>		<u>Ps. 32,154,952</u>	<u>Ps. (445,284)</u>	<u>Ps. (510,986)</u>	<u>Ps. 31,198,682</u>
<b>Equity</b>					
Shareholders' equity:					
Common stock		Ps. 6,972,425	Ps. —	Ps. —	Ps. 6,972,425
Reserves	n, q	—	44,687	(27,742)	16,945
Retained earnings	a, b, f, g, h, i, j, k, l, m, n	(159,902)	151,678	916,684	908,460
Foreign currency translation adjustment	j	888,942	—	(888,942)	—
Total shareholders' equity		<u>7,701,465</u>	<u>196,365</u>	<u>—</u>	<u>7,897,830</u>
Non-controlling interest		4,110,098	71,834	—	4,181,932
<b>Total Equity</b>		<u>11,811,563</u>	<u>268,199</u>	<u>—</u>	<u>12,079,762</u>
<b>Total Liabilities and Equity</b>		<u>Ps. 43,966,515</u>	<u>Ps. (177,085)</u>	<u>Ps. (510,986)</u>	<u>Ps. 43,278,444</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**B) RECONCILIATION OF CONSOLIDATED EQUITY AS OF DECEMBER 31, 2010**

<b>Assets</b>	Notes of effects from transition to IFRS	Mexican FRS	IFRS Adjustments	IFRS Reclassifications	IFRS
<b>Current:</b>					
Cash and cash equivalents		Ps. 21,317	Ps. —	Ps. —	Ps. 21,317
Trading investments		79,577	—	—	79,577
Derivative financial instruments	q	—	—	13,137	13,137
Accounts receivable, net	q	4,843,157	—	174,640	5,017,797
Inventories	a, c	7,283,743	10,711	(30,220)	7,264,234
Recoverable income tax	f	811,784	—	(169,310)	642,474
Prepaid expenses	b, c	437,112	(7,696)	(122,859)	306,557
Total current assets		<u>13,476,690</u>	<u>3,015</u>	<u>(134,612)</u>	<u>13,345,093</u>
<b>Non-current:</b>					
Long-term notes and accounts receivable		598,961	—	—	598,961
Investment in associates	n	4,441,415	(5,014)	—	4,436,401
Property, plant and equipment, net	c, m	17,886,784	(56,776)	100,165	17,930,173
Intangible assets, net	a, d, e	2,889,945	(168,726)	(314,782)	2,406,437
Deferred tax assets	f	—	9,102	201,227	210,329
Total non-current assets		<u>25,817,105</u>	<u>(221,414)</u>	<u>(13,390)</u>	<u>25,582,301</u>
<b>Total Assets</b>		<u>Ps. 39,293,795</u>	<u>Ps. (218,399)</u>	<u>Ps. (148,002)</u>	<u>Ps. 38,927,394</u>
<b>Liabilities</b>					
<b>Current:</b>					
Short-term debt		Ps. 2,192,871	Ps. —	Ps. —	Ps. 2,192,871
Trade accounts payable	q	3,674,076	—	(72,247)	3,601,829
Derivative financial instruments		4,863	—	—	4,863
Provisions	q	—	—	308,801	308,801
Income tax payable	f	79,501	4,808	67,998	152,307
Other current liabilities	i, q	3,223,529	(19,185)	(309,650)	2,894,694
Total current liabilities		<u>9,174,840</u>	<u>(14,377)</u>	<u>(5,098)</u>	<u>9,155,365</u>
<b>Non-current:</b>					
Long-term debt	e, g	16,220,413	(23,742)	(344,133)	15,852,538
Deferred tax liabilities	f	2,612,330	(45,544)	201,229	2,768,015
Deferred employees' statutory profit sharing	h	247,550	(247,550)	—	—
Employee benefits obligations	i	276,904	73,275	—	350,179
Provisions	k, l, q	—	—	21,353	21,353
Other non-current liabilities	k, l, q	141,230	(62,207)	(21,353)	57,670
Total non-current liabilities		<u>19,498,427</u>	<u>(305,768)</u>	<u>(142,904)</u>	<u>19,049,755</u>
<b>Total Liabilities</b>		<u>Ps. 28,673,267</u>	<u>Ps. (320,145)</u>	<u>Ps. (148,002)</u>	<u>Ps. 28,205,120</u>
<b>Equity</b>					
<b>Shareholders' equity:</b>					
Common stock		Ps. 6,972,425	Ps. —	Ps. —	Ps. 6,972,425
Reserves	j, n, q	—	(10,315)	(1,339,767)	(1,350,082)
Retained earnings	a, b, f, g, h, i, k, l, m, n	311,764	58,629	951,825	1,322,218
Foreign currency translation adjustment	j	(387,942)	—	387,942	—
Total shareholders' equity		<u>6,896,247</u>	<u>48,314</u>	<u>—</u>	<u>6,944,561</u>
Non-controlling interest		3,724,281	53,432	—	3,777,713
<b>Total Equity</b>		<u>10,620,528</u>	<u>101,746</u>	<u>—</u>	<u>10,722,274</u>
<b>Total Liabilities and Equity</b>		<u>Ps. 39,293,795</u>	<u>Ps. (218,399)</u>	<u>Ps. (148,002)</u>	<u>Ps. 38,927,394</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**C) RECONCILIATION OF CONSOLIDATED NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2010**

	Notes of effects from transition to IFRS	Mexican FRS	IFRS Adjustments	IFRS Reclassifications	IFRS
Net sales	o, p	Ps. 46,600,537	Ps. —	Ps. (368,083)	Ps. 46,232,454
Cost of sales	a, i, k, m, p	(31,130,798)	(40,217)	(392,327)	(31,563,342)
<b>Gross profit</b>		<u>15,469,739</u>	<u>(40,217)</u>	<u>(760,410)</u>	<u>14,669,112</u>
Selling and administrative expenses	a, j, m, o, p	(12,669,644)	36,230	533,049	(12,100,365)
Other expenses, net	p	—	(23,847)	(494,885)	(518,732)
<b>Operating income</b>		<u>2,800,095</u>	<u>(27,834)</u>	<u>(722,246)</u>	<u>2,050,015</u>
Other expenses, net	p	(718,171)	—	718,171	—
Interest expense	g	(1,360,427)	(63,696)	(29)	(1,424,152)
Interest income	p	29,778	—	3,975	33,753
Loss from derivative financial instruments		(82,525)	—	—	(82,525)
Monetary position gain, net		165,869	—	—	165,869
Gain from foreign exchange differences, net		143,852	—	—	143,852
Comprehensive financing cost, net		(1,103,453)	(63,696)	3,946	(1,163,203)
Share of profit of associates		627,333	(35,098)	—	592,235
<b>Income before income tax</b>		<u>1,605,804</u>	<u>(126,628)</u>	<u>(129)</u>	<u>1,479,047</u>
Income tax:					
Current	f	(569,981)	(8,878)	129	(578,730)
Deferred	f	(268,737)	7,906	—	(260,831)
		<u>(838,718)</u>	<u>(972)</u>	<u>129</u>	<u>(839,561)</u>
<b>Net consolidated income</b>		<u>Ps. 767,086</u>	<u>Ps. (127,600)</u>	<u>Ps. —</u>	<u>Ps. 639,486</u>
Attributable to:					
Shareholders		Ps. 541,905	Ps. (110,126)	Ps. —	Ps. 431,779
Non-controlling interest		225,181	(17,474)	—	207,707
		<u>Ps. 767,086</u>	<u>Ps. (127,600)</u>	<u>Ps. —</u>	<u>Ps. 639,486</u>
Basic earnings per share (pesos)		<u>Ps. 0.96</u>	<u>Ps. (0.19)</u>	<u>Ps. —</u>	<u>Ps. 0.77</u>
Weighted average of outstanding shares (thousands)		<u>563,651</u>	<u>563,651</u>	<u>563,651</u>	<u>563,651</u>

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
(In thousands of Mexican pesos, except where otherwise indicated)

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**D) RECONCILIATION OF CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010**

	Notes of effects from transition to IFRS	Mexican FRS	IFRS Adjustments	IFRS
Net consolidated income		Ps. 767,086	Ps. (127,600)	Ps. 639,486
Other comprehensive income:				
Foreign currency translation adjustments	j	(1,813,010)	(5,301)	(1,818,311)
Actuarial gains and losses	i	—	(18,949)	(18,949)
Share of equity of associates	n	(71,020)	(14,603)	(85,623)
Others		781	—	781
		<u>(1,883,249)</u>	<u>(38,853)</u>	<u>(1,922,102)</u>
<b>Comprehensive income</b>		<u>Ps. (1,116,163)</u>	<u>Ps. (166,453)</u>	<u>Ps. (1,282,616)</u>
Attributable to:				
Shareholders		Ps. (805,218)	Ps. (148,051)	Ps. (953,269)
Non-controlling interest		<u>(310,945)</u>	<u>(18,402)</u>	<u>(329,347)</u>
		<u>Ps. (1,116,163)</u>	<u>Ps. (166,453)</u>	<u>Ps. (1,282,616)</u>

**E) DESCRIPTION OF THE EFFECTS FROM THE TRANSITION TO IFRS**

**a. Recognition of effects of inflation**

In accordance with IAS 29, “Financial reporting in hyper-inflationary economies”, the effects of inflation in the financial information must be recognized for hyper-inflationary economies, when the accumulated inflation rate for the last three years exceeds 100%. Since the Company and its main subsidiaries are located in non-hyper-inflation economies, the effects of inflation recognized under Mexican FRS until 2007 were cancelled for the non-hyper-inflationary periods, except for “Property, plant and equipment” (due to the deemed cost exception of IFRS 1) and for “Goodwill” (due to the business combinations exception).

**b. Prepaid expenses**

In accordance with IAS 38, “Intangible Assets”, the expenses incurred in the production of advertising or catalogs are recognized in the income statement when incurred. Expenses related with the communication of advertising are recognized in the income statement until the commercials are issued or the insertions are made. At the date of transition, the Company identified the payments of production of advertising or catalogs that were included as prepaid expenses and recognized them in the income statement.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**c. Property, plant and equipment**

The Company adopted the revalued book values as deemed cost at the date of transition. In accordance with IAS 16, “Property, plant and equipment”, the Company identified and reclassified from inventories to property, plant and equipment, the spare parts that are expected to be used in a period greater than one year and are attributable to specific machinery.

**d. Software for internal use**

In accordance with IFRS, the Company reclassified the balance of software for internal use in Intangible Assets. Under Mexican FRS, this balance was presented as Property, plant and equipment.

**e. Debt issuance costs**

In accordance with IAS 39, “Financial instruments: recognition and measurement”, debt issuance costs (transaction costs) are decreased from the book value of the financial liability and are not presented as a separate asset. The net balance of the debt is the basis for the method of the effective interest rate. At the date of transition, the Company reclassified the debt issuance costs from Intangible Assets to Long-Term Debt.

**f. Deferred taxes**

IAS 12, “Income taxes” requires that assets and liabilities from deferred taxes are presented net, only when referred to taxes from the same authority for the same subject, and when a legally recognized right is present to net assets and liabilities for current taxes. The Company reclassified at the date of transition the amounts of deferred taxes not subject to netting. Additionally, the Company adjusted deferred taxes according to IAS 12, using the book values of assets and liabilities recognized under IFRS.

**g. Long-term debt**

In accordance with IAS 39, the financial liabilities are initially recognized at fair value and subsequently at amortized cost, using the effective interest method, which refers to the discount rate that equals the estimated cash flows to be paid during the term of the debt. At the date of transition, the Company recognized the bank debt at amortized cost.

**h. Deferred employees’ statutory profit sharing (ESPS)**

In accordance with IAS 19, “Employee benefits”, ESPS is considered as an employee benefit, since its payment is based on the service rendered by the employee; the expense for ESPS is recognized only for the current portion. No deferred ESPS is determined based on the comprehensive asset and liability method, since this method only applies to income taxes. Therefore, the Company cancelled the balance for deferred ESPS starting on the date of transition.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**i. Employee benefits**

Mexican FRS D-3, "Employee Benefits" establishes that termination benefits, including those that are paid in case of involuntary termination, are considered in actuarial calculations in order to estimate the corresponding liability. For IAS 19, an entity recognizes termination benefits as a liability only when the entity is required to (a) conclude the contract before the retirement date; or (b) establish termination benefits as a result of offers made to promote voluntary dismissal. Therefore, the Company cancelled the provision recognized at the date of transition.

In accordance with IFRS 1, "First-time adoption of International Financial Reporting Standards", the Company recognized accumulated actuarial gains and losses within retained earnings at the date of transition. Therefore, the balance sheet at the date of transition presents the full liability for the Company's plans. In accordance with IAS 19, the Company will recognize future actuarial gains and losses in other comprehensive income.

**j. Foreign exchange translation**

According to IFRS 1, an entity that first adopts IFRS does not need to comply with IAS 21, "The effects of changes in foreign exchange rates", with respect to accumulated translation differences that exist at the date of transition. An entity that adopts IFRS for the first time may use the following exception: (a) the cumulative translation differences of all foreign operations are considered null at the date of transition, and (b) the gain or loss on disposal of the foreign entity will exclude translation differences occurred prior to the date of transition and will only include translation differences after such date.

The Company adopted the exception in order to recognize the balance of cumulative translation differences in retained earnings at the date of transition and to begin a new calculation.

**k. Restoration provisions**

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" requires recognition of a liability for the obligations arising from the restoration of assets at fair value where this can be estimated. The asset restoration obligation refers to the legal obligation to enforce the removal of an asset that can be conditioned on a future event that may or may not be under the control of the Company. The Company adopted, at the transition date, the procedure to determine the provision discounting the amount of the liability at the date on which the liability arises and using the discount rate that would have been applied during the period. The asset restoration obligation is adjusted in subsequent periods by applying the discount market rate.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**l. Uncertain tax positions**

Under IFRS, an entity should reflect at the balance sheet date, the tax consequences arising from the manner in which the entity expects to pay or recover from the tax authorities. According to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and IAS 12 “Income Taxes”, provisions for uncertain tax positions are measured using the weighted average of probability or the best estimate of the likely result. The cumulative probability model is not allowed under IFRS. Pursuant to the above, the Company adjusted the provision for uncertain tax positions under the originally estimated cumulative probability model at the transition date.

**m. Idle assets**

In accordance with IAS 16 “Property, Plant and Equipment” the depreciation of an asset begins when it is available for use and will not cease when the asset becomes idle or is retired from active use. Pursuant to the above, at the transition date, the Company continued depreciating assets held temporarily out of operation and under Mexican FRS C-6 “Property, Plant and Equipment” did not apply depreciation because the idleness of those assets will not affect their remaining useful life.

**n. Investment in associates**

In accordance with IAS 28 “Investment in Associates”, if an associate uses accounting policies other than those adopted by the investor, appropriate adjustments are made in the financial statements of the associate in order to ensure that the accounting policies of the associate match those used by the investor.

**o. Net sales**

In accordance with IFRS, the Company reclassified from selling expenses to net sales, freight expenses paid to third parties that are invoiced to customers separately.

In accordance with IFRS accounting policies and presentation rules adopted by the Company, promotion and sales incentive expenses such as coupons, introduction of new products, and in-store display incentives, were reclassified from selling expenses to net sales.

**p. Other income (expense), net**

Under Mexican FRS, certain items from Other income (expense) were presented after operating income, due to its unusual or infrequent nature. Under IFRS, these items are included in operating income.

**q. IFRS reclassifications**

In accordance with the adoption of IFRS, the Company made certain reclassifications in order to present its figures in a manner which complies with the new presentation rules.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JANUARY 1, 2010 AND AS OF DECEMBER 31, 2010 AND 2011**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

**28. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**F) DESCRIPTION OF SIGNIFICANT EFFECTS FROM THE TRANSITION TO IFRS IN THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010**

The Company uses the indirect method for presenting the cash flow statement, which does not differ significantly in its presentation under IFRS from its presentation under Mexican FRS.

**Report of Independent Registered Public Accounting Firm  
To the Board of Directors and Stockholders of Grupo Financiero  
Banorte, S.A.B. de C.V. and Subsidiaries**

We have audited the accompanying consolidated balance sheets of Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries (the “Financial Group”) as of December 31, 2010 and 2009, and the related consolidated statements of income and changes in stockholders’ equity for each of the three years in the period ended December 31, 2010, of cash flows for the years ended December 31, 2010 and 2009, and of changes in financial position for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Financial Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission (the “Commission”). The Financial Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Note 1 to the financial statements describes the Financial Group’s operations. Note 4 describes the accounting criteria established by the Commission in the “General Provisions Applicable to Banking Institutions”, which the Financial Group adheres to for the preparation of its financial information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S. A.B. de C. V. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and changes in their stockholders’ equity for each of the three years in the period ended December 31, 2010, their cash flows for the years ended December 31, 2010 and 2009 and changes in their financial position for the year ended December 31, 2008, in conformity with the accounting practices prescribed by the Mexican National Banking and Securities Commission.

Accounting practices prescribed by the Commission vary in certain significant respects from Mexican Financial Reporting Standards. The application of the latter would have affected the determination of stockholders’ equity and net income as of and for the years ended December 31, 2010 and 2009, to the extent summarized in Note 38.

[Table of Contents](#)

Accounting practices prescribed by the Commission vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of stockholders' equity as of December 31, 2010 and 2009 and net income for each of the three years in the period ended December 31, 2010, to the extent summarized in Note 39.

The accompanying consolidated financial statements have been translated into English for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited

CPC Fernando Noguera Conde  
Monterrey, N.L., Mexico

February 21, 2011  
March 25, 2011 for Notes 38 and 39

[Table of Contents](#)

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2010 AND 2009**  
(In millions of Mexican pesos)

	2010	2009
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>	<b>Ps. 62,497</b>	<b>Ps. 59,268</b>
<b>MARGIN SECURITIES</b>	<b>177</b>	<b>18</b>
<b>INVESTMENTS IN SECURITIES</b>		
Trading securities	66,181	24,459
Available for sale securities	12,288	11,701
Held to maturity securities	139,913	190,332
	<u>218,382</u>	<u>226,492</u>
<b>DEBTOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>	<b>583</b>	<b>4</b>
<b>DERIVATIVES FINANCIAL INSTRUMENTS</b>		
For trading purposes	7,463	4,824
For hedging purposes	596	1,056
	<u>8,059</u>	<u>5,880</u>
<b>PERFORMING LOAN PORTFOLIO</b>		
Commercial loans		
Business loans	126,483	117,237
Financial institutions' loans	5,521	7,131
Government loans	47,550	38,993
Consumer loans	27,828	25,712
Mortgage loans	56,168	49,881
<b>TOTAL PERFORMING LOAN PORTFOLIO</b>	<u>263,550</u>	<u>238,954</u>
<b>PAST-DUE LOAN PORTFOLIO</b>		
Commercial loans		
Business loans	4,417	3,163
Consumer loans	1,276	1,942
Mortgage loans	971	1,049
<b>TOTAL PAST-DUE LOAN PORTFOLIO</b>	<u>6,664</u>	<u>6,154</u>
<b>LOAN PORTFOLIO</b>	<u>270,214</u>	<u>245,108</u>
(Minus) Allowance for loan losses	(8,245)	(7,535)
<b>LOAN PORTFOLIO, net</b>	<u>261,969</u>	<u>237,573</u>
<b>ACQUIRED COLLECTION RIGHTS</b>	<u>2,025</u>	<u>2,548</u>
<b>TOTAL LOAN PORTFOLIO, net</b>	<u>263,994</u>	<u>240,121</u>
<b>RECEIVABLES GENERATED BY SECURITIZATIONS</b>	<b>950</b>	<b>432</b>
<b>OTHER ACCOUNTS RECEIVABLE, net</b>	<b>10,864</b>	<b>11,324</b>
<b>MERCHANDISE INVENTORY</b>	<b>49</b>	<b>119</b>
<b>FORECLOSED ASSETS, net</b>	<b>809</b>	<b>928</b>
<b>PROPERTY, FURNITURE AND EQUIPMENT, net</b>	<b>9,316</b>	<b>8,622</b>
<b>PERMANENT STOCK INVESTMENTS</b>	<b>3,130</b>	<b>3,036</b>
<b>DEFERRED TAXES, net</b>	<b>1,340</b>	<b>1,411</b>
<b>OTHER ASSETS</b>		
Other assets, deferred charges and intangible assets	10,408	9,483
<b>TOTAL ASSETS</b>	<b>Ps. 590,558</b>	<b>Ps. 567,138</b>

MEMORANDUM ACCOUNTS (Note 33)

These balance sheets, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the balance sheet dates above. The stockholders' equity amounts to Ps. 7,016 (nominal value).

The accompanying Consolidated Balance Sheets have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached notes are an integral part of these consolidated balance sheets.

[Table of Contents](#)

	2010	2009
<b>LIABILITIES</b>		
<b>DEPOSITS</b>		
Demand deposits	Ps. 149,817	Ps. 137,581
Time deposits		
General public	132,673	134,141
Money market	6,347	3,186
Senior debt issued	3,778	—
	<u>292,615</u>	<u>274,908</u>
<b>INTERBANK AND OTHER LOANS</b>		
Demand loans	4,837	21
Short-term loans	13,114	13,385
Long-term loans	8,496	7,562
	<u>26,447</u>	<u>20,968</u>
<b>ASSIGNED SECURITIES PENDING SETTLEMENT</b>		
	—	159
<b>CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS</b>		
	178,747	185,480
<b>COLLATERAL SOLD OR PLEDGED</b>		
Repurchase or resale agreements (creditor balance)	11	2
<b>DERIVATIVES FINANCIAL INSTRUMENTS</b>		
For trading purposes	7,238	4,553
For hedging purposes	3,499	3,822
	<u>10,737</u>	<u>8,375</u>
<b>OTHER ACCOUNTS PAYABLES</b>		
Income tax	711	617
Employee profit sharing	797	676
Creditors from settlements of transactions	867	2,224
Sundry debtors and other payables	9,871	8,968
	<u>12,246</u>	<u>12,485</u>
<b>SUBORDINATED DEBENTURES</b>		
	17,803	18,168
<b>DEFERRED CREDITS AND ADVANCED COLLECTIONS</b>		
	1,725	1,619
<b>TOTAL LIABILITIES</b>		
	<u>540,331</u>	<u>522,164</u>
<b>STOCKHOLDERS' EQUITY</b>		
<b>PAID-IN CAPITAL</b>		
Common stock	11,971	11,956
Additional paid-in capital	1,673	1,525
	<u>13,644</u>	<u>13,481</u>
<b>OTHER CAPITAL</b>		
Capital reserves	3,181	3,154
Retained earnings from prior years	25,492	20,681
Result from valuation of securities available for sale	309	206
Result from valuation of instruments for cash flow hedging	(2,214)	(1,369)
Cumulative foreign currency translation adjustment	(1,000)	(641)
Net income	6,705	5,854
	<u>32,473</u>	<u>27,885</u>
<b>NONCONTROLLING INTEREST</b>		
	4,110	3,608
<b>TOTAL STOCKHOLDERS' EQUITY</b>		
	<u>50,227</u>	<u>44,974</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
	<u>Ps. 590,558</u>	<u>Ps. 567,138</u>

Dr. Alejandro Valenzuela del Río  
Chief Executive Officer

Ing. Sergio García Robles Gil  
Managing Director - CFO

Lic. Benjamín Vidargas Rojas  
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director —  
Controller

C.P.C. Nora Elia Cantú Suárez  
Deputy Managing Director — Accounting and Tax

[Table of Contents](#)

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
(In millions of Mexican pesos)

	2010	2009	2008
Interest income	Ps. 41,479	Ps. 45,451	Ps. 50,417
Interest expense	(18,747)	(22,268)	(27,789)
<b>NET INTEREST INCOME</b>	<b>22,732</b>	<b>23,183</b>	<b>22,628</b>
Provision for loan losses	(6,889)	(8,286)	(6,896)
<b>NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES</b>	<b>15,843</b>	<b>14,897</b>	<b>15,732</b>
Commission and fee income	9,234	8,291	8,535
Commission and fee expense	(1,548)	(1,338)	(1,208)
Brokerage revenues	1,689	1,244	1,039
Other revenues	1,739	980	746
<b>NET OPERATING REVENUES</b>	<b>11,114</b>	<b>9,177</b>	<b>9,112</b>
<b>NET OPERATING REVENUES</b>	<b>26,957</b>	<b>24,074</b>	<b>24,844</b>
Administrative and promotional expenses	(17,691)	(17,024)	(16,687)
<b>OPERATING INCOME</b>	<b>9,266</b>	<b>7,050</b>	<b>8,157</b>
Other income	1,879	2,438	2,997
Other expenses	(1,298)	(1,566)	(1,523)
	<b>581</b>	<b>872</b>	<b>1,474</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>9,847</b>	<b>7,922</b>	<b>9,631</b>
Current income tax	(2,735)	(2,581)	(2,765)
Deferred income taxes, net	(70)	536	245
	<b>(2,805)</b>	<b>(2,045)</b>	<b>(2,520)</b>
<b>INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES</b>	<b>7,042</b>	<b>5,877</b>	<b>7,111</b>
Equity in earnings of unconsolidated subsidiaries and associated companies	320	313	276
<b>INCOME BEFORE NONCONTROLLING INTEREST</b>	<b>7,362</b>	<b>6,190</b>	<b>7,387</b>
Noncontrolling interest	(657)	(336)	(373)
<b>NET INCOME</b>	<b>Ps. 6,705</b>	<b>Ps. 5,854</b>	<b>Ps. 7,014</b>

These income statements, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the income statement dates above.

The accompanying Consolidated Statements of Income have been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of these consolidated statements of income.

Dr. Alejandro Valenzuela del Río  
Chief Executive Officer

Ing. Sergio García Robles Gil  
Managing Director - CFO

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Deputy Managing Director — Accounting and Tax

[Table of Contents](#)

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
(In millions of Mexican pesos)

	PAID-IN CAPITAL		OTHER CAPITAL			
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings from prior years	Result from valuation of available for sale securities	Result from valuation of cash flow hedging instruments
<b>Balances, January 1, 2008</b>	<b>Ps. 11,965</b>	<b>Ps. 1,272</b>	<b>Ps. 2,452</b>	<b>Ps. 21,279</b>	<b>—</b>	<b>—</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>						
Issuance (repurchase) of shares	(24)	199	(72)	—	—	—
Transfer of prior year's result	—	—	—	6,810	—	—
Creation of reserves as per General Stockholders' meeting on April 29, 2008	—	—	340	340	—	—
Dividend declared at the General Stockholders' meeting on October 6, 2008	—	—	—	(949)	—	—
<b>Total transactions approved by stockholders</b>	<b>(24)</b>	<b>199</b>	<b>268</b>	<b>5,521</b>	<b>—</b>	<b>—</b>
<b>COMPREHENSIVE INCOME</b>						
Net income	—	—	—	—	—	—
Effect of subsidiaries, affiliates and mutual funds	—	(3)	—	(30)	(550)	—
Result from valuation of cash flow hedging instruments	—	—	—	—	—	—
Changes in accounting principles (NIF B-10)	—	—	—	(9,835)	—	—
<b>Total comprehensive income</b>	<b>—</b>	<b>(3)</b>	<b>—</b>	<b>(9,865)</b>	<b>(550)</b>	<b>—</b>
Noncontrolling interest	—	—	—	—	—	—
<b>Balances, December 31, 2008</b>	<b>11,941</b>	<b>1,468</b>	<b>2,720</b>	<b>16,935</b>	<b>(550)</b>	<b>—</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>						
Issuance (repurchase) of shares	15	(328)	83	—	(221)	—
Transfer of prior year's result	—	—	—	7,014	—	—
Creation of reserves as per General Stockholders' meeting on April 30, 2009	—	—	351	(351)	—	—
Dividend declared at the General Stockholders' meeting on October 5, 2009	—	—	—	(364)	—	—
<b>Total transactions approved by stockholders</b>	<b>15</b>	<b>(328)</b>	<b>434</b>	<b>6,299</b>	<b>(221)</b>	<b>—</b>
<b>COMPREHENSIVE INCOME</b>						
Net income	—	—	—	—	—	—
Result from valuation of available for sale securities	—	—	—	—	592	—
Effect of subsidiaries, affiliates and mutual funds	—	(5)	—	(47)	—	—
Result from valuation of cash flow hedging instruments	—	—	—	—	—	209
Application of the effect of holding non-monetary assets	—	(4)	—	(1,640)	385	(1,578)
Change in credit card loan rating methodology (net of deferred taxes)	—	—	—	(683)	—	—
<b>Total comprehensive income</b>	<b>—</b>	<b>(9)</b>	<b>—</b>	<b>(2,370)</b>	<b>977</b>	<b>(1,369)</b>
Noncontrolling interest	—	394	—	(183)	—	—
<b>Balances, December 31, 2009</b>	<b>11,956</b>	<b>1,525</b>	<b>3,154</b>	<b>20,681</b>	<b>206</b>	<b>(1,369)</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>						
Issuance (repurchase) of shares	15	146	27	(17)	(102)	—
Transfer of prior year's result	—	—	—	5,854	—	—
Dividend declared at the General Stockholders' meeting on:						
February 15, 2010	—	—	—	(343)	—	—
April 23, 2010	—	—	—	(343)	—	—
October 4, 2010	—	—	—	(343)	—	—
<b>Total transactions approved by stockholders</b>	<b>15</b>	<b>146</b>	<b>27</b>	<b>4,808</b>	<b>(102)</b>	<b>—</b>
<b>COMPREHENSIVE INCOME</b>						
Net income	—	—	—	—	—	—
Result from valuation of available for sale securities	—	—	—	—	205	—
Effect of subsidiaries, affiliates and						



mutual funds	—	2	—	3	—	—
Result from valuation of cash flow hedging instruments	—	—	—	—	—	(845)
<b>Total comprehensive income</b>	<b>—</b>	<b>2</b>	<b>—</b>	<b>3</b>	<b>205</b>	<b>(845)</b>
Noncontrolling interest	—	—	—	—	—	—
<b>Balances, December 31, 2010</b>	<b>Ps. 11,971</b>	<b>Ps. 1,673</b>	<b>Ps. 3,181</b>	<b>Ps. 25,492</b>	<b>Ps. 309</b>	<b>Ps. (2,214)</b>

These statements of changes in stockholder's equity, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. These consolidated statements of changes in stockholder's equity were approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of these consolidated statements of changes in stockholders' equity.

	OTHER CAPITAL						
	Cumulative foreign currency translation adjustment	Insufficiency in restated stockholders' equity	Effect of holding non- monetary assets	Net income	Total majority interest	Total non- controlling interest	Total stockholders' equity
	Ps. —	Ps. (6,380)	Ps. (5,009)	Ps. 6,810	Ps. 32,389	Ps. 1,667	Ps. 34,056
<b>Balances, January 1, 2008</b>							
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>							
Issuance (repurchase) of shares	—	—	—	—	103	—	103
Transfer of prior year's result	—	—	—	(6,810)	—	—	—
Creation of reserves as per General Stockholders' meeting on April 29, 2008	—	—	—	—	—	—	—
Dividend declared at the General Stockholders' meeting on October 6, 2008	—	—	—	—	(949)	—	(949)
<b>Total transactions approved by stockholders</b>	—	—	—	(6,810)	(846)	—	(846)
<b>COMPREHENSIVE INCOME</b>							
Net income	—	—	—	7,014	7,014	—	7,014
Effect of subsidiaries, affiliates and mutual funds	1,095	—	—	—	512	—	512
Result from valuation of cash flow hedging inst.	—	—	(1,267)	—	(1,267)	—	(1,267)
Changes in accounting principles (NIF B-10)	—	6,380	3,455	—	—	—	—
<b>Total comprehensive income</b>	<b>1,095</b>	<b>6,380</b>	<b>2,188</b>	<b>7,014</b>	<b>6,259</b>	<b>—</b>	<b>6,259</b>
Noncontrolling interest	—	—	—	—	—	277	277
<b>Balances, December 31, 2008</b>	<b>1,095</b>	<b>—</b>	<b>(2,821)</b>	<b>7,014</b>	<b>37,802</b>	<b>1,944</b>	<b>39,746</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>							
Issuance (repurchase) of shares	—	—	—	—	(451)	—	(451)
Transfer of prior year's result	—	—	—	(7,014)	—	—	—
Creation of reserves as per General Stockholders' meeting on April 30, 2009	—	—	—	—	—	—	—
Dividend declared at the General Stockholders' meeting on October 5, 2009	—	—	—	—	(364)	—	(364)
<b>Total transactions approved by stockholders</b>	—	—	—	(7,014)	(815)	—	(815)
<b>COMPREHENSIVE INCOME</b>							
Net income	—	—	—	5,854	5,854	—	5,854
Result from valuation of available for sale sec.	—	—	—	—	592	—	592
Effect of subsidiaries, affiliates and mutual funds	(54)	—	—	—	(106)	—	(106)
Effect of the acquisition of the remaining 30% of the subsidiary INB	(1,698)	—	—	—	(1,698)	—	(1,698)
Result from valuation of cash flow hedging inst.	—	—	—	—	209	—	209
Application of the effect of holding non-monetary assets	16	—	2,821	—	—	—	—
Change in credit card loan rating methodology (net of deferred taxes)	—	—	—	—	(683)	—	(683)
<b>Total comprehensive income</b>	<b>(1,736)</b>	<b>—</b>	<b>2,821</b>	<b>5,854</b>	<b>4,168</b>	<b>—</b>	<b>4,168</b>
Noncontrolling interest	—	—	—	—	211	1,664	1,875
<b>Balances, December 31, 2009</b>	<b>(641)</b>	<b>—</b>	<b>—</b>	<b>5,854</b>	<b>41,366</b>	<b>3,608</b>	<b>44,974</b>
<b>TRANSACTIONS APPROVED BY STOCKHOLDERS</b>							
Issuance (repurchase) of shares	—	—	—	—	69	—	69
Transfer of prior year's result	—	—	—	(5,854)	—	—	—
Dividend declared at the General Stockholders' meeting on:							
February 15, 2010	—	—	—	—	(343)	—	(343)
April 23, 2010	—	—	—	—	(343)	—	(343)
October 4, 2010	—	—	—	—	(343)	—	(343)
<b>Total transactions approved by stockholders</b>	—	—	—	(5,854)	(960)	—	(960)
<b>COMPREHENSIVE INCOME</b>							
Net income	—	—	—	6,705	6,705	—	6,705
Result from valuation of available for sale sec.	—	—	—	—	205	—	205
Effect of subsidiaries, affiliates and mutual funds	(359)	—	—	—	(354)	—	(354)
Result from valuation of cash flow hedging inst.	—	—	—	—	(845)	—	(845)
<b>Total comprehensive income</b>	<b>(359)</b>	<b>—</b>	<b>—</b>	<b>6,705</b>	<b>5,711</b>	<b>—</b>	<b>5,711</b>
Noncontrolling interest	—	—	—	—	—	502	502
<b>Balances, December 31, 2010</b>	<b>Ps. (1,000)</b>	<b>Ps. —</b>	<b>Ps. —</b>	<b>Ps. 6,705</b>	<b>Ps. 46,117</b>	<b>Ps. 4,110</b>	<b>Ps. 50,227</b>

Dr. Alejandro Valenzuela del Río  
Chief Executive Officer

Ing. Sergio García Robles Gil Managing  
Director - CFO

Lic. Benjamín Vidargas Rojas  
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo  
Deputy Managing Director — Controller

C.P.C. Nora Elia Cantú Suárez  
Deputy Managing Director — Accounting and Tax

[Table of Contents](#)

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
(In millions of Mexican pesos)

	2010	2009
	Ps.	Ps.
<b>Net income</b>	<b>6,705</b>	<b>5,854</b>
Items not requiring (generating) resources:		
Provision for loan losses	6,889	8,286
Provision for uncollectible or doubtful accounts receivable	164	182
Depreciation and amortization	1,181	954
Other Provisions	430	(1,786)
Current and deferred income tax	2,805	2,045
Equity in earnings of unconsolidated subsidiaries and associated companies	337	(313)
	<b>18,511</b>	<b>15,222</b>
<b>OPERATING ACTIVITIES:</b>		
Changes in margin securities	(159)	(11)
Changes in investments in securities	7,626	12,312
Changes in debtor balances under repurchase and resale agreements	(579)	144
Changes in asset position of derivative financial instruments	(2,639)	501
Change in loan portfolio	(32,062)	(8,167)
Changes in acquired collection rights	523	502
Changes in receivables generated by securitizations	(518)	364
Change in foreclosed assets	94	(94)
Change in other operating assets	(1,461)	(969)
Change in deposits	18,975	15,344
Change in interbank and other loans	5,483	(15,644)
Change in creditor balances under repurchase and sale agreements	(6,892)	(7,088)
Collateral sold or pledged	9	—
Change in liability position of derivative financial instruments	2,684	(717)
Change in subordinated debentures	(350)	(2,481)
Change in other operating liabilities	(3,274)	(2,365)
Change in hedging instruments related to operations	136	133
<b>Net operating activity cash flows</b>	<b>6,107</b>	<b>6,986</b>
<b>INVESTMENT ACTIVITIES:</b>		
Proceeds on disposal of property, furniture and fixtures	304	259
Acquisition of property, furniture and fixtures	(2,215)	(1,447)
Sale of subsidiaries and associated companies	69	
Acquisition of subsidiaries and associated companies	(171)	(183)
Sale of other permanent investments	1	1
Acquisition of other permanent investments	—	(1)
Dividends received	227	135
<b>Net investment activities cash flows</b>	<b>(1,785)</b>	<b>(1,236)</b>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(1,029)	(364)
Repurchase of shares	69	(451)
<b>Net financing activity cash flows</b>	<b>(960)</b>	<b>(815)</b>
Net increase in cash and cash equivalents	3,362	4,935
Adjustments to cash flows from variation in the foreign exchange rate	(133)	(63)
Cash and cash equivalents at the beginning of the year	59,268	54,396
<b>Cash and cash equivalents at the end of the year</b>	<b>Ps. 62,497</b>	<b>Ps. 59,268</b>

These statements of cash flows, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, were prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above. The accompanying Consolidated Statements of cash flows have been approved by the Board of Directors in accordance with the responsibility assigned to them. The attached notes are an integral part of these consolidated statements of cash flows.

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[Table of Contents](#)

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
(In millions of Mexican pesos)

	2008
<b>OPERATING ACTIVITIES:</b>	
Net Income	<b>Ps. 7,014</b>
Items not requiring (generating) resources:	
Fair value adjustments of financial instruments	(268)
Provision for loan losses	6,896
Depreciation and amortization	1,099
Deferred taxes	(245)
Provisions for other obligations	24
Noncontrolling interest	373
Equity in earnings of subsidiaries and associated companies	(276)
	<u><b>14,617</b></u>
Changes in operating accounts:	
Increase in deposits	57,462
Increase in loan portfolio	(52,095)
Increase from treasury transactions	(220,239)
Decrease in transactions with securities or derivative financial instruments	194,552
Increase in bank and other loans	13,960
Increase in deferred taxes	(12)
<b>Net resources generated by operating activities</b>	<u><b>8,245</b></u>
<b>FINANCING ACTIVITIES:</b>	
Increase (decrease) in subordinated debentures	10,403
Issuance of shares	103
Increase in other payables	1,269
Dividends paid	(949)
<b>Net resources generated by financing activities</b>	<u><b>10,826</b></u>
<b>INVESTING ACTIVITIES:</b>	
Acquisition of property, furniture and fixtures, net	(1,308)
Increase in permanent stock investments	(644)
Increase in deferred charges and credits	(1,958)
Increase in foreclosed assets	(478)
Increase in other accounts receivable	(1,897)
<b>Net resources used in investing activities</b>	<u><b>(6,285)</b></u>
Net increase in cash and cash equivalents	12,786
Cash and cash equivalents available at the beginning of the year	41,610
<b>Cash and cash equivalents available at the end of the year</b>	<u><b>Ps. 54,396</b></u>

This statement of changes in financial position, consolidated with those of the financial entities and other companies that form part of the Financial Group and are susceptible to consolidation, was prepared according to accounting principles applicable to Financial Service Holding Companies issued by the Mexican National Banking and Securities Commission according to Article 30 of the Law of Financial Institutions. Such principles are consistently applied in the financial statements, which are presented according to sound practices and applicable legal and administrative provisions and reflect all the operations conducted by the Financial Group, its financial service subsidiaries and the other companies that form part of the Financial Group and are consolidated as of the dates above.

The accompanying Consolidated Statement of Changes in Financial Position has been approved by the Board of Directors in accordance with the responsibility assigned to them.

The attached notes are an integral part of this consolidated statement of changes in financial position.

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General Deputy Director — Accounting and Taxes

**GRUPO FINANCIERO BANORTE, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**  
(In millions of Mexican pesos, except exchange rates and Note 30)

**1 — ACTIVITY AND REGULATORY ENVIRONMENT**

Grupo Financiero Banorte, S.A.B. de C.V. and subsidiaries (the Financial Group) are authorized by Mexico's Ministry of Finance and Public Credit (SHCP) to operate as a holding company under the form and terms established by the Laws Regulating Financial Groups, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the Commission). Their main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined in the above-mentioned law. The Financial Group and its subsidiaries are regulated, depending on their activities, by the Commission, the Mexican National Insurance and Bond Commission, the Mexican National Retirement Savings Systems Commission (the Commissions), the Mexican Central Bank (Banco de México) and other applicable laws and regulations.

The main activity of the Financial Group's subsidiaries is to carry out financial transactions that include the rendering of full-banking services, securities brokerage activities, management of retirement funds, leasing, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services, annuities (pensions) and providing life insurance and casualty insurance.

Per legal requirements, the Financial Group has unlimited liability for the obligations assumed and losses incurred by each of its subsidiaries.

The powers of the Commission in their capacity as regulator of the Financial Group include reviewing the financial information and requesting modifications to such information.

The Financial Group performs their activities throughout Mexico and the United States of America (U.S.).

The Financial Group's consolidated financial statements have been approved by the Board of Directors at their January 25, 2011 meeting in accordance with the responsibility assigned to them.

**2 — SIGNIFICANT EVENTS DURING THE YEAR**

**a. Issuance of promissory senior notes**

On July 19, 2010, Banco Mercantil del Norte, S.A. de C.V., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte) successfully concluded the issuance in the international market of unsecured senior debt promissory notes for a total amount of 300 million USD with a maturity of 5 years and an 4.437% rate (United States Treasury (UST) + 262.5 bps). Standard and Poor's rated these securities BBB- and Moody's A3.

**b. Listing of American Depositary Receipts (ADRs) operations in the OTCQX International Premier platform**

On July 15, 2010, the Level 1 ADR's program (ticker: GBOOY) was authorized to operate in OTCQX International Premier; the highest level in the "Over The Counter" (OTC) market.

**c. Exposure to Compañía Mexicana de Aviación, S.A. de C.V. (CMA)**

In August 2010, CMA filed for bankruptcy and suspended its operations. The outstanding balance of the loan granted by Banorte to Gamma Servicios de Negocios, S.A. de C.V. (Gamma Servicios), a CMA subsidiary, totaled Ps.1,576 at the time of such filing. As the loan granted to Gamma Servicios was secured with present and future collection rights derived from the sale of plane tickets using credit card sales in Mexico and the U.S., it was partially amortized by the resources obtained through some of these guarantees. As of December 31, 2010 and 2009, the outstanding loan balance is Ps. 1,252 and Ps. 1,576, respectively. To date, the reserves that Banorte has constituted to cover potential losses from this loan equal 100% of the outstanding balance. Since the loan's origination, the collection rights derived from ticket sales have been voluntarily and irrevocably transferred by CMA to the Administration and Payment Trust managed by HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, and by accounts in custody of banks in the U.S. According to the external Counsel, for the time being, it is impossible to predict the final outcome of the bankruptcy proceeding or the potential losses stemming from this loan.

**d. Merger with IXE Grupo Financiero, S.A.B. de C.V. (IXE Grupo Financiero)**

On November 17, 2010, the Financial Group and IXE Grupo Financiero signed a merger agreement through an exchange of shares valued at Ps. 16,232 at the moment. The Financial Group will issue approximately 308 million new shares and will exchange them at an exchange ratio of 0.3889943074 shares of the Financial Group for each IXE Grupo Financiero share. Such merger, still subject to government authorization, is expected to be formalized during the first quarter of 2011. The operations of both companies will be merged into a single financial group called Grupo Financiero Banorte, S.A.B. de C.V.

**e. Securitization of Controladora Commercial Mexicana, S.A.B. de C.V.'s loan (CCM)**

In December 2010, Banorte securitized CCM's loan, transferring the risks and benefits related to the loan to a Trust created especially for this transaction (the Trust). The Trust issued Series A stock certificates for Ps. 190, Series B for Ps. 175, Series C for Ps. 168 and Series D for Ps. 63, placed among private investors, which secured the holders the net payment of the funds received from each tranche of CCM's loan which they are linked to, once the expenses related to the Trust are discounted. The securitization was recorded as a sale and reported in 2010 a profit for Ps. 596. This profit is equivalent to the difference between the received assets recorded at fair value and the book value of the transferred assets.

**3 — BASIS OF PRESENTATION**

**Monetary unit of the financial statements**

The consolidated financial statements and notes as of December 31, 2010 and 2009 and for the years then ended include balances and transactions in Mexican pesos of purchasing power of such dates.

**Consolidation of financial statements**

The accompanying consolidated financial statements include those of the Financial Group and its subsidiaries mentioned below. All significant intercompany balances and transactions have been eliminated in consolidation.

## [Table of Contents](#)

As of December 31, 2010 and 2009, the Financial Group's consolidated subsidiaries and its equity ownership is as follows:

Banco Mercantil del Norte, S.A. and subsidiaries	92.72%
Casa de Bolsa Banorte, S. A. de C. V. and subsidiaries	99.99%
Arrendadora y Factor Banorte, S. A. de C. V.	99.99%
Almacenadora Banorte, S. A. de C. V.	99.99%

### **Conversion of Financial Statements of Banorte USA, Corporation and Subsidiaries (indirect foreign subsidiary)**

In order to consolidate the financial statements of Banorte USA, they are first adjusted in the recording and functional currency (U.S. dollar) to conform to the accounting criteria established by the Commission. The financial statements are then converted to the reporting currency (Mexican peso) according to the following methodology:

Foreign operations whose recording and functional currency are one and the same convert their financial statements using the following exchange rates: a) year-end rate for assets and liabilities, b) historical rate for stockholders' equity, and c) weighted average rate of the period for income, costs and expenses. The conversion effects are presented in the Financial Group's stockholders' equity.

### **Comprehensive Income**

This is the change in stockholders' equity during the year, for items other than distributions and activity in contributed common stock, and is comprised of the net income of the year plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income, in accordance with the accounting practices established by the Commission. In 2010 and 2009, comprehensive income includes the net income of the year, the result from valuation of available for sale securities, the effect of subsidiaries, affiliates and mutual funds; the result from valuation of cash flow hedging instruments; the application of the cumulative result of non-monetary asset holdings, and the change in credit card loan rating methodology.

## **4 — SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission through issued accounting standards and other applicable laws, which require Management to make certain estimates and use certain assumptions to determine the valuation of certain items included in the consolidated financial statements and make the required disclosures therein. Even though they may differ in their final effect, management considers the estimates and assumptions to have been adequate under the current circumstances.

Pursuant to accounting Circular A-1, "Basic Framework of the Accounting Criteria Applicable to Banking Institutions", prescribed by the Commission, the Financial Group's accounting will adhere to Mexican Financial Reporting Standards (NIF), defined by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), except when the Commission deems it necessary to apply a specific accounting standard or Circular, considering the fact that financial institutions perform specialized operations.

### **Recognition of the effects of inflation in financial information**

Inflation recognition is done pursuant to NIF B-10 "Inflation Effects" which considers two types of economic environments: a) inflationary, when the accumulated inflation of the three previous years is 26% or over, in which case the inflation effects must be acknowledged; b) non-inflationary, when in the same period inflation is less than 26%; in this case the effects of inflation should not be recorded in the financial statements.

## [Table of Contents](#)

The cumulative Mexican inflation over the three years prior to 2010 and 2009 was 14.55% and 15.03%, respectively. Therefore, the Mexican economy is considered as non-inflationary according to the NIF B-10 definition. As of January 1, 2008, the Financial Group is no longer adjusting for the effects of inflation. However, assets, liabilities and stockholders' equity as of December 31, 2010 and 2009 include the restatement effects recorded up through December 31, 2007.

The Mexican inflation rates for the years ended December 31, 2010 and 2009 were 4.29% and 3.72%, respectively.

### **Cash and cash equivalents**

Cash and cash equivalents are stated at nominal value, except for precious metal coins, which are stated at fair value at the end of the period. Funds available in foreign currency are valued at the FIX exchange rate published by Banco de México at the consolidated balance sheet date.

### **Trading securities**

Trading securities are those owned by the Financial Group, acquired with the intention of selling them for a profit derived from price differences in short-term purchase and sale operations made by the Financial Group as a market participant.

At acquisition they are initially recorded at fair value, which may include either a discount or premium.

These securities (including both capital and accrued interest) are stated at fair value, which is determined by the price vendor contracted by the Financial Group.

The trading securities valuation result is recorded in the results of the period.

### **Available for sale securities**

Securities available for sale are debt or equity securities that are neither classified as trading nor held to maturity, therefore they represent a residual category, which means that, they are purchased with an intention different from the trading or held to maturity securities.

They are valued in the same way as trading securities, but with unrealized gains and losses recognized in other comprehensive income within stockholders' equity.

In an inflationary environment, the result of the monetary position corresponding to the valuation result of securities available for sale is recorded in other comprehensive income in stockholders' equity.

### **Held-to-maturity securities**

Securities held to maturity consist of debt instruments whose payments are fixed or can be determined with a set maturity, which are acquired with the intent and capability to hold them to maturity.

They are initially recorded at fair value and valued at amortized cost, which means that the amortization of the premium or discount (included in the fair value at which they were initially recorded), is part of the earned interest.

### **General valuation standards**

Upon the sale of trading securities, the valuation result previously recorded in the year's results is reclassified as part of the gain or loss on the sale. Similarly, upon the sale of available for sale securities, the cumulative valuation result recorded in other comprehensive income in stockholders' equity is reclassified as part of the gain or loss on the sale.

Accrued interest on debt instruments is determined using the effective interest method and is recorded in the corresponding category of investments in securities and in the year's results.



## [Table of Contents](#)

Dividends on equity instruments are recorded in the corresponding category of investments in securities and in the year's results when the right to receive such dividends is established.

The foreign exchange gain or loss on investments in securities denominated in foreign currency is recorded in the year's results.

Reclassification of securities from held to maturity to available for sale is allowed, provided there is no intention or ability of holding them to maturity. The Commission's expressed authorization is required to reclassify securities to held to maturity, or from trading to securities available for sale.

If securities held to maturity are reclassified as available for sale, the corresponding valuation result on the reclassification date is recorded in other comprehensive income within stockholders' equity.

An impairment loss on a security is recorded against the year's results if there is objective evidence of such impairment as a result of one or more events, occurring after the initial recording of the security, that have had an impact on the estimated future cash flows that can be reliably determined. The effect of recording the impairment of securities is shown in Note 6.

A previously recorded impairment loss is reversed against the year's results if, in a later period, the amount of the loss decreases and such decrease is objectively associated with an event occurring after the impairment was recorded.

The Financial Group periodically verifies whether its available for sale securities and those held to maturity show any impairment loss, by means of an evaluation on the quarterly balance sheet date or whenever there are indications of an impairment loss.

Securities are deemed as impaired and therefore incur an impairment loss if and only if there is objective evidence of the impairment loss as a result of a set of events that occurred after their initial value was recorded. Such events should have an impact on the estimated future cash flows, which must be determined in a reliable manner.

These events may include: issuer's significant financial difficulties; likelihood of the issuer's filing for bankruptcy or financial reorganization; noncompliance with contractual clauses such as failure to pay interest or the principal; loss of an active market for the securities due to financial difficulties; lower credit rating and sustained reduction in the issue price, in combination with additional information.

In addition to the aforementioned events, objective evidence of impairment loss for a net asset instrument includes information about significant changes with adverse effects that occurred in the technological, market, economic or legal situation in which the issuer operates, and which indicates a possible loss of the cost of investing in the net asset instrument.

The events considered by the model are divided into:

- a) Information that the Financial Group has about the securities (breach of contract covenants, financial, economic or legal problems).
- b) Information that the Financial Group has about the issuer (issuer's probability of bankruptcy, financial reorganization and financial difficulties).
- c) Information that the market has about the securities (rating assigned by Commission-approved agencies).
- d) Information that the market has about the issuer (rating assigned by Commission-approved agencies).

The evaluation model that the Financial Group applies to determine impairment loss incorporates the aforementioned events according to their importance and rates them as per a severity average used to estimate the return on investment. Similarly, it incorporates the existence of guarantees, which contributes to lower impairment losses.

The investments on which impairment losses have been recognized are analyzed on a quarterly basis to identify the possible recovery of their value and, if applicable, reverse the recorded loss in the consolidated statements of income for the year such recovery is achieved.

### **Customer repurchase agreements (repos)**

This is a transaction through which the purchaser acquires ownership of credit securities for a sum of money and is obligated to transfer the property of another amount of securities of the same kind to the seller of the securities within the agreed term and in exchange for the same price, plus a premium. The purchaser keeps the premium unless agreed otherwise.

Repurchase transactions are recorded according to their economic substance, which is financing with collateral, through which the Financial Group, acting as the purchaser, provides cash as financing in exchange for financial assets that serve as guarantee in case of non-compliance.

On the repurchase agreement transaction contract date, the Financial Group, acting as the seller, records the cash inflow, or else a settlement debtor account as well as a payable account at its fair value, initially at the agreed price, which represents the obligation to reimburse the cash to the purchaser. The account payable is subsequently valued over the term of the repurchase agreement at amortized cost by recognizing the interest from the repurchase agreement in the year's results using the effective interest method.

As to the collateral granted, the Financial Group reclassifies the financial asset in the consolidated balance sheets as restricted and values it according to the criteria mentioned earlier in this note until the maturity of the repurchase agreement.

The Financial Group, acting as the purchaser, on the repurchase transaction contract date records cash and cash equivalents or a creditor settlement account, with an account receivable at its fair value, initially at the agreed price, which represents the right to recover the cash that was delivered. The receivable is subsequently valued over the life of the repurchase agreement at amortized cost by recognizing the repurchase agreement interest in the year's results using the effective interest method.

As to the collateral received, the Financial Group records it in off balance sheet memorandum accounts until the repurchase agreement's maturity, following the guidelines of Circular B-9, "Asset Custody and Management", issued by the Commission.

### **Derivatives financial instruments**

The Financial Group is authorized to perform two types of transactions involving derivatives financial instruments:

Transactions to hedge the Financial Group's open risk position: Such transactions involve purchasing or selling derivatives financial instruments to mitigate the risk resulting from one or a group of given transactions.

Transactions for trading purposes: The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

Transactions with derivative financial instruments are presented in assets or liabilities, as applicable, under the heading "Derivatives financial instruments", separating derivatives for trading purposes from those for hedging purposes.

When entering into transactions involving derivatives financial instruments, the Financial Group's internal policies and norms require an assessment and if necessary determination of different risk exposures for each counterparty in the financial system that have been authorized by the Banco de México to enter into these types of transactions. Regarding corporate customers, a preauthorized credit line by the National Credit Committee must be granted or liquid guarantees must be given through a securitized collateral contract before entering into these types of transactions. Medium and small sized companies and individuals must provide liquid guarantees established in securitized collateral contracts with this type of transactions.

The recognition or cancellation of assets and/or liabilities resulting from transactions involving derivatives financial instruments occurs when these transactions are entered into, regardless of the respective settlement or the delivery date.

## [Table of Contents](#)

### *Forward and futures contracts*

Forward and futures contracts with trading purposes establish an obligation to buy or sell a financial asset or an underlying at a future date in the quantity, quality and prices pre-established in the contract. Futures contracts are recorded initially by the Financial Group in the consolidated balance sheets as an asset and a liability at fair value, which represents the price agreed in the contract in order to acknowledge the right and obligation to receive and/or deliver the underlying, as well as the right and obligation to receive and/or deliver the cash equivalent to the underlying, object of the contract.

The derivatives are presented in a specific item in assets or liabilities depending on whether their fair value (as a consequence of the rights and/or obligations it establishes) corresponds to a debtor balance or creditor balance. Such debtor or creditor balances in the consolidated balance sheets are offset when the Financial Group has the contractual right to offset the stated amount, the intention to settle the net amount or to realize the asset and cancel the liability simultaneously.

In the case of transactions for trading purposes, their balance represents the difference between the fair value of the contract and the established “forward” price.

### *Option contracts*

Through paying a premium, options contracts grant the right but not the obligation to buy or sell a financial asset or underlying instrument at a given price within an established term.

Options are divided into: options to buy (calls) and options to sell (puts). Both can be used as trading or hedging instruments.

Options can be executed on a specific date or within a certain period of time. The price is agreed in the option and may be exercised at the discretion of the buyer. The instrument used to establish the price is the reference or underlying value.

The premium is the price the holder pays to the issuer for the option rights.

The holder of a call option has the right, but not the obligation, to purchase from the issuer a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The holder of a put option has the right, but not the obligation, to sell a certain financial asset or underlying instrument at a fixed price (transaction price) within a certain term.

The Financial Group records the option premium as an asset or liability at the transaction date. The fluctuations resulting from market valuation of the option’s premium are recorded by affecting the income statement in the account “Trading results” and the corresponding balance sheet account.

### *Swaps*

These are two-party contracts through which a bilateral obligation is established to exchange a series of cash flows for a certain period of time on pre-set dates at a nominal or reference value.

They are recorded at fair value which corresponds to the net amount between the asset and liability portion for the rights and obligations agreed upon; they are subsequently valued at fair value using the present value of the future flows to receive or grant according to the projections for future implicit applicable rates, discounting the market rate on the valuation date with yield curves given by the price provider. The result of such valuation is recorded in the year’s results.

Management’s risk policies regarding hedging contracts to protect the Financial Group’s balance sheet is to anticipate interest and exchange rate fluctuations, thereby protecting the Shareholders’ Equity.

## [Table of Contents](#)

For hedging derivatives, the Financial Group applies in all cases the cash flow hedging method and the accumulated compensation method to measure effectiveness. Both methods are approved by current accounting standards. In case ineffective hedges are detected, they are recorded in the year's results.

The Financial Group documents hedging transactions from the moment that the derivative instruments are designated as hedging transactions. A file for each transaction is created in order to have documented proof as per Circular B-5 paragraph 71, which establishes conditions for the use of hedge accounting.

Accordingly, the Financial Group documents its hedging transactions based on the following guidelines:

- A cash flow hedging transaction is recorded as follows:
  - a. The effective portion of the hedging instrument's gain or loss is recorded as a component of other comprehensive income in stockholders' equity using as an asset or liability account called "derivatives financial instruments" with an offsetting account in the liquid assets or liabilities. The portion determined as ineffective is measured through retrospective test, and when they result in over-hedging, they are immediately recognized in current earnings.
  - b. The effective hedge component recognized in stockholders' equity associated with the hedged item is adjusted to equal the lower (in absolute terms) of these items:
    - I. The accumulated gain or loss of the hedging instrument from its inception.
    - II. The accumulated change in the fair value (present value) of the hedged item's expected future cash flows from the beginning of the transaction.

## Valuation method

Since the derivatives used by the Financial Group are considered as conventional ("plain vanilla"), the standard valuation models contained in the derivatives transaction systems and the Financial Group's risk management is used.

All of the valuation methods that the Financial Group uses result in the fair value of the transactions and are periodically adjusted. Furthermore, they are audited by internal and external auditors, as well as by the financial authorities.

Valuation of the positions is done on a daily basis, and a price provider generates the input used by the transaction and risk management systems. The price provider generates these valuations based on daily market conditions.

The valuation methods are based on the market's accepted and commonly used principles. At present, derivatives are valued by the cash flow present value method, except in the case of options. This method consists of estimating future derivative flows, using the difference between the derivative's fixed level and the forward market curves on the valuation date, and then discounting such flows and updating them to the present value. Options are valued under the Black and Scholes method, which in addition to the present value, involves the volatility and probability of occurrence for calculating the premium. Once the option's market value is obtained, it is compared to the original premium accrued on the valuation date.

## Operation strategies

### *Trading*

The Financial Group participates in the derivatives market with trading purposes, and the risk exposures generated are computed within its overall VaR limit.

The trading strategy is submitted on a weekly basis to the Financial Group's Treasury Committee, which analyzes the current risks and makes any necessary decisions.

The trading strategy is carried out according to market levels and expectations, maximizing the circumstances to obtain a benefit by trading, margin and volatility. Each trading strategy is submitted to the Treasury Committee on a weekly basis for its consideration. The Committee analyzes the risks and then decides accordingly.

## [Table of Contents](#)

### *Hedging*

The hedging strategy is determined annually and when market conditions require it. Hedging strategies are submitted to the Risk Policies' Committee.

Hedging transactions comply with the applicable norm set forth in Circular B-5 of the CNBV. This implies, among other things, that the hedge's effectiveness must be evaluated both prior to its arrangement (prospective) and thereafter (retrospective). These tests are performed on a monthly basis.

The hedging strategy is determined annually and each time the market conditions require. Hedges are used to reduce foreign exchange risks, through both exchange rate forwards and currency swaps, as well as interest rates by means of interest rate swaps. This is done with the purpose of setting the rates paid in debt issued by the Financial Group, thereby insuring its payment, and to make investments that generate greater value for the customers. The main strategy is to insure the Financial Groups' future income and expenses, maximizing the benefits.

Hedging derivatives can be restated whole or partially due to hedging inefficiencies, maturity or sale of primary position.

### **Contingencies**

To enter the derivatives market, the Financial Group is bound by an agreement to deliver its financial information in a timely manner and to abide by the applicable laws, regulations and provisions, as well as to give written notice to the affected parties in an event that could be considered as early termination, which could lead to a credit contingency. These include the following: bankruptcy filing, payment suspension, restructuring, intervention, liquidation, dissolution or other similar judicial or extra-judicial proceedings that affect the Financial Group; if the statements stipulated in the contract are incorrect; the Financial Group's failure to fulfill its obligations and/or payments; breach of contract; the Financial Group's consolidates or merges with another entity thereby transferring a substantial portion of its assets; failure to provide the guarantees that were agreed in the event of noncompliance with obligations or if such guarantees are expired or diminished in value; the Financial Group's falls into insolvency, lower credit quality or illegality due to changes in the tax or legal legislation; the existence of a ruling, proceeding or embargo against the Financial Group that could substantially affect its ability to fulfill its obligations in a timely manner; or general noncompliance with obligations. Each ground for early termination is subject to the counter-party's consideration to determine its importance and significance regarding the Financial Group's ability to comply.

At present no such contingency situations have arisen.

### Embedded derivatives

Embedded derivatives are those contract components that do not intend to explicitly originate a derivative financial instrument but rather that the implicit risks generated or hedged by those components differ in their economic and risk features from those of the contract, and therefore display behavior and features similar to those of a common derivative.

Identified embedded derivatives are separated from the host contract for valuation purposes and are treated as a derivative when they meet the features set forth in Circular B-5 paragraph 22. The main embedded derivatives recognized by the Financial Group are from service and leasing contracts established in US dollars.

### **Loan portfolio**

The loan portfolio represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus interest collected in advance. The allowance for loan losses from credit risks is presented as a reduction of the loan portfolio.

The unpaid loan balance is classified in the past-due portfolio as follows:

- Loans with bullet payment of principal and interest at maturity: 30 calendar days after being overdue.

## [Table of Contents](#)

- Loans involving a single principal payment at maturity, but with periodic interest payments: total principal and interest payments 30 and 90 calendar days after being overdue, respectively.
- Loans for which the payment of principal and interest is agreed based on partial periodic payments: 90 calendar days after the first payment is due.
- In the case of revolving loans, whenever payment is outstanding for two billing periods or when they are 60 or more days overdue.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued as income when earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

The fees charged for the initial granting of loans will be recorded as a deferred credit, which will be amortized as interest income, using the straight-line method over the loan's contractual term, except those originating from revolving loans, which are amortized over a 12-month period.

Annual credit card fees whether the first annual charge of a renewal, are recorded as a deferred credit and amortized over a 12-month period against the year's results in the commission and fee income line item.

The costs and expenses associated with the initial granting of a loan are stated as a deferred charge, which is amortized against the year's earnings as interest expense for the duration of the loan, except those originating from revolving loans and credit cards which are amortized over a 12-month period.

Restructured past-due loans are not considered in the performing portfolio until evidence of sustained payment is obtained; this occurs when credit institutions receive three timely consecutive payments, or a payment is received for periods exceeding 60 days.

Renewed loans in which the borrower has not paid on time or when the accrued interest balance equals at least 25% of the original loan amount are considered past-due until evidence of sustained payment is obtained.

Accrued interest during the period in which the loan was included in the past-due portfolio is recognized as income when collected.

The recognition of interest income is renewed when the portfolio is no longer considered past-due, which occurs when the outstanding balances, including the principal, interest and any other item, are paid in full.

Restructured loans are those whose terms have been modified due to the borrowers' financial difficulties, and it was decided to grant them a concession. Such modifications may include: reductions in the interest rate, debt forgiveness or term extensions.

The Financial Group regularly evaluates whether a past-due loan should remain in the balance sheet or be written off. Such write-offs are done by canceling the outstanding loan balance against the allowance for loan losses. The Financial Group may opt to eliminate from its assets those past-due loans that are 100% provisioned according to the following parameters:

Commercial loans — Must be classified in past-due loans, with an E risk rating, 100% reserved and unsecured by any fund.

Consumer loans — 180 days or more overdue.

Mortgage loans — 270 days or more overdue.

## **Allowance for loan losses**

### *Application of new portfolio classification provisions*

The loan portfolio is rated according to the rules issued by the Commission and the internal methodology authorized by such Commission.

In the case of consumer and mortgage loans, the Financial Group applies the general provisions applicable to credit institutions in rating the loan portfolio as issued by the Commission on October 25, 2010 and December 2, 2005, respectively. The Financial Group uses the internal methodology authorized by the Commission for rating commercial loans.

Such provisions also establish general methodologies for the rating and calculation of allowances for each type of loan, while also allowing credit institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

Since June 2001, the Financial Group has the Commission's approval to apply its own methodology to commercial loans, called Internal Risk Classification (CIR Banorte). CIR Banorte applies to commercial loans with outstanding balances equal to or greater than 4 million UDIS or its equivalent in Mexican pesos. This methodology is explained below.

The commercial loan portfolio rating procedure requires credit institutions to apply the established methodology (general or internal) based on quarterly information for the periods ending in March, June, September and December of each year, while also recording the allowances determined at the close of each period in their financial statements. Furthermore, during the months following each quarterly close, financial institutions must apply to any loan the respective rating used at the close of the immediately preceding quarter, based on the outstanding balance on the last day of the aforementioned months. The allowances for loan risks that have exceeded the amount required to rate the loan will be cancelled on the date of the following quarterly rating against the period's results. Additionally, recoveries on previously written-off loan portfolio are recorded in the period's results.

Derived from the acquisition of INB Financial Corp. (INB) in 2006, the Financial Group applied the loan rating methodologies established by the Commission to INB's loans, homologating the risk degrees and adjusting the allowance for loan losses derived from applying such methodologies.

On November 30, 2010, the Commission issued Document 121-4/5486/2010, which renews for a two-year period, as of December 1, 2010, the authorization for such internal loan rating methodology.

Commercial loans equal to or greater than 4 million UDIS or its equivalent in Mexican pesos are rated based on the following criteria:

- Debtor's credit quality
- The loans in relation to the value of the guarantees or the value of the assets in trusts or in "structured" programs, as applicable.

The commercial loan segment includes loans granted to business groups and corporations, state and municipal governments and their decentralized agencies, as well as financing to companies of the financial services sector.

The Financial Group applied the internal risk classification methodology, CIR Banorte, authorized by the Commission to rate the debtor, except in financing granted to state and municipal governments and their decentralized agencies, loans intended for investment projects with their own source of payment and financing granted to trustees that act under trusts and "structured" loan programs in which the affected assets allow for an individual risk evaluation associated with the type of loan, for which the Financial Group applied the procedure established by the Commission.

When evaluating a debtor's credit quality with the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

[Table of Contents](#)

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capacity 2. Financing sources 3. Management and decision-making 4. Quality and timeliness of financial information
2. Industry risk	5. Positioning and market in which debtor participates - Target markets - Risk acceptance criteria
3. Borrower's experience	6. Borrower's experience
4. Country risk	7. Country risk

Each of the risk factors is analyzed using descriptive evaluation tables, the result of which indicates the borrower's rating. This, in turn, is standardized with the risk degrees established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	A2
3	Minimum risk	A2
4	Low risk	B1
5	Moderate risk	B2
6	Average risk	B3
7	Risk requiring management attention	C1
8	Potential partial loss	C2
9	High loss percentage	D
10	Total loss	E

For commercial loans under 4 million UDIS or its equivalent in Mexican pesos, loans under 900 thousand UDIS to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to credit institutions for classifying the loan portfolio as issued by the Commission.

**Acquired loan portfolios**

This balance is represented by the acquisition cost of the various loan asset packages acquired by the Financial Group, which are subsequently valued by applying one of the three following methods:

*Cost Recovery Method* - Payments received are applied against the acquisition cost of the loan portfolio until the balance equals zero. Recoveries in excess of the acquisition cost are recognized in current earnings.

*Interest method* - The result of multiplying the acquired portfolio's outstanding balance by the estimated yield is recorded in current earnings. Differences between the Financial Group's collection estimates and actual collections are reflected prospectively in the estimated yield.

*Cash basis method* - The amount resulting from multiplying the estimated yield times the amount actually collected is recorded in the income statement, provided it is not greater than the amount obtained by the interest method. The difference between the recorded amount and the amount collected reduces the outstanding portfolio balance, once the entire initial investment has been amortized. Any subsequent recovery will be recorded in the income statement.

For the portfolios valued using the interest method, the Financial Group evaluates them twice a year to verify if the cash flow estimate of its collection rights is consistent with actual recoveries and therefore considered to be effective. The Financial Group uses the cost recovery method on those collection rights in which the expected cash flow estimate is not highly effective. The expected cash flow estimate is considered as "highly effective" if the result of dividing the sum of the flows actually collected by the sum of the expected cash flows is between 0.8 and 1.25 when such effectiveness is evaluated.



### **Securitizations involving transfer of ownership**

Through securitization transactions involving the transfer of ownership in mortgage and government loans, the Financial Group transfers those financial assets to a trust so that it publicly issues securities through an intermediary. The securities represent the right to the yield on the securitized portfolio and, as compensation the Financial Group receives cash and a receipt, which grants it the right over the trust's cash flow remnants after paying the holders for their certificates. This receipt is recorded at its fair value under "Receivables generated by securitizations"

The Financial Group provides management services for the transferred financial assets and records the revenue in the period's earning when accrued. These revenues are stated under "Other income."

The valuation of the benefits to be received from securitization operations is recorded in the income statement under other income or other expenses, as applicable.

### **Other accounts receivable and payable**

The Financial Group performs a study to quantify the different future events that could affect the amount in accounts receivable over 90 days and thus determine the percentage of non-recoverability in order to calculate its allowance for doubtful accounts. The remaining balance of accounts receivable is reserved at 90 calendar days from the initial recognition.

The balances of asset and liability settlement accounts represent transactions involving the sale and purchase of currency and securities, which are recorded when entered into and are settled within 48 hours.

### **Merchandise Inventory**

This is comprised mainly of finished goods and prior to 2008 was restated to the lower of replacement cost or market. Cost of sales, included in "Other expenses", is restated using the replacement cost at the time of the sale prior to 2008.

### **Impairment of the value of long-lived assets and their disposal**

The Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill.

### **Foreclosed assets, net**

Foreclosed property or property received as payments in kind are recorded at the lower of their cost or fair value minus the strictly necessary costs and expenses disbursed in the foreclosure. Cost is determined as the forced-sale value established by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is higher than that of the foreclosed property, the difference is recorded in the period's results under "Other Revenues."

When the value of the asset or the accrued or past due amortizations leading to the foreclosure, net of estimates, is lower than that of the foreclosed property, its value is adjusted to the asset's net value.

The carrying value is only modified when there is evidence that the fair value is lower than the recorded carrying value. Reductions in the carrying value of the loan are recorded in the current earnings as they occur.

[Table of Contents](#)

The provisions applicable to the new valuation methodology for the allowance for loan losses mentioned above define the valuation methodology for reserves related to either foreclosed property or those assets received as payment in kind, establishing that additional quarterly provisions must be created to recognize the potential decrease in value over time of property awarded under legal proceedings, out-of-court or received as payment in kind and the investments in securities received as foreclosed goods or payment in kind, based on the following guidelines:

I. In the case of collection rights and real property, the provisions referenced in the preceding paragraph must be treated as follows:

**Personal property reserves**

<b>Time elapsed as of award date or receipt as payment in kind (months)</b>	<b>Reserve percentage</b>
Up to 6	0%
More than 6 and up to 12	10%
More than 12 and up to 18	20%
More than 18 and up to 24	45%
More than 24 and up to 30	60%
More than 30	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the value of collection rights or foreclosed property, received as payment in kind or awarded in a court proceeding.

II. Investments in securities must be valued in accordance with the provisions of the Commission’s accounting Circular B-2, using annual audited financial statements and monthly financial information of the issuer.

Following the valuation of foreclosed assets or those received as payment in kind, the reserves resulting from applying the percentages established in the table of Section I above to the estimated value, must be created.

III. In the case of real property, provisions must be created as follows:

**Real property reserves**

<b>Time elapsed as of award date or receipt as payment in kind (months)</b>	<b>Reserve percentage</b>
Up to 12	0%
More than 12 and up to 24	10%
More than 24 and up to 30	15%
More than 30 and up to 36	25%
More than 36 and up to 42	30%
More than 42 and up to 48	35%
More than 48 and up to 54	40%
More than 54 and up to 60	50%
More than 60	100%

The amount of the reserves to be created will be the result of applying the reserve percentage determined under the preceding table to the awarded value of the property based on the accounting criteria. Furthermore, when problems are identified regarding the realization of the value of the foreclosed property, the Financial Group records additional reserves based on management’s best estimates. On December 31, 2010, there are no reserves in addition to those created by the percentage applied based on the accounting criteria that could indicate realization problems with the values of the foreclosed properties.

If appraisals subsequent to the foreclosure or payment in kind result in the recording of a decrease in the value of the collection rights, securities, personal or real property, the reserve percentages contained in the preceding table can be applied to the adjusted value.

[Table of Contents](#)

**Property, furniture and equipment**

Property, furniture and equipment are recorded at acquisition cost. The balances of acquisitions made until December 31, 2007, were restated using factors derived from the value of the UDI of that date.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by independent appraisers.

**Permanent stock investments**

The Financial Group recognizes its investments in associated companies where it has control or significant influence using the equity method, based on the book values shown in the most recent financial statements of such entities.

**Income Taxes (ISR), Business Flat Tax (IETU) and Employee Statutory Profit-Sharing (PTU)**

The provisions for ISR, IETU and PTU are recorded in the results of the year in which they are incurred. Deferred taxes are recognized if, based on financial projections, the Financial Group expects to incur ISR or IETU, and records the deferred tax it will pay. The Financial Group will record deferred ISR or IETU, corresponding to the tax it will pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. The deferred tax assets are recorded only when there is a high probability of recovery.

The net effect of the aforementioned items is presented in the consolidated balance sheets under the “Deferred taxes, net” line.

**Intangible assets**

Intangible assets are recognized in the consolidated balance sheets provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. The amortizable amount of the intangible asset is assigned on a systematic basis during its estimated useful life. Intangible assets with indefinite lives are not amortized, and their value is subject to annual impairment tests.

**Goodwill**

The Financial Group records goodwill when the total fair value of the acquisition cost and the noncontrolling interest is greater than the fair value of the net assets of the acquired business, pursuant to NIF B-7 “Business acquisitions.” As goodwill is considered an intangible asset with an indefinite life, it is subject to impairment tests at least annually according to NIF C-15 “Impairment in the value of long-lasting assets and their disposal.” No indicators of impairment of goodwill have been identified as of December 31, 2010 and 2009.

**Deposits**

Liabilities derived from deposits, including promissory notes settled at maturity, are recorded at their funding or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close, which are charged against results when accrued as an interest expense.

**Interbank and other loans**

These loans are recorded based on the contractual value, recognizing the interest in the year’s earnings as accrued. The Financial Group records in this item the direct loans obtained from domestic and foreign banks, loans obtained through bids with Banco de Mexico and development fund financing. Furthermore, this includes discounted loan portfolios from funds provided by banks specializing in financing economic, productive or development activities.

## **Provisions**

Provisions are recognized when the Financial Group has a current obligation that results from a past event and are likely to result in the use of economic resources and can be reasonably estimated.

### **Employee retirement obligations**

According to Mexican Federal Labor Law, the Financial Group has obligations derived from severance payments and seniority premiums payable to employees that cease to render their services under certain circumstances.

#### Defined benefits plan

The Financial Group records a liability for seniority premiums, pensions and post-retirement medical services as incurred based on calculations by independent actuaries using the projected unit credit method, using nominal interest rates. Accordingly, this recognizes the liability whose present value will cover the obligation from benefits projected to the estimated retirement date of the Company's overall employees, as well as the obligation related to retired personnel.

The balance at the beginning of each period of actuarial gains and losses derived from pension plans exceeding 10% of the greater amount between the defined benefits obligation and plan assets are amortized in future periods against current results, in the case of pension plan, medical service and seniority premiums to retirement.

In the case of seniority premiums related to termination and remuneration at the end of the employment relation, earnings or losses are recognized immediately in the period that are generated, as specified by the NIF D-3 "Employee benefits".

The Financial Group applies the provision of NIF D-3 related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

#### Defined contribution plan

As of January 2001, the Financial Group provided a defined contribution pension plan. The participating employees are those hired as of this date as well as those hired prior to such date that enrolled voluntarily. The pension plan is invested in a fund.

The employees who were hired prior to January 1, 2001 and decided to enroll voluntarily in the defined contribution pension plan received a contribution from the Financial Group for prior services equivalent to the actuarial benefit accrued in their previous defined benefit plan that was cancelled. The initial contribution was made from the plan assets that had been established for the original defined benefit plan and participants were immediately assigned 50% of such amount with the remaining 50% to be assigned over 10 years.

