

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, 2006

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)

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

Title of each class:

Name of exchange on which registered:

Series B Common Shares, without par value
American Depositary Shares, each
representing four Series B Common
Shares, without par value

New York Stock Exchange
New York Stock Exchange

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

None

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

7.625% Notes due 2007

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:

482,549,952 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 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 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

* 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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PRESENTATION OF FINANCIAL INFORMATION

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, and references to “U.S. dollars,” “U.S.\$,” “dollars” or “\$” are to United States dollars. “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.

This Annual Report contains our audited consolidated financial statements as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006. The financial statements have been audited by PricewaterhouseCoopers, an independent registered public accounting firm.

We publish our financial statements in pesos and prepare our consolidated financial statements in accordance with the *Normas de Información Financiera* (Mexican Financial Reporting Standards), which are accounting principles generally accepted in Mexico and are commonly referred to as “Mexican GAAP.” Mexican GAAP differs in certain significant respects from accounting principles generally accepted in the United States of America, commonly referred to as “U.S. GAAP.” See Note 22 to our audited consolidated financial statements for information relating to the nature and effect of such differences and for a quantitative reconciliation of our consolidated net income and stockholders’ equity to U.S. GAAP.

As the Mexican economy experienced significant levels of inflation prior to 2000, we are required under Mexican GAAP to recognize the effects of inflation in our financial statements. Under Bulletin B-10, issued by the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.* (Mexican Financial Reporting Standards Board), or “CINIF”, we are required to present our financial information in inflation-adjusted monetary units to allow for more accurate comparisons of financial line items over time and to mitigate the distortive effects of inflation on our financial statements. Unless otherwise indicated, all financial information in this Annual Report has been restated in pesos of constant purchasing power as of December 31, 2006.

We are required to determine our monetary position gain/loss to reflect the effect of inflation on our monetary assets and liabilities. We determine our net monetary position by subtracting our monetary liabilities from our monetary assets and then the resulting net monetary position is multiplied by the appropriate inflation rate for the period with the resulting monetary gain or loss reflected in earnings. In so doing, we can reflect the effect inflation is having on our monetary items.

Pursuant to Bulletin B-15 issued by CINIF, we apply the actual inflation rate in the relevant country of each non-Mexican subsidiary and then translate the inflation-adjusted financial statements into pesos. The figures for subsidiaries in Central America, Venezuela and the United States are restated to period-end constant local currencies following the provisions of Bulletin B-10 and B-15, applying the general consumer price index from the country in which the subsidiary operates. Once figures are restated, they are converted to Mexican Pesos by applying the exchange rate in effect at the end of the period.

For the purposes of the quantitative reconciliation to U.S. GAAP, we have restated the data as of December 31, 2005 and for years ended December 31, 2004 and 2005 in pesos of constant purchasing power as of December 31, 2006 using the Mexican National Consumer Price Index, or NCPI, rather than the international restatement factor in Bulletin B-15 of CINIF. For a more detailed discussion of Mexican GAAP inflation accounting methodologies, see “Item 5. Operating and Financial Review and Prospects—Management’s Discussion and Analysis of Results of Operations—Overview of Accounting Presentation.”

MARKET SHARE AND OTHER INFORMATION

The information contained in this Annual Report regarding our market positions is based primarily on our own estimates and internal analysis. Market position information for the United States is also based on data from the Tortilla Industry Association and ACNielsen. While we believe our internal research and estimates are reliable, they have not been verified by any independent source and we cannot assure you as to their accuracy.

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 operation of the 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, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 are derived from and should be read together with our financial statements included herein and “Item 5. Operating and Financial Review and Prospects.”

Our consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Note 22 to our audited consolidated financial statements provides information relating to the nature and effect of such differences, as they relate to us, and provides a reconciliation to U.S. GAAP of majority net income and total stockholders’ equity.

Pursuant to Mexican GAAP, the consolidated financial statements and the selected consolidated financial data set forth below restate the components of stockholders’ equity using the NCPI factors and record gains and losses in purchasing power from holding monetary assets or liabilities. Under Mexican GAAP, non-monetary assets, with the exception of inventories and fixed assets of non-Mexican origin, are restated using the NCPI and General Consumer Price Index, or GCPI, factors for foreign subsidiaries. Inventories are restated at current replacement costs while fixed assets of foreign origin are restated by the inflation rate of the country of origin prior to translation to pesos at the period-end exchange rate. Mexican GAAP also requires restatement of all financial statements to pesos of constant purchasing power as of the date of the most recent balance sheet presented, and accordingly all data in the consolidated financial statements and in the selected consolidated financial data set forth below have been restated in pesos of constant purchasing power as of December 31, 2006. The effects of inflation accounting under Mexican GAAP, other than for the use of a specific index for the restatement of fixed assets of foreign origin, have not been reversed in the reconciliation to U.S. GAAP. See Note 22 to our consolidated financial statements.

	2002	2003	2004	2005	2006
	(thousands of Mexican pesos of constant purchasing power as of December 31, 2006, except per share amounts)				
Income Statement Data:					
Mexican GAAP:					
Net sales.....	Ps. 21,674,750	Ps. 24,159,038	Ps. 25,799,740	Ps. 27,862,898	Ps. 30,654,178
Cost of sales.....	(13,555,764)	(15,383,142)	(16,552,730)	(18,197,650)	(19,974,480)
Gross profit.....	8,118,986	8,775,896	9,247,010	9,665,248	10,679,698
Selling, general and administrative expenses.....	(6,432,111)	(6,942,774)	(7,244,431)	(8,032,119)	(8,897,173)
Operating income.....	1,686,875	1,833,122	2,002,579	1,633,129	1,782,525
Net comprehensive financing cost:					
Interest expense.....	(640,540)	(557,655)	(502,436)	(596,588)	(713,273)
Interest income.....	65,199	67,816	235,772	55,739	78,099
Monetary position gain, net.....	181,923	197,197	250,668	314,385	320,499
Foreign exchange gain (loss), net ..	(297,403)	(190,477)	(53,003)	(53,476)	(18,441)
Total net comprehensive financing cost.....	(690,821)	(483,119)	(68,999)	(279,940)	(333,116)
Other (expenses) income, net.....	136,236	(183,504)	(296,091)	(147,134)	(14,068)
Income before income tax and Other items.....	1,132,290	1,166,499	1,637,489	1,206,055	1,435,341
Income tax (current and deferred).....	(634,417)	(708,758)	(788,041)	(386,425)	(411,549)
Employees' statutory profit sharing (current and deferred)....	(14,625)	4,925	(9,531)	(20,688)	(32,701)
Other items(1).....	183,144	246,554	291,313	593,696	612,626
Minority interest.....	(221,929)	(192,332)	(178,230)	(153,884)	(78,979)
Majority net income.....	444,463	516,888	953,000	1,238,754	1,524,738
Per share data(2):					
Income from continuing operations.....	1.00	1.16	2.12	2.87	3.18
Cumulative effect of change in accounting principle.....	—	—	—	(0.13)	—
Majority net income per share ...	1.00	1.16	2.12	2.74	3.18
U.S. GAAP:					
Net sales.....	22,377,108	25,833,470	26,650,510	27,543,284	30,387,884
Operating income.....	1,681,092	2,010,976	2,035,550	1,492,449	1,689,599
Net income.....	364,432	666,209	835,674	1,238,932	1,448,421
Per share data(2):					
Net income per share.....	0.82	1.50	1.86	2.74	3.02

	2002	2003	2004	2005	2006
	(thousands of Mexican pesos of constant purchasing power as of December 31, 2006, except capital stock and operating data)				
Balance Sheet Data (at period end):					
Mexican GAAP:					
Property, plant and equipment, net	14,222,894	13,661,563	13,638,363	14,354,891	14,821,192
Total assets	25,030,771	24,515,695	26,023,076	27,966,583	30,237,505
Short-term debt(3)	893,635	523,546	538,226	537,094	882,697
Long-term debt(3).....	6,842,238	6,270,312	6,210,190	6,680,257	5,605,464
Total liabilities	11,428,641	10,964,027	11,817,674	13,241,631	13,189,364
Capital stock	15,613,040	15,973,406	16,323,550	16,350,445	17,501,051
Total stockholders' equity(4).....	13,602,130	13,551,668	14,205,402	14,724,952	17,048,141
U.S. GAAP:					
Total assets	25,382,702	25,865,772	26,194,802	27,345,977	29,913,649
Long-term debt	7,341,806	6,971,156	6,639,220	6,787,946	5,709,499
Capital stock	15,628,118	15,973,408	16,226,959	16,253,852	17,404,458
Total stockholders' equity	10,089,571	10,454,252	10,505,629	10,893,150	13,425,112
Other Financial Information:					
Mexican GAAP:					
Capital expenditures	784,087	677,796	1,320,818	2,145,091	2,432,963
Depreciation and amortization	1,044,996	1,180,458	1,089,535	1,159,940	1,202,078
Resources provided by (used in):					
Operating activities	1,633,994	1,399,017	2,026,415	1,874,286	1,873,731
Financing activities	(915,281)	(1,106,587)	(410,319)	220,565	(160,163)
Investing activities	(671,820)	(415,871)	(1,497,884)	(2,254,589)	(1,484,376)
U.S. GAAP:					
Depreciation and amortization	1,144,802	1,149,663	1,126,595	1,131,487	1,196,884
Net cash provided by (used in):					
Operating activities	1,135,937	1,340,026	1,610,446	1,522,485	1,673,312
Investing activities	(636,922)	(284,780)	(1,285,512)	(1,865,722)	(1,484,376)
Financing activities	(659,966)	(949,724)	(160,600)	209,480	79,292
Operating Data:					
Sales volume (thousands of tons):					
Gruma Corporation (corn flour, tortillas and other)(5)	899	979	1,088	1,275	1,335
GIMSA (corn flour, tortillas and other)(5)	1,397	1,406	1,448	1,585	1,734
Gruma Venezuela (corn flour, wheat flour and other)	454	518	504	480	486
Molinera de México (wheat flour).....	536	575	460	474	477
Gruma Centroamérica (corn flour and other)(5)	139	144	154	178	213
Production capacity (thousands of tons):					
Gruma Corporation (corn flour and tortillas).....	1,346	1,394	1,548	1,661	2,021
GIMSA (corn flour, tortillas and other)(6).....	2,345	2,345	2,408	2,801	2,797
Gruma Venezuela (corn flour, wheat flour and other)(7).....	792	792	786	764	764
Molinera de México (wheat flour).....	717	717	717	801	801
Gruma Centroamérica (corn flour and other).....	217	217	220	264	266
Number of employees.....	14,887	15,104	15,727	16,582	18,124

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- (1) Other items include extraordinary items, equity in earnings of associated companies and gain from sale of subsidiaries and associated companies' common stock.
 - (2) Based upon weighted average of outstanding shares of our common stock (in thousands), as follows: 446,202 shares for the year ended December 31, 2002; 445,098 shares for the year ended December 31, 2003; 450,306 shares for the year ended December 31, 2004; 451,446 shares for the year ended December 31, 2005; and 480,007 shares for the year ended December 31, 2006.
 - (3) Short-term debt consists of bank loans and the current portion of long-term debt. Long-term debt consists of debentures and bank loans.
 - (4) Total stockholders' equity includes minority interests as follows: Ps.2,922 million at December 31, 2002; Ps.3,001 million at December 31, 2003; Ps.3,011 million at December 31, 2004; Ps.2,989 million at December 31, 2005; and Ps.2,922 million at December 31, 2006.
 - (5) Net of intercompany transactions.
 - (6) Includes 437 thousand tons of temporarily idled production capacity at December 31, 2006.
 - (7) Includes 96 thousand tons of temporarily idled production capacity at December 31, 2006.

Dividends

Our ability to pay dividends is 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.

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.

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 capital;
- 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 ordinary shareholders' 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. Risk Factors—Risks Related to Venezuela—Venezuela Presents Significant Economic Uncertainty and Political Risk.” In the particular case of Gruma Corporation, our principal U.S. subsidiary, its ability to pay dividends is subject to financial covenants contained in some of its debt and lease agreements, including covenants which limit the amount of dividend payments. Upon the occurrence of any default or event of default under these credit and lease agreements, Gruma Corporation generally is prohibited from making any dividend or other payments. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness.”

During 2006, 2005, 2004 and 2003, we paid dividends to shareholders, in nominal terms, of Ps.410 million, Ps.359 million, Ps.315 million, and Ps.287 million, respectively. In pesos of constant purchasing power as of December 31, 2006, the dividends paid or payable to shareholders in 2006, 2005, 2004 and 2003 amounted to Ps.424 million, Ps.381 million, Ps.351 million and Ps.332 million, respectively.

Exchange Rate Information

Mexico has had a free market for foreign exchange since 1991. Prior to December 1994, the *Banco de México*, or Mexican Central Bank, kept the peso-U.S. dollar exchange rate within a range prescribed by the government through intervention in the foreign exchange market. In December 1994, the government suspended intervention by the Mexican Central Bank and allowed the peso to float freely against the U.S. dollar. The peso declined during the period from 1994 through 1998, at times in response to events outside of Mexico, but was relatively stable in 1999, 2000 and 2001. In late 2001 and early 2002, the Mexican peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until the end of 2003, the Mexican peso depreciated in value. From the beginning of 2004 to date in 2007, the Mexican peso has been relatively stable, ranging from 10.80 to 11.63. 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.

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. The rates have not been restated in constant currency units.

Year	Noon Buying Rate (Ps. Per U.S.\$)			
	High (1)	Low (1)	Average (2)	Period End
2002	10.4250	9.0005	9.7458	10.4250
2003	11.4063	10.1130	10.8460	11.2420
2004	11.6350	10.8050	11.2900	11.1540
2005	11.4110	10.4135	10.8940	10.6275
2006	10.4600	10.4315	10.9060	10.7995
2007 (through June 15)				
December 2006	10.9860	10.7675	10.8550	10.7995
January 2007	11.0920	10.7650	10.9560	11.0381
February 2007	11.1575	10.9170	10.9950	11.1575
March 2007	11.1846	11.0130	11.1140	11.0427
April 2007	11.0305	10.9240	10.9800	10.9250
May 2007	10.9308	10.7380	10.8220	10.7380
June 2007(3)	10.9785	10.7116	10.8640	10.8095

- (1) Rates shown are the actual low and high, on a day-by-day basis for each period.
(2) Average of month-end rates.
(3) Through June 15, 2007.

On June 15, 2007, the noon buying rate for pesos was Ps.10.8095 to U.S.\$1.00.

RISK FACTORS

Risks Relating to Mexico

Our Results of Operations Could Be Affected by Economic Conditions in Mexico

We are a Mexican company with 47% of our consolidated assets located in Mexico and 32% of our consolidated net sales derived from our Mexican operations as of December 31, 2006. As a result, Mexican economic conditions could impact our results of operations.

In the past, Mexico has experienced exchange rate instability and devaluation of the peso 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. Civil and political unrest in Venezuela or elsewhere could produce similar results. See “—Adverse Developments in Other Emerging Market Countries May Affect Mexico or the Price of Our Securities.” The Mexican economy grew by 0.9% in 2002, by 1.3% in 2003, by 4.4% in 2004, by 3.0% in 2005, by 4.8% in 2006 and by an annualized rate of 2.6% in the first quarter of 2007. However, if the Mexican economy falls into recession, or if inflation and interest rates increase, consumer purchasing power may decrease and, as a result, demand for our product 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.

Mexican presidential and congressional elections took place on July 2, 2006. Felipe Calderón Hinojosa was elected president for the 2006-2012 term. He is the second presidential candidate to be elected from the *Partido Acción Nacional*, which won for the first time in 2000. No political party in Mexico succeeded in securing a majority in the Congress or Senate. The lack of a majority party in the legislature, the potential lack of alignment between the legislature and the president and any changes that result from the presidential and congressional elections could result in instability or deadlock, and prevent the timely implementation of economic reforms, which in turn could have a material adverse effect on Mexican economic policy and on our business.

Governmental policies have negatively affected our sales of corn flour in the past and may continue to do so in the future. We currently depend on corn import permits to ensure an adequate supply of corn in low-corn producing regions of the country. We believe that a shortage of corn imports would currently have a greater adverse impact on our results of operations than a surplus in the number of corn imports. In the past, we have been able to obtain sufficient corn import permits to satisfy our corn requirements. Nevertheless, we cannot assure that the Mexican government will not take actions that could adversely affect us. See “Item 4. Information on the Company—Regulation.”

By the end of 2006, the price of corn set by the Chicago Board of Trade and the average price of Mexican corn, increased dramatically principally from corn being used in connection with 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, the Mexican government promoted two agreements among the various parties involved in the corn-corn flour-tortilla production chain. The first agreement was effective from January 15 through April 30, 2007. On April 25, 2007, the Mexican government announced a second agreement that extended the term through August 15, 2007.

The Mexican government petitioned our company, among others, to voluntarily participate in these agreements through which we agreed to establish a price ceiling for our corn flour. Through these agreements: (i) corn flour producers have agreed to maintain an average price of Ps. 5.00 per kilo of corn flour; (ii) Wal-Mart and retailers affiliated with the *Asociación Nacional de Tiendas de Autoservicios*, or National Association of Supermarkets, have agreed to sell tortillas at an average price of Ps. 6.50 per kilo, and; (iii) small tortilla manufacturers, or *tortillerías*, have agreed to sell tortillas at an average price of Ps. 8.50 per kilo.

As a result, our corn flour prices do not reflect the recent increase in the cost of corn, which resulted in a significant deterioration in the financial performance of GIMSA, our subsidiary engaged in corn-flour production, during the first quarter of 2007, which may continue to the extent the company does not increase prices. While the Mexican government has not directly fixed or capped corn flour or tortilla prices, it has strongly encouraged Mexican producers and retailers to voluntarily do so until the next harvest of Mexican corn crops. We intend to fully abide by the terms of these agreements. We cannot assure you that there will not be another extension of the agreements, that we will fully comply with their terms at all times or that the Mexican government will not take actions that could adversely affect our financial condition and results of operation. See “Item 4. Information on the Company—Business Overview—Mexican Operations—GIMSA—Corn Flour Operation.”

The level of environmental regulations and enforcement in Mexico has increased in recent years. In the past, the *Comisión Nacional del Agua*, or National Water Commission or CNA, has brought enforcement proceedings against us for fees arising from our alleged water discharges from five of our facilities in Mexico. Of such actions, only one is unresolved. The other proceedings have been resolved favorably. We cannot assure you that further actions of this type will not be brought against us. 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 Affect our Financial Performance

As of December 31, 2006, 93% of our debt obligations were denominated in U.S. dollars. We generate approximately 49% of our revenues in U.S. dollars, which in 2006 represented 217% of our then outstanding debt obligations. While the dollar revenues we earn may act as a natural hedge for part of our dollar-denominated debt obligations, we have not entered into derivative contracts to hedge our foreign currency risk with respect to the outstanding principal amount of these obligations. As of June 15, 2007 we had exchange rate forward contracts for only part of the interest payments due in 2007 and 2008 on our U.S.\$300 million 7.75% perpetual bond, for an aggregate notional amount of U.S.\$34.9 million at an average exchange rate of Ps.10.94 per U.S. dollar. Therefore, we remain exposed to foreign exchange risks that could affect our ability to meet our obligations and result in foreign exchange losses on our dollar-denominated obligations.

We posted net foreign exchange losses of Ps.53 million in 2004, Ps.53 million in 2005 and Ps.18 million in 2006. Any significant decrease in the value of the peso relative to the U.S. dollar may have an adverse effect on our liquidity and on our ability to meet our dollar-denominated debt obligations.

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 5.19% for 2004, 3.33% for 2005 and 4.05% for 2006. From January through May 2007, the inflation rate was 0.46%. On June 15, 2007, the 28-day CETES rate was 7.20%. While the 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. Therefore, adverse economic conditions in the United States could have a significant adverse effect on the Mexican economy. In addition, in the past, economic crises in Asia, Russia, Brazil, Argentina and other emerging market countries adversely affected the Mexican economy.

We cannot assure you that the events in other emerging market countries, in the United States 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 in original actions in Mexican courts of liabilities predicated solely on the U.S. federal securities laws.

Differences Between Mexican GAAP and U.S. GAAP May Have an Impact on the Presentation of Our Financial Information

Our annual audited consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in some significant respects from U.S. GAAP. Financial results reported using Mexican GAAP may differ substantially from those results that would have been obtained using U.S. GAAP. We are required, however, to file an annual report on Form 20-F containing financial statements reconciled to U.S. GAAP, although this filing only contains year-end financial statements reconciled to U.S. GAAP for our three most recent fiscal years. See Note 22 to our audited consolidated financial statements.

Risks Relating 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 raw material represented 27%, 11% and 7%, respectively, of our cost of sales in 2006. 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. Recently, there has been substantial volatility and increases in the price of corn, partly due to the demand for corn-based ethanol in the U.S., which has increased our cost of corn and negatively affected our financial condition and results of operation. It is likely that the demand for corn will be long-term in connection with the manufacture of corn-based ethanol.

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, 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, as described above, 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.

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 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. This may result in costly recalls and subject us to lawsuits which may have a negative impact on our results of operations.

In recent years, various claims have been alleged, 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 be perceived to be a seller of genetically modified corn not approved for human consumption, this may have a significant negative impact on our financial condition and results of operation.

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

We are currently rated BBB- by Standard & Poor's and by Fitch and Ba1 by Moody's. Moody's recently changed its outlook of us from positive to neutral and Standard & Poor's from neutral to negative. Any ratings downgrade or further changes in outlook could cause our costs with respect to new debt to increase, which could adversely affect 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 of our assets, including cash;
- 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; 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 recently expanded our operations to China, Australia and England. Our presence in these and other markets could present us 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.

Risks Relating to Venezuela

Venezuela Presents Significant Economic Uncertainty and Political Risk, Which May in the Future Have an Adverse Impact on Our Operations and Financial Performance

Our operations in Venezuela accounted for approximately 10% of our net sales in 2006. In recent years, political and social instability has prevailed in Venezuela. This unrest presents a risk to our business which cannot be controlled or accurately measured or estimated. For instance, as a result of the nation-wide general strike that took place from early

December 2002 to February 2003, and in an effort to shore up the economy and control inflation, Venezuelan authorities imposed foreign exchange and price controls in early 2003.

These price controls apply to products such as corn flour and wheat flour, which limit our ability to increase our prices in order to compensate for higher costs in raw materials. Additionally, the foreign exchange controls imposed by the Venezuelan government limit our ability to convert bolivares (the Venezuelan currency) into other currencies and transfer funds out of Venezuela. In February 2003, the Venezuelan government established a single fixed exchange rate for the bolivar of 1,600.00 bolivares per U.S.\$1.00, which has been increased on several occasions to the current fixed exchange rate of 2,150.00 bolivares per U.S.\$1.00 in effect since March 2005.

Hugo Chávez, the current president of Venezuela was reelected to a second term in December 2006 and it is expected that political and social instability will continue to prevail during his six year term. Additionally, during the first quarter of 2007, Hugo Chávez was vested with legislative authority to legislate by decree for a period of 18 months in several strategic areas, which could result in certain structural changes in the economic and social policies in Venezuela. Most recently, the government's actions have adversely affected certain Venezuelan businesses, including news and media outlets, resulting in civil unrest and public demonstrations.

Our financial condition and results of operations could be adversely affected since, among other reasons: (i) a portion of our sales are denominated in bolivares; (ii) Gruma Venezuela produces products that are subject to price controls; (iii) part of our 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) we may face increasing costs in some of our raw materials due to the implementation of import tariffs.

Risks Relating to the United States

We May Be Unable to Maintain Our U.S. Profit Margin in the Face of a Consolidated Retail Environment

Net sales in the U.S. constituted approximately 49% of our total sales in 2006. As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers could demand lower pricing and increased promotional programs. Also, our dependence on sales to retail customers could increase. There is a risk that we will not be able to maintain our U.S. profit margin in this environment.

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 depositary with sufficient time to enable such holders to return voting instructions to our ADS depositary 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 depository 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, with no legal precedent to predict the outcome of any such action. Additionally, 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

As of June 15, 2007, we held approximately 9.86 % of the capital stock of Grupo Financiero Banorte, S.A. de C.V. or GFNorte, a Mexican financial institution. In the normal course of business, we may obtain financing from GFNorte’s subsidiaries at market rates and terms. For the past five and a half years, the highest outstanding loan amount was Ps.162 million (in nominal terms) with an interest rate of 8.9% in December 2003.

We purchase some of our inventory ingredients from our shareholder and associate Archer-Daniels-Midland Company, or Archer-Daniels-Midland. During 2004, 2005 and 2006, we purchased U.S.\$103 million, U.S.\$105 million and U.S.\$115 million of inventory ingredients, 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—Exchange Rate Information.”

Our Bylaws Restrict 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 considered as Mexican in respect to their ownership interests in us, and shall be deemed to have agreed not to invoke the protection of their governments in any circumstances, under penalty to 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 27, 2007, Roberto González Barrera and his family controlled directly or indirectly approximately 50.9% of our outstanding shares. 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 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. In addition, this could trigger a default in one 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 27.1% 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 22% of our outstanding shares. In addition, Archer-Daniels-Midland has the right to nominate two of the 15 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 30% of our revenue. Although we own a majority ownership interest in these subsidiaries, in each of Azteca Milling and Molinera de 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.

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 “Additional Information—Bylaws—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 upon our receiving sufficient funds 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 capital;
- 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 and lease agreements which partially restrict the amount of dividends that can be paid, limit advances or loans to us, and require the maintenance of specified financial ratios and balances. For additional information concerning these restrictions on inter-company transfers, see “Item 3. Key Information—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, 84% of MONACA, 57% of DEMASECA, 80% of Azteca Milling, L.P. (through Gruma Corporation), 60% of Molinera de México, S.A. de C.V. and, as of June 15, 2007, 9.86% of GFNorte. Upon completion of a series transactions which commenced in April 2006 and are expected to be completed by December 2007, we will own a 57% interest in MONACA. For more information regarding these transactions, please see “Item 4. Information on the Company—Business Overview—Gruma Venezuela.” Accordingly, we are entitled to receive only our *pro rata* share of any of these subsidiaries’ dividends.

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

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 in producing tortillas. Prior to our founding, all corn tortillas were made using a rudimentary process. We believe that the preparation of tortillas using the corn flour method presents 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 some 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**, we 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, Nicaragua and Ecuador.
- **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 1996**, we strengthened our position in the U.S. corn flour market through an association with Archer-Daniels-Midland, which currently owns approximately 27.13% of our 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.
- **From 1997 through 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.
- **In 2004**, we acquired Ovis Boske, a tortilla company based in Holland, 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 will strengthen our presence in the Asian and Oceania markets. In April, we entered into a contract to sell a 40% stake in MONACA to our partners in

DEMASECA. In conjunction with this transaction, we also agreed to purchase an additional 10% ownership interest in DEMASECA from our partners. 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 September 2006, we opened our first tortilla plant in Asia, located in Shanghai, China. We believe the plant will allow 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**, during the first quarter, we made major investments in capacity expansions and upgrades in Gruma Corporation, as well as in GIMSA, because we are rebalancing production corn flour requirements among different regions in Mexico.

We are continuously considering potential acquisitions which could improve our market share, profitability and fit into our overall strategy.

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, 2006.

<u>Name of Company</u>	<u>Principal Markets</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Owned(1)</u>	<u>Products/ Services</u>
Mexican Operations				
Grupo Industrial Maseca, S.A.B. de C.V. (“GIMSA”)	Mexico	Mexico	83%	Corn flour, Tortillas, Other
Molinera de México, S.A. de C.V. (“Molinera de México”).....	Mexico	Mexico	60%	Wheat flour, Other
U.S., European, Asia and Oceania Operations(2)				
Gruma Corporation.....	United States, Europe, Asia, Oceania	Nevada	100%	Packaged tortillas, Other tortilla related products, Corn flour, Other
Azteca Milling(3).....	United States	Texas	80%	Corn flour
Central American Operations				
Gruma Centroamérica, LLC.	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	Nevada	100%	Corn flour, Packaged tortillas, Snacks, Hearts of palm, Rice
Venezuelan Operations(4)				
Molinos Nacionales, C.A. (“MONACA”) (5)	Venezuela	Venezuela	84%	Corn flour, Wheat flour, Other products
Derivados de Maíz Seleccionado, C.A. (“DEMASECA”) (5)	Venezuela	Venezuela	57%	Corn flour
Other Subsidiaries				
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) Beginning in 2007, the Asia and Oceania operations will be presented as a separate business unit from Gruma Corporation.
- (3) A limited partnership between Gruma Corporation (80%) and Archer-Daniels-Midland (20%).
- (4) Together these subsidiaries are referred to as “Gruma Venezuela.”
- (5) Upon completion of a series of transactions with our Venezuelan partners in DEMASECA, GRUMA will hold a 57% interest, ADM will hold a 3% interest and our partners will hold a 40% interest in both MONACA and DEMASECA. Such transactions are expected to be completed by December 2007. As of June 15, 2007, GRUMA holds a 73% interest in MONACA. For more information regarding these transactions, please see “—Business Overview— Gruma Venezuela.”

Our subsidiaries accounted for the following percentages and amount of our net sales in millions of pesos of constant purchasing power as of December 31, 2006 for the years ended December 31, 2004, 2005 and 2006.

	Year ended December 31,					
	2004		2005		2006	
	In Millions of Pesos	Percentage of Net Sales	In Millions of Pesos	Percentage of Net Sales	In Millions of Pesos	Percentage of Net Sales
Gruma Corporation.....	Ps. 12,296	48%	Ps. 14,327	51%	Ps. 16,312	53%
GIMSA	6,222	24	6,791	24	7,388	24
Gruma Venezuela	3,822	15	3,221	12	3,132	10
Molinera de México.....	2,027	8	1,956	7	2,132	7
Gruma Centroamérica.....	1,314	5	1,424	5	1,595	5
Others (and eliminations).....	119	—	144	1	95	1

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 exclusively 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 exclusively 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 newly issued shares, which represented at that time approximately 22% of our total outstanding shares and the right to designate two of the 15 members of our board of directors and their corresponding alternates. Currently, Archer-Daniels-Midland owns, directly and indirectly, approximately 27% of our outstanding shares and, indirectly, a combined 3% stake in MONACA and DEMASECA. See “Item 3. Key Information—Risk Factors—Risks Relating to Our Controlling Shareholders and Capital Structure—Archer-Daniels-Midland, Our Strategic Partner, Has Influence Over Some Corporate Decisions.” 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 2004, 2005 and 2006 were U.S.\$115 million, U.S.\$193 million and U.S.\$225 million, respectively. Our capital expenditures include investments in property, plant and equipment, acquisitions of new plants and brands and investments in common stock. Investments in 2004 were mainly applied to Gruma Corporation for the expansion of corn flour and tortilla capacity, including two small European acquisitions, the acquisition of a small tortilla plant in Las Vegas, Nevada and general facilities upgrades at our U.S. plants. Investments in 2005 were mainly applied to the construction of a new plant, expansions and upgrades of existing plants and several acquisitions, including the CHS (tortilla assets) and Agroinsa acquisitions. Investments in 2006 were mainly applied to: (i) the expansion of tortilla capacity and upgrades in

existing and new plants within Gruma Corporation; (ii) the acquisition of Pride Valley Foods, a company based in Newcastle, England, that manufactures tortillas, pita bread, chapatti, and naan, for an acquisition cost of approximately U.S.\$33 million; (iii) the construction of a tortilla plant in Shanghai, China, for a total investment of approximately U.S.\$7million; (iv) the acquisition of Rositas Investments, a tortilla company based in Australia, for approximately U.S.\$13 million; (v) the acquisition of Oz-Mex Foods, a tortilla company based in Australia, for approximately U.S.\$4 million; and (vi) the purchase of 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. To a lesser extent, investments were also applied to capacity expansions in GIMSA and Gruma Centroamérica. These investments were made to accommodate the continuous growth in our business. We have budgeted approximately U.S.\$250 million for capital expenditures in 2007. Approximately U.S.\$140 million of such budget is intended to be used for additional capacity in Gruma Corporation and, to a lesser extent, in GIMSA and Gruma Centroamérica. We anticipate financing these expenditures through our own cash flows as well as through the sale of GFNorte shares throughout the year. This capital expenditures budget does not include any potential acquisitions.

During the first quarter of 2007, we spent approximately U.S.\$45 million on capital expenditures. Major investments were applied to capacity expansions and upgrades in Gruma Corporation, as well as in GIMSA, in an effort to rebalance corn flour production requirements among different regions in Mexico through the expansion of our Mérida and Mexicali plants. For more information on capital expenditures please refer to the discussion of the specific subsidiary.

We continue to analyze the Asia and Oceania markets, where we believe there is growth potential. In September 2006, we opened our first tortilla plant in Asia, which is located in Shanghai, China. This plant will initially serve the foodservice channel, with an annual installed capacity of 30 thousand metric tons. Our investment in the plant was approximately U.S.\$7 million. This plant, together with our operations in Australia, will enable us to better serve the Asia and Oceania markets.

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

	Year ended December 31,		
	2004	2005	2006
	(in millions of U.S. dollars(1))		
Gruma Corporation	\$ 93.2	\$ 88.0	\$ 145.9
GIMSA	5.4	69.6	31.3
Gruma Venezuela	7.9	17.2	21.9
Molinera de México.....	5.4	1.8	5.1
Gruma Centroamérica.....	0.0	3.9	11.8
Others and eliminations	2.9	12.7	9.1
Total consolidated.....	<u>\$ 114.8</u>	<u>\$ 193.2</u>	<u>\$ 225.1</u>

- (1) Amounts in respect of some of the capital expenditures were paid for in currencies other than the U.S. dollar. These amounts were translated into U.S. dollars at the exchange rate in effect at the end of each year on which a given capital expenditure was made. As a result, U.S. dollar amounts presented in the table above may not be comparable to data contained elsewhere in this Annual Report.

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 based upon revenue and sales volume. 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 based upon revenue and sales volumes. We believe that we are also one of the largest producers of corn flour and tortillas in Central America, and one of the largest tortilla producers in Europe, Asia and Oceania, based upon revenue and sales volume.

Our focus has been and continues to be the efficient and profitable expansion of our core business—corn flour, tortilla, and wheat flour production. 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 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 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.

The following table sets forth our revenues by geographic market for years ended December 31, 2003, 2004 and 2005.

	Year ended December 31,		
	2004	2005	2006
	(in millions of Pesos of constant purchasing power as of December 31, 2006)		
United States and Europe.....	Ps. 12,296	Ps. 14,327	Ps. 16,310
Mexico	8,368	8,891	9,617
Venezuela	3,822	3,221	3,132
Central America.....	1,314	1,424	1,595
Total.....	<u>Ps. 25,800</u>	<u>Ps. 27,863</u>	<u>Ps. 30,654</u>

Strategy

Our strategy for growth is to focus on our core business—the manufacturing of tortillas, corn flour and wheat flour—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 from the adoption of tortillas by the U.S. general market and by Europeans for the preparation of different recipes other than Mexican food, and from the flexibility of our wraps and new product concepts we have launched such as low-fat, carb-balance and multigrain. We are continuously considering potential acquisitions which could improve our market share, profitability and fit into our overall strategy. Our strategy includes the following key elements:

Expand in the Growing Retail and Food Service Tortilla Markets in 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 Markets in Other Regions of the World: We believe that new markets in other continents such as Europe, Asia and Oceania offer us significant opportunities. We believe our acquisitions 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. In Asia, we have established a presence with our first tortilla plant in China, which opened in September 2006. Our presence in China will enable us to offer our customers fresh products and respond more quickly to their needs. We have also strengthened our presence in Oceania with the acquisition of two tortilla companies in Australia. We also expanded our business portfolio with the acquisition of Pride Valley Foods, a company based in England, which manufactures products similar to tortillas, such as pita, chapatti, and naan bread, as well as tortillas. We will continue to evaluate ways to profitably expand into these rapidly growing markets.

Continue the Process of Establishing 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 from Traditional Cooked-Corn Method to Corn Flour Method: 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 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. In addition, we see as an opportunity the fact that corn flour is more environmentally friendly than the traditional method.

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.

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. The Asia and Oceania operations were reported in our financial statements under Gruma Corporation through December 2006, but since 2007 the Asia and Oceania operations have been reported as a separate business unit. 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.

During 2000, Gruma Corporation opened its first European tortilla plant in England, initiating our entry into the European market. During 2004 Gruma Corporation concluded two small 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 that region. During 2006, Gruma Corporation acquired a company in England, which we believe will allow us to expand our product portfolio with new types of flat breads. In addition, Gruma Corporation 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.

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. Retail customers, which represent most of our business, include supermarkets, mass merchandisers and smaller independent stores. Our food service customers include major chain restaurants, food service distributors, schools, hospitals and the military.

In the 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 38% 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 flour tortillas. Also influential is the fact that tortillas are no longer solely used as Mexican food, for example, the use of tortillas for wraps, which will continue to increase demand for tortillas. Growth in recent years in the corn flour market is attributable to this increase of corn tortilla and tortilla chip consumption in the U.S. market as well as the conversion of tortilla and tortilla chip producers from the wet corn dough process to our dry corn flour method, the increase of 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 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. In addition, a few large companies have tortilla manufacturing divisions that compete with Mission Foods, for example, Tyson, Bimbo, Hormel Foods, Flowers and General Mills. We believe Mission Foods is one of the leading manufacturers and distributors of packaged tortillas and related products throughout the United States and Europe.

Competitors within the corn flour milling industry include Minsa and corn flour milling divisions of large companies, such as 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 believe there is a significant growth potential for tortillas in Europe. Approximately two-thirds of our production is allocated to foodservice, while the remaining one-third is for retail. We believe we are one of the largest tortilla producers in Europe, and our main competitors in Europe are General Mills and Santa Maria.

Operation and Capital Expenditures. Annual total production capacity for Gruma Corporation is estimated at 2.0 million metric tons as of December 31, 2006, with an average utilization of 80% in 2006. The average size of our plants measured in square meters is approximately 8,545 (about 92,000 square feet) as of December 31, 2006. Capital expenditures for the past three years were U.S.\$327.1 million, mostly for expansion and upgrades of existing facilities, the construction of new tortilla plants in Pennsylvania and China, as well as several acquisitions: three in Europe, two in Australia, one in Las Vegas, Nevada, one in San Francisco, California, and the tortilla assets of CHS which consisted of three plants (Forth Worth, Texas, Phoenix, Arizona and New Brighton, Minnesota). Gruma Corporation 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. Gruma Corporation's capital expenditures projected for 2007 will be approximately U.S.\$140 million and include capacity expansions at existing facilities and manufacturing and technology upgrades, as well as the construction of a tortilla plant in Southern California. These budgeted capital expenditures do not include any potential acquisitions.

Mission Foods produces its packaged tortillas and other related products at 22 manufacturing facilities worldwide. Nineteen of these facilities are located in large population centers throughout the United States. Outside the United States, Mission Foods has two plants in England and one plant in The Netherlands.

Mission Foods is committed to offering the best quality products to its customers and uses the American Institute of Baking (AIB) food safety standards to measure and ensure food compliance with this commitment. AIB is a corporation founded in 1919 by the North American wholesale and retail baking industries that is dedicated to protecting the safety of the food supply chain. All of the Mission Foods manufacturing facilities worldwide have earned either a superior or excellent category rating from the AIB. Many of Mission Foods's U.S. plants have earned the AIB's highest award, the combined

AIB-HAACP certification, with the exception of the recently acquired plants in Nevada, Texas, Arizona, Minnesota and California, as well as the recently constructed plant in Pennsylvania. We anticipate these plants will complete their HAACP certification during the next two years. Besides the AIB, Mission Foods plants are regularly evaluated by other third party organizations as well as customers. Our plants in England and The Netherlands are also evaluated by other third party organizations such as International Food Standards and British Retail Consortium.

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 a plant in Ceggia, Italy. The majority of our plants are located within important corn growing areas. Due to Azteca Milling's manufacturing practices and processes, we are the only corn milling company to achieve ISO 9002 certification as well as certification by the American Institute of Baking. All six facilities located in the U.S. have achieved ISO 9002 certification. The corn flour plant in Italy has both AIB and International Food Standards certifications.

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 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.

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 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 6 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' products is supplied by Azteca Milling and, to a much lesser extent, by GIMSA and our corn flour operations 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.

The vast majority of corn flour produced by Azteca Milling 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.

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. In 2006, GIMSA had net sales of Ps.7,388 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[®] 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 40 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. GIMSA's principal corn flour product is MASECA[®], a standard fine-textured, white corn flour used to manufacture tortillas. GIMSA also produces and sells tortillas through several small tortilla shops mainly located in central Mexico. GIMSA's tortilla sales represent approximately 1% of its total sales volume and approximately 2% of its net sales. As a result of the aforementioned acquisition of Agroinsa, GIMSA also sells wheat flour and other products.

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

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

	Year Ended December 31,					
	2004		2005		2006	
	Tons	%	Tons	%	Tons	%
Corn Flour.....						
Bulk	1,223,585	85	1,252,794	79	1,330,123	77
Retail.....	207,858	14	225,485	14	262,551	15
Tortillas.....	16,400	1	14,852	1	15,069	1
Other			88,614	6	126,398	7
Total.....	<u>1,447,843</u>	<u>100</u>	<u>1,581,745</u>	<u>100</u>	<u>1,734,141</u>	<u>100</u>

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[®] 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 and distribution program *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. 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 tortillas themselves.

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. We believe the preparation of tortillas using the dry corn flour method possesses several advantages over the traditional method. 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 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 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 *tortillerias* are relatively scarce, to produce their own tortillas.

We believe in the benefits of our dry corn flour method and, thus 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 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, generally such producers are not required to comply with environmental regulations, which also represent 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 *tortillerias*, to convert to the 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 “—Miscellaneous—INTASA—Technology and Equipment Operations.” GIMSA also helps its *tortilleria* 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. These efforts to improve sales include prime time advertising on television as well as radio, magazine and billboard advertising. In 2006, GIMSA's specialized sales teams continued their efforts to provide better and more individualized service to different types of customers. During 2007, we will focus on the development of new sales programs to strengthen our commercial relationships with our current customers and the expansion of our coverage to areas with low consumption of corn flour to attract new customers with programs designed specifically for these markets.

GIMSA has implemented initiatives focused on developing a successful business model for its customers to increase the consumption of corn-flour based products generally and its products specifically. GIMSA's strategy is based on a comprehensive business proposal that includes the following product, service and marketing objectives:

- development of new types of corn flour for its customers;
- 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.

GIMSA has continued working with its customers to reinforce these initiatives and intends to continue focusing on supplying the corn flour required by our customers according to their needs and assist them with the training and technical support that will help them create a more profitable operation.

GIMSA has implemented a national marketing campaign in Mexico to emphasize the benefits and nutritional value of tortillas made with 100% MASECA® corn flour. This campaign targetes both consumption of tortillas made by GIMSA's customers and consumption of its retail corn flour packages sold directly to consumers by repositioning the use of corn flour not only for making tortillas but for a wide variety of foods which are part of the Mexican diet. We believe this campaign has helped to increase the recognition of the MASECA® brand, created a greater awareness about tortillas made with 100% MASECA® corn flour and created a greater awareness of the nutritional value of tortillas made of natural ingredients. We believe this campaign has also helped us to position MASECA® corn flour as a nutritional product which can be used in the production of tortillas and other foods. In addition, we believe that this campaign has also helped contribute to the perception that tortillas are a healthy alternative to other food products. During 2006, GIMSA's national marketing campaign reinforced the previous message with respect to the nutritional value of the tortilla, targeted Mexico's young population and emphasized where tortillas made from MASECA® corn flour could be purchased.

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 *tortillerias* 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. Two of these plants resulted from GIMSA's acquisition of 100% of the capital stock of Agroinsa, a company based in Monterrey, Mexico, in August 2005. Even though the two plants operated during 2005, GIMSA decided to relocate their production to other GIMSA plants to increase production efficiency. The Celaya plant permanently ceased operations on December 1, 2005 and the Monterrey plant permanently ceased corn flour operations on April 1, 2006, but still produces wheat flour and other products. In addition, GIMSA owns 163 small tortilla shops throughout Mexico.

One of GIMSA's plants (Chalco) is temporarily closed. The Chalco plant has been inactive since October 1999. GIMSA has temporarily shifted production to other plants to achieve savings in overhead costs. These idled assets are not being depreciated since the carrying value is expected to be recovered and the remaining useful life is maintained. GIMSA will consider reopening this plant should market demands require additional capacity.

In recent years, GIMSA's capital expenditures were primarily used to update technology and corn flour production process and to a lesser extent for acquisitions. In 2006, GIMSA began capacity expansions at its Mérida and Mexicali plants. GIMSA spent U.S.\$106.3 million, for these purposes from 2004 to 2006. Although no assurances can be given as to future levels of capital expenditures, during first quarter of 2007 GIMSA spent U.S.\$6.2 million on investments in its fixed assets and currently projects total investments in fixed assets during 2007 of approximately U.S.\$32 million, which will be used primarily for capacity expansion in the Mexicali and Mérida plants and for upgrading production equipment, acquisition of transportation equipment and information technology upgrades. As of December 31, 2006, on average, the size of our plants measured in square meters was approximately 20,315 (approximately 218,700 square feet).

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 “—Miscellaneous—INTASA—Technology and Equipment Operations.”

Seasonality. The demand for corn flour varies slightly with the seasons. After the May/June and December harvests, when corn is more abundant and thus less expensive, tortilla producers are more inclined to purchase corn and use the traditional method. In the months immediately preceding such harvests, corn is more costly and in shorter supply and more tortilla producers then employ the corn flour method of production.

Raw Materials. Corn is the principal raw material required for the production of corn flour, and constituted approximately 59% of GIMSA's cost of sales for 2006. We purchase corn primarily from Mexican growers and grain elevators, and from world markets at international prices under import permits granted by the Mexican government. All of our domestic corn purchases are made on a spot basis pursuant to short-term contractual arrangements, some of which are in the form of oral agreements entered into at the beginning of the harvest. Compañía Nacional Almacenadora, S.A. de C.V., a subsidiary of GIMSA, 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 tend to be higher than those abroad, and typically follow trends in the international market only when corn prices are increasing. During most periods, the price at which GIMSA purchases corn depends on the international corn market. As a result, corn prices are sometimes unstable and volatile. For more information regarding the government's effect on corn prices, see "Item 4. Information on the Company—Regulation."

By the end of 2006, the price of corn set by the Chicago Board of Trade and the average price of Mexican corn increased dramatically principally from corn being used in connection with 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 international prices of corn. In order to stabilize the price of tortillas, the Mexican government promoted two agreements among the various parties involved in the corn-corn flour-tortilla production chain. The first agreement was effective from January 15 through April 30, 2007. On April 25, 2007, the Mexican government announced a second agreement that extended the term through August 15, 2007.

The Mexican government petitioned our company, among others, to voluntarily participate in these agreements through which we agreed to establish a price ceiling for our corn flour. Through these agreements: (i) corn flour producers have agreed to maintain an average price of Ps. 5.00 per kilo of corn flour; (ii) Wal-Mart and retailers affiliated to the *Asociación Nacional de Tiendas de Autoservicios*, or National Association of Supermarkets, have agreed to sell tortillas at an average price of Ps. 6.50 per kilo, and; (iii) small tortilla manufacturers, or *tortillerías*, have agreed to sell tortillas at an average price of Ps. 8.50 per kilo.

As a result, our corn flour prices do not reflect the recent increase in our cost of corn, which resulted in a significant deterioration in the financial performance of GIMSA during the first quarter of 2007, which may continue to the extent the company does not increase prices. While the Mexican government has not directly fixed or capped corn flour or tortilla prices, it has strongly encouraged Mexican producers and retailers to voluntarily do so until the next harvest of Mexican corn crops. We intend to fully abide by the terms of these agreements. We cannot assure you that there will not be another extension of the agreements, that we will fully comply with their terms at all times or that the Mexican government will not take actions that could adversely affect our financial condition and results of operations.

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 retail sales (one-kilogram packages) to the Mexican government and sales to large supermarket chains, 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. Molinera's main product is wheat flour, although it also sells wheat bran and other byproducts. Our wheat flour brands are REPOSADA[®], PODEROSA[®] and SELECTA[®], among others.

Sales and Marketing. In 2006, approximately 90% of Molinera's wheat flour production was sold in bulk and 10% was sold for the retail segment. Most of the bulk sales are made to thousands of 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 Bimbo, Munsa, Trimex, Tablex, La Espiga and Elizondo.

Operations and Capital Expenditures. We own and operate nine wheat flour plants, in one of which we hold only a 40% ownership interest. The facilities' average extent of utilization is estimated at 77% for 2006. On average, the size of our plants measured in square meters is approximately 11,300 (approximately 121,200 square feet) as of December 31, 2006.

Capital expenditures from 2004 through 2006 amounted to U.S.\$12.3 million. Molinera de México's capital expenditures in 2007 are projected to be U.S.\$7.1 million, which will be used primarily for capacity expansions at the Obregon and Celaya plants, transportation equipment, and additional upgrades.

Seasonality. Molinera's sales are seasonal in that 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 the celebration of holidays occurring during these quarters.

Raw Materials. Wheat is the principal raw material required for the production of wheat flour. Molinera de México purchases approximately 23% of its wheat from Mexican growers, and 77% from world markets. Molinera de México purchases from local farmers, farmers associations and trading companies. In the case of domestic wheat, purchases are made pursuant to short-term oral arrangements, the terms of which are negotiated at the time of execution. These arrangements are usually made approximately two months in advance of the beginning of the harvest. In the case of imported wheat, which we import from the United States and Canada through several trading companies, purchases are made based on short-term requirements, with the aim of maintaining low levels of inventories.

In recent years the price of wheat domestically and abroad has been volatile. Volatility is due to the availability 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, Nicaragua, and Ecuador.

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[®], TORTIMASA[®], MASARICA[®] and MINSAs[®] brands. In Costa Rica, we sell packaged tortillas under the TORTI RICA[®] and MISIÓN[®] brands. We operate a Costa Rican snack operation which manufactures tortilla chips, potato chips and similar products under the TOSTY[®] brand. Hearts of palm are exported to numerous European countries as well as the United States, Canada, Chile and México.

Sales and Marketing. The largest portion, 181,000 tons or 56%, of Gruma Centroamérica's sales volume in 2006 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 74% and retail sales represented approximately 26% of Gruma Centroamérica's corn flour sales volume during 2006.

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 14% 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, and one of the largest processors of rice.

Within the corn flour industry, our main competitors are Del Comal 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 266,483 tons for corn flour and other products as of December 31, 2006, with an average utilization of approximately 85% during 2006. We operate one corn flour plant in Costa Rica, Honduras, El Salvador, and two plants in Guatemala for a total of five 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 we have one small tortilla plant and in Ecuador we lease a facility which processes hearts of palm. On average, the size of our plants measured in square meters is approximately 3,000 (approximately 32,300 square feet) as of December 31, 2006.

During 2004, 2005 and 2006 most of our capital expenditures were oriented to technology upgrades, the expansion of a tortilla plant and a corn flour plant, a distribution center and administrative offices in Costa Rica. Total capital expenditures for the past three years was approximately U.S.\$15.7 million. Capital expenditures for 2007 are projected to be U.S.\$15.6 million, which will be used primarily for the expansion of the corn flour plant in Honduras and manufacturing upgrades.

Seasonality. Typically, corn flour sales volume is lower during the second quarter of the year due to higher availability and lower prices of corn. Most of our products sales increase during the fourth quarter as demand is higher during the holidays.

Raw Materials. Corn is the most important raw material needed in our operations and is obtained primarily from imports from the United states and from local growers. All countries in which we have corn flour plants, except Costa Rica, do not 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 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 2006, we entered into a contract to sell a 40% stake in MONACA to our current partner in DEMASECA at a price of U.S.\$65.6 million. As of June 15, 2007, we had received US\$39.6 million of this amount. The total payment of the sale price and the respective delivery of our interests in MONACA will be completed in a series of installments that will end in December 2007. Notwithstanding the foregoing, the purchaser will not have voting or other corporate rights with respect to such interests until the full purchase price is paid. In addition to such transaction, we agreed to: (i) purchase an additional 10% ownership interest in DEMASECA at a price of U.S.\$2.6 million; (ii) purchase from ADM a 2% stake in MONACA at a price of U.S.\$3.28 million, and; (iii) sell to ADM a 3% interest in DEMASECA at a price of U.S.\$0.78 million. Upon completion of these transactions, we will own a 57% interest, our partner will own a 40% interest and ADM will own a 3% interest in each of DEMASECA and MONACA. DEMASECA and MONACA are collectively referred to as “Gruma Venezuela.”

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[®], TIA BERTA[®], DECASA[®], and DEMASA[®]. We sell wheat flour under the ROBIN HOOD[®] 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. In 2006, we sold corn flour only 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 both in bulk and retailer, distributing it in 45 kilogram bags and in one kilogram bags, respectively. Bulk sales to customers such as bakeries made up approximately 79% of our total wheat flour sales volume in 2006. The remaining 21% of sales in 2006 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, four wheat flour plants, two rice plants, and two plants that produce oats and spices in Venezuela with a total annual production capacity of 764,087 tons as of December 31, 2006 and an average utilization of approximately 61% during 2006. However, one corn flour plant, representing 47,143 tons, and one rice plant, representing 48,462 tons, are temporarily idle. On average, the size of our plants measured in square meters is approximately 9,200 (approximately 99,000 square feet) as of December 31, 2006.