The initial payment to the defined contribution plan for past services was financed with funds established originally for the defined benefit plan as a result of the early termination of its obligations and recognized in accordance with the requirements of NIF D-3.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan's participants.

## **Foreign currency conversion**

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate at the close of each period. The exchange rate used to establish Mexican peso equivalence is the

[Table of Contents](#)

FIX exchange rate published by Banco de México. Foreign exchange fluctuations are recorded in the results of operations.

**Interest from outstanding subordinated debentures**

Accrued interest from outstanding subordinated debentures is recognized as it is accrued and translated according to the exchange rate in effect at each monthly close.

**Transfer of financial assets**

The Financial Group may act as the assignor or assignee, as applicable, in this type of transactions. Moreover the Financial Group evaluates whether or not to retain the risks and benefits associated with the asset property to determine whether or not there was a transfer of property in a transaction. In transactions involving the transfer of ownership in financial assets, the assignor yields control and substantially transfers all the risks and benefits over such assets. Therefore, the assignor derecognizes such assets and records the consideration received in the transaction. Conversely, the assignee recognizes such financial assets and the transfer consideration in its accounting records.

**Share-based payments**

The Financial Group grants stock options to key officers through different payment schemes based on stocks. The Financial Group has established trusts to manage the plans and contributes the necessary funds so that shares can be purchased directly from the market at the initiation of each plan.

The Financial Group records its stock option plans according to the guidelines of NIF D-8, "Share-based payments." The compensation expense is recorded at fair value as of the date the stock options are granted. The NIF D-8 guidelines stipulate that the fair value determined at the beginning is not revalued at a later date.

The fair value of each share is estimated as of the date granted using the Black-Scholes option pricing model or the forwards valuation model, depending on the plans' features.

**Main subsidiaries' income recognition**

**Banorte Casa de Bolsa**

Permanent stock investments — represented mainly by stockholders' equity shares of the distributing Investment Companies. Permanent stock investments are originally recorded at their acquisition cost and restated up to December 31, 2007, based on the factor derived from the UDI or the equity method, as applicable, based on the last available financial statements, and if necessary, losses in value are recorded based on the information provided by the affiliated companies' management. Regarding the mutual funds managed by the Operating Company, the valuation increase is from comparing the original value to the book value one day prior to the close of the period. The valuation effect at book value is recorded in the statement of income under "Share in subsidiaries and affiliates' income".

Recognition of income from services, financial advisory and securities purchase-sales — the fees and rates generated by customer securities' operations are recorded as performed.

Income from financial advisory is recorded when accrued as per the contract.

Securities purchase-sales results are recorded when performed.

Income and expenses are recorded as generated or accrued as per the relative contracts.

Share dividends are recorded at zero value in investments: therefore they only affect the results when the shares are sold.

[Table of Contents](#)

**Arrendadora y Factor Banorte**

Credit from finance leasing operations, net — finance leasing operations are recorded as direct financing, wherein the account receivable is the total amount of the settled rents, and potential profit is the difference between such amount and the cost of the leased properties. Net financed capital is recorded on the general balance sheet, deducting the total of rents from the potential profit.

Loans from operating leasing operations — represent company assets given to a third party for the latter's temporary use and enjoyment for a given term equal to or over six months. The operating leasing contract rents are recorded as income as accrued.

Loans from factoring operations, net — funded or non-funded factoring is recorded as follows:

- Ceded portfolio — the amount is recorded in loan portfolios, minus the difference between loans and the financed amount.
- Profit from acquired documents (interest) - calculated in advance, per completed month and upon maturity, recorded in factoring, and both are applied to results as accrued.

Recognition of income — interest from leasing and financial factoring is recognized as income as accrued; however the accumulation of interest is suspended whenever the uncollected interest and/or total loan is transferred to past-due loans. Accrued, normal and past-due interest during the period the loan is considered past-due is recognized as income as collected.

Profit to realize from financial leasing is recognized as income as accrued. The final value of the good in financial leasing is recognized as income when purchased.

The fees for credit opening in leasing and factoring operations are recognized as income as accrued.

**Afore Banorte-Generali**

Recognition of income - the administration fees are recognized as income as accrued.

The Pension Fund can only collect fees from workers charged to their individual accounts and the contributions received. Such fee is determined by the balance of received contributions. It may be a percentage of such concepts, a fixed fee or a combination of both, and can only be made when the worker's contributions are effectively invested in the Siefores that the Pension Fund manages and the necessary daily provisions have been recorded in the Siefores accounting.

The profit or loss generated from selling investments in Siefores shares is recorded in the income statement as realized.

**Seguros Banorte-Generali**

Income from premiums — Recognized as follows:

- a. The income for group and collective life insurance premiums is recorded in income as the partial payment receipt is issued, deducting the premiums ceded in reinsurance.
- b. Income from premiums for accidents, illness and damage is recorded in terms of the policies contracted in the year, even though their term is for over one year, deducting the premiums ceded in reinsurance.
- c. Income from rights and surcharges on policies with segmented payments is recorded in income as collected and the uncollected portion is recorded in deferred loans.

[Table of Contents](#)

**5 — CASH AND CASH EQUIVALENTS**

As of December 31, 2010 and 2009, this line item was composed as follows:

	<u>2010</u>		<u>2009</u>	
Cash	Ps.	12,308	Ps.	9,415
Banks		46,113		45,949
Other deposits and available funds		4,076		3,904
	<b>Ps.</b>	<b>62,497</b>	<b>Ps.</b>	<b>59,268</b>

On December 31, 2010, “Other deposits and available funds” include Ps. 857 for funds due to be received in 24 and 48 hours, and Ps. 36 in gold and silver coins. In 2009, it included Ps. 1,598 for funds due to be received in 24 and 48 hours, and Ps. 35 in gold and silver coins.

The exchange rate used for the conversion of gold and silver coins (Centenarios and Troy ounces, respectively) was Ps. 17,872.67 and Ps. 399.63, per unit, respectively, in 2010 and Ps. 14,627.95 and Ps. 239.89, per unit, respectively, in 2009.

“Banks” is represented by cash in Mexican pesos and US dollars converted at the exchange rate issued by Banco de México of Ps. 12.3496 and Ps. 13.0659 as of December 31, 2010 and 2009, respectively and is made up as follows:

	<u>Mexican pesos</u>		<u>Denominated in US dollars</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Call money	Ps. 3,000	Ps. 2,447	Ps. 3,458	Ps. 653	Ps. 6,458	Ps. 3,100
Deposits with foreign credit institutions	—	—	12,368	15,928	12,368	15,928
Domestic banks	834	370	—	—	834	370
Banco de México	26,345	26,510	108	41	26,453	26,551
	<b>Ps. 30,179</b>	<b>Ps. 29,327</b>	<b>Ps. 15,934</b>	<b>Ps. 16,622</b>	<b>Ps. 46,113</b>	<b>Ps. 45,949</b>

As of December 31, 2010 and 2009, the Financial Group had made monetary regulation deposits of Ps. 26,345 and Ps. 26,342, respectively.

As of December 31, 2010 and 2009, the total sum of restricted cash and cash equivalents is Ps. 36,819 and Ps. 33,289, respectively. This includes monetary regulation deposits, futures placed in the domestic and foreign market, call money and contracted transactions pending settlement in 24 and 48 hours.

The interbank loans are documented and accrued at an average rate of return of 0.182% and 0.167% in USD and 4.5% and 4.5% in pesos, as of December 31, 2010 and 2009, respectively.

**6 - INVESTMENTS IN SECURITIES**

**a. Trading securities**

As of December 31, 2010 and 2009, trading securities are as follows:

	2010			2009	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
CETES	Ps. 2,544	Ps. —	Ps. (1)	Ps. 2,543	Ps. 926
Bonds	532	25	1	558	520
Development Bonds	3,241	4	3	3,248	3,136
Savings protection bonds (BPAS)	39,000	194	33	39,227	9,494
Bank securities	17,218	12	5	17,235	9,994
UMS	54	1	(2)	53	—
Securitization certificates	3,114	14	43	3,171	260
Treasury notes	23	—	—	23	65
Other securities	61	1	—	62	—
Investment funds	61	—	—	61	64
	<b>Ps. 65,848</b>	<b>Ps. 251</b>	<b>Ps. 82</b>	<b>Ps. 66,181</b>	<b>Ps. 24,459</b>

During 2010 and 2009, the Financial Group recognized a profit (loss) of Ps. 46 and (Ps. 17), respectively, under “Brokerage revenues” for the fair value valuation of these instruments.

As of December 31, 2010 and 2009, there are Ps. 58,154 and Ps. 19,310, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2010, these investments mature as follows (stated at their acquisition cost):

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
CETES	Ps. 2,544	Ps. —	Ps. —	Ps. —	Ps. 2,544
Bonds	532	—	—	—	532
Development Bonds	1,070	2,171	—	—	3,241
Savings protection bonds (BPAS)	2,463	35,595	942	—	39,000
Bank securities	13,440	3,778	—	—	17,218
UMS	—	—	54	—	54
Securitization certificates	44	2,870	—	200	3,114
Treasury notes	—	—	23	—	23
Other securities	2	—	27	32	61
Investment funds	—	—	—	61	61
	<b>Ps. 20,095</b>	<b>Ps. 44,414</b>	<b>Ps. 1,046</b>	<b>Ps. 293</b>	<b>Ps. 65,848</b>



[Table of Contents](#)

**b. Available for sale securities**

As of December 31, 2010 and 2009, available for sale securities were as follows:

	2010			2009	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
US Government bonds	Ps. 7,769	Ps. 28	Ps. 76	Ps. 7,873	Ps. 6,603
UMS	248	10	—	258	361
Bonds	1,424	10	85	1,519	2,718
MASTER CARD	—	—	—	—	35
BMV Shares	234	—	134	368	219
EUROBONDS	608	15	34	657	941
PEMEX bonds	833	12	25	870	824
Securitization certificates	755	1	(13)	743	—
	<b>Ps. 11,871</b>	<b>Ps. 76</b>	<b>Ps. 341</b>	<b>Ps. 12,288</b>	<b>Ps. 11,701</b>

As of December 31, 2010 and 2009 there are Ps. 2,674 and Ps. 2,489, respectively, in restricted trading securities.

As of December 31, 2010, these investments mature as follows (stated at their acquisition cost):

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
US Gov. Bonds	Ps. —	Ps. —	Ps. 7,769	Ps. —	Ps. 7,769
UMS	248	—	—	—	248
Bonds	—	183	1,241	—	1,424
BMV Shares	—	—	—	234	234
EUROBONDS	—	364	244	—	608
PEMEX bonds	63	124	603	43	833
Securitization certificates	—	53	702	—	755
	<b>Ps. 311</b>	<b>Ps. 724</b>	<b>Ps. 10,559</b>	<b>Ps. 277</b>	<b>Ps. 11,871</b>

**c. Held to maturity securities**

As of December 31, 2010 and 2009, held to maturity securities are as follows:

Medium and long-term debt instruments:

	2010			2009	
	Acquisition cost	Accrued interest	Book value	Book value	
Government bonds- support program for Special Federal Treasury Certificates	Ps. 756	Ps. 3	Ps. 759	Ps. 725	
Government bonds	578	28	606	631	
Development Bonds	33,035	57	33,092	33,127	
Saving protection bonds (BPAS)	71,826	377	72,203	103,759	
UMS	2,277	61	2,338	2,470	
Bank securities	13,930	91	14,021	26,005	
PEMEX bonds	3,207	62	3,269	4,991	
Private securitization certificates	13,536	47	13,583	18,582	
Other securities	41	1	42	42	
	<b>Ps. 139,186</b>	<b>Ps. 727</b>	<b>Ps. 139,913</b>	<b>Ps. 190,332</b>	

[Table of Contents](#)

As of December 31, 2010 and 2009, there are Ps. 125,938 and Ps. 175,369, respectively, in restricted trading securities associated mainly with repurchase operations.

As of December 31, 2010, these investments mature as follows (stated at their acquisition cost):

	One year or less	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 years	Total
Government bonds- support program for Special Federal Treasury Certificates	Ps. —	Ps. —	Ps. —	Ps. 756	Ps. 756
Government bonds	578	—	—	—	578
Development Bonds	22,746	10,289	—	—	33,035
Saving protection bonds (BPAS)	32,683	39,143	—	—	71,826
UMS	—	516	1,761	—	2,277
Bank securities	11,554	1,559	—	817	13,930
PEMEX bonds	—	450	2,757	—	3,207
Private securitization certificates	1,205	5,245	1,933	5,153	13,536
Other securities	3	—	11	27	41
	<b>Ps. 68,769</b>	<b>Ps. 57,202</b>	<b>Ps. 6,462</b>	<b>Ps. 6,753</b>	<b>Ps. 139,186</b>

Some of the investments in securities are given as collateral in derivative transactions without any restriction. Therefore, the receiver has the right to trade them and offer them as collateral.

**d. Collateral**

The fair value of the collateral given in derivatives' transactions as of December 31, 2010 and 2009, is as follows:

Type of collateral:	Instrument category	2010		
		Fair value in millions		
		Pesos	USD	Euros
Cash	—	Ps. 155	243	—
CETES	Trading	232	—	—
UMS	Held to maturity	—	189	—
PEMEX bonds	Held to maturity	—	238	20
UMS	Available for sale	—	10	—
PEMEX bonds	Available for sale	—	58	—
Bank bonds	Available for sale	—	137	—
		<b>Ps. 387</b>	<b>875</b>	<b>20</b>
Type of collateral:	Instrument category	2009		
		Fair value in millions		
		Pesos	USD	Euros
Cash	—	Ps. 102	164	—
CETES	Trading	120	—	—
UMS	Held to maturity	—	167	—
PEMEX bonds	Held to maturity	—	353	20
UMS	Available for sale	—	13	—
PEMEX bonds	Available for sale	—	56	—
Bank bonds	Available for sale	—	116	—
		<b>Ps. 222</b>	<b>869</b>	<b>20</b>

[Table of Contents](#)

As of December 31, 2010 and 2009, the Financial Group had no instruments received as collateral.

As of December 31, 2010 and 2009, interest income from securities was Ps. 11,045 and Ps. 14,458, respectively.

During 2010 and 2009, accrued interest income not collected from impaired instruments was Ps. 2 and Ps. 13, respectively.

The amount recorded for impaired available for sale and held to maturity securities as of December 31, 2010 and 2009 was:

<b>Concept</b>	<b>2010</b>	<b>2009</b>
Available for sale securities	Ps. 24	Ps. 81
Held to maturity securities	59	59
	<b>Ps. 83</b>	<b>Ps. 140</b>

**7 - CREDITOR BALANCES UNDER REPURCHASE AND RESALE AGREEMENTS**

As of December 31, 2010 and 2009, the creditor balance in repurchase transactions consist of:

Acting as seller of securities

<b>Instrument</b>	<b>2010</b>	<b>2009</b>
CETES	Ps. 2,234	Ps. 697
Development bonds	36,298	36,159
Bonds IPAB	1,855	654
Quarterly IPAB bonds	83,137	86,513
Semi-annual IPAB bonds	26,350	25,587
10-year bonds	1,157	625
20-year bonds	5	491
UDIBONOS	1	1
10-year UDIBONDS	3	3
<b>Government securities</b>	<b>151,040</b>	<b>150,730</b>
Promissory notes	1,884	5,055
CEDES	3,749	9,035
CEBUR Bank	10,975	7,628
<b>Bank securities</b>	<b>16,608</b>	<b>21,718</b>
Private paper	7,005	9,114
CEBUR government short term	3,924	2,481
Mortgage certificates	170	212
CEBUR government	—	1,200
Securitization certificates	—	25
<b>Private securities</b>	<b>11,099</b>	<b>13,032</b>
	<b>Ps. 178,747</b>	<b>Ps. 185,480</b>

With the Financial Group acting as the vendor, accrued premiums charged to the results of operations during 2010 and 2009, totaled Ps. 10,913 and Ps. 13,434, respectively.

During 2010, repurchase transactions carried out by the Financial Group in its capacity as vendor ranged in term from 1 to 91 days.

[Table of Contents](#)

Acting as securities purchaser

Instrument	2010				2009			
	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference	Repurchase agreement from debtors	Received, sold collateral in repurchase	Debit difference	Credit difference
CETES	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 400	Ps. 400	Ps. —	Ps. —
Development bonds	50	50	—	—	7,113	7,114	1	2
Quarterly IPAB bonds	158	158	—	—	1	—	1	—
Semi-annual IPAB bonds	1,302	1,301	1	—	390	390	—	—
7-year bonds	—	—	—	—	—	—	—	—
10-year bonds	2,639	2,639	—	—	221	219	2	—
20-year bonds	2,239	2,239	—	—	73	73	—	—
10-year UDIBONDS	—	—	—	—	1,120	1,120	—	—
<b>Government securities</b>	<b>6,388</b>	<b>6,387</b>	<b>1</b>	<b>—</b>	<b>9,318</b>	<b>9,316</b>	<b>4</b>	<b>2</b>
Promissory notes	964	964	—	—	1,785	1,785	—	—
CEDES	3,453	3,446	7	—	—	—	—	—
Bank acceptances	3,050	3,050	—	—	—	—	—	—
<b>Bank securities</b>	<b>7,467</b>	<b>7,460</b>	<b>7</b>	<b>—</b>	<b>1,785</b>	<b>1,785</b>	<b>—</b>	<b>—</b>
Private paper	657	86	571	—	—	—	—	—
CEBUR government	1,510	1,517	4	11	—	—	—	—
<b>Private securities</b>	<b>2,167</b>	<b>1,603</b>	<b>575</b>	<b>11</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
	<b>Ps. 16,022</b>	<b>Ps. 15,450</b>	<b>Ps. 583</b>	<b>Ps. 11</b>	<b>Ps. 11,103</b>	<b>Ps. 11,101</b>	<b>Ps. 4</b>	<b>Ps. 2</b>

With the Financial Group acting as the purchaser, accrued premiums charged to the results of operations during 2010 and 2009 totaled Ps. 2,121 and Ps. 2,173, respectively.

During 2010, repurchase transactions carried out by the Financial Group in its capacity as purchaser ranged in term from 1 to 354 days.

By December 31, 2010, the amount of securities corresponding to guarantees granted and received in repurchase transactions that involved the transfer of property totaled Ps. 3 and Ps. 46, respectively, and by December 31, 2009, the totals were Ps. 120 in guarantees granted and Ps. 4 in guarantees received.

**8 - DERIVATIVES FINANCIAL INSTRUMENTS**

The transactions carried out by the Financial Group involving derivatives correspond mainly to futures, swaps and options contracts. These transactions are done to hedge various risks and for trading purposes.

As of December 31, 2010, the Financial Group has evaluated the effectiveness of derivatives' transactions for hedging purposes and has concluded that they are highly effective.

As of December 31, 2010 and 2009, the Financial Group's derivatives positions held for trading purposes are as follows:

[Table of Contents](#)

Asset position	2010		2009	
	Nominal amount	Asset position	Nominal amount	Asset position
<b>Futures</b>				
CETES-rate futures	Ps. 500	Ps. —	Ps. —	Ps. —
TIEE-rate futures	160,469	—	600	—
<b>Forwards</b>				
Foreign currency forwards	135	72	3,454	313
<b>Options</b>				
Foreign currency options	—	—	283	2
Interest rate options	16,493	257	8,485	126
<b>Swaps</b>				
Interest rate swaps	289,938	6,106	194,317	2,612
Exchange rate swaps	5,328	1,028	7,377	1,771
<b>Total trading</b>	<b>472,863</b>	<b>7,463</b>	<b>214,516</b>	<b>4,824</b>
<b>Options</b>				
Interest rate options	15,550	80	24,200	188
<b>Swaps</b>				
Interest rate swaps	28,940	4	27,648	8
Exchange rate swaps	7,496	512	9,996	860
<b>Total hedging</b>	<b>51,986</b>	<b>596</b>	<b>61,844</b>	<b>1,056</b>
<b>Total position</b>	<b>Ps. 524,849</b>	<b>Ps. 8,059</b>	<b>Ps. 276,360</b>	<b>Ps. 5,880</b>

Liability position	2010		2009	
	Nominal amount	Liability position	Nominal amount	Liability position
<b>Futures</b>				
CETES-rate futures	Ps. 500	Ps. —	Ps. —	Ps. —
TIEE-rate futures	160,469	—	600	—
<b>Forwards</b>				
Foreign currency forwards	115	2	2,825	88
<b>Options</b>				
Foreign currency options	60	1	287	2
Interest rate options	30,559	272	9,168	71
<b>Swaps</b>				
Interest rate swaps	289,954	6,106	194,340	2,713
Exchange rate swaps	5,273	857	7,322	1,679
<b>Total trading</b>	<b>486,930</b>	<b>7,238</b>	<b>214,542</b>	<b>4,553</b>
<b>Swaps</b>				
Interest rate swaps	28,940	2,043	27,650	980
Exchange rate swaps	3,921	1,456	4,146	2,842
<b>Total hedging</b>	<b>32,861</b>	<b>3,499</b>	<b>31,796</b>	<b>3,822</b>
<b>Total position</b>	<b>Ps. 519,791</b>	<b>Ps. 10,737</b>	<b>Ps. 246,338</b>	<b>Ps. 8,375</b>

The hedging instruments operated and their main underlying instruments are as follows:

Forwards	Options	Swaps	CCS
Fx-USD	Fx-USD	TIEE 28	TIEE 28
	TIEE 28	TIEE 91	TIEE 91
	TIEE 91	CETES 91	Libor
	Libor	Libor	

[Table of Contents](#)

The risk management policies and internal control procedures for managing risks inherent to derivatives are described in Note 32.

Transactions carried out for hedging purposes have maturities from 2011 to 2030 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial Group at fixed nominal rates, as well as the exchange rate risk generated by market instruments in the Financial Group's portfolio.

The book value of collateral used to ensure compliance with obligations derived from currency swap contracts as of December 31, 2010 is USD 632,002 thousand and EUR 20,326 thousand, and as of December 31, 2009 it was USD 704,841 thousand and EUR 20,255 thousand. Futures transactions are made through recognized markets, and as of December 31, 2010 they represent 0.10% of the nominal amount of all the derivatives' operations contracts; the remaining 99.90% correspond to option and swap transactions in OTC markets.

As of December 31, 2010 and 2009, the collateral was comprised mainly of cash, CETES, ITS BPAS, PEMEX bonds, UMS bonds and bank bonds restricted under the categories of trading, held to maturity and available for sale securities. The restriction maturity date for this collateral is from 2011 to 2030. Their fair value is shown in Note 6 d).

As of December 31, 2010 and 2009, the Financial Group had no instruments received as collateral in derivatives' transactions.

During 2010 and 2009, the net income on financial assets and liabilities associated with derivatives was Ps. 252 and Ps. 200, respectively.

The net amount of estimated gains or losses to date originated by transactions or events that are recorded in cumulative other comprehensive income in the consolidated financial statements and that are expected to be reclassified to earnings within the next 12 months totals Ps. 48.

As of December 31, 2010 and 2009, the main positions hedged by the Financial Group and the derivatives designated to cover such positions are:

*Cash flow hedging*

The Financial Group has cash flow hedges as follows:

- Forecast funding using THIE rate Caps and Swaps.
- Recorded liabilities in Mexican pesos using THIE rate Swaps.
- Recorded liabilities in foreign currency using Cross Currency Swaps.
- Recorded assets in foreign currency using Cross Currency Swaps.

As of December 31, 2010, there are 27 files related to hedging transactions. Their effectiveness ranges between 85% and 100%, well within the range established by the accounting standards in effect (80% to 125%). Furthermore, there is no overhedging on any of the derivatives, so as of December 31, 2010, there are no ineffective portions that the Financial Group has to record in earnings.

The following are the Financial Group's hedged cash flows as of December 31, 2010 expected to occur and affect earnings:

Concept	Up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years
Forecasted funding	Ps. 254	Ps. 800	Ps. 3,883	Ps. 1,316
Liabilities in Mexican pesos	111	337	983	19
Liabilities denominated in USD	—	3,932	—	—
Assets denominated in USD	360	378	2,510	7,645
Assets denominated in Euros	—	21	373	—
	<b>Ps. 725</b>	<b>Ps. 5,468</b>	<b>Ps. 7,749</b>	<b>Ps. 8,980</b>

[Table of Contents](#)

As of December 31, 2010 and 2009, Ps. 2,114 and Ps. 1,404, respectively, were recognized in other comprehensive income in stockholders' equity. Furthermore, Ps. 43 and Ps. 127, respectively, were reclassified from stockholders' equity to results.

Trading and hedging derivatives: the loan risk is minimized through means of contractual compensation agreements, in which asset and liability derivatives with the same counterparty are settled for their net balance. Similarly, there may be other types of collateral such as credit lines, depending on the counterparty's solvency and the nature of the transaction.

The following table shows the value of cash flow hedging comprehensive income:

	Valuation of cash flow hedging instruments		Net change in period		Reclassified to income	
Balance, January 1, 2007	Ps.	(58)	Ps.	—	Ps.	—
Balance, December 31, 2007	Ps.	(308)	Ps.	(250)	Ps.	—
Balance, December 31, 2008	Ps.	(1,567)	Ps.	(1,259)	Ps.	18
Balance, December 31, 2009	Ps.	(1,394)	Ps.	173	Ps.	47
Balance, December 31, 2010	Ps.	(2,114)	Ps.	(720)	Ps.	42

## 9 - LOAN PORTFOLIO

As of December 31, 2010 and 2009, the loan portfolio by loan type is as follows:

	Performing loan portfolio		Past-due loan portfolio		Total	
	2010	2009	2010	2009	2010	2009
<b>Commercial loans</b>						
Denominated in domestic currency						
Commercial	Ps. 99,851	Ps. 90,189	Ps. 3,765	Ps. 2,325	Ps. 103,616	Ps. 92,514
Rediscounted portfolio	5,377	4,831	—	—	5,377	4,831
Denominated in USD						
Commercial	20,581	21,471	652	838	21,233	22,309
Rediscounted portfolio	674	746	—	—	674	746
<b>Total commercial loans</b>	<b>126,483</b>	<b>117,237</b>	<b>4,417</b>	<b>3,163</b>	<b>130,900</b>	<b>120,400</b>
Loans to financial institutions	5,521	7,131	—	—	5,521	7,131
<b>Consumer loans</b>						
Credit card	11,159	11,801	1,040	1,610	12,199	13,411
Other consumer loans	16,669	13,911	236	332	16,905	14,243
Mortgage loans	56,168	49,881	971	1,049	57,139	50,930
Government loans	47,550	38,993	—	—	47,550	38,993
	<b>137,067</b>	<b>121,717</b>	<b>2,247</b>	<b>2,991</b>	<b>139,314</b>	<b>124,708</b>
<b>Total loan portfolio</b>	<b>Ps. 263,550</b>	<b>Ps. 238,954</b>	<b>Ps. 6,664</b>	<b>Ps. 6,154</b>	<b>Ps. 270,214</b>	<b>Ps. 245,108</b>

As of December 31, 2010, the deferred balance of fees is Ps. 1,623, and the amount recorded in results was Ps. 654. Furthermore, the deferred balance of costs and expenses associated with the initial loan origination is Ps. 328, and the amount recorded in results was Ps. 386. The average term over which the deferred fee balance and the costs and expenses will be recorded is equivalent to the average term of the portfolio balance.

## [Table of Contents](#)

The average terms of the portfolio's main balances are: a) commercial, 3 years; b) financial institutions, 3.2 years; c) mortgage, 17.7 years; d) government loans, 8.1 years; and e) consumer, 2.5 years.

During the years ended December 31, 2010 and 2009, the balance of written off loans that had been fully reserved as past-due loans was Ps. 5,551 and Ps. 8,278, respectively.

For the years ended December 31, 2010 and 2009, revenues from recoveries of previously written-off loan portfolios were Ps. 1,561 and Ps. 848, respectively.

Customer insurance policies that the Financial Group includes as part of the loan portfolio are car insurance; the rest of the policies are not recorded in the general balance sheet and are collected when the loan amortization is charged to the client. The amount of financed car insurance policies by December 31, 2010 and 2009 is Ps. 23 and Ps. 14, respectively.

The loan portfolio grouped into economic sectors as of December 31, 2010 and 2009, is shown below:

	2010		2009	
	Amount	Reserve percentage	Amount	Reserve percentage
Private (companies and individuals)	Ps. 130,900	48.44%	Ps. 120,400	49.12%
Financial institutions	5,521	2.04%	7,131	2.91%
Credit card and consumer	29,104	10.77%	27,654	11.28%
Mortgage	57,139	21.15%	50,930	20.78%
Government	47,550	17.60%	38,993	15.91%
	<b>Ps. 270,214</b>	<b>100%</b>	<b>Ps. 245,108</b>	<b>100%</b>

### **Loan support programs**

#### Special accounting treatment for the Hurricane Alex flood aid program

Given the negative impact of the floods caused by Hurricane Alex, the Financial Group decided to assist in the region's economic recovery; this includes the states of Nuevo León, Coahuila, Tamaulipas, San Luis Potosí and Oaxaca. The support program included the following:

Car, credit card and consumer loan support consisting of:

- Car loans. Deferral of up to three monthly installments or freezing of balances with no interest charged for three months.
- Credit cards. Minimum monthly payment was waived for up to three months, and in some case balances were frozen without interest charges or penalties for such period.
- Personal and payroll loans. Capital and interest payment deferral for up to 3 months.

In that regard, the Commission issued a special accounting standard in document number 100/042/2010 applicable to the Financial Group from July 1 to September 30, 2010, which authorized the Financial Group not to consider as restructured loans the ones which payment of the principal and interest was deferred for three months according to the Plan, as per paragraph 24 of criterion B-6 "Loan portfolio" and to keep them in the current loans during such period. These loans were considered as performing loans to determine the allowance for loan losses.

If such special standards had not been authorized, the Financial Group would have presented the following loan amounts in the December 31, 2010 consolidated balance sheet:



[Table of Contents](#)

**PERFORMING LOAN PORTFOLIO**

Commercial loans	
Business loans	Ps. 126,482
Loans to financial institutions	5,521
Government loans	47,550
Consumer loans	27,825
Mortgage loans	56,168
<b>TOTAL PERFORMING LOAN PORTFOLIO</b>	<b>263,546</b>

**PAST-DUE LOAN PORTFOLIO**

Commercial loans	
Business loans	4,417
Consumer loans	1,280
Mortgage loans	971
<b>TOTAL PAST-DUE LOAN PORTFOLIO</b>	<b>6,668</b>

**LOAN PORTFOLIO**

(Minus) Allowance for loan losses	(8,256)
<b>LOAN PORTFOLIO, net</b>	<b>261,958</b>
<b>ACQUIRED COLLECTION RIGHTS</b>	<b>2,025</b>
<b>TOTAL LOAN PORTFOLIO, net</b>	<b>Ps. 263,983</b>

Moreover, the period's net income would have been Ps. 6,693 as a result of the additional Ps. 12 in allowance for loan losses that would have been created if such support had not been provided to the borrowers.

The amount of deferred payments from consumer loans derived from the plans as of December 31, 2010 totals Ps. 6.

**Policies and Procedures for Granting Loans**

The granting, control and recovery of loans is regulated by the Financial Group's Credit Manual, which has been authorized by the Board of Directors. Accordingly, administrative portfolio control is performed in the following areas:

- I. Business Areas (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network
- II. Operations Areas
- III. General Comprehensive Risk Management
- IV. Recovery Management

Similarly, the Financial Group has manuals establishing the policies and procedures to be utilized for credit risk management purposes.

The structure of the credit management process is based on the following stages:

- a) Product design
- b) Promotion
- c) Evaluation
- d) Formalization
- e) Operation
- f) Administration
- g) Recovery

Procedures have also been implemented to ensure that amounts related to the past-due portfolio are timely transferred and recorded in the books and records, and those loans with recovery problems are properly and promptly identified.

[Table of Contents](#)

Pursuant to the Commission’s Circular B-6, “Loan Portfolio”, the distressed portfolio is defined as the commercial loans which, based on the current information and facts as well as on the loan revision process, are very unlikely to be fully recovered (both principal and interest) pursuant to the original terms and conditions. The performing and past-due portfolios are susceptible to be identified as a distressed portfolio. The commercial loan rating D and E risk degrees are as follows:

	2010		2009	
Performing portfolio	Ps.	2,283	Ps.	1,373
Total rated portfolio		279,798		253,660
Distressed portfolio/total rated portfolio		0.82%		0.54%

The Financial Group’s Treasury Department is the central unit responsible for balancing resource requirements and eliminating the interest rate risk derived from fixed rate transactions through the use of hedging and arbitrage strategies.

**10 - LOANS RESTRUCTURED IN UDIS**

The loans restructured in UDIS correspond to mortgage loans. The balance as of December 31, 2010 and 2009 is detailed below:

	2010		2009	
Current portfolio	Ps.	45	Ps.	542
Current accrued interest		—		2
Past-due portfolio		1		14
Past-due accrued interest		—		1
	<b>Ps.</b>	<b>46</b>	<b>Ps.</b>	<b>559</b>

**Early termination of mortgage loan borrower support programs**

On June 30, 2010 the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (punto final and UDIS trusts) (the Agreement) consequently as of January 1, 2011 the Financial Group absorbed its part of the early discount granted to mortgage loan debtors participating in the program. As of December 31, 2010, the Financial Group recorded a Ps. 57 reserve to face such obligation.

Below are some of the effects of applying the Agreement that went into effect as of the signing date.

The total amount of Federal Government payment obligations for commercial loans as of December 31, 2010 (Cut-off Date) is Ps. 140, which includes Ps. 138 associated with the conditioned discount portion from loans in Mexican pesos and UDIS; and Ps. 2 associated with the discount applied to those mentioned in number 3.1.2 of Circular 1430. Such amount may vary if there are no indications of sustained payment by March 31, 2011 as per the Agreement.

The Federal Government obligations subject to the Agreement are described below:

	Payment date	Amount	
First amortization	December 1, 2011	Ps.	28
Second amortization	June 1, 2012		28
Third amortization	June 1, 2013		28
Fourth amortization	June 1, 2014		28
Fifth amortization	June 1, 2015		28
		<b>Ps.</b>	<b>140</b>

[Table of Contents](#)

A monthly financial cost is incorporated to each amortization as of the day following the Cut-off Date and up to the close of the month prior to each payment date. The rate for January 2011 is the arithmetic average of the annual rate of return based on the 91-day CETES discount issued in December 2010, and for the subsequent months the 91-day future CETES rate of the previous month as published by Proveedor Integral de Precios, S.A. on the business day after the Cut-off Date, or that of the nearest month contained in said publication, taken on a 28-day return term, then dividing the resulting rate by 360 and multiplying the result by the number of days effectively elapsed during the period it is accrued, capitalized on a monthly basis.

A rollforward of the allowance for loan losses for the loans included in the Agreement is detailed below:

	2010
Initial balance	Ps. 19
Financial Group support	67
Debt forgiveness, discounts and write-offs	14
Reserves reclassification	(9)
Contribution to settle fiduciary liability	1
<b>Final balance</b>	<b>Ps. 92</b>

The maximum amount the Financial Group would absorb for loans not susceptible to the Early Termination program and that would be entitled to the discount benefits program is Ps. 14.

Ps. 13 were used to repurchase Special Federal Treasury Certificates (CETES); the remaining balance of Special CETES not repurchased by the Federal Government is Ps. 760 with maturities between 2017 and 2027.

The Financial Group recognized Ps. 330 as an allowance for loan losses and Ps. 56 in deferred taxes as a result of terminating the Trusts.

**11 - ALLOWANCE FOR LOAN LOSSES**

The Financial Group's portfolio classification, which serves as the basis for recording the allowance for loan losses, is detailed below:

Risk category	2010				
	Loan portfolio	Required allowances for losses			Total
	Ps.	Commercial portfolio	Consumer portfolio	Mortgage portfolio	Ps.
Exempted portfolio	107	—	—	—	—
Risk A	66,862	—	75	181	256
Risk A1	115,479	576	—	—	576
Risk A2	65,389	621	—	—	621
Risk B	6,711	—	115	168	283
Risk B1	6,824	101	391	—	492
Risk B2	7,628	51	468	—	519
Risk B3	2,684	274	—	—	274
Risk C	1,944	—	628	92	720
Risk C1	968	219	—	—	219
Risk C2	1,190	552	—	—	552
Risk D	1,992	227	873	317	1,417
Risk E	2,240	1,919	326	—	2,245
Unclassified	(220)	—	—	—	—
	<b>Ps. 279,798</b>	<b>Ps. 4,540</b>	<b>Ps. 2,876</b>	<b>Ps. 758</b>	<b>Ps. 8,174</b>
<b>Less: recorded allowance</b>					<b>8,245</b>
<b>Additional allowance</b>					<b>Ps. 71</b>

[Table of Contents](#)

Risk category	2009						
	Loan portfolio		Required allowances for losses			Total	
	Ps.		Commercial portfolio	Consumer portfolio	Mortgage portfolio		Ps.
Exempted portfolio	56	Ps.	—	Ps.	—	Ps.	—
Risk A	58,169		—	63	159		222
Risk A1	106,990		495	—	—		495
Risk A2	57,118		520	—	—		520
Risk B	6,269		—	102	184		286
Risk B1	5,700		74	266	—		340
Risk B2	8,249		84	509	—		593
Risk B3	2,579		269	—	—		269
Risk C	2,494		—	795	132		927
Risk C1	1,404		301	—	—		301
Risk C2	803		380	—	—		380
Risk D	2,592		245	1,356	264		1,865
Risk E	1,272		1,008	272	—		1,280
Unclassified	(35)		—	—	—		—
	<b>Ps. 253,660</b>		<b>Ps. 3,376</b>	<b>Ps. 3,363</b>	<b>Ps. 739</b>		<b>Ps. 7,478</b>
<b>Less: recorded allowance</b>							<b>7,535</b>
<b>Additional allowance</b>							<b>Ps. 57</b>

The sum of the rated loan portfolio includes Ps. 6,124 and Ps. 5,114 in loans granted to subsidiaries whose balance was eliminated in the consolidation process as of December 31, 2010 and 2009, respectively.

The total portfolio balance used as the basis for the classification above includes amounts related to credit commitments, which is recorded in memorandum accounts.

The additional allowances comply with the general provisions applicable to credit institution and the notices issued by the Commission to regulate debtor support programs, denominated in UDIS trusts.

As of December 31, 2010 and 2009, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2010 and 2009, the allowance for loan losses includes a reserve for 100% of the delinquent interest owed.

As of December 31, 2010 and 2009, the allowance for loan losses represents 124% and 122%, respectively, of the past-due portfolio.

The estimated allowance includes the classification of loans granted in foreign currency, which are evaluated at the exchange rate in effect as of December 31, 2010 and 2009.

**Credit card rating**

Changes in the rating methodology for consumer loan portfolio related to credit card transactions

On August 12, 2009 the Commission issued a resolution amending the general regulations applicable to banking institutions, this change modified the methodology for the classification of revolving consumer loans so that the parameters used for estimating loan loss reserves reflect, the expected 12 months losses of credit cards based on the current environment.

As a result of this modification, the Financial Group opted to recognize against the results of previous years the initial cumulative financial effect resulting from the first application of the provisions mentioned under section I of the second transitory article. This condition occurred in September 2009.

The accounting record originated in the Financial Group for this recognition led to a charge of Ps. 1,102 in the account “Retained earnings” within stockholders’ equity, against claims by the same amount to the account

[Table of Contents](#)

“Allowance for loan loss reserves” within the loan portfolio item in the balance sheet. Furthermore, a deferred tax was registered to reflect the change through a charge of Ps. 419 in the asset account “Deferred Taxes” in the balance sheet, against a credit in the account “Retained earnings” within stockholders’ equity.

If the recognition of the abovementioned effect would have been made against earnings, the items affected and the amounts recorded and presented at both the balance sheet and the income statement of the Financial Group, would have been:

		<u>Effect</u>	<u>How would be presented</u>
<b>Consolidated Balance Sheet</b>			
<b>Stockholders’ equity</b>			
Retained earnings from prior years	Ps. 20,681	Ps. 683	Ps. 21,364
Net income	5,854	(683)	5,171
<b>Total stockholders’ equity</b>	<b>Ps. 44,974</b>	<b>Ps. —</b>	<b>Ps. 44,974</b>
<b>Consolidated Statement of Income</b>			
Provision for loan losses	8,286	1,102	9,388
<b>Net interest income after allowance for loan losses</b>	<b>14,897</b>	<b>(1,102)</b>	<b>13,795</b>
Deferred income taxes, net	(535)	(419)	(954)
<b>Net income</b>	<b>Ps. 5,854</b>	<b>Ps. (683)</b>	<b>Ps. 5,171</b>

**Movements in allowance for loan losses**

An analysis of the movements in allowance for loan losses is detailed below:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	Ps. 7,535	Ps. 6,690
Increase charged to results	6,841	8,208
Debt forgiveness and write-offs	(6,066)	(8,464)
Valuation in foreign currencies and UDIS	(18)	(19)
Rebates granted to housing debtors	(70)	(46)
Created with profit margin (UDIS Trusts)	34	59
Loan purchase	2	—
Recognized against retained earnings from prior years	—	1,136
Other	(13)	(29)
<b>Year-end balance</b>	<b>Ps. 8,245</b>	<b>Ps. 7,535</b>

As of December 31, 2010, the net amount of preventive loan loss reserves charged to the consolidated statement of income totals Ps. 6,889 and Ps. 14 charged to “Other revenues”. These amounts charged to results are made up of Ps. 6,841 credited directly to the estimate and Ps. 34 from the UDIS trust. As of December 31, 2009, the net amount of preventive loan loss reserves charged to the consolidated statement of income totals Ps. 8,282 and is comprised of Ps. 8,286 directly credited to the estimate and Ps. 4 charged to “Other revenues”.

**12 - ACQUIRED COLLECTION RIGHTS**

As of December 31, 2010 and 2009, the acquired collection rights are comprised as follows:

	<b>2010</b>		<b>2009</b>		<b>Valuation Method</b>
Bancomer IV	Ps.	360	Ps.	456	Cash Basis Method
Banamex Mortgage		262		302	Cash Basis Method
Serfin Mortgage		126		160	Cash Basis Method
Bital I		121		171	Cash Basis Method
Bancomer III		111		125	Cash Basis Method
Goldman Sach's		98		145	Cash Basis Method
Banorte Mortgage		158		196	Interest Method
Solida Mortgage		382		473	Cost Recovery Method
Serfin Commercial II		95		105	Cost Recovery Method
Serfin Commercial I		81		92	Cost Recovery Method
Confia I		72		80	Cost Recovery Method
GMAC Banorte		60		66	Cost Recovery Method
Bital II		58		72	Cost Recovery Method
Banorte Sólida Commercial		34		35	Cost Recovery Method
Cartera Segmento II		7		—	Cost Recovery Method
Santander		—		70	Interest Method (Commercial); Cash Basis Method (Mortgage)
	<b>Ps.</b>	<b>2,025</b>	<b>Ps.</b>	<b>2,548</b>	

As of December 31, 2010, the Financial Group recognized income from credit asset portfolios of Ps. 595, together with the respective amortization of Ps. 482, the effects of which were recognized under the "Other income" heading in the consolidated statement of income. For the year ended December 31, 2009, the Financial Group recognized income of Ps. 718, together with the respective amortization of Ps. 448.

The Financial Group performs an analysis based on events or information to estimate the amount of expected cash flows to determine the estimated rate of return used in applying the valuation method for the amortization of the receivable. If based on current events information, the analysis demonstrates that the expected future cash flows will decrease to the degree that they will not cover the book value, it will constitute an estimate for non-recoverability or difficult collection against the year's results for the amount that such expected cash flows are lower than the book value of the receivable.

The result of the expected cash flows of the portfolios Serfin Commercial I, GMAC Banorte, Bital II Solida Mortgage, Serfin Commercial II and Cartera Segmento II were not highly effective since the quotient resulting from dividing the flows collected by the sum of expected cash flows was below 0.8. As a result, the Financial Group decided to move these portfolios to the cost recovery method.

Assets other than cash that the Financial Group has received as part of portfolio collection or recovery have been mainly in real property.

The main feature considered for segmenting acquired portfolios has been the type of loan.

[Table of Contents](#)

**13 - OTHER ACCOUNTS RECEIVABLE, NET**

As of December 31, 2010 and 2009, the other accounts receivable balance is as follows:

	<u>2010</u>	<u>2009</u>
Loans to officers and employees	Ps. 1,211	Ps. 1,134
Debtors from liquidation settlement	909	2,706
Real property portfolios	1,864	1,183
Fiduciary rights	4,778	4,104
Sundry debtors in Mexican pesos	1,838	1,182
Sundry debtors in foreign currency	321	928
Other	419	380
	<u>11,340</u>	<u>11,617</u>
Allowance for doubtful accounts	(476)	(293)
	<u>Ps. 10,864</u>	<u>Ps. 11,324</u>

The real property portfolios include Ps. 301 that corresponds to the collection rights of the INVEX trust that is valued applying the interest method.

Loans to officers and employees mature in 2 to 30 years and accrue interest at a 6% to 10% rate.

**14 - FORECLOSED ASSETS, NET**

As of December 31, 2010 and 2009, the foreclosed assets balance is as follows:

	<u>2010</u>	<u>2009</u>
Personal property	Ps. 64	Ps. 67
Real property	1,107	1,230
Goods pledged for sale	18	14
	<u>1,189</u>	<u>1,311</u>
Allowance for losses on foreclosed assets	(380)	(383)
	<u>Ps. 809</u>	<u>Ps. 928</u>

**15 - PROPERTY, FURNITURE AND EQUIPMENT, NET**

As of December 31, 2010 and 2009, the property, furniture and fixtures balance is as follows:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	Ps. 5,777	Ps. 5,207
Property intended for offices	5,530	5,272
Installation costs	2,888	2,750
	<u>14,195</u>	<u>13,229</u>
Less - Accumulated depreciation and amortization	(4,879)	(4,607)
	<u>Ps. 9,316</u>	<u>Ps. 8,622</u>

The depreciation recorded in the results of 2010 and 2009 was Ps. 1,121 and Ps. 997, respectively.

[Table of Contents](#)

The average estimated useful lives of the Financial Group's assets subject to depreciation are listed below:

	Useful Life
Transportation equipment	4 years
Computer equipment	4.7 years
Furniture and fixtures	10 years
Real estate	From 4 to 99 years

**16 - PERMANENT STOCK INVESTMENTS**

Investment in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	Share %	2010		2009	
Seguros Banorte Generali, S. A. de C. V.	51%	Ps. 1,243	Ps. 1,209		
Fondo Solida Banorte Generali, S. A. de C. V., SIEFORE	99%	843	719		
Pensiones Banorte Generali, S. A. de C. V.	51%	524	518		
Banorte Investment funds	Various	129	121		
Controladora Prosa, S. A. de C. V.	19.73%	46	49		
Servicio Pan Americano de Protección, S. A. de C. V.	8.50%	—	115		
Transporte Aéreo Técnico Ejecutivo, S. A. de C. V.	45.33%	42	72		
Fideicomiso Marhnos (Sólida)	100%	156	156		
Internacional de Inversiones (Sólida)	5.62%	95	—		
Others	Various	52	77		
		<b>Ps. 3,130</b>	<b>Ps. 3,036</b>		

The Financial Group exercises significant influence over its affiliates valued under the equity method through its representation in the board of directors or equivalent management body, as well as through significant intercompany transactions.

**17 - DEFERRED TAXES, NET**

The tax reported by the Financial Group is calculated based on the current taxable result of the year and enacted tax regulations. However, due to temporary differences between accounting and tax balance sheet accounts, the Financial Group has recognized a recoverable net deferred tax asset of Ps. 1,340 and Ps. 1,411 as of December 31, 2010 and 2009, respectively, as detailed below:

	Temporary Differences	2010			2009		
		Deferred Effect		Temporary Differences	Deferred Effect		
Temporary Differences Assets		ISR	PTU			ISR	PTU
Allowance for loan losses	Ps. 339	Ps. 119	Ps. —	Ps. 315	Ps. 110	Ps. —	
Tax loss carryforwards of Uniteller and Banorte USA	11	4	—	—	—	—	
Tax loss carryforwards	5	2	—	(72)	(25)	—	
State tax on deferred assets	10	3	—	6	2	—	
Surplus preventive allowances for credit risks over the net tax limit	5,526	1,548	552	4,757	1,332	476	
Excess of tax over book value of foreclosed and fixed assets	1,361	374	60	1,132	308	52	
PTU	798	239	80	775	232	77	
Fees collected in advance	20	6	2	—	—	—	
Non-deductible provisions	1,390	417	131	—	—	—	
Other assets	46	13	—	1,422	427	135	
<b>Total assets</b>	<b>Ps. 9,506</b>	<b>Ps. 2,725</b>	<b>Ps. 825</b>	<b>Ps. 8,335</b>	<b>Ps. 2,386</b>	<b>Ps. 740</b>	



[Table of Contents](#)

	2010			2009		
	Temporary Differences	Deferred Effect		Temporary Differences	Deferred Effect	
		ISR	PTU		ISR	PTU
<b>Temporary Differences_ Liabilities</b>						
Excess of book over tax value of fixed assets and expected expenses	Ps. 33	Ps. 10	Ps. —	Ps. 16	Ps. 4	Ps. —
Unrealized loss in available-for-sale securities	75	26	—	—	—	—
Unrealized capital gain from special allowance	170	51	—	125	38	—
ISR payable on UDI trusts	22	6	—	145	40	—
Portfolios acquired	2,126	617	110	2,302	655	111
Capitalizable projects expenses	706	211	71	528	159	53
Reversal of sales costs	8	3	—	16	4	—
Contribution to pension fund	2,000	560	200	1,500	420	150
Federal Home Loan Bank dividends	4	1	—	—	—	—
Intangible assets	64	22	—	—	—	—
Other	953	276	46	260	81	—
<b>Total liabilities</b>	<b>Ps. 6,161</b>	<b>Ps. 1,783</b>	<b>Ps. 427</b>	<b>Ps. 4,892</b>	<b>Ps. 1,401</b>	<b>Ps. 314</b>
<b>Net accumulated asset</b>	<b>Ps. 3,345</b>	<b>Ps. 942</b>	<b>Ps. 398</b>	<b>Ps. 3,443</b>	<b>Ps. 985</b>	<b>Ps. 426</b>
<b>Deferred tax, net</b>			<b>Ps. 1,340</b>			<b>Ps. 1,411</b>

As discussed in Note 27, as of January 1, 2010 and up to December 31, 2012, the applicable income tax rate is 30% and it will be 29% in 2013. Pursuant to the provisions of NIF D-4, “Incomes Taxes”, and INIF 8, “Effects of the Business Flat Tax”, based on financial forecasts, the Financial Group adjusted their balances based on the rates likely to be in effect at the time of their recovery. Additionally, they made forecasts for the IETU and compared it to ISR, and concluded that they will continue to pay ISR. Thus no change was made to the deferred tax calculations.

Banorte USA’s deferred tax assets and liabilities are determined using the liability method. According to this method, the net asset of deferred taxes is determined based on the tax effects of temporary differences between the book and tax base of assets and liabilities. Due to the consolidation of Banorte USA, a net amount of Ps. 38 was added to deferred taxes determined at a rate of 35% as per the tax law of the USA.

**18 - OTHER ASSETS**

As of December 31, 2010 and 2009, other assets are as follows:

	2010		2009	
Plan assets held for employee pension plans and savings fund	Ps. 5,303	Ps. 4,255		
Other amortizable expenses	2,343	2,200		
Accumulated amortization of other expenses	(188)	(93)		
Goodwill	2,950	3,121		
	<b>Ps. 10,408</b>	<b>Ps. 9,483</b>		

As of December 31, 2010, the balance of the investments related to provisions for staff pensions and savings fund, is comprised of Ps. 3,827, which corresponds to the defined benefit pension plan, seniority premiums and medical expenses for retirees, Ps. 1,283 for the voluntary defined contribution plan “secure your future” and Ps. 193 for the savings fund. As of December 31, 2009, this balance is comprised of Ps. 3,115 for the defined benefit pension plan, seniority premiums and medical expenses for retirees and Ps. 1,140 for the voluntary defined contribution plan “secure your future” (see Note 23).

[Table of Contents](#)

As of December 31, 2010, goodwill was Ps. 2,950 and was comprised of the following: Ps. 28 for the purchase of Banorte Generali, S.A. de C.V., AFORE; Ps. 2,682 for the purchase of INB and Ps. 240 for the purchase of Uniteller. As of December 31, 2009, the goodwill was Ps. 3,121 and was comprised as follows: Ps. 29 for the purchase of Banorte Generali, S.A. de C.V., AFORE; Ps. 2,838 for the purchase of INB; and Ps. 254 for the purchase of Uniteller. As mentioned in Note 4, goodwill is not amortized and is subject to annual impairment tests. No impairment to goodwill value was noted as of December 31, 2010 and 2009.

**19 - DEPOSITS**

**Liquidity Coefficient**

The “Investment regime for transactions in foreign currency and conditions to be fulfilled during the term of transactions in such currency”, designed for credit institutions by Banco de México, establishes the mechanism for determining the liquidity coefficient of liabilities denominated in foreign currency.

In accordance with such regime, during 2010 and 2009 the Financial Group generated a liquidity requirement of USD 498,373 thousand and USD 755,917 thousand, respectively, and held investments in liquid assets of USD 1,069,131 thousand and USD 1,230,740 thousand, representing a surplus of USD 570,758 thousand and USD 474,823 thousand, respectively.

**Deposits**

The liabilities derived from traditional deposits are made up as follows:

	<u>2010</u>	<u>2009</u>
<b>Immediately due and payable deposits</b>		
<b>Checking accounts earning no interest:</b>		
Cash deposits	Ps. 65,583	Ps. 59,334
Checking accounts in US dollars for individual residents of the Mexican border	637	662
Demand deposits accounts	5,125	4,142
<b>Checking accounts earning interest:</b>		
Other bank checking deposit	34,178	35,395
Savings accounts	262	268
Checking accounts in US dollars for individual residents of the Mexican border	1,615	2,055
Demand deposits accounts	42,417	35,705
IPAB checking accounts	—	20
	<b>Ps. 149,817</b>	<b>Ps. 137,581</b>
	<u>2010</u>	<u>2009</u>
<b>Time deposits</b>		
<b>General public:</b>		
Fixed term deposits	Ps. 25,299	Ps. 25,711
Over the counter investments	43,677	49,156
Promissory note with interest payable at maturity (PRLV) primary market for individuals	61,835	57,819
PRLV primary market for business entities	1,644	1,195
Foreign residents deposits	28	83
Provision for interest	190	177
	<b>132,673</b>	<b>134,141</b>
<b>Money market:</b>		
Fixed-term deposits	2,648	459
Over the counter promissory notes	2,208	1,430
Provision for interest	1,491	1,297
	<b>6,347</b>	<b>3,186</b>
	<b>139,020</b>	<b>137,327</b>
<b>Senior debt issued</b>	<b>3,778</b>	<b>—</b>
	<b>Ps. 292,615</b>	<b>Ps. 274,908</b>

[Table of Contents](#)

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCF) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities incur interest depending on the type of instrument and average balance held in the investments. The average interest rates and their currency of reference are shown below:

**Immediately due and payable deposits:**

Foreign exchange	2010				2009			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Mexican pesos and UDIs	0.56%	0.62%	0.61%	0.57%	0.99%	0.73%	0.60%	0.59%
Foreign currency	0.03%	0.03%	0.03%	0.03%	0.05%	0.04%	0.03%	0.03%
<b>Banorte USA (INB)</b>								
Demand deposits accounts	0.18%	0.14%	0.07%	0.12%	0.19%	0.09%	0.12%	0.13%
Money market	0.94%	0.92%	0.78%	0.81%	1.47%	1.30%	1.06%	1.04%

**Time deposits:**

Foreign exchange	2010				2009			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>General public</b>								
Mexican pesos and UDIs	3.52%	3.55%	3.62%	3.37%	5.68%	4.45%	3.55%	3.50%
Foreign currency	0.84%	0.91%	0.80%	0.69%	0.91%	0.79%	0.90%	0.79%
Money market	7.66%	6.53%	7.06%	7.32%	8.59%	7.54%	5.72%	6.61%
Banorte USA (INB)	2.76%	2.76%	2.61%	2.39%	3.84%	3.56%	3.19%	2.95%

As of December 31, 2010 and 2009, the terms at which these deposits are traded are as follows:

General public	2010			
	From 1 to 179 days	From 6 to 12 months	More than 1 year	Total
Fixed-term deposits	Ps. 14,879	Ps. 6,062	Ps. 4,358	Ps. 25,299
Over the counter investments	43,614	63	—	43,677
PRLV primary market for individuals	61,345	433	57	61,835
PRLV primary market for business entities	1,610	32	2	1,644
Foreign resident deposits	20	2	6	28
Provision for interest	174	15	1	190
	<b>121,642</b>	<b>6,607</b>	<b>4,424</b>	<b>132,673</b>
<b>Money market:</b>				
Fixed-term deposits	—	—	2,648	2,648
Over the counter promissory notes	—	—	2,208	2,208
Provision for interest	—	4	1,487	1,491
	—	<b>4</b>	<b>6,343</b>	<b>6,347</b>
Senior debt issued	—	—	<b>3,778</b>	<b>3,778</b>
	<b>Ps. 121,642</b>	<b>Ps. 6,611</b>	<b>Ps. 14,545</b>	<b>Ps. 142,798</b>

[Table of Contents](#)

	2009						
	From 1 to 179 days		From 6 to 12 months		More than 1 year		Total
<b>General public</b>							
Fixed-term deposits	Ps.	15,740	Ps.	6,972	Ps.	2,999	Ps. 25,711
Over the counter investments		49,105		51		—	49,156
PRLV primary market for individuals		57,337		418		64	57,819
PRLV primary market for business entities		1,170		25		—	1,195
Foreign residents deposits		20		20		43	83
Provision for interest		162		13		2	177
		<b>123,534</b>		<b>7,499</b>		<b>3,108</b>	<b>134,141</b>
<b>Money market:</b>							
Fixed-term deposits		—		—		459	459
Over the counter promissory notes		—		—		1,430	1,430
Provision for interest		—		11		1,286	1,297
		—		<b>11</b>		<b>3,175</b>	<b>3,186</b>
	<b>Ps.</b>	<b>123,534</b>	<b>Ps.</b>	<b>7,510</b>	<b>Ps.</b>	<b>6,283</b>	<b>Ps. 137,327</b>

**20 - INTERBANK AND OTHER LOANS**

The loans received from other banks as of December 31, 2010 and 2009 are as follows:

	Mexican pesos		Denominated in US dollars		Total	
	2010	2009	2010	2009	2010	2009
<b>Immediately due</b>						
Domestic banks (Call money)	Ps. 4,837	Ps. 21	Ps. —	Ps. —	Ps. 4,837	Ps. 21
	<b>4,837</b>	<b>21</b>	<b>—</b>	<b>—</b>	<b>4,837</b>	<b>21</b>
<b>Short-term:</b>						
Banco de México	250	—	—	1,964	250	1,964
Commercial banking	326	204	321	220	647	424
Development banking	6,747	6,233	1,211	1,593	7,958	7,826
Public trusts	3,977	2,801	192	314	4,169	3,115
Provision for interest	87	54	3	2	90	56
	<b>11,387</b>	<b>9,292</b>	<b>1,727</b>	<b>4,093</b>	<b>13,114</b>	<b>13,385</b>
<b>Long-term</b>						
Commercial banking	1,524	895	1,284	1,439	2,808	2,334
Development banking	2,421	1,553	267	319	2,688	1,872
Public trusts	2,825	3,236	173	116	2,998	3,352
Provision for interest	—	—	2	4	2	4
	<b>6,770</b>	<b>5,684</b>	<b>1,726</b>	<b>1,878</b>	<b>8,496</b>	<b>7,562</b>
	<b>Ps. 22,994</b>	<b>Ps. 14,997</b>	<b>Ps. 3,453</b>	<b>Ps. 5,971</b>	<b>Ps. 26,447</b>	<b>Ps. 20,968</b>

These liabilities incur interest depending on the type of instrument and average balance of the loans.

[Table of Contents](#)

The average interest rates are shown below:

Foreign exchange	2010				2009			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Call money</b>								
Mexican pesos and UDIs	4.44%	4.63%	4.43%	4.48%	7.52%	5.53%	4.53%	4.46%
<b>Other bank loans</b>								
Mexican pesos and UDIs	6.01%	5.55%	5.56%	5.59%	7.61%	6.51%	5.66%	5.48%
Foreign currency	1.30%	1.67%	1.79%	1.84%	3.00%	2.04%	1.30%	0.92%

Banorte USA liabilities accrue interest at an average rate of 4.09% and 1.91% as of December 2010 and 2009, respectively. Moreover, the Arrendadora y Factor Banorte, S.A. de C.V. loans accrue an average interest rate of 6.59% and 6.46% in Mexican pesos and 2.39% and 2.86% in U.S. dollars as of December 31, 2010 and 2009, respectively.

**21 - SUNDRY CREDITORS AND OTHER PAYABLES**

As of December 31, 2010 and 2009, the balance of sundry creditors and other payables is as follows:

	2010		2009	
Cashier and certified checks and other negotiable instruments	Ps.	1,001	Ps.	796
Provision for employee retirement obligations		3,333		2,773
Provisions for other obligations		2,691		2,291
Other		2,846		3,108
	<b>Ps.</b>	<b>9,871</b>	<b>Ps.</b>	<b>8,968</b>

**22 - EMPLOYEE RETIREMENT OBLIGATIONS**

The Financial Group recognizes the liabilities for pension plans and seniority premium using the projected unit credit method, which considers the benefits accrued at the balance sheet date and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2010 and 2009, related to the defined benefit pension plan, seniority premiums and retiree medical coverage, determined by independent actuaries, is analyzed below:

	2010			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps. (778)	Ps. (174)	Ps. (1,782)	Ps. (2,734)
Fund market value	1,281	306	2,240	3,827
<b>Funded status</b>	<b>503</b>	<b>132</b>	<b>458</b>	<b>1,093</b>
Transition asset (obligation)	15	(7)	164	172
Unrecognized prior service cost	2	(2)	—	—
Unrecognized actuarial losses	277	7	564	848
<b>Net projected asset</b>	<b>Ps. 797</b>	<b>Ps. 130</b>	<b>Ps. 1,186</b>	<b>Ps. 2,113</b>

[Table of Contents](#)

	2009			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO)	Ps. (725)	Ps. (149)	Ps. (1,633)	Ps. (2,507)
Fund market value	1,125	269	1,749	3,143
<b>Funded status</b>	<b>400</b>	<b>120</b>	<b>116</b>	<b>636</b>
Transition asset (obligation)	22	(10)	246	258
Unrecognized prior service cost	2	(3)	—	(1)
Unrecognized actuarial losses	217	4	488	709
<b>Net projected asset</b>	<b>Ps. 641</b>	<b>Ps. 111</b>	<b>Ps. 850</b>	<b>Ps. 1,602</b>

The Financial Group has a net prepayment (net prepaid asset) of Ps. 3 generated by transferring personnel from Sólida Administradora de Portafolios, S.A. de C.V. (Sólida) to Banorte. Moreover, as of December 31, 2010, a separate fund amounting to Ps. 3,827, (Ps. 3,143 in 2009) has been set aside to meet the above-mentioned obligations, in accordance with NIF D-3 and is recorded under “Other assets”.

For the years ended December 31, 2010 and 2009, the net periodic pension cost is as follows:

	2010	2009
Service cost	Ps. 103	Ps. 95
Interest cost	227	197
Expected return on plan assets	(316)	(274)
<b>Amortizations of unrecognized items:</b>		
Transition obligation	86	86
Variations in assumptions	30	27
<b>Net periodic pension cost</b>	<b>Ps. 130</b>	<b>Ps. 131</b>

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2010 and 2009, are shown below:

Concept	2010 Nominal	2009 Nominal
Discount rate	8.75%	9.25%
Rate of wage increase	4.50%	4.50%
Rate of increase in costs and expenses of other postretirement benefits	n/a	5.57%
Long-term inflation rate	3.50%	3.50%
Expected long-term rate of return on plan assets of the Banorte Brokerage House	10.25%	10.25%
Expected long-term rate of return on plan assets	8.75%	10.00%

The liability for severance indemnities due to causes other than restructuring, which was also determined by independent actuaries, is comprised as follows:

Concept	2010	2009
Defined and projected benefit obligations	Ps. (171)	Ps. (158)
Transition obligation	41	62
<b>Net projected liability</b>	<b>Ps. (130)</b>	<b>Ps. (96)</b>

For the years ended December 31, 2010 and 2009, the net periodic pension cost is as follows:

Concept	2010	2009
Service cost	Ps. 26	Ps. 27
Interest cost	12	12
Transition obligation	21	21
Variations in assumptions	14	8
<b>Net periodic pension cost</b>	<b>Ps. 73</b>	<b>Ps. 68</b>

[Table of Contents](#)

The balance of the employee retirement obligations presented in this Note refers to the Financial Group's defined benefit pension plan for those employees who remain enrolled.

The labor obligations derived from the defined contribution pension plan do not require an actuarial valuation as established in NIF D-3, because the cost of this plan is equivalent to the Financial Group's contributions made to the plan. Moreover, this pension plan maintains a fund as of December 31, 2010 and 2009, equivalent to Ps. 1,283 and Ps. 1,140, respectively, which is recorded under "Other assets" and is equivalent to the recorded plan liability.

**23 - SUBORDINATED DEBENTURES**

As of December 31, 2010 and 2009, the subordinated debentures in circulation are as follows:

	2010		2009	
Preferred subordinated, nonconvertible debentures, maturing in April 2016, denominated in US dollars, at an interest rate of 6.135%, payable semiannually with a final principal payment at maturity (10-year term)	Ps.	4,940	Ps.	5,226
Non preferred subordinated nonconvertible debentures (Q BANORTE 08 debentures), maturing in February 2018, paying interest at the 28-day TIE rate plus 0.60%.		3,000		3,000
Preferred subordinated nonconvertible debentures (Q BANORTE 08-2), maturing in June 2018, paying interest at the 28-day TIE rate plus 0.77%.		2,750		2,750
Preferred subordinated nonconvertible debentures, BANORTE 09 maturing in March 2019, paying interest at the 28-day TIE rate plus 2%, payable in 130 periods of 28 days each.		2,200		2,200
Nonpreferred subordinated nonconvertible debentures, maturing in April 2021, denominated in US dollars, at an interest rate of 6.862%, payable semiannually with a final principal payment at maturity (15-year term).		2,470		2,613
Preferred subordinated nonconvertible debentures, Q BANORTE 08-U maturing in February 2028, paying interest at a 4.95% annual rate.		2,024		1,941
Subordinated debentures, maturing in June 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.75%.		127		135
Preferred subordinated debentures maturing in April 2034, denominated in US dollars, at a 3-months LIBOR interest rate plus 2.72%.		127		135
Accrued interest		165		168
	<b>Ps.</b>	<b>17,803</b>	<b>Ps.</b>	<b>18,168</b>

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amortization charged to results was Ps. 6 and Ps. 8 in 2010 and 2009, respectively.

**24 - TRANSACTIONS AND BALANCES WITH NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES**

The balances and transactions with subsidiaries and associated companies as of December 31, 2010, 2009 and 2008, are as follows:

Institution	Revenues			Accounts receivable	
	2010	2009	2008	2010	2009
Seguros Banorte Generali, S. A. de C. V.	Ps. 650	Ps. 598	Ps. 613	Ps. 29	Ps. 9

Institution	Expenses			Accounts payable	
	2010	2009	2008	2010	2009
Seguros Banorte Generali, S. A. de C. V.	Ps. 251	Ps. 101	Ps. 300	Ps. 19	Ps. 5

All balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in consolidation.

[Table of Contents](#)

Pursuant to article 73 of the LIC (Credit Institutions Law), the loans granted by Banorte to any related party cannot exceed 50% of the basic portion of their net capital. For the years ended December 31, 2010 and 2009, the amount of the loans granted to related parties is Ps. 8,772 and Ps. 7,362, respectively, representing 47.1% and 46.2%, respectively, of the limit established by the LIC.

**Loan portfolio sales**

Sale of loan portfolio packages between related parties (nominal values)

In February 2003 Banorte sold Ps. 1,925 of its proprietary portfolio (with interest) to its subsidiary Sólida at a price of Ps. 378. Of this transaction, Ps. 1,891 was related to past-due amounts and Ps. 64 to the performing portfolio. The transaction was recorded based on figures as of August 2002, and therefore the final amount affecting the February 2003 balance sheet was Ps. 1,856, considering the collections made since August 2002. In conjunction with the loan portfolio sold, Ps. 1,577 of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission established the accounting criteria to be applied to this transaction and issued a series of rulings whereby Banorte must provide detailed information on the activities of this transaction throughout its duration, in the understanding that this transaction was a one-time event and not a recurring portfolio transfer procedure.

Pursuant to the foregoing, below is a summary of the activity of the loan portfolio sold to Sólida since August 2002 and for the years of 2009 and 2010:

Type of portfolio	Mexican pesos			Foreign currency			Total		
	Aug 02	Dec 09	Dec 10	Aug 02	Dec 09	Dec 10	Aug 02	Dec 09	Dec 10
<b>Performing loan portfolio</b>									
Commercial	Ps. 5	Ps. —	Ps. —	Ps. 5	Ps. —	Ps. —	Ps. 10	Ps. —	Ps. —
Mortgage	54	27	20	—	—	—	54	27	20
<b>Total</b>	<b>59</b>	<b>27</b>	<b>20</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>64</b>	<b>27</b>	<b>20</b>
<b>Past-due portfolio</b>									
Commercial	405	361	331	293	110	104	698	471	435
Consumer	81	72	72	—	—	—	81	72	72
Mortgage	1,112	350	323	—	—	—	1,112	350	323
<b>Total</b>	<b>1,598</b>	<b>783</b>	<b>726</b>	<b>293</b>	<b>110</b>	<b>104</b>	<b>1,891</b>	<b>893</b>	<b>830</b>
<b>Total portfolio</b>	<b>Ps. 1,657</b>	<b>Ps. 810</b>	<b>Ps. 746</b>	<b>Ps. 298</b>	<b>Ps. 110</b>	<b>Ps. 104</b>	<b>Ps. 1,955</b>	<b>Ps. 920</b>	<b>Ps. 850</b>
<b>Allowance for loan losses(1)</b>									
Commercial	326	349	318	246	110	104	572	459	422
Consumer	77	72	72	—	—	—	77	72	72
Mortgage	669	336	313	—	—	—	669	336	313
<b>Total allowance for loan losses</b>	<b>Ps. 1,072</b>	<b>Ps. 757</b>	<b>Ps. 703</b>	<b>Ps. 246</b>	<b>Ps. 110</b>	<b>Ps. 104</b>	<b>Ps. 1,318</b>	<b>Ps. 867</b>	<b>Ps. 807</b>

(1) Allowances required based on the classification methodology applied in Banorte that maintained a 99.99% equity interest in Sólida during 2010 and 2009.



[Table of Contents](#)

As of December 31, 2010 and 2009, the composition of the Banorte's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

Type of portfolio	Mexican pesos		Foreign Currency		Total	
	Dec 10	Dec 09	Dec 10	Dec 09	Dec 10	Dec 09
Commercial loans	Ps. 148,786	Ps. 133,823	Ps. 13,330	Ps. 11,316	Ps. 162,116	Ps. 145,139
Consumer loans	27,637	25,525	—	—	27,637	25,525
Mortgage loans	54,013	47,378	—	—	54,013	47,378
<b>Performing loan portfolio</b>	<b>230,436</b>	<b>206,726</b>	<b>13,330</b>	<b>11,316</b>	<b>243,766</b>	<b>218,042</b>
Commercial loans	3,954	2,583	252	150	4,206	2,733
Consumer loans	1,348	2,014	—	—	1,348	2,014
Mortgage loans	1,025	1,151	—	—	1,025	1,151
<b>Past-due portfolio</b>	<b>6,327</b>	<b>5,748</b>	<b>252</b>	<b>150</b>	<b>6,579</b>	<b>5,898</b>
<b>Total portfolio</b>	<b>236,763</b>	<b>212,474</b>	<b>13,582</b>	<b>11,466</b>	<b>250,345</b>	<b>223,940</b>
Allowance for loan losses	8,131	7,425	297	384	8,428	7,809
<b>Net portfolio</b>	<b>Ps. 228,632</b>	<b>Ps. 205,049</b>	<b>Ps. 13,285</b>	<b>Ps. 11,082</b>	<b>Ps. 241,917</b>	<b>Ps. 216,131</b>
<b>Allowance for loan losses</b>					<b>128.10%</b>	<b>132.40%</b>
<b>% of past-due portfolio</b>					<b>2.63%</b>	<b>2.63%</b>

**25 - INFORMATION BY SEGMENT**

The main operations and balances per concept and/or business segment in the general balance sheet and the statement of income are comprised as follows:

a. The balances by service sector of the Financial Group, without considering the eliminations relative to the consolidation of the financial statements, are as follows:

	2010	2009	2008
<b>Banking sector:</b>			
Net income	Ps. 6,035	Ps. 5,132	Ps. 6,543
Stockholders' equity	44,316	40,348	35,526
Total portfolio	257,957	234,878	236,236
Past-due portfolio	6,523	6,051	4,836
Allowance for loan losses	(7,955)	(7,358)	(6,582)
Total net assets	564,386	548,560	562,433
<b>Brokerage sector:</b>			
Net income	403	203	183
Stockholders' equity	1,883	1,396	1,143
Portfolio balance	174,068	135,621	119,286
Total net assets	10,169	5,273	1,662
<b>Savings sector:</b>			
Net income	903	772	579
Stockholders' equity	5,244	4,727	4,216
Total net assets	40,993	32,026	27,789
<b>Other finance companies sector:</b>			
Net Income	500	425	336
Stockholders' equity	2,136	1,631	1,308
Total portfolio	15,884	13,461	13,913
Past-due portfolio	141	103	74
Allowance for loan losses	(289)	(177)	(79)
Total net assets	Ps. 16,456	Ps. 13,645	Ps. 14,322

[Table of Contents](#)

b. The trading results for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
<b>Valuation results</b>		
Trading securities	Ps. 46	Ps. (17)
Repurchase or resale agreement	30	(156)
Derivative financial instruments	382	20
<b>Total valuation results</b>	<b>458</b>	<b>(153)</b>
<b>Purchase-sale results</b>		
Trading securities	455	318
Available for sale securities	214	23
Derivative financial instruments	(143)	180
<b>Total securities purchase sale</b>	<b>526</b>	<b>521</b>
Spot foreign currency	690	731
Foreign currency forwards	(1)	154
Foreign currency futures	(2)	(1)
Foreign currency valuation	3	(20)
Minted metals purchase sales	3	4
Minted metals valuation	12	8
<b>Total foreign currency purchase sale</b>	<b>705</b>	<b>876</b>
<b>Total purchase sale results</b>	<b>1,231</b>	<b>1,397</b>
<b>Total trading results</b>	<b>Ps. 1,689</b>	<b>Ps. 1,244</b>

c. The performing loan portfolio, grouped by economic sector and geographical location, is as follows:

Economic sector	2010				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 2,473	Ps. 1,094	Ps. 741	Ps. 911	Ps. 5,219
Mining	354	176	19	19	568
Manufacturing	7,830	5,014	1,459	635	14,938
Construction	5,346	7,433	557	2,023	15,359
Public utilities	35	293	2	1	331
Commerce	12,157	10,412	3,493	6,103	32,165
Transportation	1,174	5,062	123	253	6,612
Financial services	8,302	9,233	198	1,300	19,033
Communal, social services	6,680	5,234	1,520	417	13,851
Business groups	9	364	6	5	384
Public administration and services	24,164	16,189	2,188	4,901	47,442
International organization services	2	—	—	—	2
INB	—	—	—	—	9,232
Credit card	—	—	—	—	11,159
Consumer	—	—	—	—	16,668
Mortgage	—	—	—	—	56,168
Other	—	—	—	—	105
Arrendadora y Factor Banorte	—	—	—	—	14,314
<b>Performing loan portfolio</b>	<b>Ps. 68,526</b>	<b>Ps. 60,504</b>	<b>Ps. 10,306</b>	<b>Ps. 16,568</b>	<b>Ps. 263,550</b>

[Table of Contents](#)

Economic sector	2009				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 2,314	Ps. 1,167	Ps. 581	Ps. 732	Ps. 4,794
Mining	347	18	14	13	392
Manufacturing	7,872	4,725	1,661	688	14,946
Construction	6,042	6,236	546	1,828	14,652
Public utilities	43	252	2	1	298
Commerce	10,543	7,241	3,307	6,031	27,122
Transportation	1,308	6,173	105	269	7,855
Financial services	8,975	11,280	130	1,473	21,858
Communal, social services	2,524	4,242	1,514	369	8,649
Business groups	12	457	2	6	477
Public administration and services	21,403	12,938	2,070	2,516	38,927
INB	—	—	—	—	14,100
Credit card	—	—	—	—	11,801
Consumer	—	—	—	—	13,726
Mortgage	—	—	—	—	47,351
Other	—	—	—	—	54
Arrendadora y Factor Banorte	—	—	—	—	11,952
<b>Performing loan portfolio</b>	<b>Ps. 61,383</b>	<b>Ps. 54,729</b>	<b>Ps. 9,932</b>	<b>Ps. 13,926</b>	<b>Ps. 238,954</b>

d. The past-due loan portfolio, grouped by economic sector and geographical location, is summarized as follows:

Economic sector	2010				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 261	Ps. 125	Ps. 46	Ps. 24	Ps. 456
Mining	5	—	1	1	7
Manufacturing	107	250	63	38	458
Construction	297	104	12	21	434
Commerce	329	231	148	159	867
Transportation	17	1,318	8	11	1,354
Financial services	10	13	—	1	24
Communal, social services	45	50	44	30	169
Business groups	—	—	—	1	1
INB	—	—	—	—	505
Credit card	—	—	—	—	1,040
Consumer	—	—	—	—	236
Mortgage	—	—	—	—	971
Arrendadora y Factor Banorte	—	—	—	—	142
<b>Past-due loan portfolio</b>	<b>Ps. 1,071</b>	<b>Ps. 2,091</b>	<b>Ps. 322</b>	<b>Ps. 286</b>	<b>Ps. 6,664</b>

[Table of Contents](#)

Economic sector	2009				
	Geographical location				
	North	Central	West	South	Total
Agriculture	Ps. 77	Ps. 129	Ps. 33	Ps. 20	Ps. 259
Mining	2	3	1	7	13
Manufacturing	121	175	73	46	415
Construction	89	105	12	27	233
Commerce	363	298	147	195	1,003
Transportation	41	27	13	19	100
Financial services	8	15	1	6	30
Communal, social services	74	49	47	37	207
Business groups	1	—	—	—	1
INB	—	—	—	—	1,047
Credit card	—	—	—	—	1,610
Consumer	—	—	—	—	332
Mortgage	—	—	—	—	801
Arrendadora y Factor Banorte	—	—	—	—	103
<b>Past-due loan portfolio</b>	<b>Ps. 776</b>	<b>Ps. 801</b>	<b>Ps. 327</b>	<b>Ps. 357</b>	<b>Ps. 6,154</b>

e. Deposit accounts grouped by product and geographical location are as follows:

Product	2010									
	Geographical location							Treasury and other	Foreign	Total
	Monterrey	Mexico City	West	Northwest	Southeast					
Non-interest bearing checking accounts	Ps. 14,964	Ps. 22,000	Ps. 6,992	Ps. 8,876	Ps. 7,873	Ps. 89	Ps. —	Ps. 60,794		
Interest-bearing checking accounts	7,532	26,293	4,093	6,041	7,580	166	—	51,705		
Savings accounts	1	1	—	—	—	—	—	2		
Current account in pesos and preestablished	4,042	5,983	1,612	3,024	2,840	138	—	17,639		
Non-interest bearing demand deposits, USD	1,611	818	212	1,177	266	-0	4,435	8,519		
Interest bearing demand deposits, USD	2,258	1,398	465	2,038	218	-0	4,520	10,897		
Savings accounts in USD	—	—	—	—	—	—	258	258		
Over the counter promissory notes	12,623	26,581	6,843	7,551	9,881	1,754	—	65,233		
Time deposits, USD	3,307	3,737	1,525	2,307	688	16	13,747	25,327		
Money desk customers	17,416	15,940	5,076	3,745	4,001	150	—	46,328		
Financial intermediaries	—	—	—	—	—	2,208	3,705	5,913		
<b>Total deposits</b>	<b>Ps. 63,754</b>	<b>Ps. 102,751</b>	<b>Ps. 26,818</b>	<b>Ps. 34,759</b>	<b>Ps. 33,347</b>	<b>Ps. 4,521</b>	<b>Ps. 26,665</b>	<b>Ps. 292,615</b>		

[Table of Contents](#)

Product	2009							
	Geographical location							Total
	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and other	Foreign	
Non-interest bearing checking accounts	Ps. 13,209	Ps. 19,770	Ps. 5,845	Ps. 7,773	Ps. 7,963	Ps. 70	Ps. —	Ps. 54,630
Interest-bearing checking accounts	6,417	23,033	4,041	6,192	8,039	162	—	47,884
Savings accounts	1	1	—	—	—	—	—	2
Current account in pesos and preestablished	3,449	5,232	1,492	2,733	2,556	122	—	15,584
Non-interest bearing demand deposits, USD	834	848	199	1,085	221	—	3,694	6,881
Interest bearing demand deposits, USD	2,454	1,570	577	2,463	238	—	5,012	12,314
Savings accounts in USD	—	—	—	—	—	—	265	265
Over the counter promissory notes	11,362	25,040	6,358	7,245	9,009	1,474	—	60,488
Time deposits, USD	3,328	4,095	1,775	2,255	897	17	13,427	25,794
Money desk customers	19,366	14,858	6,953	4,588	2,877	127	—	48,769
Financial intermediaries	—	—	—	—	—	2,277	—	2,277
FOBAPROA checking accounts bearing interest	20	—	—	—	—	—	—	20
<b>Total deposits</b>	<b>Ps. 60,440</b>	<b>Ps. 94,447</b>	<b>Ps. 27,240</b>	<b>Ps. 34,334</b>	<b>Ps. 31,800</b>	<b>Ps. 4,249</b>	<b>Ps. 22,398</b>	<b>Ps. 274,908</b>

**26 - TAX ENVIRONMENT**

In 2010 and 2009 the Financial Group was subject to ISR and IETU.