Capital expenditures for the past three years were U.S.\$47 million. Capital expenditures for 2007 are expected to be U.S.\$15.6 million and are expected to be focused on the construction of a wheat flour mill and upgrades for manufacturing and information technologies.

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. Approximately 87% of our wheat is purchased from the U.S. and Canada, and more recently, the remaining 13%, also from Argentina, 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 constraints our capacity to transfer funds abroad in order to fund any hedging strategy.

Miscellaneous—INTASA—Technology and Equipment Operations

We have had our own technology operations since our founding. Since 1976 our technology and equipment operations have been conducted principally through INTASA, which has two subsidiaries: Tecnomáiz, S.A. de C.V., or Tecnomáiz, 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 Tecnomáiz, 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 50 to 300 corn tortillas per minute to dough mixers. The equipment is sold under the TORTEC® and BATITEC® trademarks in Mexico. Tecnomáiz also manufactures high volume energy efficient corn and wheat tortilla systems that can produce up to 1,200 corn tortillas and 600 wheat tortillas per minute.

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 June 15, 2007, we held approximately 9.86% of the outstanding shares of GFNorte, a Mexican finance 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 approximately 9% or Ps.2,593 million of our total assets and 40% of our majority net income for the year. In accordance with Mexican GAAP, GFNorte’s results of operations are accounted for in our consolidated results of operations using the equity method of accounting.

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), has implemented a program designed to promote corn sales in certain regions of Mexico. The program includes the following objectives:

- Support corn growers by setting target prices and paying the difference versus market price.
- Support corn growers by providing economic support to reduce the cost of raw materials required for corn crops.
- Support a portion of the freight expenses related to the distribution of corn surpluses to regions away from the corn growing area in seasons when there is a surplus. This support for freight expenses applies to any corn buyer that can prove that the purchased corn will be consumed in regions where there is no corn available and that are distant from the regions where corn is grown.

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 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 SEMARNAT upon initiating operations,

and then annually 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 the discharge of residual waste water to drainage. 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 the 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 qualified as such by 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, although it has had little effect on our operations, and we do not believe that this legislation will have a material adverse effect on our existing or developing business operations.

U.S. Federal and State Regulations

Gruma Corporation is subject to regulation by various federal and state agencies, including the Food and Drug Administration, the Occupational Safety and Health Administration, the Federal Trade Commission, the Environmental Protection Agency and the Texas 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 public health 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.

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.

None.

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 financial statements and the notes thereto contained elsewhere herein. Our financial statements have been prepared in accordance with Mexican GAAP, which differ in some significant respects from U.S. GAAP. See Note 22 to our financial statements for information related to the nature and effect of such differences and a quantitative reconciliation to U.S. GAAP of our majority net income and stockholders' equity. For more information about our financial statements in general, see "Presentation of Financial Information."

Overview of Accounting Presentation

Effects of Inflation

Mexican GAAP requires that financial statements recognize the effects of inflation in accordance with Bulletins B-10 and B-15 issued by CINIF. The purpose of this methodology is to present all information in comparable monetary units and thereby mitigate the distortive effect of inflation in the financial statements. Unless otherwise stated herein, the financial statements and other financial data in this Annual Report have been restated in pesos of constant purchasing power as of December 31, 2006.

We restate all non-monetary assets using the Mexican National Consumer Price Index, except inventories, which are restated using actual replacement costs, and fixed assets of non-Mexican origin, which may be restated using a specified index which considers the consumer price index of the relevant foreign country and the fluctuations of the exchange rate between the Mexican peso and the currency of such foreign country.

Bulletin B-15 prescribes the methodology for restating and translating the financial statements of a Mexican company's non-Mexican subsidiaries into Mexican GAAP for purposes of recognizing the effects of inflation in such financial statements. Bulletin B-15 requires, among other things, that local currency-based financial statements of a non-Mexican subsidiary of a Mexican company for a particular period be: (i) restated by using the relevant inflation rate in the relevant foreign country, and; (ii) then translated into pesos.

Bulletin B-15 also requires that inflation rates in foreign countries be used in calculating monetary position gains or losses on a consolidated basis. In addition, Bulletin B-15 provides that the consolidated financial statements of a Mexican company for all periods prior to the most recent period are to be restated in pesos of constant purchasing power. This restatement may be accomplished by using an "international restatement factor," which takes into account the inflation rates, exchange rate movements and relative net sales in Mexico and the other countries in which we and our subsidiaries operate, rather than using the inflation rate in Mexico.

For comparison purposes, the following table sets forth, for each of the three years ended December 31, 2004, 2005 and 2006:

- the international restatement factor used to restate the financial statements data for each of these periods to pesos of constant purchasing power as of December 31, 2006;
- the cumulative Mexican National Consumer Price Index for each period which, in the absence of Bulletin B-15, would have been used to restate the financial statements to pesos of constant purchasing power as of December 31, 2006; and
- the comparison factor for each period which represents the index that must be applied to the financial statements for each period (which have been restated using the international restatement factor) in order to restate the financial statements and financial data in December 31, 2006 pesos of constant purchasing power using the cumulative Mexican National Consumer Price Index.

Financial data in Mexican pesos as of December 31,	Cumulative International Restatement Factor	Cumulative Mexican National Consumer Price Index	Comparison Factor
2004	3.23	7.52	1.0416
2005	4.45	4.05	0.9962
2006	—	—	1.0000

In future periods, the application of U.S. inflation rates could have a substantial effect on our reported results of operations and financial condition if such rates are lower than inflation rates in Mexico, assuming that we maintain significant U.S. dollar-denominated debt and other liabilities and assuming that all other relevant variables, such as foreign exchange rates, remain constant. In addition, because Gruma Corporation, our principal U.S. subsidiary, generates a significant portion of our consolidated net sales in U.S. dollars, Bulletin B-15 could result in decreased net sales in peso terms, again relative to prior periods. By contrast, if U.S. and other non-Mexican inflation rates exceed inflation rates in Mexico in future periods, then our monetary position gain and net sales as they relate to foreign subsidiaries would tend to increase in comparison to prior periods.

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. And 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/U.S. dollar exchange rate see "Item 3. Key Information—Exchange Rate Information."

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. In 2004, we recorded a net foreign exchange loss of Ps.53 million. During 2005, we recorded a net foreign exchange loss of Ps.53 million. During 2006, we recorded a net foreign exchange loss of Ps.18 million.

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 Mexican GAAP as issued by the Mexican Financial Reporting Standards Board. A reconciliation from Mexican GAAP to U.S. GAAP of majority net income and total stockholders' equity is included in Note 22 to our consolidated financial statements. 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. To the extent that our estimates are incorrect, our periodic depreciation expense or carrying value of our assets may be impacted.

We evaluate any event or change in circumstances that indicate that the book value of our property, plant and equipment will not be recovered. When applicable, we perform impairment tests as follows:

Fair value of assets held for use is determined using the higher between the discounted net cash flows expected from the assets and the market price; an impairment loss is recorded to the extent that the net book value exceeds the fair value of the assets. Market price is determined using market values for transactions with similar assets less costs to sell.

Fair value of assets to be disposed of is determined using the lower between book value and market price; an impairment loss is recognized for the excess of book value over market price. These assets are subsequently restated using NCPI factors and are no longer depreciated or amortized.

The estimates of undiscounted 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. Goodwill and indefinite-lived intangible assets are no longer amortized, but are subject to annual impairment tests.

A key component of the impairment test is the identification of reporting units and the allocation of goodwill to such reporting unit. A reporting unit is constituted by a group of one or more 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 reporting unit.

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 Taxes

Under both Mexican and U.S. GAAP, 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 taxes in the period of change, to reflect the enacted tax rate expected to be in effect when the deferred tax items reverse. We also record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, 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, such as: (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 long-term debt; and (iii) forward contracts and exchange rate option contracts (mainly Mexican peso — U.S. dollar, and in some cases other currencies), in order to hedge the financial risks due to exchange rate fluctuations over part of the quarterly interest payments related to our debt and other obligations denominated in U.S. dollars.

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.

The determination of the fair values of derivative financial instruments requires considerable judgment in interpreting and developing estimates. We base our estimates on available market information and valuation methodologies that we consider appropriate. The use of different market assumptions and/or estimation methodologies could have a material adverse impact on the estimated fair value amounts.

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:

- 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 a Mexican GAAP basis for the years ended December 31, 2004, 2005 and 2006, expressed as a percentage of net sales. All financial information has been prepared under the Bulletin B-15 methodology. For a description of the method, see “Presentation of Financial Information” and “— Overview of Accounting Presentation.”

	Year Ended December 31,		
	2004	2005	2006
Income Statement Data			
Net sales.....	100%	100%	100%
Cost of sales.....	64.2	65.3	65.2
Gross profit.....	35.8	34.7	34.8
Selling, general and administrative expenses.....	28.1	28.8	29.0
Operating income.....	7.7	5.9	5.8
Net comprehensive financing cost.....	(0.3)	(1.0)	(1.1)
Other income (expenses), net.....	(1.1)	(0.5)	—
Income taxes (current and deferred).....	3.1	1.4	1.3
Employee’s statutory profit sharing (current and deferred).....	—	0.1	0.1
Other items.....	1.1	2.1	2.0
Minority interest.....	0.7	0.6	0.3
Majority net (loss) income.....	3.7	4.4	5.0

The following table sets forth our net sales and operating income as represented by our principal subsidiaries for 2004, 2005 and 2006. 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.194 million, Ps.221 million and Ps.276 million in 2004, 2005 and 2006, respectively, in corn flour to Gruma Corporation, Molinera de México and PRODISA; financial information with respect to Molinera de México includes sales of Ps.21 million, Ps.30 million and Ps.45 million in 2004, 2005 and 2006, respectively, to GIMSA and PRODISA; financial information with respect to PRODISA includes sales of Ps.50 million, Ps.57 million and Ps.64 million in 2004, 2005 and 2006, respectively, in tortilla related products to Gruma Corporation; and financial information with respect to INTASA includes sales of Ps.391 million, Ps.436 million and Ps.911 million in 2004, 2005 and 2006, 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,					
	2004		2005		2006	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
	(in millions of pesos of constant purchasing power as of December 31, 2006)					
Gruma Corporation.....	Ps. 12,296	Ps. 1,219	Ps. 14,327	Ps. 1,184	Ps. 16,312	Ps. 938
GIMSA.....	6,222	485	6,791	722	7,388	823
Gruma Venezuela.....	3,822	213	3,221	(91)	3,132	96
Molinera de México.....	2,027	(21)	1,956	(131)	2,132	(84)
Gruma Centroamérica.....	1,314	20	1,424	(2)	1,595	56
Others and eliminations.....	119	87	144	(49)	95	(46)
Total.....	<u>Ps. 25,800</u>	<u>Ps. 2,003</u>	<u>Ps. 27,863</u>	<u>Ps. 1,633</u>	<u>Ps. 30,654</u>	<u>Ps. 1,783</u>

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

Consolidated Results

GRUMA’s sales volume increased 6% to 4,197 thousand metric tons compared with 3,957 thousand metric tons in 2005. This increase was driven mainly by sales at GIMSA and Gruma Corporation. Net sales increased by 10% to Ps.30,654 million during 2006 compared with Ps.27,863 million in 2005 due primarily to sales increases at Gruma Corporation and GIMSA. Sales from non-Mexican operations constituted 69% of consolidated net sales in 2006 compared to 68% in 2005.

Net Sales by Subsidiary: By major subsidiary, the percentages of consolidated net sales in 2006 and 2005 were as follows:

<u>Subsidiary</u>	<u>Percentage of Consolidated Net Sales</u>	
	<u>2005</u>	<u>2006</u>
Gruma Corporation	51.4%	53.2%
GIMSA	24.4	24.1
Gruma Venezuela	11.6	10.2
Molinera de México.....	7.0	7.0
Gruma Centroamérica.....	5.1	5.2
Others and eliminations	0.5	0.3

Cost of sales increased by 10% to Ps.19,974 million compared with Ps.18,198 million in 2005, due primarily to Gruma Corporation and GIMSA. Cost of sales as a percentage of net sales improved slightly to 65.2% from 65.3%. The improvement was driven mainly by the elimination of tariffs on imported wheat and logistical efficiencies in the handling of raw materials in Gruma Venezuela and, to a lesser extent, lower costs of corn in GIMSA and higher wheat flour prices in Molinera de México. Selling, general, and administrative expenses (SG&A) increased by 11% to Ps.8,897 million compared with Ps.8,032 million in 2005, due primarily to Gruma Corporation and GIMSA. SG&A as a percentage of net sales increased slightly to 29.0% from 28.8% in 2005, driven mainly by increases in sales volume, fuel prices, intercompany shipments, promotion and advertising expenses and administrative expenses in Gruma Corporation and, to a lesser extent, due to the cancellation of provisions for administrative expenses during 2005, general salary increases and higher maintenance expenses in Gruma Venezuela. GRUMA's operating income increased by 9% to Ps.1,783 million compared with Ps.1,633 million in 2005. This increase was due primarily to higher operating income from Gruma Venezuela and GIMSA and, to a lesser extent, Gruma Centroamérica and Molinera de México. As a percentage of net sales, operating income decreased slightly to 5.8% from 5.9% in 2005, due primarily to lower operating margins from Gruma Corporation.

Net comprehensive financing cost increased 19% to Ps.333 million compared with Ps.280 million in 2005. This rise was due to losses in connection with financial instruments related to corn hedges implemented by Gruma Corporation.

Other expenses, net, decreased 90% to Ps.14 million compared with Ps.147 million in 2005. The reduction was due primarily to the gain on the sale of GFNorte's shares and MONACA's shares, partially offset by impairment losses related principally to Molinera de México.

Provisions for income taxes and employees' profit sharing increased 9% to Ps.444 million compared with Ps.407 million in 2005. This increase was due primarily to higher pre-tax income.

GRUMA's equity in earnings of associated companies, net, including GFNorte, represented income of Ps.613 million in 2006 compared with income of Ps.650 million in 2005.

GRUMA's net income was Ps.1,604 million in 2006 compared with Ps.1,393 million in 2005. Majority net income was Ps.1,525 million compared with Ps.1,239 million in 2005. The 15% increase in total net income and the 23% increase in majority net income was due mainly to higher operating profits and a reduction in other expenses, net.

Subsidiary Results

Gruma Corporation

Sales volume increased 5% to 1,335 thousand metric tons compared with 1,275 thousand metric tons in 2005. The increase in sales volume was driven largely by the continued strong demand in the U.S. tortilla and corn flour businesses and, to a lesser extent, the effect of additional sales from recently acquired companies, including those in Australia and England.

Net sales increased 14% to Ps.16,312 million during 2006 compared with Ps.14,327 million in 2005, due to price increases implemented during the first and third quarters of 2006 and higher sales volume.

Cost of sales increased 18% to Ps.9,697 million in 2006 compared with Ps.8,245 million in 2005. As a percentage of net sales, cost of sales increased to 59.4 % from 57.5% due to: (i) higher costs for raw materials (primarily wheat flour),

energy, and packaging; (ii) higher costs due to new plants and capacity expansions at existing plants that had not been fully absorbed. In absolute terms, cost of sales also increased due to the aforementioned sales volume growth.

SG&A increased 16% to Ps.5,676 million in 2006 compared with Ps.4,898 million in 2005 due to higher sales volume, fuel prices, intercompany shipments to new and acquired plants, promotion and advertising expenses, administrative expenses related to management information systems, as well as the new administrative infrastructure built for our Asia and Oceania operations. SG&A as a percentage of net sales increased to 34.8% in 2006 from 34.2% in 2005.

Operating income as a percentage of net sales declined to 5.8% from 8.3%. In absolute terms, operating income decreased 21% to Ps.938 million.

GIMSA

Sales volume increased 9% to 1,734 thousand metric tons during 2006 compared with 1,585 thousand metric tons in 2005 mainly as a result of the acquisition of Agroinsa. Corn flour sales volume increased 4% to 1,595 thousand metric tons, and the sales volume of other products increased 136% to 141 thousand metric tons. Approximately 74% of GIMSA's sales volume growth derived from the relocation of production from Agroinsa, whose operations were reflected in GIMSA's financial results beginning in August 2005. Net sales increased by 9% to Ps.7,388 million in 2006 compared with Ps.6,791 million in 2005, reflecting higher sales volume.

Cost of sales increased 8% to Ps.5,190 million from Ps.4,801 million in 2005 due to higher sales volume. Cost of sales as a percentage of net sales decreased to 70.2% from 70.7% due primarily to lower corn costs.

SG&A rose 8% to Ps.1,375 million compared with Ps.1,268 million in 2005 due to the acquisition of Agroinsa, the strengthening of the sales and distribution departments and higher marketing and advertising expenses. SG&A as a percentage of net sales improved slightly to 18.6% compared with 18.7% in 2005 due to better expense absorption.

Operating income as a percentage of net sales increased to 11.1% from 10.6% and, in absolute terms, increased 14% to Ps.823 million.

Gruma Venezuela

Sales volume increased 1% to 486 thousand tons in 2006 compared with 479 thousand tons in 2005 due to higher wheat flour sales volume. Net sales decreased 3% to Ps.3,132 million in 2006 compared with Ps.3,221 million in 2005 because price increases rose at a lower rate than inflation.

Cost of sales decreased 11% to Ps.2,456 million in 2006 from Ps.2,771 million in 2005 and, as a percentage of net sales, decreased to 78.4% from 86.0%, due primarily to the elimination of tariffs on imported wheat and logistical efficiencies in the handling of raw materials.

SG&A increased 7% to Ps.580 million compared with Ps.540 million in 2005 due to the cancellation of approximately Ps.33 million in provisions for administrative expenses during 2005, general salary increases and higher maintenance expenses related to an expanded vehicle fleet. SG&A as a percentage of net sales increased to 18.5% from 16.8% in 2005 due to the same reasons.

Operating income was Ps.96 million compared with an operating loss of Ps.91 million in 2005. Operating margin improved to positive 3.1% from negative 2.8%.

Molinera de México

Sales volume increased 1% to 477 thousand tons in 2006 compared with 474 thousand tons in 2005 due to increased sales to corporate customers. Net sales increased 9% to Ps.2,132 million from Ps.1,956 million in 2005 due to higher prices, which were implemented in order to offset higher wheat costs.

Cost of sales increased 7% to Ps.1,809 million compared with Ps.1,689 million in 2005, primarily due to higher wheat costs. Cost of sales as a percentage of net sales decreased to 84.9% from 86.3% due to higher wheat flour prices, which more than offset the increase in wheat costs.

SG&A increased 2% to Ps.406 million compared with Ps.398 million in 2005 due to higher expenses for advertising and information technology. SG&A as a percentage of net sales decreased to 19.1% from 20.4% in 2005 due to better expense absorption in connection with increased net sales. Operating loss was Ps.84 million compared with Ps.131 million in 2005.

Gruma Centroamérica

Sales volume increased 20% to 213 thousand tons in 2006 compared with 178 thousand tons in 2005. The increase was due primarily to higher corn flour sales volume in connection with the acquisition of a corn flour plant in Guatemala during December 2005 and, to a lesser extent, increased corn flour consumption due to a corn shortage in the region. Net sales increased 12% to Ps.1,595 million from Ps.1,424 million in 2005 due to the increase in sales volume in the corn flour segment. The rate of growth in net sales lagged sales volume due mainly to the integration of the corn flour plant acquisition behind the growth in and a change in our sales mix toward corn flour in bulk presentation, which has lower prices than retail presentation.

Cost of sales increased 14% to Ps.1,112 million compared with Ps.979 million in 2005, due primarily to the higher corn flour sales volume. The percentage increase in cost of sales was lower than in sales volume due to lower corn costs. Cost of sales as a percentage of net sales increased to 69.7% from 68.8%, due mainly to the integration of the corn flour plant acquisition, which reports lower gross margins than the rest of Gruma Centroamérica's corn flour operations.

SG&A decreased 4% to Ps.428 million compared with Ps.447 million in 2005 and, as a percentage of net sales, decreased to 26.8% from 31.4% in 2005. The improvement was due to an extraordinary expense of Ps.44 million in 2005 related to technical services provided by GRUMA's technology division.

Operating income was Ps.56 million compared with an operating loss of Ps.2 million in 2005. Operating margin improved to positive 3.5% from negative 0.1%.

Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Consolidated Results

GRUMA's sales volume increased 9% to 3,957 thousand metric tons compared with 3,629 thousand metric tons in 2004, due mainly to Gruma Corporation and GIMSA. GRUMA's net sales increased by 8% to Ps.27,863 million in 2005 compared with Ps.25,800 million in 2004. The increase in net sales was due primarily to higher net sales in Gruma Corporation by 17% and, to a lesser extent, in GIMSA. This increase was partially offset by lower net sales in Gruma Venezuela and Molinera de México. Sales from non-Mexican operations constituted 68% of consolidated net sales in 2005.

Net Sales by Subsidiary: By major subsidiary, the percentages of consolidated net sales in 2005 and 2004 were as follows:

<u>Subsidiary</u>	<u>Percentage of Consolidated Net Sales</u>	
	<u>2004</u>	<u>2005</u>
Gruma Corporation.....	47.7%	51.4%
GIMSA	24.1	24.4
Gruma Venezuela	14.8	11.6
Molinera de México.....	7.9	7.0
Gruma Centroamérica.....	5.1	5.1
Others and eliminations	0.4	0.5

Cost of sales increased by 10% to Ps.18,198 million in 2005 compared with Ps.16,553 million in 2004. This increase was due primarily to higher sales volume in Gruma Corporation. Cost of sales as a percentage of net sales increased to 65.3% in 2005 from 64.2% in 2004. The increase was driven mainly by Gruma Corporation and, to a lesser extent, Gruma Venezuela and Molinera de México.

Selling, general, and administrative expenses (SG&A) increased by 11% to Ps.8,032 million in 2005 compared with Ps.7,244 million in 2004, resulting primarily from sales volume growth in Gruma Corporation. SG&A as a percentage of net sales increased to 28.8% in 2005 from 28.1% in 2004, driven mainly by small increases in various subsidiaries.

GRUMA's operating income decreased 18% to Ps.1,633 million in 2005 compared with Ps.2,003 million in 2004. This decrease was due primarily to lower operating income in Gruma Venezuela and, to a lesser extent, Molinera de México. As a percentage of net sales, operating income decreased to 5.9% in 2005 from 7.8% in 2004, due primarily to decreased operating margins in Gruma Corporation, Gruma Venezuela, and Molinera de México.

Net comprehensive financing cost increased 306% to Ps.280 million in 2005 compared with Ps.69 million in 2004. This increase was due to lower interest income and, to a lesser extent, higher interest expense. Lower interest income resulted from nonrecurring gains in connection with equity swaps of GRUMA shares during 2004. Higher interest expense was due to increased debt and higher average interest rates.

Other expenses, net, decreased 50% to Ps.147 million in 2005 compared with Ps.296 million in 2004. The reduction is due primarily to write-downs in 2004 of certain fixed assets at GIMSA and PRODISA.

Provisions for income taxes and employees' profit sharing decreased 49% to Ps.407 million in 2005 compared with Ps.798 million in 2004. This decrease was due to: (i) a reduction in pretax income, and; (ii) the consolidation of 100% of the ownership interest of controlled Mexican subsidiaries, whereas until December 31, 2004, tax regulations limited this consolidation to 60% of the ownership interest.

GRUMA's equity in earnings of associated companies, net increased 123% to Ps.650 million in 2005 compared with Ps.291 million in 2004. This increase was due to higher net income from GFNorte.

GRUMA's net income increased 23% to Ps.1,393 million in 2005 compared with Ps.1,131 million in 2004. Our majority net income increased 30% to Ps.1,239 million compared with Ps.953 million in 2004. These increases were due mainly to higher income from GFNorte and lower provisions for income tax and employees' profit sharing.

Subsidiary Results

Gruma Corporation

Sales volume increased by 17% to 1,275 thousand tons in 2005 compared with 1,088 thousand tons in 2004. The increase in sales volume was driven largely by: (i) continued strong demand in the tortilla and corn flour businesses; (ii) increased marketing of tortilla-related products by certain fast-food restaurant chains; (iii) introduction of the GUERRERO® brand across additional markets in the United States, and; (iv) the effect of recent acquisitions, including the purchase of the following:

- (a) Ovis Boske, a wheat flour tortilla company based in Holland, in July 2004;
- (b) a 51% interest in Nuova De Franceschi & Figli, a corn flour company based in Italy, in July 2004;
- (c) the tortilla assets in the United States acquired from Cenex Harvest States in May 2005; and
- (d) a small tortilla company near San Francisco, California, in September 2005.

Acquisitions contributed approximately 37% of Gruma Corporation's volume growth in 2005.

Net sales increased 17% to Ps.14,327 million during 2005 compared with Ps.12,296 million in 2004, due primarily to an increase in the sales volume.

Cost of sales increased 21% to Ps.8,245 million in 2005 compared with Ps.6,806 million in 2004, due primarily to higher sales volume. As a percentage of net sales, cost of sales increased to 57.5% from 55.4% due mainly to: (i) higher fixed costs due to capacity expansions and acquisitions; (ii) increased cost for utilities, raw materials, and packaging, and; (iii) a change in the sales mix.

SG&A increased 15% to Ps.4,898 million in 2005 compared with Ps.4,271 million in 2004, due primarily to sales volume growth, higher fuel prices, and an increase in the number of intercompany shipments. SG&A as a percentage of net sales improved to 34.2% in 2005 from 34.7% in 2004, due primarily to better expense absorption in connection with sales volume growth and a change in the mix towards foodservice sales, which require lower selling expenses than retail sales.

Operating income as a percentage of net sales declined to 8.3% in 2005 from 9.9% in 2004. In absolute terms, operating income decreased 3% to Ps.1,184 million.

GIMSA

Sales volume increased 9% to 1,582 thousand tons in 2005 compared with 1,448 thousand tons in 2004. Sales volume increased mainly as a result of: (i) the acquisition of Agroinsa; (ii) increased sales to corporate customers in connection with new product development; (iii) increased sales to wholesalers, and; (iv) exports to Gruma Corporation. Approximately 72% of GIMSA's sales volume growth derived from the acquisition of Agroinsa, whose operations were reflected in GIMSA's financial results beginning in August 2005. Net sales increased by 9% to Ps.6,791 million in 2005 compared with Ps.6,222 million in 2004, reflecting higher sales volume.

Cost of sales increased 5% to Ps.4,801 million in 2005 from Ps.4,585 million in 2004 due to higher sales volume. The percentage of increase in cost of sales was lower than in sales volume due mostly to lower corn costs. Cost of sales as a percentage of net sales improved to 70.7% from 73.7%, due primarily to lower corn costs.

SG&A rose 10% to Ps.1,268 million in 2005 compared with Ps.1,153 million in 2004 and, as a percentage of net sales, increased slightly to 18.7% in 2005 compared with 18.5% in 2004. This increase was due primarily to higher freight and advertising expenses and the acquisition of Agroinsa. Freight expenses increased in connection with: (i) growth in sales to corporate customers for whom we usually pay freight expenses, and; (ii) an increase in the number of intercompany shipments due to higher exports and to higher corn flour demand in the southeast region of Mexico.

Operating income as a percentage of net sales increased to 10.6% in 2005 from 7.8% in 2004 and, in absolute terms, increased 49% to Ps.722 million.

Gruma Venezuela

Sales volume decreased 5% to 479 thousand tons in 2005 compared with 504 thousand tons in 2004. The decrease was the result of: (i) intense competition from the leading corn flour producer; (ii) entry into the market in 2004 of a new corn flour competitor oriented to government supply, and; (iii) government procurement's policies for its social welfare programs which have increased their share of corn flour sales to consumers. Net sales decreased 16% to Ps.3,221 million in 2005 compared with Ps.3,822 million in 2004, resulting from lower sales volume and lower prices. Lower prices resulted from intense competition in the industry and from price controls, which have limited our ability to raise prices, particularly in the wheat flour and corn flour businesses.

Cost of sales decreased 7% to Ps.2,771 million in 2005 from Ps.2,985 million in 2004, primarily due to lower sales volume. Cost of sales as a percentage of net sales increased to 86.0% from 78.1% due mainly to higher raw-material costs, lower prices, and lower absorption of fixed costs.

SG&A decreased 13% to Ps.540 million in 2005 compared with Ps.623 million in 2004 due to the cancellation of approximately Ps.33 million in provisions for administrative expenses, as well as to lower expenses in connection with lower sales volume. SG&A as a percentage of net sales increased to 16.8% in 2005 from 16.3% in 2004, due primarily to lower absorption of fixed expenses in connection with lower net sales.

Operating loss was Ps.91 million in 2005 compared with an operating income of Ps.213 million in 2004. Operating margin decreased to negative 2.8% in 2005 from positive 5.6% in 2004.

Molinera de México

Sales volume increased 3% to 474 thousand tons in 2005 from 460 thousand tons in 2004 due to increased sales to corporate customers. Net sales decreased 3% to Ps.1,956 million in 2005 from Ps.2,027 million in 2004 due to lower prices resulting from increased competitive pressure in the industry which was partially offset by an increase in sales volume.

Cost of sales increased 3% to Ps.1,689 million in 2005 compared with Ps.1,640 million in 2004, primarily in connection with sales volume growth. Cost of sales as a percentage of net sales increased to 86.3% from 81.0% due to lower prices and higher packaging and additive costs.

SG&A decreased 2% to Ps.398 million in 2005 compared with Ps.407 million in 2004, due to the reclassification of some operating expenses as cost of sales. SG&A as a percentage of net sales increased to 20.4% in 2005 from 20.1% in 2004, due primarily to reduced expense absorption.

Operating loss was Ps.131 million in 2005 compared with an operating loss of Ps.21 million in 2004.

Gruma Centroamérica

Sales volume increased 15% to 178 thousand tons in 2005 compared with 154 thousand tons in 2004, due to higher corn flour sales volume driven by low local corn supplies and increased advertising. Net sales increased 8% to Ps.1,424 million from Ps.1,314 million in 2004 due to increased sales volume in the corn flour segment. The rate of growth in net sales lagged sales volume growth due primarily to a change in the sales mix toward bulk sales of corn flour.

Cost of sales increased 7% to Ps.979 million in 2005 compared with Ps.913 million in 2004, due primarily to higher corn flour sales volume. The percentage increase in cost of sales was lower than in sales volume due to lower corn costs. Cost of sales as a percentage of net sales improved to 68.8% in 2005 from 69.5% in 2004 due to lower corn costs and better fixed-cost absorption.

SG&A increased 17% to Ps.447 million in 2005 compared with Ps.381 million in 2004 and, as a percentage of net sales, increased to 31.4% from 29.0% in 2004. These increases were due primarily to: (i) extraordinary expense of Ps.44 million in fourth quarter 2005 related to technical services provided by GRUMA's technology division; (ii) higher distribution expenses in connection with corn flour sales volume growth and higher fuel prices, and; (iii) increased promotion and advertising in connection with the launching of new products and increased advertising in the tortilla business.

Operating loss was Ps.2 million in 2005 compared with an operating income of Ps.20 million in 2004. Operating margin decreased to negative 0.1% in 2005 from positive 1.5% in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resource requirements from 1999 to 2001 reflected a high level of capital expenditures in connection with the construction and acquisition of additional facilities in Mexico, the United States, Central America and Venezuela, as well as significant working capital requirements. During 2004, most of our capital expenditures were oriented to Gruma Corporation for the expansion of capacity at existing plants, general facilities upgrades, and the acquisition of one corn flour company in Italy, one tortilla plant in the Netherlands, and one tortilla plant in Las Vegas. During 2005, most of our capital expenditures were mainly applied to Gruma Corporation and GIMSA for the construction of a new tortilla plant, expansion of corn flour and tortilla capacity at existing plants, several acquisitions including the CHS (tortilla assets), the tortilla company near San Francisco, and the Agroinsa acquisition, and general facilities upgrades. In 2006, most of our capital expenditures were invested in: (i) the expansion of tortilla capacity and upgrades in existing and new plants within Gruma Corporation; (ii) the acquisition of Pride Valley Foods, a company based in Newcastle, England, that manufactures tortillas, pita bread, chapatti, and naan; (iii) the construction of a tortilla plant in Shanghai, China; (iv) the acquisition of Rositas Investments and Oz-Mex Foods Pty Ltd, two tortilla companies based in Australia, and; (v) the purchase of the remaining 49% ownership interest of Nuova De Franceschi & Figli, a corn flour company based in Italy of which we previously held a 51% ownership interest. To a lesser extent, investments were also applied to capacity expansions in GIMSA and Gruma Centroamérica. These investments were made to accommodate the continuous growth of our business.

We fund our liquidity and capital resource requirements through a variety of sources, including:

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

We believe that our overall sources of liquidity will continue to be sufficient during the next 12 months to satisfy our foreseeable financial obligations and operational requirements. The principal factors that could decrease our sources of liquidity are 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 downgrade, which could 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. As discussed below, Gruma, S.A.B. de C.V. is subject to financial covenants contained in some of its debt agreements which require it to maintain certain financial ratios and balances on a consolidated basis and Gruma Corporation is subject to financial covenants contained in some of its debt and lease agreements which require it to maintain certain financial ratios and balances on a consolidated basis. The interest that Gruma, S.A.B. de C.V. and Gruma Corporation pay on a 30% and 60%, respectively, of its debt may increase if their overall leverage ratio increases above 2.0x and 1.5x, respectively. An increase in the interest that Gruma, S.A.B. de C.V. and Gruma Corporation pay on its debt could limit these companies' ability to help support our liquidity and capital resource requirements.

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 one 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."

We intend to mitigate liquidity risks by increasing revenues through capitalizing on our existing infrastructure and production capacity and pursuing moderate growth, but we cannot assure you that we will succeed in this regard.

Working Capital

We define working capital as current assets, excluding restricted cash, minus current liabilities, excluding short-term bank loans and current portion of long-term debt. Our working capital as of the dates indicated was as follows:

December 31, 2005	Ps. 4,828million
December 31, 2006	Ps. 5,465million

Indebtedness

Our indebtedness bears interest at fixed and floating rates. As of June 15, 2007, approximately 59% of our outstanding indebtedness bore interest at fixed rates and approximately 41% bore interest at floating rates, with almost all floating-rate indebtedness bearing interest based on LIBOR. 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. Quantative and Qualitative Disclosures About Market Risk."

Standard & Poor's upgraded Gruma, S.A.B. de C.V. to BBB- from BB+ with a stable outlook in June 2004. In September 2004, Fitch Ratings assigned Gruma, S.A.B. de C.V. a new senior unsecured foreign currency and local currency rating of "BBB-" with an outlook of "Stable." The foreign currency debt rating is also applicable to Gruma, S.A.B. de C.V.'s 7.625% Notes Due 2007. On November 21, 2004, Fitch Ratings assigned its 'BBB-' rating to Gruma S.A.B. de C.V.'s U.S.\$300 million perpetual bond. Also, on November 24, 2004, Standard & Poor's Ratings Services assigned its 'BBB-' rating to Gruma S.A.B. de C.V.'s U.S.\$300 million perpetual bond. In addition, in November 2004, Moody's Investors Service upgraded Gruma, S.A.B. de C.V.'s senior unsecured notes to Ba1 from Ba2 and its senior implied rating to Ba1 from Ba2, with an outlook of "Positive." Moody's recently changed its outlook on us from positive to neutral and Standard & Poor's from neutral to negative. Any ratings downgrades or further changes in outlook with negative implications could cause our debt costs to fluctuates which could ultimately affect our financial condition and results of operation.

On November 16, 2004, Gruma S.A.B. de C.V. commenced a tender offer to purchase its outstanding U.S.\$250,000,000 aggregate principal amount of 7.625% Notes Due 2007. Upon completion of the tender offer approximately U.S.\$200,000,000 aggregate principal amount of the 7.625% Notes Due 2007 had been tendered and approximately U.S.\$50,000,000 in aggregate principal amount of the 7.625% Notes Due 2007 remain outstanding. In April 2001, we entered into an interest rate swap converting the interest payments on the U.S.\$250,000,000 debt from a fixed rate (7.625%) to a variable rate (LIBOR plus 2.035%). We immediately entered into a further swap agreement with respect to the interest payments on the same U.S.\$250,000,000 debt whereby we paid a fixed interest rate of 5.485% and received a

LIBOR rate. These swaps agreements remain in place with respect to interest payments on the U.S.\$250,000,000 principal amount. These swap agreements offset each other effectively leaving us with the original fixed interest rate payment of 7.625% on the approximately U.S.\$50,000,000 in aggregate principal amount which remains outstanding after the tender offer.

On October 4, 2004, we obtained a U.S.\$250 million, five year syndicated senior credit facility, which we refer to as the 2004 Facility, from a syndicate of banks, which consists of a U.S.\$150 million senior term loan facility and a U.S.\$100 million senior revolving credit facility, both with a five-year tenor. However, on July 28, 2005, we refinanced this 2004 Facility through a syndicate of five banks which we refer to as the 2005 Facility achieving a reduction in the interest rate and eliminating the partial principal amortizations in years 2008 and 2009 and leaving a bullet payment at maturity in July 2010, among other minor benefits. As of June 15, 2007, there was U.S.\$150 million outstanding under the 2005 Facility with U.S.\$100 million of revolving credit available.

The interest rate for the 2005 Facility is LIBOR plus 40 basis points during the first year. Thereafter the spread could fluctuate in relation to our leverage and could fluctuate between 37.5 and 45 basis points. However, 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%. This interest rate swap was modified with respect to its calculation dates to match the 2005 Facility resulting in an average fixed rate of 3.2775% and a maturity on March 30, 2008. The swap transaction provides that the counterparty pay us unless 6-month LIBOR reaches 6%, in which case the parties have no obligation to pay any amount for the applicable period.

However, in March 8, 2006, we increased 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 2007. In addition, on December 12, 2005, we entered into a new interest rate swap for the 2005 Facility with a single bank, starting on March 30, 2008 and maturing 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 provides that the counterparty pay us unless 6-month LIBOR reaches 7%, in which case the parties have no obligation to pay any amount for the applicable period.

On December 3, 2004, Gruma S.A.B. de C.V. issued U.S.\$300 million 7.75% senior, unsecured perpetual bonds which were graded 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. As of June 15, 2007 we had exchange rate forward contracts for part of the interest payments due in 2007 on our U.S.\$300 million 7.75% perpetual bond, for an aggregate notional amount of U.S.\$34.9 million at an average exchange rate of Ps.10.942 per U.S. dollar.

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions. The credit facility replaced the U.S.\$70 million revolving credit facility which matured in June 2007 and was terminated upon the closing of the new facility. The new facility has an interest rate based on LIBOR rate plus a spread of 0.35% to 0.45% that fluctuates in relation to our leverage and contains less restrictive provisions than those in the facility replaced. The terms of the new facility provide that Gruma Corporation may request that the commitments available under the facility be increased by up to an additional U.S.\$50 million.

As of December 31, 2006, we had committed U.S. dollar-denominated long-term lines of credit totaling Ps.2,162million (approximately U.S.\$200 million) available from banks in Mexico and the United States of which we have drawn Ps.119 million (approximately U.S.\$11 million). As of the same date, we also had uncommitted short-term lines of credit totaling Ps.5,593 million (approximately U.S.\$517.4 million) available from Mexican and international banks, of which we had drawn Ps.509.2 million (approximately U.S.\$47.1 million). Should we elect to utilize the uncommitted lines of credit, we would have to negotiate the terms and conditions at the time of use.

At December 31, 2006, we had total outstanding long-term debt aggregating approximately Ps.5,605.5 million (approximately U.S.\$518.5 million). Almost all of our long-term debt at such date was dollar-denominated. Our long-term debt includes U.S.\$50.5 million, or Ps.546.4 million, of principal amount of the 7.625% Notes due 2007, which we issued in October 1997, U.S.\$150 million or Ps.1,621.5 million of principal amount of the 2005 Facility which we issued in July 2005, and U.S.\$300 million, or Ps.3,243 million, of principal amount of the 7.75% Perpetual Bonds, which we issued in December 2004.

Some of our credit agreements contain covenants that require us to maintain:

- a ratio of consolidated total funded debt to EBITDA of not more than 3.5:1; and
- a ratio of consolidated EBITDA to consolidated interest charges of not less than 2.50:1.

In addition, we may not incur additional indebtedness and may not pay dividends if doing so would violate the terms of these covenants.

Gruma Corporation is also subject to covenants which limit the amount of dividends that can be paid under certain circumstances. Both Gruma, S.A.B. de C.V. and Gruma Corporation are also subject to covenants which limit the amounts that may be advanced to, loaned to, or invested in, us under certain circumstances. In addition, both Gruma, S.A.B. de C.V. and Gruma Corporation are required to maintain certain financial ratios and balances. Upon the occurrence of any default or event of default under its credit and lease agreements, Gruma Corporation generally is prohibited from making any payments to us or our other subsidiaries or affiliates. The covenants described above and other covenants could limit our and Gruma Corporation's ability to help support our liquidity and capital resource requirements. Gruma, S.A.B. de C.V. and Gruma Corporation are currently in compliance with all of the covenants contained in the debt and lease agreements.

As of December 31, 2006, Gruma Corporation had three sale-leaseback agreements, entered in 1996, of a tortilla production facility and various production equipment located at one of the Company's tortilla plants and at one of its corn flour facilities, both in the U.S. The agreement related to the tortilla production facility is, under Mexican GAAP, accounted for as an operating lease. Under U.S. GAAP, this arrangement would have been accounted for as a financing lease because a continuing involvement from the seller-lessee is present, and consequently, the risks and benefits of the property are not transferred to the buyer-lessor. Average annual rental payments under this lease, expiring in 2011, will be approximately U.S.\$3.6 million, based upon the financial statements for the year ended December 31, 2006. The agreement provides Gruma Corporation with a purchase option to acquire the facility at fair market value at the expiration of the lease, and also an early purchase option, which permits Gruma Corporation to acquire the facility at fair market value at approximately 75% of the lease term.

As of December 31, 2006, we had total cash and cash equivalents of Ps.571 million. Restricted cash is comprised primarily of undistributed proceeds from tax-exempt industrial development bonds issued by Gruma Corporation held by a trustee available for future purchases of certain plants and equipment.

The following table presents our amortization requirements with respect to our total indebtedness as of March 31, 2007.

<u>Year</u>	<u>In Millions of U.S. Dollars</u>
2007	82.6
2008	16.0
2009	38.6
2010	154.1
2011 and thereafter.....	350.3
Total	U.S.\$ 641.6

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.

<u>Date</u>	<u>Ratio of Consolidated Debt to Total Capitalization</u>	<u>Ratio of Consolidated Liabilities to Total Stockholders' Equity</u>
December 31, 2005	0.33	0.90
December 31, 2006	0.28	0.77

Capital Expenditures

In 2005, we spent approximately U.S.\$193 million on capital expenditures, mainly applied to Gruma Corporation for the expansion of corn flour and tortilla capacity, including the two European acquisitions, the acquisition of a tortilla plant

in Las Vegas and general facilities upgrades in our U.S. plants. The investments were made to accommodate the continuous growth in our business. In 2006, we invested approximately U.S.\$225 million, which were mainly applied to Gruma Corporation and GIMSA. In Gruma Corporation capital expenditures were applied mostly for expansion and upgrades of existing facilities, the construction of a new tortilla plant in Pennsylvania, the acquisition of one small tortilla plant in San Francisco, California and the tortilla assets of CHS which consisted of three plants (Forth Worth, Texas, Phoenix, Arizona and New Brighton, Minnesota). In GIMSA, most of the capital expenditures were applied for the acquisition of Agroinsa. In 2006, we spent approximately U.S.\$225 million on capital expenditures, most of which was applied to Gruma Corporation, in: (i) the expansion of tortilla capacity and upgrades in existing and new plants within Gruma Corporation; (ii) the acquisition of Pride Valley Foods, a company based in Newcastle, England, that manufactures tortillas, pita bread, chapatti, and naan, for an acquisition cost of approximately U.S.\$33 million; (iii) the construction of a tortilla plant in Shanghai, China, for a total investment of approximately U.S.\$7 million; (iv) the acquisition of Rositas Investments Pty Ltd, a tortilla company based in Australia, for approximately U.S.\$13 million; (v) the acquisition of Oz-Mex Foods Pty Ltd, a tortilla company based in Australia, for approximately U.S.\$4 million, and; (vi) the purchase of 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. To a lesser extent, investments were also applied to capacity expansions in GIMSA and Gruma Centroamérica. We have budgeted approximately U.S.\$250 million for capital expenditures in 2007. This includes approximately U.S.\$45 million spent during the first quarter of 2007, most of which was applied to Gruma Corporation for the expansion of tortilla capacity and, to a lesser extent, for the expansion of corn flour capacity in GIMSA at our Mérida and Mexicali plants. The investments were made to accommodate the continuing growth of business. This capital expenditures budget does not include any potential acquisitions.

We expect to be able to fund our capital expenditures primarily from funds from operations as well as through the sale of GFNorte shares throughout the year. We believe that funds from operations and from the sale of GFNorte shares will be sufficient to meet our anticipated capital expenditures through the end of this year.

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, United States, Central America, Venezuela and Europe. However, we still maintain reserves for potential credit losses.

Our operations in Venezuela represented approximately 10% of our sales in 2006. 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. Our financial condition and results of operations could be adversely affected due to the fact that (i) our sales are denominated in bolivares, (ii) Gruma Venezuela produces products that are subject to price controls and (iii) we may have difficulties repatriating dividends from Gruma Venezuela and importing some of our raw material requirements because of the foreign exchange controls. 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. Risk Factors – Risks Related to Venezuela – Venezuela Presents Significant Economic Uncertainty and Political Risk, Which May in the Future Have an Adverse Impact on Our Operations and Financial Performance.”

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 56 patents in the United States since 1968, four of which were obtained during the last three years. Twenty-one of these patents are in force and effect in the United States as of the date

hereof and the remaining 35 have expired. We currently have six new patents in process, four in the United States and two in other countries. Additionally, nine 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.38 million, Ps.40 million and Ps.56 million on research and development in 2004, 2005 and 2006, 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 2007 to be influenced by:

- volatility in corn and wheat prices;
- the Mexican government's agreement to stabilize tortilla prices, as a result of which GIMSA cannot pass on its higher cost of corn through its corn flour prices;
- increased competition from tortilla manufacturers, especially in the U.S.;
- increases 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 in Venezuela;
- exchange rate fluctuations, particularly increases and decreases in the value of the Mexican peso relative to the Venezuelan bolívar and U.S. dollar; and
- civil and political unrest in Venezuela which may negatively affect the profitability of Gruma Venezuela.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2006 we do not have any outstanding off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

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 which became effective on April 5, 2005 and matures 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 provides that the counterparty pay us unless 6-month LIBOR reaches 6%, in which case the parties have 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 matures on March 30, 2008. The swap transaction provides that the counterparty pay us unless 6-month LIBOR reaches 6%, in which case the parties have 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, on December 12, 2005 we entered into a new interest rate swap for the 2005 Facility with a single bank, starting on March 30, 2008 and maturing 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 provides that the counterparty pay us unless 6-month LIBOR reaches 7%, in which case the parties have no obligation to pay any amount for the applicable period. For a description of our debt, see Note 10 to our financial statements.

Additionally, during 2005, we entered into exchange rate forward and option contracts for part of the interest payments due in 2006 and 2007 (corresponding to our U.S.\$300 million 7.75% perpetual bond), for an aggregate notional amount of U.S.\$34.9 million outstanding as of June 15, 2007 at an average exchange rate of Ps.10.942 per U.S. dollar. In April 2001, we entered into an interest rate swap converting the interest payments on our U.S.\$250,000,000 7.625% Notes Due 2007 from a fixed rate (7.625%) to a variable rate (LIBOR plus 2.035%). We immediately entered into a further swap agreement with respect to the interest payments on the same U.S.\$250,000,000 debt whereby we receive a fixed interest rate of 5.485% and will pay a LIBOR rate. These swaps agreements remain in place with respect to interest payments on the U.S.\$250,000,000 principal amount. These swap agreements offset each other effectively leaving us with the original fixed interest rate payment of 7.625% on the approximately U.S.\$50,000,000 in aggregate principal amount which remains outstanding after the tender offer.

In addition to the above arrangements, 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 make certain minimum lease payments for the use of property under operating lease agreements. In accordance with Mexican GAAP, the future rights and obligations pertaining to such firm commitments are not reflected as assets and liabilities on the accompanying consolidated balance sheets. As of December 31, 2006, Gruma Corporation is a party to three agreements for the sale leaseback of a tortilla production facility and various production equipment located at one of the Company's tortilla plants and at one of its corn flour facilities, both in the U.S. The agreement related to the tortilla production facility is, under Mexican GAAP, accounted for as an operating lease. Under U.S. GAAP, this arrangement would have been accounted as a financing lease because a continuing involvement from the seller-lessee is present, and consequently, the risks and benefits of the property are not transferred to the buyer-lessor. Average annual rental payments under this lease, expiring in 2011, will be approximately U.S.\$3.6 million, based upon the financial statements for the year ended December 31, 2006. The agreement provides Gruma Corporation with a purchase option to acquire the facility at fair market value at the expiration of the lease, and also an early purchase option, which permits Gruma Corporation to acquire the facility at fair market value at approximately 75% of the lease term. The U.S. GAAP balance sheet as of December 31, 2005 and 2006 would reflect an increase in the fixed assets, net, balance of Ps.76.3 million and Ps.41.9 million, respectively (net of accumulated depreciation of Ps.82.0 million and Ps.88.1 million respectively), and an increase in the long-term debt balance of Ps.158.3 million and Ps.130.0 million, respectively.

The following table summarizes separately our material firm commitments at December 31, 2006 and the timing and effect that such obligations are expected to have on our liquidity and cash flow in the future periods. 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.

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.....	518.5	—	53.5	165.0	300.0
Operating lease obligations(1).....	155.7	44.0	63.5	30.5	17.7
Purchase obligations(2).....	176.1	176.1	—	—	—
Interest payments on our indebtedness(3).....	196.1	42.1	73.5	57.2	23.3
Other liabilities(4).....	81.7	81.7	—	—	—
Total.....	<u>1,128.1</u>	<u>343.9</u>	<u>190.5</u>	<u>252.7</u>	<u>341.0</u>
Total in millions of peso equivalent amounts ...	<u>Ps. 12,193.8</u>	<u>Ps. 3,717.6</u>	<u>Ps. 2,058.8</u>	<u>Ps. 2,731.7</u>	<u>Ps. 3,685.7</u>

(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, 2006.
- (4) Other relate to short-term bank loans and the current portion of long-term debt.

U.S. GAAP RECONCILIATION

Our consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from U.S. GAAP. See Note 22 to our audited consolidated financial statements for information relating to the nature and effect of such differences. Mexican GAAP financial statements recognize the effects of inflation, whereas financial statements prepared under U.S. GAAP are presented on a historical cost basis. We are not required to reverse many of the Mexican inflation accounting adjustments when reconciling Mexican GAAP to U.S. GAAP, as these adjustments provide a means of measuring the effects of price-level changes in the inflationary Mexican economy. Accordingly, these inflation-adjusted figures are considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

Net income under U.S. GAAP amounted to Ps.836 million in 2004, Ps.1,239 million in 2005 and Ps.1,448 million in 2006, compared with majority net income under Mexican GAAP of Ps.953 million in 2004, Ps.1,239 million in 2005 and Ps.1,525 million in 2006.

Stockholders' equity under U.S. GAAP amounted to Ps.10,893 million in 2005 and Ps.13,425 million in 2006, compared with stockholders' equity under Mexican GAAP of Ps.14,725 million in 2005 and Ps.17,048 million in 2006. See Note 22 to our audited consolidated financial statements for a further discussion of the adjustments under U.S. GAAP.

New Accounting Standards

New Accounting Pronouncements under Mexican GAAP

As of January 1, 2007, the following Financial Reporting Standards (FRS) issued by the Mexican Financial Reporting Standards Board became effective. These Financial Reporting Standards will not have a material effect on the Company's financial information.

FRS B-3 Statement of Income – Classifies income, costs and expenses as ordinary or non-ordinary, eliminates the terms “Special Items” and “Extraordinary Items” and establishes employees' statutory profit sharing as an ordinary expense as opposed to a tax expense.

FRS B-13 Subsequent Events – Requires that restructurings for assets and liabilities and disclaimers from creditors to exercise their right to settle debt in the case of noncompliance be recognized in the period that it occurs. These issues will only be disclosed in the notes to financial statements.

FRS C-13 Related Parties – Extends the definition of related parties and increases the disclosure requirements in notes to financial statements.

FRS D-6 Capitalization of comprehensive financing cost – Establishes the obligation and rules for capitalizing comprehensive financing cost.

Recently Issued U.S. Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes the framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company is currently evaluating the impact that SFAS No. 157 will have on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS No. 158”). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, recognize through comprehensive income changes in that funded status in the year in which the changes occur, and measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year. On December 31, 2006, the Company adopted the provisions of SFAS No. 158. See Note 22-L to our financial statements for a further description of the effect of adopting SFAS No. 158.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109 — Accounting for Income Taxes” (“FIN No. 48”). FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of assessing and adopting FIN No. 48.

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.

Directors

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 México, and Ismael Roig, Vice President of Planning and Business Development, as members of our board of directors. Archer-Daniels-Midland has elected David J. Smith, its Senior Vice President, Secretary and General Counsel, and Steve Mills its Group Vice President and Controller, to serve as alternates for Mr. Gorbea and Mr. Roig, 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 27, 2007, currently consists of 15 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:	76
	Years as Director:	25
	Principal Occupation:	Chairman of the Board of GRUMA and GIMSA
	Outside Directorships:	Chairman of the board of Grupo Financiero Banorte and Banco Mercantil del Norte, director of Fondo Chiapas.
	Directorship Type:	Shareholder, related
	Alternate:	Jairo Senise
Juan Diez-Canedo Ruiz	Age:	56
	Years as Director:	2
	Principal Occupation:	Chief Executive Officer of Fomento y Desarrollo Comercial
	Outside Directorships:	Director of GRUMA and GIMSA, member of the audit and corporate governance committees of GRUMA and GIMSA, director of Deportes Martí.
	Business Experience:	Alternate director of Grupo Financiero Banorte and Banco Mercantil del Norte, Chief Executive Officer of Cintra, Executive Vice President of GIMSA and Grupo Financiero Banorte, Banking Director of Grupo Financiero Probusa. Alternate Chief Executive Officer of Banco Internacional.
	Directorship Type:	Independent
	Alternate:	Felipe Diez-Canedo Ruiz
Juan Antonio González Moreno	Age:	49
	Years as Director:	13
	Principal Occupation:	Chief Executive Officer of Gruma Asia and Oceania
	Outside Directorships:	Alternate director of Grupo Financiero Banorte and Banco Mercantil del Norte, Chairman and President of Car Amigo USA.
	Business Experience:	Senior Vice President of Special Projects of Gruma Corporation, President of Corn Flour operations of Gruma Corporation, 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:	Shareholder, related
	Alternate:	Roberto González Valdés
Roberto González Moreno	Age:	55
	Years as Director:	20
	Principal Occupation:	Chairman of the Board and President of Corporación Noble
	Other Directorships:	Director of GIMSA and alternate director of Grupo Financiero Banorte and Banco Mercantil del Norte.
	Business Experience:	Chief Operating Officer of GIMSA, Director of GRUMA's former Food Division, President of RGM, Exportaciones El Parián.
	Directorship Type:	Shareholder, related
	Alternate:	José de la Peña y Angelini
Federico Gorbea Quintero	Age:	44
	Years as Director:	Since November 2006 President and Chief Operating
	Principal Occupation:	Officer of ADM México Chairman of the Board of
	Other Directorships:	Terminales de Carga Especializadas, director of Asociación de Proveedores de Productos Agropecuarios de México.
	Business Experience:	President and Chief Operating Officer of Compañía Continental de México.
	Directorship Type:	Shareholder, independent
	Alternate:	Steve Mills
Carlos Hank Rhon	Age:	59
	Years as Director:	13
	Principal Occupation:	Chairman of the Board of Grupo Financiero Interacciones

	Outside Directorships:	Chairman of the Board of Grupo Hermes and Grupo Coin/La Nacional, Chief Executive Officer of Grupo Hermes.
	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
Roberto Hernández Ramírez	Age:	65
	Years as Director:	12
	Principal Occupation:	Chairman of the Board of Banco Nacional de México and director of Grupo Financiero Banamex
	Outside Directorships:	Director of Citigroup and Grupo Televisa, member of the international advisory committee of the Federal Reserve Bank of New York.
	Business Experience:	Chief Executive Officer of Banco Nacional de México, Chairman of the Board and director of the Mexican Stock Exchange, Chairman of the Board of the Mexican Bankers Association and Acciones y Valores Banamex.
	Directorship Type:	Independent
	Alternate:	Esteban Malpica Fomperosa
Juan Manuel Ley López	Age:	74
	Years as Director:	13
	Principal Occupation:	Chairman of the Board and Chief Executive Officer of Grupo Ley
	Outside Directorships:	Chairman of the Board of Casa Ley and 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:	Related
	Alternate:	Fernando Aguilar Rosas
Bernardo Quintana Isaac	Age:	65
	Years as Director:	12
	Principal Occupation:	Chairman of the Board of Empresas ICA.
	Outside Directorships:	Director of TELMEX and CEMEX, among others.
	Business Experience:	Chief Executive Officer of Empresas ICA.
	Directorship Type:	Independent
	Alternate:	Diego Quintana Kawage
Juan A. Quiroga García	Age:	57
	Years as Director:	1
	Principal Occupation:	Chief Corporate Officer of GRUMA
	Outside Directorships:	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.
	Directorship Type:	Related
	Alternate:	Raúl A. Peláez Cano
Héctor Rangel Domene	Age:	59
	Years as Director:	1
	Principal Occupation:	Chairman of the Board of Grupo Financiero BBVA-Bancomer.

	Outside Directorships:	Member of the audit and corporate governance committees of GRUMA and GIMSA, director of Bancomer, Seguros Bancomer, Afore Bancomer, Casa de Bolsa Bancomer, Cintra, Alestra and Universidad Iberoamericana.
	Business Experience:	Chairman of the Board of the Business Coordinating Council and The Mexican Bankers Association. Several management positions within Grupo Financiero Bancomer, advisor of Rangel Domene y Asociados, Executive Financing Coordinator of PEMEX, Corporate Officer of Banco Mexicano and Vice President of Citibank.
	Directorship Type:	Independent
	Alternate:	Juan Carlos Braniff Hierro
Ismael Roig	Age:	39
	Years as Director:	Since November 2006
	Principal Occupation:	Vice President Planning and Business Development of Archer Daniels Midland Company
	Outside Directorships:	None
	Business Experience:	Treasurer and Controller of GM do Brasil, Regional Treasury Director, GM European Regional Treasury Center, manager, GM Asia Pacific Regional Treasury Center and GM New York Treasurer's Office.
	Directorship Type:	Shareholder, independent
	Alternate:	David J. Smith
Alfonso Romo Garza	Age:	56
	Years as Director:	13
	Principal Occupation:	Founder, Chairman of the Board and Chief Executive Officer of Savia
	Outside Directorships:	Director of CEMEX, Synthetic Genomics and Donald Danforth Plant Science Center, investor at different industries and companies.
	Business Experience:	Director of Strategic Planning and Corporate Development, VISA-FEMSA.
	Directorship Type:	Independent
	Alternate:	Adrián Rodríguez Macedo
Adrián Sada González	Age:	62
	Years as Director:	13
	Principal Occupation:	Chairman of the Board of Vitro
	Outside Directorships:	Director of ALFA, CYDSA, Regio Empresas, Consejo Mexicano de Hombres de Negocios, and Grupo de Industriales de Nuevo León.
	Business Experience:	Chairman of the Board of Grupo Financiero Serfin, Chief Executive Officer of Banpais.
	Directorship Type:	Independent
	Alternate:	Manuel Güemes de la Vega
Javier Vélez Bautista	Age:	50
	Years as Director:	5
	Principal Occupation:	Business consultant on strategic and financial matters
	Outside Directorships:	Director of GIMSA, Grupo Financiero Banorte, and Casa de Bolsa Banorte, member of the audit and corporate governance committees of GRUMA and GIMSA, audit committee member of Grupo Financiero Banorte, Casa de Bolsa Banorte and British American Tobacco-Mexican Operations.
	Business Experience:	Chief Executive Officer of Nacional Monte de Piedad, Executive Vice President and Chief Financial Officer of GRUMA, project director at Booz Allen Hamilton.
	Directorship Type:	Independent
	Alternate:	Jorge Vélez Bautista

Mr. Roberto González Moreno and Mr. Juan Antonio González Moreno, members of our board of directors are the sons of Mr. Roberto González Barrera, the Chairman of our board of directors. In addition, Mr. Carlos Hank Rhon, a member of our board of directors, is the son-in-law of Mr. Roberto González Barrera. Furthermore, Mr. Carlos Hank González, an alternate member of our board of directors, is the son of Carlos Hank Rhon 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:

Jairo Senise	Age:	52
	Years as Executive Officer:	4
	Years at GRUMA:	4
	Current Position:	Chief Executive Officer of GRUMA
	Other Positions:	President and Chief Executive Officer of Gruma Corporation
	Business Experience:	Regional Vice President and Managing Director of Europe and Eurasia and Regional Vice President of Latin America/South Africa for the Pillsbury Company/General Mills; positions at CPC International/Best Foods, Johnson and Colgate-Palmolive.
Nicolás Constantino	Age:	59
	Years as Executive Officer:	1
	Years at Gruma:	7
	Current Position:	Managing Director, Gruma Venezuela
	Business Experience:	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).
José de la Peña y Angelini	Age:	58
	Years as Executive Officer:	4
	Years at GRUMA:	4
	Current Position:	Chief Executive Officer, Gruma Latin America
	Business Experience:	Executive Vice President Sales and Marketing of GRUMA, senior positions at Chrysler de México, President of the Mexico office of FCB Worldwide.
Leonel Garza Ramírez	Age:	57
	Years as Executive Officer:	8
	Years at GRUMA:	21
	Current Position:	Chief Procurement Officer
	Business Experience:	Manager of Quality and Corn Procurement and Vice President of Corn Procurement at GRUMA, Chief Procurement Officer at GAMESA, Quality Control Manager at Kellogg de México.

Roberto González Alcalá	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	43 5 12 Managing Director, Gruma México (GIMSA, Molinera de México and PRODISA). Several positions within GRUMA's Central American operations, including Chief Operating Officer, President of the Tortilla Division in Costa Rica. President of the Corn Flour Division in Central America.
Juan Antonio González Moreno	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	49 3 27 Chief Executive Officer, Gruma Asia and Oceania Senior Vice President of Special Projects of Gruma Corporation, President of Corn Flour Operations of Gruma Corporation, Vice President of Central and Eastern Regions of Mission Foods, President and Vice President of Sales of Azteca Milling, Chief Operating Officer of GIMSA.
Roberto González Valdés	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	31 Since April 2007 1 Managing Director, Gruma Centroamérica Special projects manager at Gruma Centroamérica, Assistant to the Chairman of the Board and Chief Executive Officer of GRUMA, Founder of SOLIQ, Consultant at Booz Allen Hamilton.
Sylvia Hernández Benítez	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	42 4 4 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:	44 5 22 Chief Administrative Officer Various positions within GRUMA including Finance and Administrative Vice President of Gruma Venezuela.
Heinz Kollmann	Age: Years as Executive Officer: Years at GRUMA: Current Position:	37 1 1 Chief Technology Officer, Wheat Flour Production

	Business Experience:	Technical Director 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.
Raúl Alonso Peláez Cano	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	46 2 2 Chief Financial Officer Several executive positions at different companies including Industrias Resistol, General Electric de México, and Banco Nacional de México.
Juan Antonio Quiroga García	Age: Years as Executive Officer: Years at GRUMA: Current Position: Other Positions: Business Experience:	57 9 34 Chief Corporate Officer Senior Corporate Controller 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.
Juan Fernando Roche	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	52 1 1 Managing Director of Mission Foods Founding Partner, CEOBOARD LLP, Florida; President Northern Latin America and President Europe, Middle East & Africa, Nabisco; Chief Executive Officer of MAVESA in Venezuela. Other positions in MAVESA: Chief Financial Officer, Supply Chain Management, Group Product Manager.
Felipe Rubio Lamas	Age: Years as Executive Officer: Years at GRUMA: Current Position: Business Experience:	49 5 24 Chief Technology Officer, Corn Flour and Tortilla Production Several managerial and Vice President positions within Gruma Corporation related to manufacturing processes and design and construction of production facilities.
Salvador Vargas Guajardo	Age: Years as Executive Officer: Years at GRUMA: Current Position: Other Positions: Business Experience:	54 10 10 General Counsel General Counsel of GIMSA Positions at Grupo Alfa, Protexa and Proeza, senior partner of two law firms, including Rojas-González-Vargas-De la Garza y Asociados.

Mr. Oscar Enrique Urdaneta Finol is the Chief Operating Officer of DEMASECA.

Mr. Roberto González Alcalá, Managing Director of Gruma México, and Mr. Juan Antonio González Moreno, Chief Executive Officer of Gruma Asia and Oceania, are sons of Mr. Roberto González Barrera. Mr. Roberto González Valdés, Managing Director of Gruma Centroamérica is grandson of Mr. Roberto González Barrera. Mr. Homero Huerta Moreno, our Chief Administrative Officer is nephew of Mr. Roberto González Barrera.

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, 2007. 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 27, 2007, 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:

Javier Vélez Bautista	Position: Directorship Type:	Chairman of the audit and corporate governance committees. Independent
Juan Diez-Canedo Ruiz	Position: Directorship Type:	Financial Expert of the audit and corporate governance committees. Independent
Héctor Rangel Domene	Position: Directorship Type:	Member of the audit and corporate governance committees. Independent

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Members of the board of directors are paid a fee of Ps.18,000 for each board meeting they attend. Additionally, members of the audit and corporate governance committees are paid a fee of Ps.30,000 for each committee meeting they attend.

For 2006, the aggregate amount of compensation paid to all directors, alternate directors, executive officers and audit and corporate governance committees members was approximately Ps.212 million (in nominal terms). The contingent or deferred compensation reserved as of December 31, 2006 was Ps.38.1 million (in nominal terms).

We offer an Executive Bonus Plan that applies to managers, vice presidents, and executive officers. The variable compensation under this plan can range from 21% 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, 2006, we had a total of 18,124 employees, including unionized (5,605) and non-unionized (12,519) full- and part-time employees. Of this total, we employed 7,340 persons in Mexico, 6,652 in the United States, 1,701 in Central America, 1,609 in Venezuela, 165 in China and Australia, 508 in England, 27 in Italy, and 122 in The Netherlands. Total employees for 2004 and 2005 were 15,104 and 16,582, respectively. Of our total employees as of December 31, 2006, approximately 32% were white-collar and 68% 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 2006.

In the United States, Gruma Corporation has four collective bargaining agreements that represent a total of 468 workers at four separate facilities. We renewed and ratified one collective bargaining agreement in July 2006. A proposed fifth agreement never materialized due to decertification, however the results of a challenged election from 2001 were

certified on October 2006 by the NLRB at a fifth facility which has a potential for an additional 126 workers. Wages are reviewed during negotiations and increases processed per the terms of the particular contract as well as non-monetary provision of the contracts. Salary reviews for non-union employees are done once each year, usually in March for Mission Foods and in May for Azteca Milling, L.P. We believe our current labor relations are satisfactory.

SHARE OWNERSHIP

The following Directors and Senior Managers have GRUMA shares which in each case represent less than 1% of our capital stock: Mr. Adrián Sada González, Mr. Jairo Senise, Mr. Juan Antonio Quiroga García, Mr. Leonel Garza Ramírez, and Mr. Juan Carlos Braniff Hierro. In addition, Mr. Roberto González Barrera owns directly and indirectly 211,517,757 shares representing approximately 43.8% of our capital stock and Mr. Juan Antonio González Moreno owns 5,758,556 shares representing approximately 1.2% of our capital stock.

CORPORATE GOVERNANCE PRACTICES

The significant differences between our corporate governance practices and the New York Stock Exchange standards can be found on our website, www.gruma.com. The information found at this website is not incorporated by reference into this document.

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 27, 2007 (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, as well as our directors and executive officers as a group and other shareholders. 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 27, 2007 our Series B shares were held by 545 record holders in Mexico.

<u>Name</u>	<u>Number of Series B Shares</u>	<u>Percentage of Outstanding Shares</u>
Roberto González Barrera and family (1).....	220,822,677	45.76%
Archer-Daniels-Midland (2)	130,901,630	27.13%
Directors and Officers as a Group (3).....	169,255	0.04%
Other shareholders	130,656,390	27.08%
Total.....	482,549,952	100.00%

- (1) The shares beneficially owned by Mr. González Barrera and his family include: 181,491,961 shares held directly by Mr. González Barrera; 30,025,796 shares held by him through a Mexican corporation jointly owned with Archer-Daniels-Midland and controlled by him; 216 shares held by Ms. Bertha González Moreno; 3,542,948 shares held by Ms. Graciela S. González Moreno; 5,758,556 shares held by Mr. Juan Antonio González Moreno; and 3,200 shares held by Ms. Mayra A. González Moreno.
- (2) Of the shares beneficially owned by Archer-Daniels-Midland, a portion are held through its Mexican subsidiary, and 24,566,561 shares are held through a Mexican corporation jointly owned with Mr. González Barrera and controlled by Mr. González Barrera. Mr. González Barrera has sole authority to determine how these shares are voted, and the shares cannot be transferred without the consent of both Archer-Daniels-Midland and Mr. González Barrera.
- (3) This group does not include the shares beneficially owned by Mr. Roberto González Barrera and Mr. Juan Antonio González Moreno, members of our board of directors.

Mr. González Barrera and his family control approximately 50.9% of our capital stock and therefore have the power to elect a majority of our 15 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.

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. On September 30, 1999, we completed a rights offering to shareholders in Mexico and ADS holders in the United States. With the authorization of Mr. González Barrera, Archer-Daniels-Midland directly and indirectly purchased a total of 51,408,337 new shares, increasing its direct and indirect ownership of our outstanding shares from approximately 22% to approximately 29% immediately after that purchase.

We have been informed that Mr. González Barrera has pledged or has been required to pledge part of his shares in our Company 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, or as a result of the sale will own, 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 ownership of any shareholders which held 5% or more of our outstanding shares during the past three years.

RELATED PARTY TRANSACTIONS

Transactions with Subsidiaries

The transactions set forth below were made in the ordinary course of business since we operate as a central treasurer for our 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 May 17, 2005, the outstanding balance of loans from GIMSA to GRUMA were Ps.1,531 million in nominal terms. As of June 15, 2007, we owed GIMSA Ps.501.1 million and U.S.\$35.5 million. The average interest rate for this year up to June 15 has been 8.33% for loan in pesos and 5.75% for the loan in dollars.

In September 2001, Gruma Corporation started to make loans to us which, at their peak on June 24, 2004, reached the amount of U.S.\$64.0 million. However, since 2004, we have lent money to Gruma Corporation and Gruma Centroamérica at an average rate of 7.1%, having an outstanding amount of U.S.\$0million as of June 15, 2007.

Transactions with Archer-Daniels-Midland

We entered into an association with Archer-Daniels-Midland in September 1996. As a result of this association, we received U.S.\$258.0 million in cash, 80% partnership interest in Azteca Milling, our combined U.S. corn flour operations and 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 newly issued shares, which represented approximately 22% of our total outstanding shares, 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 15 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 Ismael Roig, Vice President of Planning and Business Development, as members of our board of directors. Archer-Daniels-Midland has elected David J. Smith, its Senior Vice President, Secretary and General Counsel, and Steve Mills its Group Vice President and Controller, to serve as alternates for Mr. Gorbea and Mr. Roig, respectively.

During 2004, 2005 and 2006, we purchased U.S.\$103 million, U.S.\$105 million and U.S.\$115 million, respectively, of inventory from Archer-Daniels-Midland Corporation, a shareholder, at market rates and terms. Additionally, in 2006, we purchased a 2% stake in MONACA and sold a 3% stake in DEMASECA to ADM. For more information regarding these transactions, please see "Item 4. Information on the Company—Business Overview— Gruma Venezuela."

Other Transactions

We had loans outstanding to the controlling shareholder and related parties which, at their peak on December 31, 2002, aggregated Ps.176.8 million. These loans were made for personal purposes. All of these loans bore interest at market rates. These loans have been repaid in full.

As of June 15, 2007 we hold approximately 9.86% of the capital stock of GFNorte, a Mexican financial institution. In the normal course of business, we may obtain financing from GFNorte's subsidiaries at market rates and terms. For the past five years, the highest outstanding loan amount has been Ps.162 million (in nominal terms) with an average interest rate of 8.9% in December 2003.

ITEM 8. Financial Information.

See "Item 18. Financial Statements." For information on our dividend policy, see "Item 3. Key Information—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.

Antitrust Lawsuits

Eighteen manufacturers of tortillas and other processed food products brought three related antitrust lawsuits against Gruma Corporation and Azteca Milling in the United States District Court for the Southern District of Texas, Galveston Division. The three suits were: (i) El Aguila Food Products, Inc., et al. v. Gruma Corporation, et al.; No. G-01-434, in the United States District Court for the Southern District of Texas, Galveston Division; (ii) Gilbert Moreno Enterprises, Inc., et al. v. Gruma Corporation, et al.; C.A. No. G-01-546, in the United States District Court for the Southern District of Texas, Galveston Division; and (iii) Capistran, Inc., et al. v. Gruma Corporation, et al.; No. G-02-100, in the United States District Court for the Southern District of Texas, Galveston Division. The three lawsuits were consolidated and later transferred to the United States District Court for the Southern District of Texas, Houston Division. The plaintiffs alleged that the defendants conspired with retailers to restrain trade in the retail sale of tortillas in Texas, California, Arizona and Michigan, used market power to exclude plaintiffs from the retail tortilla market, and otherwise competed unfairly. The plaintiffs sought damages, including treble damages, "greatly in excess of U.S.\$1 million per Plaintiff," as well as injunctive relief. In December 2003, the trial court, after four weeks of trial, dismissed the suit as being without merit. Plaintiffs filed an appeal. In May 2005, the United States Court of Appeals handed down a decision affirming the trial court's dismissal. The decision dismissing this case is now final.

Additionally, in May 2004 a new lawsuit was filed against Gruma Corporation and five grocery retailers on behalf of an alleged consumer class. The plaintiff alleged that the defendants had violated California's antitrust laws by entering into agreements which restricted competition in the retail sale of tortillas. The plaintiff sought equitable relief and an unspecified amount of damages. The trial court dismissed the claim in March 2005 at the request of the plaintiff, who voluntarily withdrew the case without receiving any settlement moneys or other consideration from GRUMA.

Mexican Antitrust Litigation

On August 24, 2005, GIMSA acquired a 100% interest in Agroinsa, a group of companies that produce corn flour in Celaya, Guanajuato as well as corn flour, wheat flour and other food products in Monterrey, Nuevo León. In accordance with the *Ley Federal de Competencia Económica*, or Mexican Competition Law, GRUMA, GIMSA's holding company, notified the *Comisión Federal de Competencia*, or Federal Competition Commission or CFC, of the prospective acquisition through a "notice of concentration."

On November 21, 2005, GRUMA was notified that the CFC had denied its request to approve the Agroinsa acquisition.

In addition to our belief that the decision by the CFC lacked legal and economic merits, on January 16, 2006, GRUMA filed an administrative appeal before the CFC arguing that the acquisition should be approved by the CFC under the

grounds of *afirmativa ficta*, or implicit approval, in view of the fact that the CFC notified its resolution extemporaneously in accordance with Article 21 of the Mexican Competition Law.

On April 6, 2006, the CFC denied GRUMA's appeal and confirmed its decision to reject the acquisition. GRUMA subsequently requested the Thirteenth Federal Court for Administrative Matters of Mexico City to overrule the CFC's resolution. The Federal Court granted GRUMA's request on August 24, 2006 and ordered the CFC to approve the acquisition. On June 14, 2007, following a jurisdictional appeal by the CFC before the Third Federal Court of Appeals for Administrative Matters, arguing that the decision made by the Thirteenth Federal Court for Administrative Matters should be overruled, the Third Federal Court of Appeals for Administrative Matters, relying on certain legal guidelines previously issued by the Mexican Supreme Court of Justice in this case, ruled that implicit approval applied to protect GRUMA's right to acquire Agroinsa. This decision is final and non-appealable.

By virtue of the judicial resolution, the CFC is legally bound to promptly issue a new administrative resolution authorizing GIMSA to acquire Agroinsa under the terms and conditions that GRUMA previously presented to the CFC.

Distributor Arbitrations and Litigations

In November 2001, one of GRUMA's distributors filed a putative class action lawsuit against Gruma Corporation. The case was removed from California state court to federal court. In April 2005, the United States District Court, based upon a recent U.S. Supreme Court decision, ordered that the claims be referred to arbitration in Los Angeles and that the arbitrator decide whether the matter should proceed as a class action. An additional distributor subsequently joined the arbitration as a claimant. The arbitrator has made a preliminary ruling that a class of approximately 1,120 California distributors will be certified, but a final certification order has not yet been entered. The claims, as amended, allege that: (i) Gruma Corporation breached its agreements with its distributors; (ii) Gruma Corporation's distributors are actually employees; (iii) Gruma Corporation has failed to make wage and other payments required for employees; (iv) Gruma Corporation has violated California's labor, antitrust, and unfair competition statutes, and; (v) Gruma Corporation has otherwise committed fraud and negligent misrepresentations. The arbitrator subsequently dismissed the antitrust claims. The plaintiffs seek damages and equitable relief, but have not yet specified the total amount of damages sought. We intend to vigorously defend against this action.

On July 28, 2006, another of GRUMA's distributors sought to join the Los Angeles arbitration but was referred to arbitration in the State of Washington. An additional distributor subsequently sought arbitration in the State of Washington and the two proceedings have been consolidated before an arbitrator in Seattle. The two distributors on behalf of alleged classes of current and former distributors assert that: (i) Gruma Corporation breached its agreements with its distributors; (ii) Gruma Corporation's distributors are actually employees; (iii) Gruma Corporation has failed to make wage and other payments required for employees; (iv) Gruma Corporation has violated California and Washington labor statutes, among others, and; (v) Gruma Corporation has failed to pay federal excise payments on sales made by the distributors. The plaintiffs seek damages and equitable relief, but have not yet specified the total amount of damages sought. We intend to vigorously defend against this action.

In April 2007, GRUMA was named in a class action suit, Enrique Garza, et al. v. Mission Foods, Inc. dba Gruma Corporation, filed in the United States District Court for the Northern District of California, San Jose Division. Although we have not yet been served with the complaint, the plaintiffs assert that they were induced to enter into distributor agreements and to pay for routes by false statements and that GRUMA breached the distributor agreements by arbitrarily taking their routes, shuffling around the routes, reselling the routes to others, and failing to adequately compensate the plaintiffs. The plaintiffs also assert a RICO violation under 18 U.S. Code §§ 1962 *et seq.* Plaintiffs seek an unspecified amount of damages and injunctive relief. We intend to vigorously defend against this action.

Drivers' Class Action

In October 2005, GRUMA was named in a class action suit, Ramon Moreno et al. v. Guerrero Mexican Food Products, Inc. and Gruma Corporation, filed in the United States District Court for the Central District of California, Los Angeles County. This is a putative wage and hour class action alleging a misclassification of the Teamster represented employee drivers as exempt, and seeking overtime for all hours worked in excess of eight in a day and forty in a week. The plaintiffs also contend that the class members have been denied state-mandated meal periods and are due penalties under California Labor Code Section 226.7. The plaintiffs subsequently amended the complaint to add a second plaintiff who had been an employee. GRUMA has filed an answer and a third-party complaint against Teamsters Local 63. The trial court has

issued an order certifying a class of approximately 290 former California employee sales drivers who were employed from October 2001 through February 2007. The case is set for trial in November 2007. Plaintiffs seek an unspecified amount of damages. We intend to vigorously defend against this action.

Water Discharge Assessments

Certain subsidiaries of GIMSA were notified by the National Water Commission of fee assessments due from various prior years. These assessments mainly arose from the CNA's determination that sewage water had been discharged on public property that was being used for receiver facilities. Nevertheless, the subsidiaries use the water derived from the production process, previously treated, to irrigate certain of the Company's property through a sprinkler system. The assessments imposed by the CNA were subsequently been resolved in the Company's favor, except for two assessments that are still pending resolution. With respect to the Ps.14.2 million assessment, the Company obtained a favorable ruling from the *Sala Superior del Tribunal de Justicia Fiscal y Administrativa*, or Superior Chamber of the Federal Tax and Administrative Court, overruling the assessment. The CNA has filed an appeal with the Federal Court of Appeals for Administrative Matters, which is still pending. With respect to the Ps.699 thousand assessment, resolution is still pending in the Superior Chamber of the Federal Tax and Administrative Court.

According to the Company's lawyers, a reasonable basis exists to obtain a favorable resolution for the two pending assessments due to, among other things, the fact that the water in question is treated and then used to irrigate certain of the Company's landscaping, such that the water is not discharged on public property and does not contaminate the ground soil. Consequently, the Company's management determined that it was unnecessary to recognize a liability for this matter.

Mexican Tax Claim

The *Secretaría de Hacienda y Crédito Público*, or Ministry of Finance and Public Credit, has lodged several tax assessments against the Company for an amount of: (i) Ps.340.7 million in connection to our asset tax returns for the years 1994, 1996, 1997, 1999 and 2000; (ii) Ps.29.9 million for allegedly withholding taxes at a lower rate from the payment of interests to our foreign creditors for the years 2000, 2001 and 2002, and; (iii) Ps.93 million for wheat imports initiated by Molinera de México during the year 2003, which according to the Mexican tax authorities were incorrectly classified under the harmonized system. The Company has filed several appeals to obtain an annulment of all of these assessments and intends to vigorously defend against these actions. The Company believes the resolution of these proceedings will not have a material effect on the Company's financial position and results of operation.

Venezuelan Tax Claim

The Venezuelan tax authorities have lodged certain assessments against Molinos Nacionales, C.A., or MONACA, one of our Venezuelan subsidiaries, related to income tax returns for the years 1998 and 1999, which amounted to U.S.\$1.4 million plus tax debts presumably omitted in the amount of U.S.\$66,344. The case has been appealed and is awaiting a final decision. The resolution of these claims will be assumed by the previous shareholder, International Multifoods Corporation, in accordance with the purchase agreement of our subsidiary in Venezuela, MONACA.

Venezuelan Labor Lawsuits

Our subsidiary MONACA has been named in eight labor lawsuits and one extrajudicial claim, claiming damages in the amount of U.S.\$2,934,031. The lawsuits and claims relate to issues and rights such as profit sharing, social security, vacations, overtime hours, seniority and indemnity payments. The "caleteros" who brought the claims are workers who help freighters to unload goods. They are not part of the unionized working force of MONACA, so they should be considered independent contractors. However, some labor courts may deem them to be employees of our subsidiary. MONACA has reserved U.S.\$1,735,349 for potential damages and has taken steps ensure that no further "caleteros" and freighters are contracted in order to mitigate any presumption or circumstance which may give rise to a claim that an employment relationship exists with our subsidiary. We intend to vigorously defend against this action.

ITEM 9. The Offer And Listing.

TRADING HISTORY

Our Series B Shares have been traded on the *Bolsa Mexicana de Valores, S.A. 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. On December 31, 2006, 482,549,952 Series B Shares were outstanding (of which 77,235,272 Series B Shares were represented by 19,984,818 ADSs held by 13 record holders in the United States).

In January 2006, we issued 30,000,000 of our series B common stock, class I, no par value shares in an offering inside and outside of Mexico at Ps.38.250 per share for a combined offering total of Ps.1,147,500,000. The proceeds of the offering were allocated to increases in production capacity in Gruma Corporation. This equity offering increased the float of GRUMA's stock from 19% to 26% and improved its liquidity.

GIMSA terminated its ADR program in September 2005 and effective November 10, 2005, GIMSA ADSs ceased to be traded on the New York Stock Exchange. On November 30, 2005, the delisting of the ADSs from the New York Stock Exchange became effective. On June 21, 2006, the deregistration of the Series B Shares and ADSs became effective. The delisting of GIMSA's ADSs is a component of our longer-term strategy of increasing the trading volume and liquidity of our shares.

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.

	<u>Mexican Stock Exchange</u>		<u>NYSE</u>	
	<u>Common Stock</u>		<u>ADS(2)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	<u>(Ps. per share(1))</u>		<u>(U.S.\$ per ADS)</u>	
Annual Price History				
2002	13.00	8.00	5.70	3.50
2003	15.30	9.20	5.62	3.20
2004	26.48	15.7	9.50	5.40
2005	36.00	20.64	13.35	7.63
2006	41.16	26.53	15.26	9.41
Quarterly Price History				
2005				
1 st Quarter	28.30	24.73	10.31	8.75
2 nd Quarter	25.40	20.64	9.49	7.63
3 rd Quarter	28.00	23.50	10.38	8.70
4 th Quarter	36.00	26.72	13.35	9.80
2006				
1 st Quarter	39.44	31.83	15.05	11.60
2 nd Quarter	34.68	26.53	13.59	9.50
3 rd Quarter	35.40	30.75	12.78	11.20
4 th Quarter	41.16	32.52	15.26	11.94
2007				
1 st Quarter	39.12	32.73	13.75	11.94
2 nd Quarter(3)	39.02	34.61	14.60	12.66
Monthly Price History				
December 2006	41.16	37.69	15.26	13.54
January 2007	39.12	32.73	13.75	11.94
February 2007	37.40	33.60	13.72	12.23
March 2007	35.67	34.52	12.94	12.40
April 2007	36.67	34.61	13.45	12.66
May 2007	39.02	36.68	14.60	13.42
June 2007(3)	37.97	35.48	14.14	13.11

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- (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) Through June 15, 2007.

On June 15, 2007, the reported last sale price of the B Shares on the Mexican Stock Exchange was Ps.35.72 per B Share. On June 15, 2007, the reported last sale price of the ADSs on the New York Stock Exchange was U.S.\$13.35 per ADS.

MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange, the *Bolsa Mexicana de Valores, S.A. de C. V.*, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a corporation whose shares are held by brokerage firms, which are exclusively authorized to trade on the exchange. 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, but under current regulations this system does not apply to securities such as the Series B Shares that are directly or indirectly (for example, through ADSs) quoted on a stock exchange (including for these purposes the New York Stock Exchange) outside Mexico.

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 1, 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.”

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 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 15 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 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, destitution of the Chief Executive Officer and his integral compensation, 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 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 of any 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 to 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 its case, notify the corrective measures thereof; (xiii) oversee 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 legal applicable 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 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 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 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 infringing 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 its annual report; (ix) establish mechanisms and internal controls permitting to certify that the actions and transactions of the company conform to the applicable regulations; and (x) exert 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 common stock has the right to appoint one director and its 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 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 common 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 common 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 common 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 domiciles 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. 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—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 remnant, 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 and capital 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 December 31, 2005, GRUMA's outstanding common stock consisted of 452,549,952 shares of Series "B", with no par value, fully subscribed and paid, and no shares held in Treasury. As of December 31, 2006, GRUMA's outstanding common stock consisted of 482,549,952 shares of Series "B", with no par value, fully subscribed and paid, and no shares held in Treasury. In January 2006, we issued 30,000,000 of our series B common stock, class I, no par value shares. As of April 27, 2007 GRUMA's outstanding common stock consisted of 482,549,952 shares Series "B", with no par value, fully subscribed and paid.

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 Relating 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 it 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, its 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 Relating to Our Controlling Shareholders and Capital Structure—Our Bylaws Restrict 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 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.

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 outstanding 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 common stock may not sell common stock to us, or purchase repurchased common stock from us, unless the sale or purchase is made through a tender offer. The repurchase of common 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, our controlling shareholders will be obligated to make a tender offer to purchase all of our shares prior to the cancellation. 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 Market 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 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.

The shareholders required to make the tender offer referred to above may request the approval from the CNBV to use different criteria to determine the price of the shares. The CNBV shall take into account our financial situation in considering whether to grant such approval. 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. In addition, Mexican civil procedure does not contemplate class actions or shareholder derivative actions, 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.

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 Relating 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.

Board Notices, Meetings, Quorum Requirements and Approvals. To obtain the prior approval of our board of directors, a potential acquirer 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, or in the case of an acquiror which is a corporation, trust or legal entity, 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 common 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 acquiror 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 acquiror.

Mandatory Tender Offers in the Case of Certain Acquisitions. If our board of directors authorizes an acquisition of common shares which increases the acquirer’s ownership to 30% or more, but not more than 50%, of our capital stock, then the acquiror 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 acquirer's ownership to more than 50% of our capital stock or results in a change of control, in which case the acquiror 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 legal dispositions derived from said law.

MATERIAL CONTRACTS

Archer-Daniels-Midland

We entered into an association with Archer-Daniels-Midland in September 1996. We believe that this association has 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, we received U.S.\$258.0 million in cash, 80% partnership interest in Azteca Milling, our combined U.S. corn flour operations and 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 newly issued shares, which represented approximately 22% of our total outstanding shares, 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 the 15 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 or our board of directors, acquire additional shares of us. In 1999, Mr. González Barrera authorized Archer-Daniels-Midland to acquire additional shares of us issued as a result of an increase in capital stock and subsequent rights offering to our shareholders. In connection with the rights offering on August 19, 1999, Archer-Daniels-Midland directly and indirectly purchased a total of 51,408,337 new shares, increasing its ownership of our outstanding shares to approximately 29.2%, directly and indirectly. As of June 15, 2007, Archer-Daniels-Midland owns, directly and indirectly, approximately 27.13% of our outstanding shares. A total of 24,566,561 of these new shares are held by Archer-Daniels Midland through a Mexican corporation jointly owned with Mr. González Barrera and controlled by him. 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, or as a result of the sale will own, 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.”

BBVA Bancomer

On July 28, 2005, we obtained a U.S.\$250 million, five-year syndicated senior credit facility, which we refer to as the 2005 Facility, from a group of five banks, led by BBVA Bancomer, which consists of a U.S.\$150 million senior term loan facility and a U.S.\$100 million revolving credit facility, both with a five-year tenor and bullet payment. Funds from the 2005 Facility were used to repay in full the outstanding balance of U.S.\$244 million under our now-terminated 2004 Facility. As of June 15, 2007, there was U.S.\$150 million outstanding under the term facility with U.S.\$100 million of revolving credit available. The interest rate for the facility is LIBOR plus 40 basis points for the first year. Thereafter, the spread could fluctuate in relation to our leverage and could be between 37.5 and 45 basis points. This Loan Agreement was executed in July 22, 2005 among us, the Lenders party thereto, BBVA Securities Inc. as Bookrunner and Documentation Agent, and BBVA Bancomer, S.A. as Administrative Agent. See “Item 19. Exhibits.”

Perpetual Bond

We issued U.S.\$300 million 7.75% perpetual bonds under an indenture dated as of December 3, 2004, among Gruma, S.A.B. de C.V., and JP Morgan Chase Bank, N.A. as trustee. Pursuant to the indenture, the bonds have no stated maturity, have a call option exercisable by GRUMA at any time beginning five years after the issue date and will bear interest at a fixed rate of 7.75% per annum from the date of issuance. Interest on the bonds will be paid quarterly in arrears on March 3, June 3, September 3 and December 3 of each year, commencing on March 3, 2005, to the person in whose name such bond (or any predecessor bond) is registered at the close of business on the preceding February 15, May 15, August 15 or November 15, as the case may be. Interest on the bonds will be computed on the basis of a 360-day year of twelve 30-day months. The Bonds will constitute direct senior unsecured obligations of Gruma S.A.B. de C.V. and will rank at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated indebtedness of Gruma S.A.B. de C.V. See “Item 19. Exhibits.”

The indenture describes covenants with which we must comply, including:

- limitations on liens;
- limitations with respect to consolidations, mergers or transfer of property; and
- limitations on certain sale and lease-back transactions.

These covenants are subject to a number of important qualifications and exceptions as described in the indenture.

The indenture contains certain events of default, consisting of, among others, the following:

- failure to pay interest and other amounts within 30 calendar days of the due date; and
- breach by us of any covenant or agreement in the indenture or any of the other relevant transaction documents.

Supplemental Indenture

In connection with Gruma S.A.B. de C.V.’s offer to purchase its outstanding \$250,000,000 aggregate principal amount of 7.625% Notes Due 2007 and the related solicitation of consents, Gruma S.A.B. de C.V. executed and delivered a supplemental indenture setting forth amendments to the original indenture governing the \$250,000,000 7.625% Notes Due 2007. The supplemental indenture amends certain terms and covenants in the original indenture. See “Item 19. Exhibits.”

Revolving Credit Facility

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions. The credit facility replaced the U.S.\$70 million revolving credit facility which was scheduled to mature in June 2007. The new facility has an interest rate based on LIBOR rate plus a spread of 0.35% to 0.45% that fluctuates in relation to our leverage and contains less restrictive provisions than those in the facility replaced. The terms of the new facility provide that Gruma Corporation may request that the commitments available under the facility be increased by up to an additional U.S.\$50 million.

EXCHANGE CONTROLS

Mexican law does not restrict our ability to remit dividends and interest payments, if any, to 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. 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 B Shares or 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 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 a Protocol 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 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 Shares or ADSs by a holder that is not a resident of Mexico and that will not hold shares or ADSs or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment or fixed base 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 shares or ADSs may be subject. Holders of 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 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 28% income tax on an amount equal to the product of the portion of the grossed-up amount which exceeds such balance multiplied by 1.3889.

Taxation of Dispositions

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

The sale of 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 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 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 a 28% rate on the gain on such disposition of shares.

Pursuant to the Tax Treaty, gains realized by qualifying U.S. holders from the sale or other disposition of 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 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 shares or ADSs; provided, however, that gratuitous transfers of 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 shares or ADSs.

Reimbursement of capital pursuant to a redemption of shares will be tax exempt up to an amount equivalent to the adjusted contributed capital corresponding to the 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 B Shares or ADSs. This summary is based upon the federal income tax laws of the United States as in effect on the date of this Annual Report, including the provisions of the Tax Treaty, all of which are subject to change, possibly with retroactive effect in the case of U.S. federal income tax law.

The summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership or disposition of B Shares or ADSs. The summary applies only to U.S. holders that will hold their 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 of 10% or more of our voting shares (whether held directly or through ADSs or both), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders electing to account for their investment in their B Shares or ADSs on a mark-to-market basis, and persons holding their B Shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

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

- a citizen or resident of the United States of America;
- a corporation or partnership 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 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
- otherwise subject to U.S. federal income taxation on a net income basis with respect to the shares or ADSs.

A holder of 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 holding and disposing of the B Shares or the ADSs, as the case may be.

Prospective investors in the B Shares or ADSs should consult their own tax advisors as to the U.S. federal, Mexican or other tax consequences of the purchase, ownership and disposition of the 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

In general, a U.S. holder of ADSs will be treated as the beneficial owner of the B Shares represented by those ADSs for U.S. federal income tax purposes. Deposits or withdrawals of 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 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 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 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 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 B Shares or ADSs, and thereafter as capital gain (provided that the B Shares or ADSs are held as capital assets). 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 shares, or by the depositary 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 depositary that are converted into U.S. dollars on a date subsequent to receipt.

Distributions of additional shares or ADSs to U.S. holders with respect to their 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 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 (to the extent of current or accumulated earnings and profits), 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 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.

Qualified Dividend Income

Notwithstanding the foregoing, certain dividends received by individual 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 during the taxable year 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. 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 passive foreign investment company (as defined in section 1297 of the Code) 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 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 disposition of 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 B Shares or the ADSs and the amount realized on the disposition (including any amounts withheld in respect of Mexican withholding tax). Gain (including gain that arises because the U.S. holder's basis in the B Shares or ADSs has been reduced because a distribution is treated as a return of capital rather than as a dividend) and loss realized by a U.S. holder on a sale, redemption or other disposition of B Shares or ADSs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

The availability of U.S. foreign tax credits or any deduction from gross income for any Mexican taxes imposed on the sale, redemption or other disposition is subject to certain limitations and involves the application of rules that depend on a U.S. holder's particular circumstances. 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, B Shares or ADSs.

Tax Return Disclosure Regulations

Pursuant to U.S. Treasury regulations (the "Disclosure Regulations"), any taxpayer that has participated in a "reportable transaction" and who is required to file a U.S. Federal income tax return must generally attach a disclosure statement disclosing such taxpayer's participation in the reportable transaction to the taxpayer's tax return for each taxable year for which the taxpayer participates in the reportable transaction. The Disclosure Regulations provide that, in addition to certain other transactions, "loss transactions" and "transactions involving a brief asset holding period" constitute "reportable transactions." "Loss transactions" include transactions that produce a foreign currency exchange loss in an amount equal to or in excess of certain threshold amounts. "Transactions involving a brief asset holding period" are generally transactions resulting in the taxpayer claiming a tax credit in excess of \$250,000 if the underlying asset giving rise to the credit is held by the taxpayer for 45 days or less. U.S. holders should consult their own advisors concerning the implications of the tax return disclosure requirements in light of their particular circumstances.

Information Reporting and Backup Withholding

Dividends on, and proceeds from the sale or other disposition of, the 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 a corporation or other 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 furnished to the Internal Revenue Service.

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

Distributions:

A holder of shares or ADSs that is, with respect to the United States, a foreign corporation or a non-resident alien individual (a "non-U.S. holder") generally will not be subject to U.S. federal income or withholding tax on dividends received on 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 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.

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 450 Fifth Street, NW, 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.

The following information includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ from those presented. All information below is presented on a Mexican GAAP basis in pesos of constant purchasing power as of December 31, 2006.

We are exposed to market risks arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. We use derivative instruments, on a selective basis, to manage these risks. We maintain and control our treasury operations and overall financial risk through practices approved by our senior management and board of directors.

INTEREST RATE RISK

We depend upon debt financing transactions, including debt securities, bank and vendor credit facilities and leases, to finance our operations. 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, TIE and *Tasa Promedio Poderada* 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 approximately U.S.\$378.7 million (Ps.4,094 million) of fixed rate debt and approximately U.S.\$221.5 million (Ps.2,394 million) in floating rate debt at December 31, 2006.

We enter into interest rate swaps with the intention of hedging our exposure to increases in interest rates. However, from an accounting perspective some of these contracts might not eligible to be treated as hedging transactions as described in Note 18-B to our financial statements. In April 2001, we entered into an interest rate swap converting the interest payments on our U.S.\$250,000,000 7.625% Notes Due 2007 from a fixed rate (7.625%) to a variable rate (LIBOR plus 2.035%). We immediately entered into a further swap agreement with respect to the interest payments on the same U.S.\$250,000,000 debt whereby we paid a fixed interest rate of 5.485% and received a LIBOR rate through 2007. These swaps agreements remain in place with respect to interest payments on the U.S.\$250,000,000 principal amount. These swap agreements offset each other effectively leaving us with the original fixed interest rate payment of 7.625% on the approximately U.S.\$50,000,000 in aggregate principal amount which remains outstanding after the tender offer.

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%. On September 30, 2005, this interest rate swap was modified resulting in a average fixed rate of 3.2775% and a maturity date of March 30, 2008. The swap transaction provides that the counterparty pay us unless 6-month LIBOR reaches 6%, in which case the parties have no obligation to pay any amount for the applicable period.

However, in 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, starting on March 30, 2008 and maturing 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 provides that the counterparty pay us unless 6-month LIBOR reaches 7%, in which case the parties have no obligation to pay any amount for the applicable period. For a description of our debt, see Note 10 to our financial statements.

The following table sets forth, as of December 31, 2006, the interest rate and maturity profile of our debt portfolio.

	Maturity Dates						Total	Fair Value
	2007	2008	2009	2010	2011	Thereafter		
	(in millions of pesos of constant purchasing power as of December 31, 2006, except percentages)							
Liabilities								
Debt								
Fixed Rate (Ps.)	686	151	300	41	2	3,243	4,423	4,439
Average Rate	7.13%	7.20%	7.21%	6.43%	8.40%	7.75%	—	—
Floating Rate (Ps.)	197	14	114	1,622	119	—	2,065	2,065
Average Rate	6.02%	5.69%	5.52%	7.04%	8.25%	—	—	—

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 (1.0%) decrease in interest rates would not have a significant effect on our results of operations. We use derivative financial instruments such as interest rate swaps for purposes of hedging a portion of our long-term debt, in order to reduce the risk from interest rate fluctuations.

FOREIGN EXCHANGE RATE RISK

Our net sales are denominated in U.S. dollars, Mexican pesos and other currencies. During 2006, approximately 49% of our revenues were generated in U.S. dollars, and approximately 31% in pesos. In addition, as of December 31, 2006, approximately 53% 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 rate are recognized as a component of equity. See Note 13 to our financial statements.

Fluctuations in exchange rates relative to the Mexican peso expose us to foreign-currency exchange rate risk, principally with regard to our debt. As of June 15, 2007 we had exchange rate forward contracts for part of the interest payments due in 2007 and 2008 on our U.S.\$300 million 7.75% perpetual bond, for an aggregate notional amount of U.S.\$ 34.9 million at an average exchange rate of Ps.10.942 per U.S. dollar.

Our primary foreign exchange rate risk relates to our substantial U.S. dollar-denominated debt for our non-U.S. subsidiaries. As of December 31, 2006, approximately 93% 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, 2006. The table does not reflect our U.S. dollar sales or our U.S. dollar-denominated assets.

U.S. dollar-denominated debt	Expected Maturity or Transaction Date						Total	Fair Value
	2007	2008	2009	2010	2011	Thereafter		
	(in millions of pesos of constant purchasing power as of December 31, 2006)							
7.75% Perpetual bond						3,243	3,243	3,420
Credit Facility				1,622			1,622	1,622
7.625% notes due 2007...	546						546	553
Revolving credit facility .					119		119	119
7.96% senior notes	16	17	114				147	147
Other*	320	148	301	41	2		812	812
	882	165	414	1,663	121	3,243	6,488	6,673

* Includes debt in Euros, Mexican Pesos and Bolívares

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 2006, we entered into short-term hedge transactions through commodity futures and options for a portion of our requirements. For cash-flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in stockholders' equity, based on the evaluation of the hedge effectiveness, and are reclassified to income in the periods when the hedged commitment or projected transaction is effected. Hedge contracts other than cash flow are recognized at fair value and their valuation gain or loss is recognized in income. As of December 31, 2006, we had an unfavorable effect due to changes in the fair value of cash flow hedges amounting to Ps.3.1 million net of taxes (which was recognized as comprehensive income within stockholders' equity). We expect to reclassify the effects initially registered as stockholders' equity to income within the following 12 months. As of December 31, 2006, we have outstanding fair value hedge contracts of natural gas for Ps.202.6 million. 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, 2006, we had an unfavorable effect of approximately Ps.133 million from these contracts. Additionally, as of December 31, 2006, we recognized a favorable effect of approximately Ps.1.1 million for the valuation of these contracts that did not qualify for hedge accounting, which were marked to market and recognized in current period earnings.

EQUITY PRICE RISK

We classify our equity investments, consisting primarily of shares of GFNorte, a Mexican financial services holding company, as long-term assets. Since these investments are accounted for using the equity method, we do not believe our exposure to a hypothetical 10% decrease in the value of these equity investments would have a material effect on our results. For additional information concerning our investment in GFNorte, see "Item 4. Information on the Company—Description of Business—Miscellaneous—Banorte Investment." We did not enter into any equity swap agreements in 2006.

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 and investment banks with long-term credit ratings. 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.

Not applicable.

PART II

ITEM 13. Defaults, Dividend Arrearages And Delinquencies.

None.

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

None.

ITEM 15. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The conclusions of our Chief Executive Officer and Chief Corporate Officer about the effectiveness of our disclosure controls and procedures (as such term is defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) based on their evaluation of these controls and procedures as of December 31, 2006, are as follows:

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us is recorded, processed, summarized and reported within required timeframes. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Corporate Officer, as appropriate to allow timely decisions regarding required disclosure. Based on their assessments of our disclosure controls and procedures, our Chief Executive Officer and Chief Corporate Officer have concluded that the disclosure controls and procedures are effective as of December 31, 2006, and that the consolidated financial statements fairly present our consolidated financial position and the results of operations for the period presented.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as 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 and 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. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the framework in Internal Control – Integrated Framework issued by COSO. Based on the assessment of our internal control over financial reporting, our Chief Executive Officer and Chief Corporate Officer have concluded that the Company's internal control over financial reporting is effective.

In August 2006, the SEC granted relief from section 404(b) of the Sarbanes-Oxley Act of 2002 for foreign accelerated filers (Release 2006-136). These companies will have their compliance deadline extended for an additional year, so we are not required to provide an auditor's attestation report on internal control over financial reporting until our 20-F report for fiscal year ended December 31, 2007.

Changes in Internal Control over Financial Reporting

During the period covered by this report, there have not been any changes in our 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) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. Financial Expert

As required by the Mexican Securities Law and our bylaws, Javier Vélez Bautista, Juan Diez-Canedo Ruiz, and Héctor Rangel Domene, were appointed as members of the audit committee and corporate governance committee by the Meeting of the Board of Directors held on April 25, 2007. Juan Diez-Canedo Ruiz was designated as the “Audit and Corporate Governance Committees Financial Expert” within the meaning of this Item 16A. Although under Mexican law the determination of the Board of Directors is binding on our company, this designation was confirmed by the General Ordinary Shareholders’ Meeting held on April 27, 2007

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 to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our web site at www.gruma.com. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waive on our web site at the same address.

ITEM 16C. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table summarizes the aggregate fees billed to us by PricewaterhouseCoopers, during the fiscal years ended December 31, 2005 and 2006:

	Year ended December 31,	
	2006	2005
	(thousands of Mexican pesos)	
Audit fees.....	Ps. 37,233	Ps. 29,996
Audit-related fees.....	—	—
Tax fees.....	5,776	7,222
Other fees.....	32	95
Total fees.....	Ps. 43,041	Ps. 37,313

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

Audit-related Fees. Audit-related fees in the above table are the aggregate fees billed by PricewaterhouseCoopers, for financial accounting and reporting consultations.