**Income tax**

Income tax (ISR) is calculated considering as taxable or deductible certain inflation effects; as of until December 31, 2010 and 2009, the ISR rate was 30% and 28%, respectively. On December 7, 2009, the decree was published reforming, adding and repealing various provisions of the Income Tax Law that went into effect on January 1, 2010. Temporary provisions were established through which the income tax rate from 2011 to 2012 will be 30%; 29% for 2013 and 28% for 2014.

**Book to tax reconciliation**

The principal items affecting the determination of the current tax expense of the Financial Group were the annual adjustment for inflation, the nondeductible amount of the allowance for loan losses that was over 2.5% of the average loan portfolio and the valuation of financial instruments.

**PTU**

The Financial Group determine employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

**Business Flat Tax**

Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated for each period. The rate is 17.5% and 17.0% for 2010 and 2009, respectively. The Asset Tax Law was repealed upon enactment of LIETU; however, under certain circumstances, asset taxes paid in the ten years prior to the year in which ISR is paid, may be refunded, according to the terms of the law. As of December 31, 2010, the Financial Group has no recoverable asset taxes.

Based on financial projections, pursuant to the provisions in INIF-8, the Financial Group found that it will essentially pay ISR, therefore acknowledging only the deferred ISR.

**27 - STOCKHOLDERS' EQUITY**

At the Stockholders' Ordinary General Meeting held on April 23, 2010, the resolution was adopted to transfer the profits of 2009 equal to Ps. 5,854 to the account "earnings from prior years".

At the Stockholders' Ordinary General Meetings held on February 15, 2010, April 23, 2010 and October 4, 2010, the resolution was adopted to declare cash dividends of Ps. 343 on each of said dates.

The Financial Group's shareholders' common stock as of December 31, 2010, 2009 and 2008 is comprised as follows:

	Number of shares with a nominal value of Ps. 3.50		
	2010	2009	2008
"O" Series	2,018,347,548	2,017,847,548	2,013,997,548

	Historical Amounts		
	2010	2009	2008
"O" Series	Ps. 7,016	Ps. 7,000	Ps. 6,986
Restatement in Mexican pesos through December 2007	4,955	4,956	4,955
	Ps. 11,971	Ps. 11,956	Ps. 11,941

**Restrictions on profits**

Stockholders' equity distribution, except restated paid-in capital and tax retained earnings, will be subject to a tax payable by the Financial Group at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment against the year's tax and its partial payments.

The Financial Group's net profit is subject to the requirement that at least 5% of net income of each year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may not be distributed to the stockholders during the life of the Financial Group, except in the form of a stock dividend. As of December 31, 2010 and 2009, the legal reserve is Ps. 3,181 and Ps. 2,444, respectively, and represents 27% and 20% of paid-in capital, respectively.

**Capitalization ratio (pertaining to Banorte, the Financial Group's main subsidiary)**

The capitalization rules for financial institutions establish requirements for specific levels of net capital, as a percentage of assets subject to both market and credit risk.

The information as of December 31, 2010 sent to Banco de México to review is shown below.

- The capitalization ratio of Banorte as of December 31, 2010 was 16.12% of total risk (market, credit and operational), and 23.68% of credit risk, which in both cases exceed the current regulatory requirements.

[Table of Contents](#)

- The amount of net capital, divided by basic and complementary capital, is detailed below (these figures may differ from those in the basic financial statements):

**Net capital as of December 31, 2010**

<b>Stockholders' equity</b>	<b>Ps. 44,306</b>
<b>Subordinated debentures and capitalization instruments</b>	<b>5,135</b>
Deduction of investment in securitized instruments	(446)
Deduction of investments in shares of financial entities	(6,124)
Deduction of investments in shares of non-financial entities	(3,238)
Deduction of intangibles and deferred expenses or costs	(264)
<b>Basic capital</b>	<b>39,369</b>
Debentures and capitalization instruments	12,413
Allowance for loan losses	1,285
Deduction of investment in securitized instruments	(446)
<b>Complementary capital</b>	<b>13,252</b>
<b>Net capital</b>	<b>Ps. 52,621</b>

Characteristics of the subordinated debentures:

Concept	Issuance amount	Maturity	Basic capital proportion	Complementary capital proportion
Complementary capital debentures 2006	Ps. 5,006	13/10/2016	0%	100%
Basic capital debentures 2006	Ps. 2,507	13/10/2021	100%	0%
Basic capital debentures 2008	Ps. 3,008	27/02/2018	87%	13%
Complementary capital debentures 2008	Ps. 2,056	15/02/2028	0%	100%
Complementary capital debentures 2008-2	Ps. 2,760	15/06/2018	0%	100%
Complementary capital debentures 2009	Ps. 2,211	18/03/2019	0%	100%

Assets subject to risk are detailed below:

**Assets subject to market risk**

Concept	Positions weighted by risk	Capital requirement
Transactions in Mexican pesos with nominal interest rate	Ps. 47,037	Ps. 3,763
Transactions with debt instruments in Mexican pesos with variable interest rates	10,374	830
Transactions in Mexican pesos with real interest rates or denominated in UDIS	1,802	144
Transactions in UDIS or with yields referenced to the National Consumer Price Index (INPC)	2	—
Transactions in Mexican pesos with nominal interest rates	4,700	376
Exchange transactions	1,604	129
<b>Total</b>	<b>Ps. 65,519</b>	<b>Ps. 5,242</b>

[Table of Contents](#)

**Assets subject to credit risk**

Concept	Assets weighted by risk	Capital requirement
Group III (weighted at 10%)	Ps. 13	Ps. 1
Group III (weighted at 11.5%)	1	—
Group III (weighted at 20%)	11,451	916
Group III (weighted at 23%)	483	39
Group III (weighted at 50%)	2,226	178
Group III (weighted at 57.5%)	608	48
Group III (weighted at 100%)	150	12
Group IV (weighted at 20%)	2,851	228
Group V (weighted at 20%)	7,282	583
Group V (weighted at 50%)	3,723	298
Group V (weighted at 150%)	4,899	392
Group VI (weighted at 50%)	6,445	515
Group VI (weighted at 75%)	5,608	449
Group VI (weighted at 100%)	59,100	4,728
Group VII (weighted at 20%)	845	68
Group VII (weighted at 50%)	99	8
Group VII (weighted at 100%)	72,788	5,823
Group VII (weighted at 115%)	7,556	604
Group VII (weighted at 150%)	635	51
Group VIII (weighted at 125%)	1,948	156
Group IX (weighted at 100%)	19,387	1,551
<b>Sum</b>	<b>208,098</b>	<b>16,648</b>
For permanent shares, furniture and real property, and advance payments and deferred charges	14,086	1,127
<b>Total</b>	<b>Ps. 222,184</b>	<b>Ps. 17,775</b>

Assets subject to credit risk:

Concept	Assets weighted by risk	Capital requirement
<b>Total</b>	<b>Ps. 38,816</b>	<b>Ps. 3,105</b>

**28 - FOREIGN CURRENCY POSITION**

As of December 31, 2010 and 2009, the Financial Group holds certain assets and liabilities in foreign currency, mainly US dollars, converted to the exchange rate issued by Banco de México at Ps. 12.3496 and Ps. 13.0659 per USD 1.00, respectively, as shown below:

	Thousands of US dollars	
	2010	2009
Assets	5,543,911	5,497,623
Liabilities	5,234,040	5,166,587
<b>Net asset position in US dollars</b>	<b>309,871</b>	<b>331,036</b>
<b>Net asset position in Mexican pesos</b>	<b>Ps. 3,827</b>	<b>Ps. 4,325</b>



**29 - POSITION IN UDIS**

As of December 31, 2010 and 2009, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of Ps. 4.526308 and Ps. 4.340166, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2010	2009
Assets	365,531	207,824
Liabilities	454,251	544,676
<b>Net liability position in UDIS</b>	<b>(88,720)</b>	<b>(336,852)</b>
<b>Net liability position in Mexican pesos</b>	<b>Ps. (402)</b>	<b>Ps. (1,462)</b>

**30 - EARNINGS PER SHARE**

Earnings per share is the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the year.

Earnings per share for the years ended December 31, 2010, 2009 and 2008 are shown below:

	2010			2009		2008	
	Net Income	Weighted share average		Earnings per share	Earnings per share	Earnings per share	
Net income per share	Ps. 6,705,043,285	2,018,257,560	Ps. 3.3222	Ps. 2.9021	Ps. 3.4775		

**31 - RISK MANAGEMENT (unaudited)**

**Authorized bodies**

To ensure adequate risk management of the Financial Group, as of 1997, the Financial Group's Board of Directors created the Risk Policy Committee (CPR), whose purpose is to manage the risks to which the Financial Group is exposed, and ensure that the performance of operations adheres to the established risk management objectives, guidelines, policies and procedures.

Furthermore, the CPR provides oversight on the global risk exposure limits approved by the Board of Directors, and also approves the specific risk limits for exposure to different types of risk.

The CPR is composed of regular members of the Board of Directors, the CEO of the Financial Group, the Managing of Comprehensive Risk Management, the Managing Director of Long Term Savings, and the Managing Director of the Brokerage House, as well as the Managing Director of Internal Audits, who has the right to speak but not to vote.

To adequately carry out its duties, the CPR performs the following functions, among others:

1. Propose for the approval of the Board of Directors:
  - The objectives, guidelines and policies for comprehensive risk management
  - The global limits for risk exposure
  - The mechanisms for implementing corrective measures
  - The special cases or circumstances in which the global and specific limits may be exceeded

## [Table of Contents](#)

2. Approve and review at least once a year:
  - The specific limits for discretionary risks, as well as tolerance levels for nondiscretionary risks
  - The methodology and procedures to identify, measure, oversee, limit, control, report and disclose the different kinds of risks to which the Financial Group is exposed
  - The models, parameters and scenarios used to perform the valuation, measurement and control of risks proposed by the Comprehensive Risk Management Unit
3. Approve:
  - The methodologies for identification, valuation, measurement and control of risks of the new operations, products and services which the Financial Group intends to introduce into the market
  - The corrective measures proposed by the Comprehensive Risk Management Unit
  - The manuals for comprehensive risk management
4. Appoint and remove the person responsible for the Comprehensive Risk Management Unit, who is ratified by the Board of Directors.
5. Inform the Board, at least every quarter, of the exposure to risk and its possible negative effects, as well as follow up on limits and tolerance levels.
6. Inform the Board of the corrective measures implemented.

### **32 - COMPREHENSIVE RISK MANAGEMENT UNIT (UAIR) (unaudited, regarding Banorte, the Financial Group's main subsidiary)**

The function of the UAIR is to identify, measure, oversee, limit, control, report and disclose the different kinds of risk to which the Financial Group is exposed, and which is the responsibility of the Office of Risk Management (DGAR).

The DGAR reports to the CPR in compliance with the requirements set forth in the Commission's circular, the "General Risk Management Rules Applicable to Credit Financial Groups", in relation to the independence of the different business areas.

The DGAR focuses Comprehensive Risk Management efforts through six different departments:

- Operating and Credit Risk Management;
- Market Risk Management;
- Credit Management;
- Risk Policy Management;
- Consumer Loan Quality; and
- Risk Management Tools.

The Financial Group currently has methodologies for managing risk in its different phases, such as credit, market, liquidity and operating risk.

The primary objectives of the DGAR are summarized as follows:

- Provide the different business areas with clear rules that facilitate their understanding so as to minimize risks and ensure that they are within the parameters established and approved by the Board of Directors and the Risk Policy Committee.
- Establish mechanisms that provide for follow-up on risk-taking within the Financial Group, ensuring that they are preventive as much as possible, and supported by advanced systems and processes.
- Standardize risk measurement and control.
- Protect the Financial Group's capital against unexpected losses from market movements, credit losses and operating risks.
- Develop valuation methods for the different types of risks.

## [Table of Contents](#)

- Establish procedures for portfolio optimization and loan portfolio management.

The Financial Group has segmented risk assessment and management into the following headings:

**Credit Risk:** Volatility of revenues due to the creation of provisions for impairment of credits and potential credit losses due to nonpayment by a borrower or counterpart.

**Market Risk:** Volatility of revenues due to changes in the market, which affect the valuation of the positions from operations involving assets, liabilities or generating contingent liabilities, such as: interest rates, exchange rates, price indexes, etc.

**Liquidity Risk:** Potential loss derived from the impossibility of renewing debts or contracting others under normal conditions for the Financial Group, due to the anticipated or forced sale of assets at unusual discounts to meet its obligations.

**Operating Risk:** Loss resulting from lack of adaptation or failure in processes, personnel, internal systems or external events. This definition includes Technological Risk and Legal Risk. Technological Risk groups includes all potential losses from damage, interruption, alteration or failures derived from the use of or dependence on hardware, software, systems, applications, networks and any other information distribution channel, while Legal Risk involves the potential loss from penalties for noncompliance with legal and administrative regulations or the issuance of adverse final court rulings in relation to the operations performed by the Financial Group.

### **Credit risk**

Risk that the customers, issuers or counterparts will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group credit risk management objectives are as follows:

- Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- Provide senior management with reliable and timely information to support decision-making in credit matters.
- Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- Support the creation of economic value for shareholders by means of efficient credit risk management.
- Define and constantly update the regulatory framework for credit risk management.
- Comply with the credit risk management reporting requirements established by the relevant authorities.
- Perform risk management in accordance with best practices; implementing models, methodologies, procedures and systems based on the latest international advances.

### **Individual credit risk**

The Financial Group segments the loan portfolio into two large groups: the consumer and corporate portfolios.

Individual credit risk for the consumer portfolio is identified, measured and controlled by means of a parametric system (scoring) which includes models for each of the consumer products: mortgage, automotive, payroll credit, personal and credit card.

Individual risk for the corporate portfolio is identified, measured and controlled by means of the Target Markets, the Risk Acceptance Criteria and the Banorte Internal Risk Rating (CIR Banorte).

The Target Markets and Risk Acceptance Criteria are tools which, together with the Internal Risk Rating CIR, form part of the credit strategy of the Financial Group and support the estimate of the credit risk level.

The Target Markets are activities selected by region and economic activity - supported by economic studies and portfolio behavior analyses - in which the Financial Group has interest to place loans.

The Risk Acceptance Criteria are parameters which describe the risks identified by industries, facilitating an estimate of the risk involved for the Financial Group in granting a credit to a customer depending on the economic activity which it performs. The types of risks evaluated in the Risk Acceptance Criteria are the financial risk,

[Table of Contents](#)

operating risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

Early Warnings are a set of criteria based on information and indicators of the borrowers and their environment that have been set forth for timely prevention and identification of likely impairment in the loan portfolio, in order to take credit risk mitigating preventive actions in a timely manner.

The CIR Banorte is in line with the “General Regulations Applicable to the Classification Methodology for the Loan Portfolio of Credit Institutions” issued by the Commission on December 2, 2005. The CIR Banorte has been certified by the Commission and by an international external auditor since 2001.

The CIR Banorte is applied to a commercial portfolio equal to or exceeding an amount equivalent in Mexican pesos to four million UDIS at the classification date.

**Portfolio credit risk**

The Financial Group has designed a portfolio credit risk methodology which, while also including the best and most current international practices with regard to identification, measurement, control and follow up, has been adapted to function within the context of the Mexican financial system.

The credit risk methodology identifies the exposure of all the loan portfolios of the Financial Group, overseeing risk concentration levels based on risk classifications, geographical regions, economic activities, currencies and type of product, for the purpose of ascertaining the portfolio profile and taking actions to diversify it and maximize profit with the lowest possible risk.

The calculation of loan exposure involves the generation of the cash flow from each of the loans, both in terms of principal and interest, for their subsequent discount. This exposure is sensitive to market changes, and facilitates the performance of calculations under different economic scenarios.

Apart from considering loan exposure, the methodology takes into account the probability of default, the recovery level associated with each customer and the sorting of the borrowers based on the Merton model. The probability of default is the probability that a borrower will not comply with its debt obligation to the Financial Group on the terms and conditions originally agreed. The probability of default is based on the transition matrixes which the Financial Group calculates as of the migration of the borrowers to different risk classification levels. The recovery level is the percentage of the total exposure that is expected to be recovered if the borrower defaults on its obligations. The sorting of the borrowers based on the Merton model is intended to tie the future behavior of the borrower to credit and market factors on which, using statistical techniques, the borrower’s “credit health” depends.

The primary results obtained are the expected loss and unexpected loss over a one-year time horizon. The expected loss is the median of the distribution of losses of the loan portfolio, which enables a measurement of the average loss expected in the following year due to noncompliance or variations in the credit status of the borrowers. The unexpected loss is an indicator of the loss expected under extreme circumstances, and is measured as the difference between the maximum loss based on the distribution of losses, at a specific confidence level, which in the case of the Financial Group is 95%, and the expected loss.

The results obtained are used as a tool for better decision-making in granting loans and portfolio diversification, in accordance with the global strategy of the Financial Group. The individual risk identification tools and the portfolio credit risk methodology are reviewed and updated periodically to incorporate new techniques that can support or strengthen them.

As of December 31, 2010, the total portfolio of the Financial Group is Ps. 249,495. The expected loss represents 2.2% and the unexpected loss represents 3.7% of the total operating portfolio. The average expected loss was 2.2% for the period between October and December 2010. As of December 31, 2009, the Financial Group’s total operating portfolio is Ps. 223,019. The expected loss represents 2.4% and the unexpected loss represents 3.9% of the total operating portfolio. The average expected loss was 2.5% for the period between October and December 2009.

## **Credit risk of financial instruments**

There are specific policies for the origination, analysis, authorization and management of financial instruments to identify, measure, keep track and control credit risk.

The origination policies define the type of financial instruments to operate and how to evaluate the credit quality of different types of issuers and counterparts. Credit quality is assigned by means of a rating obtained by an internal methodology, external rating evaluations or a combination of both. Additionally, there are maximum operating parameters depending on the type of issuer or counterpart, rating and operation type.

Analysis policies include the type of information and variables considered to analyze operations with financial instruments when they're presented for their authorization by the corresponding committee, including information about the issuer or counterpart, financial instrument, operation destination and market information.

The Credit Committee is the body that authorizes operation lines with financial instruments according to the authorization policies. The authorization request is submitted by the business area and the areas involved in the operation with all the relevant information to be analyzed and, if applicable, authorized by the Committee.

The financial instrument operating lines management policy contemplates the procedures for registration, instrumentation, regulation compliance, revision, consumer monitoring, line management and responsibility of the areas and bodies involved in operating financial instruments.

Concentrating loan risk with financial instruments is managed continuously on an individual level, monitoring maximum operation parameters per counter-party or issuer depending on the rating and type of operation. For portfolios there are economic and internal group risk diversification policies in place. Additionally, concentration is monitored by type of counter-party or issuer, size of the financial institutions and where they operate in order to get the right diversification and avoid unwanted concentrations.

Credit risk is measured by means of the rating associated with the issuer, issue or counterpart, which has an assigned degree of risk measured based on two elements:

- 1) The probability of delinquency by the issuer, issue or counterpart; expressed as a percentage between 0% and 100%. The higher the rating, the lower the probability of delinquency and vice versa.
- 2) The gravity of the loss with respect to the operation's total in the event of noncompliance, expressed as a percentage between 0% and 100%. The better the guarantees or credit structure, the lower the severity of the loss and vice versa.

In order to mitigate credit risk and reduce the gravity of the loss in case of noncompliance, the Financial Group and counter-parts entered into ISDA contracts settling agreements, which contemplate implementing credit lines and using collateral to mitigate losses due to noncompliance.

As of December 31, 2010, the investment in securities exposure to credit risk is Ps. 200,026, of which 99.2% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 20% of the basic capital as of September 2010. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the net capital as of September 2010 has a rating of at least AA+(mex) and is made up of (term and weighted average interest rate): 6-month Bancomer stock certificates for Ps. 11,580 at 5.0%; 4-month Inbursa stock certificates and bonds for Ps. 9,772 at 4.8%; 5-year 8-month certificates of deposit of Pemex for Ps. 7,347 at 4.7%; and 26-year 5-month State and Municipal Governments securitized loan certificates for Ps. 4,085 at 4.9%.

For derivatives, the exposure is (Ps. 3,045), of which 99.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 3% of the basic capital as of September 2010.

[Table of Contents](#)

As of December 31, 2009, the investment in securities exposure to credit risk is Ps. 213,274, of which 99.4% has a rating greater than or equal to A-(mex) on the local scale. This places them in investment grade and the three main issuers other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 23% of the basic capital as of September 2009. Additionally, the investment exposure with the same issuer other than the Federal Government that represents a concentration greater than or equal to 5% of the net capital as of September 2009 has a rating of at least AA+(mex) as is made up of (term and weighted average interest rate): 3-month Bancomer stock certificates for Ps. 14,001 at 4.8%; 5-month Pemex stock certificates and bonds for Ps. 8,445 at 6.2%; 3-month certificates of deposit of the Federal Mortgage Association for Ps. 5,012 at 4.8%; 27-year State and Municipal Governments securitized loan certificates for Ps. 4,321 at 5.3%; 4-month Banobras stock certificates and bonds for Ps. 4,043 at 4.8%; and 11-day Banco Inbursa promissory notes for Ps. 3,004 at 4.6%.

For derivatives, the exposure is (Ps. 2,669), of which 99.9% is rated at least A-(mex) on the local scale, which places them at an investment grade and the three main counterparts other than the Federal Government, Semi-Private agencies and Domestic Financial Institutions represent 5% of the basic capital as of September 2009.

**Risk Diversification**

In December 2005, the CNBV issued the “General Rules for Risk Diversification in Performing Asset and Liability Transactions Applicable to Credit Institutions”.

These regulations require that the Financial Group perform an analysis of the borrowers and/or loans they hold to determine the amount of their “Common Risk”. Also, the Financial Group must have the necessary documentation to support that a person or group of persons represents a common risk in accordance with the assumptions established under such rules.

In compliance with the risk diversification rules for asset and liability transactions, the following information is provided below:

**Basic capital as of September 30, 2010** **Ps. 37,233**

**I. Financing whose individual amount represents more than 10% of basic capital:**

<u>Credit transactions</u>	
Number of financings	1
Amount of financings taken as a whole	4,437
% in relation to basic capital	12%
<u>Money market transactions</u>	
Number of financings	2
Amount of financings taken as a whole	8,753
% in relation to basic capital	24%
<u>Overnight transactions</u>	
Number of financings	1
Amount of financings taken as a whole	5,455
% in relation to basic capital	15%

**II. Maximum amount of financing with the three largest debtors and common risk groups** **Ps. 18,527**

**Market risk**

Value at risk

The exposure to market risk is determined through the calculation of the Value at Risk (“VaR”). The meaning of the VaR under this method is the potential day loss which could be generated in the valuation of the portfolios at a given date. This methodology is used both for the calculation of market risk and for the establishment and control of internal limits.

[Table of Contents](#)

The Financial Group applies the nonparametric historical simulation method to calculate the VaR, considering for such purpose a 99% confidence level, using the 500 immediate historical scenarios, multiplying the result by a security factor that fluctuates between 3 and 4 depending on the annual Back Testing results calculated on the previous quarter, considering 10 days to dispose of the risk portfolio in question. These measures ensure that unforeseen volatiles are considered in the main risk factors that affect such portfolios.

Such methodology is applied to all financial instrument portfolios within and beyond the scope of the Financial Group, including money market and treasury transactions, capital, foreign-exchange and derivatives held for trading and hedging purposes, which are exposed to variations in their value due to changes in the risk factors affecting their market valuation (domestic and foreign interest rates, exchange rates and indexes, among others).

The average VaR for the portfolio of financial instruments was Ps. 1,600 for the last quarter 2010.

	4Q09		1Q10		2Q10		3Q10		4Q10	
VaR Banorte*	Ps.	2,584	Ps.	3,442	Ps.	2,677	Ps.	2,246	Ps.	1,600
Banorte net capital***		49,679		49,878		50,184		51,187		52,620
VaR / net capital Banorte		5.20%		6.90%		5.33%		4.39%		3.04%

\* Quarterly Average

\*\*\* Sum of net capital at the close of the quarter

Also, the average of the VaR per risk factor for the Financial Group's portfolio of securities behaved as follows during the fourth quarter of 2010:

Risk factor	VaR	
Domestic interest rate	Ps.	1,582
Foreign interest rate		300
Exchange rate		141
Total VaR	Ps.	1,600

The VaR for each of the risk factors presented is determined by simulating 500 historical scenarios of the variables comprising each of such factors, maintaining constant the variables that affect the other risk factors shown. By the same token, the consolidated VaR for the Financial Group considers the correlations of all the risk factors influencing the valuation of the portfolios, for which reason the arithmetical sum of the VaR Factor does not match.

**Operations with derivative products**

The one-day individual VaR that the Financial Group has for each type of trading and hedging derivatives for the fourth quarter of 2010 is:

Trading derivatives	4Q09		4Q10	
<b>Futures</b>				
MEXDER rate futures	Ps.	—	Ps.	13
<b>Exchange rate derivatives</b>				
Forwards		15		—
Options		—		1
<b>Interest rate options</b>				
TIE		4		3
Libor		—		1
<b>Swap options</b>				
Libor		—		2
TIE		2		5
<b>Rate swaps (IRS) and exchange rate</b>				
TIE swaps		12		11
LIBOR swaps		2		2
Cross currency exchange rate swaps		207		12
<b>Total trading derivatives</b>	<b>Ps.</b>	<b>242</b>	<b>Ps.</b>	<b>50</b>

[Table of Contents](#)

<b>Hedging derivatives</b>	<b>4Q09</b>		<b>4Q10</b>	
<b>Swaps</b>				
Cross currency exchange rate swaps for portfolio hedging in USD	Ps.	8	Ps.	2
Cross currency exchange rate swaps for hedging obligations in USD		145		86
Cross currency exchange rate swaps for hedging bonds in USD		304		220
TIE swaps for hedging obligations in Mexican pesos		63		30
TIE swaps for hedging promissory note in Mexican pesos		265		181
Rate operations for hedging portfolio at a fixed rate		59		14
<b>Total hedging derivatives</b>	<b>Ps.</b>	<b>844</b>	<b>Ps.</b>	<b>533</b>

To calculate the VaR for each of the derivatives listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for TIE Swaps is Ps. 11. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 11 in one day.

The trading and hedging derivatives totals are the arithmetic sum of the VaR of each without considering any correlation among them.

**Investments in securities**

The one-day individual VaR that the Financial Group has for each type of securities for the fourth quarter of 2010 was:

<b>Trading Securities</b>	<b>4Q09</b>		<b>4Q10</b>	
Variable rate government bonds	Ps.	7	Ps.	11
Fixed rate government bonds		2		2
Bank bonds		3		—
Securitization certificates		37		20
CEDES		—		2
Capital		13		—
US treasury bonds		3		1
PEMEX eurobonds		28		29
UMS		12		6
Bank eurobonds		107		37
Private company eurobonds		11		8
<b>Total</b>	<b>Ps.</b>	<b>223</b>	<b>Ps.</b>	<b>116</b>

<b>Securities at maturity</b>	<b>4Q09</b>		<b>4Q10</b>	
Variable rate government bonds	Ps.	92	Ps.	52
Fixed rate government bonds		4		1
Securitization certificates		42		41
CEDES		4		—
Bank bonds		—		1
PEMEX eurobonds		157		90
UMS		89		64
Zero coupon bank bonds		11		8
Private company eurobonds		4		—
<b>Total</b>	<b>Ps.</b>	<b>403</b>	<b>Ps.</b>	<b>257</b>



## [Table of Contents](#)

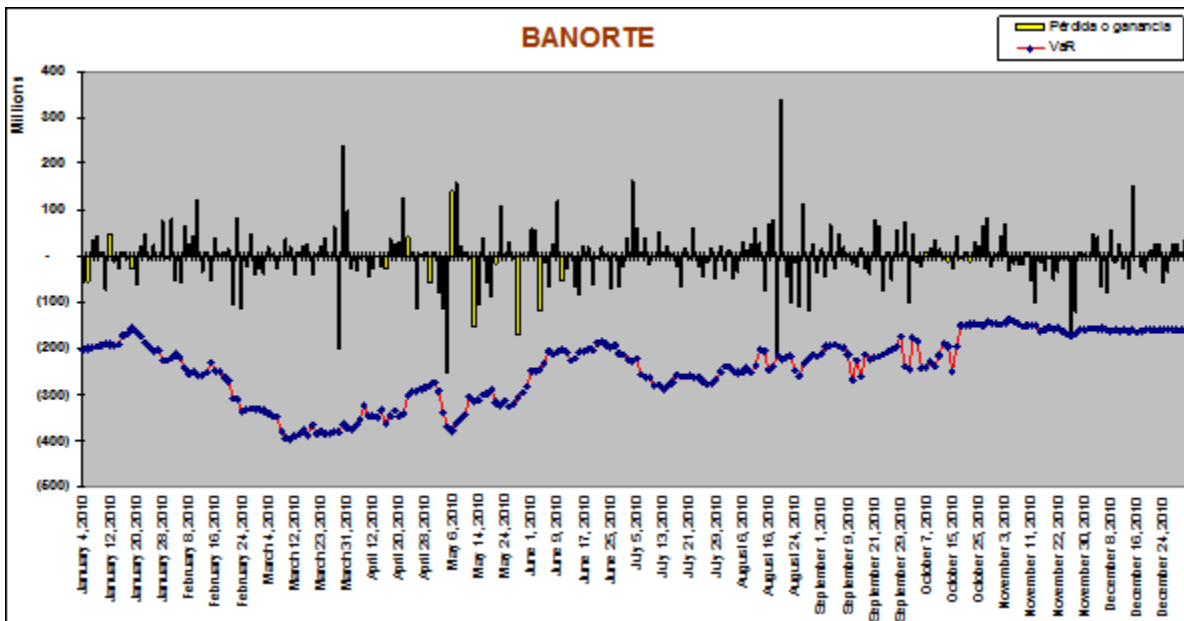
To calculate the VaR for each of the types of securities listed, the non-parametric historic simulation method is applied to a 99% level of confidence and a one-day horizon. For instance, the Value at Risk for trading UMS is Ps. 64. This means that under normal condition, 99 days out of every 100 the maximum potential loss is Ps. 64 in one day.

The trading and hedging derivatives totals are the arithmetic sum of the VaR of each without considering any correlation among them.

### **Backtesting analysis**

To validate the effectiveness of the measurements of the calculation of the daily VaR as a measurement of market risk, the Backtesting analysis is updated each week. This analysis makes it possible to compare the estimated results through the VaR with the actual results generated.

The Backtesting results for the Financial Group during 2010 are as follows:



During 2010 there was only one excess event on November 25th.

### **Sensitivity analysis and tests under extreme conditions**

To improve analysis and obtain the impact of any movements in risk factors, sensitivity analyses and tests under extreme conditions are performed periodically. These analyses foresee potential situations in which the Financial Group might suffer extraordinary losses from the valuation of the financial instruments in which it holds positions.

#### **Sensitivity for derivatives transactions**

Sensitivity analysis on derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates
  - A parallel change of +100 basis points of foreign interest rates
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.

The results may be gains or losses depending on the nature of the derivative.

[Table of Contents](#)

<b>Trading derivatives</b>	<b>+100 bp domestic rates</b>	<b>+100 bp foreign rates</b>	<b>+5% Exchange rate</b>
<b>Futures</b>			
MEXDER rate futures	Ps. (118)	Ps. —	Ps. —
<b>Exchange rate derivatives</b>			
Options	—	—	(2)
Forwards	—	—	(1)
<b>Interest rate options</b>			
TIE	(10)	—	—
Libor	—	12	—
<b>Swap options</b>			
Libor	—	(38)	(1)
TIE	(33)	—	—
<b>Interest rate swaps (IRS) and exchange rate</b>			
TIE Swaps	(2)	—	—
LIBOR Swaps	—	28	(1)
Cross currency exchange rate Swaps	(47)	—	—
<b>Total trading derivatives</b>	<b>Ps. (210)</b>	<b>Ps. 2</b>	<b>Ps. (5)</b>
<b>Hedging derivatives</b>			
<b>Rate swaps and exchange rate</b>			
Cross exchange rate Swaps for hedging obligations in USD	Ps. 25	Ps. (30)	Ps. 196
Cross exchange rate Swaps for hedging bonds in USD	(239)	400	(466)
TIE Swaps for hedging obligations in Mexican pesos	168	—	—
TIE Swaps for hedging promissory note in Mexican pesos	617	—	—
TIE caps for fixed rate loan hedging	28	—	—
<b>Total hedging derivatives</b>	<b>Ps. 599</b>	<b>Ps. 370</b>	<b>Ps. (270)</b>

In the event of any of above scenarios, the losses or gains of the trading securities will directly impact the Financial Group's statements of income and capital hedging derivatives.

Based on the above analysis, it can be concluded that the trading derivatives portfolio is exposed mainly to increases in domestic interest rates and exchange rate devaluations. However, the hedging derivatives portfolio is exposed to foreign interest rate increases without considering the gain of the hedged liability.

**Sensitivity for operations with securities**

Sensitivity analysis on derivative transactions is carried out as follows:

- Estimate gain or loss of the securities valuation in the event of:
  - A parallel change of +100 basis points of domestic interest rates
  - A parallel change of +100 basis points of foreign interest rates
  - A 5% devaluation in the MXP/USD and MXP/EUR exchange rate.
  - A change of +5 basis points in government bonds surcharges
  - A change of +50 basis points in sovereign risk
  - A change of +10% in the IPC (Consumer Price Index)

The results may be gains or losses depending on the nature of the instrument.

[Table of Contents](#)

	+100 bp domestic rates	+100 bp foreign rates	+5% exchange rate	+5 bp rate spreads	+50 bp sovereign risk
<b>Trading Securities</b>					
Variable rate government bonds	Ps. (52)	Ps. —	Ps. —	Ps. (39)	Ps. —
Fixed rate government bonds	(14)	—	—	—	—
Securitization certificates	(4)	—	—	—	—
CEDES	(2)	—	—	—	—
US treasury bonds	—	(2)	1	—	—
PEMEX eurobonds	—	(51)	64	—	(22)
UMS	—	(4)	16	—	(2)
Bank eurobonds	—	(71)	90	—	—
Private company eurobonds	—	—	9	—	—
<b>Total</b>	<b>Ps. (72)</b>	<b>Ps. (128)</b>	<b>Ps. 180</b>	<b>Ps. (39)</b>	<b>Ps. (24)</b>
<b>Securities held to maturity</b>					
Variable rate government bonds	Ps. (275)	Ps. —	Ps. —	Ps. (173)	Ps. —
Fixed rate government bonds	(6)	—	—	—	—
Securitization certificates	(25)	—	—	—	—
Bank bonds	(4)	—	—	—	—
PEMEX eurobonds	—	(183)	280	—	(93)
UMS	—	(116)	154	—	(59)
Zero coupon bank bonds	(2)	(49)	—	—	—
Private company eurobonds	—	—	—	—	—
<b>Total</b>	<b>Ps. (312)</b>	<b>Ps. (348)</b>	<b>Ps. 434</b>	<b>Ps. (173)</b>	<b>Ps. (152)</b>

In the event of any of above scenarios, the losses or gains of the operations with trading securities and securities held to maturity will directly impact the Financial Group's results.

In conclusion, trading securities and securities held to maturity are exposed to domestic interest rate increases, foreign rate increases, interest rate spreads and deterioration of the sovereign risk.

**Liquidity and balance sheet risk**

In order to provide a measurement of liquidity risk in the Financial Group and provide follow-up consistently, the Financial Group relies on the use of financial ratios, which include the Liquidity Ratio (Current Assets/Liquid Liabilities). Liquid assets include cash and cash equivalents, trading securities and available for sale securities. By the same token, liquid liabilities include immediate demand deposits, immediate demand interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2010 is 82.7%, while the average during the quarter is 93.1%, as shown below:

	End of quarter				
	4Q09	1Q10	2Q10	3Q10	4Q10
Liquid assets	Ps. 91,931	Ps. 109,668	Ps. 141,019	Ps. 127,518	Ps. 132,713
Liquid liabilities	143,834	132,465	140,406	140,506	160,432
Liquidity ratio	63.9%	82.8%	100.4%	90.8%	82.7%
	Average				
	4Q09	1Q10	2Q10	3Q10	4Q10
Liquid assets	Ps. 92,729	Ps. 96,900	Ps. 123,044	Ps. 129,638	Ps. 125,871
Liquid liabilities	130,575	124,820	122,584	126,698	135,251
Liquidity ratio	71.0%	77.6%	100.4%	102.3%	93.1%

## [Table of Contents](#)

Average calculation considering the Liquidity Ratio's weekly estimates.

To quantify and follow up on the liquidity risk for its dollar portfolio, the Financial Group uses the criteria established by Banco de México for the determination of the Liquidity Ratio. It facilitates an evaluation of the differences between the flows of assets and liabilities in different time periods. The above promotes a healthier distribution of terms for these assets.

Also, to prevent concentration risks in relation to payment terms and dates for the Financial Group, gap analysis is performed to match the resources with the funding sources, which detects any concentration in a timely fashion. These analyses are performed separately by currency (Mexican pesos, foreign currency and UDIS).

Furthermore, balance sheet simulation analyses are prepared for the Financial Group, which provides either a systematic or dynamic evaluation of the future behavior of the balance sheet. The base scenario is used to prepare sensitivity analyses for movements in domestic, foreign and real interest rates. Also, tests are performed under extreme conditions to evaluate the result of extreme changes in interest, funding and exchange rates.

As an evaluation measure of the effectiveness of the simulation model, the projections are periodically compared with actual data. Using these tests, the assumptions and methodology used can be evaluated and, if necessary, adjusted.

The operation with derivatives allows a leveling of the differentials between assets and liabilities in different maturity gaps, minimizing the Liquidity Risk. Considering only the contractual obligations of the different types of hedging and trading swaps that the Financial Group operates, a maturity analysis is found below:

Gap	Net position		
	Asset position	Liability position	Net
1 month	Ps. —	Ps. (2)	Ps. (2)
3 months	—	—	—
6 months	1	—	1
1 year	1	(546)	(545)
2 years	2	(5)	(3)
3 years	—	(12)	(12)
4 years	1	(35)	(34)
5 years	1	(43)	(42)
7 years	460	(75)	385
10 years	86	(922)	(836)
15 years	12	—	12
20 years	429	(401)	28
> 20 years	657	(8)	649
<b>Total</b>	<b>Ps. 1,650</b>	<b>Ps. (2,049)</b>	<b>Ps. (399)</b>

### Operational risk

In January 2003, the Financial Group established a formal operational risk department denominated "Operational Risk Management Department" as part of its Risk Management Strategy.

The Financial Group defines operational risk as the potential loss due to failures or deficiencies in internal controls because of operation processing and storing or in data transfer, and adverse administrative and judicial rulings, frauds or theft (this definition includes technology and legal risk).

Operational Risk Management's objectives are: a) to enable and support the organization to reach its institutional objectives through operational risk prevention and management; b) to ensure that the existing operational risks and the required controls are duly identified, evaluated and aligned with the organization's risk strategy; and c) to ensure that operational risks are duly quantified in order to assign the proper capital for operational risk.

## Operational risk management's cornerstones

### I. Policies, objectives and guidelines

The Financial Group has documented the operational risk policies, objectives, guidelines, methodologies and responsible areas.

The Operational Risk Department works closely with the Controllership Department to promote effective Internal Control that defines the proper procedures and controls the mitigation of Operational Risk. The Internal Audit Department follows up on compliance.

Regulations Control, as part of the Internal Control System, performs the following risk-mitigating activities: a) internal control validation; b) institutional regulations management and control; c) monitoring of operating process internal control by means of control indicator reports submitted by the process controllers in the various areas; d) money-laundering prevention process management; e) regulatory provisions controls and follow-up; and f) analysis and assessment of operating processes and projects with the participation of the directors in each process in order to insure proper internal control.

### Quantitative and qualitative measuring tools

#### Operating Losses Database

To record operating loss events, a system has been developed internally known as the "Operating Loss and Events Capture System" (SCERO). This system enables the central information supplier areas to directly record such events online, which are classified by type of event in accordance with the following categories (in line with the Basle II Agreement proposals):

<b>Types of events</b>	<b>Description</b>
Internal fraud	Losses derived from actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the Institution (excluding diversity/discrimination events) involving at least one internal party.
External fraud	Losses derived from actions taken by third parties intended to defraud, illegally seize ownership or evade the law.
Labor relations and job safety	Losses derived from actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or diversity/discrimination claims.
Customers, products and business practices	Losses derived from negligence or unintentional breaches which prevent compliance with professional obligations with customers (including trust and adaptation requirements or due to the nature or design of a product.
Natural disasters and other events	Losses due to damage or harm to physical assets due to natural disasters or other events.
Business incidences and system failures	Losses derived from incidences in the business and system failures.
Process execution, delivery and management	Losses derived from errors in transaction processing or in process management, as well as relations with counterparties and suppliers.

This historical database provides the statistics of the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution. Furthermore, the database will serve to calculate capital requirements for advanced models in the future.

#### Legal and tax contingencies database

For the recording and follow-up of legal, administrative and tax issues that may arise from adverse unappealable ruling, an internal system called "Legal Risk Issues Monitoring System" (SMARL) was developed. This system enables the central data supplying areas to record such events directly and on-line, which are then classified by company, sector and legal issue, among others.

## [Table of Contents](#)

As part of the Financial Group's Legal Risk management initiative, legal and tax contingencies are estimated by the attorneys that process the issues based on an internal methodology. This makes it possible to create the necessary book reserve to face such estimated contingencies.

### Risk management model

The Financial Group and its subsidiaries had defined objectives, which are achieved through different plans, programs and projects. Compliance with such objectives may be adversely affected due to operating risks, for which reason a methodology must be in place to manage them within the organization. Consequently, operational risk management is now an institutional policy defined and supported by senior management.

To perform operational risk management, each of the operating risks involved in the processes must be identified in order to analyze them. In this regard, the risks identified by Regulations Control are recorded in a risk matrix and processed to eliminate or mitigate them (trying to reduce their severity or frequency) and to define the tolerance levels, as applicable. A new Operating Risk Management Model and the technology tool for its implementation are currently being developed.

### **II. Calculating capital requirement**

Pursuant to the Operational Risk Capitalization Rules, the Financial Group has adopted a Basic Model, which is calculated and reported periodically to the authorities. Assets subject to operational risk are found in the corresponding note of the Rules.

### **III. Information and reporting**

The information generated by the databases and the Management Model is processed regularly in order to report the main operating events detected, trends, identified risks (risk matrix) and the mitigating strategies to the Risk Policy Committee and the Board of Directors. The status of the principal initiatives for operating risk mitigation implemented by the different areas of the organization is also reported.

### **Technology risk**

It is defined as the potential loss due to damage, interruption, alteration or failures in the use of or dependence on hardware, software, IT systems, applications, networks and any other data distribution channel for rendering services to customers. Technology risk forms an inherent part of operating risk, for which reason its management is performed throughout the entire organization.

To address operating risk associated with data integrity, the "Integrity Committee" was created. Its objectives include aligning data security and control efforts to a prevention approach, defining new strategies, policies, processes or procedures and solving data security issues that affect or may affect the Financial Group's assets.

The Financial Group performs the functions for technology risk management set forth by the Commission under the guidelines established by the institutional regulations and the Integrity Committee.

To address the operating risk caused by high impact external events, the Financial Group has a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a same-time data replication system at an alternate computer site. This guarantees the back-up and recovery of critical applications in the event of an operating contingency.

### **Legal risk**

Legal risk is defined as the potential loss due to noncompliance with applicable legal and administrative provisions, adverse administrative and judicial rulings, and imposed penalties.

The legal risk must be measured as an inherent part of operating risk in order to understand and estimate its impact. Therefore, those legal issues which result in actual operating losses in the SMARL system are recorded in the SCERO in accordance with a predetermined classification.

## [Table of Contents](#)

Based on the statistics of the current legal issues and real loss events, the Financial Group can identify specific legal or operating risks, which are analyzed in order to eliminate or mitigate them in an attempt to reduce or limit their future occurrence or impact.

### 33 - MEMORANDUM ACCOUNTS

	<u>2010</u>	<u>2009</u>
Banks customers (current accounts)	Ps. 9	Ps. 4
Settlement of customer transactions	1	(80)
Customer valuables received in custody	172,922	134,480
Customer repurchase agreements	28,647	35,680
Managed trusts	4,348	4,641
	<b>Ps. 205,927</b>	<b>Ps. 174,725</b>
Other contingent assets and liabilities	Ps. 256	Ps. 273
Credit commitments	3,155	2,272
Deposits of assets	2,429	1,632
Assets in trusts or under mandate	124,723	112,942
Managed assets in custody	230,140	158,547
Investment banking transactions on account of third parties (net)	78,069	74,646
Collateral received by the institution	62,224	33,464
Collateral received and sold or given as a pledge by the entity	36,195	43,165
Past-due loan portfolio accrued but not charged interest	136	198
	<b>Ps. 537,327</b>	<b>Ps. 427,139</b>

### 34 - COMMITMENTS

As of December 31, 2010 and 2009, the Financial Group had the following contingent obligations and commitments:

- Other contingent obligations and opening of credits totaling Ps. 3,411 (Ps. 2,545 in 2009), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. Total property lease payments for the periods ended December 31, 2010 and 2009, were Ps. 207 and Ps. 197, respectively.

### 35 - CONTINGENCIES

As of December 31, 2010, there are lawsuits filed against the Financial Group in civil and business court cases; however, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not significantly impact the Financial Group's consolidated financial position. A reserve of Ps. 118 is recorded for such contentious matters.

### 36 - SAVINGS PREVENTIVE AND PROTECTION MECHANISM

The objective of the Institute for the Protection of Bank Savings (IPAB) is to protect the deposits of small customers and thereby contribute to maintaining the financial system's stability and the proper functioning of the payments systems.

According to the Law of Bank Savings Protection (LPAB), the IPAB manages a bank savings protection system that guarantees the payment of bank deposits or loans or credits to Full Service Banking Institution up to an amount equivalent to 400 thousand UDIS per individual or business entity, regardless of the number or type of such obligations in the customer's favor and charged to a single bank.

## [Table of Contents](#)

On July 30, 2007, general rules were issued for addressing joint accounts or those in which there is more than one account holder, referred to in art.14 of the LPAB, as well as the rules banks must observe for classifying information relative to transactions associated with guaranteed obligations.

The IPAB plays a major role in the implementation of the LPAB resolutions methods and the Law of Credit Institutions (LIC) as timely and adequate mechanisms for salvaging and liquidating Full Service Banking Institutions in financial trouble that may affect their solvency. The purpose is to provide maximum protection to the public while minimizing the negative impact that salvaging an institution may have on others in the banking system.

During 2010 and 2009, the amount of contributions to the IPAB payable by Banorte for fees amounted to Ps. 1,084 and Ps. 1,073, respectively.

### **37 — NEW ACCOUNTING PRINCIPLES**

#### Modification of the consumer and mortgage loan rating methodology.

On October 25, 2010 the Commission issued a resolution to the General Provisions for Banking Institutions modifying the applicable non-revolving consumer and housing mortgage loan rating so that the allowance for loan losses will be calculated on the basis of expected rather than incurred loss. This modification will become effective on March 1, 2011. The Financial Group considers that the initial impact from entry into force of this amendment is approximately Ps. 600 increase in the reserve requirement. This will be recognized in stockholders' equity no later than March 31, 2011, in the prior year's results.

### **38 — DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND MEXICAN FINANCIAL REPORTING STANDARDS**

The Financial Group's consolidated financial statements are prepared in accordance with the Accounting Practices established by the Commission ("Mexican Banking GAAP"), which differ in certain respects from Mexican Financial Reporting Standards ("MFRS").

The principal differences and the effect on consolidated net income and consolidated stockholders' equity are presented below with an explanation of the adjustments. This information is not required by Mexican Banking GAAP.

#### **Reconciliation of stockholders' equity:**

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Stockholders' equity under Mexican Banking GAAP</b>	Ps. 50,227	Ps. 44,974
Adjustments:		
Loan loss reserves (See B)	—	(198)
Loan origination fees and costs (See A)	277	275
Reserve for foreclosed assets (See C)	143	45
Insurance and postretirement activities (See A)	2,231	1,857
Purchased loan portfolio (See A)	86	(163)
Securitizations (See D)	(222)	(179)
Investment valuation (See A)	—	7
Total adjustments	2,515	1,644
Tax effect on adjustments (See F)	(783)	(439)
Noncontrolling interest attributable to adjustments (See G)	(777)	(645)
<b>Stockholders' equity under MFRS</b>	<u>Ps. 51,182</u>	<u>Ps. 45,534</u>



**Reconciliation of net income:**

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net income under Mexican Banking GAAP</b>	Ps. 6,705	Ps. 5,854
<b>Adjustments:</b>		
Loan loss reserves (See B)	198	(101)
Loan origination fees and costs (See A)	2	126
Reserve for foreclosed assets (See C)	99	90
Insurance and postretirement activities (See A)	374	119
Derivatives (See A)	—	75
Purchased loan portfolio (See A)	249	220
Securitizations (See D)	(43)	152
Repurchase agreements (See A)	—	24
Investment valuation (See A)	(7)	19
Change in credit card loan rating methodology (E)	—	(1,102)
Total adjustments	872	(378)
Tax effect on adjustments (See F)	(311)	157
Noncontrolling interest attributable to adjustments (See G)	(150)	(31)
<b>Net income under MFRS</b>	<b>Ps. 7,116</b>	<b>Ps. 5,602</b>

***Explanation of reconciling items:***

**A) General**

This difference between Mexican Banking GAAP and MFRS is explained further in Note 39, as the accounting treatment under MFRS and U.S. GAAP are the same for this item.

**B) Loan loss reserves**

Mexican Banking GAAP establishes rules for loan portfolio ratings and general methodologies for the rating and constitution of preventive allowances for loan losses for each type of loan and allows credit institutions to rate and develop preventive allowances based on internal methodologies, previously authorized by the Commission.

According to Circular B-6, “Loan Portfolio”, additional reserves may be recorded to cover risks that are not foreseen by the existing loan portfolio rating methodologies. Before doing so, the Financial Group must report the following to the Commission: a) the origin of the estimates; b) the methodology applied; c) the amount of the estimates; and d) the period over which they are considered to be necessary. Prior to 2007, specific provisions were calculated when it was determined to be probable that the Financial Group would not recover the full contractual principal and interest on a loan (impaired loan).

Under Mexican Banking GAAP debtor support program allowances were canceled during the first quarter of 2007 as they did not meet the requirements mentioned above and additional allowances related to UDI Trusts are recorded in accordance with accounting circulars prescribed by the Commission. Under MFRS, additional reserves are not recorded and reserves for debtor support programs must be established and additional allowances related to UDI Trusts allowances must be reversed.

As disclosed in Note 10, on June 30, 2010 the Federal Government through the SHCP and Banking Institutions signed an agreement for the early termination of the mortgage loan debtors support programs (punto final and UDI trusts) As a result of signing the agreement, the Financial Group reduced its reserve to Ps. 57 related to such obligation. Under MFRS additional reserves for debtor programs were cancelled.

**C) Reserve for foreclosed assets**

Under Mexican Banking GAAP, reserves for foreclosed assets are required based on their nature and number of months outstanding. Under MFRS, these assets are recognized at the lower of the corresponding loan's book value or the fair value of the foreclosed asset. Potential impairment should also be evaluated and recognized, as necessary, on these assets.

**D) Securitizations**

Under Mexican Banking GAAP, the Financial Group accounts for its securitization transactions as disclosed in Note 4. If it has transferred a financial asset, MFRS requires the Financial Group to assess whether it has transferred substantially all the risks and rewards of ownership of the transferred asset. If it has retained substantially all such risks and rewards, it continues to recognize the transferred asset. If it has transferred substantially all such risks and rewards, it derecognizes the transferred asset. If the Financial Group concludes that it has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset, it assesses whether it has retained control over the transferred asset. If it has retained control, it continues to recognize the transferred asset to the extent of its continuing involvement in the transferred asset. If it has not retained control, it derecognizes the transferred asset.

Under MFRS, the securitization transactions entered into by the Financial Group, were evaluated under the "transfer of risks and rewards" approach, concluding that all of such risks and rewards were not transferred, thus, the adjustment represents the reinstatement of the assets and liabilities to the Financial Group's balance sheet.

**E) Change in credit card loan rating methodology**

As disclosed in Note 11, in 2009, the cumulative effect of the change in consumer loan rating methodology for credit card operations was charged against retained earnings with the Commission's expressed authorization. MFRS requires such changes to be recorded in current earnings.

**F) Income taxes**

MFRS differences as described above, to the extent taxable, are reflected in the MFRS deferred tax balances.

**G) Non-controlling interest**

The effects of the MFRS differences as described in this Note reflect the amounts assigned to the noncontrolling interests.

**39 — DIFFERENCES BETWEEN MEXICAN BANKING GAAP AND U.S. GAAP**

The Financial Group's consolidated financial statements are prepared in accordance with Mexican Banking GAAP, which differ in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Through December 31, 2007, the Mexican Banking GAAP consolidated financial statements include the effects of inflation as provided for under NIF B-10, "Effects of Inflation", whereas financial statements prepared under U.S. GAAP are presented on a historical cost basis. The application of NIF B-10 represented a comprehensive measure of the effects of price level changes in the inflationary Mexican economy and, as such, was considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes. Beginning on January 1, 2008, and through December 31, 2010, in accordance with NIF B-10, "Effects of Inflation", the Financial Group discontinued the recognition of inflation in its financial statements under Mexican Banking GAAP as the cumulative inflation for the preceding three years was less than 26%. Notwithstanding the prior comments, the following reconciliation to U.S. GAAP through December 31, 2007 does not include the reversal of the adjustments required under NIF B-10, as permitted by the rules and regulations of the Securities and Exchange Commission (the "SEC").

The principal differences as they relate to the Financial Group between Mexican Banking GAAP and U.S. GAAP and the effect on consolidated stockholders' equity and consolidated net income are presented below, with an explanation of the adjustments.

**Reconciliation of stockholders' equity:**

	December 31,	
	2010	2009
<b>Stockholders' equity under Mexican Banking GAAP</b>	Ps. 50,227	Ps. 44,974
U.S. GAAP adjustments:		
Loan loss reserves (See A)	2,868	3,034
Loan origination fees and costs (See B)	277	275
Purchased loan portfolio (See C)	86	(163)
Reserve for foreclosed assets (See E)	143	45
Insurance and postretirement activities (See F)	2,231	1,857
Business combinations (See G)	81	969
Employee retirement obligations (See H)	(1,062)	(1,029)
Securitizations (See J)	(26)	(22)
Other adjustments (See K)	423	322
Fair value measurements (See L)	(51)	(63)
IFC transaction (See M)	(4,244)	(3,651)
Income taxes (See N)	(1,602)	(1,617)
Total U.S. GAAP adjustments	(876)	(43)
Tax effect on U.S. GAAP adjustments (See N)	(1,751)	(1,794)
Noncontrolling interest attributable to U.S. GAAP adjustments (See O)	(762)	(689)
<b>Stockholders' equity under U.S. GAAP</b>	Ps. 46,838	Ps. 42,448

**Reconciliation of net income:**

	Years ended December 31,		
	2010	2009	2008
<b>Net income under Mexican Banking GAAP</b>	Ps. 6,705	Ps. 5,854	Ps. 7,014
U.S. GAAP adjustments:			
Loan loss reserves (See A)	(166)	1,668	225
Loan origination fees and costs (See B)	2	126	4
Purchased loan portfolio (See C)	249	220	278
Derivatives (See D)	—	75	(93)
Reserve for foreclosed assets (See E)	99	90	(210)
Insurance and postretirement activities (See F)	374	119	286
Business combinations (See G)	1	29	(318)
Employee retirement obligations (See H)	88	129	55
Capitalized costs (See I)	—	—	68
Securitizations (See J)	(4)	114	(134)
Other adjustments (See K)	(129)	(413)	(814)
Fair value measurements (See L)	12	74	(137)
Income taxes (See N)	15	(3)	11
Total U.S. GAAP adjustments	541	2,228	(779)
Tax effect on U.S. GAAP adjustments (See N)	(167)	(825)	362
Noncontrolling interest attributable to U.S. GAAP adjustments (See O)	(130)	(183)	(121)
<b>Net income under U.S. GAAP</b>	Ps. 6,949	Ps. 7,074	Ps. 6,476

[Table of Contents](#)

A rollforward of the Financial Group’s U.S. GAAP stockholders’ equity balance is as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	Ps. 42,448	Ps. 38,789
Net income under U.S. GAAP	6,949	7,074
Dividends declared	(1,029)	(364)
Issuance (repurchase) of shares	69	(451)
Acquisition of the 30% non-controlling interest of INB	—	(811)
Other comprehensive loss	<u>(1,599)</u>	<u>(1,789)</u>
<b>Balance at the end of the year</b>	<b><u>Ps. 46,838</u></b>	<b><u>Ps. 42,448</u></b>

*I Explanation of reconciling items:*

**A) Loan loss reserves**

Mexican Banking GAAP establishes rules for loan portfolio ratings and general methodologies for the rating and constitution of preventive allowances for loan losses for each type of loan and allows credit institutions to rate and develop preventive allowances based on internal methodologies, previously authorized by the Commission.

The Financial Group assigns an individual risk category to each commercial loan based on the borrower’s financial and operating risk level, its credit experience and the nature and value of the loans’ collateral. A loan loss reserve is determined for each loan based on a prescribed range of reserves associated to each risk category. In the case of the consumer and mortgage loan portfolio, the risk rating procedure and the establishment of loan reserves considers the accounting periods reporting past-due, the probability of noncompliance, and the severity of the loss in proportion to its amount and the nature of loan guarantees.

The U.S. GAAP methodology for recognition of loan losses is provided by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 450, “Contingencies”, (previously SFAS No. 5, “Accounting for Contingencies”), and ASC 310 “Receivables” (previously SFAS No. 114, “Accounting by Creditors for Impairment of a Loan”), which establish that an estimated loss should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that a loan has been impaired at the date of the financial statements and the amount of the loss can be reasonably estimated.

For larger non-homogeneous loans, the Financial Group assesses for impairment all individual loans with an outstanding balance greater than 4 million UDI or its equivalent in Mexican Pesos. Under U.S. GAAP, estimated losses on impaired loans, which are individually assessed, are required to be measured at the present value of expected future cash flows discounted at the loan’s effective rate, the loan’s observable market price or at the fair value of the collateral if the loan is collateral dependent.

To calculate the allowance required for smaller-balance impaired loans and unimpaired loans, historical loss ratios are determined by analyzing historical trends. These ratios are determined by loan type to obtain loss estimates for homogeneous groups of clients. Such historical ratios are updated to incorporate the most recent data reflective of current economic conditions, in conjunction with industry performance trends, geographic or obligor concentrations within each portfolio segment, and any other pertinent information, resulting in the estimation of the allowance for loan losses.

Under Mexican Banking GAAP, loans may be charged-off when collection efforts have been exhausted or when they have been fully provisioned. On the other hand for U.S. GAAP, loans (or portions of particular loans) should be written-off in the period that they are deemed uncollectible.

[Table of Contents](#)

On August 12, 2009, the Commission issued a resolution modifying the “General Provisions applicable to Banking Institutions”, which modifies the consumer loan rating methodology to show the expected loss in these operations based on the current environment.

This new methodology requires separating the consumer loan portfolio into two groups: those that refer to credit card operations and those that do not. The consumer loan portfolio that does not include credit card operations will consider the number of unpaid billing periods established by the Financial Group as well as the probability of noncompliance and the severity of the loss according as percentages established by the Commission. If this portfolio has collateral or means of payment in favor of the Financial Group, the covered balance will be considered to have zero unpaid periods for the provisioning purposes.

Regarding credit card loans, such portfolio shall be provisioned and rated on a loan-by-loan basis taking into consideration the probability of noncompliance, the severity of the loss and the exposure to noncompliance. The probability of noncompliance is determined using a formula which considers the number of delinquent payments before the calculation date, the number of payments not made in the previous six months, the percentage represented by the payment made with regards to the total payable balance, and the percentage represented by the payment made in relation to the account’s authorized credit limit. The percentage to be utilized to determine the amount of loss reserves for each credit, results from multiplying the severity of the loss by the probability of noncompliance. The amount of the reserves to record results from multiplying the percentage referred to, by the exposure to noncompliance. Exposure to noncompliance is determined by applying a formula that considers both the total balance of the creditor’s debt and its credit limit. In the case of inactive accounts, a provision equivalent to 2.68% of the credit limit shall be constituted. The resulting effect of applying the revised consumer loan rating method for credit card operations is shown in Note 11. Given that the methodology remained unchanged for purposes of U.S. GAAP, the adjustment related to the loan loss reserve for credit cards increased when compared to 2008.

U.S. GAAP loan loss reserves are as follows:

<b>Loan loss reserves</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Loan loss reserves for ASC 310	Ps. 1,986	Ps. 388	Ps. 523
Loan loss reserves for ASC 450	3,391	4,113	4,728
Total loan loss reserves US GAAP	5,377	4,501	5,251
Mexican Banking GAAP loan loss reserves	8,245	7,535	6,617
Stockholders’ equity adjustment	2,868	3,034	1,366
Net Income adjustment	Ps. (166)	Ps. 1,668	Ps. 225

**Roll forward of loan loss reserves:**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Beginning of the year	Ps. 4,501	Ps. 5,251	Ps. 2,572
Charge-offs net of recoveries	(6,329)	(7,560)	(4,002)
Charges to income of the year	7,205	6,810	6,681
End of the year	Ps. 5,377	Ps. 4,501	Ps. 5,251

[Table of Contents](#)

**Ratios:**

<b>Loan loss reserves for ASC 310</b>	<b>December 31,</b>			<b>Percentage</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total reserves	Ps. 1,986	Ps. 388	Ps. 523			
Total balances of impaired loans	Ps. 977	Ps. 387	Ps. 153	203.23%	100.26%	341.83%
Total balances of outstanding loans	Ps. 4,731	Ps. 7,596	Ps. 1,256	41.98%	5.11%	41.64%

<b>Loan loss reserves for ASC 450</b>	<b>December 31,</b>			<b>Percentage</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total reserves	Ps. 3,391	Ps. 4,113	Ps. 4,728			
Total balances of impaired loans	Ps. 3,653	Ps. 4,717	Ps. 4,548	92.82%	87.22%	103.96%
Total balances of outstanding loans (1)	Ps. 265,483	Ps. 237,512	Ps. 243,990	1.28%	1.73%	1.94%

(1) The Financial Group has also recorded loan loss reserves in accordance with ASC 450 related to items such as guarantees and other off-balance sheet liabilities. Such balances, which are not included in the total balance of outstanding loans, amounted to Ps. 3,155, Ps. 2,272 and Ps. 2,793 as of December 31, 2010, 2009 and 2008, respectively.

*Government Sponsored Programs*

Mexican banks have participated in a number of debtor relief programs that began in 1995, which caused the Mexican banks to reduce their claims to the outstanding balances of loans meeting certain criterion in accordance with program guidelines. In connection with government sponsored restructurings, Mexican banks had the option of accounting for the full amounts of the loss on the date of the refinancing or deferring the loss and amortizing this loss in the statement of income in subsequent periods. For individual loan restructurings, the Financial Group generally charges off any difference in the carrying amount of the original loan and the restructured loan.

For U.S. GAAP purposes, discounts available for clients as stated in these programs were written-off as the Financial Group estimated that would be the expected reduction on the future cash flows.

**B) Loan origination fees and costs**

Under Mexican Banking GAAP, fees charged in connection with the issuance of loans are recorded as a deferred credit, which is amortized into interest income over the loan's term, using the straight line method. Until December 31, 2006, loan origination fees were recognized on a cash basis. This change in accounting principle was applied retrospectively. Costs and expenses associated with the initial granting of the loan are recorded as a deferred charge to be amortized as interest expense over the same period in which the fee income is recognized. This applies only to those costs and expenses that are considered incremental. Until December 31, 2007 loan origination costs were expensed as incurred. This change was applied prospectively given the practical impossibility of determining them for prior years. In addition, annual credit card fees, the fees for unused credit lines, as well as the associated costs and expenses, are amortized in 12 months. Under U.S. GAAP, as required by ASC 310 "Receivables" (previously SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases"), loan origination fees are deferred and recognized over the life of the loan as an adjustment of yield (interest income). Likewise, direct loan origination costs defined in the following paragraph are deferred and recognized as a reduction in the yield of the loan. Loan origination fees and related direct loan origination costs for a given loan are offset and only the net amount is deferred and amortized.

## [Table of Contents](#)

Direct loan origination costs of a completed loan include (a) incremental direct costs of loan origination incurred in transactions with independent third parties for that loan and (b) certain costs directly related to specified activities performed by the lender for that loan. Those activities include evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating loan terms; preparing and processing loan documents; and closing the transaction.

Credit card fees and costs are recognized on a straight-line basis over the period the cardholder is entitled to use the card.

### **C) Purchased loan portfolio**

As discussed below, prior to December 31, 2004 Mexican Banking GAAP had no specific rules covering the accounting treatment of loan portfolios purchases. As collections on the purchased loan portfolios were received, the Financial Group recognized the amounts recovered as investment income. In addition, the Financial Group amortized the cost of the investment based on the percentage of amounts recovered to the acquisition cost of the portfolio acquired, as adjusted by financial projections. Unamortized amounts, if any, were written off when the collection process had ceased.

In 2005, the Financial Group adopted the guidance found in ASC 310 "Receivables" (previously SOP 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer") for its Mexican Banking GAAP financial statements and applied it prospectively to all existing portfolios held. U.S. GAAP addressed accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment (the amount paid to the seller plus any fees paid or less any fees received) in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. For U.S. GAAP purposes, in 2004 the Financial Group early adopted this guidance and began to apply its requirements for all portfolios purchased after December 31, 2003.

In 2007, the Financial Group adopted the Commission's new Circular B-11, "Collection Rights"; therefore under Mexican Banking GAAP purchased portfolios are valued using one of the following methods: cash basis method, interest method and cost recovery method, established in such circular.

Under U.S. GAAP, ASC 310 "Receivables" (previously APB 6, "Amortization of Discounts on Certain Acquired Loans"), addressed the accounting and reporting by purchasers of loans in fiscal years beginning on or before December 15, 2004. This accounting was utilized for all portfolios purchased prior to December 31, 2003. At the time of acquisition, the sum of the acquisition amount of the loan and the discount to be amortized should not exceed the undiscounted future cash collections that are both reasonably estimable and probable. If these criteria are not satisfied, the loan should be accounted for using the cost-recovery method.

The loan portfolios (generally consisting of troubled loans) purchased at a discount would represent a purchase of a loan portfolio where it is not probable that the undiscounted future cash collections will be sufficient to recover the face amount of the loan and contractual interest. Consequently, under U.S. GAAP, at the time of acquisition, the sum of the acquisition amount of the loan and the discount to be amortized should not exceed the undiscounted future cash collections that are both reasonably estimable and probable. The discount on an acquired loan should be amortized over the period in which the payments are probable of collection only if the amounts and timing of collections, whether characterized as interest or principal, are reasonably estimable and the ultimate collectability of the acquisition amount of the loan and the discount is probable. If these criteria are not satisfied, the loan should be accounted for using the cost-recovery method. Application of the cost-recovery method requires that any amounts received be applied first against the recorded amount of the loan; when that amount has been reduced to zero, any additional amounts received are recognized as income.

Under Mexican Banking GAAP, origination costs and other fees are capitalized as part of the original investment, while for U.S. GAAP purposes those costs are expensed as incurred.

[Table of Contents](#)

The Financial Group's portfolio disclosures and U.S. GAAP methodology applied are disclosed in the following table:

Portfolio	Stockholders' equity		Net income			Methodology applied under U.S. GAAP
	December 31,		Year ended December 31,			
	2010	2009	2010	2009	2008	
Bancrecer I	Ps. (106)	Ps. (131)	Ps. 25	Ps. 21	Ps. 13	Cost-recovery method
Serfin Santander	14	(57)	71	3	10	Cost-recovery method
Meseta	34	33	1	48	23	Cost-recovery method
Bancrecer II	(2)	(2)	—	—	—	Cost-recovery method
Goldman Sachs	(96)	(147)	51	39	42	Cost-recovery method
Cremi	(34)	(41)	7	8	13	Cost-recovery method
Banorte Sólida	(104)	(128)	24	23	46	Cost-recovery method
Bancomer I	(134)	(153)	19	(17)	(27)	Cost-recovery method
Bancomer II	—	1	(1)	(8)	(2)	Interest method
Banco Unión	20	10	10	4	(5)	Interest method
Bital I	6	(17)	23	30	19	Interest method
Bancomer III	13	36	(23)	2	6	Interest method
Bancomer IV	288	243	45	68	71	Interest method
Bital II	17	13	4	(1)	(6)	Interest method
Banamex Hipotecario	69	80	(11)	(1)	20	Interest method
GMAC Banorte	10	14	(4)	(10)	7	Interest method
Serfin Comercial I	7	10	(3)	(6)	27	Interest method
Serfin Hipotecario	87	73	14	14	17	Interest method
Vipesa	(3)	—	(3)	3	4	Interest method
	<u>Ps. 86</u>	<u>Ps. (163)</u>	<u>Ps. 249</u>	<u>Ps. 220</u>	<u>Ps. 278</u>	

**D) Derivatives**

Beginning in 2007, under Mexican Banking GAAP, trading instruments are carried at fair value in the balance sheet, and changes in fair value are recognized in current earnings. The Financial Group accounts the hedge instruments as follows:

- For fair value hedges, the transactions are recorded as follows: the fair value of the derivative instrument is recorded in the balance sheet, and changes in the fair value of both the derivative instrument and the hedged item are recognized in current earnings.
- For cash flow hedges, the transactions are recorded as follows: the fair value of the derivative instrument is recorded in the balance sheet and changes in the effective portion are temporarily recognized as a component of other comprehensive income in stockholders' equity and subsequently reclassified to current earnings when affected by the hedged item. The ineffective portion of the gain or loss on the hedging instrument is recognized in current earnings.

Under Mexican Banking GAAP, through December 31, 2008, the Financial Group was not required to bifurcate its embedded derivatives related to service contracts and purchase and sale transactions from their host contracts and record them at their fair value for financial statement purposes.

Through December 31, 2008, under Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") was allowed. However, macro hedging is not permitted under U.S. GAAP.



## [Table of Contents](#)

ASC 815, “Derivatives and Hedging” (previously SFAS 133, “Accounting for Derivative Instruments and Hedging Activities”), of U.S. GAAP provides that:

- Derivative financial instruments considered to be an effective hedge from an economic perspective that have not been designated as a hedge for accounting purposes are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.
- For all derivative instruments that qualify as fair value hedges for accounting purposes, of existing assets, liabilities or firm commitments, the change in fair value of the derivative should be accounted for in the statement of income and be fully or partially offset in the statement of income by the change in fair value of the underlying hedged item; and
- For all derivative contracts that qualify as hedges of future cash flows for accounting purposes, the change in the fair value of the derivative should be initially recorded in other comprehensive income in stockholders’ equity. Once the effects of the underlying hedged transaction are recognized in earnings, the corresponding amount in OCI is reclassified to the statement of income to offset the effect of the hedged transaction. All derivative instruments that qualify as hedges are subject to periodic effectiveness testing. Effectiveness is the derivative instrument’s ability to generate offsetting changes in the fair value or cash flows of the underlying hedged item. The ineffective portion of the change in fair value for a hedged derivative is immediately recognized in earnings, regardless of whether the hedged derivative is designated as a cash flow or fair value hedge.

Under U.S. GAAP, prior to January 1, 2007, the Financial Group’s derivative contracts are not accounted for as hedges for accounting purposes and are recognized in the balance sheet at fair value with changes in the fair value recognized in earnings concurrently with the change in fair value of the underlying assets and liabilities.

Under U.S. GAAP, certain embedded terms included in host contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument must be separated from the host contract and accounted for at fair value.

### **E) Reserve for foreclosed assets**

Under Mexican Banking GAAP, assets repossessed or received as payment in kind are recorded at the value at which they were judicially repossessed by order of the courts. If the book value of the loan to be foreclosed on the date of foreclosure is lower than the value of the repossessed asset as judicially determined, the value of the asset is adjusted to the book value of the loan. Foreclosed assets are subsequently valued based on standard provisions established by the Commission depending on the nature of the foreclosed asset and the number of months outstanding.

Until December 31, 2006, in accordance with Mexican Banking GAAP foreclosed assets were considered to be monetary assets, while for U.S. GAAP these were treated as non-monetary assets. As a result of the change in the accounting for foreclosed assets under Mexican Banking GAAP, in 2007 the Financial Group no longer calculated REPOMO related to these assets as they were considered to be non-monetary assets.

Under U.S. GAAP, as required by ASC 310 “Receivables” (previously SFAS No. 15, “Accounting by Debtors and Creditors for Troubled Debt Restructurings”), assets repossessed or received as payment in kind are reported at the time of foreclosure or physical possession at their fair value less estimated costs to sell. Subsequent impairment adjustments should be recognized if the fair value of these assets decreases below the value measured when repossessed or received, determined on an asset by asset basis. Those assets not eligible for being considered as ‘available-for-sale’ are depreciated based on their useful life and are subject to impairment tests.

[Table of Contents](#)

**F) Insurance and postretirement activities**

According to the accounting practices prescribed by the Mexican National Insurance and Surety Commission (Mexican Insurance GAAP), commissions and costs at the origination of each policy are charged to income as incurred. In addition, for life insurance policies, any amount received from individuals is considered as premium income. As required by U.S. GAAP, commissions and costs at origination are capitalized and amortized over the life of the policy using the effective interest method (deferred acquisition costs). Furthermore, premiums received in excess for life insurance policies are recorded as premium income.

Also, under the accounting practices prescribed by the National System of Saving for the Retirement Commission, the direct costs associated with the reception of new clients for the administration of the bills of retirement is recognized in income as incurred. Under U.S. GAAP the costs are capitalized and amortized over the time in which the service is rendered.