Tax Fees. Tax fees in the above table are fees billed by PricewaterhouseCoopers for services such as tax filings, value-added tax return, transfer pricing and requests for technical advice from taxing authorities.

Other Fees. Other fees in the above table are fees billed by PricewaterhouseCoopers, for non-audit services. As a percentage of total fees billed to GRUMA, other fees represent 0.07% and 0.25% for 2006 and 2005, respectively.

Audit Committee Pre-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

The following table sets out certain information concerning purchases of our shares by us and our affiliates during 2006.

Issuer Purchases of Equity Securities
(for the fiscal year ended December 31, 2006)

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs</u>
January.....				
February.....	90,500	Ps.	34.48	
March				
April				
May.....	20,000	Ps.	27.76	
June.....	358,400	Ps.	27.35	
July				
August				
September				
October				
November				
December				

PART III

ITEM 17. Financial Statements.

Not applicable.

ITEM 18. Financial Statements.

See pages F-1 through F-185, incorporated herein by reference.

ITEM 19. Exhibits.

Exhibit No.

- | | |
|---------|---|
| 1 | Our bylaws (<i>estatutos sociales</i>) as amended through November 30, 2006, together with an English translation. |
| 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(b)(1) | Indenture, dated as of October 9, 1997, between us and The Chase Manhattan Bank, as Indenture Trustee representing up to U.S.\$250,000,000 of our 7.625% Notes due 2007.*** |
| 2(b)(2) | Supplemental Indenture, dated as of November 30, 2004, between us and JPMorgan Chase Bank, N.A., a national banking association (as successor to JPMorgan Chase Bank), as Indenture Trustee under the Indenture referred to above.***** |
| 2(b)(3) | Registration Rights Agreement by and among us, Lehman Brothers Inc., Bear Stearns International Limited, and AFIN Securities International Ltd., dated October 9, 1997.*** |
| 2(b)(4) | 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. ***** |
| 2(b)(5) | U.S.\$250 million Loan Agreement among us, the Lenders party thereto, BBVA Securities Inc. as Bookrunner and Documentation Agent, and BBVA Bancomer, S.A. as Administrative Agent dated July, 22, 2005.***** |
| 2(b)(6) | U.S.\$100 million five year revolving credit facility among us, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, Documentation Agent and Letter of Credit Issuer, dated October 30, 2006. |
| 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. *** |
| 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.***** |
| 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.***** |
| 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.*** |
| 4(a)(5) | Investment Agreement by and between us and Archer-Daniels-Midland Company, dated August 21, 1996.*** |
| 8 | List of Principal Subsidiaries. |

- 12(a)(1) CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2007.
- 12(a)(2) CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2007.
- 13 Officer Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2007.

** 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.

*** 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.

**** 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.

***** Previously filed in Annual Report on Form 20-F (File No. 1-14852), originally filed with the SEC on June 30, 2005. Incorporated herein by reference.

***** Previously filed in Annual Report on Form 20-F (File No. 1-14852), originally filed with the SEC on June 30, 2006. Incorporated herein by reference.

SIGNATURE

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

Name: Juan Antonio Quiroga García

Title: Chief Corporate Officer

Dated: June 29, 2007

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES

**INDEX TO REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS AND
CONSOLIDATED FINANCIAL STATEMENTS 2004, 2005 AND 2006**

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Consolidated Statements of Income for the Years Ended December 31, 2004, 2005 and 2006	F4
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Gruma, S.A.B. de C.V. (formerly Gruma, S.A. de C.V.):

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and changes in financial position present fairly, in all material respects, the financial position of Gruma, S.A.B. de C.V. and subsidiaries (formerly Gruma, S.A. de C.V.), collectively "the Company", at December 31, 2006 and 2005, and the results of their operations and changes in their financial position for each of the three years ended December 31, 2006, in conformity with Mexican Financial Reporting Standards. These consolidated financial statements are the responsibility of the management of Gruma, S.A.B. de C.V. (formerly Gruma, S.A. de C.V.); our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2006 and 2005 financial statements of Grupo Financiero Banorte, S.A. de C.V. and subsidiaries, an equity method associated company, which investment as of December 31, 2006 and 2005 represents 9% and 8%, respectively, of the 2006 and 2005 consolidated total assets, and whose equity in their earnings represents 39% and 47% of the 2006 and 2005 consolidated net income, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the associated company mentioned above, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for the opinion expressed above.

Effective January 1, 2005, the Company adopted the amendments to Statement D-3, "Labor Obligations", issued by the Mexican Institute of Public Accountants. These amendments provide additional valuation and disclosure rules for recognizing severance payments due to causes other than from restructuring activities. The adoption of these amendments resulted the recognition of an initial liability effect related to the cost of the services of prior years and a cumulative effect charge to income for the year, net of taxes, in the amount of Ps.56,319 thousands.

Mexican Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP). Information relating to the nature and effect of such differences is presented in Note 22 to the consolidated financial statements. We did not audit the 2006 and 2005 U.S. GAAP equity method adjustment related to Grupo Financiero Banorte, S. A. de C. V. and subsidiaries described in Note 22-M. The 2006 and 2005 impact of the U.S. GAAP adjustment related to this equity method investee represents 1.0% and 1.7% of the consolidated stockholders' equity, respectively, and 1.3% and 0.4% of consolidated net income, for the years ended December 31, 2006 and 2005, respectively, both on a U.S. GAAP basis. These adjustments were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the U.S. GAAP amounts related to Grupo Financiero Banorte, S. A. de C. V. and subsidiaries in 2006 and 2005 is based solely on the report of the other auditors.

PricewaterhouseCoopers, S.C.

Monterrey, N. L., Mexico
June 25, 2007

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2006**

**(Expressed in thousands of Mexican pesos of constant purchasing power as of
December 31, 2006)
(Notes 1 and 3)**

	<u>2005</u>	<u>2006</u>
ASSETS		
Current:		
Cash	Ps. 243,264	Ps. 375,388
Temporary investments (Note 3-G)	98,333	195,401
Accounts receivable, net (Note 4)	3,605,413	4,539,712
Refundable taxes (Note 4)	541,925	573,688
Inventories (Note 5)	3,768,689	3,821,305
Prepaid expenses	281,514	332,218
Total current assets	<u>8,539,138</u>	<u>9,837,712</u>
Investment in common stock of associated companies (Note 6)	2,453,071	2,722,742
Property, plant and equipment, net (Note 7)	14,354,891	14,821,192
Intangible assets, net (Note 8)	1,223,651	936,904
Excess of cost over book value of subsidiaries acquired, net	1,322,551	1,792,118
Other assets (Note 9)	73,281	126,837
Total assets	<u>Ps. 27,966,583</u>	<u>Ps. 30,237,505</u>
LIABILITIES		
Current:		
Bank loans (Note 10)	Ps. 448,543	Ps. 172,164
Current portion of long-term debt (Note 10)	88,551	710,533
Trade accounts payable	2,069,940	2,311,162
Accrued liabilities and other accounts payable	1,609,441	2,014,982
Employees' statutory profit sharing payable	31,821	46,865
Total current liabilities	<u>4,248,296</u>	<u>5,255,706</u>
Long-term debt (Note 10)	6,680,257	5,605,464
Deferred income taxes (Note 15-B)	1,558,576	1,713,461
Deferred employees' statutory profit sharing (Note 15-D)	19,093	3,180
Other liabilities	735,409	611,553
Total long-term liabilities	<u>8,993,335</u>	<u>7,933,658</u>
Total liabilities	<u>13,241,631</u>	<u>13,189,364</u>
Contingencies and commitments (Note 12)		
STOCKHOLDERS' EQUITY		
Majority interest (Note 13):		
Common stock	4,575,894	4,880,142
Restatement of common stock	7,944,661	7,954,822
	<u>12,520,555</u>	<u>12,834,964</u>
Additional paid-in capital	3,829,890	4,666,087
	<u>16,350,445</u>	<u>17,501,051</u>
Deficit from restatement	(14,372,999)	(14,577,180)
Derivative financial instruments	92	6,404
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing	(218,116)	(218,116)
Retained earnings (Note 13-B):		
Prior years	9,903,142	10,658,371
Net income for the year	1,238,754	1,524,738
Foreign currency translation adjustments (Note 13-D)	(1,165,485)	(769,475)
Total majority interest	<u>11,735,833</u>	<u>14,125,793</u>
Minority interest	2,989,119	2,922,348
Total stockholders' equity	<u>Ps. 14,724,952</u>	<u>Ps. 17,048,141</u>
	<u>Ps. 27,966,583</u>	<u>Ps. 30,237,505</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 INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Expressed in thousands of Mexican pesos of constant purchasing power as of
December 31, 2006, except share and per share amounts)
(Notes 1 and 3)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net sales.....	Ps. 25,799,740	Ps. 27,862,898	Ps. 30,654,178
Cost of sales.....	<u>(16,552,730)</u>	<u>(18,197,650)</u>	<u>(19,974,480)</u>
Gross profit.....	9,247,010	9,665,248	10,679,698
Selling, general and administrative expenses	<u>(7,244,431)</u>	<u>(8,032,119)</u>	<u>(8,897,173)</u>
Operating income.....	<u>2,002,579</u>	<u>1,633,129</u>	<u>1,782,525</u>
Comprehensive financing cost, net:			
Interest expense	(502,436)	(596,588)	(573,579)
Loss from valuation and liquidation of financial instruments.....	—	—	(139,694)
Interest income.....	235,772	55,739	78,099
Monetary position gain, net.....	250,668	314,385	320,499
Foreign exchange loss, net (Note 16-A)	<u>(53,003)</u>	<u>(53,476)</u>	<u>(18,441)</u>
	<u>(68,999)</u>	<u>(279,940)</u>	<u>(333,116)</u>
Other expenses, net (Note 14).....	<u>(296,091)</u>	<u>(147,134)</u>	<u>(14,068)</u>
Income before income taxes, employees' statutory profit sharing, equity in earnings of associated companies, cumulative effect of change in accounting principle and minority interest.....	<u>1,637,489</u>	<u>1,206,055</u>	<u>1,435,341</u>
Income taxes (Note 15):			
Current.....	(418,177)	(548,584)	(338,869)
Deferred.....	<u>(369,864)</u>	<u>162,159</u>	<u>(72,680)</u>
	<u>(788,041)</u>	<u>(386,425)</u>	<u>(411,549)</u>
Employees' statutory profit sharing (Note 15):			
Current.....	(15,558)	(29,175)	(48,720)
Deferred.....	6,027	8,487	16,019
	<u>(9,531)</u>	<u>(20,688)</u>	<u>(32,701)</u>
Income before equity in earnings of associated companies, cumulative effect of change in accounting principle and minority interest.....	839,917	798,942	991,091
Equity in earnings of associated companies (Note 6)	291,313	650,232	612,626
Cumulative effect of change in accounting principle, net of taxes of Ps.21,832	—	(56,536)	—
Income before minority interest.....	<u>1,131,230</u>	<u>1,392,638</u>	<u>1,603,717</u>
Minority interest	<u>(178,230)</u>	<u>(153,884)</u>	<u>(78,979)</u>
Majority net income for the year.....	<u>Ps. 953,000</u>	<u>Ps. 1,238,754</u>	<u>Ps. 1,524,738</u>
Earnings per share (in pesos):			
Income from continuing operations.....	Ps. 2.12	Ps. 2.87	Ps. 3.18
Cumulative effect of change in accounting principle	—	(0.13)	—
Net income.....	<u>Ps. 2.12</u>	<u>Ps. 2.74</u>	<u>Ps. 3.18</u>
Weighted average shares outstanding (thousands)	<u>450,306</u>	<u>451,446</u>	<u>480,007</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 STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006**

(Expressed in thousands of Mexican pesos of constant purchasing power as of
December 31, 2006, except share and per share amounts)
(Notes 1 and 3)

	Common stock (Note 13-A)		Additional paid-in capital	Deficit from restatement	Derivative financial instru- ments	Cumulative effect of deferred income taxes and employee's statutory profit sharing
	Number of shares (thousands)	Amount				
Balances at December 31, 2003	450,133	Ps. 12,332,416	Ps. 3,640,993	Ps. (13,485,462)	Ps. —	Ps. (218,116)
Appropriation of prior year net income						
Contributions by minority interest						
Decrease of minority interest						
Dividends paid (\$0.78 per share)						
Net purchases and sales of Company's common stock.....	1,916	175,529	174,614			
	1,916	175,529	174,614	—	—	—
Comprehensive income (loss):						
Recognition of inflation effects for the year				(623,456)		
Foreign currency translation adjustments						
Derivative financial instruments, net of taxes.....					21,075	
Net income for the year						
Comprehensive income of the year.....	—	—	—	(623,456)	21,075	—
Balances at December 31, 2004	452,049	12,507,945	3,815,607	(14,108,918)	21,075	(218,116)
Appropriation of prior year net income						
Decrease of minority interest						
Dividends paid (Ps. 0.85 per share)						
Net purchases and sales of Company's common stock.....	501	12,610	14,283			
	501	12,610	14,283			
Comprehensive income (loss):						
Recognition of inflation effects for the year				(264,081)		
Foreign currency translation adjustments						
Derivative financial instruments, net of taxes.....					(20,983)	
Net income for the year						
Comprehensive income of the year.....	—	—	—	(264,081)	(20,983)	—
Balances at December 31, 2005	452,550	12,520,555	3,829,890	(14,372,999)	92	(218,116)

	Retained earnings (Note 13-B)		Foreign currency translation adjustments (Note 13-D)	Total majority interest	Minority interest	Total stockholders' equity
	Prior years	Net income for the year				
Balances at December 31, 2003	Ps. 8,412,757	Ps. 516,883	Ps. (648,954)	Ps. 10,550,517	Ps. 3,001,151	Ps. 13,551,668
Appropriation of prior year net income	516,883	(516,883)		—		—
Contributions by minority interest					97,168	97,168
Decrease of minority interest					(30,532)	(30,532)
Dividends paid (\$0.78 per share)	(350,607)			(350,607)	(233,431)	(584,038)
Net purchases and sales of Company's common stock.....	(44,941)			305,202		305,202
	<u>121,335</u>	<u>(516,883)</u>	<u>—</u>	<u>(45,405)</u>	<u>(166,795)</u>	<u>(212,200)</u>
Comprehensive income (loss):						
Recognition of inflation effects for the year.....	334,168			(289,288)	15,300	(273,988)
Foreign currency translation adjustments			4,820	4,820	(17,207)	(12,387)
Derivative financial instruments, net of taxes.....				21,075		21,075
Net income for the year		953,000		953,000	178,230	1,131,230
Comprehensive income of the year.....	334,168	953,000	4,820	689,607	176,323	865,930
Balances at December 31, 2004	8,868,260	953,000	(644,134)	11,194,719	3,010,679	14,205,398
Appropriation of prior year net income	953,000	(953,000)		—		—
Decrease of minority interest					(1,566)	(1,566)
Dividends paid (Ps. 0.85 per share)	(381,441)			(381,441)	(175,828)	(557,269)
Net purchases and sales of Company's common stock.....	(3,994)			22,899		22,899
	<u>567,565</u>	<u>(953,000)</u>	<u>—</u>	<u>(358,542)</u>	<u>(177,394)</u>	<u>(535,936)</u>
Comprehensive income (loss):						
Recognition of inflation effects for the year.....	467,317			203,236	48,587	251,823
Foreign currency translation adjustments			(521,351)	(521,351)	(36,598)	(557,949)
Derivative financial instruments, net of taxes.....				(20,983)	(10,039)	(31,022)
Net income for the year		1,238,754		1,238,754	153,884	1,392,638
Comprehensive income of the year.....	467,317	1,238,754	(521,351)	899,656	155,834	1,055,490
Balances at December 31, 2005	9,903,142	1,238,754	(1,165,485)	11,735,833	2,989,119	14,724,952

	Common stock (Note 13-A)		Additional paid-in capital	Deficit from restatement	Derivative financial instru- ments	Cumulative effect of deferred income taxes and employee's statutory profit sharing
	Number of shares (thousands)	Amount				
Appropriation of prior year net income						
Stock issuance	30,000	314,254	833,882			
Contributions by minority interest						
Dividends paid (Ps. 0.88 per share)						
Net purchases and sales of Company's common stock.....		155	2,315			
	<u>30,000</u>	<u>314,409</u>	<u>836,197</u>	<u>—</u>	<u>—</u>	<u>—</u>
Comprehensive income (loss):						
Recognition of inflation effects for the year				(204,181)		
Foreign currency translation adjustments						
Derivative financial instruments, net of taxes.....					6,312	
Net income for the year						
Comprehensive income for the year				(204,181)	6,312	
Balances at December 31, 2006	482,550	Ps. 12,834,964	Ps. 4,666,087	Ps. (14,577,180)	Ps. 6,404	Ps. (218,116)

	Retained earnings (Note 13-B)		Foreign currency translation adjustments (Note 13-D)	Total majority interest	Minority interest	Total stockholder's equity
	Prior years	Net income for the year				
Appropriation of prior year net income	1,238,754	(1,238,754)		—		—
Stock issuance				1,148,136		1,148,136
Contributions by minority interest				—	94,024	94,024
Dividends paid (Ps. 0.88 per share)	(424,394)			(424,394)	(235,075)	(659,469)
Net purchases and sales of Company's common stock	144			2,614		2,614
	<u>814,504</u>	<u>(1,238,754)</u>		<u>726,356</u>	<u>(141,051)</u>	<u>585,305</u>
Comprehensive income (loss):						
Recognition of inflation effects for the year	(59,275)			(263,456)	61,453	(202,003)
Foreign currency translation adjustments			396,010	396,010	(76,191)	319,819
Derivative financial instruments, net of taxes				6,312	10,039	16,351
Net income for the year		1,524,738		1,524,738	78,979	1,603,717
Comprehensive income for the year	<u>(59,275)</u>	<u>1,524,738</u>	<u>396,010</u>	<u>1,663,604</u>	<u>74,280</u>	<u>1,737,884</u>
Balances at December 31, 2006	<u>Ps. 10,658,371</u>	<u>Ps. 1,524,738</u>	<u>Ps. (769,475)</u>	<u>Ps. 14,125,793</u>	<u>Ps. 2,922,348</u>	<u>Ps. 17,048,141</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 FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006

**(Expressed in thousands of Mexican pesos of constant purchasing power as of
December 31, 2006)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Operating activities:			
Majority net income for the year	Ps. 953,000	Ps. 1,238,754	Ps. 1,524,738
Minority interest	178,230	153,884	78,979
Consolidated net income	<u>1,131,230</u>	<u>1,392,638</u>	<u>1,603,717</u>
Adjustments to reconcile consolidated net income to net resources provided by operating activities:			
Depreciation and amortization	1,089,535	1,159,940	1,202,078
Impairment of long-lived assets	235,049	41,212	465,608
Equity in earnings of associated companies, net of dividends received	(234,170)	(577,761)	(534,680)
Deferred income taxes and employees' statutory profit sharing	363,832	(170,647)	56,661
Net gain from sale of subsidiaries' shares	—	—	(137,971)
Net gain from sale of associated company's shares	—	—	(380,572)
Write-off of debt issuance costs due to early extinguishment of debt	24,558	—	—
Cumulative effect of change in accounting principle, net of taxes	—	56,536	—
Seniority premiums and other long-term accrued liabilities	9,086	45,986	9,015
	<u>2,619,120</u>	<u>1,947,904</u>	<u>2,283,856</u>
Changes in working capital:			
Restricted cash	668	503	—
Accounts receivable, net	(536,867)	(141,425)	(1,093,398)
Inventories	(547,672)	88,032	132,870
Prepaid expenses	(31,490)	(37,500)	(55,051)
Trade accounts payable	545,827	530,193	195,478
Accrued liabilities and other accounts payables	(30,107)	(496,172)	420,117
Income taxes and employees' statutory profit sharing payable	6,936	(17,249)	(10,141)
	<u>(592,705)</u>	<u>(73,618)</u>	<u>(410,125)</u>
Net resources provided by operating activities	<u>2,026,415</u>	<u>1,874,286</u>	<u>1,873,731</u>
Financing activities:			
Proceeds from bank loans and long-term debt	4,431,040	2,485,214	2,335,863
Repayment of bank loans and long-term debt	(4,619,256)	(2,014,461)	(3,061,511)
Proceeds from (repayment of) long-term notes payable	—	393,747	(48,213)
Proceeds from stock issuance	—	—	1,148,136
Contributions (decrease) by minority interest	66,636	(1,566)	94,024
Net purchases and sales of Company's common stock and derivative financial operations	326,277	(8,123)	18,965
Dividends paid	(584,038)	(557,269)	(659,469)
Other	(30,978)	(76,977)	12,042
Net resources (used in) provided by financing activities	<u>(410,319)</u>	<u>220,565</u>	<u>(160,163)</u>
Investing activities:			
Acquisition of property, plant and equipment	(930,083)	(1,289,188)	(2,221,388)
Acquisition of subsidiaries, net of cash acquired	(396,628)	(1,104,611)	(570,587)
Sale of property, plant and equipment	196,037	180,855	748,590
Intangible assets	(379,500)	(10,505)	(15,694)
Resources received from sale of subsidiaries' shares	—	—	137,971
Resources received from sale of associated company's shares	—	—	588,854
Other	12,290	(31,140)	(152,122)
Net resources used in investing activities	<u>(1,497,884)</u>	<u>(2,254,589)</u>	<u>(1,484,376)</u>
Net increase (decrease) in cash and temporary investments	118,212	(159,738)	229,192
Cash and temporary investments at beginning of year	383,123	501,335	341,597
Cash and temporary investments at end of year	<u>Ps. 501,335</u>	<u>Ps. 341,597</u>	<u>Ps. 570,789</u>

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2006, except where otherwise indicated)

1. ENTITY AND NATURE OF BUSINESS

Gruma, S.A.B. de C.V. (formerly Gruma, S.A. de C.V.), a Mexican corporation, is a holding company whose subsidiaries are located in Mexico, the United States of America, Central America, Venezuela, Europe, Asia and Oceania. These subsidiaries are primarily engaged in manufacturing and distributing corn flour, tortillas, wheat flour and other related products. Gruma, S.A.B. de C.V. and its subsidiaries are herein collectively referred to as “the Company”.

In accordance with the Stock Market Law issued in December 30, 2005, the shareholders agreed to modify the Company’s name of Gruma S.A. de C.V. to Gruma, S.A.B. de C.V, through an Extraordinary General Meeting held in November 30, 2006. Additionally, certain bylaws were modified to include the new integration, organization and performance of its social bodies as well as the new rights for minority shareholders.

The attached consolidated financial statements and notes were authorized on June 25, 2007 by Juan Quiroga García, Chief Corporate Officer and Homero Huerta Moreno, Chief Administrative Officer.

2. NEW OPERATIONS

The results of operations of the new investments have been consolidated since their acquisition dates.

The investments carried out during 2006 are described as follows:

- The Company, through its subsidiary Gruma Corporation, completed two acquisitions in Australia within the Victoria province, which are related to the production and distribution of tortilla. In January 2006, all issued and outstanding shares of Rositas Investments Pty, Ltd were acquired for a total of Ps.142,779 (U.S.\$13,208,000). In March 2006, the Company purchased the assets related to tortilla production from Oz-Mex Foods Pty, Ltd for Ps.41,845 (U.S.\$3,871,000).

The estimated fair values of the net assets acquired are summarized as follows:

Current assets	Ps.	44,082
Property, plant and equipment.....		62,343
Excess of cost over book value		108,520
Deferred income taxes.....		1,966
Total assets acquired		<u>216,911</u>
Current liabilities.....		<u>32,287</u>
Net assets acquired	Ps.	<u><u>184,624</u></u>

- In September 2006, the Company acquired in England all issued and outstanding shares of Pride Valley Foods Ltd for a total of Ps.370,418 (U.S.\$32,864,000). This business produces and distributes tortilla, pita bread and Indian bread.

The net assets acquired are summarized as follows:

Current assets	Ps. 75,031
Property, plant and equipment.....	149,231
Excess of cost over book value	<u>310,648</u>
Total assets acquired	534,910
Current liabilities.....	139,754
Deferred income taxes.....	<u>24,738</u>
Net assets acquired	<u>Ps. 370,418</u>

The investments carried out during 2005 are described as follows:

- In May 2005, the Company, through its subsidiary Gruma Corporation, entered into an asset purchase agreement to acquire from CHS Inc., located in Minnesota, Texas and Arizona in the United States of America, all the assets related to the production and distribution of tortilla and related products. The Company paid Ps.437,870 (U.S.\$39,437,000).

The estimated fair values of the net assets acquired are summarized as follows:

Inventories.....	Ps. 25,770
Property, plant and equipment.....	220,784
Excess of cost over book value	99,161
Trade names and other intangible assets	<u>92,155</u>
Total assets acquired	<u>Ps. 437,870</u>

- In September 2005, the Company, through its subsidiary Gruma Corporation, acquired all issued and outstanding shares of La Tapatía Norcal, Inc. for Ps.52,462 (U.S.\$4,725,000). According to the terms of the agreement, Gruma Corporation paid an initial amount of Ps.8,327 (U.S.\$750,000) with a final payment for the amount of Ps.44,135 (U.S.\$3,975,000) due in January 2006. La Tapatía manufactures and distributes tortillas, chips and related products in San Francisco, California. The excess of cost over book value is for an amount of Ps.28,002.

The estimated fair values of the net assets acquired are summarized as follows:

Current assets	Ps. 18,076
Property, plant and equipment.....	19,308
Excess of cost over book value	28,002
Trade names and other intangible assets	22,028
Other assets	<u>1,821</u>
Total assets acquired	89,235
Current portion of long-term debt	15,178
Other current liabilities.....	16,488
Deferred income taxes.....	<u>5,107</u>
Net assets acquired	<u>Ps. 52,462</u>

- In August 2005, the Company, through its subsidiary Grupo Industrial Maseca, S.A. de C.V., acquired all issued and outstanding shares of Agroinsa de México, S.A. de C.V. and Agroindustrias Integradas del Norte, S.A. de C.V. for Ps.490,111 (U.S.\$43,100,000). The businesses acquired are Mexican companies that mainly produce corn and wheat flour. Under the terms of the agreement, Grupo Industrial Maseca initially paid Ps.45,486 (U.S.\$4,000,000) and has two notes payable for Ps.41,358 each (U.S.\$3,637,000 each) due in August 2006 and 2007, and a third note for Ps.361,804 (U.S.\$31,826,000) due in August 2008. The net assets acquired, adjusted to its fair value, and the notes payable have been included in the consolidated financial statements. The legal status of this acquisition with respect to the *Comisión Federal de Competencia* (“Federal Competition Commission” or “CFC”) is discussed in Note 12.

The estimated fair values of the net assets acquired are summarized as follows:

Current assets	Ps.	300,033
Property, plant and equipment.....		608,066
Excess of cost over book value		120,221
Total assets acquired		<u>1,028,320</u>
Current liabilities.....		342,717
Deferred income taxes.....		185,442
Other long-term liabilities		10,050
Net assets acquired	Ps.	<u>490,111</u>

- In December 2005, the Company, through its subsidiary Gruma Centroamérica, L.L.C., acquired all issued and outstanding shares of Maíz Industrializado de C.A., S.A. de C.V. for Ps.44,825 (2,005 million of Costa Rican colons).

The estimated fair values of the net assets acquired are summarized as follows:

Current assets	Ps.	41,657
Property, plant and equipment.....		7,745
Excess of cost over book value		4,377
Deferred income tax asset		6,317
Other assets		2,291
Total assets acquired		<u>62,387</u>
Current liabilities.....		17,562
Net assets acquired	Ps.	<u>44,825</u>

3. SIGNIFICANT ACCOUNTING POLICIES

A) FINANCIAL REPORTING STANDARDS

Starting January 1, 2006, the Company adopted the provisions published by the Mexican Financial Reporting Standards Board (CINIF) which is responsible for regulating the development of accounting and reporting standards in Mexico (“Mexican GAAP”). As a consequence, during the preparation of the attached consolidated financial statements, the following hierarchy as established by the CINIF was observed:

- The Financial Reporting Standards (FRS) and the related interpretations issued by the CINIF.
- The statements issued by the Accounting Principles Board of the Mexican Institute of Public Accountants, which have not been modified, substituted or otherwise superseded by the new FRS.
- The International Financial Reporting Standards (IFRS) applicable on a supplementary basis.

Based on the criteria mentioned above, the Company applied the accounting policies that are described below. A reconciliation from Mexican GAAP to United States generally accepted accounting principles (“U.S. GAAP”) is included in Note 22.

B) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Gruma, S.A.B. de C.V. and all of those subsidiaries in which the majority of the common shares is owned directly or indirectly by the Company or otherwise has control. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

As of December 31, 2005 and 2006 the main subsidiaries included in the consolidation are the following:

	% of ownership	
	2005	2006
Gruma Corporation and subsidiaries	100.00	100.00
Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries.....	83.18	83.18
(1) Molinos Nacionales, C.A. (Note 18-C)	95.00	83.84
(1) Derivados de Maíz Seleccionado, C.A. (Note 18-C).....	50.00	57.00
Molinera de México, S.A. de C.V. and subsidiaries.....	60.00	60.00
Gruma Centroamérica, L.L.C. and subsidiaries	100.00	100.00
Productos y Distribuidora Azteca, S.A. de C.V. and subsidiaries.....	100.00	100.00
Investigación de Tecnología Avanzada, S.A. de C.V. and subsidiaries.....	100.00	100.00

(1) On April 6, 2006 the Company signed an agreement to sell and buy interests of Molinos Nacionales, C.A. (Monaca) and Derivados de Maiz Seleccionado, C.A. (Demaseca), as follows:

- The Company agreed to sell, in a series of installments, 40% of its ownership in the common stock of Monaca, a subsidiary located in Venezuela, for U.S.\$65,600,000, with reserve of title and for a period no longer than December 2007. On May 31, 2006, the Company purchased 2% of the common stock of Monaca from Archer Daniels Midland (ADM) for a total of U.S.\$3,289,000. Thus, once the sale in installments ends, the interest of the Company in Monaca will be of 57%. As of December 31, 2006 the Company owns 83.84% of Monaca.
- At the same date, on April 6, 2006, the Company purchased 10% of the common stock of Demaseca for U.S.\$2,590,000. On August 16, 2006, the Company sold 3% of the common stock of Demaseca to ADM for U.S.\$777,000. Thus, after these transactions, the interest of the Company in Demaseca is 57%.

C) USE OF ESTIMATES

The preparation of the financial statements in conformity with financial reporting standards requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and reported amounts of revenues, costs and expenses for the reporting years. Actual results could differ from those estimates.

D) FOREIGN CURRENCY TRANSLATION

- Financial statements of foreign subsidiaries have been restated to recognize the effects of inflation and translated to Mexican pesos of constant purchasing power as of December 31, 2006, as follows:
- Financial statements are restated to year-end constant local currencies following the provisions of Bulletin B-10, applying the General Consumer Price Index (“GCPI”) of the foreign country, which reflects the change in purchasing power of the local currency in which the subsidiary operates.
- Assets, liabilities, income and expenses are translated to Mexican pesos by applying the exchange rate in effect at each period end. Stockholders’ equity balances are translated by applying the exchange rates in effect at the dates in which the contributions were made and the income was generated. The effects of translation are recognized as a component of equity entitled “Foreign Currency Translation Adjustments” (Note 13-D).

E) RECOGNITION OF THE EFFECTS OF INFLATION

The consolidated financial statements have been restated to recognize the effects of inflation and are expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2006, determined as follows:

- For comparability purposes, the financial statements as of and for the years ended December 31, 2004 and 2005 have been restated using a weighted average restatement factor, which considers the relative total sales contribution by country for that year and the corresponding inflation and exchange rate fluctuations during that year. The difference between the restatement of stockholders' equity according to this methodology and the National Consumer Price Index ("NCPI") is disclosed in retained earnings of prior years.
- The consolidated statements of income and of changes in stockholders' equity for the year ended December 31, 2006 were restated applying GCPI factors from the country in which the subsidiary operates and applied to periods in which the transactions occurred and year-end.
- The consolidated statements of changes in financial position present, in Mexican pesos of constant purchasing power, the resources provided by or used in operating, financing and investing activities.
- The factors used to recognize the effects of inflation were the following:

<u>Year</u>	<u>Mexican national consumer price index</u>	<u>Weighted - average restatement factor</u>
2004.....	5.19%	1.17%
2005.....	3.33%	(1.66)%
2006.....	4.05%	4.45%

The methodology used to restate financial statement items is as follows:

- Restatement of non-monetary assets

Inventory and cost of sales are restated using the estimated replacement cost method. As set forth in Note 3-J, property, plant and equipment, net, is restated using the NCPI factors, except for machinery and equipment of foreign origin, which are restated on the basis of a specific index composed of the GCPI factor from the country of origin, to the related foreign currency amounts, and then translated to Mexican pesos using the year-end exchange rate.

- Restatement of common stock, additional paid-in capital and retained earnings

This restatement is determined by applying NCPI factors from the dates on which capital stock and additional paid-in capital were contributed and earnings were generated or losses incurred; and it reflects the amount necessary to maintain the stockholder's investment at the original purchasing power amounts. The restatement is included within the related stockholders' equity captions.

- Deficit from restatement

Deficit from restatement primarily represents the difference between the replacement cost values of non-monetary assets or specific index restatement of machinery and equipment of foreign origin, as described above, and the historical cost of those assets restated for inflation, as measured by NCPI for domestic subsidiaries and GCPI factors for foreign subsidiaries.

- Monetary position gain

Monetary position gain represents the inflationary effect, measured by NCPI factors, on the net balance of monetary assets and liabilities at the beginning of each month. The monetary position gain from foreign subsidiaries is measured by the relevant GCPI factor in its net monetary position, prior to the translation to Mexican pesos.

F) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are recorded at the exchange rate in effect on the dates the transactions are entered into and settled. Monetary assets and liabilities denominated in foreign currencies are translated into Mexican pesos at the exchange rate in effect at the balance sheet dates. Currency exchange fluctuations from valuation and liquidation of these balances are credited or charged to income, except for the effects of translation arising from foreign currency denominated liabilities, which are accounted for as a hedge of the Company's net investment in foreign subsidiaries, and are recognized as a component of equity under "Foreign currency translation adjustments".

G) TEMPORARY INVESTMENTS

Temporary investments are highly liquid investments with maturities of less than a year from the date of the financial statements and are stated at cost, which approximates market value.

H) INVENTORIES AND COST OF SALES

Inventories are stated at the lower of estimated replacement cost or market. Estimated replacement cost is mainly determined by the last purchase price or the last production cost of the period. Cost of sales is determined from replacement costs calculated for the month in which inventories are sold.

I) INVESTMENT IN COMMON STOCK

Investments in common stock with ownership between 10% and 50% of the investees' voting stock, or where the Company exercises significant influence, are accounted for by the equity method.

J) PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment are restated using NCPI factors, except for machinery and equipment of foreign origin, which are restated on the basis of a specific index composed of the GCPI from the foreign country and the change in value of the Mexican peso against the foreign currency at the end of the year.

Depreciation expense is computed based on the net book value less salvage value, using the straight-line method over the estimated useful lives of the assets. Useful lives of the assets are as follows:

	<u>Years</u>
Buildings	25-50
Machinery and equipment	5-25
Software for internal use	3-7
Leasehold improvements	10

Maintenance and repairs are expensed as incurred. Costs of major replacements and improvements are capitalized. Comprehensive financing cost, including interest expense, foreign currency exchange fluctuations, and monetary position gain of the related debt for major construction projects, are capitalized as part of the assets during the construction period. When assets are retired, sold or otherwise disposed of, any resulting gain or loss is included in "Other expenses, net".

Direct internal and external costs related to the development and implementation of internal use software are capitalized and amortized over the estimated useful life beginning when such software is ready for its intended use.

The value of these assets is subject to impairment tests when certain events and circumstances are present as mentioned in Note 3-L.

K) INTANGIBLE ASSETS, NET AND EXCESS OF COST OVER BOOK VALUE OF SUBSIDIARIES ACQUIRED

Intangible assets and excess of cost over book value of subsidiaries acquired are restated using NCPI and GCPI factors for foreign subsidiaries.

Expenses incurred only during the development stage are capitalized as preoperating expenses. The development stage ends when the project initiates its commercial activities. Research expenses are expensed as incurred. Capitalized preoperating expenses are amortized using the straight-line method over a period not to exceed 12 years.

Amortization expense of other intangible assets with finite lives is computed on the restated values using the straight-line method, over a period of 2 to 20 years, based on their limited lives due to contractual, economic, legal or regulatory factors. Indefinite-lived intangible assets are no longer amortized.

Business combinations are accounted under the purchase method. The excess of cost over book value of business combinations is no longer amortized but is tested annually for impairment.

Debt issuance costs are capitalized and restated using the NCPI factors. Amortization expense is computed using the straight-line method over the term of the related debt.

The value of these assets, other than the excess of cost over book value and indefinite-lived intangible assets, is subject to impairment tests when certain events and circumstances are present as mentioned in Note 3-L.

L) IMPAIRMENT OF LONG LIVED ASSETS

The Company performs impairment tests for its property, plant and equipment; intangible assets; excess of cost over book value of subsidiaries acquired and investment in common stock of associated companies, when certain events or circumstances suggest that the carrying value of these assets may not be recovered. Indefinite-lived intangible assets and excess of cost over book value of subsidiaries acquired are tested for impairment at least on an annual basis.

Fair value of assets held for use is determined using the higher between the discounted net cash flows expected from the assets and the market price; an impairment loss is recorded to the extent that the net book value exceeds the fair value of the assets. Market price is determined using market values or transactions with similar assets less costs to sell.

Fair value of assets to be disposed of is determined using the lower between book value and market price; an impairment loss is recognized for the excess of book value over market price. These assets are subsequently restated using NCPI factors and are no longer depreciated or amortized.

M) LABOR OBLIGATIONS

Seniority premiums to which Mexican employees are entitled after 15 years of service are charged to income as determined by annual actuarial valuations. Until December 31, 2004 indemnities to which Mexican employees may be entitled in the case of dismissal or death, under certain circumstances established by Mexican Labor Law, were expensed when they became payable.

Starting January 1, 2005 the Company adopted the provisions of Bulletin D-3 "Labor Obligations", which includes the regulations for the valuation, presentation and recognition of retirement benefits at the end of the employee labor relationship for causes other than restructuring. These effects are recognized through actuarial valuations using the projected unit credit method. The net period cost amounted to Ps.14,195 which was recognized in income of the year. As of January 1, 2005 the initial adoption of Bulletin D-3 included the recognition of a liability and a charge to income of Ps.56,536 net of taxes, for the recognition of prior services

for retirement benefits at the end of the labor relationship. These effects mainly refer to the recognition of indemnities to which employees are entitled in case of dismissal.

N) FINANCIAL INSTRUMENTS

Derivative financial instruments that are not considered for hedging purposes are recognized initially at cost and subsequently at fair value, with changes in fair value recognized currently in income.

For cash-flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in stockholders' equity, based on the evaluation of the hedge effectiveness, and are reclassified to income in the periods when the hedged commitment or projected transaction is effected. Fair value hedge contracts as well as the hedged items attributable to the hedged risk are recognized at fair value and their valuation gains or losses are recognized in income.

O) REVENUE RECOGNITION

Revenue on product sales is recognized upon shipment to, and acceptance by the Company's customers or when the risk of ownership has passed to the customers. 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.

P) INCOME TAXES AND EMPLOYEES' STATUTORY PROFIT SHARING

The Company recognizes in income the expense or benefit from deferred income tax and employees' statutory profit sharing for all temporary differences between the carrying values for financial reporting and tax values of assets and liabilities that are expected to reverse in the future. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all the deferred tax assets will not be realizable.

Q) EARNINGS PER SHARE

Earnings per share are computed by dividing majority net income for the year by the weighted average number of common shares outstanding during the year.

R) COMPREHENSIVE INCOME (LOSS)

The different components that constitute earned (lost) capital for the year are presented in the statement of changes in stockholders' equity as comprehensive income (loss).

4. ACCOUNTS RECEIVABLE, NET AND REFUNDABLE TAXES

Accounts receivable, net are comprised of the following as of December 31:

	<u>2005</u>	<u>2006</u>
Trade accounts receivable	Ps. 3,471,890	Ps. 4,157,024
Allowance for doubtful accounts.....	<u>(148,423)</u>	<u>(204,838)</u>
	3,323,467	3,952,186
Derivative financial instruments.....	42,944	237,584
Employees	26,822	32,019
Other debtors	212,180	317,923
	<u>Ps. 3,605,413</u>	<u>Ps. 4,539,712</u>

Refundable taxes are comprised of the following as of December 31:

	<u>2005</u>	<u>2006</u>
Production and services tax	Ps. 913	Ps. 874
Value-added tax	163,659	178,326
Income tax	377,353	394,488
	<u>Ps. 541,925</u>	<u>Ps. 573,688</u>

5. INVENTORIES

Inventories consisted of the following as of December 31:

	<u>2005</u>	<u>2006</u>
Raw materials, mainly corn and wheat.....	Ps. 2,576,413	Ps. 2,425,955
Finished products	391,130	468,129
Materials and spare parts	335,797	371,508
Production in process	96,778	110,633
Advances to suppliers.....	284,710	335,423
Inventory in transit	83,861	109,657
	<u>Ps. 3,768,689</u>	<u>Ps. 3,821,305</u>

6. INVESTMENT IN COMMON STOCK OF ASSOCIATED COMPANIES

Investment in common stock of associated companies consists of the investment in common stock of Grupo Financiero Banorte, S.A. de C.V. and subsidiaries (“GFNorte”) and Harinera de Monterrey, S.A. de C.V. which produces wheat flour and related products in Mexico.

These investments, accounted for by the equity method, are comprised of the following as of December 31:

	<u>2005</u>	<u>2006</u>	<u>Ownership as of December 31, 2006</u>
GFNorte.....	Ps. 2,323,955	Ps. 2,593,201	10.0024%
Harinera de Monterrey, S.A. de C.V.	129,116	129,541	40%
	<u>Ps. 2,453,071</u>	<u>Ps. 2,722,742</u>	

During 2006, the Company sold through the Mexican Stock Exchange a total of 17,224,100 shares of its investment in GFNorte, which represented 0.8533% of its interest in GFNorte. The net gain from these transactions amounted to Ps.380,572 and is reflected within “Other expenses, net” (Note 14). Prior to the sale of these shares, the interest of the Company in GFNorte was 10.8557%.

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following as of December 31:

	<u>2005</u>	<u>2006</u>
Land.....	Ps. 1,270,284	Ps. 1,208,622
Buildings	5,024,186	5,095,697
Machinery and equipment	16,744,874	18,178,566
Construction in progress.....	696,789	1,010,076
Software for internal use	818,776	813,050
Leasehold improvements.....	282,230	364,989
Other.....	46,845	33,630
	<u>24,883,984</u>	<u>26,704,630</u>
Accumulated depreciation and amortization	<u>(10,529,093)</u>	<u>(11,883,438)</u>
	<u>Ps. 14,354,891</u>	<u>Ps. 14,821,192</u>

For the years ended December 31, 2004, 2005 and 2006, depreciation expense amounted to Ps.993,627, Ps.1,055,427 and Ps.1,091,699, respectively. For the years ended December 31, 2004, 2005 and 2006, comprehensive financing costs of Ps.274, Ps. 8,094 and Ps.5,502, respectively, were capitalized to property, plant and equipment.

As of December 31, 2006, property, plant and equipment includes temporarily idled assets with a carrying value of approximately Ps.653,884, resulting from the temporary shut-down of the productive operation of various plants in Mexico, mainly in corn flour division. These assets are recognized at their net realizable value and are not being depreciated.

For the years ended December 31, 2004, 2005 and 2006, the Company recognized impairment losses of Ps.169,822, Ps.41,212 and Ps.318,755, respectively, reflected within "Other expenses, net" according to the provisions established by Bulletin C-15, "Impairment of Long-Lived Assets and their Disposition", as follows:

Segment	2004	2005	2006
Corn flour division (Mexico).....	Ps. 65,366	Ps. 23,406	Ps. 14,107
Corn flour, wheat flour and other products (Venezuela)	10,964	10,379	90,285
Other.....	29,057	7,427	182,813
Other reconciling items	64,435	—	31,550
Total	Ps. 169,822	Ps. 41,212	Ps. 318,755

Additionally, as of December 31, 2006 the Company has assets at net realizable value of Ps.35,554 which are available for sale.

8. INTANGIBLE ASSETS, NET

Intangible assets, net, are comprised of the following:

As of December 31, 2005:

	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets with finite lives			
Acquired:			
Covenants not to compete.....	Ps. 902,217	Ps. (418,083)	Ps. 484,134
Debt issuance costs	534,413	(160,765)	373,648
Patents and trademarks	173,373	(29,779)	143,594
Generated:			
Preoperating expenses.....	49,990	(45,926)	4,064
Research on new projects.....	34,103	(34,103)	—
Other	66,260	(22,214)	44,046
	Ps. 1,760,356	Ps. (710,870)	1,049,486
Intangible assets with indefinite lives			
Trade names.....			174,165
			Ps. 1,223,651

As of December 31, 2006:

	<u>Remaining useful life (years)</u>	<u>Gross carrying amount</u>	<u>Accum- lated amortiza- tion</u>	<u>Net carrying amount</u>
Intangible assets with finite lives				
Acquired:				
Covenants not to compete	10	Ps. 895,223	Ps. (464,003)	Ps. 431,220
Debt issuance costs	1 – 18	537,247	(183,932)	353,315
Patents and trademarks	2 – 15	101,376	(34,419)	66,957
Customer list	1 – 15	48,840	(13,415)	35,425
Generated:				
Preoperating expenses	5	49,144	(47,406)	1,738
Research of new projects	2 – 11	43,349	(43,349)	—
Other	1 – 5	58,796	(24,000)	34,796
		<u>Ps. 1,733,975</u>	<u>Ps. (810,524)</u>	<u>923,451</u>
Intangible assets with indefinite lives				
Trade names				13,453
				<u>Ps. 936,904</u>

Intangible assets recognized during 2005 amounted to Ps.36,803 mainly due to the debt issuance costs related to the U.S. dollar perpetual notes which totaled Ps.18,008. Intangible assets recognized during 2006 amounted to PS.12,926 mainly due to new projects (La Casa del Maíz), as well as the acquisition of the trade name La Ideal, which totaled Ps.6,762.

The Company's management determined based on the provisions of Bulletin C-8, "Intangible Assets", that some trade names have indefinite lives since their future cash flow generation is expected to be indefinite.

For the years ended December 31, 2004, 2005 and 2006, the amortization expense of intangible assets amounted to Ps.95,795, Ps.104,513 and Ps.110,379 respectively.

Research and development costs charged to income amounted to Ps.39,637, Ps.41,978 and Ps.58,909 for the years ended December 31, 2004, 2005 and 2006, respectively.

During 2004, the Company recognized an impairment loss in certain trade names and preoperating expenses for an amount of Ps.20,975, which was recognized as "Other expenses, net" (Note 14) within the "Other" segment, according with the provisions established by Bulletin C-15. During 2006, the Company recognized an impairment loss in certain intangible assets of Ps.146,853 included in "Other expenses, net" (Note 14), which corresponds to the "Other" segment.

Estimated amortization expense over the next five years is as follows:

<u>Year</u>	<u>Amount</u>
2007	Ps. 105,524
2008	90,571
2009	79,569
2010	74,453
2011	73,753
Thereafter	499,581
Total	<u>Ps. 923,451</u>

Excess of cost over book value of subsidiaries acquired (“goodwill”), net, is comprised of the following:

	<u>Corn flour and packaged tortilla (US and Europe)</u>	<u>Corn flour (Mexico)</u>	<u>Other</u>	<u>Other recon- ciling items</u>	<u>Total</u>
Balance at January 1,					
2005	Ps. 602,602	Ps. 78,841	Ps. 22,958	Ps. 281,324	Ps. 985,725
Goodwill acquired.....	231,820	120,221	4,377	—	356,418
Foreign currency translation adjustment	(20,574)	—	—	—	(20,574)
Restatement.....	(21,291)	5,476	391	16,406	982
Balance at December 31,					
2005	792,557	204,538	27,726	297,730	1,322,551
Goodwill acquired.....	45,726	—	437,779	—	483,505
Foreign currency translation adjustment	18,636	—	—	—	18,636
Restatement.....	(20,917)	(8,714)	(2,570)	(373)	(32,574)
Balance at December 31,					
2006	<u>Ps. 836,002</u>	<u>Ps. 195,824</u>	<u>Ps. 462,935</u>	<u>Ps. 297,357</u>	<u>Ps. 1,792,118</u>

During 2004, the Company adopted the guidelines established by Bulletin B-7 and consequently, ceased the amortization of the excess of cost over book value for approximately Ps.82,408. During 2004, the Company performed impairment tests in accordance with Bulletin C-15 and recognized an impairment loss for these assets of Ps.44,252 within “Other expenses, net” (Note 14).

9. OTHER ASSETS

Other assets consisted of the following, as of December 31:

	<u>2005</u>	<u>2006</u>
Long-term notes receivable.....	Ps. 41,891	Ps. 99,542
Club memberships	9,789	3,988
Guarantee deposits.....	21,601	23,307
	<u>Ps. 73,281</u>	<u>Ps. 126,837</u>

10. BANK LOANS AND LONG-TERM DEBT

Bank loans and long-term debt as of December 31 are summarized as follows:

	<u>2005</u>	<u>2006</u>
Perpetual notes in U.S. dollars, bearing interest at an annual rate of 7.75%, payable quarterly, redeemable starting 2009	Ps. 3,330,911	Ps. 3,243,000
Syndicated loan in U.S. dollars, maturing in July 2010; bearing interest at an annual rate of LIBOR plus 0.375% to 0.45% payable monthly or quarterly (5.83% in 2006)	1,976,340	1,621,500
Senior unsecured notes in U.S. dollars, maturing in October 2007 and bearing interest at an annual rate of 7.625% payable semiannually	561,169	546,359
Credit line in U.S. dollars, maturing in October 2011, bearing interest at an annual rate of LIBOR plus 0.35% to 0.45% (8.25% in 2006), payable in 30, 60, 90 and 180 days.	—	118,910
Loans in U.S. dollars and Euros, payable between 2007 and 2010 and bearing interest at variable annual rates from 2.5% to 7.96% in 2006, payable in different installments	770,006	357,959
Loans in Venezuelan bolivars payable between 2007 and 2009 and bearing interest at variable annual rates from 8.75% to 9.0% in 2006, payable monthly	353,920	345,654
Loans in U.S. dollar due between 2007 and 2008, bearing interest at variable annual rates from 5.92% to 6.37%, payable monthly	122,194	162,870
Loans in Mexican pesos due in 2007 and 2010, bearing interest at fixed annual rates from 8.96% to 9.16%, payable monthly	<u>102,811</u>	<u>91,909</u>
	7,217,351	6,488,161
Short-term bank loans	(448,543)	(172,164)
Current portion of long-term debt	<u>(88,551)</u>	<u>(710,533)</u>
Long-term debt	<u>Ps. 6,680,257</u>	<u>Ps. 5,605,464</u>

Short-term bank loans in U.S. dollars for Ps. 134,045 (U.S.\$12.4 million) bear interest at an average rate of 5.90% as of December 31, 2006. Short-term bank loans in Venezuelan bolivars for Ps.18,854 (3,750 million of Venezuelan bolivars) bear interest at an average rate of 8.75% as of December 31, 2006. Additionally, as of December 31, 2006 the Company has a short-term loan in Euros for Ps.19,265 (1.5 million of Euros) that bears an average interest rate of 4.13%.

The Company has credit line agreements for Ps.2,162 million (U.S.\$200 million), from which Ps.2,043 million (U.S.\$189 million) were available as of December 31, 2006. These credit line agreements require the payment of an annual commitment fee of 0.10% to 0.20% on the unused amounts.

Various credit agreements contain covenants, mainly related to the fulfillment of certain financial ratios, which if not maintained for a certain period of time, may be considered as a cause for early maturity of the debt. At December 31, 2006, the Company was in compliance with these financial ratios.

At December 31, 2006, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2008	Ps. 164,991
2009	413,668
2010	1,662,989
2011	120,816
2012 and thereafter.....	<u>3,243,000</u>
	<u>Ps. 5,605,464</u>

The Company has entered into an interest rate swap agreement for its long term debt maturing in 2010 and exchange rate forward contracts for the interest payments of long term debt maturing in 2007 (Note 18).

11. LABOR OBLIGATIONS

Seniority premium cost and other employee retirement benefits balance as of December 31, 2005 and 2006 amounted to Ps.118,224 and Ps.108,006, respectively, and are included in “Other liabilities”.

Seniority premium cost in Mexico is determined by independent actuaries and is based mainly on the employees’ years of service, age and salaries. The Company has established trust funds to meet these obligations. The employees do not contribute to these funds. Additionally, the indemnities to which employees are entitled in case of dismissal are determined by independent actuaries, principally based on employees’ years of services, salaries and current labor laws. The Company uses December 31 as the measurement date for its plans.

The components of the net seniority premium cost and for the obligations at the end of the labor relationship for the years ended December 31, were the following:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Service cost	Ps. 3,299	Ps. 12,435	Ps. 11,860
Interest cost	955	3,610	4,060
Return on plan assets	(3,466)	(6,509)	(5,796)
Curtailed loss	14	1,034	1,265
Settlement loss	—	4,751	13,692
Net amortization	2,463	5,778	6,911
Net cost for the year	<u>Ps. 3,265</u>	<u>Ps. 21,099</u>	<u>Ps. 31,992</u>
Initial effect for the recognition of benefits at the end of the labor relationship	<u>Ps. —</u>	<u>Ps. 78,368</u>	<u>Ps. —</u>

As of December 31, the status of the plan was as follows:

	<u>2005</u>	<u>2006</u>
Actuarial present value of accumulated benefit obligations:		
Vested benefit obligation	Ps. (19,949)	Ps. —
Non-vested benefit obligation	(14,930)	(404)
	<u>(34,879)</u>	<u>(404)</u>
Excess of projected benefit obligation over accumulated benefit obligation	(86,913)	(124,918)
Projected benefit obligation	(121,792)	(125,322)
Plan assets at fair value (trust funds)	27,592	32,078
Shortfall of plan assets over projected benefit obligation	(94,200)	(93,244)
Unrecognized amounts to be amortized over 17 years:		
Cumulative net gain	5,267	19,053
Net transition liability	(1,137)	—
Prior service cost	(47)	—
Adjustment required to recognize minimum liability	(2,488)	—
Liability for seniority premium and for obligations at the end of the labor relationship	<u>Ps. (92,605)</u>	<u>Ps. (74,191)</u>

For the years ended December 31, 2005 and 2006, the changes in projected benefit obligation and plan assets (trust funds) are summarized as follows:

	<u>2005</u>	<u>2006</u>
Projected benefit obligation at beginning of year	Ps. 31,468	Ps. 121,792
Effect of inflation on beginning balance	(1,314)	(5,165)
Service cost	12,435	11,860
Interest cost	3,610	4,060
Benefits paid	(18,740)	(33,933)
Effect at the beginning of the year for the recognition of benefits at the end of the labor relationship	78,368	—
Actuarial loss	15,965	26,708
Projected benefit obligation at end of year	<u>Ps. 121,792</u>	<u>Ps. 125,322</u>

	<u>2005</u>	<u>2006</u>
Fair value of plan assets at beginning of year	Ps. 21,562	Ps. 27,592
Effect of inflation on beginning balance	1,095	(1,175)
Return on plan assets	6,509	5,796
Benefits paid	(1,574)	(22,655)
Settlement loss	—	11,153
Amortization of obligations at transition	—	11,367
Fair value of plan assets at end of year	<u>Ps. 27,592</u>	<u>Ps. 32,078</u>

The weighted average assumptions (net of expected inflation) used to determine benefit obligations at December 31 were as follows:

	<u>2005</u>	<u>2006</u>
Discount rate	3.5%	4.0%
Rate of increase in future compensation levels	1.5%	1.5%

The weighted average assumptions (net of expected inflation) used to determine net periodic benefit cost for the years ended December 31 were as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Discount rate	3.5%	3.5%	4.0%
Rate of increase in future compensation levels	1.5%	1.5%	1.5%
Expected long-term rate of return on plan assets	4.0%	4.0%	5.0%

The long-term asset return rate is based on the annual recommendations of the Actuarial Commission in the Mexican Association of Consulting Actuaries. These recommendations consider historical information and future expectations of the market.

The Company's weighted average asset allocation by asset category as of December 31 was as follows:

	<u>2005</u>	<u>2006</u>
Equity securities	47%	46%
Fixed rate instruments	53%	54%
Total	<u>100%</u>	<u>100%</u>

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments. Objective portfolio guidelines have been established for the remaining 70% and investment decisions are being made to comply with those guidelines to the extent that market conditions and available funds allow.

The Company estimates that it will not have to contribute to the plan during 2007.

The following table summarizes expected benefit payments from the Company's plans as follows:

<u>Year</u>	<u>Amount</u>
2007	Ps. 31,985
2008	6,395
2009	8,140
2010	12,055
2011	8,466
Thereafter	441,095

In the United States, the Company has a saving and investment plan that incorporates voluntary employee 401(K) contributions with Company contributions. For the years ended December 31, 2004, 2005 and 2006, total expenses related to this plan were U.S.\$3,017,000 (Ps.32,614) U.S.\$3,061,000 (Ps.33,089) and U.S.\$3,045,000 (Ps.32,916), respectively.

In Venezuela, the Company recognizes a liability for seniority premiums and indemnities for dismissal established by the local Labor Law, which amounted to Ps.15,244 and Ps.23,839 as of December 31, 2005 and 2006, respectively.

In Central America, the labor legislation of Costa Rica, Nicaragua, El Salvador, Honduras and Guatemala establishes that the accumulated payments, to which workers may be entitled, based on the years of services, must be paid in the case of death, retirement or dismissal. The Company records a liability at 9% over salaries paid, which amounted to Ps.11,520 and Ps.10,048 as of December 31, 2005 and 2006, respectively.

12. CONTINGENCIES AND COMMITMENTS

A) CONTINGENCIES

The *Secretaría de Hacienda y Crédito Público* ("Ministry of Finance and Public Credit") has made: (i) certain observations to our asset tax returns for the years 1994, 1996, 1997, 1999 and 2000, amounting Ps.340.7 million; (ii) a determination for the amount of Ps.29.9 million for withholding taxes derived from the payment of interests to our foreign creditors for the years 2000, 2001 and 2002 (the Mexican authorities claim that the Company should have withhold 10% over such payments instead of 4.9%); and (iii) certain observations to our income tax returns for the years 2000 and 2001 in connection to the accreditation of the special services and production tax for an amount of Ps.10,972, considered by the authority as prohibited. Additionally, one of our subsidiaries in Mexico has been notified with several assessments for the import of wheat, amounting Ps.93,027, which according to the authority was made under an incorrect HS Code (Harmonized System Code). The Company has filed several appeals to obtain an annulment of such assessments. The Company believes the resolution of these proceedings will not have a material effect on the Company's financial position and results of operation.

The Venezuelan tax authorities have made certain observations to one of the Venezuelan subsidiaries, Molinos Nacionales C.A. ("Monaca"), related to the income tax returns for the years 1999 and 1998, which amounted to Ps.15,134 (U.S.\$1.4 million), plus sales tax credits presumably omitted for Ps.717 (U.S. \$66,344). The resolutions of these claims will be assumed by the previous shareholder, International Multifoods Corporation, in accordance with the purchase agreement of our subsidiary in Venezuela, Monaca.

Additionally, Monaca has been named in several labor law suits by its "Caleteros" for a total amount of Ps.68,877 (13,699 million of Venezuelan bolivars), which are currently being trialed. The "Caleteros" are people that assist the carriers in the unloading of merchandise, which generate a high risk in labor and industrial security for Monaca. In order to handle the "Caleteros" matter, Monaca decided to create a provision of Ps.18,759 (3,731 million of Venezuelan bolivars) which is reflected within accrued payable expenses and other liabilities.

Some of the Company's subsidiaries have been notified by the *Comisión Nacional de Agua* ("National Water Commission" or "CNA") of fee assessments due from different years. These assessments mainly arise from the CNA's determination of discharge of sewage water on public property of the Nation that was being used as

receiver facilities. Nevertheless, the subsidiaries are using the water derived from the production process, previously treated, to irrigate several garden properties of the Company, through the sprinkler system. All of the assessments notified by the CNA have been resolved in favor of the Company, with exception of two assessments that are still pending resolution. The current status of these procedures is the following: (i) the Company has obtained a favorable ruling from the Superior Chamber of the Federal Tax and Administrative Court to annul an assessment for Ps.14,222 plus restatement, penalties and charges, which was appealed by the CNA before an Appeals Court for Administrative Matters, which ordered to restore the procedure due to a procedural defect which has been rectified, being this case at the moment back at the Superior Chamber of the Federal Tax and Administrative Court to dictates the corresponding ruling; and (ii) an assessment for Ps.669 thousand is pending resolution in the first instance. According to the Company's lawyers, a reasonable basis exists to believe the Company is in compliance will all applicable legal regulations, given that the water from the production process is previously treated and later on used to irrigate the garden properties of the Company through the sprinkler system, and are not discharged on public property of the Nation. According to the foregoing, the Company believes all of these proceedings will be resolved favorably. The Company intends to vigorously defend against this action.

In November 2001, one of Gruma Corporation's independent distributors filed a punitive class action lawsuit against this subsidiary. The case was removed from California state court to federal court. Prior to April 2005, the Company did not consider this claim to be material because two court orders had held that the claim must be arbitrated and that the arbitration would be for the individual plaintiff's claims only and because the total exposure on the individual claim was for a small amount. In April 2005, the United States District Court, based on a recent U.S. Supreme Court decision, ordered that the original claims should be referred to arbitration and that the arbitrator could decide whether the matter should proceed as a class action. No decision has yet been made as to whether the claims should proceed as a class action. The claims, as recently amended, allege: (i) that Gruma Corporation breached its distributor agreements and its distributors are actually employees; (ii) that Gruma Corporation has failed to make wage, expense, and other payments required for employees; (iii) that Gruma Corporation has violated the California antitrust laws and unfair competition statutes and; (iv) that Gruma Corporation has otherwise committed fraud and negligent misrepresentations. The arbitrator subsequently dismissed the antitrust claims. The remaining claims are being asserted by two named plaintiffs. The arbitrator has issued an order stating an intention to certify the case as a class action; the details of the class order have not yet been delineated. The plaintiffs seek damages and equitable relief but have not yet specified the total amount of damages sought. The Company intends to vigorously defend against this action.

In October 2005, the Company was named in a class action suit, Ramon Moreno et al. v. Guerrero Mexico Food Products, Inc. and Gruma Corporation, filed in the United States District Court for the Central District of California, Los Angeles County. This is a punitive wage and hour class action alleging a misclassification of the Teamster-represented Sales Drivers as exempt when they should be treated as non-exempt and paid overtime for all hours worked in excess of eight in a workday and forty-eight in a workweek. Plaintiffs also contend that the punitive class members have been denied state-mandated meal periods and are due penalties under California Labor Code. Plaintiff subsequently amended the complaint to add a second plaintiff who is an active employee. The Company filed an answer asserting 33 affirmative defenses. The Company then filed a third-party complaint against Teamsters Local 63 asserting a breach of contract and seeking declaratory relief. Teamsters Local 63 filed a motion to dismiss our third-party complaint against it. On December 20, 2006, the plaintiffs filed a motion to certify this case as a class action. The court held a hearing on February 26, 2007, regarding plaintiffs' motion for class certification and on March 20, 2007, the court entered an order certifying the case as a class action. The court has set a new trial date for October 23, 2007. The Company intends to defend the action vigorously, relying on various affirmative and fact defenses. The parties are engaged in discovery on Defendants' affirmative defenses.

On August 24, 2005, the Company, through its subsidiary Grupo Industrial Maseca, S.A. de C.V., acquired a 100% interest in Agroinsa, a group of companies that produce corn flour in Celaya, Guanajuato as well as corn flour, wheat flour and other food products in Monterrey, Nuevo León. In accordance with the Ley Federal de Competencia Económica, or Mexican Competition Law, the Company notified the Comisión Federal de Competencia, or Federal Competition Commission or CFC of the prospective acquisition through a "notice of concentration."

On November 21, 2005, the Company was notified that the CFC had denied its request to approve the Agroinsa acquisition.

In addition to the Company's belief that the decision by the CFC lacked legal and economic merits, on January 16, 2006, the Company filed an administrative appeal before the CFC arguing that the acquisition should be approved by the CFC under the grounds of the afirmativa ficta, or implicit approval, in view of the fact that the CFC notified its resolution extemporaneously in accordance with Article 21 of the Mexican Competition Law.

On April 6, 2006, the CFC denied the Company's appeal and confirmed its decision to reject the acquisition. The Company subsequently requested the Thirteenth Federal Court for Administrative Matters of Mexico City to overrule the CFC's resolution. The Federal Court granted the Company's request on August 24, 2006 and ordered the CFC to approve the acquisition. On June 14, 2007, following a jurisdictional appeal by the CFC before the Third Federal Court of Appeals for Administrative Matters, arguing that the decision made by the Thirteenth Federal Court for Administrative Matters should be overruled, the Third Federal Court of Appeals for Administrative Matters, relying on certain legal guidelines previously issued by the Mexican Supreme Court of Justice in this case, ruled that the implicit approval applied to protect the Company's right to acquire Agroinsa. This decision is final and non-appealable.

By virtue of the judicial resolution, the CFC is legally bound to promptly issue a new administrative resolution authorizing the Company to acquire Agroinsa under the terms and conditions that the Company previously presented to the CFC.

Additionally, the Company is involved in certain unresolved proceedings arisen in the ordinary course of the business. The Company does not believe that the resolution of these proceedings may have a significant adverse effect in its financial situation and results of operation.

B) COMMITMENTS

The Company entered into sale-leaseback agreements for various production equipment located in its U.S. plants. The Company has a purchase option at the expiration of the leases and an early purchase option, which permits the Company to acquire the equipment at fair market value at approximately three-fourths of the lease term. These agreements are accounted for as operating leases.

As of December 31, 2006, the Company is leasing certain equipment under long-term operating lease agreements expiring through 2015. Future minimum lease payments under such leases amount to approximately Ps.1,683,625 (U.S.\$155,747,000), as follows:

<u>Year</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2007	Ps. 179,327	Ps. 295,827	Ps. 475,154
2008	181,694	230,621	412,315
2009	117,040	157,426	274,466
2010	118,553	100,792	219,345
2011	49,921	60,903	110,824
2012	80,005	111,516	191,521
	<u>Ps. 726,540</u>	<u>Ps. 957,085</u>	<u>Ps. 1,683,625</u>
	<u>U.S.\$ 67,210</u>	<u>U.S.\$ 88,537</u>	<u>U.S.\$ 155,747</u>

Rental expense was approximately Ps.422,205, Ps.429,526 and Ps.505,801 for the years ended December 31, 2004, 2005 and 2006, respectively.

At December 31, 2006, the Company had various outstanding commitments in the United States to purchase commodities and raw materials for approximately Ps.1,418,272 (U.S.\$131,200 thousand), which will be delivered during 2007.

As of December 31, 2006, the Company had outstanding commitments to purchase machinery and equipment amounting to approximately Ps.485,423 (U.S.\$44,905 thousand).

As of December 31, 2006, the Company has irrevocable letters of credit in the amount of approximately Ps.112,208 (U.S.\$10,380 thousand) serving as collateral for claims pursuant to the Company's self-insured worker's compensation retention program in the United States.

13. STOCKHOLDERS' EQUITY

A) COMMON STOCK

On January 27, 2006, the Company concluded the equity offering of 30 million shares, which represented approximately Ps.1,148 million net of discounts and commissions from underwriters and expenses related with the offering. The net proceeds were used to increase the production capacity in the United States of America.

At December 31, 2006, Gruma's outstanding common stock consisted of 482,549,952 shares of Series "B", with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval, and no shares held in Treasury. At December 31, 2005, the Company's outstanding common stock consisted of 452,549,952 shares.

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.

Dividends paid from retained earnings which have not been previously taxed are subject to an income tax payable by the Company equal to 38.91% in 2007 and thereafter. The applicable tax may be credited against income tax the Company is subject to in the year or in the following two fiscal years. Dividends paid by the Company from the net tax income account are not subject to any tax.

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 additional paid-in capital, 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 in the sale of the Company's own shares is recorded as additional paid-in capital. As of December 31, 2006, the Company does not have transactions with its own stock.

D) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

Foreign currency translation adjustments as of December 31 consisted of the following:

	<u>2005</u>	<u>2006</u>
Foreign currency translation at beginning of year	Ps. (644,134)	Ps. (1,165,485)
Effect of translating net investment in foreign subsidiaries	(712,304)	450,858
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries, net of taxes	190,953	(54,848)
	<u>Ps. (1,165,485)</u>	<u>Ps. (769,475)</u>

The investment that the Company maintains in the operations in the United States and Europe generates a natural hedge of up to U.S.\$520 million and U.S.\$500 million as of December 31, 2005 and 2006, respectively.

As of December 31, 2005 and 2006, the accumulated effect of translating net investment in foreign subsidiaries in the minority interest amounted to Ps.2,927 and Ps.(73,226), respectively.

E) INFLATION EFFECTS

As of December 31, 2006, the majority stockholders' equity is comprised of the following:

	<u>Nominal</u>	<u>Restatement</u>	<u>Total</u>
Common stock	Ps. 4,880,142	Ps. 7,954,822	Ps. 12,834,964
Additional paid-in capital.....	2,150,629	2,515,458	4,666,087
Deficit from restatement	—	(14,577,180)	(14,577,180)
Derivative financial instruments	6,404	—	6,404
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing.....	(209,951)	(8,165)	(218,116)
Retained earnings from prior years	4,107,506	6,550,865	10,658,371
Net income for the year.....	1,511,977	12,761	1,524,738
Foreign currency translation adjustments	(769,475)	—	(769,475)
	<u>Ps. 11,677,232</u>	<u>Ps. 2,448,561</u>	<u>Ps. 14,125,793</u>

F) TAX VALUES OF COMMON STOCK AND RETAINED EARNINGS

As of December 31, 2006, tax amounts of common stock and retained earnings were Ps.10,086,904 and Ps.1,715,867, respectively.

14. OTHER EXPENSES, NET

Other expenses, net is comprised of the following:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net gain from sale of GFNorte's shares (Note 6)	Ps. —	Ps. —	Ps. 380,572
Net gain from sale of subsidiaries' shares.....	—	—	137,971
Impairment loss on assets (Note 3-L)	(235,049)	(41,212)	(465,608)
Amortization of other deferred costs.....	(51,697)	(50,488)	(56,330)
Net gain (loss) in sale of fixed assets and other assets.....	31,215	(13,772)	(5,720)
Debt issuance costs cancelled due to early extinguishment of debt	(24,558)	—	—
Other	(16,002)	(41,662)	(4,953)
	<u>Ps. (296,091)</u>	<u>Ps. (147,134)</u>	<u>Ps. (14,068)</u>

15. INCOME TAX, ASSET TAX AND EMPLOYEES' STATUTORY PROFIT SHARING

A) INCOME TAX AND ASSET TAX

Gruma files a consolidated income tax return for Mexican income tax purposes, consolidating taxable income and losses of Gruma and its controlled Mexican subsidiaries. Filing a consolidated tax return had the effect of reducing income tax expense for the years ended December 31, 2004, 2005 and 2006 by Ps.147,997, Ps.286,095 and Ps.408,874, respectively, as compared to filing a tax return on an unconsolidated basis. Tax regulations permit to consolidate 100% of the ownership investment.

In accordance with the applicable tax law, Mexican corporations must pay the higher of either income tax or asset tax (1.8% through December 31, 2006 and from 2007 on 1.25% without deducting liabilities). Asset tax is determined on the average value of substantially all of the Company's Mexican assets less certain liabilities. Payments of asset tax are recoverable against the excess of income tax over asset tax (when it is higher than income tax) of the three prior years and the ten subsequent years.

For the year ended December 31, 2004 and 2005, asset tax amounted to Ps.3,134 and Ps.71,833, respectively.

B) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME

For the years 2004, 2005 and 2006, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	Year ended December 31,		
	2004	2005	2006
Statutory federal income tax (33% for 2004, 30% for 2005 and 29% in 2006).....	Ps. 548,474	Ps. 361,815	Ps. 416,249
Variation in valuation of tax loss carryforwards.....	—	43,037	58,288
Losses of Mexican subsidiaries which cannot be utilized for income tax consolidation.....	70,138	13,087	10,108
Foreign income tax differences.....	24,500	(26,548)	(82,870)
Foreign dividends.....	257,133	—	—
Effect due to change in income tax rate.....	(99,659)	—	—
Effects related to inflation.....	(9,706)	(12,049)	4,056
Other.....	(2,844)	7,083	5,718
Effective income tax (48% for 2004, 32% for 2005 and 29% in 2006).....	<u>Ps. 788,036</u>	<u>Ps. 386,425</u>	<u>Ps. 411,549</u>

As a result of changes in the Mexican Income Tax Law, approved in November 13, 2004, statutory tax rates will be 28% in 2007. Consequently, the effect of this tax rate decrease was the reduction of Ps.99,659 in the deferred tax liability during 2004, as well as an increase in net income for the same amount.

At December 31, 2005 and 2006, the tax effects of main differences that give rise to significant portions of the deferred tax assets and liabilities, are as follows:

	(Assets) Liabilities	
	2005	2006
Deferred tax assets:		
Net operating loss carryforwards and other tax credits.....	Ps. (279,238)	Ps. (179,420)
Accrued liabilities.....	(170,878)	(229,997)
Recoverable asset tax.....	(403,711)	(195,168)
Intangible asset resulting from intercompany operation.....	(87,552)	(60,669)
Other.....	(136,640)	(164,721)
	<u>(1,078,019)</u>	<u>(829,975)</u>
Deferred tax liabilities:		
Property, plant and equipment, net.....	1,823,094	1,752,579
Inventories.....	288,589	243,292
Intangible assets and other.....	141,812	155,562
Investment in partnership and equity method investee.....	383,100	392,003
	<u>2,636,595</u>	<u>2,543,436</u>
Net deferred tax liability.....	<u>Ps. 1,558,576</u>	<u>Ps. 1,713,461</u>

At December 31, 2006 the Company did not recognize deferred income tax asset of Ps.85,269 from tax loss carryforwards pertaining to certain foreign subsidiaries, since no sufficient evidence is available that these tax loss carryforwards will be realizable.

C) TAX LOSS CARRYFORWARDS AND RECOVERABLE ASSET TAX

At December 31, 2006, the Company does not have tax loss carryforwards in Mexico corresponding to the consolidated income tax return. As of December 31, 2006, asset tax of Ps.103,449 generated in the consolidated income tax return in Mexico and available to offset the excess of income tax over asset tax in future years, is shown below:

<u>Expiration year</u>	<u>Recoverable asset tax</u>
2013	Ps. 28,509
2014	3,107
2015	71,833
	<u>Ps. 103,449</u>

At December 31, 2006 certain foreign subsidiaries have tax loss carryforwards of approximately Ps.48,163 (2,307 million of Costa Rican colons) that expire in 2009 to 2011 and Ps.87,095 (17,322 million of Venezuelan bolivars) which will expire in 2007 to 2008.

D) EMPLOYEES' STATUTORY PROFIT SHARING

In Mexico, employees' statutory profit sharing is determined for each subsidiary on an unconsolidated basis, applying 10% of taxable income determined on a basis similar to income tax, except that the employees' statutory profit sharing does not consider inflation effects, depreciation and amortization expense is based on the historical cost, and a foreign exchange gain or loss is recognized when a monetary asset or liability is contractually due.

16. FOREIGN CURRENCY

A) EXCHANGE DIFFERENCES

For the years ended December 31, 2004, 2005 and 2006, the effects of exchange rate fluctuations on the Company's monetary assets and liabilities were recognized as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</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 stockholders' equity as an effect of foreign currency translation adjustments.....	Ps. 21,943	Ps. 270,792	Ps. (75,635)
Exchange differences arising from foreign currency transactions credited (charged) to income.....	(53,004)	(53,476)	(18,441)
	<u>Ps. (31,061)</u>	<u>Ps. 217,316</u>	<u>Ps. (94,076)</u>

B) FOREIGN CURRENCY POSITION

As of December 31, 2005 and 2006, monetary assets and liabilities held or payable in U.S. dollars are summarized below:

<u>In companies located in Mexico:</u>	<u>Thousands of U.S. dollars</u>	
	<u>2005</u>	<u>2006</u>
Assets:		
Current	U.S.\$ 9,656	U.S.\$ 12,142
Non-current	81	71
Liabilities:		
Current	(8,560)	(69,488)
Long-term.....	(564,005)	(481,826)
	<u>U.S.\$ (562,828)</u>	<u>U.S.\$ (539,101)</u>

In foreign companies:	Thousands of U.S. dollars			
	2005		2006	
Assets:				
Current	U.S.\$	195,550	U.S.\$	285,321
Non-current		3,312		4,279
Liabilities:				
Current		(276,943)		(314,436)
Long-term.....		(185,262)		(184,612)
	<u>U.S.\$</u>	<u>(263,343)</u>	<u>U.S.\$</u>	<u>(209,448)</u>

At December 31, 2005 and 2006, the exchange rates used to translate U.S. dollar assets and liabilities were Ps.10.63 and Ps.10.81, respectively. On June 25, 2007, date of issuance of these financial statements, the exchange rate for the U.S. dollar was Ps.10.82.

For the years ended December 31, 2004, 2005 and 2006 the Company's Mexican subsidiaries had transactions in U.S. dollars as follows:

	Thousands of U.S. dollars					
	2004		2005		2006	
Corn purchases and other inventories.....	U.S.\$	94,939	U.S.\$	94,963	U.S.\$	108,830
Interest expense		27,081		35,946		38,222
Equipment purchases.....		133		424		424
Services		5,125		7,480		7,480
	<u>U.S.\$</u>	<u>127,278</u>	<u>U.S.\$</u>	<u>138,813</u>	<u>U.S.\$</u>	<u>154,956</u>

As of December 31, consolidated non-monetary assets of foreign origin, which are restated on the basis of the GCPI from the foreign country of origin, are summarized as follows:

	2005		2006	
	Foreign currency (thousands)	Year-end exchange rate	Foreign currency (thousands)	Year-end exchange rate
U.S. dollars	716,756	10.63	836,932	10.81
Swiss francs	21,562	8.08	199,701	8.87
Euros.....	13,823	12.5732	32,989	14.2681
Venezuelan bolivars	462,462,371	0.0049	385,424,593	0.0050
Australian Dollars.....	—	7.796	28,695	8.4913
Yuans.....	—	1.3171	5,853	1.3834
Pounds sterling	—	18.2708	7,729	21.1671
Canadian dollars	—	9.11	521	9.28
Costa Rican colons	35,660,409	0.0214	43,572,733	0.0209

17. 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 (mainly United States and Europe) – manufactures and distributes over 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, Europe, Asia and Oceania. 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” division – represents those segments individually amounting less than 10% of the consolidated total. These segments are: corn flour and other products division in Central America, wheat flour division in Mexico, packaged tortilla division in Mexico and technology and equipment division. Corn flour and other products division in Central America manufactures, distributes and sells corn flour, tortillas and snacks; cultivates and sells hearts of palm. Wheat flour division in Mexico is engaged in the production and marketing of wheat flour in this country. Packaged tortilla division in Mexico produces and distributes packaged tortillas. The technology and equipment division 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.
- The “Other reconciling items” row includes the corporate expenses and the elimination of inter-business unit transactions.

All inter-segment sales prices are market based. The Company evaluates performance based on operating income of the respective business units.

Summarized financial information concerning the Company’s reportable segments is shown in the following tables.

Segment information as of and for the year ended December 31, 2004:

<u>Segment</u>	<u>Net sales to external customers</u>	<u>Inter-segment net sales</u>	<u>Operating income (loss)</u>	<u>Depreciation and amortization</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 12,296,117	Ps. —	Ps. 1,218,895	Ps. 497,851
Corn flour division (Mexico).....	6,027,837	194,186	484,685	272,840
Corn flour, wheat flour and other products (Venezuela).....	3,821,510	—	213,027	92,008
Other.....	3,620,610	462,666	4,304	161,050
Other reconciling items	33,666	(656,852)	81,668	65,786
Total	<u>Ps. 25,799,740</u>	<u>Ps. —</u>	<u>Ps. 2,002,579</u>	<u>Ps. 1,089,535</u>

<u>Segment</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Expenditures for long-lived assets</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 8,848,151	Ps. 3,295,319	Ps. 1,007,290
Corn flour division (Mexico).....	8,030,204	1,466,837	64,653
Corn flour, wheat flour and other products (Venezuela)	3,539,169	1,726,168	102,298
Other.....	4,080,887	621,316	96,994
Other reconciling items	1,524,665	4,708,033	49,583
Total	<u>Ps. 26,023,076</u>	<u>Ps. 11,817,673</u>	<u>Ps. 1,320,818</u>

Segment information as of and for the year ended December 31, 2005:

<u>Segment</u>	<u>Net sales to external customers</u>	<u>Inter-segment net sales</u>	<u>Operating income (loss)</u>	<u>Depreciation and amortization</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 14,326,749	Ps. —	Ps. 1,183,786	Ps. 561,323
Corn flour division (Mexico).....	6,569,860	220,868	721,690	272,470
Corn flour, wheat flour and other products (Venezuela).....	3,220,834	—	(90,640)	108,589
Other.....	3,724,603	523,207	(148,138)	156,242
Other reconciling items.....	20,852	(744,075)	(33,569)	61,316
Total.....	<u>Ps. 27,862,898</u>	<u>Ps. —</u>	<u>Ps. 1,633,129</u>	<u>Ps. 1,159,940</u>

<u>Segment</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Expenditures for long-lived assets</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 9,757,642	Ps. 3,613,881	Ps. 950,798
Corn flour division (Mexico).....	8,863,386	2,254,519	769,842
Corn flour, wheat flour and other products (Venezuela)....	3,181,564	1,602,613	217,895
Other.....	4,337,770	1,051,415	163,974
Other reconciling items.....	1,826,221	4,719,203	42,582
Total.....	<u>Ps. 27,966,583</u>	<u>Ps. 13,241,631</u>	<u>Ps. 2,145,091</u>

Segment information as of and for the year ended December 31, 2006:

<u>Segment</u>	<u>Net sales to external customers</u>	<u>Inter-segment net sales</u>	<u>Operating income (loss)</u>	<u>Depreciation and amortization</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 16,309,916	Ps. 1,686	Ps. 938,253	Ps. 609,369
Corn flour division (Mexico).....	7,112,059	276,284	823,094	280,165
Corn flour, wheat flour and other products (Venezuela).....	3,132,121	—	96,232	102,308
Other.....	4,081,697	1,019,196	171,055	160,253
Other reconciling items.....	18,385	(1,297,166)	(246,109)	49,983
Total.....	<u>Ps. 30,654,178</u>	<u>Ps. —</u>	<u>Ps. 1,782,525</u>	<u>Ps. 1,202,078</u>

<u>Segment</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Expenditures for long-lived assets</u>
Corn flour and packaged tortilla division (United States and Europe).....	Ps. 12,348,600	Ps. 5,027,571	Ps. 1,576,904
Corn flour division (Mexico).....	8,970,120	2,060,830	338,076
Corn flour, wheat flour and other products (Venezuela)....	2,589,034	1,535,757	236,655
Other.....	4,634,676	1,241,798	201,097
Other reconciling items.....	1,695,075	3,323,408	80,231
Total.....	<u>Ps. 30,237,505</u>	<u>Ps. 13,189,364</u>	<u>Ps. 2,432,963</u>

The following table presents the details of “Other reconciling items” for operating income:

<u>Other reconciling items</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Corporate expenses.....	Ps. 41,419	Ps. (86,993)	Ps. (121,029)
Elimination of inter-business unit transactions.....	40,249	53,424	(125,080)
	<u>Ps. 81,668</u>	<u>Ps. (33,569)</u>	<u>Ps. (246,109)</u>

Additionally, a summary of information by geographic segment is as follows:

	<u>2004</u>	<u>%</u>	<u>2005</u>	<u>%</u>	<u>2006</u>	<u>%</u>
NET SALES TO						
EXTERNAL						
CUSTOMERS:						
United States						
and Europe.....	Ps. 12,296,117	48	Ps. 14,326,749	51	Ps. 16,309,916	53
Mexico.....	8,367,917	32	8,891,595	32	9,616,862	32
Venezuela.....	3,821,510	15	3,220,834	12	3,132,121	10
Central America ..	1,314,196	5	1,423,720	5	1,595,279	5
	<u>Ps. 25,799,740</u>	<u>100</u>	<u>Ps. 27,862,898</u>	<u>100</u>	<u>Ps. 30,654,178</u>	<u>100</u>

IDENTIFIABLE

ASSETS:

United States						
and Europe.....	Ps. 8,848,150	34	Ps. 9,757,642	35	Ps. 12,348,600	41
Mexico.....	12,592,755	48	13,960,137	50	14,099,451	47
Venezuela.....	3,539,169	14	3,181,564	11	2,589,034	8
Central America ..	1,043,002	4	1,067,240	4	1,200,420	4
	<u>Ps. 26,023,076</u>	<u>100</u>	<u>Ps. 27,966,583</u>	<u>100</u>	<u>Ps. 30,237,505</u>	<u>100</u>

CAPITAL

EXPENDITURE

S FOR THE

YEAR:

United States						
and Europe.....	Ps. 1,007,290	76	Ps. 950,798	44	Ps. 1,576,904	65
Mexico.....	211,230	16	932,379	44	491,627	20
Venezuela.....	102,298	8	217,895	10	236,655	10
Central America ..	—	0	44,019	2	127,777	5
	<u>Ps. 1,320,818</u>	<u>100</u>	<u>Ps. 2,145,091</u>	<u>100</u>	<u>Ps. 2,432,963</u>	<u>100</u>

18. FINANCIAL INSTRUMENTS

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and temporary investments, accounts receivable, refundable taxes, trade accounts payable, short-term bank loans, current portion of long-term debt and accrued liabilities and other payables approximate their fair value, due to their short maturity. In addition, the net book value of accounts receivable and refundable taxes represent the expected cash flow to be received.

The estimated fair value of the Company's financial instruments is as follows:

	<u>Carrying amount</u>	<u>Fair value</u>
At December 31, 2005:		
Liabilities: Perpetual bonds in U.S. dollars bearing fixed interests at an annual rate of 7.75%	Ps. 3,330,911	Ps. 3,516,442
Liabilities: Senior unsecured notes in U.S. dollars bearing fixed interest at annual rate of 7.625%	561,169	577,244
Liabilities: Exchange rate forward contract.....	16,274	16,274
Asset: Interest rate swaps contract.....	41,077	41,077

At December 31, 2006:	<u>Carrying amount</u>	<u>Fair value</u>
Liabilities: Perpetual bonds in U.S. dollars bearing fixed interests at an annual rate of 7.75%	Ps. 3,243,000	Ps. 3,420,068
Liabilities: Senior unsecured notes in U.S. dollars bearing fixed interest at annual rate of 7.625%	546,359	553,026
Liabilities: Exchange rate forward contract	14,946	14,946
Liabilities: Interest rate swaps contract	9,980	9,980
Asset: Exchange rate forward contract	2,244	2,244
Asset: Interest rate swaps contract	32,782	32,782
Asset: Commodity hedge contracts	202,558	202,558

Fair values were determined as follows:

- The fair value of debt and derivative financial instruments is determined based on quoted market prices for such instruments in the reference market.
- The carrying value of the remainder of the long-term debt was similar to its fair value.

B) HEDGES

The Company has entered into futures contracts for certain key production requirements such as gas and some raw materials in order to hedge the cash flow variability due to price fluctuations. These contracts are short-term and do not exceed the maximum production requirements for a one-year period and are classified as cash flow hedges or fair value hedges.

As of December 31, 2005 and 2006, the Company had open derivative commodity contracts with a fair value of Ps.1,865 and Ps.202,558, respectively.

The Company from time to time 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 estimated fair values and are marked to market with the associated effect recorded in current period earnings. During 2006, the Company had an unfavorable effect of approximately Ps.133,027 (U.S.\$12,306 thousand) from these contracts.

The Company uses derivative financial instruments such as interest rate swaps with the purpose of managing the interest rate risk related to its long term debt. The Company has entered into interest rate swaps to hedge its senior unsecured notes that mature in 2007 and bear interest at a rate of 7.625%, under which the fixed rate is converted to a variable rate of LIBOR plus 2.035%; additionally, the Company entered into an agreement to pay a fixed interest rate of 5.1525% through 2004 and 5.485% from 2005 through 2007 and to receive LIBOR rate. The Company has also entered into interest rate swaps to hedge its syndicated loan that matures in 2010 under which the loan's variable rate of LIBOR 6M is converted to a fixed rate of 3.2775% through March 2008 and 4.5050% through March 2009; these contracts also include a provision limiting the amounts to be exchanged should the LIBOR 6M reaches 6% through March 2008 and 7% through March 2009. As of December 31, 2006 the favorable effect of the changes in the fair value of all the interest rate swap contracts mentioned above amounted to Ps.32,782, from which Ps.24,411 were recognized as comprehensive income within stockholders' equity and Ps.8,371 were registered in income for the year. The realized gain of the contracts due in 2006 was Ps.19,022 which was recognized in income.

During 2006, the Company entered into interest rate swap contracts for a nominal amount of U.S.\$150 million, maturing in September 2007 and March 2008. Through these contracts, the Company pays a fixed rate of 0.34% and receives a LIBOR 6M rate less 3.2775% if the LIBOR 6M rate is greater than or equal to 6% and less than 6.5% in March 2007 and is greater than or equal to 6% and less than 6.75% in September 2007. Additionally, the Company entered into swap contracts for a nominal amount of U.S.\$150 million, maturing in March 2007, through which the Company paid U.S.\$437 thousand and receives a LIBOR 6M

rate less 3.2775% if the LIBOR 6M rate is equal or greater than 6% in September 2006. These contracts were not recognized as hedge accounting and their fair values as of December 31, 2006 amounted Ps.9,980.

During 2004 and 2005, the Company entered into forward contracts and exchange rate option contracts (Mexican peso — U.S. dollar) for a notional amount of U.S.\$55.8 million, with different maturity dates until November 2007. The objective of these contracts is to hedge the financial risks due to exchange rate fluctuations over the quarterly interest payments related to the Company's perpetual notes. The realized unfavorable effect of the contracts due during 2006 was Ps.4,770 which was recognized in income of the year. As of December 31, 2006, the unrealized unfavorable effect for changes in the fair value of outstanding contracts for a nominal amount of U.S.\$10.1 million was Ps.14,946, which was recognized as comprehensive income within stockholders' equity.

During 2006, the Company entered into forward contracts and exchange rate option contracts (Mexican peso – U.S. dollar) for a nominal amount of U.S.\$16.7 million, maturing during 2006 and for a nominal amount of U.S.\$21.8 million, maturing in different dates until November 2007. These contracts were not recognized as hedge accounting. The realized unfavorable effect of the contracts due in 2006 was Ps.894 which was recognized in income. As of December 31, 2006 the unrealized favorable effect for changes in the fair value of the outstanding contracts was Ps.2,244, which was also recognized in income.

C) CONCENTRATION OF CREDIT RISK

The financial instruments which are potentially subject to a concentration of risk are principally cash, temporary investments and trade accounts receivable. The Company deposits its cash and temporary investments in recognized financial institutions. The concentration of the credit risk with respect to trade receivables is limited since the Company sells its products to a large number of customers located in different parts of Mexico, United States, Central America, Venezuela, Europe Asia and Oceania. The Company maintains reserves for potential credit losses.

Operations in Venezuela represented approximately 10.2% of net sales in 2006. In recent years, the political and social instability has prevailed in Venezuela. This severe political and civil uncertainty represents a risk to the business in this country, which cannot be controlled or measured accurately. For instance, as a result of the nation-wide general strike that took place from December 2002 to February 2003 and in an effort to shore up the economy and control inflation, Venezuelan authorities imposed foreign exchange and price controls on certain products in 2003. These foreign exchange controls may limit the Company's capacity to convert bolivars to other currencies and also transfer funds outside Venezuela. Additionally, these price controls apply to certain products such as corn flour and wheat flour, which limit the Company's ability to increase prices in order to compensate for higher costs in raw materials. In February 2003, the Venezuelan government set a single fixed exchange rate for the bolivar against the U.S. dollar of 1,600 bolivars to U.S.\$1.00. Later, in February 2004 the Venezuelan government set a new fixed exchange rate of 1,920 bolivars to U.S.\$1.00. In March 2005, the Venezuelan government established a new exchange rate of 2,150 bolivars per U.S. dollar. The financial situation and results of the Company might be negatively affected, among other reasons, since (i) a portion of its sales is denominated in bolivars, (ii) the subsidiaries in Venezuela make products that are subject to price controls, (iii) part of the Company's sales depend on centralized government procurement policies for its social welfare programs, (iv) difficulty for Venezuelan subsidiaries to pay dividends, as well as to import some of its requirements of raw material as a result of the exchange control, and (v) increasing costs in some of the Company's raw materials due to the implementation of import tariffs.

The current president in Venezuela was reelected to a second term in December 2006, thus the civil and political instability will continue to prevail during the next six-year term. Additionally, starting 2007 the current president was qualified by the legislative power of this country with extraordinary faculties to legislate by decree for a period of 18 months in several strategic areas, which could result in certain structural changes in the economical and social policies in Venezuela and thus, increasing the uncertainty in this country. Most recently, the government's actions affected certain Venezuelan businesses, including news and media outlets, which have been met with civil unrest and public demonstrations.

19. RELATED PARTY TRANSACTIONS

As of December 31, 2005 and 2006, the Company owns a 10.8557% and 10.0024% interest in GFNorte, a Mexican financial institution, respectively. In the normal course of business, the Company obtains long-term financing from GFNorte and other subsidiaries of this institution at market rates and terms. During 2006, the Company did not obtain financing from GFNorte's subsidiaries.

As of December 31, 2005 and 2006, the Company had accounts payable to Archer-Daniels-Midland (ADM) of Ps.144,136 and Ps.132,439, respectively. Additionally, during 2004, 2005 and 2006, the Company purchased inventory ingredients from ADM, amounting to U.S.\$103 million (Ps.1,148,414), U.S.\$105 million (Ps.1,138,922) and U.S.\$115 million (Ps.1,240,336), respectively. ADM is a North American company associated with the Company in some of its subsidiaries.

20. RECENT ACCOUNTING PRONOUNCEMENTS

Starting January 1, 2007 the following Financial Reporting Standards (FRS) issued by the Mexican Financial Reporting Standards Board became effective. These FRS will not have a material effect in the Company's financial information.

FRS B-3 Statement of Income – Incorporates, among others, a new focus to classify income, costs and expenses into ordinary and non-ordinary, eliminates the terms “Special Items” and “Extraordinary Items”, as well as establishes the employees' statutory profit sharing as an ordinary expense and not as a tax expense.

FRS B-13 Subsequent Events – Requires, among others, that the restructurings for assets and liabilities and the disclaimers from creditors to exercise their right to settle the debt in the case of incompliance by the entity should be recognized in the period that occurs. These issues will only be disclosed in the notes to financial statements.

FRS C-13 Related Parties – Extends, among others, the definition (scope) for related parties and increases the disclosure requirements in notes to financial statements.

FRS D-6 Capitalization of comprehensive financing cost – Establishes, among others, the obligation and rules for capitalizing comprehensive financing cost.

21. SUBSEQUENT EVENTS

During January 2007, due to increases in the international price for corn registered in the Chicago Board of Trade (CBOT) as well as in the Jalisco, Bajío and México crops, a series of price increases for tortilla took place. The tortilla represents a main staple of the Mexican diet and the main market of the Company. In January 15, 2007 the Company, through its subsidiary Grupo Industrial Maseca, published its intention for no price increases in corn flour until the next harvest, as well as explained that the Company is not a producer or trader of corn and strengthened its compromise to continue supporting the manufacturers and supermarket chains that produce tortilla to maintain the competitive quality and price for this product.

The Federal Government, the productive sectors, the companies linked to the production chain and the organizations of agriculture producers agreed in a number of actions in order to stabilize the price of tortillas and guarantee the provisions of corn, wheat flour and tortilla at a reasonable price. Consequently, in January 18, 2007 the *PACTO PARA ESTABILIZAR EL PRECIO DE LA TORTILLA* (“Agreement to stabilize the tortilla price”) was signed. This agreement includes 12 specific actions from which the following are highlighted:

- *Distribuidora Conasupo* (“Conasupo Distributor” or “DICONSA”) will sell the kilogram of corn at Ps.3.50 and of corn flour at Ps.5.00, in its 22,000 stores around the country.
- The commercial agents that supply and sell corn to the nixtamal manufacturers will sell its product at Ps.3.50 per kilogram, packaged and delivered in the mills within Mexico's capital.

- The producers of corn flour that constitute the *Cámara Nacional del Maiz Industrializado* (“National Chamber of Industrialized Corn”) committed to maintain an average price not higher than Ps.5.00 per kilogram of corn flour.
- The companies affiliated to the *Asociación Nacional de Tiendas de Autoservicio* (“National Association of Supermarket Chains” or “ANTAD”) as well as Wal-Mart will not increase the tortilla price, offering the kilogram of this product at Ps.6.50 in its 1,900 points of sale.
- Tortilla manufactures grouped (more than 5,000 points of sale) will sell the kilogram of tortilla not higher than Ps.8.50.
- The import quota is increased until a maximum of 750 thousand tons of corn free of tariff.
- An import quota free of tariff of 2 million 850 thousand tons is authorized for corn to be used for consumption of birds, pigs and cattle.
- The Federal Government, through its productive agents, will instruct several mechanisms that allow in the future having a strategic reserve of white corn for human consumption.

The Company, as well as its principal competitors, signed this agreement, which is effective from January 15 through April 30, 2007. On April 25, 2007 the Mexican government announced a second agreement that extended the term through August 15, 2007.

As a result, the Company’s corn flour prices do not reflect the recent increase in the cost of corn, which resulted in a significant deterioration in the financial performance of Grupo Industrial Maseca, the Company’s subsidiary engaged in corn flour production, during the first quarter of 2007, which may continue to the extent the Company does not increase prices. While the Mexican government has not directly fixed or capped corn flour or tortilla prices, it has strongly encouraged Mexican producers and retailers to voluntarily do so until the next harvest of Mexican corn crops. The Company intends to fully abide by the terms of these agreements. The Company cannot assure that there will not be another extension of the agreements, that the Company will fully comply with their terms at all times, or that the Mexican government will not take actions that could adversely affect the Company’s financial condition and results of operation.

22. DIFFERENCES BETWEEN MEXICAN GAAP AND U.S. GAAP

The Company’s consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from U.S. GAAP. The Mexican GAAP consolidated financial statements include the effects of inflation as provided for under Bulletin B-10 (see Note 3-E), including the Fifth Amendment to Bulletin B-10 and Bulletin B-15, whereas financial statements prepared under U.S. GAAP are presented on a historical cost basis. The reconciliation to U.S. GAAP includes a reconciling item for the effect of applying the Fifth Amendment to Bulletin B-10 and Bulletin B-15 restatement to Mexican pesos of constant purchasing power as of December 31, 2006 because, as described below, these provisions of inflation accounting under Mexican GAAP do not meet the consistent reporting currency requirements of Regulation S-X. The U.S. GAAP adjustments have been determined based on Mexican NCPI factors. The reconciliation does not include the reversal of other Mexican GAAP inflation accounting adjustments as they represent a comprehensive measure of the effects of price-level changes in the inflationary Mexican economy and, as such, are considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

The principal differences, other than inflation accounting, between Mexican GAAP and U.S. GAAP and the effect on consolidated net income and consolidated stockholders’ equity are presented below, with an explanation of the adjustments.

	Year ended December 31,		
	2004	2005	2006
Reconciliation of net income:			
Net majority income under Mexican GAAP.....	Ps. 953,000	Ps. 1,238,754	Ps. 1,524,738
U.S. GAAP adjustments:			
Depreciation expense (See C).....	(66,605)	(58,887)	(66,473)
Impairment loss in the carrying value of idle assets (See C).....	65,366	23,406	14,107
Preoperating expenses and other deferred costs (See D).....	14,229	6,224	(3,271)
Capitalized comprehensive financing costs (See E).....	3,097	3,238	3,225
Sale-leaseback transaction (See F):			
Interest expense	(15,321)	(13,324)	(10,886)
Rental and depreciation expense, net.....	6,480	4,796	2,584
Deferred income taxes (See H).....	88,475	(53,218)	(96,470)
Deferred employees' statutory profit sharing (See H).....	(1,419)	(598)	486
Net gain from sale of associated company's shares (See M).....	—	—	10,294
Effect of U.S. GAAP adjustments on equity method investee (See M).....	(40,879)	5,304	(18,104)
Negative goodwill (See I):			
Depreciation expense.....	57,177	59,781	59,554
Goodwill and indefinite-lived intangible assets (See J).....	12,477	—	(6,228)
Extinguishment of debt (See K).....	(263,669)	13,784	13,685
Debt issuance costs (See K).....	—	(2,760)	2,118
Monetary position loss resulting from U.S. GAAP adjustments	(72)	(13)	(16)
Effects of Bulletin B-15 restatement (See A).....	33,744	(4,658)	—
Total U.S. GAAP adjustments	(106,920)	(16,925)	(95,395)
Minority interest (See B)	(10,406)	17,103	19,078
Net income under U.S. GAAP.....	Ps. 835,674	Ps. 1,238,932	Ps. 1,448,421
Basic and diluted earnings per share (in pesos)	Ps. 1.86	Ps. 2.74	Ps. 3.02
Weighted average shares outstanding (thousands)...	450,306	451,446	480,007

	As of December 31,	
	2005	2006
Reconciliation of stockholders' equity:		
Stockholders' equity under Mexican GAAP.....	Ps. 14,724,952	Ps. 17,048,141
U.S. GAAP adjustments:		
Property, plant and equipment (See C).....	650,573	766,341
Preoperating expenses and other deferred costs (See D).....	(7,780)	(10,686)
Capitalized comprehensive financing cost (See E).....	(9,712)	(6,450)
Sale-leaseback transaction (See F).....	(81,963)	(88,101)
Excess of cost over book value (See G).....	(167,321)	(166,685)
Deferred income taxes (See H).....	(17,576)	(108,644)
Deferred employees' statutory profit sharing (See H).....	127	596
Equity method investee (See M).....	(180,267)	(133,511)
Negative goodwill (See I).....	(818,885)	(756,220)
Goodwill and indefinite-lived intangible assets (See J).....	205,475	190,339
Extinguishment of debt (See K).....	(261,893)	(247,177)
Debt issuance costs (See K).....	(2,831)	(1,749)
Labor obligations (See L).....	—	(19,053)
U.S. GAAP adjustments attributable to minority interest.....	(109,099)	(119,681)
Minority interest under Mexican GAAP (See B).....	(2,989,119)	(2,922,348)
Effects of Bulletin B-15 restatement (See A).....	(41,531)	—
Total U.S. GAAP adjustments.....	(3,831,802)	(3,623,029)
Stockholders' equity under U.S. GAAP	Ps. 10,893,150	Ps. 13,425,112

A summary of the Company's statement of changes in stockholders' equity with balances determined under U.S. GAAP is as follows:

Balance at December 31, 2005.....	Ps. 10,893,150
Stock issuance.....	1,148,136
Net purchases and sales of Company's common stock.....	2,614
Dividends paid.....	(424,394)
Derivative financial instruments.....	6,312
Recognition of inflation effects for the year.....	(26,204)
Impact of adoption of SFAS No. 158 (net of income tax).....	(13,718)
Foreign currency translation adjustments.....	390,795
Net income for the year.....	<u>1,448,421</u>
Balance at December 31, 2006.....	<u>Ps. 13,425,112</u>

A summary of the Company's stockholders' equity after the U.S. GAAP adjustments described above as of December 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
Capital stock.....	Ps. 12,520,555	Ps. 12,834,964
Additional paid-in capital.....	3,733,297	4,569,494
Retained earnings.....	9,302,065	10,326,236
Accumulated other comprehensive loss.....	<u>(14,662,767)</u>	<u>(14,305,582)</u>
Total stockholders' equity under U.S. GAAP.....	<u>Ps. 10,893,150</u>	<u>Ps. 13,425,112</u>

A) EFFECTS OF BULLETIN B-15 RESTATEMENT

As disclosed in Note 3-E, the Company restates information for prior periods for comparison purposes to information of the most current period presented, based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which the Company operates. This restatement do not meet the Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. The U.S. GAAP adjustments to net income and stockholders' equity reflect the difference between restating these prior periods, including the U.S. GAAP adjustments, to December 31, 2006 constant pesos utilizing the Mexican NCPI and the weighted average restatement factor. See Note 22-R for summarized financial information prepared on a U.S. GAAP basis restated to December 31, 2006 constant pesos utilizing the Mexican NCPI.

B) MINORITY INTEREST

Under Mexican GAAP, the minority interest in consolidated subsidiaries is presented as a separate component within stockholders' equity in the consolidated balance sheet. For U.S. GAAP purposes, the minority interest is not included in stockholders' equity.

C) PROPERTY, PLANT AND EQUIPMENT

Mexican GAAP allows companies the option of using a specific index, which contemplates inflation and currency exchange movements in the restatement of machinery and equipment and the related depreciation expense if such machinery and equipment is of foreign origin. The Company has elected to apply a specific index to fixed assets of foreign origin for the purposes of determining the restated balances under Mexican GAAP. For U.S. GAAP purposes, the use of a specific index, which contemplates currency exchange changes, is not in accordance with the historical cost concept nor does it present financial information in a constant reporting currency. The impact on the net carrying value of fixed assets of restating fixed assets of foreign origin utilizing the Mexican NCPI for U.S. GAAP purposes increases stockholders' equity as of December 31, 2005 and 2006 by Ps.741,176 and Ps.858,803, respectively.

Under Mexican GAAP, depreciation on idle equipment is not required if the carrying value is expected to be recovered and is subject to an impairment review. Under U.S. GAAP, those assets should continue be depreciated and subject to an impairment review. Therefore, the adjustment to property, plant and equipment decreases stockholder's equity as of December 31, 2005 and 2006 by Ps.182,351 and Ps.197,969, respectively.