Accumulated deferred acquisition costs (DAC) as of December 31, 2010, 2009 and 2008 under U.S. GAAP are as follows:

	December 31,		
	2010	2009	2008
Life	Ps. 24	Ps. 22	Ps. 20
P&C	316	287	255
Health	28	58	197
Afore	1,640	1,351	1,397
Total accumulated DAC	<u>Ps. 2,008</u>	<u>Ps. 1,718</u>	<u>Ps. 1,869</u>
DAC - net amount charged to net income	<u>Ps. 290</u>	<u>Ps. (151)</u>	<u>Ps. 371</u>

Under Mexican Insurance GAAP, certain reserves (disaster) are calculated using internal models previously approved by the Mexican National Insurance and Surety Commission. Generally pension reserves are based on the present value of benefits to be paid together with fees suggested by this Commission. U.S. GAAP establishes the use of a fee that allows policy benefits to be covered through premiums collected for pension reserves. Under U.S. GAAP, provisions for disaster reserves are based on actuarial calculations for losses incurred using the experience of the Financial Group.

The Financial Group recorded a reserve for catastrophic events under Mexican GAAP as a liability which is not allowed by U.S. GAAP.

**Loss reserves and unearned premiums:**

	December 31,	
	2010	2009
Life	Ps. 23	Ps. 68
P&C	(348)	(267)
Health	(38)	(125)
LAE	(161)	(107)
Afore	(343)	(308)
Pensions	739	696
Total	<u>(128)</u>	<u>(43)</u>
Catastrophic reserve:		
P&C	<u>320</u>	<u>252</u>
	320	252
Reinsurance activities	<u>30</u>	<u>(70)</u>
Total reserves	<u>Ps. 222</u>	<u>Ps. 139</u>

**Summary:**

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
DAC	Ps. 2,008	Ps. 1,718
Total reserves	<u>222</u>	<u>139</u>
Total adjustments	<u>Ps. 2,230</u>	<u>Ps. 1,857</u>

**G) Business combinations**

Through December 31, 2004, under Mexican Banking GAAP the excess of the purchase price over the adjusted book value of net assets acquired was recorded as goodwill (negative goodwill if book value exceeded the purchase price). Effective January 1, 2005, NIF B-7, which substantially conforms to the accounting established by U.S. GAAP, except as it relates to transactions between shareholders, requires the excess of the purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired.

Under U.S. GAAP, ASC 805, "Business Combinations" (previously SFAS No. 141), requires the excess purchase price over the book value of assets and liabilities acquired to be allocated to the fair value of separately identifiable assets and liabilities acquired. Retail depositor relationships associated with an acquisition of a financial institution by a bank, termed the core deposit intangible, are identified and valued separately. In addition, any negative goodwill (excess of fair value over cost) is first allocated to reduce long-lived assets acquired and if any negative goodwill remains that amount is recognized as an extraordinary gain. The Financial Group's U.S. GAAP stockholders' equity and net income balances have been adjusted for differences generated by the balances of both intangible and fixed assets resulting from the Bancrecer acquisition in 2001.

The Financial Group's subsidiary Banorte, through its wholly-owned subsidiary Banorte USA acquired 70% of the outstanding common stock of INB on November 16, 2006. The total purchase price including acquisition costs, exceeded the estimated fair value of tangible net assets acquired by approximately USD 176 million, of which approximately USD 16 million was assigned to an identifiable intangible asset with the remaining balance recorded by the Financial Group as goodwill. The identifiable intangible asset represents the future benefit associated with the acquisition of the core deposits and is being amortized over a period that approximates the expected attribution of the deposits. Factors that contributed to a purchase price resulting in goodwill include INB's historical record of earnings, capable management, and the Financial Group's ability to enter the US market, which are expected to complement and create synergies with the Financial Group's existing service locations. The results of operations of INB are included in the consolidated earnings of the Financial Group as of the effective date of the acquisition. Certain differences related to Banorte USA, which prepares its financial information in accordance with U.S. GAAP are included in the reconciliation within the corresponding U.S. GAAP adjustments. The goodwill recorded in the acquisition of INB is being accounted for in accordance with ASC 350, "Intangibles — Goodwill and Other" (previously SFAS No. 142 "Goodwill and Other Intangible Assets"). Accordingly, goodwill will not be amortized; rather it is being tested annually for impairment. In addition, goodwill is not deductible for tax purposes.

In conjunction with the acquisition of 70% of the outstanding shares of INB, Banorte entered into a stock option agreement with INB shareholders. The agreement granted Banorte, or its assignees, an irrevocable option to purchase the remaining 30% of the outstanding shares of INB (hereinafter referred to as the "Call Option"). In addition, the agreement granted INB shareholders the option to require Banorte, or its assignees to purchase the remaining 30% of the outstanding shares of INB (hereinafter referred to as the "Put Right"). If Banorte or the INB shareholders exercise the Call Option or the Put Right, each party must purchase or sell the entire 30% of the remaining share of INB. In conformity with recommendations made by the Commission, the Financial Group recognized a liability for the obligation represented by the Put Right at the acquisition date. In subsequent periods, the obligation was revised based on the contractual amount established in the purchase agreement with changes in the value recognized in goodwill. Under U.S. GAAP, the Put Right was recognized as a free standing financial instrument under the premises of ASC 480 "Distinguishing Liabilities from Equity" (previously SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"), and was recorded at the acquisition date at its estimated fair market value, with corresponding changes in fair value recognized in current earnings.

## [Table of Contents](#)

In April 2009 the Financial Group exercised its call option acquiring the remaining 30% of INB's shares and as of December 31, 2010 and 2009 is the 100% owner. For purposes of Mexican Banking GAAP this resulted in cancelling the value of the call option that had been recorded upon initial recognition. Under U.S. GAAP, the acquisition of the remaining 30% of the shares of INB, was treated as an equity transaction with no further valuation of the assets or liabilities of INB Financial Corp, and thus no recording of additional goodwill.

### **H) Employee retirement obligations**

Under Mexican Banking GAAP NIF D-3 requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in ASC 712 "Compensation — Nonretirement Postemployment Benefits" (previously SFAS No. 112, "Employers' Accounting for Postemployment Benefits"), which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated. Prior to 2008, Mexican Banking GAAP allowed for the Financial Group to amortize the transition obligation related to the adoption of NIF D-3 over the expected service life of the employees. Beginning in 2008, an amendment to NIF D-3 requires the amortization of the unrecognized transition as of January 1, 2008 over the lesser of the expected remaining service period of employees or over five years. However, U.S. GAAP required the Financial Group to recognize such effect upon initial adoption and does not permit an entity to reduce the accrued liability by any unrecognized items, which results in a difference in the amount recorded under the two accounting principles.

Under Mexican Banking GAAP, pension and seniority premium obligations are determined in accordance with NIF D-3. For U.S. GAAP, such costs are accounted for in accordance with ASC 715 "Compensation — Retirement Benefits" (previously SFAS No. 87, "Employers' Accounting for Pension"), whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at net discount rates. Those requirements became effective on January 1, 1989 whereas NIF D-3 became effective on January 1, 1993. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

Postretirement benefits are accounted for under U.S. GAAP in accordance with ASC 715 "Compensation — Retirement Benefits" (previously SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"), which applies to all post-retirement benefits, such as life insurance provided outside a pension plan or other postretirement health care and welfare benefits expected to be provided by an employer to current and former employees. The cost of postretirement benefits is recognized over the employees' service periods and actuarial assumptions are used to project the cost of health care benefits and the present value of those benefits. For Mexican Banking GAAP purposes as required by NIF D-3, the Financial Group accounts for such benefits in a manner similar to U.S. GAAP. The requirements in ASC 715 became effective on January 1, 1993 whereas NIF D-3 became effective on January 1, 2003. Therefore, a difference between Mexican Banking GAAP and U.S. GAAP exists due to the accounting for the transition obligation at different implementation dates.

The Financial Group has adopted the provisions of ASC 715 "Compensation — Retirement Benefits" (SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"). This statement requires the Financial Group to (1) fully recognize, as an asset or liability, the overfunded or underfunded status of defined pension and other postretirement benefit plans; (2) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; and (3) measure the funded status of defined pension and other postretirement benefit plans as of the date of the its fiscal year-end.

### **I) Capitalized costs**

Under Mexican Banking GAAP, prior to the issuance of NIF C-8, "Intangible Assets", all expenses incurred in the preoperating or development stages were capitalized. Upon adoption of NIF C-8, research costs and preoperating costs should be expensed as a period cost, unless they can be classified as development costs to be amortized on a straight-line basis after operations commence for a period not exceeding 20 years. Under U.S. GAAP, in accordance with ASC 730, "Accounting for Research and Development", and ASC 340, "Other Assets and Deferred Cost" (previously SFAS No. 2, "Accounting for Research and Development Costs," and SOP 98-5, "Reporting on the Costs of Start-Up Activities"), such research and preoperating expenses are expensed as incurred.

## [Table of Contents](#)

Under Mexican Banking GAAP, the Financial Group has capitalized certain significant costs related to implementation projects. For U.S. GAAP purposes, the Financial Group follows the guidance established by ASC 350 “Intangibles — Goodwill and Other” (previously SOP 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”). This standard establishes that computer software costs incurred in the preliminary project stage should be expensed as incurred. Once the capitalization criteria of the standard have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use should be capitalized. Generally, training costs and data conversion costs should be expensed as incurred. As the U.S. GAAP standard is more stringent, the reconciling item represents an adjustment for items that have been capitalized for Mexican Banking GAAP purposes that do not qualify for capitalization under U.S. GAAP.

### **J) Securitizations**

#### **Mortgage Loan Securitization**

During December 2006, the Financial Group securitized mortgage loans in the amount of Ps. 2,147, by transferring such loans to a qualifying special purpose entity (the “Trust”) created specifically for purposes of this transaction. The Trust issued certificates that trade on the Mexican Stock Exchange and guarantees its holders with a specific rate of return. The Financial Group received a subordinated certificate from the Trust, which entitles the Financial Group to retain the excess cash flows in the Trust, after reimbursing the holders of the certificates, which was recorded at its nominal value and classified as an available-for-sale security. Under Mexican Banking GAAP, this securitization was accounted for as a sale and as a result of recognizing the retained interest represented by the subordinated certificate at nominal value no gain or loss on the sale was recognized. As of January 2007, subsequent increases or decreases in the fair value of the subordinated certificate are reflected by an adjustment, net of taxes, being charged or credited to the other comprehensive income portion of stockholders’ equity, which conforms to the accounting established by U.S. GAAP.

Under US GAAP, the securitization met the criteria established by ASC 860 for sale accounting and the securitized loans were derecognized by the Financial Group as of the date of sale. The Financial Group allocated the previous book carrying amount between the loans sold and the subordinated certificate (the retained interest) in proportion to their relative fair values on the date of transfer. The Financial Group recognized a gain on the sale of Ps. 358 by comparing the net sale proceeds (after transaction costs) to the allocated book value of the loans sold. The subordinated certificate was recorded at its relative book value at the date of sale and has been classified as an available-for-sale security under ASC 320. Subsequent increases or decreases in the fair value of the subordinated certificate are reflected by an adjustment, net of taxes, being charged or credited to the other comprehensive income portion of stockholders’ equity.

#### **State and Municipal Government Loans Securitization**

During November 2007, the Financial Group securitized state and municipal government loans in the amount of Ps. 5,599 by transferring such loans to a qualifying special purpose entity (the “Trust”) created specifically for purposes of this transaction. The Trust issued certificates that trade on the Mexican Stock Exchange and guarantees its holders with a specific rate of return. The Financial Group retained the 100% of the securitization certificates issued by the Trust and immediately subsequent to the securitization sold them under repurchase agreements. The Financial Group received a subordinated certificate from the Trust, which entitles the Financial Group to retain the excess cash flows in the Trust, after reimbursing the holders of the certificates, which was recorded at its fair value and classified as a trading security. Under Mexican Banking GAAP, this securitization was accounted for as a sale and generated a gain, resulting from the difference between the fair value of the assets received and the carrying value of the transferred assets.

For U.S. GAAP purposes, given that the Financial Group repurchased 100% of the certificates issued by the Trust, the transactions did not meet the sales criteria established by ASC 860 and as a result were accounted for as secured borrowings.

For Mexican Banking GAAP, through December 2008, both subordinated certificates were presented as part of the “Investments in securities” line item in the Consolidated Balance Sheet. In 2009, the Financial Group reclassified them to the “Receivables generated by securitizations” line item, due to a change in the Commissions’ accounting criteria

**K) Other adjustments**

These include the following:

	Stockholders' equity				Net income					
	December 31,				Year ended December 31,					
	2010		2009		2010	2009	2008			
1) Non-accrual loans	Ps.	428	Ps.	326	Ps.	102	Ps.	157	Ps.	142
2) Guarantees		(5)		(11)		6		(18)		29
3) Repurchase agreements		—		—		—		24		46
4) Investment valuation		—		7		(237)		(629)		(1,121)
5) Equity method investments		—		—		—		53		90
	Ps.	<u>423</u>	Ps.	<u>322</u>	Ps.	<u>(129)</u>	Ps.	<u>(413)</u>	Ps.	<u>(814)</u>

These other adjustments are related to the following differences between Mexican Banking GAAP and U.S. GAAP:

- Under Mexican Banking GAAP, the recognition of interest income is suspended when certain of the Financial Group's loans become past due based on criteria established by the Commission. Under U.S. GAAP, the accrual of interest is generally discontinued when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. As a general practice, this occurs when loans are 90 days or more overdue. Any accrued but uncollected interest is reversed against interest income at that time.
- For U.S. GAAP purposes, guarantees are accounted for under ASC 460 "Guarantees", which requires that an entity recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. For Mexican Banking GAAP purposes, the Financial Group does not record the fair value of such guarantees in its consolidated financial statements.
- The repurchase and resale agreements are transactions by which the purchaser acquires ownership of financial instruments for a sum of money and is obligated to transfer instruments of the same kind to the seller of the securities within the agreed term and in exchange for the same price, plus a premium. Under Mexican Banking GAAP repurchase transactions are recorded according to their economic substance, which is financing with collateral, by which the Financial Group, acting as the purchaser, gives cash as financing in exchange for financial assets as guarantee in the event of noncompliance. Prior to September, 2008, repurchase and resale agreements represented the temporary purchase or sale of certain financial instruments in exchange for a specified premium to be paid or received and with the obligation to resell or repurchase the underlying securities and were recorded as sales and purchases of securities, respectively. A net asset or liability was recorded at the fair value of the commitment to subsequently repurchase or resell the securities, respectively. Under U.S. GAAP, repurchase and reverse repurchase agreements are transfer transactions subject to specific provisions and conditions that must be met in order for a transaction to qualify as a sale rather than a secured borrowing. In most cases, banks in the U.S. enter into repurchase and reverse repurchase transactions that qualify as secured borrowings. Accordingly, the Financial Group's assets subject to a repurchase agreement would not be derecognized. Due to changes in Mexican Banking GAAP effective October 2008, repurchase and reverse repurchase agreements are accounted for as secured borrowings, as is also required under U.S. GAAP.
- Until December 31, 2008, the investment valuation adjustment was related to a difference in the income recognition for available-for-sale and held-to-maturity securities. For U.S. GAAP purposes, the premiums and discounts of such securities are accounted for based on the interest method. Under Mexican Banking GAAP, the Financial Group recognized income based on the straight line method. Additionally, under Mexican Banking GAAP, the Financial Group recognizes the effect of exchange rate fluctuations of its securities available for sale within income of the year. Under U.S. GAAP, this impact is recognized in other comprehensive income. As disclosed in Note 4, due to changes in Mexican Banking GAAP effective January 2009, the investment valuation related to available-for-sale and held-to-maturity securities substantially conforms to U.S. GAAP requirements.

## [Table of Contents](#)

- 5) Until December 31, 2008, under Mexican Banking GAAP, investments in associated companies in which the Financial Group had more than a 10% ownership, were accounted for by the equity method. For U.S. GAAP purposes, investments in associated companies in which the Financial Group has a 20% to 50% ownership, but not a controlling interest, are accounted for by the equity method. Investments in which the Financial Group has less than a 20% ownership are generally accounted for under the cost method, unless it can demonstrate that it has significant influence.

### **L) Fair value measurements**

For purposes of U.S. GAAP, the Financial Group applies the accounting provisions of ASC 820 “Fair Value Measurements and Disclosure” (previously SFAS No. 157, Fair Value Measurements). U.S. GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements and clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to existing practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This guidance was effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities. On October 10, 2008, the FASB issued guidance included in ASC 820 (Staff Position (“FSP”) FAS No. 157-3 “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active”), which was effective upon issuance. The provisions of ASC 820 were deferred until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities. The effect of adopting ASC 820 as it relates to the Financial Group’s financial assets and liabilities is included in the reconciliation between Mexican Banking GAAP and U.S. GAAP. There was no impact to the Financial Group’s U.S. GAAP balances as a result of adopting this standard related to its nonfinancial assets and liabilities.

The Financial Group applied the following hierarchy for fair value.

Level 1. - Assets and liabilities for which an identical instrument is negotiated in an active market, such as publicly negotiated instruments or futures contracts (highly liquid and actively traded).

Level 2. - Assets and liabilities valued using information observable in the market for similar instruments; prices quoted in inactive markets; or other observable assumptions that can be evidenced with available information in the market for substantially the entire terms of the asset and liability.

Level 3. - Assets and liabilities whose significant valuation assumptions are not readily observable in the market; instruments valued using the best information available, some of which is developed internally, considering the risk premium that a market participant would need.

The Financial Group considers the primary or the best market where the transaction can take place and the assumptions that a market participant would use to value the asset or liability. When possible, the Financial Group uses active markets and observable market prices for identical assets and liabilities. When the identical assets and liabilities are not negotiated in active markets, the Financial Group uses observable market information for similar assets and liabilities. However, certain assets and liabilities are not actively negotiated in observable markets, so the Financial Group has to use alternate valuation methods to measure fair value.

Many over the counter (“OTC”) contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Financial Group does not require that the fair value estimate always be a predetermined point in the bid-ask range. The Financial Group’s policy is to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets the Financial Group’s best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

## [Table of Contents](#)

Fair value for many OTC contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, and creditworthiness of the counterparty, option volatility and currency rates. In accordance with U.S. GAAP, the impact of the Financial Group's own credit spreads is also considered when measuring the fair value of liabilities, including OTC derivatives contracts. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality and model uncertainty. These adjustments are subject to judgment, are applied on a consistent basis and are based upon observable inputs where available. The Financial Group generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Financial Group's own assumptions are set to reflect those that the Financial Group believes market participants would use in pricing the asset or liability at the measurement date.

Certain assets are measured at fair value on a non recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These include property, furniture and fixtures, foreclosed assets and goodwill that are written down to fair value when they are determined to be impaired. As mentioned in Note 4, the Financial Group has established guidelines to identify and, if applicable, record losses derived from the impairment or decrease in value of long-lived tangible or intangible assets, including goodwill. No impairment to property, furniture, fixtures, foreclosed assets or goodwill was identified for the years ended December 31, 2010 and 2009. As a result no fair value adjustments to these assets were recorded and the related fair value disclosures were not necessary.

As of December 31, 2010 and 2009, the Financial Group did not have any liabilities measured on a non recurring basis; as such, no disclosure was necessary.

Below is a description of the valuation methods used for the instruments measured at fair value on a recurring basis, including the general classification of such instruments according to their fair value hierarchy.

### Investments in securities

When reference prices are available in an active market and the financial instruments are negotiated in liquid organized markets, they are considered Level 1 in the fair value hierarchy. If market price is not available or is available solely in inactive markets, fair value is estimated using valuation methods, prices established for other instruments with similar characteristics or using discounted cash flows that include assumptions prepared by management. This type of securities is classified in Level 2, and in the event the model includes assumptions prepared by management, the securities are classified in Level 3, following the fair value hierarchy.

### Derivative financial instruments

Derivatives quoted on stock exchanges whose fair value is based on quoted market prices are classified in fair value hierarchy Level 1. However, for those derivative contracts quoted over the counter, their fair value is based on widely accepted valuation methods in the market using observable inputs that can be evidenced with information available in the market. Such derivatives are classified in fair value hierarchy Level 2.



[Table of Contents](#)

The following fair value hierarchy table presents information regarding the Financial Group's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

Fair value measurements as of December 31, 2010				
	Quoted prices In active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	December 31, 2010 Fair value
Trading securities	Ps. 66,181	Ps. —	Ps. —	Ps. 66,181
Available for sale securities	4,415	7,873	—	12,288
Derivative asset position	—	8,059	—	8,059
Derivative liability position	—	(10,737)	—	(10,737)
Securitization receivables	—	—	950	950
IFC Transaction	—	—	4,244	4,244
<b>Total</b>	<b>Ps. 70,596</b>	<b>Ps. 5,195</b>	<b>Ps. 5,194</b>	<b>Ps. 80,985</b>

Fair value measurements as of December 31, 2009				
	Quoted prices In active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	December 31, 2009 Fair value
Trading securities	Ps. 24,459	Ps. —	Ps. —	Ps. 24,459
Available for sale securities	5,098	6,603	—	11,701
Derivative asset position	—	5,880	—	5,880
Derivative liability position	—	(8,375)	—	(8,375)
Securitization receivables	—	—	432	432
IFC Transaction	—	—	3,651	3,651
<b>Total</b>	<b>Ps. 29,557</b>	<b>Ps. 4,108</b>	<b>Ps. 4,083</b>	<b>Ps. 37,748</b>

Fair value measurements using significant unobservable inputs (Level 3) Securities	
Beginning balance	Ps. 4,083
Total gains or losses (realized/unrealized)	
Included in earnings (or changes in net assets)	518
Included in other comprehensive income	593
Ending balance	Ps. 5,194

The definition of fair value under U.S. GAAP, which is based on an exit price notion, differs from the definition established by Mexican Banking GAAP, which is based on a settlement price notion. Therefore, the Financial Group has included a reconciling item in U.S. GAAP reconciliation as a result of adopting this accounting pronouncement.

**M) IFC transaction**

At the Banorte Extraordinary Stockholders' Meeting held on October 23, 2009 both an increase in its ordinary shareholders' equity and a modification to its corporate bylaws in order to complete the capitalization of the IFC to become a Banorte stockholder with an investment of USD 150 million were approved, which was settled in November 2009 by turning over to the IFC 3,370,657,357 ordinary nominative "O" Series shares with a nominal value of Ps. 0.10 (ten cents). The IFC liquidated this operation with USD 82.3 million in cash and the capitalization of a credit of USD 67.7 million. Banorte, the IFC and the Financial Group executed a series of agreements in which the IFC is compelled to maintain its share in Banorte for at least five years. After five years the IFC may sell its share to the Financial Group, which will have to purchase it with shares of its own or cash, depending on the Financial Group's choice and convenience.

For US GAAP purposes, the redeemable shares held by the IFC that allow them to exchange their shares in Banorte for cash or shares of the Financial Group (to be determined by the Financial Group if the IFC exercises their option) has been classified outside the permanent equity in accordance with ASC 480 "Distinguishing Liabilities from Equity", (previously SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity") which requires securities with redemption features that are not solely within the control of the issuer to be classified outside of permanent equity. The initial carrying amount of the redeemable equity security should be its fair value at date of issue. The Financial Group has elected to recognize changes in the redemption value immediately as they occur and adjust the carrying value of the security to equal the redemption value at the end of each reporting period.

Under Mexican Banking GAAP, NIF C-12 "Financial Instruments with Characteristics of Liability, Equity, or Both" requires the Financial Group to record the noncontrolling interest held by the IFC at the original transaction value within stockholders' equity since the IFC is exposed to the same risks and rewards as any other shareholder of Banorte and given that the intention of the Financial Group is to redeem the IFC's noncontrolling interest in exchange of the Financial Group's own shares in the event that the IFC exercises its option. Any future transactions between the Financial Group and the IFC as it relates to this matter will be accounted for directly in stockholders' equity as it is between common shareholders.

**N) Income taxes**

Under Mexican Banking GAAP as required by NIF D-4, "Income Taxes", income tax and employee statutory profit sharing (PTU) are charged to results as they are incurred and the Financial Group recognizes deferred income tax assets and liabilities for the future consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax basis, measured using enacted rates. The effects of changes in the statutory rates are accounted for in the period in which the enactment occurs. The Financial Group recognizes the benefits related to tax loss carryforwards and asset tax credit carryforwards when such amounts are realized. Deferred tax assets are recognized only when it is highly probable that sufficient future taxable income will be generated to recover such deferred tax assets. Under Mexican Banking GAAP the Financial Group did not recognize deferred tax assets in the acquisition of Bancrecer as their potential utilization was not considered to be highly probable at the acquisition date.

PTU arises from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

Under U.S. GAAP, as required by ASC 740, "Income Taxes" (previously SFAS No. 109 "Accounting for Income Taxes"), the Financial Group recognizes deferred income tax and PTU assets and liabilities for the future consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax or PTU bases, measured using enacted rates. The effects of changes in the statutory rates are accounted for in the period when the enactment occurs. Deferred income tax assets are also recognized for the estimated future effects of tax loss carryforwards and asset tax credit carryforwards. Deferred income tax assets are reduced by any benefits that, in the opinion of management, more likely than not that the tax assets will be realized. Under U.S. GAAP the Financial Group recognized deferred tax asset related to Bancrecer's acquisition as their realization was considered to be more likely than not.

[Table of Contents](#)

U.S. GAAP differences as described above, to the extent taxable are reflected in the U.S. GAAP deferred tax balances.

**O) Noncontrolling interest**

The effects of the U.S. GAAP differences as described in this Note reflect the amounts assigned to the noncontrolling interests.

**II Consolidation:**

Under Mexican Banking GAAP, the Financial Group's consolidated financial statements include all subsidiaries under the control of financial holding companies, except those in the insurance and pension sector. The determination of which companies are deemed to be within the insurance and pension sector is not based solely on the application of a conceptual framework. The SHCP has the right to determine if a company is or is not within the insurance and pension sector, and therefore could be required to consolidate.

Under U.S. GAAP, the basic principle is that when a Financial Group has a controlling financial interest (either through a majority voting interest or through the existence of other control factors) of an entity, such entity's financial statements should be consolidated, irrespective of whether the activities of the subsidiary are nonhomogeneous with those of the parent.

No adjustments to consolidated net income or consolidated stockholders' equity result due to the different consolidation principles disclosed above.

**III Additional disclosures:**

**A) Earnings per common share ("EPS") in accordance with U.S. GAAP**

In accordance with U.S. GAAP, EPS is based on the provisions of ASC 260, "Earnings per Share" (previously SFAS No. 128), and is calculated using the weighted-average number of common shares outstanding during each period. Basic and diluted earnings per share are based upon, 2,018,257,560, 2,017,132,134, and 2,016,959,232 weighted-average shares outstanding for 2010, 2009 and 2008, respectively. Potentially dilutive common shares for all periods presented are not significant. Basic and diluted net income per common share computed in accordance with U.S. GAAP is presented below:

	Year ended December 31,					
	2010		2009		2008	
Basic and diluted earnings per share attributable to controlling interest	Ps.	3.4776	Ps.	3.5423	Ps.	3.2379

**B) Subsequent events**

The Financial Group's consolidated financial statements have been approved by the Board of Directors at their January 25, 2011 meeting in accordance with the responsibility assigned to them. The Financial Group has evaluated events subsequent to December 31, 2010 to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through January 25, 2011, the date the Financial Group's Mexican Banking GAAP consolidated financial statements were available to be issued.

In an official letter UBVA/012/2011 dated March 8, 2011, the SHCP having previously obtained a positive opinion from the Commission and Banco de México, authorized the merger of the Financial Group as the merging and subsisting entity with IXE Grupo Financiero as the merged and absorbed entity, in accordance with Article 10 of the Law Regulating Financial Groups. The merger is subject to the terms and conditions established by the shareholders of each entity as presented to the SHCP.

**C) Cash flow information**

Beginning in 2009, an amendment to Mexican Banking GAAP requires the presentation of a cash flow statement on a prospective basis instead of a statement of changes in financial position. Prior to such date Mexican Banking GAAP established the presentation requirements related to the statement of changes in financial position. The statement of changes in financial position presents the sources and uses of funds during the period measured as the differences, in constant pesos, between the beginning and ending balances of balance sheet items adjusted by the excess (shortfall) in restatement of capital. The monetary effect and the effect of changes in exchange rates are considered cash items in the determination of resources generated from operations due to the fact that they affect the purchasing power of the entity. The following price-level adjusted consolidated statement of cash flows presented for the years ended December 31, 2010, 2009 and 2008, includes the impact of U.S. GAAP adjustments in conformity with recommendations established by the American Institute of Certified Public Accountants, SEC Regulations and International Practices Task Force Committees.

**Grupo Financiero Banorte, S.A.B. de C.V. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2010, 2009 and 2008**  
**(In millions of Mexican pesos)**

	2010		2009		2008	
Cash flows from operating activities:						
Net income under U.S. GAAP	Ps.	6,949	Ps.	7,074	Ps.	6,476
Unrealized investment (income) loss		(52)		350		1,171
Allowance for loan losses		7,056		6,616		6,625
Depreciation and amortization		1,191		953		1,450
Deferred income taxes and employee profit sharing		67		(518)		(290)
Other provisions		597		(961)		(354)
Equity in earnings of subsidiaries and associated companies		(83)		(131)		(125)
Allowance for doubtful accounts		164		182		59
Periodic pension cost		206		160		199
Loss (gain) on sale of property		8		(8)		—
Loss on sale of foreclosed assets		85		31		273
Loss (gain) on sale of trading securities		455		280		(116)
Loss (gain) on sale of available for sale securities		157		23		(53)
Amortization of purchased portfolios		588		566		680
Insurance and postretirement reserves		(375)		(117)		(286)
Amortization of debt issuance fees and costs		(2)		(126)		(4)
Income recognition of purchased portfolios		(249)		(221)		(278)
Other non-cash items		923		535		(2,014)
Changes in operating assets and liabilities:						
Trading securities		(16,232)		(23,015)		(1,455)
Trading derivative financial instruments		181		(82)		2,435
Decrease (increase) in settlement accounts payable		1,357		182		(649)
(Increase) decrease in settlement accounts receivable		(1,804)		63		1,262
Decrease (increase) in other accounts receivable		1,759		(1,769)		(4,286)
Increase in other accounts payable		6,087		3,756		5,709
(Increase) decrease in deferred charges		(1,216)		623		(1,560)
(Decrease) increase in deferred credits		(174)		4		242
Net cash provided by (used in) operating activities		7,643		(5,550)		15,111

[Table of Contents](#)

	2010	2009	2008
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property, furniture and equipment	305	259	123
Acquisitions of property, furniture and equipment	(2,364)	(1,467)	(1,345)
Proceeds from sale of foreclosed assets	596	636	758
Treasury transactions - held to maturity securities	17,408	31,284	(219,851)
Treasury transactions - available for sale securities	(7,056)	(5,365)	(4,430)
Granting of loans	(32,462)	(8,698)	(48,294)
Purchased credit portfolios	(553)	(391)	(302)
Repurchase agreements — purchases	4,566	5,454	(90)
Other investing activities	123	129	753
Net cash (used in) provided by investing activities	<u>(19,437)</u>	<u>21,841</u>	<u>(272,678)</u>
<b>Cash flows from financing activities:</b>			
(Repayments of) proceeds from subordinated liabilities	(298)	(2,481)	10,343
Issuance (repurchase) of shares	70	(451)	103
Dividends paid	(1,029)	(364)	(949)
Deposits received	19,005	15,361	53,319
Repayments of bank debt and other loans	5,483	(15,636)	9,037
Repurchase agreements — sales	(6,883)	(7,087)	196,368
Net cash provided by (used in) financing activities	<u>16,348</u>	<u>(10,658)</u>	<u>268,221</u>
Effects of exchange rates on cash	<u>(1,032)</u>	<u>(738)</u>	<u>2,026</u>
Net increase in cash and cash equivalents	3,522	4,895	12,680
Cash and cash equivalents at the beginning of the year	59,291	54,396	41,716
Cash and cash equivalents at the end of the year	<u>62,813</u>	<u>59,291</u>	<u>54,396</u>
<b>Supplemental disclosure of cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Income taxes	Ps. 2,811	Ps. 2,649	Ps. 4,013
Interest	<u>Ps. 37,356</u>	<u>Ps. 38,934</u>	<u>Ps. 44,630</u>
<b>Supplemental schedule of non-cash investing activities:</b>			
Transfers from loans to foreclosed assets	198	523	542
Transfers from purchased credit portfolio to foreclosed assets	488	327	233
Transfers (from) to foreclosed assets from (to) loans and purchased credit portfolio, net	<u>Ps. (686)</u>	<u>Ps. (850)</u>	<u>Ps. (775)</u>

Cash and cash equivalents include all cash balances and highly liquid instruments purchased with an original maturity of three months or less. In addition, the Financial Group maintains a minimum capital requirement as required by the Commission (regulatory monetary fund), which is included as a cash equivalent.

**D) New accounting pronouncements**

On June 12, 2009, the FASB issued ASC 860-10 (previously SFAS No. 166, Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140), which eliminates the concept of a qualifying special purpose entity (“QSPE”) and modifies the derecognition provisions of a previously issued accounting standard. ASC 860-10 also requires additional disclosures which focus on the transferor’s continuing involvement with the transferred assets and the related risks retained. ASC 860-10 is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. The adoption of FASB ASC 860-10 (SFAS No. 166) had no effect on the Financial Group’s consolidated financial statements.

On June 12, 2009, the FASB issued ASC 810-10 (previously SFAS No. 167, Amendments to FASB Interpretation No. 46 (R)), which amends the consolidation guidance that applies to variable interest entities. The new guidance requires an entity to carefully reconsider its previous consolidation conclusions, including (1) whether an entity is a variable interest entity (VIE), (2) whether the enterprise is the VIE’s primary beneficiary, and (3) what type of financial statement disclosures are required. ASC 810-10 is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The amendments to the consolidation guidance affect all entities and enterprises currently within the scope of ASC 810-10, as well as qualifying special-purpose entities that are currently outside the scope of ASC 810-10 (FIN 46(R)). The adoption of FASB ASC 810-10 (SFAS No. 167) had no effect on the Financial Group’s consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, which contains new guidance on accounting for revenue arrangements with multiple deliverables. When vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The guidance in the ASU will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The adoption of FASB ASU 2009-13 had no effect on the Financial Group’s consolidated financial statements.

On January 21, 2010, the FASB issued ASU 2010-06. The ASU amends ASC 820, Fair Value Measurements and Disclosures (SFAS No. 157) to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This ASU amends guidance on employers’ disclosures about postretirement benefit plan assets under ASC 715, Compensation — Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. The adoption of FASB ASU 2010-06 (SFAS No. 157) had no effect on the Financial Group’s consolidated financial statements.

In March 2010, the FASB issued ASU 2010-11 - Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives which is included in the Certification under ASC 815. This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only an embedded credit derivative that is related to the subordination of one financial instrument to another qualifies for the exemption. This guidance became effective for the fiscal years beginning January 1, 2010. Accordingly, the adoption of FASB ASU 2010-11 had no effect on the Financial Group’s consolidated financial statements.

In April 2010, the FASB issued ASU 2010-13 - Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, a consensus of the FASB Emerging Issues Task Force (ASU 2010-13). The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on

or after December 15, 2010. Earlier application is permitted. The Company is currently evaluating the effects of adopting the guidance in the ASU.

**E) International Financial Reporting Standards**

In January 2009, the Commission published amendments to the Mexican Securities Law, including the obligation to prepare and present financial statements using International Financial Reporting Standards (“IFRS”) beginning in 2012, with early adoption permitted. Financial institutions such as the Financial Group are prohibited from presenting IFRS for purposes of their local filings and must continue to present their basic financial statements in accordance with Mexican Banking GAAP. However, the Financial Group’s equity method investor Gruma, S.A.B. de C.V. (“Gruma”) is required to comply with the changes to the Mexican Securities Law and has disclosed in public documents that they intend to early adopt IFRS beginning in 2011. The Financial Group is in the process of assessing the impacts of IFRS on its financial information for purposes of providing such information to Gruma for their future filings.

Published CUSIP Number:

**AMENDED AND RESTATED CREDIT AGREEMENT**

Dated as of June 20, 2011

among

**GRUMA CORPORATION,**  
as the Borrower,

**BANK OF AMERICA, N.A.,**  
as Administrative Agent, Documentation Agent, Swing Line Lender and L/C Issuer,

and

The Other Lenders Party Hereto

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Index of Closing Documents

AMENDED AND RESTATED CREDIT AGREEMENT

among

GRUMA CORPORATION  
as the Borrower,

BANK OF AMERICA, N.A.,  
as Administrative Agent, Documentation Agent, Swing Line Lender and L/C Issuer,

and

The Other Lenders Party Hereto

Dated June 20, 2011

Abbreviations:

Administrative Agent	Bank of America, N.A.
Borrower	Gruma Corporation
On File	On File with Administrative Agent
Winstead	Winstead PC

DOCUMENTS		Responsible Party	Status
<b>I. BASIC LOAN DOCUMENTS</b>			
1.	Amended and Restated Credit Agreement, dated as of June 20, 2011, among Borrower, Bank of America, N.A., as Administrative Agent, Documentation Agent, Swing Line Lender and L/C Issuer, and the other Lenders Party Hereto	Winstead	complete
	Schedule 1.01 Existing Letters of Credit	Winstead	complete
	Schedule 2.01 Commitments and Applicable Percentages	Borrower	complete
	Schedule 5.05 Existing Litigation	Borrower	complete
	Schedule 5.11(a) Material Subsidiaries	Borrower	complete
	Schedule 5.11(b) Burdensome Agreements	Borrower	complete
	Schedule 7.08 Subsidiary Guarantees	Borrower	complete
	Schedule 10.02 Administrative Agent's Office, Certain Addresses for Notices	Winstead	complete
	Exhibit A Form of Revolving Loan Notice	Winstead	complete
	Exhibit B Form of Swing Line Loan Notice	Winstead	complete
	Exhibit C Form of Revolving Note	Winstead	complete
	Exhibit D Form of Swing Line Note	Winstead	complete
	Exhibit E Form of Compliance Certificate	Winstead	complete
	Exhibit F Form of Assignment and Assumption	Winstead	complete
2.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Bank of America, N.A.	Winstead	complete
3.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Comerica Bank	Winstead	complete
4.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Compass Bank	Winstead	complete
5.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Coöperatieve Centrale Raiffeisen-BoerenleenBank B.A., "Rabobank Nederland," New York Branch	Winstead	complete
6.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of HSBC Bank USA, National Association	Winstead	complete
7.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Sovereign Bank	Winstead	complete
8.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Wells Fargo Bank, National Association	Winstead	complete
9.	Revolving Loan Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Mizuho Corporate Bank, New York Branch	Winstead	complete

<b>DOCUMENTS</b>		<b>Responsible Party</b>	<b>Status</b>
10.	Swing Line Note, dated as of June 20, 2011, executed by Borrower and made payable to the order of Bank of America, N.A.	Winstead	complete
<b>III. BORROWERS GOVERNANCE DOCUMENTS</b>			
11.	Officer's Certificate — Borrower Exhibit A — Resolutions Exhibit B — Articles of Incorporation certified by the Nevada Secretary of State Exhibit C — Bylaws Exhibit D — Certificate of Existence with Status in Good Standing certified by the Nevada Secretary of State	Borrower Borrower Borrower Borrower Borrower	complete
12.	Certificate of Borrower — Section 4.02(a) and (b) are satisfied and no Material Adverse Effect; Certificate of consents, licenses or approvals	Borrower	complete
<b>VI. MISCELLANEOUS DOCUMENTS</b>			
13.	Opinion of Haynes and Boone, LLP, counsel to Borrower	Borrower	complete
14.	Pre-Closing UCC Searches	Borrower	On File
15.	Insurance Certificates	Borrower	complete
16.	Financial Projections pursuant to Section 4.01(a)(xi)	Borrower	On File

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Published CUSIP Number:

**AMENDED AND RESTATED CREDIT AGREEMENT**

Dated as of June 20, 2011

among

**GRUMA CORPORATION,**  
as the Borrower,

**BANK OF AMERICA, N.A.,**  
as Administrative Agent, Documentation Agent, Swing Line Lender and L/C Issuer,

and

The Other Lenders Party Hereto

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## TABLE OF CONTENTS

Section		Page
ARTICLE I.	DEFINITIONS AND ACCOUNTING TERMS	1
1.01	Defined Terms	1
1.02	Other Interpretive Provisions	21
1.03	Accounting Terms	21
1.04	Rounding	22
1.05	Times of Day	22
1.06	Letter of Credit Amounts	22
1.07	References to Agreements and Laws	22
ARTICLE II.	THE COMMITMENTS AND CREDIT EXTENSIONS	22
2.01	Revolving Loans	22
2.02	Borrowings, Conversions and Continuations of Revolving Loans	23
2.03	Letters of Credit	24
2.04	Swing Line Loans	33
2.05	Prepayments	36
2.06	Termination or Reduction of Commitments	36
2.07	Repayment of Loans	37
2.08	Interest	37
2.09	Fees	38
2.10	Computation of Interest and Fees	38
2.11	Evidence of Debt	39
2.12	Payments Generally; Administrative Agent's Clawback	39
2.13	Sharing of Payments by Lenders	41
2.14	Increase in Commitments	42
2.15	Cash Collateral	43
2.16	Defaulting Lenders	45
ARTICLE III.	TAXES, YIELD PROTECTION AND ILLEGALITY	47
3.01	Taxes	47
3.02	Illegality	50
3.03	Inability to Determine Rates	51
3.04	Increased Costs; Reserves on Eurodollar Rate Loans	51
3.05	Compensation for Losses	53
3.06	Mitigation Obligations; Replacement of Lenders	54
3.07	Matters Applicable to All Requests for Compensation	54
3.08	Survival	54
ARTICLE IV.	CONDITIONS PRECEDENT TO CREDIT EXTENSIONS	54
4.01	Conditions of Initial Credit Extension	54
4.02	Conditions to all Credit Extensions	56
ARTICLE V.	REPRESENTATIONS AND WARRANTIES	57
5.01	Corporate Existence and Power	57

5.02	Corporate Authorization; No Contravention	57
5.03	No Additional Governmental Authorization	58
5.04	Binding Effect	58
5.05	Litigation	58
5.06	Financial Information; No Material Adverse Effect; No Default	58
5.07	Pari Passu	59
5.08	Taxes	59
5.09	Environmental Matters	59
5.10	Assets; Patents; Licenses, Etc.	60
5.11	Subsidiaries	60
5.12	Full Disclosure	60
5.13	Investment Company Act	60
5.14	Margin Regulations	60
5.15	ERISA Compliance	61
5.16	Solvent	61
5.17	Taxpayer Identification Number	61
5.18	Liens	61
ARTICLE VI.	AFFIRMATIVE COVENANTS	62
6.01	Financial Statements and Other Information	62
6.02	Notice of Default and Litigation	63
6.03	Maintenance of Existence; Conduct of Business	63
6.04	Insurance	64
6.05	Maintenance of Governmental Approvals	64
6.06	Use of Proceeds	64
6.07	Application of Cash Proceeds from Sales and Other Dispositions	64
6.08	Payment of Obligations	64
6.09	Pari Passu	65
6.10	Compliance with Laws	65
6.11	Maintenance of Books and Records	65
6.12	Further Assurances	65
ARTICLE VII.	NEGATIVE COVENANTS	65
7.01	Negative Pledge	66
7.02	Investments	67
7.03	Mergers, Consolidations, Sales and Leases	68
7.04	Restricted Payments	68
7.05	Limitations on Ability to Prohibit Dividend Payments by Subsidiaries	68
7.06	Limitation of Incurrence of Indebtedness by Subsidiaries	68
7.07	Transaction with Affiliates	69
7.08	No Subsidiary Guarantees of Certain Indebtedness	69
7.09	Maximum Leverage Ratio	69
7.10	Consolidated Tangible Net Worth	69
ARTICLE VIII.	EVENTS OF DEFAULT AND REMEDIES	69
8.01	Events of Default	69
8.02	Remedies Upon Event of Default	71

8.03	Application of Funds	71
ARTICLE IX.	ADMINISTRATIVE AGENT	72
9.01	Appointment and Authority	72
9.02	Rights as a Lender	72
9.03	Exculpatory Provisions	72
9.04	Reliance by Administrative Agent	73
9.05	Delegation of Duties	73
9.06	Resignation of Administrative Agent	74
9.07	Non-Reliance on Administrative Agent and Other Lenders	75
9.08	No Other Duties, Etc	75
9.09	Administrative Agent May File Proofs of Claim	75
ARTICLE X.	MISCELLANEOUS	76
10.01	Amendments, Etc	76
10.02	Notices; Effectiveness; Electronic Communication	77
10.03	No Waiver; Cumulative Remedies; Enforcement	79
10.04	Expenses; Indemnity; Damage Waiver	80
10.05	Payments Set Aside	82
10.06	Successors and Assigns	82
10.07	Treatment of Certain Information; Confidentiality	87
10.08	Interest Rate Limitation	88
10.09	Counterparts; Integration; Effectiveness	88
10.10	Survival of Representations and Warranties	88
10.11	Severability	88
10.12	Replacement of Lenders	89
10.13	Exceptions to Covenants	89
10.14	Governing Law; Jurisdiction; Etc.	89
10.15	Waiver of Jury Trial	90
10.16	No Advisory or Fiduciary Responsibility	91
10.17	USA PATRIOT Act Notice	91
10.18	Time of the Essence	92
10.19	ENTIRE AGREEMENT	92
SIGNATURES		S-1

## **SCHEDULES**

1.01	Existing Letters of Credit
2.01	Commitments and Applicable Percentages
5.05	Existing Litigation
5.11(a)	Material Subsidiaries
5.11(b)	Burdensome Agreements
7.08	Material Subsidiary Guaranties
10.02	Administrative Agent's Office; Certain Addresses for Notices

## **EXHIBITS**

### *Form of*

A	Revolving Loan Notice
B	Swing Line Loan Notice
C	Revolving Loan Note
D	Swing Line Note
E	Compliance Certificate
F	Assignment and Assumption



## AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT (“Agreement”) is entered into as of June 20, 2011, among GRUMA CORPORATION, a Nevada corporation (the “Borrower”), each lender from time to time party hereto (collectively, the “Lenders” and individually, a “Lender”), and BANK OF AMERICA, N.A., as Administrative Agent, Documentation Agent, Swing Line Lender and L/C Issuer.

### BACKGROUND

Bank of America, N.A., as administrative agent, and the lenders party thereto have entered into a Credit Agreement, dated as of October 30, 2006 (as amended and modified, the “Existing Credit Agreement”).

The Borrower and the parties hereto wish to amend and restate the Existing Credit Agreement, subject to the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree to amend and restate the Existing Credit Agreement in its entirety as follows:

### ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

1.01 **Defined Terms.** As used in this Agreement, the following terms shall have the meanings set forth below:

“Administrative Agent” means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Administrative Agent’s Office” means the Administrative Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as the Administrative Agent may from time to time notify the Borrower and the Lenders.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified (excluding any trustee under, or any committee with responsibility for administering, any Plan). “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Agent Parties” has the meaning specified in Section 10.02(b).

“Aggregate Commitments” mean the Commitments of all of the Lenders.

“Agreement” means this Credit Agreement.

“Applicable Law” means in respect of any Person, all provisions of Laws applicable to such Person, and all orders and decrees of all courts and determinations of arbitrators applicable to such Person.

“Applicable Percentage” means with respect to any Lender at any time, the percentage (carried out to the ninth decimal place) of the Aggregate Commitments represented by such Lender’s Commitment at such time, subject to adjustment as provided in Section 2.16. If the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02 or if the Aggregate Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Applicable Rate” means the following percentages per annum, based upon the Leverage Ratio as set forth in the most recent Compliance Certificate received by the Administrative Agent pursuant to Section 6.01(c):

<u>Pricing Level</u>	<u>Leverage Ratio</u>	<u>Commitment Fee</u>	<u>Eurodollar Rate for Revolving Loans and Letters of Credit</u>	<u>Daily Floating LIBOR Rate for Swing Line Loans</u>	<u>Base Rate for Loans</u>
1	Less than or equal to 1.00 to 1.00	0.200	1.375	1.375	0.375
2	Greater than 1.00 to 1.00, but less than or equal to 2.00 to 1.00	0.250	1.500	1.500	0.500
3	Greater than 2.00 to 1.00, but less than or equal to 2.50 to 1.00	0.300	1.750	1.750	0.750
3	Greater than 2.50 to 1.00	0.350	2.000	2.000	1.000

Any increase or decrease in the Applicable Rate resulting from a change in the Leverage Ratio shall become effective as of the first Business Day immediately following the date a Compliance Certificate is delivered pursuant to Section 6.01(c); provided, however, that if a Compliance Certificate is not delivered when due in accordance with such Section 6.01(c), then, notwithstanding the actual date of the delivery of such Compliance Certificate, any change in the applicable Pricing Level necessitated by the change in Leverage Ratio reflected in such Compliance Certificate shall retroactively apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered. Notwithstanding the foregoing, the Applicable Rate in effect from and after the Closing Date through and including the date the Compliance Certificate is delivered pursuant to Section 6.01(c) for the second Fiscal Quarter of Fiscal Year 2011 shall be Pricing Level 1. Notwithstanding anything herein to the contrary contained in this definition, the amount payable based on the Applicable Rate shall be subject to the provisions of Section 2.10(b).

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit F or any other form approved by the Administrative Agent.

“Attorney Costs” means and includes all reasonable and documented fees, expenses and disbursements of any law firm or other external counsel.

“Audited Financial Statements” means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended December 25, 2010, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto.

“Auto-Extension Letter of Credit” has the meaning specified in Section 2.03(b)(iii).

“Availability Period” means the period from and including the Closing Date (provided that all conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 4.01 (or, in the case of Section 4.01(b), waived by the Person entitled to receive the applicable payment) by such date) to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02.

“Bank of America” means Bank of America, N.A. and its successors.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate” and (c) the Eurodollar Rate plus 1.00%. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the Base Rate due to a change in the Federal Funds Rate, the prime rate or the Eurodollar Rate shall be effective from and including the effective date of such change in the Federal Funds Rate, the prime rate or such Eurodollar Rate.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrower Materials” means material and/or information provided by or on behalf of the Borrower hereunder or under any other Loan Document.

“Borrowing” means a Revolving Borrowing or a Swing Line Borrowing, as the context may require.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent’s Office is located and New York, New York and, if such day relates to any Eurodollar Rate Loan, means any such day that is also a London Banking Day.

“Capital Expenditures” means the amount of all expenditures of the Borrower and its Subsidiaries for fixed or capital assets related to the Borrower’s Core Business which, in accordance with GAAP, would be classified as capital expenditures.

“Capital Lease” means, as to any Person, any lease of any Property by such Person as lessee that is classified and accounted for as a “capital lease” or “finance lease”, as the case may be, on the balance sheet of such Person prepared in accordance with GAAP.

“Cash Collateralize” means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent, L/C Issuer or Swing Line Lender (as applicable) and the Lenders, as collateral for L/C Obligations, Obligations in respect of Swing Line Loans, or obligations of Lenders to fund participations in respect of either (as the context may require), cash or deposit account balances or, if the L/C Issuer or Swing Line Lender benefiting from such collateral shall agree in its sole discretion, other credit support, in each case pursuant to documentation in form and substance satisfactory to (a) the Administrative Agent and (b) the L/C Issuer or the Swing Line Lender (as applicable). “Cash Collateral” shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

“Cash Equivalent Investment” means, at any time:

- (a) any direct obligation of (or unconditionally guaranteed by) the United States of America or a state thereof, any OECD country or other foreign government in a jurisdiction in which the Borrower or any of its Subsidiaries currently has or could have operations (or any agency or political subdivision thereof, to the extent such obligations are supported by the full faith and credit of the United States of America or a State thereof, any OECD country or other foreign government in a jurisdiction in which the Borrower or any of its Subsidiaries currently has or could have operations) maturing not more than one year after such time;
- (b) commercial paper maturing not more than 270 days from the date of issue, which is issued by either:
  - (i) any corporation rated A-1 or higher by S&P or P-1 or higher by Moody’s, or
  - (ii) any Lender (or its holding company); or
- (c) any certificate of deposit, time deposit or bankers acceptance, maturing not more than one year after its date of issuance, which is issued by any bank which has

(x) a credit rating of A2 or higher from Moody's or A or higher from S&P and (y) a combined capital and surplus greater than \$500,000,000.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Change of Control" means the occurrence after the date of this Agreement of any transaction or series of transactions that results in Gruma, S.A.B. ceasing to have beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Exchange Act), directly or indirectly, of securities of the Borrower representing at least 51% of all Voting Equity Interests of the Borrower.

"Closing Date" means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 10.01 (or, in the case of Section 4.01(b), waived by the Person entitled to receive the applicable payment).

"Code" means the Internal Revenue Code of 1986.

"Commitment" means, as to each Lender, its obligation to (a) make Revolving Loans to the Borrower pursuant to Section 2.01, (b) purchase participations in L/C Obligations, and (c) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in any Assignment and Assumption pursuant to which such Lender becomes a party hereto, or in any amendment hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

"Commitment Fee" has the meaning specified in Section 2.09(a).

"Compliance Certificate" means a certificate substantially in the form of Exhibit E, with such changes, or in such other form, as agreed to by the Administrative Agent.

"Consolidated EBITDA" means, for any Measurement Period, for the Borrower and its Subsidiaries, an amount equal to the sum of (a) consolidated operating income (determined in accordance with GAAP) and (b) the amount of depreciation and amortization expense deducted in determining such consolidated operating income.

"Consolidated Funded Debt" means, at any time with respect to the Borrower and its Subsidiaries, without duplication, the sum of (a) all obligations for borrowed money, (b) any

obligation in respect of a lease or hire purchase contract which would, under GAAP, be treated as a financial or capital lease, and (c) any outstanding reimbursement obligation in respect of a letter of credit upon which a draw has been made.

“Consolidated Tangible Net Worth” means, at any date, on a consolidated basis in accordance with GAAP for the Borrower and its Subsidiaries, Shareholders’ Equity on such date minus Intangible Assets of the Borrower and its Subsidiaries on such date.

“Contingent Obligation” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guarantying or having the economic effect of guarantying any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligees in respect to such indebtedness or other obligation of the payment or performance thereof or to protect such obligees against loss in respect thereof (in whole or in part), or (b) any lien on any assets of such Person securing any indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person, provided that the term “Contingent Obligation” shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation of any Person shall be deemed to be an amount equal to the maximum amount of such Person’s liability with respect to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guarantying Person in good faith.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its Property is bound.

“Control” has the meaning specified in the definition of “Affiliate”.

“Core Business” means the production and/or distribution of corn flour, the production and/or distribution of tortillas and/or other food or related products, the production and/or distribution of wheat flour and/or any other food, distribution and/or logistics related business in which the Borrower and/or its Subsidiaries are engaged in, or may engage in, from time to time.

“Credit Extension” means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

“Daily Floating LIBOR Rate” means a fluctuating rate of interest (rounded, if necessary, to the nearest 1/100th of 1%) equal to the one (1) month London Interbank Offered Rate as published in the “*Money Rates*” section of the Wall Street Journal.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means (a) when used with respect to Obligations other than Letter of Credit Fees, an interest rate equal to the lesser of (i) the Highest Lawful Rate and (ii) the sum of (x) the Base Rate plus (y) the Applicable Rate, if any, applicable to Base Rate Loans plus (z) 2% per annum; provided, however, that with respect to a Eurodollar Rate Loan or a Swing Line Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, and (b) when used with respect to Letter of Credit Fees, a rate equal to the Applicable Rate plus 2% per annum, in all cases to the fullest extent permitted by Applicable Laws and not in any event to exceed the Highest Lawful Rate.

“Defaulting Lender” means, subject to Section 2.16(b), any Lender that, as determined reasonably and in good faith by the Administrative Agent, (a) has failed to perform any of its funding obligations hereunder, including in respect of its Loans or participations in respect of Letters of Credit or Swing Line Loans, within three Business Days of the date required to be funded by it hereunder, (b) has notified the Borrower or the Administrative Agent that it does not intend to comply with its funding obligations or has made a public statement to that effect with respect to its funding obligations hereunder or under other agreements in which it commits to extend credit, (c) has failed, within three Business Days after receipt of a written request by the Administrative Agent, to confirm in a manner satisfactory to the Administrative Agent that it will comply with its funding obligations, or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, or (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority.

“Disposition” means the sale, transfer, license or other disposition (including any sale and leaseback transaction) of any property by any Person, other than in the ordinary course of business, including any sale, assignment, transfer or other disposition, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith; provided, however, that any financing involving, or secured by, the future sale of accounts receivable (or

any similar financing transaction) will not be considered to be a sale or disposition in the ordinary course of business.

“Dollar” and “\$” mean lawful money of the United States.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 10.06(b)(iii), (v) and (vi) (subject to such consents, if any, as may be required under Section 10.06(b)(iii)).

“Environmental Laws” means all federal, national, state, provincial, departmental, municipal, local and foreign laws, including common law, statutes, rules, regulations, ordinances, technical standards and codes, together with all orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder by any Governmental Authority having jurisdiction over the Borrower, its Subsidiaries or their respective properties, in each case relating to environmental, health and safety, natural resources or land use matters.

“Equity Interest” means shares of capital stock (whether denominated as common stock or preferred stock), beneficial, partnership or membership interests, participations or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or equivalent entity, whether voting or non-voting.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) the withdrawal of the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, or the treatment of a Pension Plan amendment as a termination, under Section 4041 or 4041A of ERISA; (e) the institution by the PBGC of proceedings to terminate a Pension Plan; (f) any event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; (g) the determination that any Pension Plan is considered an at-risk plan or a plan in endangered or critical status within the meaning of Sections 430, 431 and 432 of the Code or Sections 303, 304 and 305 of ERISA; or (h) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum (rounded, if necessary, to the nearest 1/100th of 1%) equal to (i) the British



Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or such other commercially available source providing quotations of BBA LIBOR as may be designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two London Banking Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period or, (ii) if such rate is not available at such time for any reason, then the “Eurodollar Rate” for such Interest Period shall be the rate per annum (rounded, if necessary, to the nearest 1/100th of 1%) determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two London Banking Days prior to the commencement of such Interest Period; and

(b) for any interest calculation with respect to a Base Rate Loan on any date, the rate per annum equal to (i) BBA LIBOR, at approximately 11:00 a.m., London time determined two London Banking Days prior to such date for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Loan being made or maintained and with a term equal to one month would be offered by Bank of America’s London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on the Eurodollar Rate.

“Event of Default” has the meaning specified in Section 8.01.

“Exchange Act” means the Securities Exchange Act of 1934.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) any backup withholding tax that is required by the Code to be withheld from amounts payable to a Lender that has failed to comply with clause (A) of Section 3.01(e)(ii), (d) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 10.12), any United States withholding tax that (i) is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or

designates a new Lending Office) or (ii) is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with clause (B) of Section 3.01(e)(ii), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 3.01(a)(ii) or (c), and (d) any United States federal Taxes imposed under FATCA.

“Existing Letters of Credit” means those Letters of Credit set forth on Schedule 1.01.

“Existing Credit Agreement” has the meaning specified in the Background provision of this Agreement.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantially comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

“Fee Letters” means the letter agreements, dated May 2, 2011, among the Borrower, the Administrative Agent and MLPFS.

“Fiscal Quarter” means each fiscal quarter of the Borrower ending on the last Saturday of each March, June, September and December.

“Fiscal Year” means each fiscal year of the Borrower ending on the last Saturday of each calendar year.

“Foreign Lender” means any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes (including such a Lender when acting in the capacity of the L/C Issuer). For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fronting Exposure” means, at any time there is a Defaulting Lender, (a) with respect to the L/C Issuer, such Defaulting Lender's Applicable Percentage of the outstanding L/C Obligations other than L/C Obligations as to which such Defaulting Lender's participation

obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof, and (b) with respect to the Swing Line Lender, such Defaulting Lender's Applicable Percentage of Swing Line Loans other than Swing Line Loans as to which such Defaulting Lender's participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means, as adopted for use by the Borrower from time to time, either (a) generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied (“U.S. GAAP”), or (b) the International Financial Reporting Standards or such other principles as may be approved by a significant segment of the international accounting profession that are applicable to the circumstances as of the date of determination, consistently applied (“IFRS”).

“Governmental Authority” means, with respect to any Person, any nation or government, any state, province or other political or administrative subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity or branch of power exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity exercising such functions and owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing having jurisdiction over such Person.

“Gruma, S.A.B.” means Gruma, S.A.B. de C.V., a Mexican corporation, and, as of the Closing Date, owner of 100% of all Equity Interests of the Borrower.

“Highest Lawful Rate” means at the particular time in question the maximum rate of interest which, under Applicable Law, any Lender is then permitted to charge on the Obligations. If the maximum rate of interest which, under Applicable Law, any Lender is permitted to charge on the Obligations shall change after the date hereof, the Highest Lawful Rate shall be automatically increased or decreased, as the case may be, from time to time as of the effective time of each change in the Highest Lawful Rate without notice to the Borrower.

“Honor Date” has the meaning specified in Section 2.03(c)(i).

“Increase Effective Date” has the meaning specified in Section 2.14(d).

“Indebtedness” of any Person, means at any date, without duplication: (a) any obligation of such Person in respect of borrowed money, any obligation of such Person evidenced by bonds, notes, debentures or similar instruments; (b) any obligation of such Person in respect of a lease or hire purchase contract which would, under GAAP, be treated as a financial or capital lease; (c) any indebtedness of others secured by a Lien on any asset of such Person, whether or not

such indebtedness is assumed by such Person; (d) any obligations of such Person to pay the deferred purchase price of fixed assets or services if such deferral extends for a period in excess of 60 days; and (e) all Contingent Obligations of such Person in respect of the foregoing; provided, however, that the following liabilities shall be explicitly excluded from the definition of the term “Indebtedness”: (i) trade accounts payable, including any obligations in respect of letters of credit that have been issued in support of trade accounts payable; (ii) expenses that accrue and become payable in the ordinary course of business; (iii) customer advance payments and customer deposits received in the ordinary course of business; and (iv) obligations for ad valorem taxes, value added taxes, or any other taxes or governmental charges.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in Section 10.04(b).

“Information” has the meaning specified in Section 10.07.

“Intangible Assets” means assets that are considered to be intangible assets under GAAP.

“Interest Payment Date” means, (a) as to any Eurodollar Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan and any Swing Line Loan, the tenth Business Day after the end of each March, June, September and December and the Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Loan Notice; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period shall extend beyond the Maturity Date.

“Investment” means, as to any Person, any acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, guaranty of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of asset of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuer Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the L/C Issuer and the Borrower (or any Subsidiary) or in favor of the L/C Issuer and relating to such Letter of Credit.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Applicable Percentage. All L/C Advances shall be denominated in Dollars.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Borrowing.

“L/C Cash Collateral Account” has the meaning specified in Section 2.15(b).

“L/C Credit Extension” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

“L/C Issuer” means Bank of America or any other Lender acceptable to the Borrower and the Administrative Agent, in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder.

“L/C Obligations” means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of

determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“Lender” has the meaning specified in the introductory paragraph hereto and, as the context requires, includes the Swing Line Lender and the L/C Issuer.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

“Letter of Credit” means any letter of credit issued hereunder and shall include the Existing Letters of Credit. A Letter of Credit may be a commercial letter of credit or a standby letter of credit.

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

“Letter of Credit Expiration Date” means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“Letter of Credit Fee” has the meaning specified in Section 2.03(h).

“Letter of Credit Sublimit” means an amount equal to \$35,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

“Leverage Ratio” means, as of the end of the most recently completed Fiscal Quarter, the ratio of (a) Consolidated Funded Debt on such date to (b) Consolidated EBITDA determined for the relevant Measurement Period.

“Lien” means any security interest, mortgage, deed of trust, pledge, charge or deposit arrangement, encumbrance, lien (statutory or other), or preferential arrangement of any kind or nature whatsoever in respect of any Property.

“Litigation” means any proceeding, claim, lawsuit and/or arbitration by or before any Governmental Authority or arbitrator, including, without limitation, proceedings, claims, lawsuits, and/or investigations under or pursuant to any environmental, occupational, safety and health, antitrust, unfair competition, securities, tax or other Law, or under or pursuant to any contract, agreement or other instrument.

“Loan” means an extension of credit by a Lender to the Borrower under Article II in the form of a Revolving Loan or a Swing Line Loan.

“Loan Documents” means this Agreement, the Notes, the Fee Letters, each Issuer Document, each Request for Credit Extension, and any other agreement executed, delivered or performable by the Borrower in connection herewith or as security for the Obligations.

“London Banking Day” means any day on which Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Margin Stock” means “margin stock” as such term is defined in Regulation T, U or X of , the FRB.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, assets, liabilities (actual or contingent) or financial condition of the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Borrower to perform its payment or other material obligations under any Loan Document; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower of any Loan Document.

“Material Subsidiary” means, at any time, any Subsidiary of the Borrower that meets any of the following conditions:

(a) the Borrower’s and its Subsidiaries’ investments in or advances to such Subsidiary exceed 10% of the total assets of the Borrower and its Subsidiaries as of the end of the Borrower’s most recently completed Fiscal Year; or

(b) the Borrower’s and its Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of such Subsidiary exceeds 10% of the total assets of the Borrower and its Subsidiaries as of the end of the Borrower’s most recently completed Fiscal Year; or

(c) the Borrower’s and its Subsidiaries’ equity in the earnings before income tax of such Subsidiary exceeds 10% of such earnings of the Borrower and its Subsidiaries as of the end of the Borrower’s most recently completed Fiscal Year, all as calculated by reference to the then latest audited financial statements (or consolidated financial statements, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Borrower and its Subsidiaries.

“Maturity Date” means (a) June 20, 2016, provided, however, that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day or (b) such earlier date as the (i) the Obligations become due and payable pursuant to this Agreement (whether by acceleration, prepayment in full, scheduled reduction or otherwise) or (ii) there shall exist an Event of Default under Section 8.01(f).

“Measurement Period” means any period of four consecutive Fiscal Quarters of the Borrower, ending with the most recently completed Fiscal Quarter, taken as one accounting period.

“MLPFS” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, a Delaware corporation.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, subject to Title IV of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding three plan years, has made or been obligated to make contributions.

“Multiple Employer Plan” means a Plan which has two or more contributing sponsors (including the Borrower or any ERISA Affiliate) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

“Non-Extension Notice Date” has the meaning specified in Section 2.03(b)(iii).

“Notes” means the Revolving Loan Notes and the Swing Line Note.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Borrower or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“OECD” means the Organization for Economic Cooperation and Development.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Outstanding Amount” means (a) with respect to Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date; and (b) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.



“Overnight Rate” means, for any day, the greater of (a) the Federal Funds Rate and (b) an overnight rate determined by the Administrative Agent or the L/C Issuer, as the case may be, in accordance with banking industry rules on interbank compensation.

“Participant” has the meaning specified in Section 10.06(d).

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Act” means the Pension Protection Act of 2006.

“Pension Funding Rules” means the rules of the Code and ERISA regarding minimum required contributions (including any installment payment thereof) to Pension Plans and set forth in, with respect to plan years ending prior to the effective date of the Pension Act, Section 412 of the Code and Section 302 of ERISA, each as in effect prior to the Pension Act and, thereafter, Section 412, 430, 431, 432 and 436 of the Code and Sections 302, 303, 304 and 305 of ERISA.

“Pension Plan” means any employee pension benefit plan (including a Multiple Employer Plan or a Multiemployer Plan) that is maintained or is contributed to by the Borrower and any ERISA Affiliate and is either covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee benefit plan within the meaning of Section 3(3) of ERISA (including a Pension Plan), subject to Title I of ERISA, maintained for employees of the Borrower or any ERISA Affiliate or any such Plan to which the Borrower or any ERISA Affiliate is required to contribute on behalf of any of its employees.

“Property” means any asset, revenue or other property, whether tangible or intangible, and any right to receive revenue.

“Register” has the meaning specified in Section 10.06(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Removal Effective Date” has the meaning set forth in Section 9.06.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Request for Credit Extension” means (a) with respect to a Revolving Borrowing, or a conversion or continuation of Revolving Loans, a Revolving Loan Notice, (b) with respect to an L/C Credit Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice..

“Required Lenders” means, as of any date of determination, two or more Lenders having greater than 50% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, Lenders holding in the aggregate greater than 50% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations being deemed “held” by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Requirement of Law” means, as to any Person, any law (statutory or common), treaty, rule or regulation or order, decree or other determination of an arbitrator or a court or other Governmental Authority, including any Environmental Law, in each case applicable to or binding upon such Person or any of its Property or to which the Person or any of its Property is subject.

“Responsible Officer” means the chief executive officer, president, chief financial officer, secretary, treasurer, assistant treasurer or controller of the Borrower and, solely for purposes of notices given pursuant to Article II, any other officer or employee of the Borrower so designated by any of the foregoing officers in a notice to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of the Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of the Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of the Borrower.

“Restricted Payments” means any dividend or other distribution (whether in cash, securities or other Property) with respect to any shares of capital stock or other Equity Interests of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other Property), including any sinking fund or similar deposit on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock or other Equity Interests or of any option, warrant or other right to acquire any shares of capital stock or other Equity Interests or on account of any return of capital to the Borrower’s stockholders.

“Revolving Borrowing” means a borrowing consisting of simultaneous Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Lenders pursuant to Section 2.01.

“Revolving Loan” has the meaning specified in Section 2.01.

“Revolving Loan Note” means a promissory note made by the Borrower in favor of a Lender and evidencing Revolving Loans made by such Lender, substantially in the form of Exhibit C.

“Revolving Loan Notice” means a notice of (a) a Revolving Borrowing, (b) a conversion of Revolving Loans from one Type to the other, or (c) a continuation of Revolving Loans, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

“S&P” means Standard & Poor’s Rating Service, presently a division of The McGraw-Hill Companies, Inc., and its successors.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Shareholders’ Equity” means, at any date, the shareholders’ equity of the Borrower and its Subsidiaries, determined in accordance with GAAP, on a consolidated basis.

“Solvent” means, with respect to any Person, as of any date of determination, that the fair value of the assets (tangible and intangible) of such Person (at fair valuation) is, on the date of determination, greater than the total amount of liabilities (including contingent and unliquidated liabilities) of such Person as of such date, that the present fair saleable value of such assets of such Person will, as of such date, be greater than the amount that will be required to pay the probable liability of such Person on its debts as such debts become absolute and matured considering all financing alternatives and potential asset sales reasonably available to such Person, and that, as of such date, such Person will be able to pay all liabilities of such Person as such liabilities mature and such Person does not have unreasonably small capital with which to carry on its business. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability discounted to present value at rates believed to be reasonable by such Person.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the Voting Equity Interests (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swing Line” means the revolving credit facility made available by the Swing Line Lender pursuant to Section 2.04.

“Swing Line Borrowing” means a borrowing of a Swing Line Loan pursuant to Section 2.04.

“Swing Line Lender” means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

“Swing Line Loan” has the meaning specified in Section 2.04(a).

“Swing Line Loan Notice” means a notice of a Swing Line Borrowing pursuant to Section 2.04(b), which, if in writing, shall be substantially in the form of Exhibit B.

“Swing Line Note” means a promissory note made by the Borrower in favor of the Swing Line Lender evidencing Swing Line Loans made by such Lender, substantially in the form of Exhibit D.

“Swing Line Sublimit” means an amount equal to the lesser of (a) \$10,000,000 and (b) the Aggregate Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Commitments.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“Type” means, with respect to a Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“United States” and “U.S.” mean the United States of America.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“Voting Equity Interests” of any Person means any Equity Interests of any class or classes having ordinary voting power for the election of at least a majority of the members of the board of directors, managing general partners or the equivalent governing body of such Person, irrespective of whether, at the time, any Equity Interests of any other class or classes or such entity shall have or might have voting power by reason of the happening of any contingency.

“Wholly-Owned Subsidiary” means any corporation in which (other than directors’ qualifying shares required by law) 100% of the Voting Equity Interests, and 100% of the Equity Interests of every other class, in each case, at the time as of which any determination is being made, is owned, beneficially and of record, by the Borrower, or by one or more of the other Wholly-Owned Subsidiaries, or both.

1.02 **Other Interpretive Provisions.** With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, and (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

(d) For purposes of Section 8.01(c), a breach of a financial covenant contained in Section 7.09 or 7.10 shall be deemed to have occurred as of any date of determination thereof by the Administrative Agent or as of the last day of any specified measuring period, regardless of when the financial statements reflecting such breach are delivered to the Administrative Agent and the Lenders.

1.03 **Accounting Terms.**

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) **Changes in GAAP.** If (i) at any time any change in GAAP, or (ii) the Borrower's conversion from U.S. GAAP to IFRS would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change (subject to the approval of the Required Lenders); provided that, until so amended, (x) such ratio or requirement shall continue to be computed in accordance with U.S. GAAP prior to such change therein and (y) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change.

1.04 **Rounding.** Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 **Times of Day.** Unless otherwise specified, all references herein to times of day shall be references to central time (daylight or standard, as applicable).

1.06 **Letter of Credit Amounts.** Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount (as reduced by any drawings thereunder which result in a permanent reduction of the amount available to be drawn) of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time (as reduced by any drawings thereunder which result in a permanent reduction of the amount available to be drawn).

1.07 **References to Agreements and Laws.** Unless otherwise expressly provided herein, (a) references to Organization Documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions and rulings consolidating, amending, replacing, supplementing or interpreting such Law.

## ARTICLE II. THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 **Revolving Loans.** Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Revolving Loan") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount

not to exceed at any time outstanding the amount of such Lender's Commitment; provided, however, that after giving effect to any Borrowing, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Revolving Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans, shall not exceed such Lender's Commitment. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

## **2.02 Borrowings, Conversions and Continuations of Revolving Loans.**

(a) Each Revolving Borrowing, each conversion of Revolving Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 12:00 noon (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Loans, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Revolving Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof. Except as provided in Section 2.03(c), each Borrowing of or conversion to Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof. Each Revolving Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Revolving Borrowing, a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Revolving Loans to be borrowed, converted or continued, (iv) the Type of Revolving Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Revolving Loan in a Revolving Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Revolving Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Revolving Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Revolving Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage of the applicable Revolving Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding subsection. In the case of a Borrowing, each Lender shall make the amount of its Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on

the Business Day specified in the applicable Revolving Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower; provided, however, that if, on the date the Revolving Loan Notice with respect to such Borrowing is given by the Borrower, there are Swing Line Loans or L/C Borrowings outstanding, then the proceeds of such Borrowing shall be applied, first, to the payment in full of any such L/C Borrowings, second, to the payment in full of any such Swing Line Loans, and third, to the Borrower as provided above.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. The determination of the Eurodollar Rate by the Administrative Agent shall be conclusive in the absence of manifest error. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Revolving Borrowings, all conversions of Revolving Loans from one Type to the other, and all continuations of Revolving Loans as the same Type, there shall not be more than ten Interest Periods in effect with respect to all Revolving Loans.

### 2.03 **Letters of Credit.**

#### (a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the other Lenders set forth in this Section 2.03, (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit in Dollars for the account of the Borrower or certain Subsidiaries, and to amend or extend Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drawings under the Letter of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower and any drawings thereunder; provided that the L/C Issuer shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in any Letter of Credit if as of the date of such L/C Credit Extension, (x) the Total Outstandings would exceed the Aggregate Commitments, (y) the aggregate Outstanding Amount of the Revolving Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of



the Outstanding Amount of all Swing Line Loans would exceed such Lender's Commitment, or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(ii) The L/C Issuer shall not issue any Letter of Credit, if:

(A) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(B) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(iii) The L/C Issuer shall not be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer applicable to letters of credit generally and applicable to all letter of credit applicants generally;

(C) except as otherwise agreed by the Administrative Agent and the L/C Issuer, such Letter of Credit is in an initial stated amount less than \$10,000;

(D) such Letter of Credit is to be denominated in a currency other than Dollars; or

(E) any Lender is at that time a Defaulting Lender, unless the L/C Issuer has entered into arrangements, including the delivery of Cash Collateral, satisfactory to the L/C Issuer (in its sole discretion) with the Borrower or such Lender to eliminate the L/C Issuer's actual or potential Fronting Exposure (after giving effect to Section 2.16(a)(iv)) with respect to the Defaulting Lender arising from either the Letter of Credit then proposed to be issued or that Letter of Credit and all other L/C Obligations as to which the L/C Issuer has actual or potential Fronting Exposure, as it may elect in its sole discretion.

(iv) The L/C Issuer shall not amend any Letter of Credit if the L/C Issuer would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(v) The L/C Issuer shall be under no obligation to amend any Letter of Credit if (A) the L/C Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(vi) The L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the L/C Issuer shall have all of the benefits and immunities (A) provided to the Administrative Agent in Article IX with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in Article IX included the L/C Issuer with respect to such acts or omissions, and (B) as additionally provided herein with respect to the L/C Issuer.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the L/C Issuer (with a copy to the Administrative Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Application must be received by the L/C Issuer and the Administrative Agent not later than 12:00 noon at least two Business Days (or such later date and time as the Administrative Agent and the L/C Issuer may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter

of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require. Additionally, the Borrower shall furnish to the L/C Issuer and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the L/C Issuer or the Administrative Agent may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the L/C Issuer will provide the Administrative Agent with a copy thereof. Unless the L/C Issuer has received written notice from any Lender, the Administrative Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article IV shall not then be satisfied, then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender with a Commitment shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Letter of Credit. Promptly after the end of each calendar quarter, the Administrative Agent shall deliver to each Lender a summary of the Letters of Credit issued during such calendar quarter.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit the L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Borrower shall not be required to make a specific request to the L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the L/C Issuer to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the L/C Issuer shall not permit any such extension if (A) the L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is three Business Days before the Non-Extension Notice Date (1) from the Administrative Agent that the Required Lenders have elected not to permit such extension or (2) from the Administrative Agent, any Lender or the Borrower that one or more of the applicable

conditions specified in Section 4.02 is not then satisfied, and in each such case directing the L/C Issuer not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Promptly upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Borrower and the Administrative Agent thereof. Not later than 12:00 noon on the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "Honor Date"), the Borrower shall reimburse the L/C Issuer through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the L/C Issuer by such time, the Administrative Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Applicable Percentage thereof. In such event, the Borrower shall be deemed to have requested a Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth in Section 4.02 (other than the delivery of a Revolving Loan Notice). Any notice given by the L/C Issuer or the Administrative Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender (including the Lender acting as L/C Issuer) shall upon any notice pursuant to Section 2.03(c)(i) make funds available (and the Administrative Agent may apply Cash Collateral provided for this purpose) to the Administrative Agent for the account of the L/C Issuer, in Dollars, at the Administrative Agent's Office in an amount equal to its Applicable Percentage of the Unreimbursed Amount not later than 2:00 p.m. on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each such Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the L/C Issuer in Dollars.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each such Lender's payment to the Administrative Agent for the account of the L/C Issuer pursuant to

Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until a Lender funds its Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Applicable Percentage of such amount shall be solely for the account of the L/C Issuer.