Under Mexican GAAP, the Company recognized impairment losses in the value of certain idle assets that were not being depreciated. Under U.S. GAAP, no impairment was recognized given that the depreciation of these assets had not ceased; consequently, the carrying value under U.S. GAAP was lower than Mexican GAAP and the impairment recognized for Mexican GAAP purposes was reversed. Therefore, the adjustment to property, plant and equipment increases stockholders' equity as of December 31, 2005 and 2006 by Ps.91,748 and Ps.105,507, respectively.

D) PREOPERATING EXPENSES AND OTHER DEFERRED COSTS

As of December 31, 2002, under Mexican GAAP, preoperating expenses incurred were permitted to be capitalized and amortized by the Company over the period of time estimated to generate the income necessary to recover such expenses. The Company defined this period as 12 years based on prior experience. Starting January 1, 2003, under Mexican GAAP, only preoperating expenses incurred during the development stage are capitalized, whereas preoperating expenses identified as research are expensed as incurred. Additionally, the preoperating expenses capitalized until January 1, 2003 are continuing to be amortized using the straight-line method over a period not to exceed 12 years. Under US GAAP, such expenses should be treated as period expenses.

The U.S. GAAP equity adjustments of Ps.7,780 and Ps.10,686 decrease intangible assets presented in the balance sheets as of December 31, 2005 and 2006, respectively.

E) COMPREHENSIVE FINANCING COSTS

Under Mexican GAAP, comprehensive financing costs, including interest expense, foreign exchange gains or losses and monetary position of the related debt for major construction projects, are capitalized as part of the assets during the construction period. Under U.S. GAAP, monetary position and foreign exchange gains and losses on U.S. dollar or other stable currency borrowings are excluded from capitalized interest.

F) SALE-LEASEBACK TRANSACTION

Under Mexican GAAP, a sale-leaseback transaction that involves real estate is recognized with the use of the general criteria established for capital and operating lease transactions. Based upon these criteria, a sale-leaseback of real estate was recorded by the Company as an operating lease. Under U.S. GAAP, Statement of Financial Accounting Standards ("SFAS") No. 98, such a transaction would be recognized as a financing lease because a continuing involvement from the seller-lessee is present, and consequently, the risks and benefits of the property are not transferred to the buyer-lessor. The U.S. GAAP balance sheet as of December 31, 2005 and 2006 would reflect increases in fixed assets, net, of Ps.76,300 and Ps.41,943 (net of accumulated depreciation of Ps.81,963 and Ps.88,101, respectively), respectively, and long-term debt increases of Ps.158,263 and Ps.130,044, respectively.

The financing lease under U.S. GAAP has a 15-year term with an effective date of May 1, 1996. It requires minimum annual payments of approximately U.S.\$3.2 million (Ps.34,592) for the year 2007, U.S.\$5.0 million (Ps.54,050) for 2008, U.S.\$1.5 million (Ps.16,215) for 2009 and approximately U.S.\$4.7 million (Ps.50,807) thereafter.

G) AMORTIZATION OF EXCESS OF COST OVER BOOK VALUE

Under Mexican GAAP, until January 1, 2004, the excess of the purchase price over the proportionate book value of net assets acquired was recorded as "Excess of cost over book value" for all of the Company's acquisitions, including common control acquisitions. Under U.S. GAAP, transfers and exchanges between enterprises under common control are accounted for on a carry-over basis, and therefore, no such goodwill

would be recorded. The U.S. GAAP equity adjustments of Ps.167,321 and Ps.166,685 decrease the excess of cost over book value presented in the balance sheet as of December 31, 2005 and 2006, respectively. There is no net income reconciliation adjustment in 2004, 2005 and 2006 since the Company ceased amortizing goodwill under Mexican GAAP with the adoption of Bulletin B-7.

H) DEFERRED INCOME TAXES AND EMPLOYEES' STATUTORY PROFIT SHARING

Under Mexican GAAP, the Company adopted the provisions of revised Bulletin D-4 for the recognition of deferred tax assets and liabilities. The accounting treatment of Bulletin D-4 is in accordance with the comprehensive asset and liability method of SFAS No. 109 "Accounting for Income Taxes". The U.S. GAAP adjustments to net income and stockholders' equity reflect the deferred income taxes and employees' statutory profit sharing generated by the other U.S. GAAP adjustments discussed elsewhere herein. Additionally, during 2006 the Company recognized a deferred tax liability of Ps.44,253 derived from the excess of the amount for financial reporting over the tax basis of the investment in GFNorte.

Under the comprehensive asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed.

For both Mexican and U.S. GAAP purposes, the financial statement carrying amounts utilized in the determination of the deferred tax assets and liabilities included the inflation adjustments described in Note 3-E, and their respective tax bases also included the effects of inflation based on tax regulations.

The amounts of deferred income taxes charged or credited to net income for each year under SFAS No. 109 and as set forth in Issued 93-9 of the U.S. Financial Accounting Standards Board's Emerging Issues Task Force was determined based on the differences between the beginning and ending balances of the deferred tax assets or liabilities for each period, expressed in Mexican pesos of constant purchasing power.

Income tax expense:

The domestic and foreign components of income before taxes, employees' statutory profit sharing, equity in earnings of associated companies and minority interest reported under Mexican GAAP are as follows:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Domestic	Ps. 173,403	Ps. 43,266	Ps. 416,774
Foreign	1,464,086	1,162,789	1,018,567
	<u>Ps. 1,637,489</u>	<u>Ps. 1,206,055</u>	<u>Ps. 1,435,341</u>

Provisions for domestic federal, foreign federal and state income taxes in the Mexican GAAP consolidated statements of income consist of the following components:

	<u>Year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Current:			
Domestic federal	Ps. 7,578	Ps. 172,991	Ps. 157,455
Foreign federal	375,044	341,451	152,389
Foreign state	35,555	34,142	29,025
	<u>Ps. 418,177</u>	<u>Ps. 548,584</u>	<u>Ps. 338,869</u>
Deferred:			
Domestic federal	Ps. 289,381	Ps. (68,027)	Ps. 116,098
Foreign federal	67,436	(74,049)	(49,331)
Foreign state	13,047	(20,083)	5,913
	<u>Ps. 369,864</u>	<u>Ps. (162,159)</u>	<u>Ps. 72,680</u>
Total income taxes	<u>Ps. 788,041</u>	<u>Ps. 386,425</u>	<u>Ps. 411,549</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2006, are as follows:

	<u>2005</u>	<u>2006</u>
Deferred tax assets:		
Net operating loss carryforwards and other tax credits (a).....	Ps. 682,948	Ps. 374,588
Accrued liabilities.....	170,878	229,997
Intangible assets (b).....	87,552	60,669
Other.....	136,640	170,056
Total gross deferred tax assets.....	<u>1,078,018</u>	<u>835,310</u>
Deferred tax liabilities:		
Property, plant and equipment, net (c)	1,752,846	1,733,172
Inventories.....	288,589	243,292
Investment in partnership and equity method investee.....	544,812	597,355
Other assets	67,923	83,596
Total gross deferred tax liabilities	<u>2,654,170</u>	<u>2,657,415</u>
Net deferred tax liability under U.S. GAAP.....	1,576,152	1,822,105
Net deferred tax liability under Mexican GAAP.....	1,558,576	1,713,461
Adjustment for U.S. GAAP.....	<u>Ps. 17,576</u>	<u>Ps. 108,644</u>

- (a) Includes valuation allowance of Ps.167,917 and Ps.85,269 as of December 31, 2005 and 2006, respectively, since no sufficient evidence is available that these tax loss carryforwards will be realizable.
- (b) Reflects a prepaid asset resulting from an intercompany transaction.
- (c) Principally due to the differences between restated book and tax basis, including depreciation and capitalized interest.

A summary of the deferred tax liability (asset) balances on a U.S. GAAP basis are as follows:

	<u>2005</u>	<u>2006</u>
Current:		
Deferred tax asset	Ps. (307,519)	Ps. (400,053)
Deferred tax liability.....	288,589	243,292
	<u>(18,930)</u>	<u>(156,761)</u>
Non-current:		
Deferred tax asset	(770,500)	(435,257)
Deferred tax liability.....	2,365,582	2,414,123
	<u>1,595,082</u>	<u>1,978,866</u>
Total.....	<u>Ps. 1,576,152</u>	<u>Ps. 1,822,105</u>

The provision for income tax on a U.S. GAAP basis is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Current.....	Ps. (414,513)	Ps. (546,487)	Ps. (338,869)
Deferred.....	(278,921)	130,279	(169,150)
	<u>Ps. (693,434)</u>	<u>Ps. (416,208)</u>	<u>Ps. (508,019)</u>

In addition, the Company has established a deferred liability for U.S. GAAP purposes of Ps.18,894 and Ps.2,584, at December 31, 2005 and 2006, respectively, relating to employees' statutory profit sharing.

I) NEGATIVE GOODWILL

Under Mexican GAAP, until January 1, 2004, the excess of the net book value of identifiable assets acquired over their purchase price was recorded as “Excess of book value over cost of subsidiaries acquired, net” and was permitted to be amortized over a period of time not to exceed 5 years.

Under U.S. GAAP, the excess of the fair value over the net book value of acquired identifiable assets is allocated to the book value of the non-monetary assets acquired. Once the book value has been reduced to zero, any unallocated amounts are recorded in earnings.

As of December 31, 2005 and 2006, the U.S. GAAP equity adjustment of Ps.818,885 and Ps.756,220 respectively, decrease the net fixed assets in the same amounts.

J) GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

Under U.S. GAAP, effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”). Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment on an annual basis at the reporting unit level.

Under Mexican GAAP, until January 1, 2003, all intangible assets were amortized over their estimated useful life. Bulletin C-8 “Intangible Assets” was adopted starting January 1, 2003, and consequently, certain intangible assets (excluding goodwill) were recognized as having indefinite lives and were no longer amortized. Accordingly, amortization of indefinite-lived intangible assets ceased in 2002 for U.S. GAAP and in 2003 for Mexican GAAP. As mentioned in Note 3-K, starting January 1, 2004, under Mexican GAAP goodwill should no longer be amortized, but subject to annual impairment tests. Accordingly, goodwill amortization ceased in 2002 for U.S. GAAP and in 2004 for Mexican GAAP.

Due to the application of Bulletin C-15 “Impairment in the Value of Long-Lived Assets and Their Disposal”, during 2004 the Company recognized in income an impairment loss in the value of intangible assets and goodwill for Ps.6,685 and Ps.5,792, respectively. Under U.S. GAAP, these assets had been written off in previous years. As mentioned in Note 8, during 2006 the Company recognized in income an impairment loss for certain intangible assets. Under U.S. GAAP, the carrying value of these assets is higher by Ps.6,228.

The U.S. GAAP equity adjustment of Ps.205,475 and Ps.190,339 increases the excess of cost over book value in Ps.196,367 and Ps.187,746 and intangible assets in Ps.9,108 and Ps.2,593 as of December 31, 2005 and 2006, respectively, as a result of the above items.

K) EXTINGUISHMENT OF DEBT

In December 2004, the Company issued perpetual notes for a total of Ps.3,243,000 (U.S. \$300,000 thousand) which pay interest quarterly at 7.75% annual rate. The proceeds were used mainly to repay U.S.\$200 million of the 7.625% senior unsecured notes due October 2007. For the early redemption of the senior unsecured notes, the Company paid a premium of Ps.263,669. Under Mexican GAAP, this premium was recognized in intangible assets as debt issuance costs of the perpetual notes and amortized using the straight-line method over a period of 20 years.

Under U.S. GAAP, this premium was recognized in income. The perpetual notes represented a new debt instrument, since the exchange was not done with the holders of the old senior unsecured notes. In addition, under U.S. GAAP, all previously unamortized debt issuance costs related to the old senior unsecured notes was also written off.

On July 2005 the Company obtained a U.S.\$250,000 thousand, five-year credit facility, at LIBOR plus 40 basis points for the first year and LIBOR plus 37.5 and 45 basis points for the following years depending on the Company’s leverage. The Company incurred debt issuance costs of Ps.7,475 related to the new debt. The proceeds were used to repay U.S.\$250 million debt which would mature between 2008 and 2009. At the

redemption date, the Company had Ps.10,733 of unamortized debt issuance costs related to this debt. Under Mexican GAAP, the unamortized debt issuance costs related to the old debt will continue to be amortized throughout the maturity of the new debt as it has been considered a refinancing of the old debt under Bulletin C-9. Debt issuance costs incurred with the issuance of the new debt have been expensed.

Under U.S. GAAP, the unamortized debt issuance costs related to the old debt that was redeemed have been written-off and the debt issuance costs incurred with the issuance of the new debt have been capitalized as they relate to a new debt instrument with a different creditor.

L) LABOR OBLIGATIONS

Under U.S. GAAP, on December 31, 2006 the Company adopted the recognition and disclosure provisions of SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“SFAS No. 158”). SFAS No. 158 requires the Company to recognize the funded status (i.e. difference between the fair value of plan assets and the benefit obligations) of its defined benefit pension and other postretirement plans in the Company’s December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (AOCI), net of tax. The adjustment to AOCI at adoption represents primarily deferred actuarial gains, which were previously netted against the plans’ funded status in the balance sheet pursuant to the provisions of SFAS No. 87, “Employers’ Accounting for Pensions”, SFAS No. 106 “Employers’ Accounting for Postretirement Benefits other than Pensions”, and SFAS No. 112, “Employers’ Accounting for Postemployment Benefits”. These amounts will continue to be amortized and recognized as a component of future net periodic benefit cost.

In addition, SFAS No. 158 requires that companies using a measurement date for their defined benefit pension plans and other postretirement plans other than their fiscal year-end, change to a fiscal year-end measurement date effective for years ending after December 15, 2008. The Company’s measurement date for its plans is and has been the same as the Company’s fiscal year-end (i.e. December 31, 2006).

The incremental effects of adopting SFAS No. 158 on the Company’s consolidated balance sheet at December 31, 2006, are presented in the following table. The adoption of SFAS No. 158 had no effect in the Company’s consolidated statement of income or the Company’s consolidated statement of comprehensive income for the year ended December 31, 2006.

	Balance under U.S. GAAP		
	Before application of SFAS No. 158	Effect of adopting SFAS No. 158	After application of SFAS No. 158
Other liabilities.....	Ps. 611,553	Ps. 19,053	Ps. 630,606
Deferred income taxes.....	1,827,440	(5,335)	1,822,105
Total liabilities.....	13,432,790	13,718	13,446,508
Accumulated other comprehensive loss, net of tax.....	(14,291,864)	(13,718)	(14,305,582)
Total stockholders’ equity.....	13,438,830	(13,718)	13,425,112

The amount recorded in accumulated other comprehensive loss at December 31, 2006 of Ps.13,718 consisted of cumulative net gain of Ps.19,053, net of income tax of Ps.5,335.

The estimated amount of cumulative net gain that is expected to be amortized from accumulated other comprehensive loss into net periodic pension cost over the next fiscal year is Ps.1,301.

M) SUPPLEMENTAL BALANCE SHEET INFORMATION

- Securities of related parties:

The investment in common stock of GFNorte is accounted for under the equity method, since the Company has significant influence over the investee due to its representation on the Board of Directors of GFNorte and the equity interest of GRUMA's principal shareholder in GFNorte. The effect of applying U.S. GAAP adjustments to the equity investment has been included in the Company's U.S. GAAP reconciliation.

As mentioned in Note 6, during 2006 the Company sold 17,224,100 shares from its investment in GFNorte. Under Mexican GAAP, the Company recognized a net gain of Ps.380,572 from this sale. Considering the carrying value of the investment in GFNorte under U.S. GAAP, the net gain from this sale amounted to Ps.390,866.

During 2005 and 2006, the Company received dividends from GFNorte amounting to Ps.56,864 and Ps.77,948, respectively.

Under both Mexican and U.S. GAAP, the Company recognized goodwill for the acquisition of GFNorte in 1992. Under U.S. GAAP, effective January 1, 2002, with the adoption of SFAS No. 142, goodwill was no longer amortized. The amount of such remaining goodwill is Ps.44,878. Under Mexican GAAP, goodwill was fully amortized by December 31, 2002.

The Company's investment in GFNorte has a market value of Ps.8,529,531 based on the quoted market price at December 31, 2006.

Condensed financial information under Mexican Banking GAAP for GFNorte as of and for the years ended December 31:

	Amounts in millions of Mexican pesos of constant purchasing power as of December 31, 2006	
	2005	2006
Cash and cash equivalents	Ps. 40,403	Ps. 43,403
Investment securities.....	22,325	25,672
Net loan portfolio.....	117,989	140,493
Property, furniture and equipment, net	5,918	6,646
Total assets.....	198,103	234,437
Deposits	143,159	169,537
Bank and other entity loans – current	8,440	6,891
Bank and other entity loans – noncurrent	11,945	9,959
Total liabilities	175,734	206,932
Majority interest.....	21,349	26,097
Minority interest	1,020	1,408

	Amounts in millions of Mexican pesos of constant purchasing power as of December 31, 2006		
	2004	2005	2006
Interest income.....	Ps. 27,208	Ps. 36,792	Ps. 35,480
Interest expense.....	(16,495)	(22,841)	(20,626)
Income before minority interest.....	3,006	6,286	6,168
Net income.....	2,809	5,957	5,959

- Other current liabilities:

Included within accrued liabilities and other payables as of December 31, 2005 and 2006 are accrued compensation costs (Ps.438,827 and Ps.453,419 in 2005 and 2006, respectively) and accrued advertising costs (Ps.190,180 and Ps.206,103 in 2005 and 2006, respectively).

- Other stockholders' equity:

Included within retained earnings as of December 31, 2005 and 2006 are undistributed earnings of GF Banorte amounting to approximately Ps.1,836,769 and Ps.2,178,023, respectively.

- Computer software:

Depreciation expense for the years ended December 31, 2004, 2005 and 2006 amounted to Ps.93,700, Ps.81,995 and Ps.66,453, respectively, on capitalized computer software cost. Unamortized software costs included as of December 31, 2005 and 2006 totaled Ps. 167,088 and Ps.83,152

N) SUPPLEMENTAL INCOME STATEMENT INFORMATION

- Advertising costs:

Advertising costs, included in selling, general and administrative expenses, are expensed when the advertising first takes place. Advertising expense was Ps.690,252, Ps.769,175 and Ps.868,367 for the years ended December 31, 2004, 2005 and 2006, respectively. The Company had Ps.78,356 and Ps.118,802 of prepaid advertising costs reported as prepaid expenses as of December 31, 2005 and 2006, respectively.

- Shipping and handling costs:

Shipping and handling costs are included in selling, general and administrative expenses and amounted to Ps.1,309,264, Ps.1,536,779 and Ps.1,796,331 for the years ended December 31, 2004, 2005 and 2006.

- Operating income:

Under U.S. GAAP, certain other income items included in the Mexican GAAP financial statements of the Company, such as ESPS and amortization of other deferred costs would be included in the determination of operating income. For the years ended December 31, 2004, 2005 and 2006, these items amounted to Ps.61,230, Ps.71,174 and Ps.89,031, respectively.

- Consumer and trade sales promotion expenses

Under U.S. GAAP, the Company has classified certain consumer and trade sales promotion expenses, such as coupon redemption costs, cooperative advertising programs, new product introduction fees, feature price discounts and in-store display incentives as a reduction of revenue. For the years ended December 31, 2004, 2005 and 2006 these items amounted to Ps.212,834, Ps.214,600 and Ps.266,294, respectively.

- Other

During 2006, the Company recognized an impairment charge at its subsidiary, Molinera de México, related to property, plant and equipment and certain intangibles totaling Ps.327,215. Molinera de México, which is included in the "Other" segment, has faced market pressures in Mexico.

O) SUPPLEMENTAL CASH FLOW INFORMATION

Mexican GAAP Bulletin B-12 specifies the appropriate presentation of the statements of changes in financial position. Under Bulletin B-12, the sources and uses of resources are determined based upon the differences between beginning and ending financial statement balances in Mexican pesos of constant purchasing power.

Under U.S. GAAP, a statement of cash flow is required, which presents only cash movements and excludes non-cash items.

The following presents a price-level adjusted statement of cash flows, after considering the impact of U.S. GAAP adjustments in conformity with the AICPA SEC Regulations Committees' International Practice Task Force recommendation.

	Year ended December 31,		
	2004	2005	2006
Operating activities:			
Net income.....	Ps. 835,674	Ps. 1,238,932	Ps. 1,448,421
Minority interest	196,047	136,195	59,901
Consolidated income.....	<u>1,031,721</u>	<u>1,375,127</u>	<u>1,508,322</u>
Adjustments to reconcile net income to resources provided by operating activities:			
Monetary position gain	(261,007)	(313,174)	(320,483)
Depreciation and amortization.....	1,126,595	1,131,487	1,196,884
Impairment of long-lived assets.....	177,720	17,738	451,501
Allowance for doubtful accounts	38,946	33,454	76,522
Equity in earnings of associated companies, less dividends received.....	(201,321)	(580,845)	(516,576)
Seniority premium and other long-term accrued liabilities.....	9,464	45,812	9,015
Debt issuance costs cancelled due to early extinguishment of debt	25,579	—	—
Net gain from sale of subsidiaries' shares	—	—	(137,971)
Net gain from sale of associated company's shares.....	—	—	(390,866)
Retirement benefits at the end of the employee labor relationship	—	78,070	—
Deferred income taxes and employees' statutory profit sharing.....	288,281	(138,137)	152,645
	<u>2,235,978</u>	<u>1,649,532</u>	<u>2,028,993</u>
Changes in working capital:			
Restricted cash	696	502	—
Accounts receivable, net.....	(729,896)	(303,252)	(1,360,584)
Inventories	(570,435)	81,918	132,870
Prepaid expenses.....	(32,793)	(37,356)	(55,051)
Trade accounts payable.....	593,440	561,818	248,152
Accrued liabilities and other payable.....	109,217	(416,882)	674,648
Income taxes and employees' statutory profit sharing payable	4,239	(13,795)	4,284
	<u>(625,532)</u>	<u>(127,047)</u>	<u>(355,681)</u>
Net cash provided by operating activities	<u>1,610,446</u>	<u>1,522,485</u>	<u>1,673,312</u>

Investing activities:			
Purchases of property, plant and equipment	(968,744)	(1,335,613)	(2,221,388)
Purchases of new facilities, net of cash.....	(413,115)	(657,479)	(570,587)
Proceeds from sale of property, plant and equipment.....	204,187	180,169	748,590
Deferred assets.....	(120,641)	(21,778)	(15,694)
Proceeds received from sale of subsidiaries' shares	—	—	137,971
Proceeds received from sale of associated company's shares.....	—	—	588,854
Other.....	12,801	(31,021)	(152,122)
Net cash used in investing activities	<u>(1,285,512)</u>	<u>(1,865,722)</u>	<u>(1,484,376)</u>
Financing activities:			
Proceeds from bank loans and long-term debt.....	4,895,985	2,786,620	2,575,318
Repayment of bank loans and long-term debt	(4,825,250)	(2,006,810)	(3,061,511)
Repayment of long-term note payable.....	—	—	(48,213)
Proceeds from stock issuance	—	—	1,148,136
Contributions (distributions) by minority interest	69,405	(1,560)	94,024
Net purchases-sales of Company's common stock.....	305,203	22,899	2,614
Derivative financial instruments.....	—	(29,964)	16,351
Dividends paid.....	(593,742)	(556,601)	(659,469)
Other.....	(12,201)	(5,104)	12,042
Net cash (used in) provided by financing activities	<u>(160,600)</u>	<u>209,480</u>	<u>79,292</u>
Effect of inflation on cash and cash equivalents.....	(57,188)	(50,698)	(37,743)
Net increase(decrease) in cash and cash equivalents	107,146	(184,455)	230,485
Cash and cash equivalents at beginning of year	417,613	524,759	340,304
Cash and cash equivalents at end of year.....	<u>Ps. 524,759</u>	<u>Ps. 340,304</u>	<u>Ps. 570,789</u>

In August 2005, there was a non-cash transaction of Ps.442,936 related to notes payables issued by a subsidiary for the acquisition of certain businesses.

Net cash flow from operating activities reflects cash payments and receipts for interest and income taxes as follows:

	Year ended December 31,		
	2004	2005	2006
Interest paid	Ps. 590,761	Ps. 606,868	Ps. 676,272
Income and asset taxes paid.....	570,232	640,266	344,909

P) COMPREHENSIVE INCOME

	Year ended December 31,		
	2004	2005	2006
Comprehensive income is as follows:			
Net income under U.S. GAAP	Ps. 835,674	Ps. 1,238,932	Ps. 1,448,421
Other comprehensive loss, net of taxes:			
Deficit from restatement	(625,250)	21,051	(26,204)
Derivative financial instruments	(41)	(20,983)	6,312
Foreign currency translation adjustments	(16,934)	(492,939)	390,795
Comprehensive income under U.S. GAAP.....	<u>Ps. 193,449</u>	<u>Ps. 746,061</u>	<u>Ps. 1,819,324</u>

Foreign currency translation adjustments are presented net of tax expense (benefit) of Ps.11,242, Ps.79,839 and Ps.(20,787) for the years ended December 31, 2004, 2005 and 2006, respectively.

The components of accumulated other comprehensive loss are as follows as of December 31, 2005 and 2006:

	<u>Foreign currency translation adjustments</u>	<u>Derivative financial instruments</u>	<u>Deficit from restatement</u>	<u>Accumulated other comprehensive loss</u>
Balance at December 31, 2004	Ps. 746,783	Ps. 21,075	Ps. (14,937,754)	Ps. (14,169,896)
Current period changes	<u>(492,939)</u>	<u>(20,983)</u>	<u>21,051</u>	<u>(492,871)</u>
Balance at December 31, 2005	253,844	92	(14,916,703)	(14,662,767)
Impact of adoption of SFAS No. 158 (net of income tax)	—	—	—	(13,718)
Current period changes	<u>390,795</u>	<u>6,312</u>	<u>(26,204)</u>	<u>370,903</u>
Balance at December 31, 2006	<u>Ps. 644,639</u>	<u>Ps. 6,404</u>	<u>Ps. (14,942,907)</u>	<u>Ps. (14,305,582)</u>

Q) VALUATION AND QUALIFYING ACCOUNTS

The valuation and qualifying accounts are as follows:

Allowance for doubtful accounts:

<u>For the year ended December 31,</u>	<u>Balance at beginning of year</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions</u>	<u>Balance at year-end</u>
2004	Ps. 112,937	Ps. 37,392	Ps. (31,012)	Ps. 119,317
2005	119,317	33,582	(4,476)	148,423
2006	148,423	76,522	(20,107)	204,838

R) RESTATEMENT TO CONSTANT PESOS

The following presents condensed financial information prepared on a U.S. GAAP basis restated to December 31, 2006 constant pesos utilizing the Mexican NCPI. As disclosed in Note 3-E, under Bulletin B-15, the Company restated prior year balances utilizing weighted average restatement factors. The difference in the factors applied to restate prior year information to December 31, 2006 constant pesos utilizing the Mexican NCPI were:

	<u>Factor</u>
2004	1.04157
2005	0.99620

Condensed consolidated balance sheets as of December 31:

	Expressed in Thousands of Constant Mexican Pesos as of December 31, 2006	
	2005	2006
Total current assets	Ps.8,506,700	Ps.9,837,712
Property, plant and equipment	14,199,033	14,866,806
Total assets.....	27,345,977	29,913,649
Short-term debt	559,653	908,706
Long-term debt	6,787,946	5,709,499
Total liabilities	13,366,378	13,446,508
Minority interest	3,086,449	3,042,029
Total stockholders' equity.....	10,893,150	13,425,112

Condensed consolidated statements of income for the years ended December 31:

	Expressed in Thousands of Constant Mexican Pesos as of December 31, 2006		
	2004	2005	2006
Net sales.....	Ps.26,650,510	Ps.27,543,284	Ps.30,387,884
Gross profit	9,409,867	9,423,645	10,412,294
Operating income.....	2,035,550	1,492,449	1,689,599
Majority net income.....	835,674	1,238,932	1,448,421

S) RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes the framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company is currently evaluating the impact that SFAS No. 157 will have on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS No. 158”). Part of this Statement is effective as of December 31, 2006, and requires companies that have defined benefit pension plans and other postretirement benefit plans to recognize the funded status of those plans on the balance sheet on a prospective basis from the effective date. In addition, SFAS No. 158 requires that companies using a measurement date for those plans other than their fiscal year, change to a fiscal year end measurement date, effective for years ending after December 15, 2008. The Company’s balance sheet as of December 31, 2006 has been adjusted to reflect the required recognition of the funded status for their plans as of that date (see Note 22-L for a discussion of the effects of this adoption).

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109 — Accounting for Income Taxes” (“FIN No. 48”). FIN No. 48 clarifies the accounting for uncertainty in income taxes, by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of assessing and adopting FIN No. 48.

GRUPO FINANCIERO BANORTE, S.A. DE C.V.(1)

**INDEX TO REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS AND
CONSOLIDATED FINANCIAL STATEMENTS 2004, 2005 and 2006**

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- (1) The accompanying consolidated balance sheets of Grupo Financiero Banorte, S. A. de C.V. and subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, of changes in stockholders' equity, of changes in financial position and of cash flows for the years ended December 31, 2004, 2005 and 2006 are presented herein as required by Rule 3-09 of Regulation S-X.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Stockholders of
Grupo Financiero Banorte, S.A. de C.V.
Monterrey, N.L.**

We have audited the accompanying consolidated balance sheet of Grupo Financiero Banorte, S.A. de C.V. and Subsidiaries (the "Financial Group") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in millions of Mexican pesos of purchasing power of December 31, 2006. 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 audit 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 audit 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S. A. de C. V. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended 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, 2006 and 2005, to the extent summarized in Note 39.

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 and net income as of and for the years ended December 31, 2006 and 2005, to the extent summarized in Note 40.

As discussed in Note 40 to the accompanying consolidated financial statements, the U.S. GAAP consolidated statement of cash flows for the year ended December 31, 2005 has been restated.

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE
STOCKHOLDERS OF GRUPO FINANCIERO BANORTE, S.A. DE C.V. MONTERREY, N.L.**

**MARCH 28, 2005, EXCEPT FOR NOTE 40 FOR WHICH THE DATE IS JUNE 16, 2006 AND FOR NOTE 40
(III.B) AND THE RESTATEMENT TO CONSTANT MEXICAN PESOS AS OF DECEMBER 31, 2006 FOR
WHICH THE DATE IS MAY 25, 2007**

We have audited the accompanying consolidated statements of income, changes in stockholders' equity and changes in financial position of Grupo Financiero Banorte, S.A. de C.V. and Subsidiaries (the "Financial Group") for the year ended December 31, 2004, all expressed in millions of Mexican pesos of purchasing power of December 31, 2004. 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 audit.

We conducted our audit 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 audit 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"). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statements of income, changes in stockholders' equity and changes in financial position present fairly, in all material respects, the financial position of Grupo Financiero Banorte, S.A. de C.V. and Subsidiaries for the year ended December 31, 2004, in conformity with the accounting practices prescribed by the Commission.

Accounting practices prescribed by the Commission vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 40 to the consolidated financial statements, as restated.

PricewaterhouseCoopers S.C.
José Antonio Quesada Palacios

GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005
(Expressed in millions of Mexican pesos of purchasing power of
December 31, 2006)**

Assets	2006	2005
Cash and cash equivalents	\$ 43,403	\$ 40,403
Investments in securities:		
Trading securities.....	15,015	9,369
Available-for-sale securities	6,254	141
Held-to-maturity securities	4,403	12,815
	25,672	22,325
Securities and derivative financial instruments:		
Debtor balances under repurchase and resale agreements	25	162
Derivative financial instruments	19	488
	44	650
Current loan portfolio:		
Commercial loans	80,293	60,264
Loans to financial institutions.....	2,373	2,046
Consumer loans	20,718	16,157
Housing mortgage loans	27,798	24,772
Government loans.....	10,784	15,849
FOBAPROA or IPAB loans	—	169
Total current loan portfolio:	141,966	119,257
Past-due loan portfolio:		
Commercial loans	730	699
Consumer loans	609	429
Housing mortgage loans	721	799
Total past-due loan portfolio:	2,060	1,927
Total loan portfolio:	144,026	121,184
(Minus) Allowance for loan losses	3,533	3,195
Loan portfolio, net	140,493	117,989
Credit asset portfolio.....	3,618	3,367
Other accounts receivable, net	5,639	2,901
Foreclosed assets, net.....	316	465
Property, furniture and fixtures, net.....	6,646	5,918
Permanent stock investments.....	3,164	2,319
Deferred taxes, net	—	420
Other assets:		
Other assets, deferred charges and intangible assets.....	5,442	1,346
Total assets.....	\$234,437	\$198,103

Liabilities	2006	2005
Deposits:		
Demand deposits.....	\$ 95,401	\$ 79,206
Time deposits-		
General public.....	69,591	56,595
Money market.....	4,545	7,358
	<u>169,537</u>	<u>143,159</u>
Bank and other loans:		
Demand loans.....	988	2,671
Short-term loans.....	5,903	5,769
Long-term loans.....	9,959	11,945
	<u>16,850</u>	<u>20,385</u>
Securities and derivative financial instruments:		
Creditor balances under repurchase and resale agreements.....	235	347
Derivative financial instruments.....	2	465
	<u>237</u>	<u>812</u>
Other payables:		
Income taxes and employee profit sharing.....	1,277	1,773
Sundry creditors and other payables.....	7,449	4,786
	<u>8,726</u>	<u>6,559</u>
Subordinated debentures.....	11,367	4,744
Deferred taxes, net.....	144	—
Deferred credits.....	71	75
Total liabilities.....	<u>206,932</u>	<u>175,734</u>
Stockholders' Equity		
Paid-in capital:		
Common stock.....	11,580	11,581
Additional paid-in capital.....	1,794	1,790
	13,374	13,371
Other capital:		
Capital reserves.....	2,062	1,741
Retained earnings from prior years.....	15,816	10,916
Insufficiency in restated stockholders' equity.....	(6,147)	(6,147)
Valuation of permanent stock investments.....	(4,967)	(4,489)
Net income.....	5,959	5,957
	<u>12,723</u>	<u>7,978</u>
Minority interest in stockholders' equity.....	1,408	1,020
Total stockholders' equity.....	<u>27,505</u>	<u>22,369</u>
Total liabilities and stockholders' equity.....	<u>\$234,437</u>	<u>\$198,103</u>

Memorandum accounts (Note 35)

“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 Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting the operations conducted by the Holding company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative dispositions.”

“As of December 31, 2006, the historical Capital stock amounted to \$7,064.”

“The accompanying Consolidated Balance Sheets have been approved by the Board of Directors under the accountability of the signors.”

Ing. Luis Peña Kegel Chief Executive Officer	Ing. Sergio García Robles Gil Managing Director - CFO	C.P. Román Martínez Méndez Managing Director - Audit	Lic. Jorge Eduardo Vega Camargo Executive Director Controlling	C.P.C. Nora Elia Cantú Suárez Executive Director Accounting
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The accompanying notes are part these consolidated balance sheets.

GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Expressed in millions of Mexican pesos of purchasing power of
December 31, 2006**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest income.....	\$ 35,480	\$ 36,792	\$ 27,208
Interest expense	(20,626)	(22,841)	(16,495)
Monetary position loss, net (financial margin)	(336)	(153)	(147)
Financial margin	14,518	13,798	10,566
Allowance for loan losses	(1,530)	(1,505)	(1,278)
Financial margin after provision for loan losses	12,988	12,293	9,288
Commission and fee income.....	7,588	6,905	6,354
Commission and fee expense.....	(1,528)	(1,560)	(1,035)
Brokerage revenues	1,716	1,080	952
	<u>7,776</u>	<u>6,425</u>	<u>6,271</u>
Net operating revenues	20,764	18,718	15,559
Administrative and promotional expenses.....	(12,458)	(11,579)	(11,987)
Operating income.....	8,306	7,139	3,572
Other income	1,086	3,021	2,354
Other expenses.....	(885)	(1,936)	(2,393)
	<u>201</u>	<u>1,085</u>	<u>(39)</u>
Income before income taxes and employee profit sharing.....	8,507	8,224	3,533
Current income taxes and employee profit sharing.....	2,923	2,382	533
Deferred income taxes and employee profit sharing.....	213	(25)	232
	<u>3,136</u>	<u>2,357</u>	<u>765</u>
Income before equity in earnings of subsidiaries and associated companies.....	5,371	5,867	2,768
Equity in earnings of subsidiaries and associated companies	797	419	238
Income before minority interest.....	6,168	6,286	3,006
Minority interest	(209)	(329)	(197)
Net income.....	<u>\$ 5,959</u>	<u>\$ 5,957</u>	<u>\$ 2,809</u>

“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 Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the revenues and expenses derived from the operations conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative provisions.”

“The accompanying Consolidated Statements of Income have been approved by the Board of Directors under the accountability of the signors.”

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

C.P. Román Martínez Méndez
Managing Director - Audit

Lic. Jorge Eduardo Vega Camargo
Executive Director Controlling

C.P.C. Nora Elia Cantú Suárez
Executive Director Accounting

The accompanying notes are part of these consolidated financial statements.

GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Expressed in millions of Mexican pesos of purchasing power of
December 31, 2006

	Paid-in capital		Other capital:				Net income	Total majority interest	Total minority interest	Total stockholders' equity
	Common stock	Additional paid-in capital	Capital reserves	Retained earnings	Insufficiency in restated stockholders' equity	Valuation of permanent stock investments				
Balances, January 1, 2004	\$ 6,026	\$ 1,790	\$ 1,491	\$ 12,905	\$ (6,147)	\$ (3,346)	\$ 2,507	\$ 15,226	\$ 1,007	\$ 16,233
Transactions approved by stockholders:										
Issuance (repurchase of shares)		—	5	—	—	—	—	5	—	5
Transfer of prior years' result	—	—	—	2,507	—	—	(2,507)	—	—	—
Creation of reserves as per General Stockholders' Meeting on April 29, 2004	—	—	123	(123)	—	—	—	—	—	—
Dividend decreed as per General Stockholders' Meeting on October 4 2004	—	—	—	(549)	—	—	—	(549)	—	(549)
Total transactions approved by stockholders	—	—	128	1,835	—	—	(2,507)	(544)	—	(544)
Comprehensive income entries:										
Net income	—	—	—	—	—	—	2,809	2,809	—	2,809
Result from holding nonmonetary assets	—	—	—	—	—	(606)	—	(606)	—	(606)
Official sale of portfolio, per official letter of the CNBV No.601-II-34966	—	—	—	(278)	—	—	—	(278)	—	(278)
Write-off of foreclosed assets and creation of reserves for past-due portfolio of Arrendadora Banorte, S.A. de C.V.	—	—	—	(16)	—	—	—	(16)	—	(16)
Merger with Seguros Generali México, S.A. de C.V.	—	—	—	19	—	—	—	19	—	19
Total comprehensive income	—	—	—	(275)	—	(606)	2,809	1,928	—	1,928
Minority interest	—	—	—	—	—	—	—	—	(70)	(70)
Balances, December 31, 2004 ..	6,026	1,790	1,619	14,465	(6,147)	(3,952)	2,809	16,610	937	17,547
Transactions approved by stockholders:										
Issuance (repurchase of shares)	1	—	(18)	—	—	—	—	(17)	—	(17)
Transfer of prior years' result	—	—	—	2,809	—	—	(2,809)	—	—	—
Creation of reserves as per General Stockholders' Meeting on April 28, 2005	—	—	140	(140)	—	—	—	—	—	—
Dividend decreed as per General Stockholders' Meeting on October 6, 2005	—	—	—	(664)	—	—	—	(664)	—	(664)
Increase in capital stock as per General Stockholders' Meeting on October 6, 2005	5,554	—	—	(5,554)	—	—	—	—	—	—
Total transactions approved by stockholders	5,555	—	122	(3,549)	—	—	(2,809)	(681)	—	(681)
Comprehensive income entries:										

Net income.....	—	—	—	—	—	—	5,957	5,957	—	5,957
Result from holding nonmonetary assets.....	—	—	—	—	—	(537)	—	(537)	—	(537)
Total comprehensive income.....	—	—	—	—	—	(537)	5,957	5,420	—	5,420
Minority interest	—	—	—	—	—	—	—	—	83	83
Balances, December 31, 2005 ..	11,581	1,790	1,741	10,916	(6,147)	(4,489)	5,957	21,349	1,020	22,369
Transactions approved by stockholders:										
Issuance (repurchase of shares).....	(1)	4	27	—	—	—	—	30	—	30
Transfer of prior years' result	—	—	—	5,957	—	—	(5,957)	—	—	—
Creation of reserves as per General Stockholders' Meeting on April 28, 2006	—	—	294	(294)	—	—	—	—	—	—
Dividend decreed as per General Stockholders' Meeting on October 6, 2006	—	—	—	(763)	—	—	—	(763)	—	(763)
Total transactions approved by stockholders	(1)	4	321	4,900	—	—	(5,957)	(733)	—	(733)
Comprehensive income entries:										
Net income.....	—	—	—	—	—	—	5,959	5,959	—	5,959
Result from holding nonmonetary assets.....	—	—	—	—	—	(478)	—	(478)	—	(478)
Total comprehensive income.....	—	—	—	—	—	(478)	5,959	5,481	—	5,481
Minority interest	—	—	—	—	—	—	—	—	388	388
Balances, December 31, 2006 ..	<u>\$ 11,580</u>	<u>\$ 1,794</u>	<u>\$ 2,062</u>	<u>\$ 15,816</u>	<u>\$ (6,147)</u>	<u>\$ (4,967)</u>	<u>\$ 5,959</u>	<u>\$ 26,097</u>	<u>\$ 1,408</u>	<u>\$ 27,505</u>

“These statements of changes in shareholder’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 Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the movements in equity accounts derived from the operations, conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative provisions.”

“The accompanying Consolidated Statements of Changes in Stockholder’s Equity were approved by the Board of Directors under the accountability of the signors.”

Ing. Luis Peña Kegel
Chief Executive Officer

Ing. Sergio García Robles Gil
Managing Director - CFO

C.P. Román Martínez Méndez
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Executive Director Accounting

The accompanying notes are part of these consolidated financial statements.

GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Expressed in millions of Mexican pesos of purchasing power of
December 31, 2006)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating activities:			
Net income.....	\$ 5,959	\$ 5,957	\$ 2,809
Items not requiring (generating) resources:			
Allowance for loan losses	1,530	1,505	1,278
Depreciation and amortization	888	988	1,148
Deferred taxes	213	(25)	232
Minority interest	209	329	197
Provisions for sundry obligations	(45)	1,942	253
Equity in earnings of associated companies and affiliates	(797)	(419)	(239)
Valuation effects on financial instruments.....	170	(45)	(19)
	<u>8,127</u>	<u>10,232</u>	<u>5,659</u>
Changes in operating assets and liabilities:			
Increase in deposits.....	26,378	5,526	(45,987)
Increase in treasury transactions (investment securities)	(3,517)	(951)	2
Decrease in bank and other loans.....	(3,535)	(4,306)	(8,448)
Increase in credit asset portfolio	(251)	(1,062)	30
Increase in loan portfolio	(24,034)	(10,839)	57,565
Decrease in deferred taxes	350	331	139
Increase in securities and derivative financial instruments:	31	131	(164)
Increase (decrease) of other receivables and payables, net.....	(526)	842	(1,425)
Loss on sale of past-due portfolio			(277)
Creation of reserves for past-due portfolio of Arrendadora Banorte, S.A. de C.V.	—	—	(11)
Net resources used in operating activities	<u>(5,104)</u>	<u>(96)</u>	<u>7,083</u>
Financing activities:			
Subordinated debentures	6,623	(198)	1854
Income of Generali México Compañía de Seguros, S.A. in results from prior years ...			18
Issuance (repurchase) of shares	30	(17)	5
Dividends paid	(763)	—	(549)
Increase of shareholders' equity	—	(663)	—
Resources generated by (used in) financing activities	<u>5,890</u>	<u>(878)</u>	<u>1,328</u>
Investing activities:			
Decrease (increase) in foreclosed assets	149	(74)	879
Increase in permanent stock investments.....	(348)	(671)	(722)
Increase (decrease) in deferred charges and credits	(4,387)	103	(442)
Acquisition of property, furniture and equipment, net of disposals.....	(1,327)	(177)	(678)
Write-off of foreclosed assets of Arrendadora Banorte, S.A. de C.V.	—	—	(4)
Resources used in investing activities.....	<u>(5,913)</u>	<u>(819)</u>	<u>(967)</u>
Increase (decrease) in funds available.....	3,000	(1,793)	7,444
Funds available at the beginning of the year.....	<u>40,403</u>	<u>42,196</u>	<u>34,752</u>
Funds available at the end of the year.....	<u>\$43,403</u>	<u>\$40,403</u>	<u>\$42,196</u>

“These statements 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, were prepared according to Accounting Principles applicable to Financial Group Holding Companies issued by the National Banking and Securities Commission according to article 30 of the Law of Financial Institutions, of general and mandatory observance, consistently applied, reflecting all of the origins and applications of cash derived from the operations

conducted by the Holding Company, the financial entities and the other companies that form part of the Financial Group and are susceptible to consolidation as of the date above, which were carried out and valued according to sound practices and applicable legal and administrative dispositions.”

“The accompanying Consolidated Statements of Changes in Financial Position have been approved by the Board of Directors under the accountability of the signors.”

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GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004 (Expressed in millions of Mexican pesos of purchasing power of December 31, 2006)

1. Activities and regulatory environment

Grupo Financiero Banorte, S.A. de C.V. (the "Financial Group") is authorized by the Mexican Treasury Department (SHCP) to operate as a financial group under the form and terms established by the Mexican Financial Group Law, subject to the supervision and monitoring of the Mexican National Banking and Securities Commission (the "Commission"). Its main activities consist of acquiring and managing entities engaged in the financial services industry and supervising their activities, as defined by the previously 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 (CONSAR), Banco de México and other applicable laws.

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, the purchase and sale of uncollected invoices and notes, rendering of general warehousing services 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 its capacity as regulator of financial institutions include reviewing the Financial Group's financial information and requesting modifications to such information.

As stated in Note 28, at the Extraordinary Stockholders' Meeting held on December 13, 2006, it was resolved, among other things, to change the Financial Group's name from Grupo Financiero Banorte, S.A. de C.V. to Grupo Financiero Banorte, S.A.B. de C.V. due to a requirement of the Mexican securities law issued on June 28, 2006. This new law requires every company that is listed on the Bolsa Mexicana de Valores, S.A. de C.V. ("BMV" Mexican Stock Exchange) to include "Bursátil" (publicly traded) in their legal name or use the letter "B" after S.A. However, authorization of this modification is still pending approval by the SHCP, and therefore the Financial Group's legal name will remain the same until such approval is obtained.

2. Significant events during the year

a) Merger of financial institutions

During the Extraordinary Stockholders' Meetings held on August 17, 2006 at the Financial Group and on August 16, 2006 at Banco del Centro, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (Bancén), the merger of Bancén and Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (Banorte) was approved, whereby the former was the merging entity and the latter the merged entity. The merger became effective for accounting and tax purposes as of August 1, 2006.

The merger was approved by the Commission and the SHCP, who awarded its authorization by means of Document No. UBA/118/2006 dated August 24, 2006.

The merger agreements were inscribed in the Public Register of Property and Commerce on August 28, 2006 and immediately went into effect.

b) Acquisition of INB Financial Corporation

In November 2006, Banorte, through its subsidiary Banorte USA Corporation —an entity constituted in the United States of America, completed the purchase of 70% of the stockholders' equity representative shares of INB Financial Corporation, which in turn is the holder of Inter National Bank (INB), a banking institution based in Texas. This transaction was approved by the SHCP in Mexico and the Federal Reserve Board in the United States.

Banorte paid USD 259 million for this acquisition with its own funds, and has the option to purchase the remaining 30% of the INB Financial Corporation shares.

As of December 31, 2006, INB's total assets are USD 1,472 million, deposits total USD 1,363 million, securities investments are USD 352 million, and it has a total loan portfolio of USD 788 million.

The purchase generated a goodwill for \$2,267 and other intangible assets for \$154, which are included as "Other assets, deferred charges and intangibles" in the general balance sheet. On the other hand, Banorte is committed to exercise the purchase option for the remaining 30% of the INB capital, which will take place as soon as some of the other conditions defined in the purchase-sale contract are met, and consequently acknowledged, in accordance with the opinion issued by the Commission, a contingent liability that corresponded with an increase of \$1,208 in goodwill. This liability will be valued applying a formula agreed to by both parties.

c) Issuance of subordinated debentures

The General Extraordinary Shareholders' Meeting, held on October 2, 2006 at Banorte, approved the constitution of two collective credits by two issuances of Subordinate Debentures, one preferred and the other non-preferred, not susceptible to conversion into stockholders' equity representative securities, for a sum of USD 600 million, with a 10-year and 15-year term, respectively. Interest will be paid twice a year and capital amortization will be at the end of the 10-year and 15-year terms, respectively. The funds generated by placing the subordinate securities will be used for general corporate purposes.

On October 13, 2006, the final placement of the aforementioned subordinate debenture issuances was completed as follows:

- A principal sum of USD 200 million in non-preferred subordinate debentures to mature in 2021, with a 6.826% interest rate.
- A principal sum of USD 400 million in preferred subordinate debentures to mature in 2016, with a 6.135% interest rate.

d) UMS bond securitization

In keeping with a modification in its investment strategy, Banorte, during the first quarter of 2006, reclassified its position of UMS bonds in "Securities held to maturity" to "Available securities" for an amount of \$7,505. Derived from this reclassification, \$67 was acknowledged in the Financial Group's stockholders' equity as a result of the market valuation of available securities according to the Commission's B-2 criterion.

On the other hand, derived from the transfer of securities between the aforementioned categories, an internal reclassification was made of the Derived Financial Instruments that covered said position, made up of 32 Cross Currency Swaps instruments that changed from a variable exposition with interest rates denominated in Mexican pesos to a fixed exposition in US dollar interest rates. The reclassification consisted of a change of category between instruments, from "Coverage of securities held to maturity" to "Coverage of available securities".

Later, Banorte sold part of its position in UMS bonds to a trust for \$4,910 so that the trust would issue Stock Certificates to be placed through public offering. The securities valuation effect at the time of the sale was a \$12 loss originated by canceling its valuation in capital and acknowledging the capital loss in the period from its purpose reclassification.

The UMS securities sale originated the liquidation of the coverage swaps position that was maintained to cover investment risk exposure. The effect generated a \$169 profit that was recognized as part of the trading result.

Banorte described this operation as a sale, as per an opinion issued by the Commission, which confirms this type of transaction as a sale providing that the Stock Certificates repurchased by the Financial Group are placed through securities repurchase agreement operations. If said certificated had not been placed in a securities repurchase agreement, the transaction would have been considered as a loan with collateral.

e) **Mortgage loan securitization**

In December 2006 Banorte securitized the mortgage loan portfolio with the support of the Federal Mortgage Agency [Sociedad Hipotecaria Federal — (SHF)]. Through this operation mortgage-supported bonds for \$2,068 in two series were issued under an authorized program for up to \$10,000, that Banorte registered to exercise in the following 5 years. S&P, Fitch and Moodys gave this structure the highest possible rating, AAA.

This transaction generated a reduction in the performing loans for \$2,068, and cash in the amount of \$2,048 and \$20 rights on the trust were received. The operation was registered under “Securities investments” under “Available securities”, valued in conformity with the Commission criteria.

f) **Mortgage loan portfolio transferred to FOVISSSTE**

In November 2006, Banorte addressed the requirement submitted by the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado and granted to its decentralized agency Fondo de Vivienda del ISSSTE (FOVISSSTE) the creditor’s rights and active tenure of its respective mortgage guaranty over the 37,124 loans granted to its affiliates.

The effect in Banorte’s financial statements shows up as a \$2,677 reduction in mortgage loans, complemented by the cancellation of \$2,040 in liabilities generated from funding said portfolio.

3. **Basis of presentation**

Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of users. These consolidated financial statements are presented on the basis of accounting practices prescribed by the Commission. Certain accounting practices applied by the Institution may not conform to accounting principles generally accepted in the country of use.

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.

As of December 31, 2006 and 2005, the Financial Group’s consolidated subsidiaries and its ownership percentage is as follows:

	<u>2006</u>	<u>2005</u>
Banco Mercantil del Norte, S.A.	97.06%	96.11%
Banco del Centro, S.A.	—	99.99%
Casa de Bolsa Banorte, S.A. de C.V.	99.99%	99.99%
Arrendadora Banorte, S.A. de C.V.	99.99%	99.99%
Factor Banorte, S.A. de C.V.	99.99%	99.99%
Almacenadora Banorte, S.A. de C.V.	99.99%	99.99%
Créditos Pronegocio, S.A. de C.V.	99.99%	99.99%

Conversion of financial statements of Banorte USA, Corporation and subsidiaries (foreign subsidiary) - To consolidate the financial statements of the foreign subsidiary operating independently of Banorte, the same accounting policies are applied, and the monetary assets and liabilities as well as revenue and expenses in the earnings statement are converted at the exchange rate of the close, whereas the shareholders’ equity is converted at the historical exchange rate of the date when transactions and contributions were made. The resulting figures are updated applying factors derived from the General Index of Consumer Prices of the country of origin. The conversion effects are presented in the stockholders’ equity.

4. New accounting principles

On September 15, 2006, the Federal Gazette of the Federation published the modifications or changes to the accounting practices established by the Commission for credit institutions, and which became effective as of January 1, 2007. These provisions dictate that the holding companies shall follow the accounting guidelines of the Financial Reporting Standards (NIF) issued by the Mexican Board for Research and Development of Financial Information Standards (CINIF), except when the Commission determines that it is necessary to apply a specific rule or accounting criterion considering that credit institutions perform specialized transactions.

Some of the main modifications are:

- Companies that are not part of the financial system are included for financial statement consolidation.
- Foreclosed assets should be considered as non-monetary items and should, therefore, be updated for inflation as of January 1, 2007 without acknowledging the cumulative effects.
- Without exception, all derivative financial instruments should be recorded at fair value.

NIF C-10 “Derivative financial instruments and hedging activities”, that establishes the obligation of setting the market value for all derivatives, including hedging activities, will be applied to operations with derivative financial instruments. It established the requirements for hedging, among which is the obligation to follow up on their effectiveness. The effects of the initial implementation of these criteria will be acknowledged in assets (patrimony).

- The preventive estimates 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 earnings.
- Previously punished loan recoveries will be recognized directly in the results (earnings).
- The recoveries made one the collection rights over the loan portfolios will be applied to accounts receivable until the balance is zero. Supluss recoveries will be recognized directly in the results (earnings).
- The fees charged for the initial granting of loans will be recorded as a differed credit, which will be amortized as per the straight line method during the loan’s term.

5. Main accounting policies

The significant accounting policies of the Financial Group are in conformity with practices prescribed by the Commission’s accounting circulars, and other general and specific purpose official letters issued for such purposes, 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, the management considers the estimates and assumptions were adequate under the circumstances.

The significant accounting policies followed by the Financial Group are described below:

Recognition of the effects of inflation in financial information - The Financial Group restates its consolidated financial statements to Mexican peso purchasing power of the most recent balance sheet date presented thereby acknowledging inflation effects. Accordingly, the consolidated financial statements of the prior year, that are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year. Consequently, the figures in the financial statements are comparable with each other and with the previous year as they are all expressed in the same currency.

To recognize the effects of inflation in terms of purchasing power of the most recent balance sheet presented, the following procedures are applied:

To the balance sheet accounts -

Real estate property is restated based on a factor derived from the value of Investment Units (UDIS), taking values determined by independent appraisers as the basis for their valuation.

Furniture and fixtures are restated based on a factor derived from the value of the UDI from their acquisition date to the most recent balance sheet presented.

Foreclosed assets are considered to be monetary items, and therefore these assets are not restated for the effects of inflation, but are included in the calculation of the monetary position result.

Investments in shares are valued based on the equity method as a specific cost. The difference between the restatement of the balance at the beginning of the period using the restatement factor derived from the value of the UDI and the increase or decrease from the equity in earnings is reflected as a result from holding non-monetary assets.

Contributed capital and retained earnings, as well as other non-monetary items, are restated using a factor derived the value of the UDI from the date of contribution or when earned. Contributed and earned capital is restated taking May 1992 as the base month for restatement.

To the accounts of the statement of income -

Revenues and expenses that affect or are derived from a monetary item (funds available, financial instruments, loan portfolio, deposits, etc.), and those derived from current operations (commissions, tariffs and administrative and promotional expenses) are restated from the month in which they occur to the most recent balance sheet presented, using a factor derived from the value of the UDI.

Depreciation for the year is calculated on restated values based on the estimated useful lives determined by independent appraisers.

Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying the inflation factor derived from the value of the UDI to the monthly net monetary liability (asset) average and is restated using the factor discussed above at the most recent balance sheet presented.

To the accounts of the statements of changes in financial position

The statement of changes in financial position presents the changes in constant pesos, starting from the financial position of the previous balance sheet presented, restated to pesos at the most recent balance sheet presented.

Comprehensive income - Represents changes in stockholders' equity during the year, for concepts 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 2006 and 2005, other comprehensive income items are represented by the insufficiency in the restatement of stockholders' equity, the result from valuation of securities available for sale, the creation of reserved for foreclosed assets, the cancellation of deferred taxes of the shared loss reserve and the conversion effects of foreign entities.

Cash and cash equivalents - Funds available are stated at nominal value. Coins or foreign currencies are stated at fair value based on exchange rates at the most recent balance sheet date presented. Funds available in foreign currency are valued at the exchange rate published by Banco de México at the most recent balance sheet date presented.

Trading securities - Trading securities represent debt instruments and equity securities owned by the Financial Group, from which it intends to obtain profits by participating in the market. They are stated at fair value, which is determined by the price vendor contracted by the Financial Group, in conformity with the following guidelines:

Debt securities-

- Applying market values
- If the market value cannot be obtained from a reliable source or it is not representative, the market prices of similar instruments or prices calculated based on formal valuation techniques are used.
- When the fair value of the securities cannot be determined, they are recorded at the most recent fair value or acquisition cost, recording accrued interest and, if applicable, the necessary adjustments to state the securities' decrease in value.

Listed securities-

- Applying market values
- If the market value cannot be obtained from a reliable source or it is not representative, the fair value will be determined based on the equity method of accounting described in Bulletin B-8, *Consolidated and Combined Financial Statements and Permanent Stock Investments*, or, in rare cases, based on the acquisition cost restated by a factor derived for the value of UDI.
- When the fair value of the securities cannot be determined, these will be stated at the last fair value determined or at the acquisition cost, which should be adjusted to its net trading value.

The increase or decrease of these securities' valuation will be stated in the results (earnings).

Available-for-sale securities - Available-for-sale securities are debt or equity securities acquired for a purpose other than obtaining profits from trading them in the market or holding them to maturity. They are valued in the same way as trading securities, with unrealized gains and losses recognized in stockholders' equity, net of their monetary position result. The monetary position result generated by the acquisition cost of these securities is recorded in results of the year.

Held-to-maturity securities - Held-to-maturity securities consist of debt instruments whose payments can be determined and with known maturities exceeding 90 days, which are acquired with the intent to hold them to maturity. They are initially recorded at acquisition cost and include accrued interest. Accrued interest is recorded in the statement of income using the straight-line method.

If sufficient evidence exists that a security represents a high credit risk and/or its estimated value decreases, the book value could be modified based on the net realizable value determined by using formal valuation techniques, with a charge to results recorded in the year of the write-down.

Transfers of securities within these categories must be approved by the Commission.

Repurchase agreements - Represent the temporary purchase or sale of certain financial instruments in exchange for an established premium with the obligation to resell or repurchase such securities in the future.

When the Financial Group acts as the vendor of securities, the net position represents the difference between the fair value of the securities covered by the repurchase agreement (asset position) which, in turn, represents the securities to be received through the transaction, valued according to the investment valuation methods established for trading securities, and at the present value of the price at maturity (liability position).

When the Financial Group acts as the purchaser of securities, the net position represents the difference between the present value of the price at maturity (asset position) and the fair value of the securities received under the repurchase agreement (liability position) are valued according to the method discussed in the preceding paragraph.

The debit or credit balance resulting from transactions involving repurchase agreements is presented under assets or liabilities in the consolidated balance sheet under the heading "Securities and derivative financial instruments".

For repurchase transactions entered into for periods exceeding three business days, a guarantee must be provided to mitigate market and counterparty risks. Guarantees received for repurchase transactions not involving the transfer of ownership are recognized in memoranda accounts and are considered as restricted assets.

Derivative financial instruments - The Financial Group is authorized to perform two types of transactions involving derivative financial instruments:

- *Transactions to hedge the Financial Group's exposed position* - Such transactions involve purchasing or selling derivative financial instruments to mitigate the risk resulting from a given transaction or group transactions.
- *Transactions entered into for trading purposes* - The Financial Group enters into such transactions as a market participant for reasons other than to hedge its exposed position.

For hedging transactions, offsetting asset and liability positions and the deferred charge or credit are presented net of the primary position being hedged, while transactions entered into for trading purposes are recorded as separate assets or liabilities.

When entering into transactions involving derivative financial instruments, the Financial Group's internal policies and procedures require an assessment and risk exposure regarding the financial institution acting as the counterparty to the transaction and that it be authorized by the Bank of Mexico to enter into this type of transaction. Before entering into these types of transactions with corporate customers, a precautionary credit line must be granted by the Credit Risk Committee or liquid guarantees given through a securitized collateral contract. Transactions entered into with medium and small sized companies and individuals provide for liquid guarantees established in securitized collateral contracts.

The recognition or cancellation of assets and/or liabilities derived from transactions involving derivative financial instruments occurs when these transactions are entered into to, regardless of the respective settlement or delivery date of the goods.

Forward and futures contracts-

The balance of these transactions entered into for trading purposes represents the difference between the fair value of the contract and the established "forward" price. Asset and liability positions are individually offset; a resulting debit balance is presented as an asset under the "Derivative financial instruments" heading, while a credit balance is presented as a liability under the same heading.

Option contracts-

The balance of these transactions entered into for trading purposes is stated at fair value and recorded as an asset or liability under the "Derivative financial instruments" heading.

These instruments are stated at their fair value with changes in their fair value recognized in results of operations.

Swaps-

The balance of these transactions entered into for trading purposes represents the difference between the fair value of the asset and liability positions. Balances are presented as assets or liabilities under the "Derivative financial instruments" heading.

Loss sharing with the Bank Savings Protection Fund (FOBAPROA) - As discussed in Note 12, according to the regulations established by the Commission, the Financial Group fully recognizes the shared losses generated by its participation in FOBAPROA loan portfolio cash flows.

During 2006 and 2005, the Financial Group recognized reserves in its results of operations of \$31 and \$82, respectively, for the shared loss and incentive arrangements derived from its participation in FOBAPROA portfolio cash flows.

Loan portfolio - Represents the balance of amounts effectively granted to borrowers plus uncollected accrued interest minus prepaid interest received. The allowance for loan losses from credit risks is presented by deducting the balance from the loan portfolio.

The unpaid loan balance is classified in the past-due portfolio as follows:

- Single payment loans upon the maturity of principal and interest, 30 calendar days after maturity.
- Loans involving a single principal payment upon maturity, but with periodic interest payments, total principal and interest payment 30 and 90 calendar days after maturity, 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 60 or more days have elapsed following maturity.
- Overdrawn customer checking accounts are considered as part of the past-due portfolio when such situations arise.

Interest is recognized and accrued into income as it is earned. The accrual of interest income is suspended when loans are transferred to the past-due portfolio.

Loan commissions are recognized as income when collected.

Restructured past-due loans are not considered in the current portfolio until evidence of sustained payment is obtained; this occurs when financial 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.

Allowance for loan losses

Application of new portfolio classification provisions –

The loan portfolio is classified according to the rules issued by the SHCP and the methodology established by the Commission. Internal methodologies may be used providing they are authorized by the Commission.

In the case of consumer and mortgage loans, the Financial Group applies the general provisions applicable to financial institutions in classifying the loan portfolio as issued by the Commission on December 2, 2005 and the internal methodology authorized by the Commission for classifying commercial loans.

The Provisions also establish general methodologies for the classification and calculation of allowances for each type of loan, while also permitting financial institutions to classify and calculate allowances based on internal methodologies, when previously approved by the Commission.

As of June 2001, the Financial Group has the Commission's approval to apply its own methodology, called Internal Risk Classification (CIR Banorte) to commercial loans equal to or greater than 900 thousand UDIS in order to classify the debtor. Loan classification and reserve allowance are determined based on the rules set by the Commission. This methodology is explained later in this note.

- The commercial loan portfolio classification procedure requires that financial institutions 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 month following each quarterly close, financial institutions must apply the respective classification to any loan utilized at the close of the immediately

preceding quarter, based on the outstanding balance in effect on the last day of the aforementioned months. Similarly, the recovery of loan portfolio amounts that have been previously written-off must be applied to the allowance for loan losses instead of to results of the year.

- Derived from the acquisition of INB, the Financial Group applied INB’s loan classification methodologies confirming the risk degrees and adjusting the allowance for loan losses, derived from applying such methodologies.

As of December 14, 2006, the Commission issued Document No. 111-1/524348/2006, which renews for a two-year period, as of December 1, 2006, the authorization for such internal loan classification methodology.

Commercial loans equal to or greater than 900 thousand UDIS are classified according to the following criteria:

- Debtor’s credit quality.
- The loans, in relation with the value of the guarantees or the value of the assets in trusts or in programs commonly known as “structured”, 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 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 loan programs commonly known as “structured” in which the affected assets allow for an individual risk evaluation associated with the scheme, for which the Financial Group applied the procedure established by the Commission.

When evaluating a debtor’s credit quality utilizing the CIR Banorte method, the following risks and payment experiences are classified specifically and independently:

Risk criteria	Risk factors
1. Financial risk	1. Financial structure and payment capability
	2. Financing sources
	3. Management and decision-making
	4. Quality and timeliness of financial information
2. Industry risk.....	5. Position 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 homologated with the risk designation established by the Commission.

CIR Banorte	Risk level description	Commission classification equivalent
1	Substantially risk free	A1
2	Below minimal risk	
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 the commercial loans under 900 thousand UDIS, loans to state and municipal governments and their decentralized agencies, mortgage loans and consumer loans, the Financial Group applied the general provisions applicable to financial institutions for classifying the loan portfolio as issued by the Commission.

Credit asset portfolio - The loan portfolio acquired is comprised of the acquisition cost of different loan packages acquired by the Financial Group; i.e., amounts effectively paid by the Financial Group to obtain rights to the cash flows generated by these portfolios.

Furthermore, during the first three months following its acquisition of loan portfolios, the Financial Group capitalizes the respective interest and monetary results derived from financing contracted to acquire such portfolio packages.

On November 12, 2004, the Commission issued Document No. DGSIF "A" -601-II-96066, which establishes the accounting treatment applicable to portfolio acquisitions and loan settlements through payments in kind and/or the awarding of acquired portfolio goods.

Consequently, as the Commission and the CINIF have not issued a specific accounting standard, and based on the supplemental procedures established by the Commission's accounting circular A-3, *Supplemental*

Application of Accounting Treatments, the accounting treatment applicable to portfolio acquisitions is Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, issued by the American Institute of Certified Public Accountants ("AICPA").

These standards establish that the proper treatment to be applied is a collection right, so the transferred loan should be recorded at the sale price.

The Financial Group's management has the policy of amortizing portfolio investments made prior to December 15, 2004, within a maximum eight-year period as of the original acquisition date.

Furthermore, portfolio investments acquired after December 15, 2004, are amortized within a period not exceeding seven years in the case of mortgage loans, or five years for commercial loans.

Other accounts receivable and payable - Amounts involving the sundry debtors of the Financial Group that are not recovered within 60 or 90 days following their initial recognition (depending on whether the balances are identified or not), are included in the allowance for loan losses, regardless of their likelihood of recovery.

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 settled within 48 hours.

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. The Financial Group's management did not identify any indicators that impairment exists.

Foreclosed property or property received as payments in kind, net - Foreclosed property or property received as payments in kind are recorded at the lower of their net realizable value or cost. Cost is determined as the forced-sales value determined by the judge upon foreclosure or, in the case of payments in kind, the price agreed between the parties involved.

If the book value of the loan exceeds that of the foreclosed property, the difference is recognized by canceling the allowance for loan losses when such assets are awarded. If the book value of the loan is lower than the value of the foreclosed property, the latter must be adjusted to match the loan's book value.

The book value must only be modified when there is evidence that the net realizable value is lower than the recorded book value. The adjustments resulting from these estimates are applied to the results of the year as they arise.

When recognizing the effects of inflation in financial information, foreclosed property is considered to be a monetary item.

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 procedure:

- I. In the case of collection rights and real property, the provisions referred to by the preceding paragraph must be treated as follows:

Personal property reserves	
Time elapsed as of	
awarding or payment in kind (months)	Reserve percentage
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 real property foreclosed or received as payment in kind or awarded, based on the accounting criteria.

- II. Investments in securities must be valued in accordance with the provisions of the Commission’s accounting circular B-2, *Investments in Securities*, using annual audited financial statements and monthly reports of the entity in which the investment is held.

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	
Time elapsed as of	
awarding or payment in kind (months)	Reserve percentage
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 awarding 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.

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.

In conformity with the accounting practices established by the Commission, the initial effect of recognizing these reserves, net of the tax effects, was charged to the “results of prior years” account, in stockholders’ equity. During 2006, the Commission ordered the Financial Group the initial recognition of the reserve to lower the value of foreclosed assets promised for sale in the amount of \$58.

Property, furniture and fixtures - Are recorded at acquisition cost, restated as explained earlier in this Note.

Depreciation is calculated using the straight-line method based on the useful lives of the assets as estimated by Financial Group's management.

Permanent stock investments - The Financial Group recognizes its unconsolidated investments in subsidiaries and associated companies using the equity method, based on the book values shown in the most recent financial statements of such entities.

Income taxes, tax on assets and employee statutory profit-sharing - Provisions for income taxes (ISR) and employee statutory profit-sharing (PTU) are recorded in the results of the year in which they are incurred.

Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the accounting and tax bases of assets and liabilities plus any future benefits from tax loss carryforwards.

The net effect of the aforementioned items is presented in the consolidated balance sheet under the "Deferred taxes, net" heading.

Paid deferred asset tax that is expected to be recovered is recorded as an advance on income tax and is presented in the general balance sheet under "Other receivables, net".

Intangible assets - Are recognized in the consolidated balance sheet provided they are identifiable and generate future economic benefits that are controlled by the Financial Group. Intangible assets with indefinite lives are amortized systematically over the period expected to receive benefits. The value of these assets is subject to annual impairment tests.

Goodwill - Goodwill originated from a surplus in the cost over the subsidiaries' accounting value on the date of acquisition, was evaluated as per the provisions of NIF C-15 "Impairment of long-lived assets and their disposal", subject to the annual impairment tests. No impairment to goodwill value was detected in 2006.

Deposits - Liabilities derived from deposits, including promissory notes with liquid yields upon maturity, are recorded at their procurement or placement cost plus accrued interest, determined according to the number of days elapsed at each monthly close and charged to results as incurred.

Provisions - Are recognized when the Financial Group has a current obligation that results from a past event, are probable 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.

The Financial Group records a liability for both seniority premiums and medical services after retirement, which are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates as established by Bulletin D-3, *Labor Obligations*.

Accordingly, the liability is being accrued which, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's current employees, as well as the obligation related to retired personnel.

As of January 1, 2005, the Financial Group adopted the new provision of NIF D-3, related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method based on calculations by independent actuaries.

Foreign currency transactions - 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 published by Banco de México in effect at the balance sheet date. 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 balance sheet date.

Excess (or insufficiency) in restated stockholders' equity - Represents the accumulated monetary position result through the initial restatement.

Contributed capital restatement effects - Contributed and earned capital is restated by using a factor derived from the UDI.

Transfer of financial assets - In those transactions where the Financial Group can act as the assignor or assignee, as applicable, possession of financial assets is obtained such that the ownership of such assets may or may not be transferred. Transactions involving the transfer of ownership of financial assets establish that the assignor has effectively lost control of the assets being transferred, with the related effects subsequently recognized in the financial statements.

Securitization - Through this type of transaction, the Financial Group seeks to sell and transfer certain financial assets to a securitization vehicle, which in turn issues securities for sale to public investors representing rights to the yields or proceeds derived from the sale of the transferred assets. The Financial Group as the assignor can receive cash, securities or derivative financial instruments as payment.

However, if the assignor does not transfer ownership of the financial assets, i.e., if it retains the direct risk associated with such assets, the transaction is considered to be a financing securitization, whereby the payment made to the assignor is guaranteed by assets for which the latter assumes the related risk. Accordingly, the assignor cannot derecognize such transferred assets from its financial statements and recognizes them as restricted assets held as collateral in the consolidated balance sheet.

6. Cash and cash equivalents

As of December 31, 2006 and 2005, this line item was composed as follows:

	Mexican pesos		US dollars converted to MXP		Total	
	2006	2005	2006	2005	2006	2005
Cash	\$ 6,554	\$ 5,202	\$ 711	\$ 622	\$ 7,265	\$ 5,824
Deposits with foreign credit institutions.....	—	—	6,806	4,666	6,806	4,666
Domestic banks.....	328	210	—	8	328	218
Deposits with Banco de México	25,771	26,853	7	2	25,778	26,855
Call money.....	368	1,563	—	—	368	1,563
Other deposits and available funds ...	2,858	1,277	—	—	2,858	1,277
	<u>\$35,879</u>	<u>\$35,105</u>	<u>\$ 7,524</u>	<u>\$ 5,298</u>	<u>\$43,403</u>	<u>\$40,403</u>

On November 25, 2005, Telefax Circular 22/2005 issued by Banco de México became effective, eliminating monetary regulation deposits established according to applicable provisions at that date, which were intended to regulate money market liquidity surpluses. Furthermore, the Circular established a new monetary regulation deposit for all financial institutions for an unlimited period, on which interest is payable every 28 days and is accrued beginning on December 5, 2005, the date of the first deposit. As of December 31, 2006 and 2005, the Financial Group had made monetary regulation deposits of \$25,771 and \$26,853, respectively.

As of December 31, 2006 and 2005, the total sum of restricted cash and cash equivalents is \$28,532 and \$27,923, respectively.

7. **Investments in securities:**

a) **Trading securities** - As of December 31, 2006 and 2005, trading securities are as follows:

	2006			2005	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
Government bonds.....	\$ (440)	\$ —	\$ 1	\$ (439)	\$ —
Government CBIC.....	23	4	—	27	—
CETES.....	(127)	1	—	(126)	934
Bank securities.....	15,004	118	(4)	15,118	6,002
Commercial paper.....	371	—	11	382	1,942
Saving Protection Bonds (BPAS).....	(730)	—	1	(729)	125
Treasury bonds.....	54	—	—	54	—
UMS.....	(23)	—	—	(23)	—
Securitization certificates.....	624	5	12	641	328
BREMS.....	50	—	—	50	1
Shares listed in the International Quotation System (SIC).....	2	—	—	2	8
Futures guarantees.....	1	—	—	1	1
Investment funds.....	57	—	—	57	27
Hedging swaps.....	—	—	—	—	1
	<u>\$ 14,866</u>	<u>\$ 128</u>	<u>\$ 21</u>	<u>\$ 15,015</u>	<u>\$ 9,369</u>

During 2006 and 2005, the Financial Group recognized a valuation effect for the net amount of \$17 and \$(12), respectively, in the results of operations related to its trading securities.

As of December 31, 2006, these investments mature as follows (stated at their acquisition cost):

	From 1 to 179 days	From 6 to 12 months	From 1 to 2 years	More than 2 years	Total
Government bonds.....	\$ (441)	\$ —	\$ —	\$ 1	\$ (440)
Government CBIC.....	23	—	—	—	23
CETES.....	(127)	—	—	—	(127)
Bank securities.....	14,898	—	—	106	15,004
Commercial paper.....	371	—	—	—	371
BPAS.....	(730)	—	—	—	(730)
Treasury bonds.....	—	—	—	54	54
UMS.....	—	—	—	(23)	(23)
Securitization certificates.....	460	—	—	164	624
BREMS.....	—	50	—	—	50
Futures guarantees.....	1	—	—	—	1
SIC.....	2	—	—	—	2
Investment funds.....	57	—	—	—	57
	<u>\$ 14,514</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ 302</u>	<u>\$ 14,866</u>

- b) **Available-for-sale securities** - As of December 31, 2006 and 2005, available-for-sale securities were as follows:

	2006			2005	
	Acquisition cost	Accrued interest	Valuation increase (decrease)	Book value	Book value
U.S. Government bonds	\$ 3,879	\$ 15	\$ (80)	\$ 3,814	\$ —
UMS	1,649	70	52	1,771	—
Treasury bonds	218	1	(3)	216	—
Bonds	68	—	—	68	—
Structured notes	108	—	—	108	—
Subordinated securities	21	—	—	21	—
Bank securities	805	13	(19)	799	112
CYDSA, S.A. de C.V. shares	19	—	19	38	29
Hedging swaps	(452)	(47)	(82)	(581)	—
	<u>\$ 6,315</u>	<u>\$ 52</u>	<u>\$ (113)</u>	<u>\$ 6,254</u>	<u>\$ 141</u>

During December 2006, the Financial Group cancelled, directly to retained earnings, the monetary position result and result of restatement from prior years of \$112 related to the valuation generated by available-for-sale securities.

- c) **Held-to-maturity securities** - As of December 31, 2006 and 2005, held-to-maturity securities were as follows:

Medium and long-term debt instruments:

	2006			2005	
	Acquisition cost	Accrued interest	Book value	Book value	
Government bonds- support program for Special Federal Treasury Certificates	\$ 606	\$ 7	\$ 613	\$ 604	
Fiduciary rights	9	—	9	26	
UMS	—	—	—	9,137	
U.S. Government bonds	10	—	10	—	
PEMEX bonds	3,964	39	4,003	4,089	
Strip and MYRA bonds	59	—	59	127	
Hedging swaps	(268)	(23)	(291)	(1,168)	
	<u>\$ 4,380</u>	<u>\$ 23</u>	<u>\$ 4,403</u>	<u>\$ 12,815</u>	

As of December 31, 2006, these investments mature as follows:

	<u>From 1 to 179 days</u>	<u>From 6 to 12 months</u>	<u>From 1 to 2 years</u>	<u>More than 2 years</u>	<u>Total acquisition cost</u>
Government bonds- support program for Special Federal Treasury Certificates.....	\$ —	\$ —	\$ —	\$ 606	\$ 606
Fiduciary rights.....	—	—	—	9	9
US Government bonds	—	—	—	10	10
PEMEX bonds.....	—	—	—	3,964	3,964
Strip and Myra bonds	—	—	—	59	59
Hedging swaps.....	(15)	—	(38)	(215)	(268)
	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ (38)</u>	<u>\$ 4,433</u>	<u>\$ 4,380</u>

8. Transactions involving securities and derivative financial instruments:

As of December 31, 2006 and 2005, transactions involving securities and derivative financial instruments were as follows:

a. Debtor and creditor balances derived from repurchase transactions -

- Acting as seller of securities:

Instrument	2006				2005			
	<u>Asset position Value of securities receivable</u>	<u>Liability position Creditor repurchase agreement</u>	<u>Debit difference</u>	<u>Credit difference</u>	<u>Asset position Value of securities receivable</u>	<u>Liability position Creditor repurchase agreement</u>	<u>Debit difference</u>	<u>Credit difference</u>
CETES	\$ 3,507	\$ 3,507	\$ —	\$ —	\$ 1,115	\$ 1,115	\$ —	\$ —
Development bonds	850	850	—	—	—	—	—	—
Bonds 182	107	107	—	—	450	449	1	—
Bonds IPAB	18,667	18,667	2	2	46,537	46,616	8	87
Quarterly IPAB bonds	120,497	120,586	12	101	76,081	76,221	45	185
Semiannual IPAB bonds	535	536	—	1	1,031	1,041	—	10
BREMS	2,105	2,104	1	—	38,622	38,623	3	4
5-year bonds	3,167	3,167	—	—	8,592	8,596	—	4
7-year bonds	148	148	—	—	3	3	—	—
10-year bonds	4,060	4,067	1	8	4,096	4,098	2	4
20-year bonds	17,520	17,529	1	10	123	122	1	—
PACFARAC	300	300	—	—	—	—	—	—
UDIBONOS	370	370	—	—	—	—	—	—
10-year UDIBONDS	74	74	—	—	15	15	—	—
Government securities	171,907	172,012	17	122	176,665	176,899	60	294
Promissory notes	4,797	4,798	—	1	3,848	3,848	—	—

CEDES.....	11,170	11,248	—	78	14,464	14,471	1	8
Bank								
acceptances.....	<u>5</u>	<u>5</u>	<u>—</u>	<u>—</u>	<u>8</u>	<u>8</u>	<u>—</u>	<u>—</u>
Bank								
securities.....	15,972	16,051	—	79	18,320	18,327	1	8
Private paper.....	4,814	4,839	—	25	25,550	25,565	1	16
CEBUR								
government.....	3,019	3,018	1	—	3,745	3,745	—	—
CEBUR Bank.....	2,380	2,382	—	2	25,529	25,546	1	18
Securitization								
certificates.....	<u>279</u>	<u>279</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Private								
securities.....	10,492	10,518	1	27	54,824	54,856	2	34
	<u>\$ 198,37</u>	<u>\$ 198,58</u>	<u>\$ 18</u>	<u>\$ 228</u>	<u>\$ 249,809</u>	<u>\$ 250,082</u>	<u>\$ 63</u>	<u>\$</u>

With the Financial Group acting as the vendor, accrued premiums were charged to the results of operations in the amount of \$15,175 (\$18,459 in 2005).

During 2006 and 2005, the period of repurchase transactions entered into by the Financial Group in its capacity as vendor ranged from 3 to 91 days.

- *Acting as securities purchaser:*

Instrument	2006				2005			
	Liability position	Asset position	Debit difference	Credit difference	Liability position	Asset position	Debit difference	Credit difference
	Value of securities receivable	Repurchase agreement from debtors			Value of securities receivable	Repurchase agreement from debtors		
CETES.....	\$ 1,448	\$ 1,448	\$ —	\$ —	\$ 677	\$ 677	\$ —	\$ —
Development								
bonds.....	850	850	—	—	—	—	—	—
Bonds 182.....	—	—	—	—	445	445	—	—
Bonds IPAB.....	500	500	—	—	9,362	9,315	48	1
Quarterly IPAB								
bonds.....	6,622	6,622	5	5	12,632	12,609	25	2
Semiannual IPAB								
bonds.....	—	—	—	—	418	418	—	—
BREMS.....	2,074	2,075	—	1	8,978	8,978	—	—
5-year bonds.....	3,160	3,161	—	1	8,545	8,546	5	6
7-year bonds.....	145	145	—	—	—	—	—	—
10-year bonds.....	6	6	—	—	2,335	2,331	4	—
20-year bonds.....	527	527	—	—	109	109	—	—
UDIBONOS.....	370	370	—	—	—	—	—	—
PICFARAC.....	<u>300</u>	<u>300</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Government								
securities.....	16,002	16,004	5	7	43,501	43,428	82	9
Promissory notes.....	2,525	2,525	—	—	2,353	2,353	—	—
CEDES.....	<u>765</u>	<u>763</u>	<u>2</u>	<u>—</u>	<u>3,778</u>	<u>3,776</u>	<u>2</u>	<u>—</u>
Bank securities.....	3,290	3,288	2	—	6,131	6,129	2	—
Private paper.....					23,471	23,458	15	2
CEBUR								
government.....	<u>226</u>	<u>226</u>	<u>—</u>	<u>—</u>	<u>948</u>	<u>948</u>	<u>—</u>	<u>—</u>
Private securities.....	<u>226</u>	<u>226</u>	<u>—</u>	<u>—</u>	<u>24,419</u>	<u>24,406</u>	<u>15</u>	<u>2</u>
	<u>\$ 19,518</u>	<u>\$ 19,518</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 74,051</u>	<u>\$ 73,963</u>	<u>\$ 99</u>	<u>\$ 11</u>

With the Financial Group acting as the purchaser, accrued premiums were recognized in the results of operations in the amount of \$2,490 (\$5,566 in 2005).

During 2006 and 2005, the period of repurchase transactions entered into by the Financial Group in its capacity as purchaser ranged from 3 to 28 days.

b. ***Transactions entered into involving derivative financial instruments -***

The transactions entered into by the Financial Group involving derivative financial instruments include swap and option contracts. These transactions are entered into to hedge various risks and for trading purposes.

Trading transactions are stated based on their fair market values; similarly, the effect derived from their market value adjustment is recorded in the results of the year.

Management's policy with regards to hedge contracts is to protect the Financial Group's individual balances and stockholders' equity by anticipating interest rate movements.

Accordingly, the Financial Group documents its hedging transactions are based on the following guidelines:

- *Interest rate swaps:*

The Financial Group's accounting model is intended to hedge cash flows, whereby interest rate hedges are entered into and not adjusted to fair market value as they are adjusted based on the accrued interest as stated in the contracts.

- *Foreign currency swaps:*

The Financial Group's accounting model is intended to hedge cash flows, whereby the transaction subject to hedging is the exchange risk. Market valuation is not performed.

- *Interest rate options and swaptions:*

As of December 31, 2006, the Financial Group has evaluated the effectiveness of transactions entered into involving derivative financial instruments for hedging purposes and has concluded that they are highly effective.

As of December 31, 2006 and 2005, the positions of the Financial Group's derivative financial instrument held for trading purposes are as follows:

<u>Concept</u>	<u>2006</u>		
	<u>Receivable flows</u>	<u>Deliverable flows</u>	<u>Net flows</u>
Swaps:			
Interest rate	\$ 1,449	\$ 1,443	\$ 6
	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>
Foreign currency forward contracts:			
Market value	\$ 275	\$ 328	\$ 603
Contract price.....	281	321	602
Net position.....	\$ (6)	\$ 7	\$ 1

	<u>Initial premium</u>	<u>Fair value adjustment</u>	<u>Premium fair value</u>
Call options:			
Interest rate	\$ 9	\$ (1)	\$ 8
Swaptions.....	<u>1</u>	<u>3</u>	<u>4</u>
Net position.....	<u>\$ 10</u>	<u>\$ 2</u>	<u>\$ 12</u>
Net asset position			<u>\$ 19</u>
	<u>Initial premium</u>	<u>Fair value adjustment</u>	<u>Premium fair value</u>
Put options:			
Interest rate	\$ (15)	\$ 13	\$ (2)
Swaptions.....	<u>—</u>	<u>—</u>	<u>—</u>
Net position.....	<u>\$ (15)</u>	<u>\$ 13</u>	<u>\$ (2)</u>
Net liability position			<u>\$ (2)</u>
	<u>Receivable flows</u>	<u>2005 Deliverable flows</u>	<u>Net flows</u>
Swaps for trading purposes:			
Interest rate	<u>\$ 414</u>	<u>\$ 377</u>	<u>\$ 37</u>
	<u>Purchase</u>	<u>Sale</u>	<u>Net</u>
Foreign currency forward contracts:			
Market value	\$ 10	\$ (34)	\$ (24)
Contract price.....	<u>(11)</u>	<u>35</u>	<u>24</u>
Net position.....	<u>\$ (1)</u>	<u>1</u>	<u>—</u>
	<u>Initial premium</u>	<u>Fair value adjustment</u>	<u>Premium fair value</u>
Call options:			
Interest rate	\$ 197	\$ 1	\$ 198
Indexes.....	257	(6)	251
Swaptions.....	<u>1</u>	<u>1</u>	<u>2</u>
Net position.....	<u>\$ 455</u>	<u>\$ (4)</u>	<u>\$ 451</u>
Net asset position			<u>\$ 488</u>
	<u>Initial premium</u>	<u>Fair value adjustment</u>	<u>Premium fair value</u>
Put options:			
Interest rate	\$ 187	\$ 4	\$ 191
Indexes.....	263	(5)	258
Swaptions.....	<u>11</u>	<u>5</u>	<u>16</u>
Net position.....	<u>\$ 461</u>	<u>\$ 4</u>	<u>\$ 465</u>
Net liability position			<u>\$ 465</u>

2006						
Swaps designated as hedging	Underlying	Receivable contract value	Deliverable contract value	Receivable flows	Deliverable flows	Net position
TIE/IRS (Interest rate swap)		\$ 11,138	\$ 11,137	\$ 36	\$ 47	\$ (10)
MXP-US/CSF (Cross Currency Swap – US Dollar fixed rate).....		10,597	10,818	162	61	(120)
TIE	EU/CS	1,508	2,060	7	45	(590)
TIE	US/CS	3,518	3,736	13	29	(234)
		<u>\$ 26,761</u>	<u>\$ 27,751</u>	<u>\$ 218</u>	<u>\$ 182</u>	<u>\$ (954)</u>

Options designated as hedging

		2006		
Instrument	Underlying	Reference amount	Premium paid/received	Fair Value
Purchases ...	TIE/CAP (European Swaption- Physical delivery)	\$ 24,230	\$ 29	\$ (29)
	TIE/OSE-F	16,500	29	(29)
		<u>\$ 40,730</u>	<u>\$ 58</u>	<u>\$ (58)</u>

Forwards designated as hedging

	2006		
	Purchase	Sale	Net
Market value	\$ —	\$ 2,754	\$ 2,754
Contract price.....	—	2,800	2,800
Net position.....	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ 46</u>

Swaps designated as hedging

2005					
Underlying	Receivable contract value	Deliverable contract value	Receivable flows	Deliverable flows	Net position
TIE/IRS (Interest rate swap).....	\$ 13,881	\$ 13,880	\$ 54	\$ 61	\$ (6)
USLI/IRS	911	911	13	14	(1)
IMPL - US/CS	2,275	2,755	23	61	(518)
TIE - EU/CS	1,376	1,432	7	54	(103)
TIE - US/CS	9,940	10,396	70	231	(617)
TIE - US/BS	2,216	2,292	3	6	(79)
	<u>\$ 30,599</u>	<u>\$ 31,666</u>	<u>\$ 170</u>	<u>\$ 427</u>	<u>\$ (1,324)</u>

Options designated as hedging

		2005		
	Underlying	Reference amount	Premium paid/received	Fair value
Purchases	TIE/CAP (European Swaption- Physical delivery)	\$,375,990	\$ 31	\$ 7
	TIE/OSE-F	10,937	20	(19)
		<u>,386,927</u>	<u>151</u>	<u>(12)</u>
				<u>\$ 39</u>
Sales	TIE/CAP (European Swaption- Physical delivery)	1,359,324	102	31
		<u>,359,324</u>	<u>02</u>	<u>31</u>
				<u>\$ 133</u>

Transactions entered into for hedging purposes have maturities from 2007 to 2018 and are intended to mitigate the financial risk derived from long-term loans offered by the Financial

Group at fixed 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, 2006, is US\$ 76,262 thousand. In the case of interest rate swaps, the collateral value as of December 31, 2006, is US\$ 482,507 thousand represented by debt instruments.

9. Loan portfolio

As of December 31, 2006 and 2005, the loan portfolio by loan type is as follows:

	Current portfolio		Past-due portfolio		Total	
	2006	2005	2006	2005	2006	2005
Commercial loans:						
Denominated in domestic						
currency-	\$ 62,030	\$ 52,570	\$ 609	\$ 620	\$ 62,639	\$ 53,190
Commercial	53,913	44,176	609	619	54,522	44,795
Rediscounted portfolio	8,117	8,394	—	1	8,117	8,395
Denominated in USD -	18,263	7,694	121	79	18,384	7,773
Commercial	18,255	7,674	121	79	18,376	7,753
Rediscounted portfolio	8	20	—	—	8	20
Total commercial loans ..	80,293	60,264	730	699	81,023	60,963
Loans to financial institutions:	2,373	2,046	—	—	2,373	2,046
Consumer loans-	20,718	16,157	609	429	21,327	16,586
Credit card	9,482	6,486	359	221	9,841	6,707
Other consumer loans	11,236	9,671	250	208	11,486	9,879
Mortgage loans	27,798	24,772	721	799	28,519	25,571
Government loans	10,784	15,849	—	—	10,784	15,849
FOBAPROA or IPAB						
loans	—	169	—	—	—	169
	61,673	58,993	1,330	1,228	63,003	60,221
	<u>\$ 141,966</u>	<u>\$ 119,257</u>	<u>\$ 2,060</u>	<u>\$ 1,927</u>	<u>\$ 144,026</u>	<u>\$ 121,184</u>

The loans granted grouped into economic sectors as of December 31, 2006 and 2005 are shown below:

	2006		2005	
	Amount	Concentration percentage	Amount	Concentration percentage
Private (companies and individuals)	\$ 80,972	56.22%	\$ 60,958	50.30%
Financial institutions	2,374	1.65%	2,046	1.69%
Credit card and consumption	21,327	14.81%	16,586	13.69%
Mortgage	28,519	19.80%	25,571	21.10%
Federal Government loans	10,784	7.48%	15,849	13.08%
FOBAPROA or IPAB loans	—	0.0%	169	0.14%
Other past-due loans	50	0.03%	5	0.00%
	<u>\$ 144,026</u>	<u>100.00%</u>	<u>\$ 121,184</u>	<u>100.00%</u>

Loan support programs - The Financial Group participates in different loan support programs established by the Federal Government and Mexican Bankers' Association, as detailed below:

- Support Program for Housing Loan Debtors and the Agreement on Benefits for Housing Loan Debtors
- Agreement on Agrarian and Fishery Sector Financing (FINAPE)
- Agreement on the Financial Support and Promotion of Micro, Small and Medium Companies (FOPYME)
- Additional Benefits Program for Housing Loan Debtors - FOVI-type Housing Loans

Furthermore, in December 1998, the Federal Government and Banking Sector published a new and definitive debtor support plan known as “Punto Final”, which, as of 1999, replaced the benefits formerly granted by Housing Loan Debtor support programs. In the case of FOPYME and FINAPE, these support plans were replaced in 1999 and 2000, respectively, and beginning in 2001 the benefits established by original support programs continued to be applied.

The “Punto Final” plan defines housing loan discounts, which are determined based on the outstanding loan balance recorded at November 30, 1998, without considering late payment charges. In the case of FOPYME and FINAPE loans, the discount is applied to payments and the discount percentage is determined based on the recorded loan balance at July 31, 1996, regardless of whether the balance has been subsequently modified.

The Support Program for Business Loan Debtors (FOPYME) concluded on October 1, 2006, as established in document 112-6/524549/2006.

In the case of borrowers participating in the above programs, the amount of principal and accrued interest denominated in pesos is converted to the initial UDI value; interest is then set at an agreed-upon reference rate.

The trusts administering each of the aforementioned UDI programs issued long-term fiduciary securities to the Federal Government with fixed and variable interest rates depending on the characteristics of each trust (this interest rate must be less than that collected from borrowers). Similarly, the Financial Group received federal bonds known as “Special CETES” from the Federal Government, which are tied to the CETES interest rate

These federal bonds will mature based on the fiduciary securities issued by the trust to the Federal Government. Loan payments received by the trust are used to pay the principal and interest of the fiduciary securities; at the same time, the Federal Government executes a transaction for the same amount to pay the principal and accrued interest on the Special CETES.

In the event of noncompliance with the payment obligations established for the restructured loans under the UDI trusts, a portion of the fiduciary securities and Special CETES will generate interest at a rate equivalent to the UDI value. This characteristic was included in October 2002 to reflect the fact that the UDI programs were created to support debtors in compliance with their agreements. The Financial Group continues to manage and evaluate the risk derived from any possible credit loss related to the programs. If a particular loan is fully reserved, fiduciary securities will continue to generate interest at regular rates.

Commission regulations require that the Financial Group consolidate the balances of trusts holding restructured loans in UDIS, so as to reflect the operating fund, which consists of an interest rate swap contracted with the Federal Government.

As of December 31, 2006 and 2005, the balances of the respective trust balances are made up as follows:

	<u>2006</u>	<u>2005</u>
Banks	\$ 13	\$ 18
Government securities	3	4
Current loan portfolio	870	1,212
Past-due loan portfolio	309	402
Accrued interest on loans	6	3
Past-due accrued interest	12	15
Allowance for loan losses	(548)	(697)
Total assets.....	<u>\$ 665</u>	<u>\$ 957</u>
Investment in trusts assets.....	630	930
Deferred tax liabilities	<u>35</u>	<u>27</u>
	<u>\$ 665</u>	<u>\$ 957</u>

Policies and procedures for granting loans - The granting, control and recovery of loans are 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 Management (includes corporate, commercial, business, governmental and consumer banking), primarily through the branch network.
- II. Operations Management
- 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 timely identified.

The Financial Group's Treasury Department is the central unit responsible for balancing resource requirement and eliminating the interest rate risk derived from transactions entered into at fixed rates through the use of hedging and arbitrage strategies.

10. Loans restructured in UDIS

As of December 31, 2006 and 2005, the total amount of the loan portfolio restructured in UDIS is as follows:

	<u>2006</u>	<u>2005</u>
Current portfolio	\$ 870	\$ 1,212
Current accrued interest	6	3
Past-due portfolio.....	309	402
Past-due accrued interest.....	<u>12</u>	<u>15</u>
	<u>\$ 1,197</u>	<u>\$ 1,632</u>

11. FOBAPROA - IPAB transactions

As part of the measures implemented to offset the economic crisis that arose at the end of 1994, in December

1998, the Mexican Congress enacted the Bank Savings Protection Law, which went into effect on January 20, 1999, and established the creation of IPAB to replace FOBAPROA, for the sole purpose of administering transactions entered into under "Portfolio Capitalization and Acquisition Programs" (PCCC).

The Bank Savings Protection Law enacted on January 20, 1999, established an option for banks that had participated in the PCCC to exchange their FOBAPROA promissory notes for IPAB promissory notes under similar conditions.

In June 2002, IPAB notified banks participating in the PCCC of its intention to adopt certain procedures and conditions that would be applicable to them regarding the mechanism under which FOBAPROA promissory notes would be exchanged for their IPAB counterparts.

IPAB is also required to apply a series of preventive measures to avoid financial problems that could be faced by financial credit institutions, while ensuring such institution's compliance with their depositors.

In exchange for the portfolio assigned to FOBAPROA, promissory notes were issued to the Financial Group with 10-year maturities as of the transaction date. The Financial Group maintained its obligation to share 29%, 25% and 0% of the loss suffered by FOBAPROA derived from the portfolio transferred to Trusts 1989-0, 1990-4 and 1991-2, respectively. Consequently, these percentages have been maintained in the new trusts created under the contract to exchange FOBAPROA promissory notes for IPAB obligations, which was executed on July 12, 2004.

As payment for these transactions FOBAPROA-IPAB collection rights have been recognized, which, at December 31, 2005 and 2005, are composed as follows:

	<u>2005</u>
Transactions:	
Trust 1990-4.....	\$ 1,804
Trust 1991-2.....	14
Cash flows owed to IPAB.....	(15)
Shared loss and incentive arrangement.....	<u>(1,635)</u>
	<u>\$ 168</u>

The characteristics of each of the aforementioned IPAB obligations are detailed below:

<u>Promissory Note</u>	<u>Period</u>	<u>Expiration</u>	<u>Rate</u>	<u>Interest paid</u>
Trust 1989-0	10 years	2005	CETES 91 days – 1.35%	Capitalizable
Trust 1990-4	10 years	2006	CETES 91 days – 1.35%	Capitalizable
Trust 1991-2	10 years	2006	CETES 91 days	Capitalizable

IPAB payment obligations and instruments have the same characteristics in terms of their duration and interest rates as FOBAPROA promissory notes. Similarly, the loss sharing percentages and the incentive arrangement established in the contracts originally executed with FOBAPROA have been maintained.

During 2005, the Management, Object Identity, Existence, Legitimacy and Legality (GEL) audits were concluded, which resulted in an adjustment of \$100 with regards to the accounts receivable from IPAB.

Moreover, as of July 21, 2005, IPAB made advance payment on the principal of the instruments it was responsible for. The weekly payments were \$400, between the cited date and up to November 3, 2005, including a discount for \$48, agreed to in the New Program Contract, derived from the current value valuation of IPAB's obligation at the moment of the advance payment. As of November 10, 2005 and up to December 8, 2005, the advance payments were for lower amounts. The total amount of the net advance payment of the described discounts received during 2005 totaled \$6,970.

Finally, in conformity with the agreements set forth in the New Program contract signed between IPAB and the Financial Group in July 2004, in June 2006 all the promissory note balances were paid in full, granting the parties ample releases from any commitment or obligation with monetary effects from the new program.

12. Sale of IPAB-Bancrecer portfolio to Banco JP Morgan, S.A., Institución de Banca Múltiple, JP Morgan Grupo Financiero, División Fiduciaria (Banco JP Morgan)

On December 22, 2004, the IPAB-Bancrecer Promissory Note (loan contract executed between IPAB and Banco de México to capitalize Bancrecer) was sold for the amount of \$45,940 (face value) to a Trust (the

“Trust”) held by JP Morgan Bank, through which the Financial Group transferred its ownership of interest collection and capital amortization rights to enable the issuance of Securitization Certificates (BANORCB 04) with a value of \$45,940 (face value). These instruments, which were issued for a five-year period, accrue interest at the average daily Interbank Equilibrium Interest Rate (TIIE) plus 0.40 basis points, to be paid monthly, with principal to be paid in one lump-sum.

IPAB made prepayments during 2005 and 2006 in the amount of \$21,000 and \$24,940, respectively, thereby paying the Trust the past-due loans in advance, while the latter prematurely settled the entirety of the Securitization Certificates.

13. 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:

	2006				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	\$ 385	\$ —	\$ —	\$ —	\$ —
Risk A	44,602	—	94	90	184
Risk A1	51,823	241	—	—	241
Risk A2	35,369	323	—	—	323
Risk B	3,611	—	119	77	196
Risk B1	7,992	135	—	—	135
Risk B2	1,835	93	—	—	93
Risk B3	828	88	—	—	88
Risk C	606	—	209	46	255
Risk C1	311	70	—	—	70
Risk C2	84	34	—	—	34
Risk D	829	37	394	158	589
Risk E	509	237	57	213	507
Unclassified	(14)	—	—	—	—
Hedging swaps	(50)	—	—	—	—
	<u>\$ 148,720</u>	<u>\$ 1,258</u>	<u>\$ 873</u>	<u>\$ 584</u>	<u>2,715</u>
Recorded allowance					<u>3,533</u>
Additional allowance					<u>\$ 818</u>

	2005				
	Loan portfolio	Required allowances for losses			Total
		Commercial portfolio	Consumer portfolio	Mortgage portfolio	
Exempt portfolio	\$ 1,366	\$ —	\$ —	\$ —	\$ —
Risk A	39,834	—	71	76	147
Risk A1	40,641	201	—	—	201
Risk A2	29,273	276	—	—	276
Risk B	4,860	—	122	107	229
Risk B1	6,140	153	—	—	153
Risk B2	401	23	—	—	23
Risk B3	287	43	—	—	43
Risk C	539	—	168	52	220
Risk C1	177	41	—	—	41
Risk C2	146	58	—	—	58
Risk D	797	52	293	217	562
Risk E	517	264	36	213	513
Unclassified	(18)	—	—	—	—
Hedging swaps	(46)	—	—	—	—
	<u>\$ 124,914</u>	<u>\$ 1,111</u>	<u>\$ 690</u>	<u>\$ 665</u>	<u>2,466</u>
Recorded allowance					<u>3,195</u>
Additional allowance					<u>\$ 729</u>

The total portfolio balance used as the basis for the classification above includes amounts related to irrevocable loans, letters of credit and guarantees, which are recorded in memorandum accounts.

As of December 31, 2006 and 2005, the estimated allowance for loan losses is determined based on portfolio balances at those dates. As of December 31, 2006 and 2005, the allowance for loan losses includes a reserve for 100% of delinquent interest owed.

As of December 31, 2006 and 2005, the allowance for loan losses represents 172% and 166%, 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, 2006.

Rollforward of allowance for loan losses - A rollforward of the allowance for loan losses is detailed below:

	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	\$ 3,195	\$ 2,949
Increase charged to results	1,438	1,361
Cancellation of reserves	(19)	—
Debt forgiveness and write-offs	(1,542)	(1,183)
Valuation in foreign currencies and UDIS	33	10
Rebates granted to housing debtors	(102)	(120)
Created with profit margin from UDI trusts	22	39
Advantages from FOPYME and FINAPE programs	(1)	(3)
Recovery of loans	452	272
Acquisition of INB Financial Corp	198	—
Other	(13)	(48)
Restatement effects	<u>(128)</u>	<u>(82)</u>
Year-end balance	<u>\$ 3,533</u>	<u>\$ 3,195</u>

For the year ended December 31, 2006, the total allowance for loan losses recorded as an expense in operations totaled \$1,530. This total is made up primarily of \$1,438 credited directly to the allowance, \$22 related to the UDI trusts, \$40 for restatement effects and \$30 from recognizing shared losses with the IPAB, due to the punto-final program.

14. Credit asset portfolio

As of December 31, 2006 and 2005, the credit asset portfolio is made up as follows:

	<u>2006</u>	<u>2005</u>
Bancrecer I	\$ 189	\$ 285
Bancomer II	1	10
Bancomer III	182	207
Bancomer IV	803	869
Bital I	362	420
Bital II	123	168
Banamex Mortgage	415	452
Confia III	100	119
GMAC Banorte	205	344
Real property trusts	127	143
Serfin Commercial I	217	—
Serfin Commercial II	97	—
Serfin Mortgage	304	—
Real property Banpais	296	—
Real property Bancen	96	—
Serfin	—	216
GMAC Bancen	—	6
Santander	<u>101</u>	<u>128</u>
	<u>\$ 3,618</u>	<u>\$ 3,367</u>

As of December 31, 2006, the Financial Group recognized income from credit asset portfolios of \$1,608, together with the respective amortization of \$787, the effects of which were recognized under the “Commissions and tariffs collected” and “Commissions and tariffs paid” headings, respectively, in the consolidated statement of income. For the year ended December 31, 2005, the Financial Group recognized income of \$677, together with the respective amortization of \$482.