(v) Each Lender's obligation to make Revolving Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the L/C Issuer, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Loans pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 4.02 (other than delivery by the Borrower of a Revolving Loan Notice). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Administrative Agent for the account of the L/C Issuer any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), the L/C Issuer shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the Overnight Rate, plus any administrative, processing or similar fees customarily charged by the L/C Issuer in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Revolving Loan included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the L/C Issuer submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Administrative Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent

will distribute to such Lender its Applicable Percentage thereof in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each Lender shall pay to the Administrative Agent for the account of the L/C Issuer its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute. The obligation of the Borrower to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit; or

(iv) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply (but is otherwise in compliance) with the terms of such Letter of Credit unless such payment is determined by a court of competent jurisdiction to be the result of gross negligence or willful misconduct by the L/C Issuer; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law.

In each Letter of Credit Application, the Borrower shall specifically request that the L/C Issuer provide a pro forma copy of such Letter of Credit or such amendment, as applicable. Prior to the issuance of any Letter of Credit and any amendment thereto, the

L/C Issuer shall deliver to the Borrower a pro forma copy of such Letter of Credit or such amendment, as applicable. The Borrower shall promptly examine such pro forma copy of each Letter of Credit and each amendment thereto and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will promptly notify the L/C Issuer prior to the issuance of such Letter of Credit or amendment. Upon the issuance of a Letter of Credit or amendment thereto, the Borrower shall be conclusively deemed to have waived any claim of noncompliance with the Borrower's instructions or other irregularity arising from the issuance of such Letter of Credit or amendment thereto against the L/C Issuer unless such notice is given as aforesaid.

(f) Role of L/C Issuer. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the L/C Issuer, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(e); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or gross negligence or the L/C Issuer's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Applicability of ISP and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the ISP shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits,

as most recently published by the International Chamber of Commerce at the time of issuance shall apply to each commercial Letter of Credit.

(h) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage a Letter of Credit fee (the “Letter of Credit Fee”) for each Letter of Credit equal to the Applicable Rate times the daily amount available to be drawn under such Letter of Credit; provided, however, any Letter of Credit Fees otherwise payable for the account of a Defaulting Lender with respect to any Letter of Credit as to which such Defaulting Lender has not provided Cash Collateral satisfactory to the L/C Issuer pursuant to this Section 2.03 shall not be required to be paid by the Borrower to the extent that the Borrower has provided Cash Collateral therefor; provided, further, however, if the Borrower has not provided such Cash Collateral, such Letter of Credit Fees shall be payable, to the maximum extent permitted by Applicable Law, to the other Lenders in accordance with the upward adjustments in their respective Applicable Percentages allocable to such Letter of Credit pursuant to Section 2.16(a)(iv), with the balance of such fee, if any, payable to the L/C Issuer for its own account. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. Letter of Credit Fees shall be (i) due and payable on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand and (ii) computed on a quarterly basis in arrears. If there is any change in the Applicable Rate during any quarter, the daily amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect. Notwithstanding anything to the contrary contained herein, upon the request of the Required Lenders, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate.

(i) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer. The Borrower shall pay directly to the L/C Issuer for its own account a fronting fee (i) with respect to each commercial Letter of Credit, at the rate specified in the applicable Fee Letter, computed on the amount of such Letter of Credit, and payable upon the issuance thereof, (ii) with respect to any amendment of a commercial Letter of Credit increasing the amount of such Letter of Credit, at a rate separately agreed between the Borrower and the L/C Issuer, computed on the amount of such increase, and payable upon the effectiveness of such amendment, and (iii) with respect to each standby Letter of Credit, at the rate per annum specified in the applicable Fee Letter, computed on the daily amount available to be drawn under such Letter of Credit on a quarterly basis in arrears. Such fronting fee shall be due and payable on the tenth Business Day after the end of each March, June, September and December in respect of the most recently-ended quarterly period (or portion thereof, in the case of the first payment), commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. In addition, the Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.



(j) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof and the terms of the applicable Fee Letter shall control.

(k) Letters of Credit Issued for Subsidiaries. Notwithstanding that a Letter of Credit issued or outstanding hereunder is in support of any obligations of, or is for the account of, a Subsidiary, the Borrower shall be obligated to reimburse the L/C Issuer hereunder for any and all drawings under such Letter of Credit. The Borrower hereby acknowledges that the issuance of Letters of Credit for the account of Subsidiaries inures to the benefit of the Borrower, and that the Borrower's business derives substantial benefits from the businesses of such Subsidiaries.

#### 2.04 **Swing Line Loans.**

(a) The Swing Line. Subject to the terms and conditions set forth herein, the Swing Line Lender agrees, in reliance upon the agreements of the other Lenders set forth in this Section 2.04, to make loans (each such loan, a "Swing Line Loan") to the Borrower from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Applicable Percentage of the Outstanding Amount of Revolving Loans and L/C Obligations of the Lender acting as Swing Line Lender, may exceed the amount of such Lender's Commitment; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Revolving Loans of any Lender (other than the Swing Line Lender), plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, and provided, further, that the Borrower shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Swing Line Loan.

(b) Borrowing Procedures. Each Swing Line Borrowing shall be made upon the Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of \$100,000, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in

writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article IV is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Borrower at its office by crediting the account of the Borrower on the books of the Swing Line Lender in immediately available funds.

(c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender on the earlier of (A) the occurrence of an Event of Default and (B) a date which is not earlier than twenty Business Days after such Swing Line Loan is made, in its sole and absolute discretion may request, on behalf of the Borrower (which hereby irrevocably authorizes the Swing Line Lender to so request on its behalf), that each Lender make a Base Rate Loan in an amount equal to such Lender's Applicable Percentage of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Revolving Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Aggregate Commitments and the conditions set forth in Section 4.02. The Swing Line Lender shall furnish the Borrower with a copy of the applicable Revolving Loan Notice promptly after delivering such notice to the Administrative Agent. Each Lender shall make an amount equal to its Applicable Percentage of the amount specified in such Revolving Loan Notice available to the Administrative Agent in immediately available funds (and the Administrative Agent may apply Cash Collateral available with respect to the applicable Swing Line Loan) for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in such Revolving Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Revolving Borrowing in accordance with Section 2.04(c)(i), the request for Base Rate Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Lenders fund its risk participation in the relevant Swing Line Loan and each Lender's payment to the Administrative Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender

(acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the Overnight Rate, plus any administrative, processing or similar fees customarily charged by the Swing Line Lender in connection with the foregoing. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Lender's obligation to make Revolving Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, the Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Revolving Loans pursuant to Section 2.04(c) is subject to the conditions set forth in Section 4.02. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Lenders under this clause shall survive payment in full of the Obligations and the termination of this Agreement.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its Base Rate Loan or risk participation pursuant to this Section 2.04 to refinance such Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

#### 2.05 **Prepayments.**

(a) The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Administrative Agent not later than 12:00 noon (A) three Business Days prior to any date of prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid and, if Eurodollar Rate Loans are to be prepaid, the Interest Period(s) of such Loans. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Loans of the Lenders in accordance with their respective Applicable Percentages.

(b) The Borrower may, upon notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such prepayment shall be in a minimum principal amount of \$100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) If for any reason the Total Outstandings at any time exceed the Aggregate Commitments then in effect, the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(c) unless after the prepayment in full of the Loans the Total Outstandings exceed the Aggregate Commitments then in effect.

2.06 **Termination or Reduction of Commitments.** The Borrower may, upon notice to the Administrative Agent, terminate the Aggregate Commitments, or from time to time permanently reduce the Aggregate Commitments; provided that (i) any such notice shall be received by the Administrative Agent not later than 12:00 noon five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$5,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Aggregate Commitments if, after giving effect thereto and to any

concurrent prepayments hereunder, the Total Outstandings would exceed the Aggregate Commitments, and (iv) if, after giving effect to any reduction of the Aggregate Commitments or the Letter of Credit Sublimit or the Swing Line Sublimit exceeds the amount of the Aggregate Commitments, such sublimit shall be automatically reduced by the amount of such excess. The Administrative Agent will promptly notify the Lenders of any such notice of termination or reduction of the Aggregate Commitments. Any reduction of the Aggregate Commitments shall be applied to the Commitment of each Lender according to its Applicable Percentage. All Commitment Fees, Letter of Credit Fees and other fees accrued until the effective date of any termination of the Aggregate Commitments shall be paid on the effective date of such termination.

**2.07 Repayment of Loans.**

(a) The Borrower shall repay to the Lenders on the Maturity Date the aggregate principal amount of Revolving Loans and all other Obligations outstanding on such date.

(b) The Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date twenty Business Days after such Loan is made and (ii) the Maturity Date.

**2.08 Interest.**

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the lesser of (y) the Highest Lawful Rate and (z) the Eurodollar Rate for such Interest Period plus the Applicable Rate for Eurodollar Rate Loans, (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the lesser of (y) the Highest Lawful Rate and (z) the Base Rate plus the Applicable Rate for Base Rate Loans, and (iii) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the lesser of (y) the Highest Lawful Rate and (z) the Daily Floating LIBOR Rate plus the Applicable Rate for Swing Line Loans.

(b) (i) If any amount payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the lesser of (y) the Default Rate and (z) the Highest Lawful Rate, to the fullest extent permitted by Applicable Laws.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 **Fees.** In addition to certain fees described in subsections (i) and (j) of Section 2.03:

(a) **Commitment Fee.** The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage, a commitment fee (the “Commitment Fee”) equal to the Applicable Rate times the actual daily amount by which the Aggregate Commitments exceed the sum of (i) the Outstanding Amount of Revolving Loans and (ii) the Outstanding Amount of L/C Obligations, subject to adjustment as provided in Section 2.16. The Commitment Fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the last day of the Availability Period. The Commitment Fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) **Other Fees.**

(i) The Borrower shall pay to the Administrative Agent and MLPFS for their respective accounts the fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(ii) The Borrower shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever, unless otherwise provided in the applicable fee letters.

2.10 **Computation of Interest and Fees.**

(a) All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America’s “prime rate” shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. Subject to Section 10.08, all other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

(b) If as a result of any restatement of the audited financial statements of the Borrower, (i) the Leverage Ratio as of any applicable date was inaccurate and (ii) a proper calculation of the Leverage Ratio would have resulted in higher pricing for such period, the Borrower shall immediately and retroactively be obligated to pay to the Administrative Agent for

the account of the Lenders or the L/C Issuer, as the case may be, promptly on demand by the Administrative Agent (or, after the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, automatically and without further action by the Administrative Agent, any Lender or the L/C Issuer), an amount equal to the excess of the amount of interest and fees that should have been paid for such period over the amount of interest and fees actually paid for such period. This paragraph shall not limit the rights of the Administrative Agent, any Lender, or the L/C Issuer, as the case may be, under Section 2.03(c)(iii), 2.03(h) or 2.08(b) or under Article VIII. The Borrower's obligations under this paragraph shall survive termination of the Aggregate Commitments and the repayment of all other Obligations hereunder.

#### **2.11 Evidence of Debt.**

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

#### **2.12 Payments Generally; Administrative Agent's Clawback.**

(a) General. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All

payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue until paid. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of Eurodollar Rate Loans (or, in the case of any Borrowing of Base Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of a Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the Overnight Rate, and (B) in the case of a payment to be made by the Borrower, the interest rate applicable at the time to the Loans comprising such Borrowing; provided that if the Borrower fails to pay such amount to the Administrative Agent within five Business Days after the date of such demand, then the Borrower shall pay interest thereon to the Administrative Agent at a rate per annum equal to the Base Rate, plus the Applicable Rate then in effect, plus 2%. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the L/C Issuer hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the L/C Issuer, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the L/C Issuer, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such



amount is distributed to it but excluding the date of payment to the Administrative Agent, at the Overnight Rate.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) **Failure to Satisfy Conditions Precedent.** If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) **Obligations of Lenders Several.** The obligations of the Lenders hereunder to make Loans, to fund participations in Letters of Credit and Swing Line Loans and to make payments pursuant to Section 10.04(c) are several and not joint. The failure of any Lender to make any Revolving Loan, to fund any such participation or to make any payment under Section 10.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Revolving Loan, to purchase its participation or to make its payment under Section 10.04(c).

(e) **Funding Source.** Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 **Sharing of Payments by Lenders.** If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Revolving Loans made by it, or the participations in L/C Obligations or Swing Line Loans held by it resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Revolving Loans and subparticipations in L/C Obligations and Swing Line Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans and other amounts owing them, provided that:

(a) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(b) the provisions of this Section shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), (y) the application of Cash Collateral provided in Section 2.15, or (z) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Revolving Loans or subparticipations in L/C Obligations or Swing Line Loans to any assignee or participant, other than to the Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).

The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under Applicable Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

#### 2.14 **Increase in Commitments.**

(a) Request for Increase. Provided there exists no Default, upon notice to the Administrative Agent (which shall promptly notify the Lenders), the Borrower may from time to time, request an increase in the Aggregate Commitments to an amount (for all such requests) not exceeding \$250,000,000; provided that (i) any such request for an increase shall be in a minimum amount of \$10,000,000, and (ii) the Borrower may make a maximum of three such requests. At the time of sending such notice, the Borrower (in consultation with the Administrative Agent) shall specify the time period within which each Lender is requested to respond (which shall in no event be less than ten Business Days from the date of delivery of such notice to the Lenders).

(b) Lender Elections to Increase. Each Lender shall notify the Administrative Agent within such time period whether or not it agrees to increase its Commitment and, if so, whether by an amount equal to, greater than, or less than its Applicable Percentage of such requested increase. Any Lender not responding within such time period shall be deemed to have declined to increase its Commitment.

(c) Notification by Administrative Agent; Additional Lenders. The Administrative Agent shall notify the Borrower and each Lender of the Lenders' responses to each request made hereunder. To achieve the full amount of a requested increase and subject to the approval of the Administrative Agent, the L/C Issuer and the Swing Line Lender (which approvals shall not be unreasonably withheld), the Borrower may also invite additional Eligible Assignees to become Lenders pursuant to a joinder agreement in form and substance satisfactory to the Administrative Agent and its counsel.

(d) Effective Date and Allocations. If the Aggregate Commitments are increased in accordance with this Section, the Administrative Agent and the Borrower shall determine the effective date (the "Increase Effective Date") and the final allocation of such increase. The Administrative Agent shall promptly notify the Borrower and the Lenders of the final allocation of such increase and the Increase Effective Date, as well as the resulting respective Applicable Percentages of each Lender. On each Increase Effective Date, each applicable Lender, Eligible

Assignee or other Person who is providing an additional Commitment shall become a Lender for all purposes of this Agreement and the other Loan Documents.

(e) **Conditions to Effectiveness of Increase.** As a condition precedent to such increase, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated as of the Increase Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such increase, and (ii) in the case of the Borrower, certifying that, before and after giving effect to such increase, (A) the representations and warranties contained in Article V and the other Loan Documents are true and correct in all material respects on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.14, the representations and warranties contained in subsections (a) and (b) of Section 5.06 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01, and (B) no Default exists or would occur as a result of such increase; provided that this Section 2.14(e) shall be satisfied so long as any underlying fact, matter, event or set of circumstances, individually or in the aggregate, about which any representation or warranty is false, inaccurate, misleading or incomplete as of the Increase Effective Date could not reasonably be expected to result in a Material Adverse Effect. The Borrower shall prepay any Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep the outstanding Loans ratable with any revised Applicable Percentages arising from any nonratable increase in the Commitments under this Section.

(f) **Conflicting Provisions.** This Section shall supersede any provisions in Section 2.13 or 10.01 to the contrary.

## 2.15 **Cash Collateral.**

(a) **Certain Credit Support Events.** Upon the request of the Administrative Agent or the L/C Issuer (i) if the L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. At any time that there shall exist a Defaulting Lender, immediately upon the request of the Administrative Agent, the L/C Issuer or the Swing Line Lender, the Borrower shall deliver to the Administrative Agent Cash Collateral in an amount sufficient to cover all Fronting Exposure (after giving effect to Section 2.16(a)(iv) and any Cash Collateral provided by the Defaulting Lender).

(b) **Grant of Security Interest.** All Cash Collateral (other than credit support not constituting funds subject to deposit) shall be maintained in blocked, interest bearing deposit accounts at Bank of America (the "L/C Cash Collateral Accounts"). The Borrower, no more than once in any calendar month, may direct the Administrative Agent to invest the funds delivered by the Borrower and held in the L/C Cash Collateral Account in (i) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any

agency thereof and (ii) one or more other types of investments permitted by the Administrative Agent, in each case with such maturities as the Borrower, with the consent of the Administrative Agent, may specify, pending application of such funds on account of the L/C Obligations or on account of other obligations, as the case may be. In the absence of any such direction from the Borrower, the Administrative Agent shall invest such funds held in the L/C Cash Collateral Account in one or more types of investments with such maturities as the Administrative Agent may specify, pending application of such funds on account of the L/C Obligations or on account of other obligations, as the case may be. All such investments shall be made in the Administrative Agent's name for the account of the Lenders, subject to the ownership interest therein of the Borrower. The Borrower recognizes that any losses or taxes with respect to such investments shall be borne solely by the Borrower, and the Borrower agrees to hold the Administrative Agent and the Lenders harmless from any and all such losses and taxes. The Administrative Agent may liquidate any investment held in the L/C Cash Collateral Account in order to apply the proceeds of such investment on account of the L/C Obligations (or on account of any other obligation then due and payable, as the case may be) without regard to whether such investment has matured and without liability for any penalty or other fee incurred (with respect to which the Borrower hereby agrees to reimburse the Administrative Agent) as a result of such application. The Borrower, and to the extent provided by any Lender, such Lender, hereby grants to (and subjects to the control of) the Administrative Agent, for the benefit of the Administrative Agent, the L/C Issuer and the Lenders (including the Swing Line Lender), and agrees to maintain, a first priority security interest in the L/C Cash Collateral Account, and all other property so provided as collateral pursuant hereto, and in all proceeds of the foregoing, all as security for the obligations to which such Cash Collateral may be applied pursuant to Section 2.15(c). If at any time the Administrative Agent determines that Cash Collateral is subject to any right or claim of any Person other than the Administrative Agent, the L/C Issuer and the Lenders as herein provided, or that the total amount of such Cash Collateral is less than the applicable Fronting Exposure and other obligations secured thereby, the Borrower or the relevant Defaulting Lender will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency.

(c) Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under any of this Section 2.15 or Sections 2.03, 2.04, 2.05, 2.16 or 8.02 in respect of Letters of Credit or Swing Line Loans shall be held and applied to the satisfaction of the specific L/C Obligations, Swing Line Loans, obligations to fund participations therein (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) and other obligations for which the Cash Collateral was so provided, prior to any other application of such property as may be provided for herein.

(d) Release. Cash Collateral (or the appropriate portion thereof) provided to reduce Fronting Exposure or other obligations shall be released promptly following (i) the elimination of the applicable Fronting Exposure or other obligations giving rise thereto (including by the termination of Defaulting Lender status of the applicable Lender (or, as appropriate, its assignee following compliance with Section 10.06(b)(vii))) or (ii) the Administrative Agent's good faith determination that there exists excess Cash Collateral; provided, however, (x) that Cash Collateral furnished by or on behalf of the Borrower shall not be released during the continuance of a Default or Event of Default (and following application as provided in this Section 2.15 may

be otherwise applied in accordance with Section 8.03), and (y) the Person providing Cash Collateral and the L/C Issuer or Swing Line Lender, as applicable, may agree that Cash Collateral shall not be released but instead held to support future anticipated Fronting Exposure or other obligations.

## 2.16 **Defaulting Lenders.**

(a) Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by applicable Law:

(i) Waivers and Amendments. That Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 10.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VIII or otherwise, and including any amounts made available to the Administrative Agent by that Defaulting Lender pursuant to Section 10.08), shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by that Defaulting Lender to the Administrative Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by that Defaulting Lender to the L/C Issuer or Swing Line Lender hereunder; third, if so determined by the Administrative Agent or requested by the L/C Issuer or Swing Line Lender, to be held as Cash Collateral for future funding obligations of that Defaulting Lender of any participation in any Swing Line Loan or Letter of Credit; fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and the Borrower, to be held in a non-interest bearing deposit account and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; sixth, to the payment of any amounts owing to the Lenders, the L/C Issuer or Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, the L/C Issuer or Swing Line Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and eighth, to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Loans or L/C Borrowings in respect of which that Defaulting Lender has not fully funded its appropriate share and (y) such Loans or L/C Borrowings were made at a time when the conditions set forth in Section 4.02 were satisfied or waived, such payment shall be applied solely to pay the Loans of, and L/C Borrowings owed to, all non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of, or L/C Borrowings owed to, that Defaulting Lender.

Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.16(a)(ii) shall be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. That Defaulting Lender (x) shall not be entitled to receive any Commitment Fee pursuant to Section 2.09(a) for any period during which that Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender) and (y) if it has not provided Cash Collateral to cover its pro rata share of any Fronting Exposure, shall be limited in its right to receive Letter of Credit Fees as provided in Section 2.03(h).

(iv) Reallocation of Applicable Percentages to Reduce Fronting Exposure. During any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Letters of Credit or Swing Line Loans pursuant to Sections 2.03 and 2.04, the “Applicable Percentage” of each non-Defaulting Lender shall be computed without giving effect to the Commitment of that Defaulting Lender; provided, that, (i) each such reallocation shall be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists; and (ii) the aggregate obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Letters of Credit and Swing Line Loans shall not exceed the positive difference, if any, of (1) the Commitment of that non-Defaulting Lender minus (2) the aggregate Outstanding Amount of the Revolving Loans of that Lender.

(b) Defaulting Lender Cure. If the Borrower, the Administrative Agent, Swing Line Lender and the L/C Issuer agree in writing in their sole discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Revolving Loans and funded and unfunded participations in Letters of Credit and Swing Line Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentages (without giving effect to Section 2.15(a)(iv)), whereupon that Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender’s having been a Defaulting Lender.

**ARTICLE III.  
TAXES, YIELD PROTECTION AND ILLEGALITY**

3.01 **Taxes.**

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall to the extent permitted by Applicable Law be made free and clear of and without reduction or withholding for any Taxes. If, however, Applicable Law requires the Borrower or the Administrative Agent to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Laws as determined by the Borrower or the Administrative Agent, as the case may be, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Administrative Agent shall be required by the Code to withhold or deduct any Taxes, including both United States Federal backup withholding and withholding taxes, from any payment, then (A) the Administrative Agent shall withhold or make such deductions as are determined by the Administrative Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Administrative Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or L/C Issuer, as the case may be, receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Administrative Agent, each Lender and the L/C Issuer, and shall make payment in respect thereof within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) withheld or deducted by the Borrower or the Administrative Agent or paid by the Administrative Agent, such Lender or the L/C Issuer, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The Borrower shall

also, and does hereby, indemnify the Administrative Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender or the L/C Issuer for any reason fails to pay indefeasibly to the Administrative Agent as required by clause (ii) of this subsection. A certificate as to the amount of any such payment or liability delivered to the Borrower by a Lender or the L/C Issuer (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or the L/C Issuer, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, each Lender and the L/C Issuer shall, and does hereby, indemnify the Borrower and the Administrative Agent, and shall make payment in respect thereof within 10 days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Administrative Agent) incurred by or asserted against the Borrower or the Administrative Agent by any Governmental Authority as a result of the failure by such Lender or the L/C Issuer, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Lender or the L/C Issuer, as the case may be, to the Borrower or the Administrative Agent pursuant to subsection (e). Each Lender and the L/C Issuer hereby authorizes the Administrative Agent to set off, deduct from and apply any and all amounts at any time owing to such Lender or the L/C Issuer, as the case may be, under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this clause (ii). The agreements in this clause (ii) shall survive the resignation and/or replacement of the Administrative Agent, any assignment of rights by, or the replacement of, a Lender or the L/C Issuer, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. Upon request by the Borrower or the Administrative Agent, as the case may be, after any payment of Taxes by the Borrower or by the Administrative Agent to a Governmental Authority as provided in this Section 3.01, the Borrower shall deliver to the Administrative Agent or the Administrative Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Administrative Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Each Lender shall deliver to the Borrower and to the Administrative Agent, at the time or times prescribed by Applicable Law or when reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by Applicable Law or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Administrative Agent, as the case may be, to determine (A) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (B) if applicable, the required rate of withholding or deduction, and (C) such Lender's



entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Lender by the Borrower pursuant to this Agreement or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

(ii) Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States,

(A) any Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Code shall deliver to the Borrower and the Administrative Agent executed originals of Internal Revenue Service Form W-9 or such other documentation or information prescribed by Applicable Law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent, as the case may be, to determine whether or not such Lender is subject to backup withholding or information reporting requirements; and

(B) each Foreign Lender that is entitled under the Code or any applicable treaty to an exemption from or reduction of withholding tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(I) executed originals of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(II) executed originals of Internal Revenue Service Form W-8ECI,

(III) executed originals of Internal Revenue Service Form W-8IMY and all required supporting documentation,

(IV) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (y) executed originals of Internal Revenue Service Form W-8BEN, or

(V) executed originals of any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax together with such supplementary

documentation as may be prescribed by Applicable Law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made.

(iii) Each Lender shall promptly (A) notify the Borrower and the Administrative Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (B) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Lending Office) to avoid any requirement of Applicable Law of any jurisdiction that the Borrower or the Administrative Agent make any withholding or deduction for taxes from amounts payable to such Lender.

(f) Treatment of Certain Refunds. Unless required by Applicable Law, at no time shall the Administrative Agent have any obligation to file for or otherwise pursue on behalf of a Lender or the L/C Issuer, or have any obligation to pay to any Lender or the L/C Issuer, any refund of Taxes withheld or deducted from funds paid for the account of such Lender or the L/C Issuer, as the case may be. If the Administrative Agent, any Lender or the L/C Issuer determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses incurred by the Administrative Agent, such Lender or the L/C Issuer, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, such Lender or the L/C Issuer, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, such Lender or the L/C Issuer in the event the Administrative Agent, such Lender or the L/C Issuer is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent, any Lender or the L/C Issuer to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

3.02 **Illegality.** If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to the Eurodollar Rate, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, (i) any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended, and (ii) if such notice asserts the illegality of such Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the Base Rate, the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate, in

each case until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans (the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate), either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans and (y) if such notice asserts the illegality of such Lender determining or charging interest rates based upon the Eurodollar Rate, the Administrative Agent shall during the period of such suspension compute the Base Rate applicable to such Lender without reference to the Eurodollar Rate component thereof until the Administrative Agent is advised in writing by such Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

**3.03 Inability to Determine Rates.** If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or in connection with an existing or proposed Base Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, (x) the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended, and (y) in the event of a determination described in the preceding sentence with respect to the Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

**3.04 Increased Costs; Reserves on Eurodollar Rate Loans.**

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 3.04(e)) or the L/C Issuer;

(ii) subject any Lender or the L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of

Credit or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender or the L/C Issuer in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or the L/C Issuer); or

(iii) impose on any Lender or the L/C Issuer or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan the interest on which is determined by reference to the Eurodollar Rate (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the L/C Issuer, the Borrower will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the L/C Issuer determines that any Change in Law affecting such Lender or the L/C Issuer or any Lending Office of such Lender or such Lender's or the L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the L/C Issuer's capital or on the capital of such Lender's or the L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the L/C Issuer, to a level below that which such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the L/C Issuer's policies and the policies of such Lender's or the L/C Issuer's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or the L/C Issuer setting forth the amount or amounts necessary to compensate such Lender or the L/C Issuer or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender or the L/C Issuer, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or the L/C Issuer's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the L/C Issuer pursuant to the

foregoing provisions of this Section, if any Lender or the L/C Issuer fails to notify the Borrower of any event which will entitle such Lender or the L/C Issuer to compensation pursuant to this Section 3.04 within 60 days after such Lender or the L/C Issuer obtains knowledge of such event, then such Lender or the L/C Issuer shall not be entitled to any compensation from the Borrower for any such increased cost or reduction of return arising prior to the date which is 60 days before the date on which such Lender or the L/C Issuer notifies the Borrower of such event.

(e) Reserves on Eurodollar Rate Loans. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as “Eurocurrency liabilities”), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least 10 days’ prior notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice 10 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 10 days from receipt of such notice.

**3.05 Compensation for Losses.** Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any actual loss or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Swing Line Loan or Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 10.12;

including any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary and reasonable administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this Section 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

**3.06 Mitigation Obligations; Replacement of Lenders.**

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender gives notice pursuant to Section 3.02, requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrower may replace such Lender in accordance with Section 10.12.

**3.07 Matters Applicable to All Requests for Compensation.** A certificate of the Administrative Agent or any Lender claiming compensation under this Article III and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, the Administrative Agent or such Lender may use any reasonable averaging and attribution methods.

**3.08 Survival.** All of the Borrower's obligations under this Article III shall survive termination of the Aggregate Commitments, repayment of all other Obligations hereunder and resignation of the Administrative Agent.

**ARTICLE IV.  
CONDITIONS PRECEDENT TO CREDIT EXTENSIONS**

**4.01 Conditions of Initial Credit Extension.** The obligation of each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent in form and substance satisfactory to the Administrative Agent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the Borrower, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and each of the Lenders:

(i) executed counterparts of this Agreement, sufficient in number for distribution to the Administrative Agent, each Lender and the Borrower;

- (ii) Revolving Loan Notes executed by the Borrower in favor of each Lender requesting a Revolving Loan Note, each in a principal amount equal to such Lender's Commitment;
- (iii) a Swing Line Note executed by the Borrower in favor of the Swing Line Lender, in a principal amount equal to the Swing Line Sublimit;
- (iv) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of the Borrower as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which the Borrower is a party;
- (v) such documents and certifications as the Administrative Agent may reasonably require to evidence that the Borrower is duly organized or formed, and that the Borrower is validly existing, in good standing and qualified to engage in business in Nevada and Texas;
- (vi) a favorable opinion of Haynes and Boone, LLP, counsel to the Borrower, addressed to the Administrative Agent and each Lender, as to such matters concerning the Borrower and the Loan Documents as the Administrative Agent and its counsel may reasonably request;
- (vii) a certificate of a Responsible Officer of the Borrower either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by the Borrower and the validity against the Borrower of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;
- (viii) a certificate signed by a Responsible Officer of the Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, and (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect;
- (ix) UCC searches, as of a period ending reasonably satisfactory to the Administrative Agent, listing all effective financing statements which name the Borrower or any of its Subsidiaries as debtor, together with copies of such financing statements requested by the Administrative Agent;
- (x) evidence that all insurance required to be maintained pursuant to Section 6.04 has been obtained and is in effect;
- (xi) financial projections for a period of four Fiscal Years after the Closing Date prepared by management of the Borrower, in form satisfactory to the Administrative Agent; and

(xii) such other assurances, certificates, documents, consents or opinions as the Administrative Agent, the L/C Issuer, or the Required Lenders reasonably may require.

(b) The fee set forth in the invitation letter of the Borrower to each Lender and any other fees required to be paid on or before the Closing Date shall have been paid, and the Fee Letters shall be in full force and effect.

(c) Unless waived by the Administrative Agent, the Borrower shall have paid all Attorney Costs of the Administrative Agent (directly to such counsel if requested by the Administrative Agent) to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

(d) The Closing Date shall have occurred on or before June 30, 2011.

(e) The Borrower shall have delivered written confirmation that all Obligations (as such term defined in the Existing Credit Agreement) owing to each Lender (as such term is defined in the Existing Credit Agreement) under the Existing Credit Agreement, other than Obligations in respect of the Existing Letters of Credit, which are going to be transferred and deemed issued under this Agreement, have been irrevocably paid in full in cash and that each Lender's Commitments (as such term is defined in the Existing Credit Agreement) pursuant to the terms of the Existing Credit Agreement have been terminated in full prior to the closing and funding of this Agreement; provided, however, all provisions contained in the Loan Documents (as such term is defined in the Existing Credit Agreement) which expressly state that they shall survive termination of the Commitments and repayment of the Obligations shall continue in full force and effect.

Without limiting the generality of the provisions of Section 9.04, for purposes of determining compliance with the conditions specified in this Section 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

**4.02 Conditions to all Credit Extensions.** The obligation of each Lender to honor any Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02, the



representations and warranties contained in subsections (a) and (b) of Section 5.06 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01; provided that this Section 4.02(a) shall be satisfied so long as any underlying fact, matter, event or set of circumstances, individually or in the aggregate, about which any representation or warranty is false, inaccurate, misleading or incomplete as of the date for such Credit Extension could not result in a Material Adverse Effect.

(b) No Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Administrative Agent and, if applicable, the L/C Issuer shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

#### **ARTICLE V. REPRESENTATIONS AND WARRANTIES**

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

5.01 **Corporate Existence and Power.** The Borrower and each of its Subsidiaries:

(a) is a corporation duly organized and validly existing under the laws of its corresponding jurisdiction;

(b) has all requisite corporate power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) conduct its business and to own its Properties except to the extent that the failure to obtain any such governmental license, authorization, consent or approval could not reasonably be expected to have a Material Adverse Effect and (ii) (with respect to the Borrower only) to execute, deliver and perform all of its obligations under this Agreement and the Notes; and

(c) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

5.02 **Corporate Authorization; No Contravention.** The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of the Borrower's Organization Documents,

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, (i) any document evidencing any Contractual Obligation to which the Borrower is a

party or (ii) any order, injunction, writ or decree of any Governmental Authority to which the Borrower or its Property is subject; or

(c) violate or contravene any Requirement of Law.

5.03 **No Additional Governmental Authorization.** No approval, consent, exemption, authorization, registration or other action by, or notice to, or filing with, any Governmental Authority or other third party is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower of this Agreement or any other Loan Document other than as have been obtained pursuant to Section 4.01(a)(vii).

5.04 **Binding Effect.** This Agreement has been and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by the Borrower. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws or by equitable principles relating to enforceability (regardless of whether enforcement thereof is sought in a proceeding at law or in equity).

5.05 **Litigation.** There are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Material Subsidiaries, which:

(a) purport to affect the legality, validity or enforceability of this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) except as disclosed in Schedule 5.05 or as otherwise disclosed by the Borrower in the financial statements delivered pursuant to Section 6.01(a), if determined adversely to the Borrower or such Material Subsidiary, could reasonably be expected to have a Material Adverse Effect.

5.06 **Financial Information; No Material Adverse Effect; No Default.**

(a) The Audited Financial Statements (copies of which have been furnished to the Administrative Agent and each Lender) are complete and correct in all material respects, have been prepared in accordance with GAAP and fairly present in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as of such date and the results of their operations for the Fiscal Year ended December 25, 2010.

(b) The Borrower's unaudited financial statements for the Fiscal Quarter ended March 26, 2011 (copies of which have been furnished to the Administrative Agent and each Lender) are complete and correct in all material respects, have been prepared in accordance with GAAP and fairly present in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as of such date and the results of their operations for the period covered thereby, subject to (i) the absence of footnotes, (ii) normal year-end audit adjustments, and (iii) the fact that raw corn inventories are valued at cost, rather than the lower of cost or market.

(c) Since the date of the most recent audited financial statements, there has occurred no development, event or circumstance, either individually or in the aggregate, which has had, or could reasonably be expected to have, a Material Adverse Effect.

(d) As of the Closing Date and the date of each Credit Extension, neither the Borrower nor any of its Material Subsidiaries is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date or the date of such Credit Extension, create an Event of Default under Section 8.01(e).

5.07 **Pari Passu.** The Obligations constitute direct, unconditional and general obligations of the Borrower and rank pari passu in all respects with all other unsecured and unsubordinated Indebtedness of the Borrower, except those ranking senior by operation of law (and not by contract or agreement).

5.08 **Taxes.** The Borrower and its Material Subsidiaries have timely filed all tax returns and reports required to be filed by Law, and have timely paid all taxes, assessments, fees and other governmental charges levied or imposed upon them or their Properties, including related interest and penalties, otherwise due and payable, except (a) those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP, and (b) those to the extent that non-compliance therewith could not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

5.09 **Environmental Matters.**

(a) The on-going operations of the Borrower and each of its Material Subsidiaries are in compliance in all material respects with all applicable Environmental Laws except as set forth on Schedule 5.05 and except to the extent that the failure to comply therewith could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect;

(b) The Borrower and each of its Material Subsidiaries have obtained all environmental, health and safety permits necessary or required for its operations, all such permits are in good standing, and the Borrower and each of its Material Subsidiaries is in compliance with all material terms and conditions of such permits, except as set forth on Schedule 5.05 and except to the extent that the failure to obtain, and maintain in full force and effect, any such permit, or to the extent that failure to comply with the material terms thereof, could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect;

(c) To the best knowledge of the Borrower, after reasonable investigation, no property currently or formerly owned or operated by the Borrower or any Material Subsidiary (including soils, groundwater, surface water, buildings or other structures) has been contaminated with any substance that could reasonably be expected to require investigations or remediation under any Environmental Law or has incurred any liability for any release of any substance on any third party property except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect; and

(d) Neither the Borrower nor any Material Subsidiary has received any notice, demand, letter, claim or request for information indicating that it may be in violation of or subject to liability under any Environmental Law or is subject to any order, decree, injunction or other arrangement with any Governmental Authority relating to any Environmental Law except as set forth on Schedule 5.05 and except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

**5.10 Assets; Patents; Licenses, Etc.**

(a) The Borrower and each of its Material Subsidiaries have good and marketable title to all real property that is reasonably necessary or used in the ordinary conduct of their business.

(b) The Borrower and each of its Material Subsidiaries owns or are licensed or otherwise have the right to use all of the patents, contractual franchises, licenses, authorizations and other rights that are reasonably necessary for the operation of its business, without conflict with the rights of any other Person.

**5.11 Subsidiaries.**

(a) A complete and correct list of all Material Subsidiaries of the Borrower as of the Closing Date, showing the correct name thereof, the jurisdiction of its incorporation and the percentage of shares of each class outstanding owned by the Borrower and each Subsidiary of the Borrower is set forth in Schedule 5.11(a).

(b) A list of all agreements, which by their terms, expressly prohibit or limit the payment of dividends or other distributions to the Borrower by a Material Subsidiary or the making of loans to the Borrower by a Material Subsidiary is set forth in Schedule 5.11(b).

**5.12 Full Disclosure.** All written information other than forward-looking information heretofore furnished by the Borrower to the Administrative Agent or any Lender for purposes of or in connection with this Agreement is, and all such information hereafter furnished by the Borrower to the Administrative Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is stated or certified. All written forward-looking information heretofore furnished in writing to the Administrative Agent or the Lenders has been prepared in good faith based upon assumptions the Borrower believes to be reasonable. The Borrower has disclosed to the Administrative Agent and the Lenders in writing any and all facts known to it that it believes are reasonably expected to have a Material Adverse Effect.

**5.13 Investment Company Act.** The Borrower is not, nor is it controlled by, an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

**5.14 Margin Regulations.** Neither the Borrower nor any of its Subsidiaries is generally engaged in the business of purchasing or selling “margin stock” (as such term is defined in Regulations T, U or X of the Board of Governors of the Federal Reserve System of the United States) or extending credit for the purpose of purchasing or carrying margin stock.

5.15 **ERISA Compliance.**

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Pension Plan that is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service to the effect that the form of such Plan is qualified under Section 401(a) of the Code and the trust related thereto has been determined by the Internal Revenue Service to be exempt from federal income tax under Section 501(a) of the Code, or an application for such a letter is currently being processed by the Internal Revenue Service. To the best knowledge of the Borrower, nothing has occurred that would prevent or cause the loss of such tax-qualified status.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred, and neither the Borrower nor any ERISA Affiliate is aware of any fact, event or circumstance that could reasonably be expected to constitute or result in an ERISA Event with respect to any Pension Plan; (ii) the Borrower and each ERISA Affiliate has met all applicable requirements under the Pension Funding Rules in respect of each Pension Plan, and no waiver of the minimum funding standards under the Pension Funding Rules has been applied for or obtained; (iii) as of the most recent valuation date for any Pension Plan (other than a Multiemployer Plan), the funding target attainment percentage (as defined in Section 430(d)(2) of the Code) is 60% or higher and neither the Borrower nor any ERISA Affiliate knows of any facts or circumstances that could reasonably be expected to cause the funding target attainment percentage for any such plan to drop below 60% as of the most recent valuation date; (iv) neither the Borrower nor any ERISA Affiliate has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due that are unpaid; (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or Section 4212(c) of ERISA; and (vi) no Pension Plan has been terminated by the plan administrator thereof nor by the PBGC, and to the Borrower's knowledge, no event or circumstance has occurred or exists that could reasonably be expected to cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Pension Plan.

5.16 **Solvent.** The Borrower is, and the Borrower and its Subsidiaries are on a consolidated basis, Solvent.

5.17 **Taxpayer Identification Number.** The Borrower's true and correct U.S. taxpayer identification number is set forth on Schedule 10.02.

5.18 **Liens.** As of the Closing Date, there are no Liens securing Indebtedness in excess of \$5,000,000 in the aggregate on any inventory or accounts receivable of the Borrower or any of its Subsidiaries.

**ARTICLE VI.  
AFFIRMATIVE COVENANTS**

The Borrower covenants and agrees that for so long as any Loan or other Obligation remains unpaid or any Lender has any Commitment hereunder:

**6.01 Financial Statements and Other Information.**

(a) The Borrower will deliver to the Administrative Agent as soon as available and in any case within 120 days after the end of each Fiscal Year, consolidated financial statements for such Fiscal Year audited by independent accountants of recognized national standing, including an annual audited consolidated balance sheet and the related consolidated statements of income, changes in equity and changes in financial position, prepared in accordance with GAAP consistently applied (except as otherwise discussed in the notes to such financial statements), which financial statements shall present fairly in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as at the end of the relevant Fiscal Year and the results of the operations of the Borrower and its Subsidiaries for such Fiscal Year, reported on by independent accountants of recognized national standing.

(b) The Borrower shall deliver to the Administrative Agent as soon as available and in any case within 60 days after the end of each of the first three Fiscal Quarters, unaudited consolidated financial statements for each such quarter period for the Borrower and its Subsidiaries, including therein an unaudited consolidated balance sheet and the related consolidated statements of income prepared in accordance with GAAP, consistently applied (except as otherwise discussed in the notes to such statements), which financial statements shall present fairly in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as at the end of the relevant quarter and the results of the operations of the Borrower and its Subsidiaries for such quarter and for the portion of the Fiscal Year then ended except for (i) the absence of complete footnotes, (ii) normal, recurring year-end accruals, and (iii) the fact that raw corn inventories are valued at cost, rather than the lower of cost or market, and otherwise subject to normal year-end adjustments.

(c) Concurrently with the delivery of the financial statements pursuant to paragraphs (a) and (b) above, the Borrower will deliver to the Administrative Agent a Compliance Certificate signed by a Responsible Officer of the Borrower.

(d) The Borrower will furnish to the Administrative Agent, promptly after they are publicly available, copies of all financial statements and financial reports filed by the Borrower with any Governmental Authority (if such statement or reports are required to be filed for the purpose of being publicly available) or filed with any securities exchange and which are publicly available.

(e) The Borrower will furnish to the Administrative Agent, promptly upon request of the Administrative Agent or any Lender (through the Administrative Agent), such additional information regarding the business, financial or corporate affairs of the Borrower and its Material Subsidiaries as the Administrative Agent or any Lender may reasonably request.

Documents required to be delivered pursuant to Section 6.01(a) or (b) or Section 6.02(c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Borrower's behalf on IntraLinks/IntraAgency or another relevant website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify (which may be by facsimile or electronic mail) the Administrative Agent and each Lender of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. The Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

**6.02 Notice of Default and Litigation.** The Borrower will furnish to the Administrative Agent, not later than five Business Days after the Borrower obtains knowledge thereof (and the Administrative Agent will notify each Lender thereof):

- (a) notice of any Default or Event of Default, signed by a Responsible Officer, describing such Default or Event of Default and the steps that the Borrower proposes to take in connection therewith;
- (b) notice of any litigation, action or proceeding pending or threatened against the Borrower or any of its Material Subsidiaries before any Governmental Authority, in which there is a probability of success by the plaintiff on the merits and which, if determined adversely to the Borrower or such Subsidiary, individually or in the aggregate, could be reasonably expected to have a Material Adverse Effect;
- (c) notice of the modification of any consent, license, approval or authorization referred to in Section 4.01(a)(vii); and
- (d) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$5,000,000.

**6.03 Maintenance of Existence; Conduct of Business.**

(a) The Borrower will, and will cause each of its Material Subsidiaries to (i) maintain in effect its corporate existence and all registrations necessary therefor; (ii) take all reasonable actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations; and (iii) keep all its Property in good working order or condition; provided, however, that this covenant shall not

prohibit any transaction by the Borrower or any of its Material Subsidiaries otherwise permitted under Section 7.03 nor require the Borrower to maintain any such right, privilege, title to property or franchise or to preserve the corporate existence of any Subsidiary, if the Borrower shall determine in good faith that the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Borrower or its Material Subsidiaries and that the loss thereof could not reasonably be expected to have a Material Adverse Effect.

(b) The Borrower will, and will cause its Material Subsidiaries to, continue to engage in business of the same general type as now conducted by the Borrower and its Material Subsidiaries.

6.04 **Insurance.** The Borrower will, and will cause each of its Subsidiaries to, maintain insurance with financially sound, responsible and reputable insurance companies in such amounts and covering such risks as are usually carried by companies of good repute engaged in similar businesses and owning and/or operating properties similar to those owned and/or operated by the Borrower or such Subsidiary, as the case may be, in the same general areas in which the Borrower or such Subsidiary owns and/or operates its properties; provided that the Borrower and its Subsidiaries shall not be required to maintain such insurance if the failure to maintain such insurance could not reasonably be expected to have a Material Adverse Effect.

6.05 **Maintenance of Governmental Approvals.** The Borrower will maintain in full force and effect all governmental approvals, consents, licenses and authorizations which may be necessary or appropriate under any Applicable Law or regulation for the conduct of its business (except that the failure to maintain any such approval, consent, license or authorization could not reasonably be expected to have a Material Adverse Effect) or for the performance of this Agreement and for the validity or enforceability hereof. The Borrower will file all applications necessary for, and shall use its reasonable best efforts to obtain, any additional authorization as soon as possible after determination that such authorization or approval is required for the Borrower to perform its obligations hereunder.

6.06 **Use of Proceeds.** The Borrower will use the proceeds of the Loans for general working capital purposes and for general corporate purposes, including the refinancing of existing Indebtedness (other than Indebtedness in respect of the Existing Credit Agreement).

6.07 **Application of Cash Proceeds from Sales and Other Dispositions.** The Borrower will, and will cause each of its Subsidiaries to, apply 100% of the net cash proceeds received from any sale, conveyance, transfer or Disposition of assets (including from any sale, conveyance, transfer or Disposition resulting from casualty or condemnation, and including any amounts received under any insurance policy representing any insurance payments that have not been and will not be applied in payment for repairs or for the replacement of any Property which has been damaged or destroyed) to (a) the repayment of any Indebtedness then outstanding, (b) investment in assets relating to the Borrower's Core Business, or (c) any combination thereof.

6.08 **Payment of Obligations.** The Borrower will, and will cause each of its Material Subsidiaries to, pay all taxes, assessments and other governmental charges imposed upon it or any of its Property in respect of any of its franchises, businesses, income or profits before any



penalty or interest accrues thereon, and pay all claims (including claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or might become a Lien upon its Property, except if the failure to make such payment has no reasonable likelihood of having a Material Adverse Effect or if such charge or claim is being contested in good faith by appropriate provision promptly initiated and diligently conducted and if such reserves or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor.

6.09 **Pari Passu.** The Borrower will cause the Loans and L/C Borrowings to rank pari passu in all respects with all other unsecured and unsubordinated Indebtedness of the Borrower, except those ranking senior by operation of law (and not by contract or agreement).

6.10 **Compliance with Laws.** The Borrower will, and will cause each of its Material Subsidiaries to, comply in all respects with all applicable Requirements of Law, including all applicable Environmental Laws and all Requirements of Law relating to ERISA, except where the necessity of compliance therewith is contested in good faith by appropriate proceedings promptly initiated and diligently conducted and if such reserves or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor except where any non-compliance could not reasonably be expected to have a Material Adverse Effect.

6.11 **Maintenance of Books and Records.**

(a) The Borrower will, and will cause each of its Material Subsidiaries to, maintain books, accounts and other records in accordance with GAAP.

(b) The Borrower will, and will cause each Material Subsidiary to, permit representatives of the Administrative Agent to visit and inspect any of their respective properties and to examine their respective corporate, financial and operating books and records, all at such reasonable times during normal business hours and as often as may be reasonable desired upon reasonable advance notice to the Borrower or such Subsidiary; provided, however, that when an Event of Default exists the Administrative Agent may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice.

6.12 **Further Assurances.** The Borrower will, at its own cost and expense, execute and deliver to the Administrative Agent all such other documents, instruments and agreements and do all such other acts and things as may be reasonably required in the opinion of the Administrative Agent or its counsel, to enable the Administrative Agent or any Lender to exercise and enforce its rights under this Agreement and any Note and to carry out the intent of this Agreement.

**ARTICLE VII.  
NEGATIVE COVENANTS**

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding:

7.01 **Negative Pledge.** The Borrower will not, and will not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien upon or with respect to any of its present or future Property, except:

(a) any Lien on any Property existing on the Closing Date;

(b) a Lien on any asset securing all of any part of the purchase price of property or assets (excluding inventories and accounts receivable) acquired or any portion of the cost of construction, development, alteration or improvement of any property, facility or asset or Indebtedness incurred or assumed solely for the purpose of financing all of any part of the cost of acquiring or constructing, developing, altering or improving such property, facility or asset, which Lien attached solely to such property, facility or asset during the period that such property, facility or asset was being constructed, developed, altered or improved or concurrently with or within 120 days after the acquisition, construction, development, alteration or improvement thereof;

(c) Liens of a Subsidiary existing prior to the time such Subsidiary became a Subsidiary of the Borrower which (i) do not secure Indebtedness exceeding the aggregate principal amount of Indebtedness subject to such Lien prior to the time such Subsidiary became a Subsidiary of the Borrower, (ii) do not attach to any Property other than the Property attached pursuant to such Lien prior to the time such Subsidiary became a Subsidiary of the Borrower, and (iii) were not created in contemplation of such Subsidiary becoming a Subsidiary of the Borrower;

(d) any Lien on any Property existing thereon at the time of the acquisition of such Property and not created in connection with or in contemplation of such acquisition;

(e) any Lien on any Property securing an extension, renewal, refunding or replacement of Indebtedness or a line of credit secured by a Lien referred to in clauses (a), (b), (c) or (d) above; provided that such new Lien is limited to the Property which was subject to the prior Lien immediately before such extension, renewal, refunding or replacement, and provided that the principal amount of Indebtedness or the amount of the line of credit secured by the prior Lien is not increased immediately before or in contemplation of or in connection with such extension, renewal, refunding or replacement;

(f) any Lien securing taxes, assessments and other governmental charges, the payment of which is not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and for which such reserves or other appropriate provision, if any, as shall be required by GAAP or, in the case of Material Subsidiaries organized under laws of any other jurisdiction, the applicable GAAP therein, shall have been made;

(g) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;

(h) statutory Liens of landlords and Liens of carriers, warehouseman, mechanics, materialmen, repairmen or the like arising in the ordinary course of business for sums not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly

initiated and diligently conducted and for which such reserves or other appropriate provision, if any, as shall be required by GAAP or, in the case of Material Subsidiaries organized under the laws of any other jurisdiction, the applicable GAAP therein, shall have been made;

(i) any Lien created by attachment or judgment, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(j) any Lien created in connection with any Swap Contract;

(k) easements, right of way restrictions, minor defects or other irregularities in title or other similar charges or encumbrances not interfering in any material way with the ordinary course of the Borrower's or any of its Subsidiaries' businesses;

(l) Liens related to Capital Leases;

(m) bankers' Liens in the nature of rights of set-off arising in the ordinary course of business of the Borrower or any of its Subsidiaries;

(n) Liens incurred in connection with the financing of insurance premiums;

(o) Liens on Property that is the subject of project financing and non-recourse trade financing transactions in which the lender is materially reliant on the project or transaction for repayment;

(p) Liens on cash and investments where the lender thereof effects advances in equal amounts, relating to interest arbitrage or tax structuring;

(q) Liens on Cash Collateral provided for under this Agreement; and

(r) Liens not otherwise permitted by this Section 7.01 securing amounts not in excess (in the aggregate) at any one time of the greater of (a) \$50,000,000, or (b) 15% of the Consolidated Tangible Net Worth of the Borrower.

7.02 **Investments.** The Borrower will not, and will not permit any of its Material Subsidiaries to, make any Investment, except:

(a) Investments existing on the date hereof;

(b) Investments relating to the Borrower's Core Business;

(c) Cash Equivalent Investments;

(d) Investments by the Borrower in any Subsidiary or by any Material Subsidiary in the Borrower or in any Subsidiary;

(e) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(f) Capital Expenditures; and

(g) subject to the limitations set forth in Section 7.06 and 7.08, Contingent Obligations in respect of its Subsidiaries.

**7.03 Mergers, Consolidations, Sales and Leases.** The Borrower will not merge or consolidate with or into, or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless immediately after giving effect to any merger or consolidation:

(a) no Default or Event of Default has occurred and is continuing; and

(b) the Borrower shall be the continuing or surviving Person.

**7.04 Restricted Payments.** The Borrower will not, and will not permit any Subsidiary to, declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, if a Default or Event of Default has occurred and is continuing or would result therefrom.

Notwithstanding the foregoing limitation, the Borrower or any Subsidiary may declare or make the following Restricted Payments:

(a) each Subsidiary may make Restricted Payments to the Borrower and to Wholly-Owned Subsidiaries; and

(b) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common Equity Interests of such Person.

**7.05 Limitations on Ability to Prohibit Dividend Payments by Subsidiaries.** The Borrower will not, and will not permit its Material Subsidiaries to, enter into any agreement that, by its terms, expressly prohibits the payment of dividends or other distributions to the Borrower or the making of loans to the Borrower, other than in connection with the renewal or extension of any agreement listed in Schedule 5.11(b); provided that (a) the restrictions or prohibitions under such agreement are not increased as a result of such renewal or extension and (b) in connection with any such renewal or extension of an agreement that does not already contain any such prohibition, the Borrower will not, and will not permit its Material Subsidiaries to, agree to or accept the including of such prohibition.

**7.06 Limitation of Incurrence of Indebtedness by Subsidiaries.** The Borrower will not permit any Subsidiary of the Borrower to create, incur, assume or suffer to exist any Indebtedness if, at the time of such incurrence and after giving pro forma effect thereto, the aggregate Indebtedness of all Subsidiaries of the Borrower would exceed an amount equal to 25% of the Indebtedness of the Borrower and its Subsidiaries.

7.07 **Transaction with Affiliates.** The Borrower will not, and will not cause or permit any Material Subsidiary to, enter into any transaction with any Affiliate of the Borrower, except upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than are obtainable in a comparable arm's-length transaction with a Person not an Affiliate of the Borrower or such Subsidiary.

7.08 **No Subsidiary Guarantees of Certain Indebtedness.** Except as set forth on Schedule 7.08 and in connection with its purchase of corn for its corn flour production or wheat for its wheat flour production, the Borrower will not permit any of its Material Subsidiaries, directly or indirectly, to guarantee or otherwise become liable or responsible for, in any manner, any Indebtedness of the Borrower.

7.09 **Maximum Leverage Ratio.** The Borrower shall not permit its Leverage Ratio, as determined for any Measurement Period, to be greater than 3.00 to 1.00.

7.10 **Consolidated Tangible Net Worth.** The Borrower shall not permit its Consolidated Tangible Net Worth to be less than \$240,000,000 as of the last day of any Fiscal Quarter.

## **ARTICLE VIII. EVENTS OF DEFAULT AND REMEDIES**

8.01 **Events of Default.** Any of the following shall constitute an Event of Default:

(a) **Non-Payment.** The Borrower fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or L/C Obligation, or (ii) within five days after the same becomes due, any interest or any other amount payable hereunder or under any other Loan Document; or

(b) **Representation or Warranty.** Any representation or warranty by the Borrower made herein or in any other Loan Document, or which is contained in any certificate, document or financial or other statement by the Borrower of any Responsible Officer of the Borrower, furnished at any time under this Agreement or any other Loan Document, is incorrect in any material respect on or as of the date made; or

(c) **Specific Defaults.** The Borrower fails to perform or observe any term, covenant or agreement contained in Section 6.02(a), 6.03, 6.05, 6.06 or 6.09, fails to perform or observe any term, covenant or agreement contained in Article VII (other than Section 7.05, 7.07, or 7.08); or

(d) **Other Defaults.** The Borrower fails to perform or observe any other term or covenant contained in this Agreement or in any other Loan Document, and such default continues unremedied for a period of 30 days after the date upon which written notice thereof is given to the Borrower by the Administrative Agent or any Lender; or

(e) **Cross-Default.** The Borrower or any of its Material Subsidiaries (i) fails to make any payment in respect of any Indebtedness (other than Indebtedness hereunder and under the Notes), letter of credit facility or Swap Contract having an aggregate principal amount (including

undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement or, in the case of a Swap Contract, a net liability) of more than \$15,000,000 (or the equivalent in another currency) when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure continues after any applicable grace period specified in the agreement or instrument relating to such Indebtedness; or (ii) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist under any agreement relating to any such Indebtedness, letter of credit facility or Swap Contract and such failure continues after the applicable grace period, if any, specified in the relevant document or the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holders of such Indebtedness, letter of credit facility or Swap Contract to cause such liability to be repurchased, prepaid, defeased, redeemed or declared due prior to its stated maturity;

(f) Insolvency Proceedings, Etc. The Borrower or any of its Material Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law in which such Person is the debtor, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 90 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 90 calendar days, or an order for relief is entered in any such proceeding; or

(g) Monetary Judgments. One or more judgments, orders, attachments, decrees or arbitration awards are entered against the Borrower or any of its Material Subsidiaries involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of \$15,000,000 (or the equivalent in another currency) or more, and the same shall remain unsatisfied, unvacated or unstayed pending appeal for a period of 90 days after the entry thereof; or

(h) Unenforceability. This Agreement or any of the Notes for any reason ceases to be in full force and effect in accordance with its respective terms or the binding effect or enforceability thereof is contested by the Borrower, or the Borrower denies that it has any further liability or obligation hereunder or thereunder or in respect thereof or thereof; or

(i) Change of Control. There occurs any Change of Control.

8.02 **Remedies Upon Event of Default.** If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself, the Lenders and the L/C Issuer all rights and remedies available to it, the Lenders and the L/C Issuer under the Loan Documents or Applicable Law;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Administrative Agent or any Lender.

**8.03 Application of Funds.** After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall, subject to Sections 2.15 and 2.16 be applied by the Administrative Agent in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders and the L/C Issuer (including Attorney Costs and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and L/C Borrowings, ratably among the Lenders in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Obligations constituting unpaid principal of the Loans and, L/C Borrowings, ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to the Administrative Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit;

Sixth, to payment of any other Obligations, ratably among the Lenders in proportion to the respective amounts described in this clause Sixth payable to them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

Subject to Sections 2.03(c) and 2.15, amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above, and the balance, if any, after all of the Obligations have been indefeasibly paid in full, shall be paid to the Borrower or as otherwise required by Law.

#### ARTICLE IX. ADMINISTRATIVE AGENT

9.01 **Appointment and Authority.** Each of the Lenders and the L/C Issuer hereby irrevocably appoints Bank of America to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders and the L/C Issuer, and the Borrower shall not have rights as a third party beneficiary of any of such provisions.

9.02 **Rights as a Lender.** The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

9.03 **Exculpatory Provisions.** The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative



Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or Applicable Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower, a Lender or the L/C Issuer.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

**9.04 Reliance by Administrative Agent.** The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the L/C Issuer, the Administrative Agent may presume that such condition is satisfactory to such Lender or the L/C Issuer unless the Administrative Agent shall have received notice to the contrary from such Lender or the L/C Issuer prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

**9.05 Delegation of Duties.** The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or

through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

9.06 **Resignation of Administrative Agent.** The Administrative Agent may at any time give notice of its resignation to the Lenders, the L/C Issuer and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, subject to the prior approval of the Borrower at all times other than during the existence of an Event of Default (which consent of the Borrower shall not be unreasonably withheld or delayed), to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 60 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent shall on behalf of the Lenders and the L/C Issuer, subject to the prior approval of the Borrower at all times other than during the existence of an Event of Default (which consent of the Borrower shall not be unreasonably withheld or delayed), appoint a successor Administrative Agent meeting the qualifications set forth above; provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any funds in the L/C Cash Collateral Account held by the Administrative Agent, the retiring Administrative Agent shall continue to hold such funds until such time as a successor Administrative Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and the L/C Issuer directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section; provided further that so long as no Event of Default has occurred, the retiring Administrative Agent shall use good faith efforts to assist the Required Lenders and the Borrower in locating a successor Administrative Agent. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Any resignation by Bank of America as Administrative Agent pursuant to this Section shall also constitute its resignation as L/C Issuer and Swing Line Lender. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (a) such successor shall

succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer and Swing Line Lender, (b) the retiring L/C Issuer and Swing Line Lender shall be discharged from all of their respective duties and obligations hereunder or under the other Loan Documents, and (c) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to the retiring L/C Issuer to effectively assume the obligations of the retiring L/C Issuer with respect to such Letters of Credit.

If the Person serving as Administrative Agent is a Defaulting Lender pursuant to clause (d) of the definition of Defaulting Lender, the Required Lenders may, to the extent permitted by applicable law, by notice in writing to the Borrower and such Person, remove such Person as Administrative Agent and, in consultation with the Borrower, appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States; provided that, without the consent of the Borrower (not to be unreasonably withheld), the Required Lenders shall not be permitted to select a successor that is not a U.S. financial institution described in Treasury Regulation Section 1.1441-1(b)(2)(ii) or a U.S. branch of a foreign bank described in Treasury Regulation Section 1.1441-1(b)(2)(iv)(A). If no successor shall have been appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days (or such earlier day as shall be agreed by the Required Lenders) (the "Removal Effective Date"), then such removal shall nonetheless become effective in accordance with notice on the Removal Effective Date.

9.07 **Non-Reliance on Administrative Agent and Other Lenders.** Each Lender and the L/C Issuer acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the L/C Issuer also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

9.08 **No Other Duties, Etc.** Anything herein to the contrary notwithstanding, the documentation agent listed on the cover page hereof shall not have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent, a Lender or the L/C Issuer hereunder. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

9.09 **Administrative Agent May File Proofs of Claim.** In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to the Borrower, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and

irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, the L/C Issuer and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the L/C Issuer and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders, the L/C Issuer and the Administrative Agent under Sections 2.03(h) and (i), 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and the L/C Issuer to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders and the L/C Issuer, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender or the L/C Issuer any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or the L/C Issuer to authorize the Administrative Agent to vote in respect of the claim of any Lender or the L/C Issuer in any such proceeding.

#### **ARTICLE X. MISCELLANEOUS**

10.01 **Amendments, Etc.** No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower therefrom, shall be effective unless in writing signed by the Required Lenders (or signed by the Administrative Agent on their behalf after required approvals have been obtained) and the Borrower, and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written consent of such Lender;

(c) postpone any scheduled date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (iv) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document, or amend the Leverage Ratio (or any defined term therein) in any manner that would result in a reduction of any interest rate on any Loan or L/C Borrowing or any fee payable hereunder without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of “Default Rate” or to waive any obligation of the Borrower to pay interest or Letter of Credit Fees at the Default Rate;

(e) change Section 8.03 in a manner that would alter the pro rata treatment of the Lenders hereunder without the written consent of each Lender; or

(f) change any provision of this Section or the definition of “Required Lenders” or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Lender;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iv) the Fee Letters may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender who may be effected with the consent of the applicable Lenders other than the Defaulting Lenders), except that (x) the Commitment of such Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender.

#### 10.02 **Notices; Effectiveness; Electronic Communication.**

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing (and all telephonic notices shall be promptly confirmed in writing) and shall be delivered by hand or overnight

courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

- (i) if to the Borrower, the Administrative Agent, the L/C Issuer or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.02; and
- (ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) **Electronic Communications.** Notices and other communications to the Lenders and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or the L/C Issuer pursuant to Article II if such Lender or the L/C Issuer, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, any Lender, the L/C Issuer or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages,

liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrower, any Lender, the L/C Issuer or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(c) Change of Address, Etc. Each of the Borrower, the Administrative Agent, the L/C Issuer and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent, the L/C Issuer and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(d) Reliance by Administrative Agent, L/C Issuer and Lenders. The Administrative Agent, the L/C Issuer and the Lenders shall be entitled to rely and act upon any notices (including telephonic Revolving Loan Notices and Swing Line Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Administrative Agent, the L/C Issuer, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

**10.03 No Waiver; Cumulative Remedies; Enforcement.** No failure by any Lender, the L/C Issuer or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrower shall be vested exclusively in, and all actions and proceedings at Law in connection with such enforcement shall be instituted and maintained exclusively by, the Administrative Agent in accordance with Section 8.02 for the benefit of all the Lenders and the L/C Issuer; provided, however, that the foregoing shall not prohibit (a) the Administrative Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Administrative Agent) hereunder and under the other Loan Documents, (b) the L/C Issuer or the Swing Line Lender from exercising the rights and remedies that inure to its benefit (solely in its capacity as L/C Issuer or Swing Line Lender, as the case may be) hereunder

and under the other Loan Documents, or (c) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Administrative Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Administrative Agent pursuant to Section 8.02 and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.13, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

**10.04 Expenses; Indemnity; Damage Waiver.**

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), provided that the legal fees (exclusive of out-of-pocket expenses) of the counsel for the Administrative Agent for the preparation, negotiation and closing of this Agreement (but excluding any subsequent amendments, modifications or waivers) shall not exceed the amount set forth in the commitment letter between the Borrower and Bank of America, dated May 2, 2011, (ii) all reasonable out-of-pocket expenses incurred by the L/C Issuer in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, any Lender or the L/C Issuer (including the fees, charges and disbursements of any counsel for the Administrative Agent, any Lender or the L/C Issuer), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) Indemnification by the Borrower. THE BORROWER SHALL INDEMNIFY THE ADMINISTRATIVE AGENT (AND ANY SUB-AGENT THEREOF), EACH LENDER AND THE L/C ISSUER, AND EACH RELATED PARTY OF ANY OF THE FOREGOING PERSONS (EACH SUCH PERSON BEING CALLED AN "INDEMNITEE") AGAINST, AND HOLD EACH INDEMNITEE HARMLESS FROM, ANY AND ALL LOSSES, DAMAGES, LIABILITIES AND EXPENSES (INCLUDING THE REASONABLE FEES, CHARGES AND DISBURSEMENTS OF ANY COUNSEL FOR ANY INDEMNITEE), INCURRED BY ANY INDEMNITEE OR AWARDED AGAINST ANY INDEMNITEE BY ANY THIRD PARTY IN CONNECTION WITH, OR AS A RESULT OF, (I) THE EXECUTION OR DELIVERY OF THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, THE PERFORMANCE BY THE PARTIES HERETO OF THEIR RESPECTIVE OBLIGATIONS HEREUNDER OR THEREUNDER, THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, OR, IN THE CASE OF THE ADMINISTRATIVE AGENT (AND



ANY SUB-AGENT THEREOF) AND ITS RELATED PARTIES ONLY, THE ADMINISTRATION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, (II) ANY LOAN OR LETTER OF CREDIT OR THE USE OR PROPOSED USE OF THE PROCEEDS THEREFROM (INCLUDING ANY REFUSAL BY THE L/C ISSUER TO HONOR A DEMAND FOR PAYMENT UNDER A LETTER OF CREDIT IF THE DOCUMENTS PRESENTED IN CONNECTION WITH SUCH DEMAND DO NOT STRICTLY COMPLY WITH THE TERMS OF SUCH LETTER OF CREDIT), (III) ANY ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS MATERIALS ON OR FROM ANY PROPERTY OWNED OR OPERATED BY THE BORROWER OR ANY OF ITS SUBSIDIARIES, OR ANY ENVIRONMENTAL LIABILITY RELATED IN ANY WAY TO THE BORROWER OR ANY OF ITS SUBSIDIARIES, OR (IV) ANY ACTUAL OR PROSPECTIVE CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY, AND REGARDLESS OF WHETHER ANY INDEMNITEE IS A PARTY THERETO, **IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY OR SOLE NEGLIGENCE OF THE INDEMNITEE; PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR RELATED EXPENSES ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION IN A FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE.**

(c) **Reimbursement by Lenders.** To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof), the L/C Issuer or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the L/C Issuer or such Related Party, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the L/C Issuer in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or L/C Issuer in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d).

(d) **Waiver of Consequential Damages, Etc.** To the fullest extent permitted by Applicable Law, the Borrower shall not assert, and hereby waives, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnatee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnatee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the

other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a judgment of a court of competent jurisdiction.

(e) Payments. All amounts due under this Section shall be payable not later than thirty days after demand therefor.

(f) Survival. The agreements in this Section shall survive the resignation of the Administrative Agent, the L/C Issuer, the Swing Line Lender, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

**10.05 Payments Set Aside.** To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, the L/C Issuer or any Lender, or the Administrative Agent, the L/C Issuer or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, the L/C Issuer or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and the L/C Issuer severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

**10.06 Successors and Assigns.**

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the L/C Issuer and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to the Swing Line Lender's rights and obligations in respect of Swing Line Loans;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of such Lender or an Approved Fund with respect to such Lender;

(C) the consent of the L/C Issuer (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for any such assignment.

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Certain Other Persons. No such assignment shall be made to (A) a natural person or (B) any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute one of the foregoing Persons described in this clause (B).

(vii) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit and Swing Line Loans in accordance with its Applicable Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the

rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Promptly after its acceptance and recording thereof, the Administrative Agent shall furnish a copy, as executed and delivered to the Administrative Agent, of each such Assignment and Assumption. Upon request, the Borrower (at no expense to the Borrower) shall execute and deliver a new Note to reflect such assignment to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower (and such agency being solely for tax purposes), shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive (absent manifest error), and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. In addition, the Administrative Agent shall maintain on the Register information regarding the designation, and revocation of designation, of any Lender as a Defaulting Lender. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person, a Defaulting Lender or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the L/C Issuer shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso

to Section 10.01 that directly affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any Applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Resignation as L/C Issuer or Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to subsection (b) above, Bank of America may, (i) upon 30 days' notice to the Borrower and the Lenders, resign as L/C Issuer and/or (ii) upon 30 days' notice to the Borrower, resign as Swing Line Lender. In the event of any such resignation as L/C Issuer or Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder provided such Lender has consented to such appointment; provided, however, that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer or Swing Line Lender, as the case may be. If Bank of America resigns as L/C Issuer, it shall retain all the rights, powers, privileges and duties of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). If Bank of America resigns as Swing Line Lender, it shall retain all rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make

Revolving Loans or fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c). Upon the appointment of a successor L/C Issuer and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer or Swing Line Lender, as the case may be, and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

**10.07 Treatment of Certain Information; Confidentiality.** Each of the Administrative Agent, the Lenders and the L/C Issuer agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by Applicable Laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or any Eligible Assignee invited to be a Lender pursuant to Section 2.14(c) or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender, the L/C Issuer or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the L/C Issuer on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the L/C Issuer acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

10.08 **Interest Rate Limitation.** Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the Highest Lawful Rate. If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Highest Lawful Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Highest Lawful Rate, such Person may, to the extent permitted by Applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.09 **Counterparts; Integration; Effectiveness.** This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

10.10 **Survival of Representations and Warranties.** All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

10.11 **Severability.** If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Without limiting the foregoing provisions of this Section 10.11, if and to the extent that the enforceability of any provisions in this Agreement relating to Defaulting Lenders shall be limited by Debtor Relief Laws, as determined in good



faith by the Administrative Agent, the L/C Issuer or the Swing Line Lender, as applicable, then such provisions shall be deemed to be in effect only to the extent not so limited.

10.12 **Replacement of Lenders.** If any Lender gives notice pursuant to Section 3.02, requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender is a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrower shall have paid to the Administrative Agent the assignment fee specified in Section 10.06(b);

(b) such Lender shall have received payment of an amount equal to 100% of the outstanding principal of its Loans and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a notice pursuant to Section 3.02, a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will permit the funding of Eurodollar Rate Loans or result in a reduction in such compensation or payments thereafter, as applicable; and

(d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

10.13 **Exceptions to Covenants.** Neither the Borrower nor any Subsidiary shall be deemed to be permitted to take any action or fail to take any action which is permitted as an exception to any of the covenants contained herein or which is within the permissible limits of any of the covenants contained herein if such action or omission would result in the breach of any other covenant contained herein.

10.14 **Governing Law; Jurisdiction; Etc.**

(a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT THE

ADMINISTRATIVE AGENT AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) SUBMISSION TO JURISDICTION. THE LENDERS AND THE BORROWER IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND OF THE UNITED STATES OF AMERICA, LOCATED IN THE BOROUGH OF MANHATTAN, CITY OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

(c) WAIVER OF VENUE. THE BORROWER IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

10.15 **Waiver of Jury Trial.** EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN

INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

**10.16 No Advisory or Fiduciary Responsibility.** In connection with all aspects of each transaction contemplated hereby, the Borrower acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (i) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Borrower and its Affiliates, on the one hand, and the Administrative Agent, on the other hand, and the Borrower is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, the Administrative Agent is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrower, or any of its Affiliates, stockholders, creditors or employees or any other Person; (iii) the Administrative Agent has not assumed or will not assume an advisory, agency or fiduciary responsibility in favor of the Borrower with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether the Administrative Agent has advised or is currently advising the Borrower or any of its Affiliates on other matters) and the Administrative Agent has no obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Administrative Agent and its Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and the Administrative Agent has no obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Administrative Agent has not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. The Borrower hereby waives and releases, to the fullest extent permitted by law, any claims that it may have against the Administrative Agent with respect to any breach or alleged breach of agency or fiduciary duty.

**10.17 USA PATRIOT Act Notice.** Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act. The Borrower shall, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the Act.

10.18 **Time of the Essence.** Time is of the essence as to each term and provision of the Loan Documents.

10.19 **ENTIRE AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.**

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GRUMA CORPORATION

By: /s/ Peter M. Nystrom  
Peter M. Nystrom  
Vice President-Finance

Gruma Credit Agreement Signature Page

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BANK OF AMERICA, N.A., as  
Administrative Agent

By: /s/ DeWayne D. Rosse  
Name: DeWayne D. Rosse  
Title: Agency Management Office

Gruma Credit Agreement Signature Page

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**BANK OF AMERICA, N.A.**, as a Lender, L/C  
Issuer and Swing Line Lender

By: /s/ David McCauley  
Name: David McCauley  
Title: Director

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COMERICA BANK

By: [ILLEGIBLE]  
Name: [ILLEGIBLE]  
Title: AVP

Gruma Credit Agreement Signature Page

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COMPASS BANK

By: /s/ Ramon Garcia  
Name: Ramon Garcia  
Title: Vice President

Gruma Credit Agreement Signature Page

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COÖPERATIEVE CENTRALE  
RAIFFEISEN-BOERENLEENBANK B.A.,  
“RABOBANK NEDERLAND,” NEW  
YORK BRANCH

By: /s/ Pamela Beal  
Name: Pamela Beal  
Title: Executive Director

By: /s/ Brett Delfino  
Name: Brett Delfino  
Title: Executive Director

Gruma Credit Agreement Signature Page

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HSBC BANK USA, NATIONAL  
ASSOCIATION

By: /s/ Lucy Groves

Name: Lucy Groves

Title: Vice President

# 18918

Gruma Credit Agreement Signature Page

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SOVEREIGN BANK

By: /s/ Cristina Saewz  
Name: Cristina Saewz  
Title: VP

Gruma Credit Agreement Signature Page

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WELLS FARGO BANK, NATIONAL  
ASSOCIATION

By: /s/ Andrew M. Widmer

Name: Andrew M. Widmer

Title: Vice President

Gruma Credit Agreement Signature Page

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MIZUHO CORPORATE BANK, LTD.

By: /s/ David Costa  
Name: David Costa  
Title: Deputy General Manager

Gruma Credit Agreement Signature Page

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**TRANSLATION FOR REFERENCE PURPOSES ONLY**

**LOAN AGREEMENT ENTERED BY AND AMONG BANCO NACIONAL DE COMERCIO EXTERIOR, S.N.C., HEREINAFTER, THE “LENDER”, REPRESENTED HEREIN BY MESSRS. LEONEL NAPOLEON VASQUEZ GOMEZ AND HORACIO VAQUERA GARCIA, AND GRUMA, S.A.B. DE C.V., HEREINAFTER, THE “BORROWER”, REPRESENTED HEREIN BY MESSRS. RAUL CAVAZOS MORALES AND RODRIGO MARTINEZ VILLARREAL, PURSUANT TO THE FOLLOWING:**

**RECITALS:**

**A. OF THE “BORROWER”, UNDER OATH:**

**I.-** That it has requested the “LENDER” the grant of a Credit Facility for an amount in Pesos, Mexican Currency of up to MXP\$600,000,000.00 (Six Hundred Million Pesos 00/100 Mexican Currency).

**II.** That its business does not report any lien, as evidenced with the no-lien certificate issued by the Public Registry of Property and Commerce of Monterrey, Nuevo Leon, on May 26, 2011, which is enclosed to this agreement as an integral part hereof, as Exhibit “A”.

**III.** That, for purposes of requesting the “LOAN”, it has represented that it has not carried out any act of bribery with a public officer of the country where it carries out its business and that such representation is in force in the same terms as of the date of execution of this agreement.

**B. OF THE “LENDER”:**

**I.** That it is willing to grant the credit facility requested by the “BORROWER”, which shall be subject to the following:

**CLAUSES:**

**AMOUNT:**

**ONE.-** The “LENDER” grants the “BORROWER” and the latter accepts it, a Credit Facility, hereinafter, the “LOAN”, for an amount in Pesos, Mexican Currency of up to MXP\$600,000,000.00 (Six Hundred Million Pesos 00/100 Mexican Currency), such amount not including the interest, expenses and fees of any kind payable by the “BORROWER” to the “LENDER”.

**USE OF PROCEEDS:**

**TWO.-** The “BORROWER” shall be obliged to invest the “LOAN” that is granted herein to cover its working capital requirements of permanent character of its operations in Mexico.

**TERM AND DISBURSEMENT PROCEDURE:**

**THREE.-** The “BORROWER” may borrow the “LOAN” within a term of 3 (three) months beginning on the date of execution of this agreement, in a single disbursement, by means of the direct disbursement mechanism, informing the “LENDER” of its intent to

borrow with an anticipation of up to 3 (three) business days in advance, delivering the following documents for such purpose:

- a) Notice of Borrowing, specifying the information that is being submitted and the manner of delivery of the proceeds.
- b) Original of the document with the title Signatures Card.

**REQUIREMENTS TO DISBURSE THE LOAN:**

The "BORROWER" may not borrow the "LOAN", until the following conditions are satisfied:

1. The "BORROWER" shall have delivered all the documentation requested by the "LENDER" for disbursement of the "LOAN", pursuant to this agreement.
2. The "BORROWER" shall have paid the corresponding fees in the terms set forth in this Agreement.
3. The "BORROWER" shall have made the total payment of the loan granted to it by the "LENDER" on November 12, 2008, for an amount in Pesos, Mexican Currency of MXP\$3,367,000,000 (Three Billion Three Hundred Sixty-Seven Million Pesos 00/100 Mexican Currency).

The "LENDER" may restrict the term for borrowing the "LOAN" and the amount to be disbursed and/or it may denounce this agreement, in terms of article 294 of the General Law on Negotiable Instruments and Credit Transactions, by means of written notice to the "BORROWER".

**TERM AND MANNER OF PAYMENT:**

**FOUR.-** The "LOAN" shall be paid in 6 (six) biannual installments, starting on the date in which it begins the month number fifty-four after the date of disbursement of the "LOAN" in accordance with the "Amortization Schedule" enclosed to this agreement as Exhibit "B".

The "BORROWER" agrees to pay to the "LENDER" the amount, interest and accessories of the "LOAN" in the following place and manner:

The "BORROWER", without previous notice or collection, shall make all payments in PESOS, Mexican Currency, by means of deposit or transfer to the account number 08700006949 with reference number 1013021085230 on the name of the "LENDER" at Banco Nacional de Mexico, *Sociedad Anónima, Institución de Banca Múltiple*, Electronic Transfer Number (CLABE) 002180087000069490, and shall credit the payment on the agreed date, at satisfaction of the "LENDER". If the payment date is a non-business day in accordance with the banking practices of the place of payment, the maturity date will be the immediately following business day.

The "LENDER" may designate another place of payment, prior written notice to the "BORROWER" with 5 (five) days in advance.



**PREPAYMENTS:**

The “BORROWER” may make partial or total prepayments with no fee or penalty for prepayment, provided it notifies the “LENDER” with at least 30 calendar days in advance to the proposed prepayment date and provided such prepayments are made on the interest payment dates.

If a prepayment is made in a manner different as mentioned above, for purposes of determining the funding breakage costs, it shall be considered that the applicable period comprises from the prepayment date to the following installment date in accordance with the schedule set forth herein, providing evidence of the corresponding calculation.

**INTEREST:**

**FIVE.-** The “BORROWER” agrees to pay to the “LENDER” ordinary interest over the borrowed amount as referred herein, on a quarterly basis, at an annual interest rate in accordance with the following:

TIE plus the Applicable Margin, which will be determined on a quarterly basis in accordance with its Leverage Ratio, as such term is defined below. The Applicable Margin will be as follows:

YEAR	LEVERAGE RATIO			
	LESS THAN OR EQUAL TO 2.0	HIGHER THAN 2.00 AND LESS THAN OR EQUAL TO 2.5	HIGHER THAN 2.5 AND LESS THAN OR EQUAL TO 3.0	HIGHER THAN 3.0 AND LESS THAN OR EQUAL TO 3.5
1	137.5 BP	150.0 BP	162.5 BP	175.0 BP
2	137.5 BP	150.0 BP	162.5 BP	175.0 BP
3	162.5 BP	175.0 BP	187.5 BP	200.0 BP
4	162.5 BP	175.0 BP	187.5 BP	200.0 BP
5	162.5 BP	175.0 BP	187.5 BP	200.0 BP
6	187.5 BP	200.0 BP	212.5 BP	225.0 BP
7	187.5 BP	200.0 BP	212.5 BP	225.0 BP

For purposes of this agreement, T.I.I.E. shall mean the Equilibrium Interbanking Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*) for a term of 91 days, as published by *Banco de México* (Mexico’s Central Bank) in the Official Daily Gazette (*Diario Oficial de la Federación*), and which is the last available rate published the preceding business day of the borrowing date, and for purposes of reviewing and adjusting said rate, the applicable rate will be the last available rate published two business days before the date of review and adjustment. Such rate will be rounded to the ten-thousandth position of the closest percentage point. For such purposes, five one-hundred-thousandth or more of a percentage point will be deemed closer to the ten-thousandth position of the immediately following percentage point.

Interest will be computed by the number of calendar days elapsed on the basis of a year of 360 (three hundred sixty) days.

The T.I.I.E. rate will be subject to revision, and therefore, subject to adjustment on a quarterly basis and the interest shall be paid on a quarterly basis.

If for any reason the T.I.I.E. rate disappears, the “BORROWER” agrees that the substituting rate will be the rate corresponding to the Treasury Certificates of the Federation (CETES) for a term of 91 days, considering the last one available before the beginning of the period in which the corresponding interest accrued, multiplied by 1.2 plus the percentage points agreed upon.

**DEFAULT:**

**SIX.-** If any payment obligation is not paid upon maturity, from such date, the “BORROWER” shall pay to the “LENDER” default interest at the rate resulting from multiplying by 2 the ordinary interest rate agreed in terms of this agreement, which is applicable to the disbursement that caused the referred default obligation. Such rate will be subject to revision, and therefore, subject to adjustment with the same periodicity as the revision of the ordinary interest rate.

**FEES:**

**SEVEN.-** The “BORROWER” shall pay the following fees to the “LENDER”:

1. Opening fee, equal to 0.75% (zero point seventy-five percent) of the total amount of the LOAN, payable in a single installment, on the date of execution of this agreement.

2. Prepayment fee, as provided in the second paragraph of Clause Four of this agreement.

**AFFIRMATIVE AND NEGATIVE COVENANTS**

**EIGHT.-** The “BORROWER” shall comply with the following covenants with the “LENDER”:

**a)** If the LENDER stops trading at the Mexican Stock Exchange, it shall submit internal quarter financial statements prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (the “IFRS”), signed by the legal representative, enclosing the analytical lists of the main collective accounts, corresponding to the quarters ended on March, June, September and December, no later than the last day of May, August, November and February, respectively, or if applicable, the quarterly report submitted before the Mexican Stock Exchange in a timely manner, once it is publicly available.

**b)** If the LENDER stops trading at the Mexican Stock Exchange, it shall submit audited financial statements or certified financial statements if the company is not obliged under the tax laws to audit them, including the audit report and the footnotes, prepared in accordance with the IFRS, within 180 calendar days after the end of the fiscal year, or if applicable, the report of the last quarter of the year submitted before the Mexican Stock Exchange and the annual report also submitted before the Mexican Stock Exchange in a timely manner, once it is publicly available.

**c)** During the term of the “LOAN”, it shall authorize the “LENDER”, through the most convenient credit reporting agency, to obtain, analyze and use the information with respect to the credit record of the “BORROWER”.

**d)** It shall deliver the information which is reasonably requested by the “LENDER” for purposes of following up and supervising the “LOAN”.

**e)** The “BORROWER” shall not allow its Leverage Ratio for any Measurement Period to be higher than 3.50 (three point fifty) to 1.00 (one point zero zero), nor its Interest Coverage Ratio, on the last day of any fiscal quarter, to be lower than 2.50 (two point fifty) to 1.00 (one point zero zero). Such ratios shall be informed to the “LENDER” by means of a notice in writing signed by the legal representative of the “BORROWER” together with the delivery of the financial statements in accordance with the paragraphs (a) and (b) above. For purposes of compliance of the obligations set forth in this paragraph:

“Leverage Ratio” shall mean, at the end of the last fiscal quarter, the ratio of (a) the Total Bank Indebtedness as of the last day of said fiscal quarter, to (b) the Consolidated EBITDA of the “BORROWER” and its Consolidated Subsidiaries determined for the corresponding Measurement Period.

“Interest Coverage Ratio” shall mean, as of the last day of any fiscal quarter, the ratio of: (i) the Consolidated EBITDA to (b) the Consolidated Financial Charges, determined for the corresponding Measurement Period.

“Measurement Period” shall mean, any period of four (4) consecutive fiscal quarters of the “BORROWER”, ending with the most recently completed fiscal quarter, considered as one accounting period.

“Total Bank Indebtedness” shall mean, at any time, in a consolidated manner and without duplication, the outstanding principal balance of all indebtedness for borrowed money of the “BORROWER” and its Consolidated Subsidiaries and security obligations of the “BORROWER” with respect to third parties’ obligations not related with the core business of the “BORROWER”.

“Consolidated EBITDA” shall mean, for any Measurement Period, for the “BORROWER” and its Consolidated Subsidiaries, an amount equal to the sum of: (a) the consolidated operating profit; and (b) the amount of the depreciation and amortization expense deducted during such Measurement Period in the calculation of such consolidated profit, in each case, determined in accordance with the IFRS.

“Consolidated Financial Charges” shall mean, for any Measurement Period, with respect to the “BORROWER” and its Consolidated Subsidiaries, the sum of: (a) all interest, premium payments, fees, charges and related expenses of the “BORROWER” and its Consolidated Subsidiaries with respect to borrowed money (including capitalized interest) or related with the deferred purchase price of assets, provided that in each case they are considered as interest in accordance with the IFRS; and (b) the portion of rental expenses of the BORROWER and its Consolidated Subsidiaries, with respect to such period, under capital or financial leases, which are treated as interest in accordance with the IFRS.

“Consolidated Subsidiary” shall mean, with respect to the “BORROWER” any Subsidiary or other entity, the accounts of which, in accordance with the IFRS, are consolidated with those of the “BORROWER” in the consolidated financial statements of the “BORROWER”.

“Material Subsidiary” shall mean, at any time, any Subsidiary of the “BORROWER” representing more than 10% of the total consolidated assets, or 10% of the consolidated net worth, or 10% of the consolidated profit of the “BORROWER” and its Subsidiaries; provided that, notwithstanding the foregoing, the Venezuelan Subsidiaries will not be considered as Material Subsidiaries.

“Venezuelan Subsidiaries” shall mean (a) Derivados de Maíz Seleccionado, S.A. and Molinos Nacionales, C.A., together with their respective direct and indirect Subsidiaries, and (b) any Subsidiary of the “BORROWER” that is incorporated after the date of this agreement, if such new Subsidiary is incorporated under the laws of the Republic of Venezuela.

“Subsidiary” shall mean, with respect to any person, any legal entity of which (or in which) more than 50% of the participation in the capital stock, either directly or indirectly, is property of, or is controlled by, said person.

f) The “BORROWER” agrees not to create, and not to permit that any of its Material Subsidiaries (as such term is defined in the preceding paragraph) creates, any lien over or with respect to any of its present and future properties, unless such lien is created also for the benefit of the “LENDER” in such a manner that its rights with respect to such lien are *pari passu* with the other beneficiaries of the lien, except for the following liens which shall be permitted at any time:

- i. Liens created over any asset existing on the date of execution of this agreement.
- ii. Liens created over an asset securing all or any part of the purchase price of property or assets (including inventories) or a portion of the cost of construction, development, alteration or improvement of a property, facility or asset, or indebtedness incurred or assumed solely for the purpose of financing all or any part of the cost of acquiring, constructing, developing, altering or improving a property, building or asset, such lien being created over said property, building or asset during the period that such property, building or asset is being constructed, developed, altered or improved, within 120 (one hundred twenty) calendar days after its acquisition, construction, development, alteration or improvement;
- iii. Liens of a Subsidiary existing prior to the time it became a Subsidiary of the “BORROWER”, provided such liens (A) do not secure indebtedness exceeding the principal amount subject to said liens prior to the time the corresponding Subsidiary became a Subsidiary of the “BORROWER”; (B) are not created over assets other than the asset over which such lien was created prior to the time said Subsidiary became a Subsidiary of the “BORROWER”, and (C) were not created in contemplation of said Subsidiary becoming a Subsidiary of the “BORROWER”;
- iv. Liens on an Asset if such liens existed thereon at the time of acquisition of said Asset and not created in connection with, or in contemplation of, such acquisition;
- v. Liens on any asset securing an extension, renewal, refinancing or replacement of any indebtedness or line of credit secured by a lien referred in paragraphs (i), (ii), (iii) or (iv) above; provided that, such lien is limited to the assets which were subject of said lien in existence before the extension, renewal, refinancing or replacement and;

provided that; the amount of principal of the indebtedness or the amount of the line of credit secured by the previous lien is not increased immediately before, or in contemplation for, or with respect to such extension, renewal, refinancing or replacement;

vi. Liens created to secure the payment of taxes, contributions, assessments and other charges determined by the governmental authorities, the payment of which is not yet due or the payment of which has been contested in good faith by appropriate legal proceedings promptly initiated and diligently conducted;

vii. Liens incurred due to, or deposits made in the ordinary course of business with respect to the payment of indemnifications to workers and obligations in social security matters;

viii. Statutory lines of lessors, carriers, warehousemen, mechanicals, materialsmen, repairmen or similar, arising in the ordinary course of business, for amounts not yet due or amounts the payment of which has been contested in good faith by appropriate legal proceedings promptly initiated and diligently conducted, and with respect thereto, reserves or provisions required in accordance with the IFRS have been created or, in the case of Material Subsidiaries incorporated in another jurisdiction, as required by the applicable accounting principles in said jurisdiction;

ix. Liens created by attachment or judgment, unless the judgment which it secures, shall not have been discharged or its execution stayed pending appeal within 60 (sixty) days after notice thereof, or which have not been discharged within 60 (sixty) days after ending such stay;

x. Liens related with the protection of bank overdrafts, lines of credit and other similar incurred in the ordinary course of business; and

xi. Liens securing borrowings for working capital requirements not exceeding the total amount of the higher of (i) USD\$100,000,000 (one hundred million Dollars 00/100) (or its equivalent in other currency) and (ii) (A) 15% (fifteen percent) of the consolidated net worth of the "BORROWER", minus (B) the amount of any security obligation assumed by the "BORROWER" or any of its Consolidated Subsidiaries for the benefit of parties other than the "BORROWER" and its Consolidated Subsidiaries; and

xii. Liens created with respect to permitted hedging agreements over cash or cash-equivalent investments or over the underlying commodities in such permitted hedging agreements, to the extent those permitted hedging agreements include the purchase or sale of said commodity; provided, however, that the market value of the assets subject to a lien does not exceed in their entirety the amount of USD\$50,000,000 (fifty million Dollars 00/100) (or its equivalent in other currency) at any time; "permitted hedging agreement" shall mean any hedging agreement which: (i) is not for speculative purposes and which has not been entered into nor it has been maintained with the purpose of obtaining profits due to the changes in the securities market; (ii) is based on, or associated with, the underlying value of a product, instrument, securities, commodities, interest rates, currencies, indexes or risk or value measures used by the "BORROWER" or any of its Subsidiaries in the ordinary course of business; and (iii) complies with the hedging policy of the "BORROWER".

**g)** Likewise, the “BORROWER” agrees to cause that the “LOAN” ranks, at all times, at least *pari passu* with all other unsecured and unsubordinated indebtedness of the Borrower (except for such payment obligations with statutory preference).

The “LENDER” retains for itself the rights granted by article 328 of the General Law on Negotiable Instruments and Credit Transactions.

## **INSURANCE**

**NINE.-** The “BORROWER” shall maintain and shall cause its Subsidiaries to maintain insurance policies with solid, responsible and reputable insurance companies, covering the risks inherent to their activities and for an amount at least 100% of the “LOAN”. Prior to entering into this Agreement, the “BORROWER” agrees to deliver to the “LENDER” copy of the corresponding insurance policy as well as copy of the payment of the premiums.

## **EVENTS OF DEFAULT**

**TEN.-** The term for paying the “LOAN” will be accelerated, without need of any notice to the “BORROWER”, upon the occurrence of the following events of default:

- a)** If it fails to pay upon maturity one or more of the agreed payments, whether of principal, interest or fees.
- b)** If the “LOAN” or part of it, is used for purposes other than those agreed upon in terms of this agreement, without the prior written authorization of the “LENDER”.
- c)** If it transfers more than 30% of, or if it creates liens other than those permitted over the assets of the “BORROWER”, except for those assets corresponding to the Venezuelan Subsidiaries, or if it modifies its corporate domicile or if it transfers or changes the company, without the prior written authorization of the “LENDER”.
- d)** If it fails to timely pay the taxes or any other tax charges, including the corresponding contributions to the Mexican Institute of Social Security and the National Workers Housing Fund Institute, except for those being contested before the competent courts.
- e)** If it abandons the management of its business.
- f)** If, at any time, the works of the “BORROWER” or a Material Subsidiary are suspended, either due to strike, lack of raw materials or a similar situation, and such situation is not remedied in a period of 60 days and which also results in a material adverse effect for the “BORROWER”.
- g)** If it breaches any other obligation agreed upon in this or in any other agreement entered with the “LENDER”.
- h)** If the execution of this agreement or the grant of the “LOAN” constitutes an event of default under any other agreement entered by the “BORROWER” with other creditor within the Financial System and if it is in default of more than eighty percent of its payment obligations with other creditors that are part of credit institutions.

**i)** If a “Change of Control” exists, deemed as such, if Mr. Roberto González Barrera, his former wife and the members of his family (including their spouses, siblings and other lineal descendants, estates and heirs or any trust or other investment vehicle for the primary benefit of any of said persons or their respective family members or heirs) cease to elect the majority of the members of the board of directors of the “BORROWER”.

**j)** If the “BORROWER” or anyone in its representation, incurs in any act of bribery with a public officer of the country where it carries out its business, and in the event of incurring in any act of bribery, it will be sufficient cause to deny the disbursement of the “LOAN” or an event of default if the “LOAN” has been disbursed.

**k)** If the “BORROWER” does not provide evidence of the purchase of the insurance policy referred in Clause Nine of this Agreement, as well if it does not renew such policy during the term of the “LOAN”.

The events of default set forth herein are independent from those of statutory character, therefore, they shall not be understood as restrictive of the statutory provisions.

The fact that the “LENDER” accelerates the “LOAN”, will cause the “BORROWER” to lose the right to obtain the financial accommodations granted by the “LENDER”.

**PAYMENT OF EXPENSES:**

**ELEVEN.-** The “BORROWER” shall pay all the expenses of this agreement. For such purposes, expenses of this agreement will include any expenses arising from the celebration, formalization, as well as the expenses pursuant to article 327 of the General Law on Negotiable Instruments and Credit Transactions, or of any other kind as required by the law, the execution or termination of the obligations originated hereof, such as: payment of official fees, fees, taxes or other expenses arising from the agreement.

If the “BORROWER” fails to comply with the obligation set forth in the preceding paragraph, it authorizes the “LENDER” to pay the amount of the fees and expenses of the Notary attesting or ratifying this agreement, and it agrees to reimburse them in a term of 3 (three) business days, and the “BORROWER” shall pay ordinary interests over the amount of the expenses so paid, at an annual rate of 50% (fifty percent).

The “LENDER” shall deliver to the “BORROWER” evidence of the payments referred in the preceding paragraph.

**EXECUTION PROCEEDINGS:**

**TWELVE.-** The “LENDER” has the right to obtain the collection of the outstanding amounts owed by the “BORROWER” by means of the ordinary commercial proceeding or the executory commercial proceeding, provided that the “LENDER” may appoint sufficient assets for attachment without following the order set forth by article 1395 of the Commerce Code in current force and effect; taking into account, in addition, that the “BORROWER” will not be appointed as depository of the assets in any event, and that the depository to be designated by the “LENDER” may take possession of the assets without being required to post a bond.

It is further agreed, that the exercise of any of these actions will not imply losing the other one and that all the actions to which the "LENDER" is entitled will continue in full force and effect until payment of the total amount of the "LOAN" and its accessories owed by the "BORROWER".

**LAWS AND COURTS:**

**THIRTEEN.-** For all matters related to the interpretation, execution and fulfillment of this agreement, the parties agree to be subject to the Laws in force in the Federal District and the jurisdiction of the Courts of Mexico City, Federal District, expressly waiving the jurisdiction of their current or future domicile.

**DOMICILES:**

**FOURTEEN.-** The parties designate as their domicile for purposes of notifications and notices in connection with this agreement, as follows:

The "LENDER": *Periférico Sur 4333, Col Jardines de la Montaña, Zip Code 14210, Mexico City.*

The "BORROWER": *Calzada del Valle No. 407, Col. Del Valle, San Pedro Garza García, Nuevo Leon, Zip Code 66220*

As long as the "BORROWER" does not notify in writing to the "LENDER" of a change of domicile, any notice or notification arising from this agreement will be given at the domicile indicated in this clause.

**TAXES:**

**FIFTEEN.-** All payments that the "BORROWER" shall make to the "LENDER" will be made without any withholding or set-off. If, required by law, the "BORROWER" has to make any withholding from said payments to the "LENDER", the "BORROWER" agrees to pay the additional amounts necessary, so that after making the withholding, the "LENDER" receives the amount of payments, as if such withholding had not been applicable.

**AUTHORIZATION TO DISCLOSE INFORMATION.**

**SIXTEEN.-** The "BORROWER" authorizes the "LENDER" to disclose the information regarding the transaction set forth in this agreement, to the extent such information is requested to the "LENDER" by its funding sources. Likewise, the "LENDER" authorizes the "BORROWER" to disclose information regarding the transaction set forth in this agreement, to the extent such information is requested to the "BORROWER" pursuant to the applicable laws in force or by the authority.

**L E G A L   C A P A C I T Y**

**The "LENDER":**

**A)** BANCO NACIONAL DE COMERCIO EXTERIOR, S.N.C. is a Development Banking Institution which is actually governed by its Organic Law, published in the Official Daily Gazette (*Diario Oficial de la Federación*) on January 20, 1986.



**B) MR. LEONEL NAPOLEON VASQUEZ GOMEZ** evidences his authority as attorney-in-fact of Banco Nacional de Comercio Exterior, S.N.C. with public deed number 36,040, dated May 11, 2000, granted before and attested by Maximino García Cueto, Notary Public Number 14 of the Federal District.

**C) MR. HORACIO VAQUERA GARCÍA** evidences his authority as attorney-in-fact of Banco Nacional de Comercio Exterior, S.N.C. with public deed number 43,668, dated September 9, 2008, granted before and attested by Maximino García Cueto, Notary Public Number 14 of the Federal District.

**The “BORROWER”:**

**A) GRUMA, S.A.B. DE C.V.**, is a corporation incorporated under Mexican law, its corporate name and current domicile, in terms of public deed number 2,857 dated December 24, 1971 granted before and attested by Alejandro Macías Barragán, Notary Public Number 18 of Monterrey, Nuevo Leon, filed before the Public Registry of Property and Commerce of Monterrey, Nuevo Leon, under number 180, sheet 193, volume 197, book number 3, second auxiliary, Commerce section, dated May 9, 1972.

**B) MR. RAUL CAVAZOS MORALES**, evidences his authority as attorney-in-fact of GRUMA, S.A.B. DE C.V., with public deed number 5,568 dated April 17, 2007, granted before and attested by Armando Hernández Berlanga, Notary Public Number 132 of General Escobedo, Nuevo Leon, filed before the Electronic Commercial Number 9385\*9 dated April 18, 2007. Such powers have not been revoked or modified in any manner whatsoever as of the date of this agreement.

**C) MR. RODRIGO MARTINEZ VILLARREAL**, evidences his authority as attorney-in-fact of GRUMA, S.A.B. DE C.V., with public deed number 6,651 dated February 22, 2008, granted before and attested by Armando Hernández Berlanga, Notary Public Number 132 of General Escobedo, Nuevo Leon, filed before the Electronic Commercial Number 9385\*9 dated March 10, 2008. Such powers have not been revoked or modified in any manner whatsoever as of the date of this agreement.

This agreement is executed on June 16, 2001.

**THE “LENDER”**

**BANCO NACIONAL DE COMERCIO  
EXTERIOR, S.N.C.**

*[Illegible signature]*

\_\_\_\_\_  
**MR. LEONEL NAPOLEÓN VASQUEZ  
GOMEZ**

*[Illegible signature]*

\_\_\_\_\_  
**MR. HORACIO VAQUERA GARCIA**

**THE “BORROWER”**

**GRUMA, S.A.B. DE C.V.**

*[Illegible signature]*

\_\_\_\_\_  
**MR. RAUL CAVAZOS MORALES**

*[Illegible signature]*

\_\_\_\_\_  
**MR. RODRIGO MARTINEZ VILLARREAL**

WITNESSES

*[Illegible signature]*

MR. FELIPE CARDENAS ESTRADA

*[Illegible signature]*

MS. CAROLINA ASCENCIO FAVELA

**EXHIBIT B  
AMORTIZATION SCHEDULE**

<b>Bi-annual Term</b>	<b>Amount of Amortization</b>
1	0
2	0
3	0
4	0
5	0
6	0
7	0
8	0
9	30,000,000
10	30,000,000
11	30,000,000
12	30,000,000
13	240,000,000
14	240,000,000
<b>TOTAL</b>	<b>600,000,000</b>

TRANSLATION FOR REFERENCE PURPOSES ONLY

Execution Version

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LOAN AGREEMENT

dated on

June 15, 2011

entered into by and between

GRUMA, S.A.B. de C.V.  
as the Borrower,

BBVA BANCOMER, S.A.,  
GRUPO FINANCIERO BBVA BANCOMER,  
as Creditor and Administrative Agent

and

The Financial Institutions  
listed in **Exhibit 1** of this Agreement,  
as Creditors

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RECITALS

CLAUSES

FIRST. Definitions

SECOND. Line of Credit

THIRD. Disposition of Line of Credit

FOURTH. Interests

FIFTH. Default Interests

SIXTH. Repayment of the Loan

SEVENTH. Prepayments

EIGHT. Location and Payment Terms

NINTH. Affirmative Covenants

TENTH. Negative Covenants

ELEVENTH. Condition Precedents

TWELFTH. Events of Default

THIRTEENTH. Increased Costs

FOURTEENTH. Assignments; Participations

FIFTEENTH. Compensation

SIXTEENTH. Credit Information

SEVENTEENTH. Administrative Agent

EIGHTEENTH. Executive Title

NINETEENTH. Notices

TWENTY. Applicable Law

TWENTY-FIRST. Jurisdiction

TWENTY-SECOND. Costs and expenses

TWENTY-THIRD. Indemnification by the Borrower

TWENTY-FOURTH. Modifications and Waivers

TWENTY-FIFTH. Confidentiality

TWENTY-SIXTH. Counterparts

TWENTY-SEVENTH. Headers

TWENTY-EIGHT. Exhibits

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## Exhibit List and Appendixes

<u>Exhibit "1"</u>	Creditors
<u>Exhibit "2"</u>	Compromises
<u>Exhibit "3"</u>	Borrower's Account
<u>Exhibit "4"</u>	Coverage Policies
<u>Exhibit "5"</u>	Draft of the Promissory Note
<u>Exhibit "6"</u>	Draft of the Compliance Certificate
<u>Exhibit "7"</u>	Draft of the Legal Opinion on the Borrower
<u>Exhibit "8"</u>	Draft of the Certificate of the Officer in Charge
<u>Exhibit "9"</u>	Draft of the Assignment and Acceptance
<u>Exhibit "10"</u>	Authorization Letter of Credit Information
<u>Appendix "A"</u>	List of Litigations
<u>Appendix "B"</u>	List of Environmental Matters
<u>Appendix "C"</u>	List of Borrower's Subsidiaries
<u>Appendix "D"</u>	List of Contracts Limiting the Profit Sharing

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LOAN AGREEMENT (HEREINAFTER, THE “AGREEMENT”) ENTERED INTO BY AND BETWEEN GRUMA, S.A.B. DE C.V., AS BORROWER (THE “BORROWER”), BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO BBVA BANCOMER, AS ADMINISTRATIVE AGENT (THE “AGENT”) AND THE FINANCIAL INSTITUTIONS LISTED IN **EXHIBIT “1”** OF THIS AGREEMENT AND THOSE BANKS AND INSTITUTIONS THAT IN THE FUTURE ACQUIRE THE TITLE OF CREDITOR UNDER THE TERMS OF THIS AGREEMENT (JOINTLY, THE “CREDITORS” AND, EACH ONE, ONE “CREDITOR”), UNDER THE TERMS OF THE FOLLOWING RECITALS AND CLAUSES:

**RECITALS**

I. The Borrower declares to the Administrative Agent and to each Creditor the Deadline and in each Disposition Date, the following:

(a) Corporate Existence and Authorities. That the Borrower and each of its Subsidiaries:

(i) (A) in the particular case of the Borrower, it is a stock corporation of variable capital duly incorporated and in existence under the laws of the United Mexican States (“Mexico”), (B) in the case of its Subsidiaries they are incorporated under the laws of Mexico, they are corporations in duly incorporated and in existence under the laws of Mexico, and (C) in the case of the Subsidiaries that are not incorporated under the laws of Mexico, they are legal entities duly incorporated and in existence under the laws the their own jurisdiction corresponds;

(ii) they have all corporate authority and powers of attorney and have all the governmental licenses, authorizations, consents and approvals required to: (A) perform its commercial operations and be owners of their Assets, unless the absence of those governmental licenses, authorizations, consents and approvals cannot reasonably await until they have a Significant Adverse Effect and (B) only with respect to the Borrower, enter into, subscribe and comply with all their obligations under the terms and conditions of this Agreement and Promissory Notes; and

(iii) they comply with all Legal Requirements, unless in the absence of compliance the latter cannot reasonably await until they have a Significant Adverse Effect.

(b) Corporate Authorization; Compliance. The Borrower has all necessary corporate authorizations required to execute and comply with its obligations under the terms of this Agreement and each of the Credit Instruments and the execution and compliance of it does not:

(i) contravene with its corporate bylaws in full force and effect,

(ii) conflict or are in a violation or contravention or the creation of a Lien or result in an acceleration of a right or payment requirement, repurchase or redemption of any obligation or constitute a breach with respect to: (A) any document which includes any Contractual Obligation pertaining to the Borrower or (B) any order, precautionary measure, official document or decree from any Governmental Authority to which the Borrower is subject to or its Assets; or

(iii) contravene or may contravene with any Legal Requirement.

(c) Additional Authorizations. No approval requirement is needed (including the approval of change of control), consent, exemption, authorization, registry or any other filing, notification or presentation in name of or before Governmental Authority or any third party for the execution and

compliance by the Borrower of this Agreement or any other Credit Instrument or for the enforceability of the latter, different from the ones already obtained and are in full force and effect.

(d) Mandatory. This Agreement constitutes, and the other Credit Instruments at the time of execution, a legal and valid obligation for the Borrower, enforceable against the Borrower under its terms, unless such enforceability is limited by the laws of insolvency or bankruptcy, or by similar laws that affect the rights of creditors in general or by principals of laws related to enforceability.

(e) Litigations. Unless otherwise provided in Appendix "A" at the date of this Agreement, and only with respect to incise (B) below, as revealed by the Borrower in: (i) the financial statements delivered as per Clause Ninth, incise a); or (ii) in the most recent annual report of the Borrower, either in the Form-20 filed before the Securities and Exchange Commission of the United States of America or in the annual report filed before the Bolsa Mexicana de Valores, S.A.B. de C.V., there are not procedures, lawsuits, judgments, claims or disputes, or as far as they know, there is no threat of the latter or contemplated in judicial courts, equity, arbitration or before any Governmental Authority, by or against the Borrower nor any of its Relevant Subsidiaries, that (A) seek to affect the legality, validity or enforceability of this Agreement or any other Credit Instrument, or any operation contained herein or in those Credit Instruments; or (B) if the result is adverse to the Borrower's interests or any of its Relevant Subsidiaries, cannot be hold reasonably to have an Adverse Relevant Effect.

(f) Financial Information; Adverse Relevant Effect; Breach. (i) The consolidated audited financial statements for the Fiscal Exercise concluded as of December 31, 2010 (which have been delivered in copies to the Administrative Agent and each Creditor) are complete and correct in all relevant aspects, and have been prepared pursuant the NIF and are properly presented, according to the NIF, the financial information of the Borrower and its Consolidated Subsidiaries at the indicated time and its operations results for the fiscal exercise concluded on December 31, 2010.

(ii) The consolidated not audited financial statements of the Borrower as of the Fiscal Quarter concluded on March 31, 2011 (which have been delivered in copies to the Administrative Agent and each Creditor) are complete and correct in all relevant aspects, and have been prepared pursuant the IFRS and are properly presented, according to the IFRS, the financial information of the Borrower and its Consolidated Subsidiaries at the indicated time and its operations results for the fiscal exercise in question, subject to the absence of notes on the financial statements and adjustments derived from the annual audit.

(iii) Starting on the date of the last annual audited financial statements, there have been no facts or circumstances that, individually or collectively, reasonably to have had or could have an Adverse Relevant Effect.

(iv) Starting on the Closing Date and each Date of Disposition, nor the Borrower or its Relevant Subsidiaries, are in any breach under or with respect to a Contractual Obligation from which, jointly or individually, may reasonably expect to have an Adverse Relevant Effect or lead, in case such breach have occurred after the Closing Date or to the Date of Disposition, an Event of Default under Clause Twelfth, incise (a)(v) of this Agreement.

(g) Pari Passu. The Borrower's payment obligations under this Agreement and other Credit Instruments (including, without limitations, the Promissory Notes), constitute Borrower's unconditional and unsubordinated obligations and have, at all times, at least the same order of payment preference (*pari passu*) than its own non-guaranteed debt (with the exception of those payment obligations that have preference pursuant the applicable law).



(h) Taxes. The Borrower and its Relevant Subsidiaries have filed in time and in form all required declarations and reports under the laws of Mexico and have paid all taxes, contributions, fines and other governmental rights determined over its Assets, including fines and related surcharges, due or payable, unless by (i) those challenged in good faith by means of appropriate procedures and for which necessary reserves were established under the IFRS, as the case may be; and (ii) those that in case of non-payment, either jointly or individually, may not reasonably expect to have an Adverse Relevant Effect.

(i) Environmental Aspects. (i) The ordinary operations of the Borrower or its Subsidiaries comply, in all relevant aspects, with the applicable Environmental Laws, excepting those matters listed in **Appendix “B”** and with the exception of the ones that in case of non-payment, either jointly or individually, could not reasonably be expected to have a Significant Adverse Effect.

(ii) The Borrower and its Subsidiaries have obtained all related environmental, health and security permits necessary or required for its operations, all those permits are in full force and the Borrower and its Subsidiaries are in compliance with all relevant terms and conditions pursuant those permits, with the exception of what is listed in **Appendix “B”** or with the exception that in case they do not obtain or maintain in full force and effect any of those permits or are in non-compliance with the relevant terms of those permits, individually or collectively, could not reasonably be expected to have a Significant Adverse Effect.

(iii) To the best of their knowledge, after a reasonable investigation, no Asset property of the Borrower or any of its Subsidiaries, or operated by the latter, currently or in the past, (including soil, groundwater, surface water, constructions or other structures) have been contaminated with a substance that reasonably may require an investigation or correction under any Environmental Law nor have incurred in any responsibility by the emission of substances in third party’s properties, with the exception for those that, individually or collectively, could not reasonably be expected to have a Significant Adverse Effect; and

(iv) Nor the Borrower or any of its Subsidiaries have received any notice, demand, claim or request of information indicating that they may have breached or are subject to any responsibility under the Environmental Law or under any judgment, decree, precautionary warrant or any other type with any Governmental Authority pursuant any Environmental Law, with exception on the list contained in **Appendix “B”** or with the exception for those that, individually or collectively, could not reasonably be expected to have a Significant Adverse Effect.

(j) Compliance with the Social Security Law; Etc. The Borrower and its Relevant Subsidiaries are in compliance with all Legal Requirements in matters of social security, except to the extent that the breach thereof could not reasonably be expected to have an Adverse Effect Relevant.

(k) Assets, Patents, Licenses; Etc.

(i) The Borrower and its Subsidiaries have title or a valid lease agreement pursuant all Assets that are reasonably necessary or utilized in the ordinary course of business or that may be relevant for such businesses, except to the extent that the lack of such ownership or valid lease, individually or collectively, could not reasonably be expected to have an Adverse Effect Relevant.

(ii) The Borrower and its Subsidiaries are owners or have licenses or have the right to utilize all trademarks, registered names, copyrights, patents, franchises, licenses authorizations, other intellectual property and other rights that are reasonably necessary for the business operation, without conflict with the rights of other Person, except to the extent that the lack of such licenses or rights, individually or collectively, could not reasonably be expected to have an Adverse Effect Relevant.

(iii) The Borrower and its Subsidiaries have insurance policies with insurance companies strong, responsible and prestigious in the amounts and coverage are usually hired by prestigious companies involved in similar businesses that operate and / or have property similar to those owned and / or operated by the Borrower or any Subsidiary, as applicable, in the same general areas in which the Borrower and / or the Subsidiary owns and / or operates its property, in accordance with common industry practice except to the extent that the lack of such insurance policies, individually or collectively, could not reasonably be expected to have an Adverse Effect Relevant.

(l) Subsidiaries.

(i) A complete and accurate list of Relevant Subsidiaries of Borrower to the Closing Date, showing the same name, jurisdiction of incorporation and the percentage of shares owned by the Borrower and each Subsidiary's Relevant Borrower is in the **Appendix "C"** of this Agreement.

(ii) A list of all agreements and contracts, which in their terms, expressly prohibit or limit the payment of dividends or other distributions to Accredited Relevant Subsidiaries or the granting of credits to a Subsidiary Relevant Accredited found in **Appendix "D"** except for those agreements and contracts were concluded after from the time of closing and as may be permitted by Clause Tenth, subsection (e).

(m) Commercial Transactions. Borrower's obligations under this Agreement and the Promissory Notes are commercial in nature and are subject to the rules of civil law and commercial underwriting and compliance with this Agreement constitute commercial acts private rather than public or government and is accredited subject to legal action regarding their obligations under this Agreement.

(n) Legal Form. This Agreement contains, and the Promissory Notes once they are signed and delivered, will be legally sufficient to require compliance to be accredited under the laws of Mexico.

(o) Full Disclosure. All written information other than information for use in the future they have been delivered by the Borrower to the Administrative Agent or any Creditor for purposes of or in connection with this Agreement is, and all such information is delivered in the future by the Borrower the Administrative Agent to any Creditor will be, true and correct in all material respects to the date on which such information has been generated as indicated in the submission. All written information, for use in the future, given the Administrative Agent or the Creditors has been prepared in good faith, based on assumptions that the Borrower believes are reasonable. The Borrower has informed the Administrative Agent and the Creditors, in writing, all the facts he knows and believes that could reasonably be expected to have a Significant Adverse Effect.

(p) Proceeds of the Credit. The Borrower will use the proceeds of the Credit (as such term is defined below) solely for the refinancing of debt of Borrower and the remainder, if any, for general corporate purposes of the Borrower, on the understanding that the creditors will not responsibility for the destiny to which such funds are applied.

(q) Representation. The attorney in fact for the Accredited appears to the execution of this Agreement and the other Credit Instruments, has sufficient powers to force the terms of the Credit Instruments (including, without limitation, the Promissory Notes), and these powers of attorney have not been revoked or limited in any way, as of the date of execution of this Agreement.

(r) Administrative Agent's Existence. Expressly recognizes the existence of the Administrative Agent and the legal capacity of the latter to act as Administrative Agent on behalf of and for

the benefit of creditors in the execution of this Agreement and the capacity and powers of attorney of its legal representative to sign this Agreement.

II. The Agent states that:

(a) Is a financial institution organized under the laws of Mexico, be authorized under its corporate purpose to enter into this Agreement.

(b) Its attorney in fact has sufficient authority to force the terms of this Agreement and the Loan Documents, and such powers have not been revoked or limited in any way, as of the date of execution of this Agreement.

III. Each Creditor states that:

(a) Is a financial institution organized under the laws of Mexico, be authorized under its corporate purpose to enter into this Agreement.

(b) Its attorney in fact has sufficient authority to force the terms of this Agreement and the Loan Documents, and such powers have not been revoked or limited in any way, as of the date of execution of this Agreement.

(c) Based on the above-mentioned recitals, the Creditor is willing to grant the loan requested by the Borrower in accordance with the terms and subject to the conditions contained in this Agreement.

(d) Expressly recognizes the existence of the Administrative Agent and the legal capacity of the latter to act as Administrative Agent on behalf of and for the benefit of creditors in the execution of this Agreement and the capacity and powers of its representative to sign this Agreement.

Under the foregoing, the parties agree as follows:

### CLAUSES

**FIRST. Definitions.** (a) The following terms used in capitals in this Agreement, have the meanings specified below (all terms of this Clause First and the other provisions which are used in the singular in this Agreement shall have the same meaning when used in the plural and vice versa):

“Borrower” has the meaning given to it in the preface of this Agreement.

“Creditor” or “Creditors” has the meaning given to it in the preface of this Agreement.

“Creditor Originator” has the meaning ascribed in the Fourteenth Clause, paragraph (e) of this Agreement.

“Assets” means any assets, income or any other tangible or intangible, including the right to receive income.

“Debit” or “Debt” means, with respect to any Person, at any time and without duplication:

- (i) any obligation of such Person with respect to money borrowed, and any obligation of such Person documented by bonds, promissory notes, debentures or similar instruments;
- (ii) any obligation of such Person in respect of a lease or lease with option to purchase, in accordance with IFRS (or, in the case of persons organized under the laws of any State of the United States of America generally accepted accounting principles accepted in the United States or "U.S. GAAP"), is treated as a finance lease or capital;
- (iv) any third-party debt secured by a Lien on any asset of such Person, such Person whether or not to assume that debt;
- (v) any obligation of such Person to pay the deferred purchase price of assets or services if such deferral extends for a period exceeding more than 60 (sixty) days;
- (vi) all guarantee obligations by the Borrower with respect to obligations of third parties relating to the Business Main Credited to the date hereof;

notwithstanding the foregoing, the following requirements shall be expressly excluded from the definition of Indebtedness: (i) accounts payable to suppliers, including any obligation in respect of letters of credit have been issued for the payment of accounts payable to suppliers (ii) accrued expenses and payable in the ordinary course of business, (iii) advances and deposits received from customers in the ordinary course of business, and (iv) obligations to ad valorem taxes, value added taxes, or any other tax or government official.

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries, Control to, is Controlled by, or is under common control with, such Person.

"Export Credit Agency" means a financial institution officer, not Mexican, for the promotion of exports, duly recorded in Book I, Section 5 of the Registrar of Banks, Financial Institutions, Pension Funds and Retirement Funds Overseas investment of the Ministry of Finance for purposes of Rule II.3.9.1 Miscellaneous Fiscal Resolution for 2010 and Article 196-II of the Law of Income Tax (or any subsequent provision).

"Agent" o "Administrative Agent" has the meaning given to it in the preface of this Agreement.

"Governmental Authority" means any of the executive, legislative or judicial, regardless of how they act, whether federal, state or municipal, any governmental agency, dependency, decentralized agency or entity equivalent or any state department or other political subdivision thereof, or any governmental body, authority (including any central bank or fiscal authority) or any entity (including any court) exercising functions of government, executive, legislative, judicial, domestic or abroad.

"Perpetual Bonds" means perpetual bonds at 7.75% issued by the Borrower in an aggregate amount initial of USD \$300,000,000.00 (three hundred million dollars 00/100), under the act dated December 3, 2004, concluded between the Borrower and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, NA, as trustee).

"Consolidated Equity" means, at any time, all amounts under IFRS should be included in stockholders' equity in the consolidated balance sheet of Borrower and it's Subsidiaries.

"Capital Stock" means shares, stocks, or similar instruments (regardless of denomination), representing the capital of a company, and any participation in a Person (other than a partnership) and any and all optional titles (warrants), duties or purchase options regarding the above.

“Assignment and Acceptance” has the meaning ascribed in the Fourteenth Clause, paragraph (a) of this Agreement.

“Assignee” has the meaning ascribed in the Fourteenth Clause, paragraph (a) of this Agreement.

“Eligible Assignee” means (i) a Creditor, (ii) a Subsidiary and / or Subsidiary of a Creditor to the extent that such Person after the signing of an Assignment and Acceptance is entitled to receive additional amounts under the terms of Clause Eighth subsection (b) (i) in an amount not exceeding the amounts that the transferor would be entitled to receive if the transferee shall have been a foreign financial institution or a Mexican financial institution, (iii) a foreign financial institution, (iv) Agency for Export Credits (v) a Mexican financial institution, or (vi) any other person other than a natural person approved by the Accredited in its sole discretion, with the understanding that regardless of this, the “Eligible Assignee” shall not include the Borrower or any of the Subsidiaries or Affiliates thereof.

“Compromise” means, for each Creditor, the obligation of the creditor to grant credit in a principal amount not exceeding the amount set forth opposite its name in **Exhibit “2”** of this Agreement.

“Agreement” has the meaning given to it in the preface of this Agreement.

“Hedging Agreement” means (i) any and all derivative transactions, swap transactions, interest rate, variable rate swaps, credit derivative transactions, forward transactions, interest rate swaps, commodities (commodity swaps), options of materials commodities, forward contracts for raw materials, stock swaps or options or stock index, bond or bond price or bond index swaps or options or forward bond or forward bond price or bond index transactions, forwards, options interest rate, foreign exchange transactions forward, transactions roof, minimum floor transactions, transactions, collar transactions, currency swap, cross-rate swap transactions of foreign exchange, currency options, spot contracts, options on swaps, transactions forward purchases, future transactions, or any other similar transaction or options or any other transaction involving or resolved by reference to one or more rates, currencies, commodities, equity instruments or equity securities or debt or any combination thereof (including any option to hold any of the foregoing), whether or not such transactions are regulated or subject to any framework contract and (ii) any transaction of any kind, and related confirmations, which are subject to the terms and conditions or regulated by, any framework agreement published by the international Swaps and Derivatives Association, Inc., any international framework contract rate, or any other agreement (any framework contract, together with any related annex, a “Framework Agreement”), including any obligation of that nature or obligations under any Master Agreement.

“Allowed Hedging Agreement” means any contract that (i) is not for speculative purposes and has not been signed or maintained in order to profit from changes in the stock market, (ii) is based or associated with the underlying value of a product instrument, securities, commodities, interest rates, currencies, indices or measures of risk or value to be used by the Borrower or any of its Subsidiaries in the ordinary course of business, and (iii) comply with the Coverage Policy.

“Control” means the power to determine the management and policies of a Person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise.

“Credit” means the term loan that creditors together or each individually according to its Commitment available to the Borrower under this Agreement.

“Borrower’s Account” means the bank account maintained by the Borrower with BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and specified in the document attached hereto as **Exhibit “3”**.

“Agent’s Account” means Account No. 0182605430 maintained by the Administrative Agent at BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer or any other account that you notify the Administrator in writing to the Borrower in lieu of that account.

“Total Bank Debt” means, at any time, on a consolidated basis and without duplication, the unpaid principal balance of all debt on money borrowed from the Borrower and its Consolidated Subsidiaries and obligations guaranteed by the Borrower in respect of obligations of third parties related Borrower’s Principal Business.

“Business Day” means any day on which commercial banks in Mexico City, Distrito Federal, Mexico, to carry out their operations and are not authorized to close. Notwithstanding the foregoing, for purposes of this Agreement, Saturdays, Sundays and December 31 of each year shall not be considered as a Business Day.

“Disposition” means the disbursement made by the creditors, through the Administrative Agent, on behalf of the Borrower.

“Credit Instruments” mean, this Agreement, the Promissory Notes and any other document executed and/or granted in connection with or pursuant to this Agreement, including, where appropriate, amendments, supplements or additions.

“Significant Adverse Effect” means a change, condition or event in operations, projects, businesses, assets, liabilities (actual or contingent) assets, liabilities or condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries taken as affecting a whole so relevant: (i) the ability by the Borrower to meet its obligations under any Credit Instrument, (ii) the legality, validity, binding effect or enforceability against the Borrower of any Loan Document or (iii) the rights and remedies of the Administrative Agent or the Creditors under the Credit Instruments.

“Fiscal Exercise” means any period beginning on January 1 and ends on December 31 of each calendar year.

“Cash Equivalents” means, on any date: (i) any direct obligation (or unconditionally guaranteed by) the United States or a State of that country or any country of the Organization for Economic Cooperation and Development or any other government foreign country where the Borrower or any of its Subsidiaries may perform operations or operations at the time, (or any agency or political subdivision thereof, provided that the obligation is supported by the full faith and credit of the United States of America or by any State of this country, any country of the Organization for Economic Cooperation and Development or by the foreign government of the country where the Borrower or any of its subsidiaries may engage in activities or operations at the time) and the maturity not exceeding one year, (ii) commercial paper maturing not more than 270 (two hundred seventy) days from the date of issuance and be issued by any of the following: (a) any company with an A -1 or more for S & P or P-1 or higher by Moody’s or any Creditor (or its holding company), or (B) any certificate of deposit, time deposit or banker’s acceptance, maturing not more than one year after the date of issue, which has been issued by a bank that has: (1) a credit rating of A2 or higher by Moody’s or A or higher by S & P, and (2) a capital and a surplus of capital which together exceed the United States \$500,000, 000.00 (five hundred million dollars 00/100).

“EUAS” or “Dollars” means U.S. dollars, legal currency of the United States of America.

“Event of Default” has the meaning ascribed in the Twelfth Clause, of this Agreement.

“Closing Date” means the date on or before June 17, 2011, in which the Administrative Agent notifies the Borrower that all conditions specified in subsection (a) of Clause Eleventh are satisfied or deemed satisfied.

“Disposition Date” has the meaning ascribed in the Thirteenth Clause, paragraph (a) of this Agreement.

“Interests Payment Date” has the meaning ascribed in the Fourteenth Clause, paragraph (b) of this Agreement.

“Principal Payment Date” has the meaning ascribed in the Sixth Clause of this Agreement.

“Maturity Date” means June 17, 2008.

“Responsible Officer” means, with respect to any Person, the General Director, the Director of Finance, the Treasurer or any other officer with similar or equivalent position.

“Consolidated Financial Expenses” means, for any Measurement Period in respect of the Borrower and its Consolidated Subsidiaries, the sum of: (i) all interest, premium payments, fees, charges and expenses of the Borrower and its Consolidated Subsidiaries relating to borrowed money (including capitalized interest) or related to the deferred purchase price of assets, provided that in each case is treated as interest in accordance with IFRS and (ii) the portion of rental expense of the Borrower and its Consolidated Subsidiaries, with over that period, under leases or financial capital is treated as interest in accordance with IFRS.

“Gimsa” means Grupo Industrial Maseca, S.A.B. de C.V.

“Lien” means, in relation to any asset, any mortgage, pledge, charge, guarantee, assignment, limitation domain or encumbrance of any kind with respect to such assets.

“Taxes” has the meaning given to it in Clause Eight, paragraph (b) (i) of this Agreement.

“Default” means any event, act or situation that notification or with the passage of time or both, would (if not cured, waived or otherwise remedied) an Event of Default.

“Leverage Index” means, at the end of last fiscal quarter, the ratio of: (i) Total Bank Debt to last day of such Fiscal Quarter of (ii) the Consolidated EBITDA of the Borrower and its Consolidated Subsidiaries determined for Period corresponding measurement.

“Interest Coverage Ratio” means the last day of any Fiscal Quarter, the ratio of: (i) the Consolidated EBITDA of (ii) Consolidated Interest Expense determined for the relevant measurement period.

“Foreign Financial Institution” means a creditor or a financial institution not Mexican: (i) recorded in Book I, Section 1 or Section 2 of the Register of Banks, Finance, Pensions and Retirement and Investment Funds Overseas the Ministry of Finance for purposes of Rule II.3.9.1 Miscellaneous Fiscal Resolution for

2010 and Article 195-I of the Income Tax (or any subsequent disposal applicable); (ii) who is resident (or, if such person was giving the credit institution through a branch or agency, whose main office is resident) for tax purposes in a jurisdiction with which Mexico has signed a treaty to avoid double taxation that was in force, and (iii) who is the beneficial owner of any interest paid under this Agreement.

“Mexican Financial Institution” means a credit institution organized and existing under the laws of Mexico and duly authorized to carry out credit operations in Mexico by the Treasury Department.

“Investment” means, with respect to any Person, any acquisition or investment by such Person by: (i) the purchase or acquisition of Capital Stock or other equity securities of another Person, (ii) a loan, advance or contribution capital, or debt security, or the purchase or acquisition of any other debt or equity interest in another person, including any limited liability company or joint venture in such Person, or (c) the purchase or acquisition (in an operation or series of transactions) of all or a substantial part of the business or assets of any Person or assets of any Person constituting a business unit. For purposes of this Agreement, the amount of any Investment shall be the amount actually invested, without any adjustments for subsequent increases or decreases in the value of that investment.

“Capital Expenditures” means, for any period, without duplication, any expenses of the Borrower and its Subsidiaries disbursed to acquire fixed assets or capital assets relating to the Borrower’s Principal Business in accordance with IFRS, would be classified as investments capital.

“Environmental Laws” means any law, regulation, order, statute, rule, code, injunction, judgment, decree or agreement applicable to the Borrower or any of its Subsidiaries issued, promulgated or entered by or with any Governmental Authority relating to pollution or environmental protection, environmental treatment, storage, disposal, release or threat of release or hazardous materials, including without limitation the General Law of Ecological Equilibrium and Environmental Protection, the General Law for Hazardous Waste Management, the rules techniques drawn under them, and any other laws, rules and state regulations related to environmental matters and any specific agreements Accredited or any of its subsidiaries entered into with the competent authorities to include obligations related to environmental issues.

“Applicable Margin” means the rate (expressed in basis points (bps)) to be added to the TIIE rate on the total amount available during the term of this Agreement and which is calculated in accordance with changes in the leverage ratio in accordance with the following:

Year	<= 2.0x	>2.0x a <=2.5x	>2.5x a <=3.0x	>3.0x a 3.5x
From June 17, 2011 to June 16, 2012	137.5 pb	150.0 pb	162.5 pb	175.0 pb
From June 17, 2012 to June 16, 2013	137.5 pb	150.0 pb	162.5 pb	175.0 pb
From June 17, 2013 to June 16, 2014	162.5 pb	175.0 pb	187.5 pb	200.0 pb
From June 17, 2014 to June 16, 2015	162.5 pb	175.0 pb	187.5 pb	200.0 pb
From June 17, 2015 to June 16, 2016	162.5 pb	175.0 pb	187.5 pb	200.0 pb
From June 17, 2016 to June 16, 2017	187.5 pb	200.0 pb	212.5 pb	225.0 pb
From June 17, 2017 to June 17, 2018	187.5 pb	200.0 pb	212.5 pb	225.0 pb



“Majority Creditors” means Creditors who are holders of at least 51% (fifty one percent) of the unpaid balance of Credit.

“Mexico” has the meaning ascribed in the Recital I subsection (a) (i) of this Agreement.

“Moody’s” means Moody’s Investors Service, Inc.

“Core Business” means, with respect to the Borrower and its Subsidiaries, production and distribution of corn flour, production and distribution of tortillas and related products, production and distribution of wheat flour and other food related business in the which the Borrower and its Subsidiaries are involved regularly, or may be involved or their ancillary businesses or to support them.

“NIF” or “FRS” means the financial reporting standards issued by the Mexican Board for Research and Development of Financial Reporting Standards, A.C., in Mexico and regularly applicable accounting principles generally accepted in Mexico to replace them under the applicable law, if applicable.

“IFRS” means International Financial Reporting Standards (International Financial Reporting Standards or “IFRS” for its acronym in English) issued by the “International Accounting Standards Board” (IASB).

“Disposition Notice” has the meaning ascribed in Section III, subsection (b) of this Agreement.

“Contractual Obligation” means, with respect to any Person, any agreement, contract, agreement, of which the person is a party or by which it or its assets are committed or obliged.

“Obligation to Indemnify” has the meaning given to it in Clause Twenty-third of this Agreement.

“Guarantee Obligation” means, in relation to any person: (i) any obligation of such Person, direct, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation for payment or performance of another person (the “principal”) in any way, whether directly or indirectly, and including the creation of collateral and any obligation of such Person, directly or indirectly, (A) to purchase or pay (or advance or provide funds for the purchase or payment of) such Indebtedness or other obligation, (B) to purchase or lease property, securities or services in order to guarantee the beneficiary of such Indebtedness or other obligation, payment or performance of the Indebtedness or other obligation, (C) to maintain working capital, capital stock or other financial condition or liquidity of the principal so as to enable the beneficiary to pay such Indebtedness or other obligation, or (D) held in order to guarantee otherwise the creditors in respect of such Indebtedness or other obligation of payment or performance thereof or to protect creditors against loss in respect thereof (in whole or in part), or (ii) any Lien on any asset of such Person guaranteeing any Indebtedness or other obligation of any other Person, whether such Indebtedness or other obligation whether or not assumed by such Person, but in all cases the term “Guarantee Obligation” shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation shall be considered as an amount equal to the amount expressed or determinable from the related primary obligation, or a portion thereof, in respect of which it is assumed that Obligation Guarantee or, if not open or not determinable, then the maximum liability is reasonably anticipated for the same as determined by the guarantee of good faith.

“Promissory Note” or “Promissory Notes” has the meaning ascribed in Clause Third, subsection (d) of this Agreement.

“Prepayment” has the meaning ascribed in Clause Seventeenth, subsection (a) of this Agreement.

“Restricted Payment” means in relation to any Person (i) any dividend or other distribution (whether in cash, securities or other assets) held for the holders of shares representing the capital stock of the Borrower or any Capital Stock of its Subsidiaries; and (ii) any payment (whether cash, securities or other assets), including any sinking fund or similar deposit, purchase, redemption, retirement, acquisition, cancellation of the shares representing the capital stock of the Borrower or any of its subsidiaries or relating to any option or other right to acquire any such shares representing the capital stock in such Person.

“Participant” has the meaning ascribed to such term in clause Fourteenth, subsection (e) of this Agreement.

“Interest Period” means each quarterly period based on which to calculate interest earned by the principal of the Loan; provided that (i) the first Interest Period will begin (including) the date of disposal and end (excluding) the last Business Day of the third calendar month following that in Provision is made, (ii) each subsequent Interest Period will begin (including) the last day of the immediately preceding Interest Period and end (exclusive) the last Business Day of the third calendar month following row, and (iii) no Interest Period shall extend beyond the Maturity Date.

“Measurement Period” means any period of four (4) consecutive fiscal quarters of Borrower, ending with the last Fiscal Quarter ended, taken as one accounting period.

“Person” means an individual, morality, society, business trust or other trust that intends to operate as an independent vehicle, joint venture, partnership irregular, joint venture or other business entity or Governmental Authority, whether with or without legal personality.

“Peso”, “\$” or “Pesos” means the legal currency in Mexico.

“Disposal Period” has the meaning ascribed in Section III, subsection (a) of this Agreement.

“Coverage Policy” means the coverage policy of the Borrower and its Subsidiaries with respect to the holding of Hedging Contracts, a current copy of which is attached as **Exhibit “4”** to this Agreement and as it is periodically modified with the approval of Borrower’s board or committee of the board concerned.

“Registry” has the meaning ascribed to such term in clause Fourteenth, subsection (c) of this Agreement.

“Legal Requirement” means, with respect to any Person, any law, treaty, rule, regulation or order, decree or other determination of an arbitrator or court or any Governmental Authority, including any Environmental Law, which in all cases be applicable or binding upon such Person or any of its property or for which such Person or its assets are subject.

“Subsidiary” means, with respect to any Person, any corporation, partnership, joint venture, trust, estate or other entity of which (or in which) more than 50% of (a) in case of a company, shares issued and outstanding capital stock entitled to vote, (b) in the case of a limited liability company, partnership, or joint venture, the company’s shares or the equity or profits of such limited liability company, partnership or joint venture, or (c) in case of a trust or similar figure, the right to participate in the equity of it, is then directly

or indirectly owned or controlled by, (i) such Person, (ii) such Person and one or more of its Subsidiaries, or (iii) one or more of the Subsidiaries of such Person.

“Consolidated Subsidiary” means, with respect to the Borrower, any Subsidiary or other entity whose accounts under IFRS, consolidated with the Borrower in the Borrower’s consolidated financial statements, and at any time with respect to any Person, any Subsidiary or other entity whose accounts would be consolidated with those of such Person in the consolidated financial statements of such Person on such date.

“Significant Subsidiary” means, at any time, any Subsidiary of the Borrower which meets the following conditions:

(i) If the investments of the Borrower and its Subsidiaries in such Subsidiary or advances of such investments exceed 10% (ten percent) of total assets of the Borrower and its Consolidated Subsidiaries as of the end of last fiscal year of the Borrower; or

(ii) If the proportionate share of the Borrower and its Subsidiaries in total assets (after offsets between companies) of such Subsidiary exceeds 10% (ten percent) of total assets of the Borrower and its Consolidated Subsidiaries as of the last fiscal year of Borrower, or

(iii) If the interest of Borrower and its Subsidiaries on income before income tax and employee profit sharing under the applicable law of matter, of such Subsidiary exceeds 10% (ten percent) of income of the Borrower and its consolidated Subsidiaries as of the end of last fiscal year, calculated based on the last audited financial statements (or financial statements, as applicable) of the subsidiary on that date and the latest audited consolidated financial statements the Borrower and its Subsidiaries on that date; in the understanding that, notwithstanding the foregoing, the Venezuelan Subsidiaries will not be considered Relevant.

“Venezuelan Subsidiaries” means (i) Derived from Selected Corn, S.A. and Molinos Nacionales, C.A., along with their direct and indirect subsidiaries and (ii) any Subsidiary of the Borrower to be lodged after the date of this Agreement if such new Subsidiary is constituted under the laws of the Republic of Venezuela.

“S&P” means Standard & Poor’s.

“Interest Rate” has the meaning ascribed to such term in clause Fourteenth, subsection (a) of this Agreement.

“Moratorium Interest Rate” has the meaning ascribed to such term in Clause Fifth of this Agreement.

“TIIE Rate” means, for each Interest Period, the Interest Rate Term Interbank Equilibrium of 91 (ninety one) days, published by the Bank of Mexico in the Official Gazette on the first day of such Interest Period corresponding with the understanding that if the first day of such Interest Period is not a Business Day, the TIIE rate will be that published on the Business Day immediately preceding the date of commencement of such Interest Period on the Business Day or more next.

In the event that the Bank of Mexico fails to publish the price of the TIIE rate, either temporarily or permanently, the Interest Rate will be calculated on the basis that the Bank of Mexico determined to be a substitute for the TIIE rate. In the event that the Bank of Mexico does not publish a rate to replace the TIIE rate, the Creditors and the Borrower shall determine, in good faith, by mutual written agreement, the replacement rate corresponding with the understanding that:

(i) during the period from the date that this levy be published and the date of publication of the replacement rate, is being republished TIIE Rate or the parties agree to substitute rate, by the principal of the Credit bear interest at the Interest Rate that was applicable during the last Interest Period;

(ii) if the TIIE rate published ceases for a period of more than 91 (ninety one) calendar days without the Bank of Mexico has issued a replacement rate and the Creditors and the Borrower fail to reach agreement on the rate replacement within that period, the replacement rate will be that market rate indicated by the creditors to establish a financial cost similar to the TIIE rate and you will be notified in writing to the Borrower, plus the Applicable Margin, and

(iii) any replacement rate determined under subparagraph (i) and (ii) above shall cease to apply from the Interest Period following the date on which the Bank of Mexico publishes again TIIE rate or the rate that replaces .

“Transfer” means the sale, assignment, license or other disposition of property (including any sales transaction with resale (sale and lease back)) of any assets by any person, which does not occur in the normal course of business including any sale, assignment, transfer or other disposition of property, with or without recourse, of any instrument or receivables or rights and claims associated with them; provided, however that any financing involving or is guaranteed by the future sale of accounts receivable (or any similar financing transaction) will not be considered as a sale or disposition of property occurred in the normal course of business.

“Fiscal Quarter” means any period of three (3) consecutive calendar months, ending March 31, June 30, September 30 or December 31 of each year.

“Consolidated EBITDA” means for any measurement period for the Borrower and its Consolidated Subsidiaries, an amount equal without duplication, the sum of: (i) the consolidated operating income and (ii) the amount of expenses depreciation and amortization to be deducted during the period of measurement in determining such consolidated operating income in each case determined in accordance with IFRS.

(b) Any accounting term not defined specifically in this Agreement and all financial information that the Borrower or any other Person be delivered under this Agreement shall be construed, prepared and, where appropriate, will be consolidated under IFRS.

(c) Any reference in this Agreement to a clause, subsection, paragraph, appendix or similar, be read as a reference to a clause, subsection, paragraph, appendix or the like of this Agreement, unless specifically stated that the clause, subsection, paragraph, appendix or similar refers to another document.

**SECOND. Line of Credit.** (a) Credit. Subject to the terms and conditions agreed in this Agreement, the Creditors agree to make available to the Borrower an amount not to exceed \$1,200,000,000.00 (one billion two hundred million pesos 00/100), amount that is not covered by the interest, fees and expenses incurred in connection with the Credit. Credit amounts provided for under Clause Third and paid (in whole or in part) by the Borrower or on his behalf may not be re-arranged by the Borrower.

Subject to compliance by the Borrower of the conditions set out in Clause Eleventh of this Agreement, each of the Creditors will be required to provide the proportional share of credit as would be consistent with its commitment to an amount not exceeding the amount its Commitment in accordance with the provisions of **Exhibit “2”** of this Agreement.

### **THIRD. Disposition of Line of Credit.**

(a) Time limit for disposal. As of the Closing Date, the Borrower shall within 15 (fifteen) days to request the disbursement of Credit in a single Disposition under this Agreement (the "Disposal Period"). The Disposition will be made on any Business Day during the Disposal Period (the "Disposal Date").

(c) Request for Disposition. The Disposition under the Credit will be made by irrevocable written request to sign the Borrower (a "Disposition Notice") and deliver to the Administrative Agent before 13:00 pm (Mexico City) at least (2) two Business Days before the Date of Disposal during the Disposal Period, and in which you specify, at least, (i) the amount of the Disposition, which shall not exceed an amount equal to the sum of the Commitments and (ii) Disposition Date, which shall be a Business Day.

(c) Disposition. The obligation of Creditors to perform the Disposition under this Agreement is subject to the Borrower's compliance with each and every one of the conditions set out in Clause Eleventh of this Agreement, with the understanding that, in case Disposition Date has not occurred later than the expiration of the Term of Arrangement Creditors required to make available to the Accredited Credit shall terminate immediately and thereafter there shall be no obligation to Creditors under this Agreement or the documents Credit. The Disposition shall be made by each Creditor in proportion to the amount of its Commitment.

(e) Promissory Notes. The Disposition shall be made against delivery by the Borrower to each of the respective Creditors of a Promissory Note signed by the Borrower, as debtor, substantially in the terms of the format contained in **Exhibit "5"** of this Agreement (a "Promissory Note"). The parties agree that in case of any discrepancy between the provisions of this Agreement and the provisions of any of the Promissory Notes, this Agreement shall prevail, in the understanding that, the Creditors may apply to the replacement of Promissory Notes for Promissory Notes that reflect the terms of this Agreement.

(e) Disbursement of Resources. Once the Administrative Agent receives a Notice of Disposal, this will give immediate notice to all Creditors of the receipt of such Notice of Disposal and the amount of the Disposition that corresponds to each Creditor in proportion to their commitment. Each Creditor shall deposit the amounts as are appropriate under this provision Commitment in the Agent's Account before 12:00 pm (Mexico City) on the Closing Date of Arrangement so that the funds deposited Agent in the layout Date Account Credited.

No Creditor or the Administrative Agent shall be liable for breach of any other Creditor to give its Line of Credit as per its commitment, and no Creditor shall have liability to the Administrative Agent or any Creditor for failure of the Creditor violated in the granting of the Line of Credit, according to its Commitment. In the event that a Creditor does not timely involved in the granting the Line of Credit it deserves according to his commitment on the Disposition Date and such failure continues until 12:00 pm (Mexico City) the Business Day following Disposition Date, the Creditor in breach will be responsible for any costs, losses and expenses incurred by the Administrative Agent and the other creditors, for the delay or non payment of the Disposition.

**FOURTH. Interests.** (a) The Borrower shall pay to the Creditors, without prior request, ordinary interest on the unpaid principal due of the Loan for each Interest Period from the date of disposal until the unpaid balance of Loan has been paid in full, an annual interest rate is equal to the TIE rate applicable to each interest Period plus the applicable margin (the "Interest Rate").

(b) Interest shall be payable on the last Business Day of each Interest Period (each, an “Interest Payment Date”), on the understanding that the final Interest Payment Date should occur precisely at the Maturity Date .

(c) The ordinary interest accruing hereunder shall be calculated by the days elapsed on the basis of a year of 360 (three hundred sixty) days, including the first such day but excluding the last.

**FIFTH. Default Interests.** In case of default in payment of any amount payable under this Agreement or the Promissory Notes (other than ordinary interest), penalty interest will accrue on the amount due and unpaid from the date on which such payment should be made until full payment, a annual rate equal to the applicable Interest Rate during the period in which the failure occurs and is continuing multiplied by 1.5 (one point five) (the “Moratorium Interest Rate”).

To calculate default interest, the applicable Moratorium Interest Rate will be divided between three hundred sixty (360) and the result will apply to unpaid balances and losers, resulting in the daily penalty interest, that the Borrower shall pay to the sight.

**SIXTH. Repayment of the Loan.** The Borrower shall pay to the Creditors the principal amount of the Credit in 6 (six) and subsequent semi-annual repayments on the Interest Payment Date for the corresponding month on the following schedule of depreciation (each a “Principal Payment Date”):

<u>Principal Payment Date</u>	<u>Repayment Amount</u>
December 2015	\$60,000,000.00 (sixty million Pesos 00/100)
June 2016	\$60,000,000.00 (sixty million Pesos 00/100)
December 2016	\$60,000,000.00 (sixty million Pesos 00/100)
June 2017	\$60,000,000.00 (sixty million Pesos 00/100)
December 2017	\$480,000,000.00 (four hundred and eighty Pesos 00/100)
Maturity Date	\$480,000,000.00 (four hundred and eighty Pesos 00/100)

**SEVENTH. Prepayments.**

(a) The Borrower may prepay all or part of the unpaid balance of Credit (each, a “Prepayment”), plus any interest which may be incurred until the date of such prepayment, in the sense that, the Prepayment should always be done in an Interest Payment Date. The Borrower shall notify irrevocably to the Administrative Agent, with at least 3 (three) Business Days notice of its intention to make a Prepayment and the payment amount. Any partial prepayment shall be in a minimum amount of \$50,000,000.00 (fifty million Pesos 00/100) and above that amount, in multiples of \$10,000,000.00 (ten million pesos 00/100).

(b) In case that a Prepayment is made on a Interest Payment Date, the Borrower shall not be required to pay a fee or penalty. In case you make a Prepayment on a date other than an Interest Payment Date, the Borrower shall pay in conjunction with the Prepayment and interest charges for breach of funding by the Creditors or, as appropriate, on the understanding that the Creditor shall deliver to the Borrower a document which reasonably describe the calculations for the total amount of such charges, such determination being final and binding on the Borrower.

(c) Prepayments made under this clause shall apply in accordance with the provisions contained of this Clause Twelfth, subsection (c). The amounts paid in advance may not be re-arranged by the Borrower.

(d) In the event that the Borrower does not make any Prepayment which has been notified to the Creditors on the date scheduled for the same, the Borrower shall pay to the Creditors, as soon as requested,

any cost or expense incurred by any Creditor in connection with such Prepayment, upon verification by the respective creditor.

**EIGHTH. Location and Payment Terms.** (a) the Borrower shall make all payments of principal, interest, fees and any other amount payable in respect of the Credit, free of taxes, duties, contributions, withholdings, deductions, charges or any other tax liability payable under the laws, regulations and other applicable laws in Mexico, without compensation, in immediately available funds, up to 12:00 pm (Mexico city, Distrito Federal, Mexico) on the day of expiry of the payment in question, in the understood that, if such payment is received by the Administrative Agent after 12:00 pm (Mexico city, Distrito Federal, Mexico), such payment shall be deemed made on the Business Day immediately following its receipt. Such payments shall be made in pesos, to Agent's Account. The Administrative Agent, the same Business Day of receipt of payment from the Borrower under the terms of this Clause, distributed to each of the creditors of any share (determined by taking into account the commitments set out in **Exhibit "2"**) each payment by the Borrower to the Administrative Agent shall have received, on the understanding that the Administrative Agent shall have no obligation to carry out any such distributions, but until you actually have received the payment of Accredited.

(b) (i) If applicable any tax, fee, contribution, tax, withholding, deduction, charge, encumbrance or other tax liability along with interest, surcharges, penalties, fines or charges derivatives thereof ("Taxes") on payments of principal, interest, commissions and any other amount payable in respect of the Credit, the Borrower shall pay additional amounts as necessary to the relevant tax authority, on behalf of the creditors, the amount of any such taxes, and pay the Creditors additional amounts required to ensure that Creditors receive the same amounts they had received, not apply such taxes and deliver to the Creditor for the original receipts or other evidence satisfactory to the Creditor, to pay any tax within 30 (thirty) days from the date the tax or withholding is due and payable in accordance with applicable laws. This shall not apply in respect of income tax or similar tax payable by the creditors or any assignee under this Contract on its income or total assets according to the laws, regulations and other applicable laws in Mexico or any jurisdiction in which resident, the legally constituted or permanent establishment has such Creditor or Assignee.

(ii) The Creditor shall immediately notify the Borrower and the Administrative Agent of any request, notice, demand of payment or any notice received from any authority with respect to taxes, to the Borrower promptly meets this requirement, notification demand or notice, pay the tax and hold the Creditor harmless with respect to such request, notice, demand or notice of payment, on the understanding that, in this case, the Creditor shall deliver to the Borrower any document which the Creditor owns or copy, which requires the Borrower in respect of any proceedings relating to such request, notice, demand of payment or notice.

(iii) The Borrower's obligations under this paragraph will survive all other obligations of Borrower under this Agreement and the Promissory Note.

(c) Payments received by the Administrative Agent shall be applied in the order set out in Clause Twelfth, subsection (c) of this Agreement, as applicable.

(d) If any payment obligation of the Borrower shall overcome one day which is not a Business Day or on a day that does not exist in the calendar month in which such payment should be made, such payment shall be the immediately preceding Business Day.

**NINTH. Affirmative Covenants.** As of the Closing Date and as long as any amount payable under the Credit Instruments remains unpaid, the Borrower agrees to the following:

(a) Financial Statements and Other Relevant Information.

The Borrower shall deliver to Administrative Agent:

(i) As soon as they become available within 120 (one hundred twenty) calendar days after the close of each fiscal year, consolidated financial statements for that Fiscal Year, audited by independent accountants of international renown, including an annual balance sheet ruled and the related consolidated income statements, statements of changes in stockholders' equity and changes in financial position prepared in accordance with IFRS, which shall provide, in accordance with IFRS, the financial condition of Borrower and its consolidated Subsidiaries to close of each fiscal year and the results of operations of the Borrower and its Consolidated Subsidiaries for such fiscal year, audited by accountants of recognized international prestige.

(ii) As soon as they become available within 60 (sixty) days after the close of each of the first three fiscal quarters audited consolidated financial statements for each of such Fiscal Quarter, the Borrower and each of Consolidated Subsidiaries, including an unaudited consolidated balance sheet and consolidated income statements prepared in accordance with relevant IFRS, which shall submit, in accordance with IFRS the financial condition of Borrower and its Consolidated Subsidiaries at the close of the Fiscal Quarter and results of operations of the Borrower and its Consolidated Subsidiaries for such Fiscal Quarter and the Fiscal Year ended at that time, except for the absence of notes to the financial and tax estimates for closure and the resulting adjustments of the annual audit.

(iii) Along with the delivery of financial statements in accordance with subparagraph (i) and (ii) above, the Borrower shall deliver to Administrative Agent a Compliance Certificate substantially in accordance with the format in **Exhibit "6"**, signed by an Authorized Responsible Officer.

(iv) To the extent that subparagraphs (i) or (ii) above do not indicate otherwise, the Borrower shall deliver to the Administrative Agent, in a timely manner after they are publicly available, copies of all financial statements and financial reports recorded by the Borrower to any Governmental Authority (if necessary this record to those statements or reports available to the public) or registered with any stock exchange Mexican or foreign (including the Luxembourg Stock Exchange) and are available public.

(v) The Borrower shall deliver to the Administrative Agent, in a timely manner and request, or to any Creditor (through Administrative Agent), additional information concerning the business affairs, financial or corporate Borrower and its Subsidiaries as the Administrative Agent or Creditor may require it in any reasonable manner, including rules and regulations of credit information and money laundering.

(vi) The Administrative Agent shall deliver in a timely manner (and not later than within 5 (five) Business Days of receipt) to each Creditor copies of documents submitted by the Borrower pursuant to this subsection (a).

(b) Notice of Default and Litigation. The Borrower shall deliver to the Administrative Agent, within 5 (five) Business Days after the Borrower has knowledge (and the Administrative Agent shall deliver to each Creditor):

(i) a notice of any Default or Event of Default, signed by an Officer in Charge, describing such Default or Event of Default and the actions that the Borrower proposes to take to bring it about;



(ii) a notice of any suit, action, proceeding pending or threat thereof, instituted against the Borrower or any of its Subsidiaries to any Relevant Government Authority in which the actor has probability of obtaining judgment for that of be unfavorable to the Borrower or any of its Subsidiaries Relevant, either individually or together, could reasonably be expected to have a Significant adverse Effect, and

(iii) a notice of modification of any consent, license, approval or authorization is required for the conclusion or validity of this Agreement.

(c) Maintenance of Existence; Conduct of Business.

(i) The Borrower agrees and shall cause its Relevant Subsidiaries to: (A) maintain its corporate existence and all records necessary to do so, (B) take all reasonable measures to maintain all rights, privileges, titles, franchises and other necessary or desirable for the normal conduct of business activities or operations, and (C) maintain its assets in good condition and functioning, in the understanding that, this provision does not prohibit the transactions of the Borrower or its Subsidiaries Relevant allowed under Clause Tenth, subsection (c) of this Agreement, or require the Borrower to maintain the rights, privileges, titles or franchises or maintain the corporate existence of any Subsidiary if the Borrower determines in good faith that the maintenance or preservation thereof is no longer desirable for the conduct of business of the Borrower or its Subsidiaries Relevant and that the loss thereof could not reasonably be expected to have an Adverse Effect Relevant.

(ii) The Borrower agrees to continue and cause its Relevant Subsidiaries to continue the same line of business that currently operates the Relevant Borrower and its Subsidiaries.

(d) Insurance. The Borrower shall maintain and cause its Subsidiaries maintain insurance policies with insurance companies strong, responsible and prestigious in the amounts and coverages are usually hired by companies engaged in similar businesses stable and operating and/or have property similar to those that are owned and/or operated by the Borrower or any of its Subsidiaries, as applicable, in the same general areas in which the Borrower and/or the Subsidiary owns and/or operates its assets; provided that the Borrower and its Subsidiaries shall not be required to maintain such policies if their absence could not reasonably be expected to have an Adverse Effect Relevant.

(e) Maintenance of Governmental Authorizations. The Borrower shall maintain in effect all governmental approvals (including any exchange control approval), consents, licenses and authorizations that may be necessary or appropriate under any law or regulation applicable to the conduct of business (unless such failure to maintain approvals, consents, licenses or authorizations could not reasonably be expected to have an Adverse Effect Relevant) or for the performance of this Agreement and its validity and enforceability. The Borrower shall submit all necessary applications and will make every effort to obtain any additional authorization as soon as possible once it determines that such authorization or approval is required for the Borrower to meet its obligations under this Agreement.

(f) Use of Proceeds. The Borrower will use the funds derived from the Disposition to refinance the Borrower's debt and general corporate purposes, in the understanding that, the Creditors have no responsibility for the proceeds to which such funds are applied.

(g) Application of Income Cash Sales and Other Disposals of Assets. The Borrower shall apply and make its Subsidiaries to apply, 100% of net cash received from any sale, transfer, disposition or transfer of fixed assets (including those arising from any sale, transfer, disposition or transfer of assets resulting casualty or condemnation and including any amount received by any insurance policy that represents an insurance payment has not been applied and no payment will be applied to the repair or replacement of any fixed assets

that may have been damaged or destroyed) for (i) payment of any Indebtedness existing at the time, (ii) investment in assets related to the Senior Accredited Business, or (iii) any combination thereof.

(h) **Payment of Obligations.** The Borrower shall pay and cause its Relevant Subsidiaries to pay all taxes, assessments, determinations and other governmental charges imposed on them, determined or required directly or any of its assets over its franchises, business, revenue or profit, before generated any fines or penalties and will pay all claims (including labor, services, materials and suppliers) on amounts due and are payable by law and which are or may become a lien on its assets, unless the lack of such payment could not reasonably be expected to have an Adverse Effect Relevant or if such office or claim has been contested in good faith by appropriate legal proceedings properly initiated and conducted, and the reserves or provisions required under IFRS, if any, is been formed.

(i) **Priority.** The Borrower shall cause the Credit at all times have priority of payment at least equivalent (*pari passu*) with respect to other unsecured Indebtedness of the Borrower and not subordinate (except those payment obligations that take precedence according to law) .

(j) **Compliance with Laws.** The Borrower shall comply and require its Relevant Subsidiaries to comply with all applicable Legal Requirements, including, without limitation, all applicable Environmental Laws and all Legal Requirements in labor and social security, except when compliance is contested in good faith through appropriate legal process properly initiated and conducted and reserves or provisions required under IFRS, in his case, has been formed, or whether non-compliance could not reasonably be expected to have Significant Adverse Effect.

(k) **Maintenance of Books and Records.**

(i) The Borrower shall maintain and cause its Subsidiaries established according to the laws of Mexico to keep the books, accounts and other records in accordance with IFRS and the Borrower shall bind its Subsidiaries organized under the laws of another jurisdiction to maintain its books and records in accordance either with accounting principles generally accepted in the applicable jurisdiction or IFRS.

(ii) The Borrower shall, and shall cause its Relevant Subsidiaries to allow the Administrative Agent to visit and inspect their respective assets and examine the corporate books, financial and operating records and, in reasonable time during normal business hours business as often as they wish in a reasonable manner with reasonable notice prior to the Borrower or the Relevant Subsidiary, in the understanding that when an Event of Default exists the Administrative Agent may perform the above-mentioned, at the expense of the Borrower at any time during the normal business hours without prior notice.

(l) **Other Obligations.** The Borrower, at its expense, shall execute and deliver to Administrative Agent all other documents, instruments and agreements, and make the necessary arrangements, all reasonably required by the Administrative Agent and/or their lawyers in order to allow the Administrative Agent or the creditors to exercise and enforce their rights under this Agreement and any Promissory Note and carry out the performance of this Agreement.

**TENTH. Negative Covenants.** As of the Closing Date and as long as any amount payable under the Credit Instruments remain unpaid, the Borrower agrees to the following:

(A) **Liens.** The Borrower shall not constitute, nor permit its Relevant Subsidiaries, either directly or indirectly, to constitute, incur, assume or permit to exist any Lien on its assets, present or future, except for:

(i) Liens consisting of any asset (or class of assets, in the case of a line of credit secured by inventory or accounts receivable) that exists on the Closing Date;

(ii) Liens on an asset made to ensure, in whole or in part, the purchase price of property or assets (including inventories) or a portion of the cost of construction, development, modification or improvement of property, facility or asset, Indebtedness incurred or assumed, or only to finance all or part of the cost of acquisition, construction, development, modification or improvement of property, construction or active, which is incorporated Lien on such property, construction or asset during the period for which its construction or asset has been constructed, developed, modified or improved, within 120 (one hundred twenty) calendar days after the acquisition, construction, development, modification or improvement thereof;

(iii) Liens of a Subsidiary that have been made previously that it made any Subsidiary of the Borrower, which (A) Debit guarantee not exceeding the total principal of the Indebtedness subject to such liens before the Subsidiary question became Subsidiary of the Borrower, (B) are not formed on assets other than the assets on which the lien was established before such Subsidiary became a Subsidiary of the Borrower, and (C) have not been established providing that such Subsidiary became a Subsidiary of the Borrower;

(iv) Liens on an asset existing at the time of acquiring such assets and has not been made in connection with, or considering, such acquisition;

(v) Liens on any asset (or class of assets, in the case of a line of credit secured by inventory or accounts receivable) to ensure an extension, renewal, refinancing or replacement Debit or credit line guaranteed by a Tax on referred to in subparagraphs (i), (ii), (iii) or (iv) above; provided that such Lien is limited to the assets (or class of assets, if a line of credit secured by inventory or accounts receivable) that are subject to such Lien existing prior to such extension, renewal, refinancing or replacement and, on the understanding that the principal amount of Indebtedness or the amount from line of credit secured by the Lien this does not increase immediately before or consideration of or in connection with such extension, renewal, refinancing or replacement;

(vi) Liens set up to ensure payment of taxes, fees, assessments and other charges imposed by Government Authorities, for which payment has not yet expired or for which payment is contested in good faith by appropriate legal proceedings initiated and conducted properly and which the reserves or provisions required under IFRS, they have been incorporated or, if Relevant Subsidiaries incorporated in another jurisdiction, as required by accounting principles applicable in such jurisdiction;

(vii) Liens incurred or deposits made in the ordinary course of business in relation to the payment of compensation to workers and obligations of social security;

(viii) Liens imposed by operation of law, for landlords, carriers, warehousemen, mechanics, material suppliers, service providers or similar repair arising in the ordinary course of business, for amounts that have not yet overdue or payment are challenging in good faith through appropriate processes properly initiated and conducted and for which the reserves or provisions required under IFRS, they have been incorporated or, if Relevant Subsidiaries incorporated in another jurisdiction, as required by accounting principles applicable in such jurisdiction ;

(ix) Liens consisting of lien or judgment, unless the judgment that it guarantees not be dismissed or suspended execution pending appeal within 60 (sixty) days after notification, or is not dismissed within 60 (sixty) days after the expiry of such suspension;

(x) Liens created in connection with the Permitted Hedge Agreements on cash or cash equivalents or the underlying commodity contracts such as Permitted Coverage, to the extent that such contracts include coverage Permitted purchase or sale of such material premium, in the understanding that the market value of assets subject to such Lien does not exceed the sum whole of United States \$50,000,000.00 (fifty million dollars 00/100) (or its equivalent in another currency) at any time.

(xi) Liens to ensure provision of credit for working capital not exceeding the total of the greater of: (A) USD \$100,000,000.00 (one hundred million dollars 00/100) (or its equivalent in another currency), and (B) (1) 15% (fifteen percent) of the Consolidated Net Worth Accredited less (2) the amount of any Guarantee Obligation assumed by the Borrower or any of its Consolidated Subsidiaries in favor of parties other than the Borrower and its Subsidiaries consolidated, and

(xii) Liens related to bank overdraft protection or credit agreements entered into by the Borrower to secure bank overdrafts incurred in the ordinary course of business.

(b) Investments. The Borrower shall not conduct or permit its Relevant Subsidiaries to conduct Investments, except for:

(i) Investments existing on the date of this Agreement;

(ii) Investments related to the Principal Business of the Borrower other than any Subsidiary Venezuela;

(iii) Investments in Cash Equivalents;

(iv) Investments in any Subsidiary of the Borrower other than any Venezuelan Subsidiary or made by any Relevant Subsidiary in the Borrower or any Subsidiary other than Venezuelan Subsidiaries;

(v) Investments consisting of extensions of credit through accounts receivable or payment documents arising from a sale or rental of goods or services in the ordinary course of business;

(vi) Capital Investment;

(vii) Subject to the limitations set forth in subsections (f) and (h) below, the Guarantee Obligations of the Borrower or any of its Relevant Subsidiaries in relation to the obligations of any Subsidiary of the Borrower other than the Venezuelan Subsidiaries;

(viii) Permitted Hedge Agreements, and

(ix) Investments in any Subsidiary to another Venezuelan Subsidiary funded by such Venezuelan Subsidiary.

(c) Mergers, Consolidations, Disposals and Leases. The Borrower shall not, nor permit its Relevant Subsidiaries to merge, split or consolidate with any Person, or convey, transfer or lease its property or assets substantially as a whole to any Person, except:

(a) in the case of mergers or consolidations between the Borrower and any of its Subsidiaries or between Subsidiaries of the Borrower, in both cases, provided that immediately after the merger takes effect does not occur and continue, any Default or Event default; and

(b) in the case of mergers and consolidations of the Borrower with any person immediately takes effect after such merger or consolidation:

(i) does not occur and continue, any Default or Event of Default, and

(ii) any person who is established as a consequence of these mergers, demergers or consolidations with the Borrower or the Person that acquires by transfer or sale or lease, property or assets of the Borrower substantially as a whole, expressly assume in writing, due and timely payment of principal and interest of all obligations under its terms and the due and timely fulfillment of all obligations of Borrower under this

Agreement by an instrument in form and substance reasonably satisfactory to the Administrator along with delivering a legal opinion acceptable to the Administrator, which has been obtained at the expense and cost of the Borrower, and in which the Administrative Agent and the Creditors are to base.

(d) Restricted Payments. The Borrower shall not make, and will not permit its subsidiaries to conduct, directly or indirectly, any Restricted Payment or assume obligation to do so (contingent or otherwise), unless (i) the Borrower Leverage Index, a after giving effect to the restricted Payment and, without duplication, any restricted Payment made after the end of the first Fiscal Quarter latest is less of 3.50 (three point fifty) to 1.00 and (ii) has not occurred and continue, a Default or event of Default.

Notwithstanding the foregoing limitation, the Borrower or any Subsidiary may declare or make the following Restricted Payments:

(i) each of the Subsidiaries may make Restricted Payments to the Borrower and to Subsidiaries which owns, directly or indirectly, in whole in the Creditor (and in case of Restricted Payments made by a Subsidiary not fully owned, directly or indirectly, of accredited by accredited and any Subsidiary and the other owners of capital stock of such Subsidiary in proportion to their shareholdings);

(ii) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable only in the common stock of such Person;

(iii) each of the Subsidiaries may purchase, redeem or purchase shares of its capital stock or warrants or options to buy these shares with the funds received concurrent emission of new shares of its capital;

(iv) the Borrower and each of its Subsidiaries may acquire any type of capital stock as an investment as permitted under subsection (b) above;

(v) the Borrower may purchase shares of Gimsa, and

(vi) the Borrower and Gimsa may purchase shares of its own capital.

(e) Limitations on Payment of Dividends of Subsidiaries. The Borrower shall not enter into or permit its subsidiaries to enter into any Relevant Agreement that by its terms explicitly prohibits the payment of dividends or other distributions to the Borrower or the granting of loans to it, other than in connection with the renewal or extension of any agreement listing in Appendix "D", in the understanding that (i) restrictions or prohibitions under that agreement will not increase as a result of such renewal or extension, and (ii) in connection with such renewal or extension of an agreement does not contain the prohibition, the Borrower will not agree or accept or permit its Relevant Subsidiaries agree or accept the inclusion of the prohibition.

(f) Limitation on Debt of Subsidiaries. The Borrower shall not permit any Consolidated Subsidiary to constitute, incur, assume or contract any debt, whether at the time of incurring such Debt and after considering the pro forma effect thereto, the total debt of all consolidated subsidiaries exceed 30% (thirty percent) of the consolidated debt of Borrower and its Consolidated Subsidiaries.

(g) Transactions with Affiliates. The Borrower shall not enter, or cause or allow a Relevant Subsidiary hold any transaction with an affiliate of the Borrower, unless the same be held in fair and reasonable terms no less favorable to Borrower or such Subsidiary of which can be obtained in a independent market transaction with a person other than an Affiliate of the Borrower or such Subsidiary.

(h) Guarantees of Subsidiaries On Certain Debt. Except in connection with the purchase of corn for its production of corn or wheat flour for wheat flour production, the Borrower shall not permit its Relevant Subsidiaries to guarantee, either directly or indirectly, or otherwise acquire liabilities or obligations of any kind, on such Indebtedness.

(i) Interest Coverage Ratio. The Borrower shall not permit its Interest Coverage Index; the last day of any fiscal quarter is less than 2.50 (two point fifty) to 1.00 (one point zero zero).

(j) Leverage Index. The Borrower shall not permit its Leverage Index for any Measurement Period is greater than 3.50 (three point fifty) to 1.00 (one point zero zero).

(k) Limitation on Hedge Agreements. Neither the Borrower nor its Subsidiaries may enter into contracts of coverage other than Permitted Hedge Agreements.

**ELEVENTH. Condition Precedents.** (a) The obligation of each Creditor to grant Credit under this Agreement is subject to the compliance with the Closing Date, or date prior to the Closing Date, of each and every one of the following conditions precedent, and the Administrative Agent must receive (as applicable) evidence that conditions have been satisfied, in form and substance satisfactory (such evidence) to the Administrative Agent and the Creditors:

(i) Credit Agreement. That this Agreement is duly signed by each of its parts;

(ii) Constituent Documents and Powers. The Administrative Agent has received simple copies of the deeds containing (A) the existing bylaws of the Borrower, (B) sufficient powers of the attorneys of the Borrower to enter into this Agreement, the Promissory Notes and the other Credit Instruments;

(iii) Certificate from the Secretary of the Borrower. The Administrative Agent has received a certificate from the Secretary or Accredited Alternate Secretary: (A) showing all real names and signatures of authorized officials accredited to execute and enter into this Agreement, the Promissory Notes and the other Credit Instruments; and (B) attach a copy of corporate resolutions of Borrower and, where appropriate, the Government Approvals in respect of the authorization to hold each of the Credit Instruments, and (C) Such Certificate of the Secretary may establish corporate resolutions that have not been modified, amended or revoked at the date of such certificates;

(iv) Governmental Authorizations. All approvals, authorizations or consents, notices or filings with any Governmental Authority (including exchange control approvals) or third parties, if any, required in connection with the signing, execution and performance of this Agreement by the Borrower has been obtained and is in full force and effect. The Borrower shall deliver to the Administrative Agent satisfactory records of such approvals and their effectiveness and if they are not needed such authorizations, consents, permits, notices or registrations, will be delivered to the Administrative Agent a certificate signed by a Responsible Officer of Borrower stating above;

(v) Change in the Terms. That has not arisen any circumstances and/or event of a financial, or economic policy in Mexico or in financial markets, banking and international capital that could reasonably result in an Adverse Effect Relevant to the Borrower and its Subsidiaries;

(vi) Legal Opinions. (A) The Administrative Agent has received a favorable opinion of Mr. Salvador Vargas Guajardo, General Counsel of the Borrower, substantially in the form of **Exhibit "7"**, and (B) a favorable opinion of Ritch Mueller, SC, outside counsel of the Administrative Agent;

(vii) Payment of Commissions and Fees. That the Borrower has paid and the Administrative Agent has received a satisfactory manner, the records of payments (A) of all commissions, fees and expenses payable by the Borrower to the Creditors and the Administrative Agent on or before the Closing Date, and (B) all reasonable costs and expenses that are due and payable to the Administrative Agent on the Closing Date, together with the reasonable and documented legal fees for preparation and execution of this Agreement incurred by the Administrative Agent, as invoiced on the Closing Date or earlier, plus the additional amounts of such estimates legal costs incurred or may incur due to the Administrative Agent closing procedures, and (C) any other amounts then due and payable under this Agreement;

(viii) Certificate of the Responsible Officer. The Administrative Agent has received, in terms of the form attached in **Exhibit “8”** of this Agreement, a certificate signed by a Responsible Officer of Borrower, in the Closing Date, stating that:

(1) the statements contained in this Agreement are true to that date;

(2) has not occurred or continues an Event of Default, and

(3) that since 31 December 2010 has not occurred (A) a fact or circumstance that has or could reasonably be expected to have a Significant Adverse Effect and (B) a fact or circumstance of financial, political or economic Mexico who has had or could reasonably be expected to have a Significant Adverse Effect on the ability of the Borrower to meet its obligations under this Agreement or any of the other Credit Instruments;

(ix) Audited Financial Statements. The Administrative Agent has received a copy of the consolidated financial statements of Borrower with respect to Fiscal Year ended December 31, 2010 and audited by an accounting firm of international renown, and

(x) Delivery of Other Documents. The Administrative Agent has received any other document, including certificate, power, approval, legal opinion, documents or materials, the Administrative Agent or any Creditor (through Administrative Agent) have requested the Accredited in reasonable shape.

(b) For the Disposition, the Borrower shall comply with the following conditions:

(i) Closing Date. That the Closing Date has occurred and asserted full force and effect;

(ii) Notice of Disposition. The Administrative Agent has received a Accredited Notice of Disposition;

(iii) Delivery of Notes. That the Borrower delivers at the Disposition Date to the Administrative Agent, a Promissory Note in the amount of that Disposition, signed by the Borrower for each of the Creditors, as applicable under the Commitments of each of them;

(iv) Statements. That the statements made by the Borrower under this Agreement or any other Credit Instrument, or contained in any document delivered to the Administrative Agent or the Creditors at any time under this Agreement are true and correct in all material respects in the Disposition Date and thereafter, unless such statements relate specifically to an earlier date, in which case they must be true and correct in all material respects on such earlier date and except that this subparagraph (iv) statements made by the Borrower under subsection f (i) and (ii) of Section I of the statements contained in this Agreement shall be deemed to refer to the most recent financial statements delivered under clause Ninth, subparagraph (a) (i) and (ii) of this Agreement;

(v) Significant Adverse Effect. That has not happened since the December 31, 2010 any event or circumstance that has or could reasonably be expected to have a Significant Adverse Effect, and

(vi) Failure to Comply. That has not occurred a Default or Event of Default, or continuation thereof, either before or after giving effect to the Arrangement on that Disposition Date.

**TWELFTH. Events of Default.** (a) For purposes of this Agreement, any of the following shall constitute an “Event of Default”:

(i) Failure to Pay. If the Borrower fails to pay (A) when due under the terms of this Agreement, any principal amount of the Loan, or (B) within five days after its expiration, any interest or any other amount payable hereunder or under any other Loan Document, or

(ii) Statements. In case any statement made accredited under this Agreement or other Credit Instruments, or which is contained in any certificate, document or other financial status report submitted by the Borrower or a Responsible Officer of the Borrower, in any time under this Agreement or other Loan Document, is false or incorrect in any relevant aspect or from the date when made, or

(iii) Specific Defaults. If the Borrower (A) fails to comply or observe a term, covenant or obligation contained in Clause Nine, subsections (b) (i), (c), (e), (f) or (i), or cease to comply with or observe any term, covenant or obligation contained in Clause Tenth (except subsections (e), (g) or (h)) or fails to issue new Promissory Notes in exchange for the existing Promissory Notes in accordance with this Agreement or (B) fails to observe the obligation in Clause Tenth subsection (k) and such failure remains to be remedied for a period of three Business Days, or

(iv) Other Defaults. If the Borrower fails to comply with any term or obligation contained in this Agreement or any other Credit Instrument and such failure continues without being remedied for a period of 30 (thirty) days after the date on which notice has been given writing of such Default to Borrower by the Administrative Agent or any Creditor, or

(v) Breach of Other Agreements. If the Borrower or any of its Relevant Subsidiaries (A) fails to make a payment on a debt (other than a debt under this Agreement and the Notes) in the amount of more of USD \$20,000,000.00 (twenty million dollars 00/100) (or its equivalent in other currency) when due (whether by scheduled maturity, anticipated, required, by acceleration, demand or otherwise) and such failure continues after the applicable grace period, if any, specified in the contract or instrument relating to such Indebtedness, or (B) if he fails to comply or observe other condition or obligation or any other event occurs or any other condition under any agreement or instrument relating to such Indebtedness, and such failure continues after the period of grace or notice period, if any, specified in the relevant document on the date of such failure, if the effect of such failure, event or condition causes or allows the holder or holders of such Indebtedness to cause, that such Indebtedness is declared due and payable prior to its scheduled expiration, or

(vi) Involuntary Bankruptcy. (A) If an order or judgment of a competent court has been issued declaring the Borrower or any Relevant Subsidiary insolvent, bankrupt or insolvent, or approve an application for reorganization, insolvency, bankruptcy or insolvency of Borrower or any Relevant Subsidiary and such order or judgment has still not been dismissed or suspended for a period of 90 (ninety) calendar days, or (B) if an order or judgment issued by any court having jurisdiction for the appointment of a bankruptcy administrator, liquidator, inspector, conciliator, liquidator or trustee in bankruptcy, insolvency or other similar officer of the Borrower or Significant Subsidiary or any substantial part of the assets of the Borrower or any Subsidiary or Relevant to the dissolution or liquidation the affairs of the Borrower or any of the Relevant Subsidiaries has been issued and such order or judgment has still not been dismissed or suspended for a period of 90 (ninety) calendar days, or

(vii) Voluntary Insolvency. If the Borrower or any Relevant Subsidiary voluntarily initiates actions to be declared in bankruptcy or insolvency or allows the initiation of insolvency proceedings or bankruptcy against him, or an application, or accept a proceeding seeking reorganization, insolvency, bankruptcy or insolvency or allows the filing of any such request or consent to the appointment of a trustee in bankruptcy, liquidator, trustee, inspector, trustee or assignee conciliator or in insolvency, bankruptcy or insolvency or any other officer Accredited similar or any substantial part of its assets, or

(viii) Judgments. If one or more judgments, orders, liens, court orders are issued or arbitration awards against the Borrower or any of its Relevant Subsidiaries, involving an obligation (to the extent not covered by independent third-party insurance coverage which has not been contested by the insurer) in relation to a transaction or series of related operations, incidental or conditional, of USD \$20,000,000.00 (twenty million dollars) or more (or currency equivalent), and they will continue unsatisfied or being discarded, suspended, or pending appeal for a period of 90 (ninety) days after notification, or

(ix) Ineligibility. If this Agreement or any of the Promissory Notes, for any reason, is suspended or revoked or becomes invalid in accordance with their terms or the binding effect or enforceability thereof is contested by the Borrower or deny that it had any other liability or obligation hereunder or under the Notes or with respect to this and those, or laws prohibit performance by the Borrower of any of the Credit Instruments or the Borrower determines that an obligation under the Loan Documents has been banned by the laws, or



(x) Expropriation. If any Governmental Authority in Mexico or the United States of America nationalized, confiscated or expropriated all or substantially all assets of the Borrower and its Subsidiaries, taken as a whole, or the capital of the Borrower or the Mexican government, to federal, state or municipal agency or an agency thereof or takes control of the business and operations of the Borrower and its Subsidiaries, taken as a whole, or

(xi) Change of Control. If Mr. Roberto Gonzalez Barrera, his former wife and family members (including spouses, siblings and lineal descendants, heirs or legatees and any trust or other investment vehicle for the primary benefit of any such persons or their families and heirs) fail to elect the majority of the members of the Board of Accreditation.

(b) At the time of the occurrence of any Event of Default, the Administrative Agent shall, on request of the Majority of Creditors, or may, with the consent of the Majority of Creditors, take all or any of the following measures:

(i) terminate the Commitments of each Creditor;

(ii) state the period up to early payment of the unpaid amount of the Loans, interest and other accessories, by written statement delivered to the Borrower and without complaint, resolution or proceeding or other notice of any kind, the which the Borrower expressly waives, and

(iii) where appropriate, to exercise on his behalf and in behalf of Creditors, all rights advocacy and legal remedies to which it is entitled under the Loan Documents or applicable law;

in the understanding that, upon the occurrence of an event specified in subsection (a) (vi) or (vii) above, the Commitment of each Creditor shall be terminated automatically and the unpaid principal amount of the Credit and all unpaid interest and other obligations of Borrower under this Agreement will give up automatically and payable without further action or act required by the Administrative Agent or any Creditor.

(c) Any amount received by the Administrative Agent by virtue of subsection (b) above, shall apply in the following order:

First, the payment of commissions, fees, allowances, expenses and any amounts due the Administrative Agent acting in such capacity under this Agreement;

Second, the payment of fees, costs, fees, allowances and any other amounts (other than principal and interest) owed to Creditors, including a pro rata basis in accordance with its commitments and in proportion to the amount of the amounts described in this section second;

Third, the payment of default interest accrued and unpaid on the outstanding balance of credit extended under this Agreement, pro rata among creditors according to their commitments and in proportion to the amount of the amounts described in this section Second of this paragraph;

Fourth, regular payment of interest accrued and unpaid on the outstanding balance of credit extended under this Agreement, pro rata among creditors according to their commitments and in proportion to the amount of the amounts described in this paragraph Fourth;

Fifth, the payment of principal of the unpaid balance of loans granted under this Agreement, pro rata among creditors according to their commitment and in proportion to the amount of the amounts described in this section Fifth;

Last, the balance, if any, once all payment obligations by the Borrower under this Agreement have been fully settled beyond any doubt, were given to the Borrower.

**THIRTEENTH. Increased Costs.** (a) If any of the Creditors determines, after the date of signature of this Agreement, which modifications under any law, regulation, circular or other provision applicable to a Creditors or any of its offices for the administration and the funding of the Credit, or changes to the interpretation of any of them by any competent court or Governmental Authority and, as a result of the foregoing, the Creditor is not lawful so or remains more valid for the Credit, the Creditor shall be

deemed as “Affected Creditor” and may, through the Administrative Agent, request in writing that is declared as expired portion of the credit in advance for your commitment at that time is unpaid, without penalty to the Borrower, together with interest accrued paid any accessories; provided that the Borrower shall have the right, with the consent of the Administrative Agent, to find an Eligible Transferee to acquire the rights and obligations of the Affected Creditor, and provided, further that, Creditors that are not considered Affected Creditors are not entitled to demand advance payment of credit that are owed to them under this Agreement.

(b) If any of the Creditors reasonably determined, subsequent to the date of signature of this Agreement, which modifications under any law, regulation, circular or other disposition (including, without limitation, requirements regarding capitalization Creditors, reserves, deposits, contributions, regular or special (or any Governmental Authority), taxes and other conditions, but excluding provisions relating to income tax or similar taxes applicable to creditors (its assignees, participants or purchasers in terms of Clause Fourteenth below) in relation to their income or total assets according to the laws, regulations and other applicable laws in Mexico), applicable to such creditors, any of its offices for the administration and funding of the Credit or changes for the interpretation by any court or competent authority in any of them, and as a result of any of the above facts will expand the cost to the Creditor to make or keep current the appropriate credit or disminuyen received the amounts received or by the Creditor, the Borrower, at the request of the Administrative Agent, pay to such Creditor through the Administrative Agent, the last day of such Interest Period in effect at the time or the date that is 10 (ten) Business Days after the request, whichever is later, additional amounts, reasonable, as are required to compensate the Creditor for such increased cost or decreased revenue. At the request of the Administrative Agent shall specify the causes of increased cost or decreased revenue, and their calculations and, except for error in these calculations, the determination of the Administrative Agent shall be conclusive and binding on the Borrower. The Borrower’s obligation to compensate the Creditors under this subsection (b) terminates on the date that is 90 (ninety) calendar days after the Expiration Date.

(c) Any Creditor claiming reimbursement or compensation under this Clause Thirteenth shall deliver to Borrower (with a copy to the Administrative Agent) a certificate stating in detail, as is reasonable, the amount to be paid to such Creditor under this Agreement and the reasons have to make such claim and such certificate shall be conclusive and binding on the Borrower in the absence of manifest error.

(d) Each Creditor agrees to notify the Borrower of any claim for reimbursement in accordance with subsections (a) and (b) above, no later than 60 (sixty) days after an official of the Creditor responsible for the administration of this Agreement received knowledge of the facts giving rise to such claim. If the Creditor fails to give notice, the Borrower will only be liable to reimburse or compensate the Creditor, retroactively, for claims related to the period of 60 (sixty) days immediately preceding the date on which the claim was made.

(e) The Creditors are obliged, once there is a case of illegality or a case of increased costs or decreased revenues as provided in subsections (a) and/or (b) of this Clause Thirteenth, to make their best efforts, so long as requested by the Borrower (and subject to considerations of the general policies of the Creditor) to designate any of its other offices that anchor credits to eliminate such cases of illegality or if costs increase or decrease income, provided that this does not lead to economically disadvantaged, legal or regulatory Creditors concerned, or their offices anchored loans.

(f) Upon receipt of the Borrower a claim for payment or compensation under this Clause Thirteenth and Clause Eighth, subsection (b) (i) the Borrower may, at its option, ask the creditor to perform their best to find an Eligible Assignee willing to purchase the Credit of the Creditor and assume the rights and obligations of the Creditor under this Agreement by entering into an Assignment and Acceptance, in the

understanding that the Creditor will not be replaced or removed in accordance with this Agreement until he has paid to the Creditor the total of the amounts due under this Agreement and the other Credit Instruments unless the amounts that the creditor intends to charge under this Clause Thirteenth be challenged by the Accredited in good faith.

**FOURTEENTH. Assignments; Participations.** (A) Any Creditor may assign, and if required by the Borrower under Clause Thirteenth, subsection (f) shall, at any time, assign one or more Eligible Assignees all or a portion of their credit rights and obligations of the Creditor under this Agreement for a minimum amount of \$60,000,000.00 (sixty million pesos 00/100), with the written consent of the Borrower, which may not be conditioned or denied without good cause and in the case of occurred and continues an Event of Default, the Borrower's consent shall not be required (assuming also that (i) any obligation arising in the payment of fees pursuant to Clauses Eighth, subsection (b) (i) Thirteenth or this Agreement as of the date of the transfer occurs respective to justify denying consent Accredited, (ii) except that an assignor creditor fails to comply with subsection (c) below, the consent the Borrower shall be deemed granted unless the Accredited reply in writing to any request for consent within five Business Days after receipt of such request, and (iii) with respect to Eligible Assignees described in subsection (f) the definition of "Eligible Assignees" means any transfer of any such Eligible Assignees subject to the absolute discretion of the Borrower) and with the confirmation of the Administrative Agent for the payment of the management fee referred to in subparagraph (d) (3) below, in the understanding that will not require the written consent of the Borrower in assignments made by any creditor to its Affiliates and / or subsidiaries while not requiring the Borrower to pay additional amounts under Clauses Eighth, subsection (b) (i) and Thirteenth which payment had not been required but for this assignment) (each a "Assignee"), however, (A) if an Event of Default and continuing it at the time of transfer, any Creditor may assign to any third party share of the credit as would be consistent with its Commitment, (B) after any assignment, the provisions of Clause Twenty-third will be effective for the benefit of the transferor Creditor to the extent that it relates with events, circumstances, claims, costs, expenses or liabilities that arose before such transfer, (C) if a transfer to an entity described in subparagraph (vi) of the definition of "Eligible Assignees" the Creditor concerned will provide accredited information and documents relating to the proposed transferee as requested by the Borrower, and (D) the Borrower and the Administrative Agent may continue to negotiate only with the Creditor with respect to the rights and obligations assigned to a assignee and the assignment shall not become effective until: (1) the assignor and assignee Creditor delivered to Borrower and the Administrative Agent a written notice informing of such assignment, together with payment instructions, addresses and information relating to the Assignee, (2) the Creditor assignor and assignee have delivered to the Borrower and the Administrative Agent an Assignment and Acceptance in the form of **Exhibit "9"** ("Assignment and Acceptance"), (3) the Creditor assignor or assignee has paid the Administrative Agent a management fee in the amount of USD \$3,500.00 (three thousand five hundred dollars 00/100) (the management fee shall be payable on all transfers, including without limitation, the assignment of a Creditor to another Creditor) and (4) except If an Event of Default occurs and continues, that the Grantee has delivered to the Borrower, if applicable, copy of certificate of tax residence to check the residence of the Transferee, as stated above.

(b) From the date the Administrative Agent notifies the Creditor Assignee has received an Assignment and Acceptance signed by all parties hereto, as applicable, and the payment of management fee, (i) the Assignee concerned will be part of this Agreement and to the extent that the rights and obligations under this Agreement will have been transferred pursuant to such Assignment and Acceptance, the Assignee shall have the rights and obligations of a Creditor pursuant to the documents credit, and (ii) the Creditor Assignee shall, in accordance with Assignment and Acceptance, relinquish its rights and be released from its obligations under the loan Documents.

(c) The Administrative Agent, acting only with this character, must maintain a copy of each Assignment and Acceptance has been delivered and a book for registering the names and addresses of the Creditors and their commitments and amounts of Credit that is payable to each Creditor in accordance with

the terms of this Agreement (the “Registry”). Entries in the Register shall be conclusive, with no manifest error, and the Borrower, the Administrative Agent and the Creditors may treat each Person whose name is entered in the Register under the terms of this Agreement as a Creditor hereunder, no although there is a notice stating otherwise. The Register will be available to the Borrower and any of the creditors for inspection by notice given to the Administrative Agent.

(d) Within 10 (ten) Business Days after the Borrower receives notice that the Administrative Agent has received a signed Assignment and Acceptance and payment of the management fee has been paid (provided that the Borrower has consented to such transfer in accordance with subsection (a) above), the Borrower execute and deliver to the Administrative Agent a new Promissory Note in the amount of the Loan given to the Assignee, and if the Creditor Assignee has retained a portion of your credit, a new Promissory Note to the Creditor Assignee (such new Promissory Notes to be exchanged for the Promissory Note held by the Creditor Assignee, and not to be considered as payment). Immediately after each of the payment release the management fee pursuant to the Assignment and Acceptance, this Agreement shall be deemed modified to the extent, but only to the extent necessary to reflect the addition of the Assignee and the resulting adjustment of credit and commitments arising from the change.

(E) Any Creditor (the “Creditor Originator”) may transmit at any time, without obtaining consent of the Borrower or the Administrative Agent, one or more entities that may have been an Eligible Assignee (a “Participant”) units in whole or in part of the portion of the Credit in accordance with its Commitment, in the understanding that (i) the obligations of the Creditor Originator under this Agreement will remain unchanged, (ii) The Creditor Originator shall be solely responsible for compliance with such obligations, (iii) the Borrower and the Administrative Agent will directly linked with the Creditor Originator in connection with the rights and obligations thereof under this Agreement and the other Credit Instruments and (iv) no Creditor may assign or grant a participation under which a Participant has the right to approve a reform or a consent or waiver with respect to this Agreement or the other Credit Instruments, except to the extent such amendment, consent or waiver require the unanimous consent of the Creditors, and provided that Participant at the time of acquiring the venture, provide the Borrower subsequently to this reasonable request, documentation certifying that a Assignee is Eligible. In the event of any entry, the Creditor to transfer such participation shall be entitled to transfer you to the Participant any amount received by such Creditor pursuant to Clause Eighth, subsection (b) (i) and Thirteenth and if amounts outstanding under this Agreement is payable or has been declared as such or have expired and must be paid upon the occurrence of an Event of Default, each Participant shall be entitled to compensation in respect of participation in amounts due under this Agreement, to the same extent as if the amount of your participation will be due directly to each Participant and Creditor hereunder; provided that such agreement or instrument may provide that such Creditor shall not, without the consent of the Participant, to accept any amendment, waiver or other modification (A) postpone the date on which a payment of money payable to that Participant or (B) reduce the principal, interest, commissions, fees or other amounts due to such Participant. Subject to the provisions of subsection (f) below, the Borrower agrees that each Participant shall be entitled to the benefits set out in clause Thirteenth above the same extent as if it were a Creditor and had acquired its interest by assignment of pursuant to subsection (a) above of this Clause. As far as permitted by law, each Participant also shall be entitled to the benefits of Clause Fifteenth following as if it were a Creditor.

(f) A Participant shall not be entitled to receive a higher payment as provided in Clause Eighth, subsection (b) (i) and previous Thirteenth, to which the Creditor concerned is entitled to receive on the participation transferred to such Participant, unless the transfer of such participation to such Participant is made with the prior written consent of the Borrower.

(g) If required the consent of the Borrower in connection with an assignment or a Assignee, such consent is deemed granted by the Borrower to the 5 (five) business days after the date on which the Borrower has received notice respective unless the Borrower has expressly refused such consent before the fifth business day of that period.

**FIFTEEN. Compensation.** In the event that any date on which the Borrower to pay any amount to Creditors under this Agreement, the Promissory Notes or the other Credit Instruments and the Borrower fails to comply with this obligation for payment, the Borrower, to the extent permitted by law, irrevocably authorized and empowered to creditors (a) charge any account the Borrower maintains with each of the Creditors, including, without limitation, deposits and/or demand accounts, savings, time temporary or definitive, investment accounts whatever they are, and (b) compensate any debt that creditors may have in its favor and by the Borrower for any reason, just an amount equal to the amount of the unpaid amount to the creditors, without demand, notice or demand whatsoever, of any nature.

Creditors notify the Borrower and the Administrative Agent as soon as possible, of any fees or compensation that have been made as permitted in this Clause; in the understanding that the lack of such notice shall not affect in any way the validity of such charge or compensation. The right of creditors under this clause is in addition to any other right (including other rights of compensation) that may have Creditors under the law.

**SIXTEENTH. Credit Information.** (a) In order to comply with the provisions of Law to Regulate Credit Information Companies, the Borrower on the same date given to the Creditors and the Administrative Agent an authorization letter duly signed by their representatives, which attached hereto as **Exhibit "10"**, in order that the Creditors and the Administrative Agent are authorized to conduct regular consultations to companies credit information about the Borrower's credit history and to who is entitled to provide such companies credit information about the Accredited.

(b) In addition to the persons and authorities referred to in Articles 93 and 117 of the Credit Institutions Act, the Borrower authorizes the Administrative Agent Creditors and to disclose the information derived from the operations done date of this Agreement and the other Credit Instruments (i) other financial institutions of the financial group members of each of the creditors (if any) as the parent, directly or indirectly from the creditor in question, (ii ) regulatory authorities and Creditors Creditors parent, (iii) Bank of Mexico, and (iv) other people you recruit Creditors, especially under Clause Fourteenth.

**SEVENTEENTH. Administrative Agent.**

(a) Appointment of Administrative Agent. Each Creditor, hereby irrevocably appoints, designates and authorizes BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as "Administrative Agent" under this Agreement, each Creditor hereby irrevocably authorizes in the Admisnitrative Agent to perform any act on his behalf under the provisions of this Agreement and the Loan Documents and exercise the powers and perform the duties that are expressly delegated to the terms of this Agreement or the Loan Documents, together with the powers reasonably incidental to that purpose. Moreover, in this act, each Creditor authorizes the Administrative Agent and name a commission under the terms of Articles 273 and 274 of the Commerce Code to sign, hold and comply with any Credit Instrument to the Administrative Agent form party and any other document, contract, agreement or instrument necessary or convenient for holding, refinement, subscription and termination of the Credit Instruments or Liens that would be provided under this Agreement, subject to the provisions of Clause Twenty Four of this Agreement. Notwithstanding anything to the contrary in this Agreement or any of the Credit Instruments, the Administrative Agent shall have no further duties or responsibilities as established herein, nor shall the Administrative Agent, or be deemed to have, a fiduciary relationship with any Creditor or Participant, and does not imply the existence of any agreement, function, responsibility, duty or obligation under this Agreement or any other Credit Instrument, or will exist against the Administrative Agent. Without limiting the generality of the foregoing, the term "agent" in this and the other Loan Documents with reference to the Administrative Agent, should not be understood to imply any fiduciary duty or other, implicit (or explicit) , arising under the doctrine of representation of any applicable law. Instead, that term is used only for

commercial use and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) Delegation of Duties. The Administrative Agent may perform any of its obligations under this Agreement or any other Loan Document by or through agents, employees or agents and may receive opinions of counsel regarding all matters related to such duties. The Administrative Agent shall be liable for negligence or misconduct of its representatives or agents.

(c) Liability of Administrative Agent. Neither the Administrative Agent nor any of its Affiliates, officers, directors, employees, representatives or agents shall be: (i) liable for any act done or omission of any of them or any person who is a party or in connection with this Agreement or any other Credit Instrument or the transactions contemplated herein (except for its own negligence or willful misconduct), or (ii) liable to a creditor or a Participant for any statement, representation, statement or warranty made by the Borrower, or any officer thereof, contained in this Agreement or any other Loan document or in any certificate, report, statement or other document referred to, established or received by the Administrative Agent under or in connection with, this Agreement or any other Credit Instrument or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Credit Instrument, or lack of Borrower to comply with its obligations hereunder or under the former. Except as expressly provided in these instruments, the Administrative Agent shall have no obligation to a creditor or Participant to verify or inquire into the observance or performance of any of the covenants contained in, or conditions of, this Agreement or any other Credit Instrument or to inspect the goods, books or records of the Borrower or its Subsidiaries.

(d) Reliability (i) The Administrative Agent may rely and shall have all the protection to rely on any writing, communication, signature, resolution, statement, consent notice, certificate, affidavit, letter, telegram, fax, telex, teletype or phone message, email message, statement or other document or conversation that he believes to be genuine and correct and has been signed, sent or made by the proper Person or Persons, and to receive advice or opinions of lawyers (including lawyers Accredited), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall have full justification by failing or refusing to take any action to it under this Agreement or any Credit Instruments unless it first receives the advice or consent of the Majority Creditors, as deemed appropriate and if request, shall be indemnified to its satisfaction against all liability Creditors and expenditure to be incurred by failing to take, take, or continue to take such action. The Administrative Agent will always be fully protected in acting or refraining from acting, under this Agreement or any other Credit Instrument in accordance with a request or consent of the majority of the creditors (or the greater number of creditors as required under present) and the application and any action taken or failure to act hereunder shall be binding on all creditors.

(ii) For purposes of determining compliance with the conditions specified in Clause Eleventh of this Agreement, each Creditor shall be deemed to have signed this Agreement have consented to, approved or accepted or satisfied with, each document or other material submitted by the Administrative Agent to such Creditor for consent, approval, acceptance or satisfaction, or required in these documents to be pampered, approved or acceptable or satisfactory to the Creditor, unless the Administrative Agent has received notice of that creditor prior to the proposed Closing Date specifying its objection thereto.

(e) Notice of Default. The Administrative Agent shall not be considered as having knowledge or has received notice of a Default or Event of Default, except with respect to defaults in the payment of principal, interest, and commissions or fees are required to pay the Administrative Agent on behalf of the creditors, unless the Administrative Agent have received written notice from a Creditor or Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "Notice of Default". The Administrative Agent shall give notice to the Creditors of receiving such notice in a timely manner and

no later than within 5 (five) Business Days after receipt of such notice. The Administrative Agent will make the necessary arrangements with respect to such Default or Event of Default indicating the majority of the creditors in accordance with Clause Twelfth, in intelligence, however, that unless and until the Administrative Agent has received such indications, Administrative Agent may (but not obliged) to take action or refrain from taking such actions with respect to such Default or Event of Default, as it considers appropriate or that is in the best interest of creditors.

(f) Decision of Credit. Each Creditor acknowledges that neither the Administrative Agent nor any of its Affiliates, officers, directors, employees, representatives or agents have made any representation or warranty that any act of the Administrative Agent hereinafter taken, including any consent and acceptance of any assignment or any review of the affairs of the Borrower and its Subsidiaries shall be considered to constitute any representation or warranty of the Administrative Agent to any Creditor in connection with any matter, including whether the Administrative Agent has revealed important information in their possession. Each Bank states that the Administrative Agent has, independently and without reliance on Administrative Agent and based on documents and information considered necessary, their own evaluation and research of business, prospects, operations, assets, financial condition and other and creditworthiness of Borrower and its Subsidiaries and all applicable bank regulatory laws relating to transactions of this, and has taken its own decision to enter into this Agreement and to grant credit to the Borrower hereunder. Each Creditor also states that it will, independently and without reliance on Administrative Agent and based on documents and information it deems necessary at the time, doing their own credit analysis, evaluation and decisions on exercise or not exercise action under the this Agreement and the other Credit Instruments, and to make whatever investigation you feel necessary to obtain information on business, prospects, operations, assets, financial condition and other and creditworthiness of Borrower and its Subsidiaries. Except for notices, reports and other documents expressly required hereunder, to be provided to creditors by the Administrative Agent and the Administrative Agent shall have no duty or obligation to give any credit to any creditor or other information relating to business, prospects, operations, financial condition and other credit worthiness of the Borrower and that can reach the hands of the Administrative Agent or its Affiliates, officers, directors, employees, representatives or agents.

(g) Compensation. Although the transactions contemplated by this Agreement be consummated or not, the creditors shall indemnify the Administrative Agent and its Affiliates, directors, officers, agents and employees (as far as it is not reimbursed by the Borrower and without limiting the obligation of the Borrower to do), on a prorated basis, and hold the Administrative Agent harmless from any obligation to compensate, with the understanding that no creditor will be liable to pay the Administrative Agent of any part of such indemnification Obligation to the extent it is determined by a final judgment of a court of competent jurisdiction resulting from the negligence or willful misconduct of Administrative Agent or its representatives. Without limiting the foregoing, each Creditor shall reimburse the Administrative Agent in proportion to their commitment costs or expenses (including costs of legal counsel) incurred by the Administrative Agent in connection with the preparation, execution, delivery, modification, or enforcement (whether through negotiations, legal process or otherwise) or legal opinion regarding the rights or obligations under this Agreement, any other Loan Document or any document referred to or referred to herein in so far as the Administrative Agent not I have reimbursed those expenses by the Borrower or other Person on behalf of it. The provisions of this subsection shall survive payment of all other obligations under this Agreement and the resignation of Administrative Agent.

(h) Administrative Agent in its Individual Character. BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and its Affiliates may grant loans, issue letters of credit account, accept deposits, acquire securities representing the capital stock and in general any type of banking business, trust, financial consulting, or other business with the Borrower and the Borrower Affiliated like BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer were not the

Administrative Agent hereunder and without notice to any creditors without obtaining their consent. Creditors recognize that, in connection with such activities, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer or its Affiliates may receive information from the Borrower or any of its Affiliates (including information that may be subject to confidentiality obligations in favor of such Borrower or Affiliates) and acknowledge that the Administrative Agent shall have no obligation to provide such information. Regarding your Credits, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer have the same rights and powers hereunder as any other Creditor and may exercise such rights and powers as if it were not the Administrative Agent, and terms “Creditor” and “Creditors” include BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer in its individual character.

(i) Successor of the Administrative Agent. The Administrative Agent may resign as such, by notice in 30 (thirty) days prior to the creditors. If the Administrative Agent resigned his position under this Agreement, the Majority Creditors shall appoint from among the creditors, an agent to succeed him, which is subject to prior approval by the Borrower at all times except when there is a event of Default (which consent shall not withhold or delay the Borrower without cause). If not named a successor agent prior to the coming into force the resignation of Administrative Agent, it may appoint, in consultation with the Creditors and the Borrower, a successor of the representative from among the creditors. Once accepted the appointment as successor Administrative Agent hereunder, it will get all the rights, powers and duties of the Administrator that waiver and the term “Administrative Agent” shall mean such successor agent and the appointment, powers and duties of Administrator that waiver will be terminated in that capacity. Following the resignation of Administrative Agent as such under this Agreement, the provisions of this Clause Seventeen and Twenty-second following Clauses and Twenty-third will be effective for benefit in respect of any action taken or omitted by it while it was Administrative Agent hereunder. If no successor agent has accepted the position of Administrative Agent no later than 30 (thirty) days of notice of resignation from the Administrator to have waived, such waiver shall be effective and creditors make all the duties of the Administrator under this until the majority of creditors to appoint a successor agent as provided above.

**EIGHTEENTH. Executive Title.** This Agreement, together with the statement certified by the diviner Creditor, as applicable, are enforceable in terms of section 68 of the Law on Credit Institutions.

**NINETEENTH. Notices.** (a) For purposes of this Agreement, each party submits as his address to be notified as follows:

The Administrative Agent:

BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE,  
GRUPO FINANCIERO BBVA BANCOMER  
Montes Urales 620, Piso 2  
Col. Lomas de Chapultepec,  
México, D.F. C.P. 11000  
Attention: Concepción Zuñiga  
Phone: (5255) 5201-2063  
Fax: (5255) 5201-2054  
Email: c.zuniga@bbva.bancomer.com

The Borrower:

GRUMA S.A.B. DE C.V.  
Calzada del Valle 407 Oriente,



Col. del Valle,  
C.P. 66230, San Pedro Garza García, N.L.  
Attention: Raúl Cavazos Morales  
Phone: +(5281) 8399-3313  
Fax: +(5281) 8399-3357  
Email: rcavazosm@gruma.com

The Creditors:

BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE  
GRUPO FINANCIERO BBVA BANCOMER  
Montes Urales 620, Piso 2  
Col. Lomas de Chapultepec,  
México, D.F. C.P. 11000  
Attention: Aida Arana  
Phone: (5255) 5201-2063  
Fax: (5255) 5201-2054  
Email: a.arana@bbva.bancomer.com

BANCO SANTANDER (MÉXICO), S.A., INSTITUCIÓN DE BANCA  
MÚLTIPLE, GRUPO FINANCIERO SANTANDER  
Prol. Paseo de la Reforma No. 500, Piso 1,  
Col. Lomas de Santa Fe,  
México, D.F. C.P. 01219  
Attention: Wade A. Kit  
Phone: (5255) 5257-8520  
Fax: (5255) 5269-1834  
Email: Kit@santander.com.mx

BANCO NACIONAL DE MÉXICO, S.A., INTEGRANTE DEL GRUPO FINANCIERO BANAMEX  
Act. Roberto Medellín 800, Edif. Sur  
4to Piso, Col. Santa Fer. C.P. 01219  
México, D.F.  
Attention: Eduardo Allegre Márquez  
Phone: (5255) 2226 7022  
Fax: (5255) 2262 2912  
Email: eallegre@banamex.com

BANCO DEL BAJIO, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE  
Calzada del Valle 115,  
Col del Valle, San Pedro Garza García, Nuevo León,  
México CP 66220  
Attention: Gerardo Román Ugarte  
Phone: (5281) 10019200 Ext. 8316  
Fax: (5281) 10019299 o (52 81) 10019200  
Email: groman@bb.com.mx

(b) All notices and notifications made under this Agreement shall be sent in writing, electronic transmission systems, by courier service, facsimile, electronic mail or by personal service, and shall take

effect at the time that they are delivered to the recipient and, in the case of notification by fax or email, at the time that they are transmitted and obtained confirmation of transmission.

(c) Until notified in writing a change of address notices, notices and other judicial and extrajudicial measures are made at the addresses set forth, shall take full effect.

**TWENTY. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of Mexico.

**TWENTY-FIRST. Jurisdiction.** For everything related to the interpretation and enforcement of this Agreement, the parties submit to the jurisdiction of the courts located in Mexico City, Mexico, renouncing the jurisdiction of any other court by reason of his domicile or future or for any other reason may be applicable.

**TWENTY-SECOND. Costs and Expenses.** The Borrower shall pay to the Administrative Agent and the Creditors, any documented costs and expenses, including reasonable costs and expenses, documented and in terms of market outside counsel Agent and the Creditors, incurred by the preparation and conduct of this Agreement any Promissory Note or any of the Credit Instruments. In addition, the Borrower shall pay to the Administrative Agent and the Creditors, within 30 (thirty) calendar days immediately following the date it is requested by the Administrative Agent or the creditors, as the case, any costs and reasonable fees, documented and in terms of market, legal counsel, incurred by any amendment to this Agreement or any other Credit Instrument.

**TWENTY-THIRD. Indemnification by the Borrower.** The Borrower agrees to indemnify the Administrative Agent, Grupo Financiero BBVA Bancomer, to any economic group member identified as Banco Bilbao Vizcaya Argentaria, S.A. and the Creditors and their respective directors, officers, employees, attorneys and agents, and get them harmless from any losses, liabilities, claims, damages or expenses incurred by them, including, without limitation, fees and expenses of legal counsel, incurred in connection with such litigation or proceeding (but excluding any losses, liabilities, claims, damages or expenses incurred solely in bad faith, fraud, gross negligence or negligence of the party entitled to compensation as determined by court final judgment by a court having jurisdiction) arising from (i) failure of Borrower's obligations under this Agreement and the Loan Documents, (ii) any act or omission attributable to the Borrower in connection with this Agreement and the documents credit, (iii) the omission of information or false, incomplete or wrong that has been provided to the Administrative Agent or the Creditors in connection with this Agreement or the loan Documents, or (iv) any litigation or proceeding (including threats of litigation or processes) related to this Agreement or any of the Credit Instruments (the obligation to indemnify with respect to these assumptions, collectively, the "Obligations to Indemnify"). Borrower's obligations under this Clause Twenty-third remain in force even after termination of this Agreement.

**TWENTY-FOUR. Modifications and Waivers.**

(a) Any modification to any Loan Document, shall not be deemed valid if it is made by writing, subject to the provisions of subsection (b) below, signed by the majority of the creditors or by the Administrative Agent on behalf of Creditors and the Borrower. Waive any rights under this Agreement shall be valid only if the same, subject to the provisions of subsection (b) below, consist in writing signed by the majority of the creditors or the Administrative Agent on behalf of the Creditors. If any Creditor or Creditors as a group, carrying on or are prolonged in the exercise of any right hereunder, or any Credit Instrument shall not be deemed, by that fact that the creditors or the Administrative Agent, as the case have declined to exercise their rights.

(b) The following modifications to any Credit Instrument and the following waivers of rights under the Loan Documents shall be approved by creditors representing 100.0% (hundred percent) of the unpaid balance of Credit:

- (i) increase or extend the Commitment of Creditors;
  - (ii) postpone or delay any date fixed by this Agreement or any Promissory Note for any payment of principal, interest, commissions, fees or other amounts hereunder or under any other Loan Document;
  - (iii) reduce the principal or the interest rate stipulated in this Agreement of any credit or reduce the amount or change the method of calculation of commissions, fees or other amounts payable hereunder or under any other Loan Document;
  - (iv) amend, modify or have waived any condition stipulated in Clause Eleventh, subsection (a);
  - (v) amend or modify the definition of “Majority Creditors” or any other provision of this Agreement that specifies the percentage of the Commitments or the percentage or number of creditors is required to amend, waive or otherwise modify rights hereunder or make determinations or actions under this;
  - (vi) amend, modify or waive any provision of this Clause Twenty-Fourth, subsection (a) and
  - (vii) amend, modify or waive any provision of the Eighth Clause so that could alter the proportionate share of the payments required by this clause;
- provided that, however, any modification, waiver or consent, unless in writing and signed by the Administrative Agent, plus the majority of the creditors or all creditors, as applicable, shall affect the rights or obligations Administrative Agent under this Agreement or any other Credit Instrument, including but not limited to Clause Seventeen.

(c) Any amendment to this Agreement or any other Credit Instrument in relation to the duties, responsibilities or powers of the Administrative Agent, shall first be consented to by the Administrative Agent.

**TWENTY-FIVE. Confidentiality.** The Administrative Agent and the Creditors agree to maintain the confidentiality of the information (as defined below), unless such information may be disclosed: (a) to them and their Affiliates and their respective directors, officers, employees and agents, including accountants, lawyers and other advisors (it being understood that the Persons to whom they make such disclosure shall be informed of the condition of confidentiality of such information by requiring them to keep such Information confidential), (b) the extent requested by any including self-regulating regulatory authority or any stock exchange, (c) the extent required by applicable laws or regulations or by any subpoena or similar legal procedure, (d) any other part of those involved in this Agreement, (e) in connection with the exercise of remedies hereunder or any suit, action or proceeding relating to this Agreement or to enforce rights thereunder, (f) subject to a contract containing provisions similar to those of this Section, to: (i) any assignee or potential assignee or Participant or potential Participant any rights or obligations hereunder, or (ii) any party to the contract or potential contract partner, directly or indirectly (or professional advisers contractual counterparty or counterparties potential contract) of any credit derivative transaction relating to the obligations of the Borrower, (g) with the consent of the Borrower, or (h) to the extent that such Information: (i) public knowledge, without having violated this clause, or (ii) is made available to the Administrative Agent or any Lender as non-confidential information from a source other than the Borrower. In addition, the Administrative Agent and the Creditors may disclose the existence of this Agreement and information about it for use in gathering market data, providers of similar services from the credit industry and service providers and Administrative Agent Creditors in connection with the administration and management of this Agreement, other Loan Documents, the Commitments, and credits. For purposes of this Section, “Information” means any information sent by the Borrower regarding the Borrower and / or its subsidiaries and / or business, other than information that has been available to the Administrative Agent or

any Lender as non-confidential information prior to disclosure thereof by the Borrower, it being understood that in the case of information received from the Borrower after the date hereof, such information is considered confidential unless it is clearly identified in writing to time of shipment as non-confidential or show by its nature such information is not confidential. It is considered that any person who is required to maintain the confidentiality of the information under this Clause has met this obligation to do so if such Person has exercised the same level of care to maintain the confidentiality of such Information as such Person you would its own confidential information.

**TWENTY-SIX. Counterparts.** This Agreement may be executed in the number of copies, by agreement, determine the parties hereto, which shall constitute one Agreement.

**TWENTY-SEVENTH. Headers.** The parties agree that the headings of each of the clauses of this Agreement are for reference only and shall not affect the meaning or interpretation of this Agreement.

**TWENTY-EIGHT. Exhibits.** The parties agree that the Annexes form an integral part of this Agreement as though it were included therein, and that this Agreement shall be interpreted taking into account the content of these annexes.

[SIGNATURE PAGE BELOW]

This Loan Agreement is executed on June 15, 2011 in Mexico City.

**THE BORROWER**

GRUMA, S.A.B. DE C.V.

---

By: Raúl Cavazos Morales  
Title: Legal Representative

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By: Rodrigo Martínez Villareal  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.

**THE ADMINISTRATIVE AGENT**

BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE,  
GRUPO FINANCIERO BBVA BANCOMER

---

By: Aida Arana Jiménez  
Title: Legal Representative

---

By: Concepción Zuñiga V.  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.

**THE CREDITORS**

BBVA BANCOMER, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE,  
GRUPO FINANCIERO BBVA BANCOMER

\_\_\_\_\_  
By: \_\_\_\_\_  
Title: Legal Representative

\_\_\_\_\_  
By: \_\_\_\_\_  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.

**THE CREDITORS**

BANCO NACIONAL DE MÉXICO, S.A.,  
INTEGRANTE DEL GRUPO FINANCIERO BANAMEX

---

By:  
Title: Legal Representative

---

By:  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.



**THE CREDITORS**

BANCO SANTANDER (MÉXICO), S.A., INSTITUCIÓN DE BANCA MÚLTIPLE,  
GRUPO FINANCIERO SANTANDER

---

By Octaviano Carlos Couttolenc Mestre  
Title: Legal Representative

---

By: Wade A. Kit  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.

**THE CREDITORS**

BANCO DEL BAJÍO, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE

---

By: Armando Ortega Pérez  
Title: Legal Representative

This signature page belongs to the Loan Agreement dated on June 15, 2011, concluded between Gruma, S.A.B. de C.V., as Borrower, BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, as Creditor and Administrative Agent, and the financial institutions listed in Exhibit 1 of this Agreement, as Creditors.

US\$50,000,000

LOAN AGREEMENT

Dated as of June 15, 2011

between

GRUMA, S.A.B. de C.V.,  
as Borrower,

and

COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. "RABOBANK NEDERLAND," NEW YORK  
BRANCH,  
as Lender

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## LOAN AGREEMENT

This LOAN AGREEMENT is entered into as of June 15, 2011, between GRUMA, S.A.B. DE C.V., a *sociedad anónima bursátil de capital variable* organized under the laws of Mexico (the “Company” or the “Borrower”, indistinctly), and COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. “RABOBANK NEDERLAND,” NEW YORK BRANCH, as lender (the “Lender”).

WHEREAS, the Company is primarily engaged in the business of production and sale of corn flour, packaged tortillas and related products;

WHEREAS, the Borrower has requested that the Lender extend a revolving line of credit to it in an aggregate principal or face amount not exceeding US\$50,000,000.00 (fifty million Dollars 00/100) in order to repay existing Indebtedness and for general corporate purposes;

WHEREAS, the legal representatives of the Borrower hereby expressly recognizes the legal capacity and authority of the legal representatives of the Lender appearing to the execution and delivery of this Loan Agreement; and in reliance on the representations and warranties contained herein, the legal representatives of the Lender hereby expressly recognize the legal capacity and authority of the legal representatives of the Borrower appearing to the execution and delivery of this Loan Agreement, and

WHEREAS, the Lender is willing, on the terms and subject to the conditions hereinafter set forth, to make revolving loans in Dollars to the Company from time to time.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties hereto agree as follows:

### ARTICLE I DEFINITIONS

1.01 Certain Defined Terms. As used in this Agreement and in any Schedules and Exhibits to this Agreement, the following terms have the following meanings:

“Affiliate” means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, by contract, or otherwise.

“Agreement” or “Loan Agreement” means this Loan Agreement, as from time to time amended, supplemented, restated or otherwise modified.

“Anti-Terrorism Laws” has the meaning specified in Section 5.19(a).

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“Applicable Margin” means the margin, expressed as an interest rate per annum, to be added to the LIBO Rate which shall be as set forth below according to the Maximum Leverage Ratio of the Company and its Consolidated Subsidiaries, as of the end of the most recent Fiscal Quarter:

<u>Maximum Leverage Ratio</u>	<u>Applicable Margin</u>
Greater than or equal to 3.0	225 (two hundred and twenty five) basis points
Greater than or equal to 2.5 and less than 3.0	200 (two hundred) basis points
Greater than or equal to 2.0 and less than 2.5	175 (one hundred and seventy five) basis points
Less than 2.0	150 (one hundred and fifty) basis points

“Assignee” has the meaning specified in Section 9.08(a).

“Assignment and Acceptance” has the meaning specified in Section 9.08(a).

“Attorney Costs” means and includes all reasonable and documented fees and disbursements of any law firm or other external counsel, and, without duplication, the allocated cost of internal legal services and all reasonable and documented disbursements of internal counsel.

“Availability Period” means the period commencing on, and including, the Closing Date and ending on, but excluding, the Maturity Date.

“Board of Directors” means the board of directors of the Company.

“Borrowing” means any borrowing hereunder consisting of Loans to the Company made on the same day by the Lender under Article II.

“Borrowing Date” means any date of any Borrowing of Loans as specified in the relevant Notice of Borrowing.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks in New York City, New York or in Mexico City, Mexico are authorized or required by law or administrative rule to close; ; provided, however, with respect only to any determination of LIBO Rate, the term “Business Day” shall also exclude any day on which banks are not open for dealings in US Dollar deposits in the London interbank market and are not open for business in London.

“Capital Adequacy Regulation” means any general guideline, request or directive of any central bank or other Governmental Authority, or any other law rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

“Capital Expenditures” means, for any period, without duplication, any expenditures of the Company and its Subsidiaries for fixed or capital assets related to the Company’s Core Business which, in accordance with IFRS, would be classified as capital expenditures.

“Cash Equivalent Investment” means, at any time:

- (a) any direct obligation of (or unconditionally guaranteed by) the United States of America or a state thereof, any OECD country or other foreign government in a jurisdiction in which the Company or any of its Subsidiaries currently has or could have operations (or any agency or political subdivision thereof, to the extent such obligations are supported by the full faith and credit of the United States of America or a State thereof, any OECD country or other foreign government in a jurisdiction in which the Company or any of its Subsidiaries currently has or could have operations) maturing not more than one year after such time to the extent such the debt of any such government (or State thereof) is rated A-1 or higher by S&P or P-1 or higher by Moody’s;
- (b) commercial paper maturing not more than 270 days from the date of issue, which is issued by either:
  - (i) any corporation rated A-1 or higher by S&P or P-1 or higher by Moody’s, or
  - (ii) the Lender (or any Affiliate of the Lender); or
- (c) any certificate of deposit, time deposit or bankers acceptance, maturing not more than one year after its date of issuance, which is issued by any bank which has (x) a credit rating of A2 or higher from Moody’s or A or higher from S&P and (y) a combined capital and surplus greater than US\$500,000,000.

“Closing Date” means the date on which all conditions precedent set forth in Section 4.01 are satisfied or waived by the Lender.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Commitment” means the obligation of the Lender to make Loans to the Company hereunder in a principal amount at any time outstanding not to exceed US\$50,000,000.00 (fifty million Dollars 00/100).

“Commitment Fee” has the meaning specified in Section 2.09(b).

“Company” has the meaning specified in the introductory clause hereto.

“Compliance Certificate” means a certificate substantially in the form of Exhibit A.

“Consolidated EBITDA” means, for any Measurement Period, for the Company and its Consolidated Subsidiaries, an amount equal to the sum, without duplication, of (a) consolidated operating income (determined in accordance with IFRS) for such Measurement Period and (b) the amount of depreciation and amortization expense deducted during such Measurement Period in determining such consolidated operating income.

“Consolidated Interest Charges” means, for any Measurement Period, for the Company and its Consolidated Subsidiaries, the sum of (a) all interest, premium payments, fees, charges and related expenses of the Company and its Consolidated Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with IFRS, and (b) the portion of rent expense of the Company and its Consolidated Subsidiaries with respect to such period under capital or financial leases that is treated as interest in accordance with IFRS.

“Consolidated Net Worth” means, at any time, all amounts which, in accordance with IFRS, would be included under shareholders’ equity on a consolidated balance sheet of the Company and its Subsidiaries.

“Consolidated Subsidiary” means, with respect to the Company, any Subsidiary or other entity the accounts of which would, under IFRS, be consolidated with those of the Company in the consolidated financial statements of the Company and, at any date with respect to any Person, any Subsidiary or other entity the accounts of which would be consolidated with those of such Person in the consolidated financial statements of such Person as of such date.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its Property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Core Business” means, with respect to the Company and its Subsidiaries, the production and distribution of corn flour, the production and distribution of tortillas and other related products, the production and distribution of wheat flour and any other food related business in which the Company and its Subsidiaries are engaged in, or may engage in, from time to time, or businesses ancillary thereto or in support thereof.

“Default” means any event or circumstance which, with the giving of notice, the lapse of time, the making of a determination, or any combination thereof, would (if not cured, waived or otherwise remedied during such time) constitute an Event of Default.

“Dollars” and “US\$” each means lawful money of the United States.

“Eligible Assignee” means (a) an Affiliate of the Lender so long as such Person, upon execution of an Assignment Agreement is entitled to receive additional amounts under Section 3.01(a) in amounts not in excess of the amounts the assignor would have been entitled to receive were the assignee a Foreign Financial Institution, (b) a Foreign Financial Institution, (c) an Export Credit Agency, (d) a Mexican Financial Institution or (e) any other Person (other than a natural Person) approved by the Company in its absolute discretion; provided that, notwithstanding the foregoing, “Eligible Assignee” shall not include the Company or any of the Company’s Subsidiaries or Affiliates.

“Environmental Laws” means all federal, national, state, provincial, departmental, municipal, local and foreign laws, including common law, statutes, rules, regulations, ordinances, normas técnicas (technical standards) and codes, together with all orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder by any Governmental Authority having jurisdiction over the Company, its Subsidiaries or their respective properties, in each case relating to environmental, health and safety, natural resources or land use matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Company or any of its Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“ERISA” means the Employee Retirement Income Security Act of 1974 as amended, and any successor statute thereto, as interpreted by the rules, and regulations thereunder, all as the same may be in effect from time to time. References to sections of ERISA shall be construed also to refer to any successor sections.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 4001(a)(14) of ERISA, or is a member of a group that includes the Company and that is treated as a single employer under Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as



defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of, a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate.

“Event of Default” means any of the events or circumstances specified in Section 8.01.

“Executive Order” has the meaning specified in Section 5.19(a) (*Anti-Terrorism Laws*).

“Export Credit Agency” means an official non-Mexican Financial Institution for the promotion of exports duly registered in Book I (*Libro I*) Section 5 (*Sección 5*) of the Foreign Banks, Financial Entities, Pension and Retirement Funds and Investment Funds Registry (*Registro de Bancos, Entidades de Financiamiento, Fondos de Pensiones y Jubilaciones y Fondos de Inversión del Extranjero*) of the Ministry of Finance for purposes of Rule II.3.9.1 of the *Resolución Miscelanea Fiscal* for the year 2010 and Article 196-II of the Mexican Income Tax Law (or any successor provision).

“Financing Documents” means this Agreement, the Notes, each Notice of Borrowing, any Assignment and Acceptance, and all other related agreements and documents issued or delivered hereunder or thereunder or pursuant hereto or thereto, in each case as such Financing Document may be amended, supplemented or otherwise amended from time to time.

“Fiscal Quarter” means a period of three (3) consecutive calendar months ending on March 31, June 30, September 30 or December 31 of each year.

“Fiscal Year” means any period of twelve consecutive calendar months ending on December 31 of each year.

“Foreign Financial Institution” means a bank or financial institution (i) registered in Book I (*Libro I*), Section 1 (*Sección 1*) or Section 2 (*Sección 2*) of the Foreign Banks, Financial Entities, Pension and Retirement Funds and Investment Funds Registry (*Registro de Bancos, Entidades de Financiamiento, Fondos de Pensiones y Jubilaciones y Fondos de Inversión del Extranjero*) maintained by the Ministry of Finance for purposes of Rule II.3.9.1 of the *Resolución Miscelánea Fiscal* for the year 2010 and Article 195-I of the *Ley del Impuesto Sobre la Renta* (or any successor provisions thereof), (ii) which is a resident (or, if such entity is lending through a branch or agency,

the principal office of which is a resident) for tax purposes in a jurisdiction with which Mexico has entered into a treaty for the avoidance of double-taxation which is in effect, and (iii) which is the effective beneficiary (*beneficiario efectivo*) of any interest paid hereunder.

“Funding Losses” has the meaning specified in Section 3.05 (*Funding Losses*).

“GAAP” means generally accepted accounting principles set forth as “generally accepted” in the applicable jurisdiction, issued by and consistent with the opinions and pronouncements of the applicable accounting board or agency or similar institution in such jurisdiction or such other principles as may be approved by a significant segment of the accounting profession in such jurisdiction, consistently applied during a relevant period.

“Gimsa” means Grupo Industrial Maseca, S.A.B. de C.V.

“Governmental Authority” means, with respect to any Person, any nation or government, any state, province or other political or administrative subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity or branch of power exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity exercising such functions and owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing having jurisdiction over such Person.

“Guaranty Obligation” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guarantying or having the economic effect of guarantying any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including an *aval* and any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligees in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligees against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person; provided that the term “Guaranty Obligation” shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guaranty Obligation shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guaranty Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guarantying Person in good faith.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Policy” means the policy of the Company and its Subsidiaries with respect to Hedging Transactions, a current copy of which is attached as Exhibit B, as amended from time to time with the approval of the Board of Directors of the Company (or of a committee duly delegated by such Board of Directors comprised of two or more members thereof).

“Hedging Transaction” means (a) any and all derivative transactions, rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, swaptions, forward purchase transactions, future transactions or any other similar transactions or option or any other transactions involving or settled by reference to one or more rates, currencies, commodities, equity or debt instruments or securities or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“IFRS” means the International Financial Reporting Standards, as adopted by the International Accounting Standards Board.

“IMSS” means the *Instituto Mexicano del Seguro Social* of Mexico.

“Indebtedness” of any Person means at any date, without duplication:

- (a) any obligation of such Person in respect of borrowed money and any obligation of such Person evidenced by bonds, notes, debentures or similar instruments;
- (b) any obligation of such Person in respect of a lease or hire purchase contract which would, under IFRS (or, in the case of Persons organized under laws of any state of the United States, U.S. GAAP therein), be treated as a financial or capital lease;
- (c) any indebtedness of others secured by a Lien on any asset of such Person, whether or not such indebtedness is assumed by such Person;

(d) any obligations of such Person to pay the deferred purchase price of fixed assets or services if such deferral extends for a period in excess of 60 days; and

(e) with respect to the Company, all Guaranty Obligations of the Company in respect of obligations of third parties unrelated to the Company's existing Core Business as of the date hereof;

provided, however, that the following liabilities shall be explicitly excluded from the definition of the term "Indebtedness":

(i) trade accounts payable, including any obligations in respect of letters of credit that have been issued in support of trade accounts payable;

(ii) expenses that accrue and become payable in the ordinary course of business;

(iii) customer advance payments and customer deposits received in the ordinary course of business; and

(iv) obligations for ad valorem taxes, value added taxes, or any other taxes or governmental charges.

"Indemnified Liabilities" has the meaning set forth in Section 10.05.

"Indemnitees" has the meaning set forth in Section 10.05.

"INFONAVIT" means *Instituto Nacional del Fondo de la Vivienda para los Trabajadores* of Mexico.

"Interest Coverage Ratio" means, as of the last day of any Fiscal Quarter, the ratio of (a) Consolidated EBITDA to (b) Consolidated Interest Charges, in each case determined for the relevant Measurement Period.

"Interest Payment Date" means, with respect to each Loan, the last day of the Interest Period applicable to such Loan; provided that if any Interest Period exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates.

"Interest Period" means, as to each Loan, the period commencing on the date of such Loan (including extensions or renewals) and ending on the date one, two, three or six months thereafter, as selected by the Company in its Notice of Borrowing; provided, however, that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month in which such Interest Period is to end) shall end on the last Business Day of the calendar month in which such Interest Period is to end; and

(c) no Interest Period shall extend beyond the Maturity Date.

“Investment” means, as to any Person, any acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a debt, loan, advance or capital contribution to, guaranty or debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person or (c) the purchase or other acquisition (in one transaction or a series of transactions) of all or a substantial portion of the business or Property or other beneficial ownership of any other Person or the assets of another person that constitute a business unit or division. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“IRS” means the United States Internal Revenue Service.

“Lender” means Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank Nederland” acting through its New York State licensed New York Branch and its successors and assigns.

“Lending Office” means, as to the Lender, the office or offices of such Lender notified as its “Lending Office” to the Company, or such other office or offices as such Lender may from time to time notify the Company.

“LIBO Rate” means, with respect to any Loan and for any Interest Period, the rate appearing on Bloomberg L.P. Page B BAM1 (Official BBA US Dollars Libor Fixings) (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Lender from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period and in an amount equal or comparable to such Loan or to the applicable amount owed hereunder, as applicable, provided that any determination of LIBO Rate during a Default hereunder or under any Financing Document shall be made daily, based on the overnight offered rate appearing on Bloomberg L.P. Page B BAM1 on each such date.

“Lien” means with respect to any Property, any security interest, mortgage, deed of trust, *fideicomiso*, pledge, usufruct, fiduciary transfer, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement (including a

securitization) of any kind or nature whatsoever in respect of any Property that has the practical effect of creating a security interest.

“Loan” has the meaning attributed to such term in Section 2.01 hereof.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, assets, liabilities (actual or contingent), properties or condition (financial or otherwise) or operating results of the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company to perform its obligations under any Financing Document; (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company of any Financing Document; or (d) a material adverse change in any of the rights and remedies of the Lender under the Financing Documents.

“Material Subsidiary” means, at any time, any Subsidiary of the Company that meets any of the following conditions:

(a) the Company’s and its Subsidiaries’ investments in or advances to such Subsidiary exceed 10% of the total assets of the Company and its Consolidated Subsidiaries as of the end of the Company’s most recently completed Fiscal Year; or

(b) the Company’s and its Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of such Subsidiary exceeds 10% of the total assets of the Company and its Consolidated Subsidiaries as of the end of the Company’s most recently completed Fiscal Year; or

(c) the Company’s and its Subsidiaries’ equity in the earnings before income tax and employee statutory profit sharing of such Subsidiary exceeds 10% of such earnings of the Company and its Consolidated Subsidiaries as of the end of the Company’s most recently completed Fiscal Year, all as calculated by reference to the then latest audited financial statements (or consolidated financial statements, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Company and its Subsidiaries;

provided that, notwithstanding the foregoing, the Venezuelan Subsidiaries shall not be considered Material Subsidiaries.

“Maturity Date” means the fifth anniversary of the Closing Date, or if such day is not a Business Day, the next succeeding Business Day.

“Maximum Leverage Ratio” means, as of the end of the most recently completed Fiscal Quarter, the ratio of (a) Total Funded Debt of the Company and its Consolidated Subsidiaries as of the last day of such Fiscal Quarter to (b) Consolidated EBITDA of the Company and its Consolidated Subsidiaries determined for the relevant Measurement Period.

“Measurement Period” means any period of four (4) consecutive Fiscal Quarters of the Company, ending with the most recently completed Fiscal Quarter, taken as one accounting period.

“Mexican Financial Institution” means a banking institution (*institución de crédito*) organized under and existing pursuant to and in accordance with the laws of Mexico and duly authorized to conduct banking activities in Mexico by the Mexican Ministry of Finance.

“Mexican GAAP” means accounting principles and practices generally accepted in Mexico.

“Mexico” means the United Mexican States.

“Ministry of Finance” means the Ministry of Finance and Public Credit (*Secretaria de Hacienda y Credito Publico*) and/or any of its agencies including, without limitation, the *Servicio de Administración Tributaria* of Mexico.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Company or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding three calendar years, has made or been obligated to make contributions.

“Negotiation Period” has the meaning set forth in Section 3.03 hereof.

“Note” means a promissory note of the Company payable to the Lender, in the form of Exhibit C (as such promissory note may be replaced from time to time) evidencing the Indebtedness of the Company to the Lender resulting from each Loan made by the Lender hereunder.

“Notice of Borrowing” means a notice in substantially the form of Exhibit D.

“Obligations” means all advances, debts, liabilities, obligations, covenants and duties arising under any Financing Document owing by the Company to the Lender, or any indemnified person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising.

“OECD” means the Organization for Economic Cooperation and Development.

“OFAC” has the meaning specified in Section 5.19(b)(v).

“Other Currency” has the meaning set forth in Section 9.17(b).

“Other Taxes” means, with respect to any Person, any present or future stamp, court or documentary taxes or any other excise or property taxes, or charges, imposts,

duties, fees or similar levies which arise from any payment made hereunder or any other Financing Document or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Financing Document and which are actually imposed, levied, collected or withheld by any Governmental Authority.

“Patriot Act” has the meaning specified in Section 5.19(a).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Company or any ERISA Affiliate or to which the Company or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years.

“Permitted Hedging Transaction” means any Hedging Transaction that;

(i) is not for speculative purposes and was not entered into and is not being maintained with the aim of obtaining profits based on changing market values; and

(ii) is based on or associated with the underlying value of a product, instrument, security, commodity, interest rate, currency, index or measure of risk or value that is used by the Company or any of its Subsidiaries in the ordinary course of business; and

(iii) is in compliance with the Hedging Policy.

“Person” means any natural person, partnership, limited liability company, corporation, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority or other entity.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Company or any ERISA Affiliate.

“Process Agent” has the meaning specified in Section 9.14(d).

“Principal Payment Date” means, with respect to any particular Loan, the last day of the Interest Period applicable to the same.

“Property” means any asset, revenue or any other property, whether tangible or intangible, including any right to receive income.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.



“Requirement of Law” means, as to any Person, any law (statutory or common), treaty, rule or regulation or order, decree or other determination of an arbitrator or a court or other Governmental Authority, including any Environmental Law, in each case applicable to or binding upon such Person or any of its property or to which the Person or any of its property is subject.

“Responsible Officer” means the chief executive officer or the president of the Company, or the general manager or any other officer having substantially the same authority and responsibility or the chief financial officer or the treasurer of the Company, or any other officer having substantially the same authority and responsibility.

“Restricted Payment” means with respect to any Person:

(a) any dividend or other distribution (whether in cash, securities or other Property) with respect to any shares of capital stock of the Company or any Subsidiary; and

(b) any payment (whether in cash, securities or other Property), including any sinking fund or similar deposit, purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock, or of any option, warrant or other right to acquire any such shares of capital stock, partnership interest or other interest in, such Person.

“S&P” means Standard & Poor’s Ratings Service, presently a division of The McGraw-Hill Companies, Inc. and its successors.

“SAR” means the *Sistema de Ahorro para el Retiro* of Mexico.

“Subsidiary” of a Person means any corporation, partnership, joint venture, limited liability company, trust, estate or other entity of which more than 50% of the voting stock or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by such Person, or one or more of the Subsidiaries of such Person, or a combination thereof. Unless the context otherwise clearly requires, references herein to a “Subsidiary” refer to a Subsidiary of the Company.

“Substitute Lender” means (A) a commercial bank (i) registered with the Ministry of Finance for purposes of Article 195 of the Mexican Income Tax Law and (ii) resident (or the principal office of which is a resident, if lending through a branch or agency) for tax purposes in a jurisdiction (or a branch or agency of a financial institution that is a resident of a jurisdiction) that is party to an income tax treaty with Mexico that is in effect on the date of substitution, acceptable to the Company, which consent will not be unreasonably withheld that assumes the Commitment of the Lender, or is an assignee of a Loan of the Lender, pursuant to the terms of this Agreement or (B) a multiple banking institution (*institución de banca múltiple*) that is organized as a *sociedad anónima* under Mexican law and is authorized to engage in the business of banking by the Ministry of Finance.

“Taxes” means any and all present or future taxes, duties, levies, assessments, imposts, deductions, withholdings or similar charges, and all liabilities with respect thereto, including any related interest or penalties, imposed by Mexico or any political subdivision or taxing authority thereof or therein or by any jurisdiction from which the Company shall make any payment hereunder or under the Notes, excluding, however, with respect to the Lender, or any other recipient of any payment to be made by or on account of any obligation of the Company hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by jurisdiction under the laws of which such recipient is organized or in which its principal office or its Lending Office is located, and (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Company is located.

“Total Funded Debt” means, at any time, on a consolidated basis and without duplication, the outstanding principal balance of all Indebtedness for borrowed money of the Company and its Consolidated Subsidiaries and guaranties by the Company of obligations of third parties unrelated to the Company’s Core Business.

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“United States” and “US” each means the United States of America.

“Venezuelan Subsidiaries” means (i) each of Derivados de Maiz Seleccionado. S.A. and Molinos Nacionales, C.A., together with their respective direct and indirect Subsidiaries, and (ii) any Subsidiary of the Company that is organized after the date of this Agreement if such new Subsidiary is organized under the laws of Venezuela.

“Withdrawal Liability” has the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

#### 1.02 Other Interpretive Provisions.

- (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.
- (b) The words “hereof”, “herein”, “hereunder” and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and Section, paragraph, Schedule and Exhibit references are to this Agreement unless otherwise specified.
- (c) The terms “including” and “include” are not limiting and mean “including without limitation” and “include without limitation”.
- (d) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from but excluding”; the words “to” and “until” each means “to and including”, and the word “through” means “to and including”.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement

1.03 Accounting Principles.

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with IFRS, consistently applied.

(b) References herein to “Fiscal Year” and “Fiscal Quarter” refer to such fiscal periods of the Company.

ARTICLE II  
THE COMMITMENT

2.01 Commitment to Make the Loans.

The Lender agrees, on the terms and subject to the conditions hereinafter set forth, to make revolving loans in Dollars (each such loan, a “Loan”) to the Company from time to time, on any Business Day during the Availability Period, in an aggregate principal amount not to exceed at any time outstanding the Commitment for the purposes hereinafter set forth. Within the limits of the Commitment, and subject to the other terms and conditions hereof, the Loans may be repaid, prepaid and reborrowed in accordance with the provisions hereof.

2.02 Promise to Pay; Evidence of Indebtedness.

The Borrower hereby unconditionally promises to repay the full principal amount of each Borrowing and interest thereon, on its applicable Principal Payment Date and Interest Payment Date, respectively, stated in the relevant Note executed and delivered in connection therewith, or such earlier date on which the Loans have been declared due and payable in accordance with the terms hereof. In any event, all Borrowings outstanding shall be due and payable on the Maturity Date.

Each Borrowing shall be evidenced by a Note of the Borrower substantially in the form of Exhibit C hereof, dated the date of such Borrowing, payable to the Lender in an amount equal to the principal amount of such Borrowing.

It is the intent of the Company and the Lender that the Notes qualify as *pagarés* under Mexican law. The execution and delivery by the Borrower of the Notes shall not limit, reduce or otherwise affect the obligations of the Borrower under this Loan Agreement, and the rights and claims of the Lender under the Notes shall not replace or supersede the rights and claims of the Lender hereunder. To the extent of any inconsistencies between the terms of any Note and this Agreement, this Agreement shall prevail.

Upon payment in full of the Loans, the Lender agrees to promptly deliver to the Company customary documentation, including any payoff letters, evidencing such payment by the Company.

2.03 Procedure for Borrowing.

Each Borrowing shall be in an aggregate amount equal to at least US\$5,000,000.00 (five million Dollars), or in integral multiples of US\$1,000,000.00 (one million Dollars) in addition to such amount.

To request a Borrowing, the Borrower shall notify the Lender of such request in writing not later than 11:00 a.m., New York City time, 3 (three) Business Days before the date of the proposed Borrowing. Each such written Borrowing Request shall specify the following information in compliance with this Section 2.03:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the Borrowing Date, which shall be a Business Day within the Availability Period;
- (iii) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.04 if applicable; and
- (iv) the Interest Period and Principal Payment Date applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period".

If no Interest Period is specified with respect to any requested Borrowing, then the Borrower shall be deemed to have selected an Interest Period of 1 (one) month duration.

2.04 Continuation.

To the extent that no Default or Event of Default has occurred, during the Availability Period, the Borrower may request the Lender to extend the Principal Payment Date of a given Borrowing, provided the following conditions are met:

- (a) the new maturity date of such Borrowing shall be the numerically corresponding day in the calendar month that is 1 (one), 2 (two), 3 (three) or 6 (six) months after the previous Principal Payment Date, as elected by the Borrower in the corresponding Borrowing Request;
- (b) the Borrower shall notify the Lender of such request in writing no later than 11:00 a.m., New York City time, 3 (three) Business Days before the date of the proposed extension, through a Borrowing Request;
- (c) the Borrower shall pay interest accrued on the principal amount of the Borrowing so extended, at its original Interest Payment Date;
- (d) the Borrower shall exchange the corresponding Note with a new Note stating the new Principal Payment Date and Interest Payment Date; and

(e) the Borrowing extension shall take place precisely on the original Principal Payment Date therefor.

2.05 Prepayments.

Subject to Section 3.05, the Company may, at any time or from time to time, upon not less than three Business Days' irrevocable notice to the Lender, voluntarily prepay the Loans in whole or in part, in minimum principal amounts of US\$5,000,000 or any multiple of US\$1,000,000 in excess thereof. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid, the Borrowing to which such prepayment is to be applied. All prepayments shall be accompanied by accrued interest and Funding Losses, if applicable.

Any prepayment hereunder will be applied first, against costs, losses, expenses and indemnities due hereunder, if any, then against fees due, if any, then against default interest, if any, then against ordinary interest due on the Loan, and thereafter in the event of a prepayment the Borrowing selected by the Borrower in its written notification provided for hereinabove or, in its absence, against the principal amount on the oldest Loans.

In the event that any prepayment of a Loan is made in a day which is not an Interest Payment Date of said Loan, the Borrower shall reimburse the Lender for Funding Losses, if any.

2.06 Termination or Reduction of Commitment.

The Company may, upon three Business Days' irrevocable notice to the Lender, terminate the Commitment or, from time to time permanently reduce the Commitment then in effect; provided that any partial reduction of the Commitment (i) shall be in a minimum aggregate amount of US\$5,000,000 or an integral multiple of US\$1,000,000 in excess thereof and (ii) the Company shall not so terminate or reduce the Commitment if, after giving effect to such termination or reduction, the aggregate principal amount of the Loans then outstanding would exceed the Commitment.

Likewise, the Commitment of the Lender shall terminate at 3.00 p.m., New York City time, on the Maturity Date.

2.07 Repayment of the Loans.

The Borrower hereby unconditionally promises to repay the full principal amount of each Borrowing, on the Principal Payment Date stated in the Note executed and delivered in connection therewith, or such earlier date on which the Loans have been declared due and payable in accordance with the terms hereof. In any event, all Borrowings then outstanding shall become due and payable on the Maturity Date.

2.08 Interest.

(a) The Borrower agrees to pay to the Lender, interest on the principal amount of each Loan at an annual rate equal to the LIBO Rate plus the Applicable Margin.

(b) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration, by mandatory prepayment or otherwise, such overdue amount shall bear interest, after as well as before judgment at a rate per annum equal to 200 (two hundred) basis points plus the Applicable Margin plus the LIBO Rate.

(c) Ordinary interest on the Loans shall accrue from the date of the disbursement of its applicable Borrowing. Accrued interest on the Loans shall be payable in arrears on the Interest Payment Date applicable to such Loan provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand, and (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

2.09 Fees.

(a) On the execution date hereof, the Company shall pay to the Lender, a structuring fee equal to US\$375,000.00 (three hundred and seventy five thousand Dollars 00/100).

(b) The Company agrees to pay to Lender a commitment fee (the "Commitment Fee") on the average daily unused portion of the Commitment at a rate per annum equal to 40% (forty percent) of the Applicable Margin in effect on each date the Commitment Fee is payable.

(c) The Commitment Fee shall accrue from, but excluding, the Closing Date to, and including, the date such Commitment terminates and shall be payable quarterly in arrears on the last day of each calendar quarter and on the effective date of any expiration, termination or reduction of the Commitment commencing on the first such date to occur after the date hereof.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds. Fees paid shall not be refundable under any circumstances, except for manifest error.

2.10 Computation of Interest and Fees.

(a) Computations of interest and fees which are computed on a per annum basis shall be calculated on the basis of a year of 360 days and the actual number of days elapsed (excluding the first day and including the last day).

(b) Each determination of LIBO Rate by the Lender shall be conclusive and binding on the Company in the absence of manifest error.

2.11 Payments by the Company.

The Company shall make each payment required to be made by it hereunder (whether of principal, interest or fees or otherwise) or under any other Financing Document (except to the extent otherwise provided therein) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim except as otherwise provided for in Section 3.01. Any amounts received after such time on any date may, in the discretion of the Lender, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Lender at its offices at 245 Park Avenue, New York, New York, except as otherwise expressly provided in the relevant Financing Document or by crediting the Lender's account held at JP Morgan Chase, N.A., in New York, ABA number 021000021, SWIFT address CHASUS33, account number 400-212307, for the account of Rabobank International, New York Branch, or such other account specified in writing by the Lender to the Borrower. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, unless the result of such extension would be to carry such payment date into another calendar month, in which event such payment date shall be the next preceding Business Day. All payments hereunder or under any other Financing Document (except to the extent otherwise provided therein) shall be made in Dollars.

ARTICLE III  
TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Any and all payments by the Company to or for the account of the Lender pursuant to this Agreement and any other Financing Document shall be made free and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Other Taxes.

(b) If the Company shall be required by law to deduct or withhold any Taxes or Other Taxes from or in respect of any sum payable hereunder or under any other Financing Document to the Lender, then:

(i) the sum payable shall be increased as necessary so that, after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section 3.01), the Lender receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make such deductions and withholdings;

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) in the event of an increase, after the date of this Agreement, in the Mexican withholding tax rate to a rate in excess of the rate applicable to the Lender hereto on the date hereof, the Company shall also pay to the Lender, at the time interest is paid, all additional amounts that the Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such Taxes or Other Taxes had not been imposed;

provided, however, that the Company shall not be required in any circumstance to increase any such amounts payable to the Lender with respect to withholding tax in excess of the rate applicable to a Person that is a Foreign Financial Institution, including during the occurrence and continuance of a Default or an Event of Default.

(c) Subject to the proviso contained in the last paragraph of Section 3.01(b) above, the Company agrees to indemnify and hold harmless the Lender for the full amount of (i) Taxes and (ii) Other Taxes (including deductions and withholdings applicable to additional sums payable under this Section 3.01) in the amount that the Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such Taxes or Other Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this paragraph (c) indemnification shall be made within 30 days after the date the Lender makes written demand therefor.

(d) Within 30 days after the date of any payment by the Company of Taxes or Other Taxes, the Company shall furnish to the Lender the original or a certified copy of a receipt, or other evidence satisfactory to the Lender, evidencing payment thereof.

(e) The Lender shall, from time to time at the reasonable request of the Company, promptly furnish to the Company, such forms, documents or other information (which shall be accurate and complete) as may be reasonably required to establish any available exemption from, or reduction in the amount of, applicable Taxes; provided, however, that the Lender shall not be obliged to (i) disclose information regarding its tax affairs or computations to the Company in connection with this paragraph (e) or any other information that is protected by bank secrecy provisions or (ii) furnish any such form, document or other information if doing so would materially prejudice its legal or commercial position. The Company shall be entitled to rely on the accuracy of any such forms, documents or other information furnished to it by any Person and shall have no obligation to make any additional payment or indemnify any Person for any Taxes, in excess of applicable Taxes payable to a Foreign Financial Institution, interest or penalties that would not have become payable by such Person had such documentation been accurate or delivered.

(f) Should the Lender become subject to Taxes and not be entitled to indemnification under Section 3.01(c) or Section 9.05 with respect to Taxes imposed by the relevant Governmental Authority, the Company shall take such steps as the Lender shall reasonably request at the expense of the Lender to assist the Lender to recover such Taxes.



3.02 Illegality.

(a) If the Lender determines that any Requirement of Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for the Lender or its applicable Lending Office to make, maintain or fund the Commitment or any Loan contemplated by this Loan Agreement, or materially restricts the authority of the Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, or to determine or charge interest rates based upon LIBO Rate, then, on and by written notice thereof by the Lender to the Company:

(i) any obligation of the Lender to make or continue Loans, shall be suspended until the circumstances giving rise to such determination no longer exist;

(ii) the Lender may declare that such Loans will not thereafter (for the duration of such unlawfulness or impossibility) be made by the Lender hereunder, unless such declaration shall be subsequently withdrawn;

(iii) as the date on which the notified event would become effective the Borrower shall prepay the outstanding Loans and accrued interest thereon in accordance with this Agreement; provided, however, the Company has the right to find a lender to purchase the Lender's rights and obligations.

(b) For purposes of this Section 3.02, a notice to the Company by the Lender shall be effective as to each identified Loan, if lawful, on the last day of the Interest Period currently applicable to such Loan; in all other cases such notice shall be effective on the date of receipt by the Company.

3.03 Inability to Determine Rates.A. The Lender shall notify the Borrower promptly, if it is unable to determine LIBO Rate; and (ii) at least three (3) Business Days before the start of an Interest Period, if the LIBO Rate would not accurately reflect the cost to the Lender of funding the Loan (or any part of it) during the relevant Interest Period in the London interbank market at or about the time of the date for determination of LIBO Rate for the relevant Interest Period; or if for any reason the Lender is unable to obtain Dollars in the London interbank market in order to fund all or any part of any Loans during any Interest Period.

B. If the Lender's notice under 3.03 A. above is served before a Loan is made, then while the circumstances referred to in such Lender's notice continue, the Lender shall refrain from making the Loan available while such circumstances are continuing.

C. If the Lender's notice under 3.03 A. above is served after a Loan has been made and is still outstanding, the Borrower and the Lender shall use reasonable endeavors to agree, within 30 days after the date on which the Lender serves its notice under 3.03 A. above (the "Negotiation Period"), an alternative base rate or (as the case may be) an alternative basis for the Lender to fund or continue to fund such Loan during the Interest Period concerned.

D. Any alternative base rate or interest rate which is agreed during the Negotiation Period shall take effect in accordance with the terms agreed.

E. If an alternative base rate or interest rate is not agreed within the Negotiation Period, and the relevant circumstances are continuing at the end of the Negotiation Period, then the Lender, acting in good faith, shall set an interest period and base rate representing the cost of funding of the Lender in Dollars or in any available currency of the Loan plus the Applicable Margin; and the procedure provided for by this paragraph E. shall be repeated if the relevant circumstances are continuing at the end of the interest period so set by the Lender.

F. If the Borrower does not agree with the alternative base rate set by the Lender under E. above, the Borrower may give the Lender not less than 10 (ten) Business Days' notice of its intention to prepay the Loan at the end of the interest period set by the Lender in any other date with no penalty, commissions or fees; in which case the provisions of Section 2.05 shall apply to the relevant prepayment.

3.04 Increased Costs and Reduction of Return.

(a) If the Lender reasonably determines that, due to either (i) the introduction of, or any change in, or any change in the interpretation or application of, any Requirement of Law or (ii) the compliance by the Lender with any guideline, directive or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to the Lender of agreeing to make or making, funding or maintaining its Loans to the Company or to reduce any amount receivable hereunder (in either case other than payment on account of taxes), then the Company shall be liable for, and shall, from time to time, upon demand from the Lender, promptly pay to the Lender, additional amounts as are sufficient to compensate the Lender for such increased costs or reduced amount receivable.

(b) If the Lender reasonably determines that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by the Lender (or its Lending Office) with any Capital Adequacy Regulation affects or would affect the amount of capital required or expected to be maintained by the Lender or any corporation controlling the Lender and determines that the amount of such capital is increased as a consequence of its Commitment, Loans or obligations under this Agreement, then, upon demand of the Lender to the Company, the Company shall pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender for such increase.

(c) Notwithstanding anything to the contrary herein, it is understood and agreed that the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173), all requests, rules, guidelines and directives relating thereto, all

interpretations and applications thereof and any compliance by the Lender with any request or directive relating thereto, shall, for the purposes of this Agreement, be deemed to be adopted subsequent to the date hereof.

3.05 Funding Losses. The Company shall reimburse the Lender and hold the Lender harmless from (in each case by prompt payment of any relevant amounts to the Lender) any loss or expense that the Lender may sustain or incur, including but not limited to, any loss incurred in obtaining, liquidating or redeploying deposits bearing interest by reference to LIBO Rate from third parties (“Funding Losses”) as a consequence of:

- (a) the failure of the Company to make on a timely basis any payment of principal of any Loan;
- (b) the failure of the Company to borrow or continue a Loan after the Company has given (or is deemed to have given) a Notice of Borrowing;
- (c) the failure of the Company to make any prepayment in accordance with any notice delivered under Section 2.05; or
- (d) the prepayment (including pursuant to Section 2.05) or other payment (including after acceleration thereof) of any Loan on a day that is not the Interest Payment Date applicable to such Loan; including any such loss or expense arising from the liquidation or reemployment of funds obtained by the Lender to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Company shall also pay any customary and reasonable administrative fees charged by the Lender in connection with the foregoing.

3.06 Reserves on Loans. The Company shall pay to the Lender, as long as the Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as “Eurocurrency liabilities”), additional interest on the unpaid principal amount of the Loans equal to the actual costs of such reserves allocated to such Loans by the Lender (as determined by the Lender in good faith, which determination shall be conclusive, absent manifest error), payable on each date on which interest is payable on such Loans, provided the Company shall have received at least 15 days’ prior written notice of such additional interest from the Lender. If the Lender fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be payable 15 days from receipt of such notice.

3.07 Certificate of Lender.

(a) Any certificate of the Lender containing a claim for reimbursement or compensation under this Article III shall be delivered to the Company setting forth in reasonable detail the amount payable to the Lender hereunder and the reasons for such claim and such certificate shall be conclusive and binding on the Company in the absence of manifest error.

(b) The Lender agrees to notify the Company of any claim for reimbursement pursuant to Section 3.04 or 3.06 not later than 60 days after any officer of the Lender responsible for the administration of this Agreement receives actual knowledge of the event giving rise to such claim. If the Lender fails so to give notice, the Company shall only be required to reimburse or compensate the Lender, retroactively, for claims pertaining to the period of 60 days immediately preceding the date the claim was made.

3.08 Change of Lending Office. The Lender agrees that, upon the occurrence of any event giving rise to an obligation of the Company under Section 3.01, Section 3.02, Section 3.04 or Section 3.06 with respect to the Lender, it will, if requested by the Company, use reasonable efforts (subject to overall policy considerations of the Lender) to designate another Lending Office for any Loans affected by such event or take other action; provided that the Lender and its Lending Office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the obligation under any such section. Nothing in this section shall affect or postpone any of the Obligations of the Company or the right of the Lender provided in Section 3.01, Section 3.02, Section 3.04 or Section 3.06.

3.09 Substitution of Lender. Upon the receipt by the Company from the Lender of a claim for compensation under Section 3.01 (including, in particular, Section 3.01(b)(iv)), 3.02, Section 3.04 or Section 3.06, or giving rise to the operation of Section 3.02, the Company may, at its option, (i) request the Lender to use its best efforts to seek a Substitute Lender willing to assume the Commitment and Loans or (ii) replace the Lender with a Substitute Lender or Substitute Lenders that shall succeed to the rights and obligations of the Lender under this Agreement upon execution of an Assignment and Acceptance; provided, however, that the Lender shall not be replaced or removed hereunder until the Lender has been repaid in full all amounts owed to it pursuant to this Agreement and the other Financing Documents (including Sections 2.09, 3.01, 3.04 and 3.06) unless any such amount is being contested by the Company in good faith.

3.10 Survival. The agreements and obligations of the Company in this Article III shall survive the payment of all other Obligations.

#### ARTICLE IV CONDITIONS PRECEDENT

4.01 Conditions to Effectiveness. The obligations of the Lender hereunder are subject to the satisfaction of each of the following conditions precedent and the Lender shall have received on or before the Closing Date evidence thereof, in form and substance satisfactory to the Lender:

(a) Loan Agreement. This Agreement shall have been duly executed by each of the parties hereto;

(b) Organizational Documents. The Lender shall have received copies, certified by a notary public as to authenticity and by an officer of the Company as to

effectiveness, of each of the (i) *acta constitutiva* and (ii) the *estatutos sociales* of the Company as in effect on the Closing Date;

(c) Resolutions; Incumbency.

(i) The Lender shall have received copies of all applicable powers-of-attorney (*poderes*) designating the Persons authorized to execute this Agreement and the other Financing Documents on behalf of the Company, certified by a Mexican notary public and by the Secretary or an Assistant Secretary of the Board of Directors of the Company;

(ii) The Lender shall have received a certificate in the form of Exhibit E of the Secretary or Assistant Secretary of the Board of Directors of the Company (1) certifying the names and true signatures of the officers of the Company authorized to execute, deliver and perform, as applicable, this Agreement and all other Financing Documents to be delivered by it hereunder; and (2) attaching copies of all documents evidencing all necessary corporate action and governmental approvals, if any, with respect to the authorization for the execution, delivery and performance of each such Financing Document and the transactions contemplated hereby and thereby; and

(iii) Such certificates shall state that the resolutions or other information referred to in such certificates have not been amended, modified, revoked or rescinded as of the date of such certificates;

(d) Governmental Authorizations. All approvals, authorizations or consents of, or notices to, or registrations with, any Governmental Authority (including exchange control approvals) or third parties, if any, required in connection with the execution, deliver and performance by the Company of this Agreement shall have been obtained and are in full force and effect. The Lender shall have received evidence satisfactory to it of such approvals and their effectiveness and if no such approvals, authorizations, consents, notices or registrations are necessary, a certificate executed by an authorized officer of the Company, shall be delivered to the Lender so stating;

(e) Change in Condition. There shall have occurred no circumstance and/or event of a financial, political or economic nature in Mexico or in the international financial, banking or capital markets that has a reasonable likelihood having a Material Adverse Effect on the Company and its Subsidiaries;

(f) Process Agent. The acceptance by the Process Agent of an irrevocable appointment to act as agent for service of process for the Company in connection with any proceeding relating to the Financing Documents brought in New York together with a copy certified by a Mexican notary public of the irrevocable power of attorney granted by the Company in favor of the Process Agent;

(g) Legal Opinions. (i) A favorable opinion of Salvador Vargas, Esq., General Counsel of the Company; substantially in the form of Exhibit F, and (ii) a favorable opinion of Gallásetgui y Lozano, S.C., special Mexican counsel to the Lender;

(h) Payment of Fees. The Company shall have paid, and the Lender shall have received satisfactory evidence thereof, (i) all fees and expenses then due and payable to the Lender on or prior to the Closing Date, and (ii) all reasonable costs and expenses to the extent due and payable to the Lender on the Closing Date, together with Attorney Costs for the preparation and execution of this Agreement of the Lender to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Company and the Lender), and (iii) any other amounts then due and payable under the Loans

(i) Closing Conditions. Each of the conditions contained in Section 4.02 shall have been satisfied;

(j) Certificate. The Lender shall have received a certificate signed by a Responsible Officer of the Company, dated as of the Closing Date, stating that:

(i) the representations and warranties contained in Article V are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default has occurred and is continuing; and

(iii) there has occurred since December 31, 2010, (A) no event or circumstance that has had or could reasonably be expected to have a Material Adverse Effect and (B) no event or circumstance of a financial, political or economic nature in Mexico which has had or could reasonably be expected to have a material adverse effect on the ability of the Company to perform its obligations under this Agreement or any other Financing Document;

(k) Other Documents. The Lender shall have received such other certificates, powers of attorney, approvals, opinions, documents or materials as the Lender may reasonably request.

Notwithstanding the foregoing, the Lender shall not consider making Loans hereunder unless each of the foregoing conditions are satisfied (or waived pursuant to Section 9.03) on or prior to 3:00 p.m., New York City time, on the date that is 60 (sixty) calendar days following the execution date hereof and in the event such conditions are not so satisfied or waived, this Agreement shall terminate at such time (except for such provisions that shall survive its termination).

4.02 Conditions to All Borrowings. The obligation of the Lender to make any Loan (including the initial Loan) is subject to the satisfaction of each of the following conditions on each Borrowing Date:

(a) Notice of Borrowing. The Lender shall have received a Notice of Borrowing from the Company;

(b) Note. As evidence of the relevant Borrowing, the Lender shall have received a Note duly executed by the Company;

(c) Representations and Warranties. The representations and warranties of the Company contained in this Agreement or in any other Financing Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of such Borrowing Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in paragraphs (a) and (b) of Section 5.06 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b) respectively, of Section 6.01;

(d) No Material Adverse Effect. There has occurred since December 31, 2010, no event or circumstance that has had or could reasonably be expected to have a Material Adverse Effect; and

(e) No Existing Default. No Default or Event of Default shall have occurred and be continuing either prior to or after giving effect to the Borrowings contemplated to be made on such Borrowing Date.

#### ARTICLE V REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Lender as of the Closing Date and as of each Borrowing Date that:

5.01 Corporate Existence and Power. The Company is a *sociedad anonima bursatil de capital variable* duly organized and validly existing under the laws of Mexico; and the Company and each of its Subsidiaries:

(a) is duly organized and validly existing under the laws of its corresponding jurisdiction;

(b) has all requisite corporate power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) conduct its business and to own its Properties except to the extent that the failure to obtain any such governmental license, authorization, consent or approval could not reasonably be expected to have a Material Adverse Effect and (ii) (with respect to the Company only) to execute, deliver and perform all of its obligations under this Agreement and the Notes; and

(c) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

5.02 Corporate Authorization; No Contravention. The execution and delivery of, and performance by the Company under this Agreement and each other Financing Document have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of the Company's *acta constitutiva* or *estatutos sociales* in effect,

(b) conflict with or result in any breach, violation or contravention of, or the creation of any Lien under, or give rise to any right to accelerate or require prepayment, repurchase or redemption of any obligation under or constitute a default in respect of (i) any document evidencing any Contractual Obligation to which the Company is a party or (ii) any order, injunction, writ or decree of any Governmental Authority to which the Company or its Property is subject; or

(c) violate or contravene any Requirement of Law.

5.03 No Additional Governmental Authorization. No approval (including exchange control approval), consent, exemption, authorization, registration or other action by, or notice to, or filing with, any Governmental Authority or other third party is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Company of this Agreement or any other Financing Document other than any which have been obtained and are in full force and effect.

5.04 Binding Effect. This Agreement has been and each other Financing Document, when delivered hereunder, will have been, duly executed and delivered by the Company. This Agreement constitutes, and each other Financing Document when so delivered will constitute, a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, *concurso mercantil*, *quiebra*, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability (regardless of whether enforcement thereof is sought in a proceeding at law or in equity).

5.05 Litigation. Except as disclosed in Schedule 5.05 on the date hereof and, with respect to Section 5.05(b) only, as otherwise disclosed by the Company (i) in the Financial Statements delivered pursuant to Section 6.01(a) or (ii) in the most recent annual report of the Company either on Form 20-F as filed with the Securities and Exchange Commission, or in an annual report filed with the Mexican Stock Exchange, or (iii) in an event-driven report filed with the Securities and Exchange Commission or with the Mexican Stock Exchange, there are no actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Company or any of its Material Subsidiaries, which:



(a) purport to affect the legality, validity or enforceability of this Agreement or any other Financing Document, or any of the transactions contemplated hereby or thereby; or

(b) if determined adversely to the Company or such Material Subsidiary, could reasonably be expected to have a Material Adverse Effect.

5.06 Financial Information; No Material Adverse Effect; No Default.

(a) The Company's audited consolidated financial statements for the Fiscal Year ended December 31, 2010 (copies of which have been furnished to the Lender) are complete and correct in all material respects, have been prepared in accordance with Mexican GAAP and fairly present in accordance with Mexican GAAP the financial condition of the Company and its Consolidated Subsidiaries as of such date and the results of their operations for the Fiscal Year ended December 31, 2010.

(b) The Company's consolidated unaudited financial statements for the Fiscal Quarter ended March 31, 2011 (copies of which have been furnished to the Lender) are complete and correct in all material respects, have been prepared in accordance with IFRS and fairly present in accordance with IFRS the financial condition of the Company and its Consolidated Subsidiaries as of such date and the results of their operations for the period covered thereby, subject to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the most recent audited annual financial statements, there has occurred no development, event or circumstance, either individually or in the aggregate, which has had, or could reasonably be expected to have, a Material Adverse Effect.

(d) As of the Closing Date and each Borrowing Date, neither the Company nor any of its Material Subsidiaries is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date or such Borrowing Date, create an Event of Default under Section 8.01(e).

5.07 Pari Passu. The Obligations constitute direct, unconditional and general obligations of the Company and rank pari passu in all respects with all other unsecured and unsubordinated Indebtedness of the Company, except those ranking senior by operation of law (and not by contract or agreement).

5.08 Taxes. The Company and its Material Subsidiaries have timely filed all tax returns and reports required to be filed under the laws of Mexico, and have timely paid all taxes, assessments, fees and other governmental charges levied or imposed upon them or their Properties, including related interest and penalties, otherwise due and payable, except (i) those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with

IFRS; and (ii) those to the extent that non-compliance therewith could not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

5.09 Environmental Matters.

(a) The on-going operations of the Company and each of its Subsidiaries are in compliance in all material respects with all applicable Environmental Laws except as set forth on Schedule 5.09 or except to the extent that the failure to comply therewith could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect;

(b) The Company and each of its Subsidiaries have obtained all environmental, health and safety permits necessary or required for its operations, all such permits are in good standing, and the Company and each of its Subsidiaries is in compliance with all material terms and conditions of such permits, except as set forth on Schedule 5.09 or except to the extent that the failure to obtain, and maintain in full force and effect, any such permit, or to the extent that failure to comply with the material terms thereof, could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect;

(c) To the best of the knowledge of the Company, after reasonable investigation, no Property currently or formerly owned or operated by the Company or any Subsidiary (including soils, groundwater, surface water, buildings or other structures) has been contaminated with any substance that could reasonably be expected to require investigations or remediation under any Environmental Law or has incurred any liability for any release of any substance on any third party property except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect; and

(d) Neither the Company nor any Subsidiary has received any notice, demand, letter, claim or request for information indicating that it may be in violation of or subject to liability under any Environmental Law or is subject to any order, decree, injunction or other arrangement with any Governmental Authority relating to any Environmental Law except as set forth on Schedule 5.09 or except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

5.10 Compliance with Social Security Legislation, Etc. The Company and each of its Material Subsidiaries is in compliance with all Requirements of Law relating to social security legislation, including all rules and regulations of INFONAVIT, IMSS and SAR, except to the extent that noncompliance therewith could not be reasonably expected to have a Material Adverse Effect.

5.11 Assets; Patents; Licenses, Etc.

(a) The Company and each of its Subsidiaries has good and marketable title to, or valid leasehold interests in, all Property that is reasonably necessary to or used in the ordinary conduct of or is otherwise material to, their business, except to the extent that the failure to have such good and marketable title or valid leasehold interests could

not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

(b) The Company and each of its Subsidiaries owns or are licensed or otherwise has the right to use all of the material trademarks, trade names, copyrights, patents, contractual franchises, licenses, authorizations, other intellectual property and other rights that are reasonably necessary for the operation of its business, without conflict with the rights of any other Person, except to the extent that the failure to be so licensed or otherwise have such rights could not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

(c) The Company and each of its Subsidiaries have insurance with financially sound, responsible and reputable insurance companies in such amounts and covering such risks as are usually carried by companies of good repute engaged in similar businesses and owning and/or operating properties similar to those owned and/or operated by the Company or such Subsidiary, as the case may be, in the same general areas in which the Company or such Subsidiary owns and/or operates its properties, in accordance with normal industry practice, except to the extent that the failure to maintain such insurance could not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

5.12 Subsidiaries.

(a) A complete and correct list of all Material Subsidiaries of the Company as of the Closing Date, showing the correct name thereof, the jurisdiction of its incorporation and the percentage of shares of each class outstanding owned by the Company and each Material Subsidiary of the Company is set forth in Schedule 5.12(a).

(b) A list of all agreements, which by their terms, expressly prohibit or limit the payment of dividends or other distributions to the Company by a Material Subsidiary or the making of loans to the Company by a Material Subsidiary is set forth in Schedule 5.12(b), except for any such agreements that have been entered into after the Closing Date and are otherwise permitted by Section 7.05.

5.13 Commercial Acts. The obligations of the Company under this Agreement and the Notes are commercial in nature and are subject to civil and commercial law, and the execution and performance of this Agreement constitute private and commercial acts and not governmental or public acts and the Company is subject to legal action in respect of its Obligations.

5.14 Proper Legal Form. This Agreement is, and when executed and delivered each Note will be, in proper legal form under the laws of Mexico for the enforcement thereof against the Company under the laws of Mexico; provided that in the event any legal proceedings are brought in the courts of Mexico, a Spanish translation of the documents prepared by a court-approved translator would be required in such proceedings, including this Agreement, shall be required.

5.15 Full Disclosure. All written information other than forward-looking information heretofore furnished by the Company to the Lender for purposes of or in connection with this Agreement is, and all such information hereafter furnished by the Company to the Lender will be, true and accurate in all material respects on the date as of which such information is stated or certified. All written forward-looking information heretofore furnished in writing to the Lender has been prepared in good faith based upon assumptions the Company believes to be reasonable. The Company has disclosed to the Lender in writing any and all facts known to it that it believes are reasonably expected to have a Material Adverse Effect.

5.16 Investment Company Act. Both immediately before and after giving effect to this Agreement and the transactions contemplated herein, neither the Company nor any of its Subsidiaries is, or will be required to register as, an “investment company” or an “affiliated person” or “promoter” of, or “principal underwriter” of or for, an “investment company”, as such terms are defined in the Investment Company Act of 1940, as amended.

5.17 Margin Regulations. Neither the Company nor any of its Subsidiaries is generally engaged in the business of purchasing or selling “margin stock” (as such term is defined in Regulations T, U or X of the Board of Governors of the Federal Reserve System of the United States) or extending credit for the purpose of purchasing or carrying margin stock. No part of the proceeds of the Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of Regulation T, U or X of the Board of Governors of the U.S. Federal Reserve System, or that entails a violation by the Company of any other regulations of the Board of Governors of the US Federal Reserve System.

5.18 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Company, nothing has occurred which would prevent, or cause the loss of, such qualification, or such Plan is a prototype or volume submitter plan that is subject to an opinion letter from the IRS. The Company and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Company, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules

with respect to any Plan that has resulted or could be reasonably expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred, or to the best knowledge of the Company, is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice, under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

(d) None of the Company or any of its Material Subsidiaries are a party to any labor dispute that could reasonably be expected to have a Material Adverse Effect, and there are no strikes, walkouts, lockouts or slowdowns against the Company or its Subsidiaries pending or, to the best knowledge of the Company or its Subsidiaries, threatened, except as would not be expected to have a Material Adverse Effect on the business, financial condition or operations of the Company or such Material Subsidiary. There is no unfair labor practice complaint pending against any of the Company or its Subsidiaries or, to the best knowledge of any of the Company or its Subsidiaries, threatened against any of them that could reasonably be expected to have a Material Adverse Effect. There is no grievance or significant arbitration Proceeding arising out of or under any collective bargaining agreement pending against any of the Company or its Subsidiaries or, to the best knowledge of any of the Company or its Subsidiaries, threatened against any of them, in each case that could reasonably be expected to have a Material Adverse Effect.

#### 5.19 Anti-Terrorism Laws.

(a) Neither the Company nor, to its knowledge, any of its Affiliates is in violation of any laws relating to terrorism or money laundering (“Anti-Terrorism Laws”), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the “Executive Order”), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56 (the “Patriot Act”). Neither the Company nor, to its knowledge, any of its Affiliates acting or benefiting in any capacity in connection with the Loan is any of the following:

(i) a Person or entity that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(ii) a Person or entity owned or Controlled by, or acting for or on behalf of, any Person or entity that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(iii) a Person or entity with which the Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order; or

(v) a Person or entity that is named as a “specially designated national and blocked person” on the most current list published by the US Treasury Department Office of Foreign Assets Control (“OFAC”) at its official website or any replacement website or other replacement official publication of such list.

(b) Neither the Company nor, to the Company’s knowledge, any of the Company’s Affiliates acting in any capacity in connection with the Loan (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Person known to the Company to be a Person described in clause (b)(ii) above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

5.20 Hedging Policy. The Hedging Policy has been approved by the Board of Directors of the Company (or by a committee duly delegated by such Board of Directors that is comprised of two or more members thereof) and is currently in effect.

#### ARTICLE VI AFFIRMATIVE COVENANTS

The Company covenants and agrees that for so long as any Loan or other Obligation remains unpaid or the Commitment is in effect:

6.01 Financial Statements and Other Information.

(a) The Company will deliver to the Lender:

(i) as soon as available and in any case within 120 days after the end of each Fiscal Year, consolidated financial statements for such Fiscal Year audited by independent accountants of recognized international standing, including an annual audited consolidated balance sheet and the related consolidated statements of income, changes in equity and changes in financial position, prepared in accordance with IFRS consistently applied (except as otherwise discussed in the notes to such financial statements), which financial statements shall present fairly in accordance with IFRS the financial condition of the Company and its Consolidated Subsidiaries as at the end of the relevant Fiscal Year and the results of the operations of the Company and its Consolidated Subsidiaries for such Fiscal Year, reported on by independent accountants of recognized international standing; and

(ii) as soon as available and in any event within 120 days after the end of each Fiscal Year, an English translation of the audited consolidated financial statements of the Company.

(b) The Company will deliver to the Lender:

(i) as soon as available and in any case within 60 days after the end of each of the first three Fiscal Quarters, unaudited consolidated financial statements for each such quarter period for the Company and its Consolidated Subsidiaries, including therein an unaudited consolidated balance sheet and the related consolidated statements of income prepared in accordance with IFRS, consistently applied (except as otherwise discussed in the notes to such statements), which financial statements shall present fairly in accordance with IFRS the financial condition of the Company and its Consolidated Subsidiaries as at the end of the relevant quarter and the results of the operations of the Company and its Consolidated Subsidiaries for such quarter and for the portion of the Fiscal Year then ended except for the absence of complete footnotes and except for normal, recurring year-end accruals and subject to normal year-end adjustments; and

(ii) as soon as available and in any event within 90 days after the end of each of the first three Fiscal Quarters, an English translation of the unaudited quarterly consolidated financial statements of the Company.

(c) Concurrently with the delivery of the financial statements pursuant to paragraphs (a)(i) and (b)(i) above, the Company will deliver to the Lender a Compliance Certificate, substantially in the form of Exhibit A, signed by a Responsible Officer of the Company.

(d) To the extent not otherwise provided pursuant to clause (a) or (b) above, the Company will furnish to the Lender, promptly after they are publicly available, copies of all financial statements and financial reports filed by the Company with any Governmental Authority (if such statement or reports are required to be filed for the purpose of being publicly available) or filed with any Mexican or other securities exchange (including the Luxembourg Stock Exchange) and which are publicly available.

(e) The Company will furnish to the Lender, promptly upon request of the Lender, such additional information regarding the business, financial or corporate affairs of the Company and its Subsidiaries as the Lender may reasonably request, including for know-your-customer and anti-money laundering rules and regulations, including the Patriot Act.

6.02 Notice of Default and Litigation. The Company will furnish to the Lender, not later than five Business Days after the Company obtains knowledge thereof:

(a) notice of any Default or Event of Default, signed by a Responsible Officer, describing such Default or Event of Default and the steps that the Company proposes to take in connection therewith;

(b) notice of any litigation, action or proceeding pending or threatened against the Company or any of its Material Subsidiaries before any Governmental Authority, in which there is a probability of success by the plaintiff on the merits and which, if determined adversely to the Company or such Material Subsidiary, individually or in the aggregate, could be reasonably expected to have a Material Adverse Effect;

(c) notice of the modification of any consent, license, approval or authorization referred to in Section 4.01(d); and

(d) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Company and its Subsidiaries in an aggregate amount exceeding US\$5,000,000.

6.03 Maintenance of Existence; Conduct of Business.

(a) The Company will, and will cause each of its Material Subsidiaries to (i) maintain in effect its corporate existence and all registrations necessary therefor; (ii) take all reasonable actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations; and (iii) keep all its Property in good working order or condition; provided, however, that this covenant shall not prohibit any transaction by the Company or any of its Material Subsidiaries otherwise permitted under Section 7.03 nor require the Company to maintain any such right, privilege, title to property or franchise or to preserve the corporate existence of any Subsidiary, if the Company shall determine in good faith that the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company or its Material Subsidiaries and that the loss thereof could not reasonably be expected to have a Material Adverse Effect.

(b) The Company will, and will cause its Material Subsidiaries to, continue to engage in business of the same general type as now conducted by the Company and its Material Subsidiaries.

6.04 Insurance. The Company will, and will cause each of its Subsidiaries to, maintain insurance with financially sound, responsible and reputable insurance companies in such amounts and covering such risks as are usually carried by companies of good repute engaged in similar businesses and owning and/or operating properties similar to those owned and/or operated by the Company or such Subsidiary, as the case may be, in the same general areas in which the Company or such Subsidiary owns and/or operates its properties; provided that the Company and its Subsidiaries shall not be required to maintain such insurance if the failure to maintain such insurance could not reasonably be expected to have a Material Adverse Effect.

6.05 Maintenance of Governmental Approvals. The Company will maintain in full force and effect all governmental approvals (including any exchange control approvals), consents, licenses and authorizations which may be necessary or appropriate under any applicable law or regulation for the conduct of its business (except that the failure to maintain any such approval, consent, license or authorization could not



reasonably be expected to have a Material Adverse Effect) or for the performance of this Agreement and for the validity or enforceability hereof. The Company will file all applications necessary for, and shall use its reasonable best efforts to obtain, any additional authorization as soon as possible after determination that such authorization or approval is required for the Company to perform its obligations hereunder.

6.06 Use of Proceeds. The Company will use the proceeds of the Loans for general corporate purposes including, but not limited to, working capital financing and repayment of existing Indebtedness.

6.07 [INTENTIONALLY OMITTED]

6.08 Payment of Obligations. The Company will, and will cause each of its Material Subsidiaries to, pay all taxes, assessments and other governmental charges imposed upon it or any of its Property in respect of any of its franchises, businesses, income or profits before any penalty or interest accrues thereon, and pay all claims (including claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or might become a Lien upon its Property, except if the failure to make such payment has no reasonable likelihood of having a Material Adverse Effect or if such charge or claim is being contested in good faith by appropriate provision promptly initiated and diligently conducted and if such reserves or other appropriate provision, if any, as shall be required by IFRS shall have been made therefor.

6.09 Pari Passu. The Company will cause the Loans to rank pari passu in all respects with all other unsecured and unsubordinated Indebtedness of the Company, except those ranking senior by operation of law (and not by contract or agreement).

6.10 Compliance with Laws. The Company will, and will cause each of its Subsidiaries to, comply in all respects with all applicable Requirements of Law, including all applicable Environmental Laws and all Requirements of Law relating to social security and ERISA, including INFONAVIT, IMSS and SAR, except where the necessity of compliance therewith is contested in good faith by appropriate proceedings promptly initiated and diligently conducted and if such reserves or other appropriate provision, if any, as shall be required by IFRS shall have been made therefor except where any non-compliance could not reasonably be expected to have a Material Adverse Effect.

6.11 Maintenance of Books and Records.

(a) The Company will, and will cause each of its Mexican Subsidiaries to, maintain books, accounts and other records in accordance with IFRS, and the Company will cause its Subsidiaries organized under laws of any other jurisdiction to maintain their books and records in accordance either with the generally accepted accounting principles of the applicable jurisdiction or IFRS.

(b) The Company will, and will cause each Material Subsidiary to, permit representatives of the Lender to visit and inspect any of their respective properties and to examine their respective corporate, financial and operating books and records, all at such

reasonable times during normal business hours and as often as may be reasonably desired upon reasonable advance notice to the Company or such Material Subsidiary; provided, however, that when an Event of Default exists the Lender may do any of the foregoing at the expense of the Company at any time during normal business hours and without advance notice.

6.12 Further Assurances. The Company will, at its own cost and expense, execute and deliver to the Lender all such other documents, instruments and agreements and do all such other acts and things as may be reasonably required in the opinion of the Lender or its counsel, to enable the Lender to exercise and enforce its rights under this Agreement and any Note and to carry out the intent of this Agreement.

## ARTICLE VII NEGATIVE COVENANTS

The Company covenants and agrees that for so long as any Loan or other Obligation remains unpaid or the Commitment is in effect:

7.01 Negative Pledge. The Company will not, and will not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien upon or with respect to any of its present or future Property, except:

(a) any Lien on any Property (or, in the case of a line of credit secured by inventory or accounts receivable, class of Property) existing on the Closing Date;

(b) any Lien on any asset securing all or any part of the purchase price of property or assets (including inventories) acquired or any portion of the cost of construction, development, alteration or improvement of any property, facility or asset or Indebtedness incurred or assumed solely for the purpose of financing all or any part of the cost of acquiring or constructing, developing, altering or improving such property, facility or asset, which Lien attached solely to such property, facility or asset during the period that such property, facility or asset was being constructed, developed, altered or improved or concurrently with or within 120 days after the acquisition, construction, development, alteration or improvement thereof;

(c) Liens of a Subsidiary existing prior to the time such Subsidiary became a Subsidiary of the Company which (i) do not secure Indebtedness exceeding the aggregate principal amount of Indebtedness subject to such Lien prior to the time such Subsidiary became a Subsidiary of the Company, (ii) do not attach to any Property other than the Property attached pursuant to such Lien prior to the time such Subsidiary became a Subsidiary of the Company, and (iii) were not created in contemplation of such Subsidiary becoming a Subsidiary of the Company;

(d) any Lien on any Property existing thereon at the time of the acquisition of such Property and not created in connection with or in contemplation of such acquisition;

(e) any Lien on any Property (or, in the case of a line of credit secured by inventory or accounts receivable, class of Property) securing an extension, renewal,

refunding or replacement of Indebtedness or a line of credit secured by a Lien referred to in clause (a), (b), (c) or (d) above; provided that such new Lien is limited to the Property (or, in the case of a line of credit secured by inventory or accounts receivable, class of Property) which was subject to the prior Lien immediately before such extension, renewal, refunding or replacement, and provided that the principal amount of Indebtedness or the amount of the line of credit secured by the prior Lien is not increased immediately before or in contemplation of or in connection with such extension, renewal, refunding or replacement;

(f) any Lien securing taxes, assessments and other governmental charges, the payment of which is not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and for which such reserves or other appropriate provision, if any, as shall be required by IFRS or, in the case of Material Subsidiaries organized under laws of any other jurisdiction, the applicable GAAP therein, shall have been made;

(g) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;

(h) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen, repairmen or the like arising in the ordinary course of business for sums not yet due or the payment of which is being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and for which such reserves or other appropriate provision, if any, as shall be required by IFRS or, in the case of Material Subsidiaries organized under the laws of any other jurisdiction, the applicable GAAP therein, shall have been made;

(i) any Lien created by attachment or judgment, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after the expiration of any such stay;

(j) any Lien created in connection with Permitted Hedging Transactions on Cash and Cash Equivalent Investments or on the commodity underlying such Permitted Hedging Transaction, to the extent such Permitted Hedging Transaction contemplates the purchase or sale of such commodity; provided that the market value of such assets subject to the Lien shall not exceed, in the aggregate, US\$50,000,000 at any time outstanding;

(k) Liens to secure working capital borrowings not exceeding in the aggregate the greater of (i) US\$100,000,000 (or the equivalent in other currencies) or (ii) (A) 15% of the Consolidated Net Worth of the Company less (B) the amount of any Guaranty Obligations incurred by the Company or any of its Consolidated Subsidiaries for the account of parties other than the Company and its Consolidated Subsidiaries; and

(l) Liens in connection with bank overdraft protection, lines of credit or similar arrangements incurred in the ordinary course of business.

7.02 Investments. The Company will not, and will not permit any of its Material Subsidiaries to, make any Investment, except:

- (a) Investments existing on the date hereof;
- (b) Investments relating to the Company's Core Business other than Investments in any of the Venezuelan Subsidiaries;
- (c) Cash Equivalent Investments;
- (d) Investments by the Company in any Subsidiary other than a Venezuelan Subsidiary or by any Material Subsidiary in the Company or in any Subsidiary other than a Venezuelan Subsidiary;
- (e) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;
- (f) Capital Expenditures;
- (g) subject to the limitations set forth in Section 7.06 and 7.08, Guaranty Obligations of the Company or any Material Subsidiary in connection with primary obligations of any Subsidiary of the Company other than a Venezuelan Subsidiary;
- (h) Permitted Hedging Transactions; and
- (i) Investments by any Venezuelan Subsidiary in another Venezuelan Subsidiary with funds of such Venezuelan Subsidiary.

7.03 Mergers, Consolidations, Sales and Leases. The Company will not merge or consolidate with or into, or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless immediately after giving effect to any merger or consolidation:

- (a) no Default or Event of Default has occurred and is continuing; and
- (b) any Person formed by any such merger or consolidation with the Company or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall expressly assume in writing the due and punctual payment of the principal of, and interest on all Obligations, according to their terms, and the due and punctual performance of all of the covenants and obligations of the Company under this Agreement by an instrument in form and substance reasonably satisfactory to the Lender and shall provide an opinion of counsel acceptable to the Lender, obtained at the Company's expense, on which the Lender may conclusively rely.

7.04 Restricted Payments. The Company will not, and will not permit any Subsidiary to, declare or make, directly or indirectly, any Restricted Payment, or incur

any obligation (contingent or otherwise) to do so, unless (a) the Company's Maximum Leverage Ratio, after giving effect to the making of such Restricted Payment and, without duplication, any other Restricted Payment made since the end of the most recent Fiscal Quarter, was less than 3.50 to 1.00 and (b) no Default or Event of Default shall have occurred and be continuing.

Notwithstanding the foregoing limitation, the Company or any Subsidiary may declare or make the following Restricted Payments:

(a) each Subsidiary may make Restricted Payments to the Company and to wholly-owned Subsidiaries (and, in the case of a Restricted Payment by a non-wholly-owned Subsidiary, to the Company and any Subsidiary and to each other owner of capital stock of such Subsidiary on a pro rata basis based on their relative ownership interests);

(b) the Company and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock of such Person;

(c) each Subsidiary may purchase, redeem or otherwise acquire shares of its common stock or warrants or options to acquire any such shares with the proceeds received from the substantially concurrent issue of new shares of its common stock;

(d) the Company and each Subsidiary may purchase any capital stock otherwise permitted as an Investment pursuant to Section 7.02;

(e) the Company may purchase the stock of Gimsa; and

(f) the Company and Gimsa may each purchase any shares of its own capital stock.

7.05 Limitations on Ability to Prohibit Dividend Payments by Subsidiaries. The Company will not, and will not permit its Material Subsidiaries to, enter into any agreement that, by its terms, expressly prohibits the payment of dividends or other distributions to the Company or the making of loans to the Company, other than in connection with the renewal or extension of any agreement listed in Schedule 5.12(b); provided that (i) the restrictions or prohibitions under such agreement are not increased as a result of such renewal or extension and (ii) in connection with any such renewal or extension of an agreement that does not already contain any such prohibition, the Company will not, and will not permit its Material Subsidiaries to, agree to or accept the inclusion of such prohibition.

7.06 Limitation on Incurrence of Indebtedness by Subsidiaries. The Company will not permit any Consolidated Subsidiary to create, incur, assume or suffer to exist any Indebtedness if, at the time of such incurrence and after giving pro forma effect thereto, the aggregate Indebtedness of all Consolidated Subsidiaries would exceed an amount equal to 30% of the Indebtedness of the Company and its Consolidated Subsidiaries.

7.07 Transactions with Affiliates. The Company will not, and will not cause or permit any of its Material Subsidiaries to, enter into any transaction with any Affiliate of

the Company, except upon fair and reasonable terms no less favorable to the Company or such Subsidiary than are obtainable in a comparable arm's-length transaction with a Person not an Affiliate of the Company.

7.08 No Subsidiary Guarantees of Certain Indebtedness. Other than in connection with its purchase of corn for its corn flour production or wheat for its wheat flour production, the Company will not permit any of its Material Subsidiaries, directly or indirectly, to guarantee or otherwise become liable or responsible for, in any manner, any Indebtedness of the Company.

7.09 Interest Coverage Ratio. The Company shall not permit its Interest Coverage Ratio, as of the last day of any Fiscal Quarter, to be less than 2.50 to 1.00.

7.10 Maximum Leverage Ratio. The Company shall not permit its Maximum Leverage Ratio for any Measurement Period to be greater than 3.50 to 1.00.

7.11 Limitation on Hedging Transactions. Neither the Company nor any of its Subsidiaries shall enter into any Hedging Transactions other than Permitted Hedging Transactions.

#### ARTICLE VIII EVENTS OF DEFAULT

8.01 Events of Default. Any of the following events shall constitute an "Event of Default":

(a) Non-Payment. The Company fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan, or (ii) within five days after the same becomes due, any interest or any other amount payable hereunder or under any other Financing Document; or

(b) Representation or Warranty. Any representation or warranty by the Company made herein or in any other Financing Document, or which is contained in any certificate, document or financial or other statement by the Company or any Responsible Officer of the Company, furnished at any time under this Agreement or any other Financing Document, is incorrect in any material respect on or as of the date made; or

(c) Specific Defaults. The Company (i) fails to perform or observe any term, covenant or agreement contained in Section 6.02(a), 6.03, 6.05, 6.06, 6.09 or 6.12, fails to perform or observe any term, covenant or agreement contained in Article VII (other than Section 7.05, 7.07 or 7.08) or fails to deliver new Notes in exchange for the existing Notes as provided herein or (ii) fails to observe the covenant set forth in Section 7.11, and such default continues unremedied for a period of 3 Business Days; or

(d) Other Defaults. The Company fails to perform or observe any other term or covenant contained in this Agreement or in any other Financing Document, and such default continues unremedied for a period of 30 days after the date upon which written notice thereof is given to the Company by the Lender; or

(e) Cross-Default. The Company or any of its Material Subsidiaries (i) fails to make any payment in respect of any Indebtedness (other than Indebtedness hereunder and under the Notes) having an aggregate principal amount of more than US\$20,000,000 (or the equivalent in another currency) when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or (ii) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness to cause, such Indebtedness to be declared to be due and payable prior to its stated maturity; or

(f) Involuntary Proceedings. (i) A decree or order by a court having jurisdiction has been entered adjudging the Company or any Material Subsidiary as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, *concurso mercantil*, *quiebra* or bankruptcy of the Company or any Material Subsidiary and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or (ii) a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or visitador, conciliador or sindico or trustee or assignee in bankruptcy or insolvency or any other similar official of the Company or any Material Subsidiary or of any substantial part of the Property of the Company or any Material Subsidiary or for the winding up or liquidation of the affairs of the Company or any Material Subsidiary has been entered, and such decree or order has continued undischarged and unstayed for a period of 90 days; or

(g) Voluntary Proceedings. The Company or any Material Subsidiary institutes proceedings to be adjudicated a bankrupt or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganization, *concurso mercantil*, *quiebra* or bankruptcy or consents to the filing of any such petition, or consents to the appointment of a receiver or liquidator or trustee or *visitador*, *conciliador* or *sindico* or assignee in bankruptcy or insolvency or any other similar official of it or any substantial part of its Property; or

(h) Monetary Judgments. One or more judgments, orders, attachments or *embargos*, decrees or arbitration awards are entered against the Company or any of its Material Subsidiaries involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of US\$20,000,000 or more (or the equivalent thereof in another currency), and the same shall remain unsatisfied, unvacated or unstayed pending appeal for a period of 90 days after the entry thereof; or

(i) Unenforceability. This Agreement or any of the Notes for any reason is suspended or revoked or ceases to be in full force and effect in accordance with its respective terms or the binding effect or enforceability thereof is contested by the

Company, or the Company denies that it has any further liability or obligation hereunder or thereunder or in respect hereof or thereof, or performance by the Company under any of the Financing Documents shall become illegal, or the Company shall assert that any obligation under a Financing Document has become illegal; or

(j) Expropriation. The Mexican government, the Mexican Congress or an agency or instrumentality thereof nationalizes, seizes or expropriates all or a substantial portion of the assets of the Company and its Subsidiaries, taken as a whole, or of the common stock of the Company, or the Mexican government or an agency or instrumentality thereof assumes control of the business and operations of the Company and its Subsidiaries, taken as a whole; or

(k) Change of Control. Mr. Roberto Gonzalez Barrera, his former spouse and their respective family members (including spouses, siblings and other lineal descendants, estates and heirs, or any trust or other investment vehicle for the primary benefit of any such Person or their respective family members or heirs) fail to elect the majority of the Board of Directors of the Company.

8.02 Remedies. (a) If any Event of Default occurs, the Lender shall have the right to take any or all of the following actions:

(i) declare the Commitment terminated, whereupon such Commitment shall be terminated;

(ii) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other Obligations owing or payable hereunder or under any other Financing Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(iii) exercise all rights and remedies available to it under the Financing or applicable law;

provided, however, that upon the occurrence of any event specified in Section 8.01(f) or (g), the Commitment of the Lender shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other Obligations shall automatically become due and payable without further act of the Lender.

(b) After the exercise of remedies provided for in this Section 8.02 (or after the Loans have automatically become immediately due and payable), any amounts received on account of the Obligations shall be applied by the Lender in the following order:

(i) First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under Article III) payable to the Lender;



- Loans;
- (ii) Second, to payment of that portion of the Obligations constituting accrued and unpaid interest on the
  - (iii) Third, to payment of that portion of the Obligations constituting unpaid principal of the Loans; and
  - (iv) Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Company or as otherwise required by law.

8.03 Rights Not Exclusive. The rights provided for in this Agreement and the other Financing Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

#### ARTICLE IX MISCELLANEOUS

9.01 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Financing Document, and no consent to any departure by the Company therefrom, shall be effective unless the same shall be in writing and signed by the Lender and the Company, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

#### 9.02 Notices.

(a) Except as otherwise expressly provided herein, all notices, requests, demands or other communications to or upon any party hereunder shall be in English and in writing (including facsimile transmission and, subject to paragraph (c) below, electronic mail) and shall be mailed by an internationally recognized overnight courier service, transmitted by facsimile or electronic mail or delivered by hand to such party at its address, facsimile number or electronic mail address set forth on Schedule 9.02 hereof or at such other address, facsimile number or electronic mail address as such party may designate by notice to the other parties hereto.

(b) Unless otherwise expressly provided for herein, each such notice, request, demand or other communication shall be effective upon the earlier to occur of (i) actual receipt and (ii) (A) if sent by overnight courier service or delivered by hand, when signed for by or on behalf of the party to whom such notice is directed, (B) if given by facsimile, when transmitted to the facsimile number specified pursuant to paragraph (a) above and confirmation of receipt of a legible copy is received by telephone, return facsimile or electronic mail, or (C) if given by any other means, when delivered at the address specified pursuant to paragraph (a) above.

(c) Electronic mail and internet websites may be used only to distribute routine communications, such as financial statements and other information, and to distribute Financing Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) Any agreement of the Lender herein to receive certain notices by telephone, facsimile transmission or electronic mail is solely for the convenience and at the request of the Company. The Lender shall be entitled to rely on the authority of any Person that according to the books and records of the Lender is a Person authorized by the Company to give such notice and the Lender shall not have any liability to the Company or any other Person on account of any action taken or not taken by the Lender in reliance upon such telephonic, facsimile or electronic mail notice. The obligation of the Company to repay the Loans shall not be affected in any way or to any extent by any failure by the Lender to receive written confirmation of any telephonic, facsimile or electronic mail notice or the receipt by the Lender of a confirmation which is at variance with the terms understood by the Lender to be contained in the telephonic, facsimile or electronic mail notice.

9.03 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Lender, any right, remedy, power or privilege hereunder or under any Financing Document, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

9.04 Costs and Expenses. The Company agrees:

(a) to pay or reimburse the Lender (i) upon demand for all reasonable and documented costs and expenses (including Attorney Costs) incurred by the Lender in connection with the preparation, negotiation and execution of the Financing Documents (whether or not consummated) and (ii) within five Business Days after demand for all reasonable and documented costs and expenses incurred by the Lender in connection with any amendment, supplement, waiver or modification requested by the Company (in each case, whether or not consummated) to this Agreement or any other Financing Document, including reasonable Attorney Costs incurred by the Lender with respect thereto as agreed to in writing from time to time; and

(b) to pay or reimburse the Lender within five Business Days after demand for all reasonable costs and expenses (including Attorney Costs) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Financing Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any “workout” or restructuring regarding the Loans, and including in any insolvency or bankruptcy proceeding involving the Company).

9.05 Indemnification by the Company. Whether or not the transactions contemplated hereby are consummated, the Company agrees to indemnify and hold harmless the Lender, its Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact (collectively the “Indemnitees”) from and against (a) any and all direct, punitive and consequential damages, claims, demands, actions or causes of action that are asserted against any Indemnitee by any Person relating, directly or indirectly, to a claim,

demand, action or cause of action that such Person asserts or may assert against the Company or any of its respective officers or directors; (b) any and all claims, demands, actions or causes of action that may at any time (including at any time following repayment of the Obligations or the replacement of the Lender) be asserted or imposed against any Indemnitee, arising out of or relating to, the Financing Documents, the Commitment, the use or contemplated use of the proceeds of any Loan; (c) any administrative or investigative proceeding by any Governmental Authority arising out of or related to a claim, demand, action or cause of action described in clause (a) or (b) above; (d) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Company or any of its Subsidiaries or any Environmental Liability related in any way to the Company or any of its Subsidiaries and (e) any and all liabilities (including liabilities under indemnities), losses, costs or expenses (including Attorney Costs) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action, cause of action or proceeding, or as a result of the preparation of any defense in connection with any foregoing claim, demand, action, cause of action or proceeding, in all cases, and whether or not an Indemnitee is a party to such claim, demand, action, cause of action or proceeding (all the foregoing, collectively, the “Indemnified Liabilities”), in all cases, whether or not caused by or arising, in whole or in part, out of the negligence of the Indemnitee; provided that no Indemnitee shall be entitled to indemnification for any claim caused by its own gross negligence or willful misconduct or for any loss asserted against it by another Indemnitee. All amounts due under this Section 9.05 shall be payable within ten (10) Business Days after demand therefor. The agreements in this Section 9.05 shall survive the termination of the Commitment and repayment of all Obligations.

9.06 Payments Set Aside. To the extent that the Company makes a payment to the Lender, or the Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any insolvency, “*concurso mercantil*” or bankruptcy proceeding involving the Company or otherwise, then to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

9.07 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Lender (and any attempted assignment or transfer by the Company without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

9.08 Assignments, Participations, Etc.

(a) The Lender may, with the written consent of the Company, which consents shall not be unreasonably withheld, conditioned or delayed and which consent of the Company shall not be required if a Default or Event of Default shall have occurred and be continuing (it being understood (x) that any resulting obligation to pay increased costs or reserves pursuant to Section 3.01, 3.04 or 3.06 as of the date of any assignment would justify the Company's refusal to consent thereto, (y) other than in the case of a failure of the Lender to comply with clause (C) below, that the consent of the Company will be deemed given unless the Company replies in writing to any request for consent within five Business Days after actual receipt of such request and (z) with respect to Eligible Assignees described in clause (e) of the definition thereof, that any assignment to any such Eligible Assignee is subject to the Company's absolute discretion), and, if demanded by the Company pursuant to Section 3.09, the Lender shall, at any time assign to one or more Eligible Assignees (provided, however, that no written consent of the Company shall be required in connection with any assignment by the Lender to an Affiliate of the Lender so long as the Company shall not be required to pay any further amounts pursuant to Section 3.01, 3.04 or 3.06 than would have been required to be paid but for such assignment) (each an "Assignee") all or any part of a Loan, its Commitment and the other rights and obligations hereunder, in a minimum amount of US\$5,000,000; provided, however, that (A) if a Default or Event of Default shall have occurred and be continuing, the Lender may assign each Loan, its Commitment and the other rights and obligations hereunder to any third party, (B) following any assignment, the provisions of Sections 9.04 and 9.05 shall inure to the benefit of the Lender to the extent related to events, circumstances, claims, costs, expenses or liabilities arising prior to such assignment, (C) in the case of an assignment to an entity described in clause (e) of the definition of Eligible Assignee, the Lender shall furnish to the Company information and documents relating to the proposed assignee as the Company may request and (D) the Company may continue to deal solely and directly with the Lender in connection with the interest so assigned to an Assignee and the assignment will not be effective until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Company by the Lender and the Assignee; (ii) the Lender and its Assignee shall have delivered to the Company an Assignment and Acceptance in the form of Exhibit G ("Assignment and Acceptance"), together with any Note subject to such assignment; and (iii) except if an Event of Default has occurred and is continuing, the Assignee has delivered to the Company a copy of the tax residence certificate evidencing residency as set forth above.

(b) Within ten Business Days after its receipt of an executed Assignment and Acceptance delivered by the Lender and its Assignee pursuant to Section 9.08(a) (and provided that it consents to such assignment in accordance with Section 9.08(a)), to the extent the Assignee was assigned all or part of an outstanding Loan, the Company shall execute and deliver to the Assignee a new Note in the amount of such Assignee's assigned Loan, and, if the Lender has retained a portion of the Loan, a replacement Note for the Lender (such Note or Notes to be in exchange for, but not in payment of, the Note or Notes, as applicable, held by the Lender). Immediately upon the Company providing its consent under the Assignment and Acceptance, this Agreement shall be deemed to be

amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Loans and Commitments arising therefrom.

(c) Upon an assignment by the Lender, the Lender as used herein will be deemed to refer to such assignee to the extent of its interest thereunder.

9.09 Confidentiality. The Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates', directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory or self-regulatory authority including any securities exchange; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder; (f) subject to an agreement containing provisions substantially the same as those of this section, to (i) any Assignee of or Participant in, or any prospective Assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of the Company; (g) with the consent of the Company; or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this section or (ii) becomes available to the Lender on a nonconfidential basis from a source other than the Company. In addition, the Lender may disclose the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry, and service providers to the Lender in connection with the administration and management of this Agreement, the other Financing Documents, the Commitment, and the Loans. For the purposes of this section, "Information" means all information received from the Company relating to the Company and/or its business, other than any such information that is available to the Lender on a nonconfidential basis prior to disclosure by the Company; provided that, in the case of information received from the Company after the date hereof, such information shall be deemed to be confidential unless it is clearly identified in writing at the time of delivery as not confidential or it is apparent on its face that such information is not confidential. Any Person required to maintain the confidentiality of Information as provided in this section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

9.10 Set-off. In addition to any rights and remedies of the Lender provided by law, if an Event of Default exists or the Loans have been accelerated, the Lender is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final in any currency, matured or unmatured) at any time held by, and other indebtedness

at any time owing by, the Lender to or for the credit or the account of the Company against any and all Obligations owing to the Lender, now or hereafter existing, irrespective of whether or not the Lender shall have made demand under this Agreement or any Financing Document and although such Obligations may be contingent or unmatured. The Lender agrees promptly to notify the Company after any such set-off and application made by the Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

9.11 Counterparts. This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

9.12 Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

9.13 Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

9.14 Consent to Jurisdiction; Waiver of Jury Trial.

(a) Each of the parties hereby irrevocably and unconditionally submits, for itself and its property, to the jurisdiction of the Supreme Court of the State of New York sitting in New York County, of the United States District Court of the Southern District of New York or in any competent Federal or Local court located in the Federal District, United Mexican States, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Loan Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State, Mexico or, to the extent permitted by law, in such court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties expressly waive any other jurisdiction which they may be entitled to claim by reason of their present or future domicile or otherwise.

(b) Each of the parties hereto hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of its present or future place of residence or domicile.

(c) EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF

ANY LITIGATION BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY OTHER FINANCING DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT OR ACTIONS OF THE LENDER OR THE COMPANY RELATING THERETO.

(d) The Company hereby irrevocably appoints Corporation Service Company (the “Process Agent”), with an office on the date hereof at 1180 Avenue of the Americas, Suite 210 New York, New York 10036-8401, as its agent to receive on behalf of the Company service of the summons and complaint and any other process which may be served in any action or proceeding brought in any New York state or federal court sitting in New York City. Such service may be made by mailing or delivering a copy of such process to the Company, in care of the process agent at the address specified above for such Process Agent, and the Company hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. Such appointment shall be contained in a notarial instrument which complies with the 1940 Protocol on Uniformity of Powers of Attorney to be utilized abroad as ratified by the United States and Mexico.

(e) Final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(f) For purposes of Section I of Article 1104 of the Mexican Code of Commerce, the Company hereby designates Mexico City, Federal District as the place for judicial request of payment of the Obligations in Mexico, provided that nothing in this Loan Agreement shall affect the right of any non-Mexican court to request payment of the Obligations to the Company.

9.15 Waiver of Immunity. The Company acknowledges that the execution and performance of this Agreement and each other Financing Document is a commercial activity and to the extent that the Company has or hereafter may acquire any immunity from any legal action, suit or proceedings, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) with respect to itself or any of its property or assets, whether or not held for its own account, the Company hereby irrevocably and unconditionally waives and agrees not to plead or claim such immunity in respect of its obligations under this Agreement or any other Financing Document.

9.16 Payment in Dollars; Judgment Currency.

(a) All payments by the Company to the Lender hereunder shall be made in Dollars and in immediately available funds and in such funds as are customary at the time for the settlement of international transactions.

(b) If for the purposes of obtaining judgment against the Company with respect to its obligations under this Agreement or the Notes in any court it is necessary to convert a sum due under this Agreement in Dollars into another currency (the “Other

Currency”), the Company agrees, to the fullest extent permitted by applicable law, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Lender could purchase Dollars with the Other Currency on the business day preceding that on which final judgment is given.

(c) The obligation of the Company in respect of any sum due under this Agreement or any Note shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by the Lender of any sum adjudged to be so due in the Other Currency the Lender may in accordance with normal banking procedures purchase Dollars with the Other Currency; if the amount of Dollars so purchased is less than the sum originally due to the Lender in Dollars, the Company hereby agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Lender against such loss.

9.17 No Fiduciary Duty. The Lender and its respective Affiliates (collectively, solely for purposes of this paragraph, the “Lenders”), may have economic interests that conflict with those of the Company, its stockholders and/or its Affiliates. The Company agrees that nothing in the Financing Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between the Lender, on the one hand, and such Company, its stockholders or its Affiliates, on the other. The Company acknowledges and agrees that (i) the transactions contemplated by the Financing Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lender, on the one hand, and the Company, on the other, and (ii) in connection therewith and with the process leading thereto, (x) the Lender has not assumed an advisory or fiduciary responsibility in favor of any Company, its stockholders or its Affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether the Lender has advised, is currently advising or will advise the Company, its stockholders or its Affiliates on other matters) or any other obligation to the Company except the obligations expressly set forth in the Financing Documents and (y) the Lender is acting solely as principal and not as the agent or fiduciary of the Company, its management, stockholders, creditors or any other Person. The Company acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Company agrees that it will not claim that the Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to such Company, in connection with such transaction or the process leading thereto.

*[SIGNATURE PAGE FOLLOWS]*



**IN WITNESS WHEREOF**, each of the parties hereto has caused this Loan Agreement to be duly executed and delivered by its officer or officers thereunto duly authorized as of the date first above written.

**THE BORROWER  
GRUMA, S.A.B. DE C.V.**

[Illegible Signature]  
By: Raúl Cavazos  
Title: Attorney-in-fact

[Illegible Signature]  
By: Rodrigo Martínez  
Title: Attorney-in-fact

**THE LENDER  
COÖPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A.  
“RABOBANK NEDERLAND”, NEW YORK BRANCH**

[Illegible Signature]  
By: Brett Delfino  
Title: Executive Director

[Illegible Signature]  
By: Anthony Liang  
Title: Managing Director

*(This signature page corresponds to the Loan Agreement dated June 15, 2011)*

**List of Principal Subsidiaries  
of  
Gruma, S.A.B. de C.V.**

<b>Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
<b>Gruma Corporation</b>	Nevada, United States
<b>Azteca Milling, L.P.</b>	Nevada, United States
<b>Compañía Nacional Almacenadora, S.A. de C.V.</b>	Mexico

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**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. §1350)**

I, Joel Suárez Aldana, certify that:

1. I have reviewed this annual report on Form 20-F of Gruma, S.A.B. de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2012

/s/ Joel Suárez Aldana  
\_\_\_\_\_  
Joel Suárez Aldana  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. §1350)**

I, Juan Antonio Quiroga García, certify that:

1. I have reviewed this annual report on Form 20-F of Gruma, S.A.B. de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2012

/s/ Juan Antonio Quiroga García  
Juan Antonio Quiroga García  
Chief Corporate Officer

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**Officer Certifications**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Gruma, S.A.B. de C.V., a *sociedad anónima bursátil de capital variable* organized under the laws of Mexico (the “Company”), does hereby certify to such officer’s knowledge that:

The annual report on Form 20-F for the fiscal year ended December 31, 2011 (the “Form 20-F”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2012

/s/ Joel Suárez Aldana

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Name: Joel Suárez Aldana

Title: Chief Executive Officer

Dated: April 30, 2012

/s/ Juan Antonio Quiroga García

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Name: Juan Antonio Quiroga García

Title: Chief Corporate Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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