15. Other accounts receivable, net

As of December 31, 2006 and 2005, the other accounts receivable balance is as follows:

	<u>2006</u>	<u>2005</u>
Loans to officers and employees.....	\$ 1,110	\$ 1,138
Operating liquidation receivable.....	3,688	860
Sundry debtors.....	849	718
Taxes receivable.....	52	155
Others.....	48	124
	<u>5,747</u>	<u>2,995</u>
Allowance for doubtful accounts.....	(108)	(94)
	<u>\$ 5,639</u>	<u>\$ 2,901</u>

16. Foreclosed assets, net

As of December 31, 2006 and 2005, the foreclosed assets balance is as follows:

	<u>2006</u>	<u>2005</u>
Personal property.....	\$ 101	\$ 137
Real property.....	545	464
Goods pledged for sale.....	40	242
	<u>686</u>	<u>843</u>
Less: Allowance for losses on foreclosed assets.....	(370)	(378)
	<u>\$ 316</u>	<u>\$ 465</u>

17. Property, furniture and fixtures, net

As of December 31, 2006 and 2005, the property, furniture and fixtures balance is as follows:

	<u>2006</u>	<u>2005</u>
Furniture and equipment.....	\$ 3,620	\$ 2,880
Office furniture.....	5,005	4,833
Installation costs.....	1,498	1,417
	<u>10,123</u>	<u>9,130</u>
Less: Accumulated depreciation and amortization.....	(3,477)	(3,212)
	<u>\$ 6,646</u>	<u>\$ 5,918</u>

18. Permanent stock investments

Investments in unconsolidated subsidiaries and associated companies are valued according to the equity method, as detailed below:

	<u>2006</u>	<u>2005</u>
Sólida Administradora de Portafolios, S.A. de C.V.....	\$ 761	\$ 655
Seguros Banorte Generali, S.A. de C.V.....	792	626
Siefore Banorte Generali, S.A. de C.V., SIEFORE.....	633	479
Pensiones Banorte Generali, S.A. de C.V.....	481	170
Fianzas Banorte, S.A. de C.V.....	139	111
Banorte investment funds.....	105	81
Controladora PROSA, S.A. de C.V.....	53	50
Bolsa Mexicana de Valores, S.A. de C.V.....	38	32
Servicio Pan Americano de Protección, S.A. de C.V.....	31	27
Bancen investment funds.....	—	18
Others.....	131	70
	<u>\$3,164</u>	<u>\$2,319</u>

As of December 31, 2006 and 2005, the investment in shares of Servicio Pan Americano de Protección, S.A. de C.V. is presented net of an impairment reserve of \$77.

19. Deferred taxes, net

The tax incurred by the Financial Group is calculated based on the tax result of the year and current enacted tax regulations. However, due to temporary differences affecting the recognition of revenues and expenses for accounting and tax purposes and differences between accounting and tax balance sheet accounts, the Financial Group has recognized a net deferred tax liability of \$144 in 2006 and a net deferred tax asset of \$420 in 2005, as detailed below:

	<u>2006</u>			<u>2005</u>		
	<u>Temporary differences</u>	<u>Deferred effect</u>		<u>Temporary differences</u>	<u>Deferred effect</u>	
		<u>ISR</u>	<u>PTU</u>		<u>ISR</u>	<u>PTU</u>
<u>Temporary Differences - Assets</u>						
Allowance for loan losses.....	\$ 125	\$ 42	\$ —	\$ 61	\$ 17	\$ —
Tax loss carryforwards.....	—	—	—	434	122	—
Shared FOBAPROA losses.....	—	—	—	1,635	474	—
Recoverable asset tax (IMPAC).....	2	2	—	2	2	—
Unrealized loss on available-for-sale securities.....	80	28	—	—	—	—
Excess of tax over book basis of foreclosed assets and fixed assets.....	688	192	68	882	247	86
PTU incurred in 2006.....	611	171	—	672	195	—
Other assets.....	622	175	59	546	158	52
Total assets.....	<u>\$ 2,128</u>	<u>\$ 610</u>	<u>\$ 127</u>	<u>\$ 4,232</u>	<u>\$ 1,215</u>	<u>\$ 138</u>

	2006			2005		
	Temporary differences	Deferred effect		Temporary differences	Deferred effect	
		ISR	PTU		ISR	PTU
<u>Temporary Differences - Liabilities</u>						
Excess of book over tax basis of fixed assets and prepaid expenses	943	264	44	631	280	27
Unrealized capital gain from investments in SIEFORES	131	37	—	91	27	—
Payable ISR on UDI Trusts	126	35	—	93	27	—
Portfolios acquired	944	264	94	1,411	409	141
Costs of sales reversal from Almacenadora Banorte	51	14	—	65	18	—
Treasury shares	—	—	—	1	—	—
Other liabilities	377	123	6	14	4	—
Total liabilities	2,572	737	144	2,306	765	168
Net asset (liability)	<u>\$ (444)</u>	<u>\$ (127)</u>	<u>\$ (17)</u>	<u>\$ 1,926</u>	<u>\$ 450</u>	<u>\$ (30)</u>
Net deferred tax			<u>\$ (144)</u>			<u>\$ 420</u>

As discussed in Note 28, as of January 1, 2005, Article 10 and Temporary Article 2 of the Mexican Income Tax Law were amended, whereby the income tax rate will be gradually reduced from 30% in 2005 to 29% in 2006 and 28% as of 2007 and thereafter. In accordance with NIF D-4, "Accounting for Income Tax, Tax on Assets and Employee Statutory Profit-Sharing" and based on projections of deferred tax recovery, the respective balance was adjusted according to the enacted rates expected to be in effect when such amounts are recovered.

The Provisions issued by the Commission in 2004 establish that credit institutions can recognize the accrued financial effect derived from the initial application of the changes in enacted rates in stockholders' equity, under the "Result from prior years" heading. Furthermore, in compliance with Commission requirements established in the Official Letter No. DGSIF "A"-601-II-50011 issued on February 24, 2005, in 2005, the Financial Group recognized a deferred income tax benefit of \$161 derived from the reserve created for holding foreclosed assets with a credit to the "Results from prior years" heading in stockholders' equity.

Derived from consolidating Banorte USA, the Financial Group integrated a net amount of \$24 in deferred taxes determined at a rate of 35% as per fiscal provisions of the USA. Banorte USA's deferred tax assets and liabilities are determined using the demandability method or balance sheet method. According to this method, the net asset or liability of deferred taxes is determined based on the fiscal effects of the temporary differences between the book and tax base of the general balance sheet assets or liabilities to recognize changes in the tax rates and in the laws.

20. Other assets

As of December 31, 2006 and 2005, other assets are as follows:

	<u>2006</u>	<u>2005</u>
Plan assets held for employee pension plans	\$2,006	\$1,765
Provision for employee retirement obligations	(1,905)	(1,672)
Other amortizable expenses	2,982	1,639
Accumulated amortization of other amortizable expenses	(1,488)	(744)
Storage inventories	81	188
Preoperating expenses (net)	—	75
Goodwill	3,604	61
Guarantee deposits	100	32
Contingency reserve investments	—	3
Contingency provisions	—	(3)
Other assets	62	2
	<u>\$5,442</u>	<u>\$1,346</u>

21. 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 financial 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 2006 and 2005 the Financial Group generated a liquidity requirement of US \$179,305 thousand and US \$169,125 thousand, respectively, and held investments in liquid assets of US \$339,067 thousand and US \$502,024 thousand, holding a surplus of US \$159,762 thousand and US \$332,899 thousand, respectively.

Deposits - The liabilities derived from traditional deposits are made up as follows:

	<u>2006</u>	<u>2005</u>
Immediately due and payable deposits:		
Checking accounts earning no interest.....	\$ 34,893	\$ 29,610
Checking accounts earning interest.....	28,374	25,053
Checking accounts in US dollars	6,600	4,182
Checking accounts in US dollars for individual residents on the Mexican border.....	4,048	2,376
Savings accounts.....	162	4
Demand deposits accounts.....	20,755	17,373
IPAB checking accounts.....	528	608
	<u>95,360</u>	<u>79,206</u>
Time deposits:		
Over-the-counter promissory notes.....	55,687	49,503
Money desk promissory notes	2,695	3,097
Fixed-term deposits.....	13,758	9,587
Time deposits from banks.....	343	343
Provision for interest.....	1,694	1,423
	<u>74,177</u>	<u>63,953</u>
	<u>\$169,537</u>	<u>\$143,159</u>

The funding rates which the Financial Group uses as reference are: a) for Mexican pesos, Interbank Interest Rate (TIIE), Average Cost of Funds (CCP) and; b) for foreign currency, the London Interbank Offered Rate (LIBOR).

These liabilities earn 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

<u>Foreign exchange</u>	<u>2006</u>				<u>2005</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
Mexican pesos and UDIS.....	0.99%	1.06%	0.99%	0.94%	1.14%	1.34%	1.36%	1.21%
Foreign currency.....	1.00%	1.11%	1.16%	1.07%	0.78%	0.80%	0.86%	0.89%
Banorte USA:								
Demand, NOW and savings.....	—	—	—	0.29%	—	—	—	—
Money market.....	—	—	—	4.40%	—	—	—	—

Time deposits

<u>Foreign exchange</u>	2006				2005			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>General public</u>								
Mexican pesos and UDIS.....	5.95%	5.43%	5.40%	5.17%	6.24%	6.36%	6.92%	6.78%
Foreign currency.....	2.17%	2.73%	2.60%	2.84%	1.17%	1.31%	1.54%	1.62%
Banorte USA:								
General public.....	—	—	—	4.94%	—	—	—	—
<u>Money market</u>								
Mexican pesos and UDIS.....	8.52%	8.15%	9.98%	10.19%	9.73%	10.32%	10.38%	8.29%

As of December 31, 2006 and 2005, the terms at which these deposits are negotiated are as follows:

	2006			
	<u>From 1 to 179 days</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>Total</u>
Money market promissory notes.....	\$ 57,444	\$ 2,136	\$ 9,408	\$ 68,988
Time deposits.....	—	242	3,253	3,495
Provision for interest.....	120	20	1,554	1,694
	<u>\$ 57,564</u>	<u>\$ 2,398</u>	<u>\$ 14,215</u>	<u>\$ 74,177</u>
	2005			
	<u>From 1 to 179 days</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>Total</u>
Money market promissory notes.....	\$ 48,929	\$ 304	\$ 3,367	\$ 52,600
Time deposits.....	8,821	589	520	9,930
Provision for interest.....	165	8	1,250	1,423
	<u>\$ 57,915</u>	<u>\$ 901</u>	<u>\$ 5,137</u>	<u>\$ 63,953</u>

22. **Interbank and other loans:**

The loans received from other banks as of December 31, 2006 and 2005 are as follows:

<u>Concept</u>	<u>Mexican pesos</u>		<u>Denominated in US dollars</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Bank deposits and loans.....	\$ 907	\$ 637	\$ 25	\$ 1,061	\$ 932	\$ 1,698
Foreign bank deposits and loans.....	—	—	2,016	995	2,016	995
Rediscounted portfolio loans.....	12,475	12,431	94	433	12,569	12,864
Issue of CPOs.....	—	—	536	—	536	—
Call money.....	—	1,532	—	—	—	1,532
FOVI rediscounts.....	724	3,204	—	—	724	3,204
Provision for interest.....	66	70	7	22	73	92
	<u>\$ 14,172</u>	<u>\$ 17,874</u>	<u>\$ 2,678</u>	<u>\$ 2,511</u>	<u>\$ 16,850</u>	<u>\$ 20,385</u>

These liabilities earn interest depending on the type of instrument and average balance of the loans. The average interest rates are shown below:

<u>Foreign exchange</u>	<u>2006</u>				<u>2005</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
Call money								
Mexican pesos and UDIS.....	7.75%	7.40%	7.70%	6.89%	9.14%	9.68%	9.66%	8.88%
Other bank loans								
Mexican pesos and UDIS.....	8.43%	6.71%	6.74%	8.08%	8.04%	8.73%	7.67%	8.12%
Foreign currency	6.27%	6.62%	6.25%	6.01%	4.89%	5.00%	5.82%	5.62%

The liabilities contracted by Banorte USA Corporation accrue interest at an average rate of 4.53%.

As of December 31, 2006 and 2005, the terms at which these financial liabilities are negotiated are as follows:

	<u>2006</u>			<u>2005</u>
	<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>	<u>Total</u>
Bank deposits and loans.....	\$ 123	\$ 809	\$ 932	\$ 1,699
Foreign bank deposits and loans	—	2,016	2,016	995
Rediscounted portfolio loans	6,695	6,410	13,105	12,863
Call money.....	—	—	—	1,532
FOVI rediscounts.....	—	724	724	3,204
Provision for interest.....	73	—	73	92
	<u>\$ 6,891</u>	<u>\$ 9,959</u>	<u>\$ 16,850</u>	<u>\$ 20,385</u>

23. Employee retirement obligations

The Financial Group recognizes the liabilities for pension plans and seniority premium by using the financing method known as the “Projected unit credit method”, which considers the benefits accrued at the valuation date and the benefits generated during the year.

The amount of current and projected benefits as of December 31, 2006 and 2005, relative to the “Defined benefit pension plan, seniority premiums and retiree medical coverage” determined by independent actuaries, is analyzed below:

	<u>2006</u>			
	<u>Pension plan</u>	<u>Seniority premiums</u>	<u>Medical benefits</u>	<u>Total</u>
Projected benefit obligation (PBO).....	\$ (679)	\$ (107)	\$ (1,093)	\$ (1,879)
Plan assets.....	685	146	495	1,326
Funded status	6	39	(598)	(553)
Transition asset (obligation)	83	(15)	424	492
Unrecognized prior service costs	(32)	(4)	—	(36)
Unrecognized actuarial losses.....	139	2	67	208
Net projected asset (liability).....	196	22	(107)	111
Accumulated benefit obligation (ABO)	<u>\$ 527</u>	<u>\$ 75</u>	<u>\$ —</u>	<u>\$ 602</u>

	2005			
	Pension plan	Seniority premiums	Medical services	Total
Projected benefit obligation (PBO).....	\$ (673)	\$ (98)	\$ (983)	\$ (1,754)
Plan assets.....	678	130	442	1,250
Funded status.....	5	32	(541)	(504)
Unrecognized items:				
Transition asset (obligation).....	83	(17)	452	518
Unrecognized prior service costs.....	(33)	(3)	—	(36)
Unrecognized actuarial (gains) losses.....	143	7	(19)	131
Net projected asset (liability).....	198	19	(108)	109
Accumulated benefit obligation (ABO).....	<u>\$ 643</u>	<u>\$ 84</u>	<u>\$ —</u>	<u>\$ 727</u>

The Financial Group has a net prepaid pension asset of \$4 generated from transferring personnel from Sólida Administradora de Portafolios, S.A. de C.V. (Sólida) to Banorte. As of December 31, 2006, the Financial Group had segregated plan assets of \$1,330 (\$1,250 in 2005), which are used to cover the projected benefit obligations, which is recorded under “Other assets” in the consolidated balance sheets.

For the years ended December 31, 2006 and 2005, the net period cost adjusted for inflation is made up as follows:

	<u>2006</u>	<u>2005</u>
Service cost.....	\$ 68	\$ 66
Interest cost.....	94	87
Expected return on plan assets.....	(90)	(80)
Amortization of unrecognized items:		
Transition liability.....	34	33
Prior service costs.....	(2)	(1)
Variance in assumptions.....	<u>17</u>	<u>10</u>
Period cost.....	<u>\$121</u>	<u>\$115</u>

The rates used in the calculation of the projected benefit obligation and return on plan assets as of December 31, 2006 and 2005 are shown below:

	<u>2006</u>	<u>2005</u>
Discount rate.....	5.50%	5.50%
Rate of wage increase.....	1.00%	1.00%
Rate of increase in costs and expenses of other postretirement benefits.....	2.00%	2.00%
Expected long-term rate of return on plan assets.....	6.50%	6.50%

As of 2005, the Financial Group recognizes the liability for severance payments due to causes other than organizational restructuring (severance indemnities), which was also determined by independent actuaries, as follows:

	<u>2006</u>	<u>2005</u>
Projected benefit obligation (PBO).....	\$ (213)	\$ (201)
Plan assets.....	<u>131</u>	<u>109</u>
Funded status.....	(82)	(92)
Transition obligation.....	125	135
Unrecognized actuarial gains.....	<u>30</u>	<u>46</u>
Net projected liability.....	<u>\$ 73</u>	<u>\$ 89</u>

For the years ended December 31, 2006 and 2005, the net period cost adjusted for inflation is made up as follows:

	<u>2006</u>	<u>2005</u>
Service cost.....	\$ 24	\$ 24
Interest cost.....	7	6
Transition obligation.....	<u>14</u>	<u>13</u>
Period cost	<u>\$ 45</u>	<u>\$ 43</u>

The balance of the employee retirement obligations presented in this note refer to the Financial Group's defined benefit pension plan for those employees who elected to remain enrolled.

Furthermore, beginning in January 2001 the Financial Group instituted a defined contribution pension plan. The participating employees in this plan are all those who were hired from that date forward, as well as all those who, hired before such a date, enrolled voluntarily. Moreover, this plan maintains a fund, as of December 31, 2006, amounting to \$710, which is recorded under "Other assets".

The employees who were hired before January 2001 and decided to enroll voluntarily in the defined contribution pension plan received a benefit for past services equivalent to the actuarial benefits accrued in the previous plan and were immediately assigned 50% (January 2001) and the remaining 50% will be contributed over 10 years.

The initial assignment of the prior service costs to the defined contribution plan was financed by funds from the defined benefit plan and was treated as a modification to the plan in accordance with Bulletin D-3.

Costs associated with the defined contribution pension plan do not require an actuarial valuation because the costs of this plan are equivalent to the Financial Group's contributions made to the plan's participants during the year.

24. Subordinated debentures

	<u>2006</u>	<u>2005</u>
Senior subordinated debentures, non-convertible, maturing in January 2014, denominated in U.S. dollars, at an annual interest rate of 5.875%, payable semiannually with a final principal payment upon maturity (10-year term).....	\$ 3,313	\$ 3,312
Senior subordinated debentures, non-convertible, representative securities		
BANORTE 02D debentures maturing in November 2012, at an annual interest rate of 8.0% for the first 10 semiannual periods and subject to adjustment in the following 10 semiannual periods, which will not be less than 8% nor greater than 10% a year.	1,219	1,241
Senior subordinated debentures, non-convertible, maturing in April 2021, denominated in U.S. dollars, at an annual interest rate of 6.862%, payable semiannually with a final principal payment upon maturity (15-year term).....	2,194	—
Preferred subordinated debentures, non-convertible, maturing in April 2016, denominated in U.S. dollars, at an annual interest rate of 6.135%, payable semiannually with a final principal payment upon maturity (10-year term).....	4,382	—
Preferred subordinated debentures maturing in April 2009, denominated in U.S. dollars, at an annual interest rate of 2.72%.	111	—
Preferred subordinated debentures maturing in June 2034, denominated in U.S. dollars, at an annual interest rate of 2.75%.	111	—
Accrued interest payable and hedging swaps	<u>36</u>	<u>191</u>
	<u>\$11,366</u>	<u>\$ 4,744</u>

The costs related to these debentures are amortized using the straight-line method over the term of the debt. The amount charged to results from amortization rose to \$5 and \$5 in 2006 and 2005, respectively.

25. Transactions and balances with subsidiaries and associated companies

The balances and transactions with subsidiaries and associated companies as of December 31, 2006, 2005 and 2004 are as follows:

<u>Institution</u>	<u>Revenues</u>			<u>Accounts receivable</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Arrendadora Banorte, S.A. de C.V.	\$ 95	\$ 80	\$ 65	\$1,263	\$ 923	\$ 628
Casa de Bolsa Banorte, S.A. de C.V.	473	339	54	—	—	—
Banco del Centro, S. A.	—	1,383	204	—	2,244	1,646
Almacenadora Banorte, S.A. de C.V.	10	6	8	—	111	120
Factor Banorte, S.A. de C.V.	65	53	42	346	690	186
Inmobiliaria Bancrecer, S. A. de C. V.	—	—	—	—	—	246
Inmobiliaria Innova, S. A. de C. V.	—	—	—	—	—	84
Inmobiliaria Banorte, S. A. de C. V.	—	—	—	—	—	26
Inmobiliaria Bra, S.A. de C.V.	—	—	—	—	2	—
Créditos Pronegocio, S.A. de C.V.	45	20	—	526	299	—
Banorte USA Corporation.....	—	—	—	92	—	—
Total.....	\$ 688	\$ 1,881	\$ 373	\$ 2,227	\$ 4,269	\$ 2,936

<u>Institution</u>	<u>Expenses</u>			<u>Accounts payable</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Grupo Financiero Banorte, S.A. de C.V.	\$ 5	\$ 7	\$ 5	\$ 41	\$ 66	\$ 62
Arrendadora Banorte, S.A. de C.V.	126	31	72	9	15	53
Casa de Bolsa Banorte, S.A. de C.V.	1,316	2,363	1,430	—	—	4
Banco del Centro, S.A.	—	201	6	—	401	1,850
Banorte Generali, S.A. de C.V. AFORE.....	—	—	—	4	2	2
Almacenadora Banorte, S.A. de C.V.	4	4	3	6	4	74
Factor Banorte, S.A. de C.V.	—	—	—	16	42	39
Inmobiliaria Banorte, S.A. de C.V.	68	66	52	139	156	46
Constructora Primero, S.A. de C.V.	23	27	25	133	93	18
Inmobiliaria Bancrecer, S.A. de C.V.	50	50	35	63	59	32
Inmobiliaria Innova, S.A. de C.V.	27	20	10	99	112	28
Inmobiliaria Banormex, S.A. de C.V.	4	3	1	4	5	6
Inmobiliaria Finsa, S.A. de C.V.	7	9	2	18	17	19
Inmobiliaria Bra, S.A. de C.V.	11	19	15	3	10	6
Inmuebles de Occidente, S.A. de C.V.	4	4	2	14	12	14
Inmuebles de Tijuana, S.A. de C.V.	—	—	—	3	3	3
Créditos Pronegocio, S.A. de C.V.	—	1	—	1	1	—
Total.....	\$ 1,645	\$ 2,805	\$ 1,658	\$ 553	\$ 998	\$ 2,256

All the balances and transactions with the subsidiaries indicated in Note 3 have been eliminated in consolidation process.

Pursuant to article 73 of the LIC, the loans granted by Banorte to related parties (belonging to the financial sector or not) cannot exceed 75% of the basic portion of their net capital. As of December 31, 2006 and 2005, the amount of the loans granted to related parties is \$5,619 and \$6,335, respectively, representing 34% and 51%, respectively, of the limit established by the LIC.

Portfolio sales

Sale of portfolio packages between related parties:

In February 2003 Banorte sold \$1,925 (nominal value) of its own portfolio (with interest) to its subsidiary Sólida Administradora de Portafolios, S.A. de C.V. (“Sólida”) at a price of \$378 (nominal value). Of this transaction, \$1,891 (nominal value) related to past-due amounts and \$64 (nominal value) to the current portfolio. The transaction was

recorded based on figures as of August 2002, for which reason the final amount affecting the February 2003 balance sheet was \$1,856 (nominal value), considering the collections made since August 2002. In conjunction with the sold portfolio, \$1,577 (nominal value) of the associated allowance for loan losses was transferred as well.

In official letter 601-II-323110 dated November 5, 2003, the Commission set forth the accounting criteria to be applied to this transaction and issued a series of rulings whereby the Financial Group 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 2005 and 2006:

<u>Type of portfolio</u>	<u>Mexican pesos</u>			<u>Foreign currency value</u>			<u>Total</u>		
	<u>Aug. 2002</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>Aug. 2002</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>	<u>Aug. 2002</u>	<u>Dec. 2005</u>	<u>Dec. 2006</u>
<u>Current portfolio</u>									
Commercial	\$ 5	\$ 2	\$ 1	\$ 5	\$ —	\$ —	\$ 10	\$ 2	\$ 1
Mortgage	54	93	89	—	—	—	54	93	89
Total	59	95	90	5	—	—	64	95	90
<u>Past-due portfolio</u>									
Commercial	405	435	385	293	154	126	698	589	511
Consumer	81	78	74	—	—	—	81	78	74
Mortgage	1,112	613	504	—	—	—	1,112	613	504
Total	1,598	1,126	963	293	154	126	1,891	1,280	1,089
Total portfolio...	<u>\$ 1,657</u>	<u>\$ 1,221</u>	<u>\$ 1,053</u>	<u>\$ 298</u>	<u>\$ 154</u>	<u>\$ 126</u>	<u>\$ 1,955</u>	<u>\$ 1,375</u>	<u>\$ 1,179</u>
<u>Allowance for loan losses (1)</u>									
Commercial	\$ 326	\$ 419	\$ 368	\$ 246	\$ 146	\$ 120	\$ 572	\$ 565	\$ 488
Consumer	77	77	74	—	—	—	77	77	74
Mortgage	669	558	468	—	—	—	669	558	468
Total allowance for loan losses	<u>\$ 1,072</u>	<u>\$ 1,054</u>	<u>\$ 910</u>	<u>\$ 246</u>	<u>\$ 146</u>	<u>\$ 120</u>	<u>\$ 1,318</u>	<u>\$ 1,200</u>	<u>\$ 1,030</u>

(1) Allowance required based on the classification methodology applied by Banorte.

(2) Banorte holds 99.99% of the stockholders' equity of Sólida.

As of December 31, 2006, the composition of the Financial Group's loan portfolio, including the loan portfolio sold to Sólida, is as follows:

Type of portfolio	Mexican pesos		Foreign currency value		Total	
	Dec. 2006	Dec. 2005	Dec. 2006	Dec. 2005	Dec. 2006	Dec. 2005
Commercial loans.....	\$ 55,833	\$ 45,316	\$ 17,361	\$ 7,695	\$ 73,194	\$ 53,011
Loans to financial institutions.....	3,761	2,968	478	836	4,239	3,804
Consumer loans.....	20,570	13,428	145	1	20,715	13,429
Mortgage loans.....	27,128	24,648	760	—	27,888	24,648
Government loans.....	10,328	15,254	442	544	10,770	15,798
IPAB loans.....	—	168	—	—	—	168
Current portfolio.....	<u>117,620</u>	<u>101,782</u>	<u>19,186</u>	<u>9,076</u>	<u>136,806</u>	<u>110,858</u>
Commercial loans.....	986	901	200	232	1,186	1,133
Consumer loans.....	682	491	1	—	683	491
Government loans.....	—	—	—	—	—	—
Mortgage loans.....	<u>1,221</u>	<u>1,398</u>	<u>4</u>	<u>—</u>	<u>1,225</u>	<u>1,398</u>
Past-due portfolio.....	<u>2,889</u>	<u>2,790</u>	<u>205</u>	<u>232</u>	<u>3,094</u>	<u>3,022</u>
Total portfolio.....	<u>120,509</u>	<u>104,572</u>	<u>19,391</u>	<u>9,308</u>	<u>139,900</u>	<u>113,880</u>
Allowance for loan losses.....	<u>3,861</u>	<u>3,782</u>	<u>616</u>	<u>344</u>	<u>4,477</u>	<u>4,126</u>
Net portfolio.....	<u>\$ 116,648</u>	<u>\$ 100,790</u>	<u>\$ 18,775</u>	<u>\$ 8,964</u>	<u>\$ 135,423</u>	<u>\$ 109,754</u>
Allowance for loan losses.....					144.70%	136.53%
% of past-due portfolio.....					2.28%	2.75%

26. Information by segment

To analyze the financial information of the Financial Group, the data of the most representative segments as of December 31, 2006, 2005 and 2004 are presented, without considering the eliminations relative to the consolidation of the financial statements.

The balances by service sector of the Financial Group are as follows:

	2006	2005	2004
Banking sector			
Net income.....	\$ 5,185	\$ 5,636	\$ 2,560
Stockholders' equity.....	23,786	19,551	15,142
Total portfolio.....	138,721	116,430	107,447
Past-due portfolio.....	1,962	1,844	1,893
Allowance for loan losses.....	3,447	3,091	2,887
Total net assets.....	182,607	190,209	182,166
Brokerage sector			
Net income.....	\$ 184	\$ 77	\$ 83
Stockholders' equity.....	709	572	561
Portfolio in custody.....	162,764	124,382	114,688
Total net assets.....	935	936	681
Long-term savings sector:			
Net income.....	\$ 1,028	\$ 797	\$ 497
Stockholders' equity.....	3,475	2,439	2,062
Total net assets.....	17,527	13,579	11,853
Auxiliary credit organizations sector:			
Net income.....	\$ 247	\$ 190	\$ 122
Stockholders' equity.....	1,092	848	659
Total portfolio.....	7,426	6,880	5,587
Past-due portfolio.....	40	69	41
Allowance for loan losses.....	70	97	63
Total net assets.....	8,234	7,675	6,203

The current loan portfolio, grouped by economic sector and geographical location as of December 31, 2006 and 2005 is as follows:

Sector	2006				
	Geographical location				
	North	Center	West	South	Total
Agriculture	\$ 2,135	\$ 1,300	\$ 592	\$ 451	\$ 4,478
Mining.....	93	23	12	22	150
Manufacturing.....	5,564	3,186	1,479	522	10,751
Construction.....	2,858	2,062	177	285	5,382
Public utilities	46	11	1	1	59
Commerce	6,259	4,435	2,384	3,282	16,360
Transportation.....	2,631	693	81	95	3,500
Financial services.....	6,357	6,463	218	1,691	14,729
Communal, social services.....	4,454	5,881	1,701	566	12,602
Business groups	88	217	3	10	318
Public administration services.....	3,303	3,177	1,247	2,348	10,075
International Organization Services	1		1		2
INB.....					8,504
Credit card.....					9,482
Consumer					11,102
Mortgage.....					27,038
Others.....					84
Loans from Arrendadora Banorte					2,682
Loans from Factor Banorte					4,114
Loans from Créditos Pronegocio		—		—	554
Total	<u>\$ 33,789</u>	<u>\$ 27,448</u>	<u>\$ 7,896</u>	<u>\$ 9,273</u>	<u>\$141,966</u>

Economic sector	2005				
	Geographical location				
	North	Center	West	South	Total
Agriculture.....	\$ 1,648	\$ 1,256	\$ 545	\$ 420	\$ 3,869
Mining	44	14	8	19	85
Manufacturing	5,566	2,773	1,489	384	10,212
Construction	1,666	1,514	298	246	3,724
Public utilities.....	25	8	1	—	34
Commerce, restaurants, hotels.....	4,534	3,529	2,564	2,341	12,968
Transportation & communications	2,694	923	118	286	4,021
Financial services	6,542	4,684	630	1,471	13,327
Communal, social & personal services.....	1,587	4,918	481	624	7,610
Business, professional & civic groups.....	9	225	22	2	258
Public Administration Services	4,903	4,567	855	4,900	15,225
International Organization Services	2	—	1		3
Credit card	—	—	—	—	6,484
Consumer.....	—	—	—	—	9,691
Mortgage	—	—	—	—	24,773
Loans to FOBAPROA or IPAB, ADE, FOPYME & FINAPE.....	—	—	—	—	332
Consumer.....	—	—	—	—	(17)
Hedging swaps	—	—	—	—	(45)
Loans from Arrendadora Banorte.....					2,402
Loans from Factor Banorte.....					3,964
Loans from Créditos Pronegocio.....	—	—	—	—	337
Current loan portfolio:					<u>\$119,257</u>

The past-due loan portfolio, grouped by economic segment and geographical location, is summarized as follows:

Sector	2006				
	Geographical location				Total
	North	Center	West	South	
Agriculture.....	\$ 13	\$ 34	\$ 7	\$ 3	\$ 57
Mining	2	2	—	—	4
Manufacturing	26	62	44	6	138
Construction	5	35	3	3	46
Public utilities.....	—	—	—	—	—
Commerce	74	91	52	19	236
Transportation	3	9	5	—	17
Financial services	2	6	—	—	8
Communal, social services	12	13	2	2	29
Business groups	—	—	—	—	—
Public Administration Services	—	—	—	—	—
International Organization Services	—	—	—	—	—
INB	—	—	—	—	96
Credit card	—	—	—	—	358
Consumer.....	—	—	—	—	249
Mortgage	—	—	—	—	717
Other past-due loans.....	—	—	—	—	7
Loans from Arrendadora Banorte.....	—	—	—	—	22
Loans from Factor Banorte.....	—	—	—	—	18
Loans from Créditos Pronegocio.....	—	—	—	—	58
Total	\$ 137	\$ 252	\$ 113	\$ 33	\$2,060

Economic sector	2005				
	Geographical location				Total
	North	Center	West	South	
Agriculture.....	\$ 16	\$ 35	\$ 34	\$ 1	\$ 86
Mining	1	—	2	—	3
Manufacturing	49	69	64	7	189
Construction	6	35	2	1	44
Commerce, restaurants, hotels.....	56	70	65	10	201
Transportation & communications	1	19	1	3	24
Financial services	7	1	5	—	13
Communal, social & personal services.....	10	32	4	4	50
Business groups	1	—	—	—	1
Credit card	—	—	—	—	222
Consumer.....	—	—	—	—	207
Mortgage	—	—	—	—	799
Others	—	—	—	—	5
Loans from Arrendadora Banorte.....	—	—	—	—	33
Loans from Factor Banorte.....	—	—	—	—	34
Loans from Créditos Pronegocio.....	—	—	—	—	16
Past-due loan portfolio:					<u>\$1,927</u>

a. Deposit accounts grouped by product and geographical location are as follows:

Product	2006 Geographical location							
	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and others	Abroad	Total
Non-interest earning checking accounts	\$ 9,813	\$ 11,896	\$ 3,634	\$ 4,559	\$ 4,894	\$ 94	\$ —	\$ 34,890
Interest earning checking accounts	7,097	15,314	2,784	4,130	4,657	88	—	34,070
Savings	2	1	—	—	—	—	—	3
Current account in MxP and preestablished	2,622	3,313	1,058	1,746	1,837	65	—	10,641
Non-interest bearing demand deposits, U.S.D.	222	245	95	658	124	—	2,912	4,256
Interest bearing demand deposits, U.S.D.	2,253	998	400	2,189	200	(2)	4,318	10,356
Savings U.S.D.	—	—	—	—	—	—	158	158
Over-the-counter promissory notes	8,958	16,130	4,028	3,876	5,748	—	—	38,740
Time deposits, U.S.D.	1,932	2,681	1,277	1,190	737	14	7,347	15,178
Money desk customers	5,277	5,936	1,798	1,263	1,255	—	—	15,529
Financial intermediaries	—	—	—	—	—	3,495	—	3,495
FOBAPROA checking earning interest	526	—	—	—	—	1,695	—	2,221
Total deposits								<u>\$ 169,537</u>

Product	2005 Geographical location							
	Monterrey	Mexico City	West	Northwest	Southeast	Treasury and others	Abroad	Total
Non-interest-earning checking accounts	\$ 7,352	\$ 9,849	\$ 3,987	\$ 3,867	\$ 4,034	\$ 73	\$ —	\$ 29,162
Interest earning checking accounts	6,047	13,987	3,839	4,556	4,965	78	—	33,472
Savings	1	1	—	—	—	—	—	2
Current account in MxP and preestablished	1,738	2,864	1,066	1,629	1,486	48	—	8,831
Non-interest bearing demand deposits, U.S.D.	89	205	68	360	119	—	—	841
Interest bearing demand deposits, U.S.D.	1,553	1,861	487	2,167	223	(1)	—	6,290
Over-the-counter promissory note	6,520	14,159	4,858	4,161	4,980	178	—	34,856
Time deposits, U.S.D.	1,699	2,285	1,512	795	632	14	—	6,937
Money desk customers	3,752	5,212	3,026	1,195	1,250	—	—	14,435
Financial intermediaries	—	—	—	—	—	6,495	—	6,495
FOBAPROA checking earning interest	623	—	—	—	—	—	1,220	1,843
Hedging swaps	—	—	—	—	—	—	(5)	(5)
Total deposits								<u>\$ 143,159</u>

27. Tax environment

Income tax and asset tax regime - The Financial Group and its subsidiaries are subject to ISR and asset tax (IMPAC). ISR is calculated by considering certain effects of inflation as taxable or deductible, such as depreciation calculated on values in constant pesos, and the effect of inflation on certain monetary assets and liabilities is accrued or deducted through the annual adjustment for inflation which is similar to results from monetary position. In 2005, the rate was 30%; in 2006, 29%; and as of 2007 it will be 28%; as per the modifications to the tax laws in effect as of 2007, it is possible to obtain a tax credit of 0.5% or 0.25% over the tax results in the case of taxpayers certified for tax purposes and who meet certain requirements.

IMPAC is incurred at the rate of 1.8% on the average net amount of assets not subject to brokerage (at restated values) and of certain liabilities, and is paid only on the amount by which it exceeds ISR for the year. According to the decree that amends, adds or eliminates various provisions of the Asset Tax Law published in the Official Gazette of the Federation on December 27, 2006 for the fiscal year of 2007 and thereafter,

IMPAC will be incurred at a rate of 1.25% over the average assets not subject to financial trading without reducing

liabilities.

Any payment made can be recovered against the amount by which ISR exceeds IMPAC over the next ten fiscal years. For the year 2006, the Financial Group did not incur IMPAC as the ISR was higher than the former.

Accounting-tax reconciliation - The principal items affecting the determination of the tax result of the Financial Group were the annual adjustment for inflation, the deduction of the allowance for loan losses, without exceeding 2.5% of the average loan portfolio, the deduction of the reserve for shared losses with the IPAB and the valuation of financial instruments.

Employee statutory profit sharing - The Financial Group determines employee statutory profit sharing based on the criteria established in the guidelines set forth by the Mexican Constitution.

28. Stockholders' Equity

At the General Ordinary Stockholders' Meetings held on April 28 and October 12, 2006, the following resolutions were adopted, among others:

- a. To transfer the profits from 2005 equal to \$5,957 (\$5,719 at nominal value) to earnings from prior years, and increase the legal reserve by \$294 (\$286 at nominal value) equivalent to 5% of net income for the year.
- b. Declare cash dividends of \$763 (\$757 at nominal value).

The Extraordinary Stockholders' Meeting held on December 13, 2006, resolved, among other things, to reform the Financial Group's bylaws to adjust them to the new Stock Market Law provisions. This new law establishes that business corporations with representative shares of their Shareholders' Equity registered in the National Securities Register will, as of the law's effective date, become securities business corporations. Consequently, the company "Grupo Financiero Banorte" will be followed by "Securities Business Corporation of Variable Capital" or its abbreviation in Spanish, S.A.B. de C.V. However, authorization for this modification is still pending in the SHCP.

The Financial Group's stockholders' equity as of December 31, 2006, 2005 and 2004 is made up as follows:

	Number of shares with a nominal value of \$3.50								
	2006			2005			2004		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in Capital
"O" Series	2,018,347,548	—	2,018,347,548	2,018,554,148	—	2,018,554,148	504,586,887	—	504,586,887

	Historical Amounts								
	2006			2005			2004		
	Common stock	Shares issued (not subscribed)	Paid-in capital	Common stock	Shares issued (not subscribed)	Paid-in capital	Common Stock	Shares issued (not subscribed)	Paid-in Capital
"O" Series	\$ 7,064	\$ —	\$ 7,064	\$ 7,065	\$ —	\$ 7,065	\$ 1,766	\$ —	\$ 1,766
Restatement in pesos of December 2006	—	—	4,516	—	—	4,516	—	—	4,259
			<u>\$ 11,580</u>			<u>\$ 11,581</u>			<u>\$ 6,025</u>

Restrictions on profits - Stockholders' equity distributions, 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 distributions 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.

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.

Capital reserves - In accordance with official letter No. 601-II-77797 dated October 16, 2000, in which the Commission authorized the Financial Group, on a one-time basis and as an exception, to affect capital reserves and establish the allowance for loan losses determined to cover contingencies for loss sharing and the “Incentive arrangement” related to the “Arrangement for sharing loan portfolio flows with FOBAPROA”. In accordance with the creation of such reserves, deferred taxes were recorded directly in the “Capital reserves” account in stockholders’ equity.

Pursuant to the expiration of the trust contract number 1990-4, during June 2006, Banorte cancelled part of the respective loss sharing reserve, recognizing the cancellation of deferred taxes which it had created in the “Capital reserves” account in the amount of \$300, nominal value.

Capitalization ratio - The capitalization rules for financial institutions determined by the SHCP 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, 2006 sent for Banco de México to review is shown below.

The capitalization ratio of Banorte as of December 31, 2006 was 17.35% of total risk (market and credit), and 24.05% of credit risk, which in both cases exceed the current regulatory requirements.

The amount of net capital, divided by basic and complementary capital as of December 31, 2006, is detailed below (these figures may differ from those in the basic financial statements):

	<u>2006</u>
Stockholders’ equity.....	\$ 23,560
Subordinated debentures and capitalization instruments.....	2,807
Deduction of investment in subordinated instruments-	
Deduction of investments in shares of financial entities	3,449
Deduction of investments in shares of non-financial entities	779
Deduction of financing granted for the acquisition of bank shares or shares of the Financial Group’s entities.....	
Deduction of deferred taxes.....	—
Deduction of intangibles and expenses or deferred costs	619
Other assets to deduct	—
Basic capital	<u>21,520</u>
Debentures and capitalization instruments	8,301
Allowance for loan loss reserves	<u>714</u>
Complementary capital.....	<u>9,015</u>
Net capital	<u>\$ 30,535</u>

Characteristics of the subordinated debentures:

<u>Concept</u>	<u>Amount</u>	<u>Maturity</u>	<u>Basic capital proportion</u>	<u>Complementary capital proportion</u>
Debentures indexed to U.S.D. 2002	\$ 1,219	28/11/2012	100%	0%
Complementary capital debentures 2004....	3,313	17/02/2014	0%	100%
Complementary capital debentures 2006....	4,382	13/10/2016	0%	100%
Basic capital debentures 2006	2,194	13/10/2021	72%	28%

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	\$ 34,879	\$ 2,790
Transactions with debt instruments in Mexican pesos with surcharge and revisable rate.....	9,145	732
Transactions in Mexican pesos with real interest rates or in UDIS	725	58
Transactions in UDIS or with yields referenced to the NCPI.....	4	1
Transactions in foreign currency with nominal interest rate	2,729	218
Exchange transactions	97	8
Share transactions.....	228	18
Total	<u>\$ 47,807</u>	<u>\$ 3,825</u>

Assets subject to credit risk:

Concept	Assets weighted by risk	Capital requirement
Group II (weighted at 20%).....	\$ 11,975	\$ 58
Group II Others (weighted at 10%)	50	4
Group II Others (weighted at 23%)	543	43
Group III (weighted at 100%)	104,541	8,363
Group III Others (weighted at 11.5%).....	41	4
Group III Others (weighted at 50%).....	1,130	90
Group III Others (weighted at 115%).....	1,675	134
Group III Others (weighted at 150%).....	1,432	115
Sum.....	121,837	9,711
For permanent shares, furniture and real property, and advance payments and deferred charges.....	5,591	447
Total	<u>\$ 126,978</u>	<u>\$ 10,158</u>

29. Foreign currency position

As of December 31, 2006 and 2005, the Financial Group holds certain assets and liabilities in foreign currency, mainly U.S. dollars, converted to the exchange rate issued by Banco de México at MX\$10.8116 and MX\$10.6344 per US \$1.00, respectively, as shown below:

	Thousands of U.S. dollars	
	2006	2005
Assets	3,560,079	1,594,589
Liabilities.....	3,263,390	1,548,066
Net asset position in U.S. dollars.....	296,689	46,523
Net asset position in Mexican pesos.....	<u>\$ 3,208</u>	<u>\$ 495</u>

30. Position in UDIS

As of December 31, 2006 and 2005, the Financial Group holds certain assets and liabilities denominated in UDIS, converted to Mexican pesos based on the current equivalency of \$3.788954 and \$3.637532, per UDI, respectively, as shown below:

	Thousands of UDIS	
	2006	2005
Assets	146,081	122,203
Liabilities.....	103,296	94,509
Net asset position in UDIS	42,785	27,694
Net asset position in Mexican pesos.....	\$ 162	\$ 101

31. Net income per share

The net income per share is the result of dividing the net income by the weighted average of the Financial Group's shares in circulation during the period.

The results prior to December 31, 2006, 2005 and 2004 are shown below:

	2006		2005		2004
	Income	Weighted average shares	Income per share	Income per share	Income per share
Net income per share.....	\$ 5,959	2,019,019,115	\$ 2,9514	\$ 2,9516	\$ 1,3919

Earnings per share in 2005 and 2004 differs from the amount previously reported as it retroactively reflects the split (4:1) in November 2005.

32. Saving preventive and protection mechanism

In December 1998, the Federal Congress approved a draft law establishing the gradual elimination of FOBAPROA as of January 1, 1999, and the creation of IPAB, which assumed the assets of FOBAPROA, and the obligations assumed by the latter as a result of the bank salvage process.

Pursuant to Temporary Article 5 of the Bank Savings Protection Law, on July 18, 1999 IPAB issued the general rules for implementation of the PCCC, which were applied to those institutions that elected to terminate the contracts executed with FOBAPROA and to subsequently execute contracts of the New Program with IPAB.

As a result of the changes described above, the New Program Contract was executed with IPAB, which allows IPAB to perform the GEL Audits of all loans generating resources for IPAB. These audits were completed in the first half of 2005, which once their consequences were applied it was possible to exchange IPAB obligations for IPAB Instruments, most of which were paid in full in 2005. Two were paid in full in June 2006 as per the New Program Contract.

During 2006, 2005 and 2004, the amount of contributions to the IPAB payable by Banorte for fees amounted to \$659, \$624 and \$838 respectively.

33. Risk management

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 Managing Director of the Financial Group, the General Director of Comprehensive Risk Management, the General Director of Banking, Savings and Welfare, and the General Director of the Securities Firm, as well as the General Director of 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
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 Holding Company 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 of Directors, at least once a month, 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.

34. Comprehensive Risk Management Unit (UAIR) (Unaudited)

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 it 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 four different departments:

- Credit Risk Management
- Market Risk Management
- Operating Risk Management, and
- Risk Policy Management

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.
- 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 difficulty of renewing debts or obtaining 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 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.

During 2006, different audits were performed of comprehensive risk management activities, both by internal and independent external auditors, whose reports showed satisfactory results for the Financial Group in terms of compliance with the prudential Comprehensive Risk Management regulations established by the Commission.

Credit risk

Credit Risk is the risk that the customers will not comply with their payment obligations; therefore, adequate risk management is essential to maintain a high quality loan portfolio.

The Financial Group's management credit risk objectives are as follows:

- a. Improve the quality, diversification and composition of the loan portfolio to optimize the risk-return ratio.
- b. Provide senior management with reliable and timely information to support decision-making in credit matters.
- c. Provide the business departments with clear and sufficient tools to support credit placement and follow up.
- d. Support the creation of economic value for shareholders by means of efficient credit risk management.
- e. Define and constantly update the regulatory framework for credit risk management.
- f. Comply with the credit risk management reporting requirements established by the relevant authorities.
- g. 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's banks segment 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 Classification (CIR Banorte).

The Target Markets and Risk Acceptance Criteria are tools which, together with the CIR Banorte, 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 wishes to place credits.

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, operating risk, market risk, company lifecycle risk, legal and regulatory risk, credit history and quality of management.

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 Comisión Nacional de Valores (Mexican Securities Commission) on August 20, 2004. 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 900,000 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 bank 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, 2006, the total portfolio of the Financial Group is \$129,976. The expected loss represents 1.8% and the unexpected loss represents 3.4% of the total operating portfolio. The average of the expected loss was 1.8% during the period from October to December 2006. For December 31, 2005, the Financial Group's total operating portfolio was \$112,184 and the expected loss was 1.9% of this portfolio, while the unexpected loss was 4.1%.

General rules for the diversification of risk in performing asset and liability transactions applicable to credit institutions:

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.

The Financial Group, in granting financing to a person or group of persons representing common risk, must adjust to the maximum financing level resulting from applying to basic capital a factor tied to the Financial Group's capitalization level.

Furthermore, in terms of securing public resources, the Financial Group should diversify their risks, ensuring an adequate composition of liabilities based on the placement of the resources secured.

In compliance with the risk diversification rules for asset and liability transactions, the following information is provided below:

Basic capital as of September 30, 2006.....	\$	21,858
Financing whose individual amount represents more than 10% of basic capital:		
Credit transactions		
Number of financings		—
Amount of financings taken as a whole.....		—
% in relation to basic capital Money market transactions		—%
Number of financings		5
Amount of financings taken as a whole.....	\$	<u>16,076</u>
% in relation to basic capital.....		74%
Maximum amount of financing with the 3 largest debtors and Common Risk groups	\$	<u>12,770</u>

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 one 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.

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 ensures the coverage of unforeseen volatilities in the primary risk factors affecting such portfolios, which is established based on the behavior of the principal risk factors.

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 of the portfolio for the fourth quarter of 2006 is \$312.

<u>Millions of pesos</u>	<u>4Q05</u>	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>
VaR Banorte*	296	246	191	213	312
Banorte net capital**	18,170	19,351	19,833	25,865	30,535
VaR / net capital Banorte	1.63%	1.27%	0.96%	0.82%	1.02%

*Quarterly average

**Sum of net capital at the close of the quarter

Also, the average of the VaR for the risk factor of the portfolio of instrument described for the Financial Group behaved as follows during the fourth quarter of 2006:

<u>Risk factor</u>	<u>VaR</u>
Domestic interest rate	294
Foreign interest rate	52
Exchange rate	97
Capital	4
Foreign currency bond prices	36
Total VaR	312

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.

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.

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.

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 (Liquid Assets/Liquid Liabilities). Liquid assets include funds available, marketable securities and securities available for sale. By the same token, liquid liabilities include immediately due and payable deposits, immediately due and payable interbank loans and short-term loans. The liquidity ratio at the end of the fourth quarter of 2006 is 64.7%, while the average during the quarter is 67.3%, as shown below:

	<u>End of quarter 4Q05</u>	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>
Liquid assets	47,984	58,843	55,787	51,094	64,013
Liquid liabilities	81,587	81,044	86,537	82,685	98,883
Liquidity index	58.8%	72.6%	64.5%	61.8%	64.7%
	<u>Average 4Q05</u>	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>
Liquid assets	42,801	47,441	51,318	52,511	58,764
Liquid liabilities	74,744	79,738	84,317	84,846	87,371
Liquidity index	57.3%	59.5%	60.9%	61.8%	67.3%

Average calculation using the Liquidity Index'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.

Operating risk

As of January 2003, the Financial Group established a formal operating risk department denominated “Operating Risk Management Department” as part of its Risk Management Strategy. The department prepared an implementation master plan (2004–2007) in accordance with the requirements of the local regulator, and approved by the Risk Policies Committee (CPR). The plan generally covers the corporate management of operating risk, the recording of loss events and the calculation of the capital requirement for operating risk.

The master plan consists of the following phases:

- Close coordination with the Controllershship, Internal Audit and Risk Analysis areas,
- Identify the main sources of information
- Create a database
- Determine the type of software for Operating Risk Management and for calculation of the capital requirement for Operation Risk,
- Acquire and develop software
- Install the software and perform tests, and
- Generate reports through the management information system.

As the cornerstone of operating risk management, and bearing in mind the Basle II Agreement, the Financial Group has begun to record events that result in a real or potential economic loss, in order to have the bases to be able to calculate the capital requirement.

The Operating Risk department coordinates with the Internal Audit and Controllershship departments in order to promote and provide support in the other two key areas, which are to ensure effective internal control to establish procedures for processes and their compliance, and permanent audit supervision. Coordination also takes place with the Business, Technology and Operations departments, which continually develop Operating Risk mitigation strategies.

Risk management model

The Financial Group has 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, operating risk management is now an institutional policy defined and supported by senior management.

To perform Operating 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 are processed in order to eliminate or mitigate them (seeking

to reduce their severity or frequency) by defining tolerance levels, as the case may be. Work is currently under way on the development of an Institutional Operating Risk Management Model, in which the first step is the recording of operating loss events.

Recording of events

Given the inherent nature of operating risk, an historical database must be in place containing the operating events experienced by the Financial Group in order to be able to determine the respective trends, frequency, impact and distribution.

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 those proposed by the Basle II Agreement):

Types of events	Description
Internal fraud	Actions intended to defraud, illegally seize ownership or evade the regulations, law or policies of the institution involving at least one internal party
External fraud	Actions taken by third parties intended to defraud, illegally seize ownership or evade the law
Labor relations	Actions inconsistent with laws or employment, health or safety agreements, or which result in the payment of claims for damages to personnel or discrimination claims
Practices with customers	Negligence or unintentional breaches which prevent compliance with professional obligations with customers or due to the nature or design of a product or service
Damage to assets	Damage or loss to physical assets due to natural disasters or other events
System failures	Interruption in business activities due to information systems failures
Execution, delivery and processes	Failures in processing of transactions or in process management and in relations with counterparties and suppliers

Technology risk

Technology risk forms an inherent part of operating risk, for which reason its management is performed throughout the entire organization. The Technology and Operations departments carry out the functions established by the Commission in terms of technology risk management related to the establishment of controls, the evaluation of weaknesses and potential contingency plans.

To address the operating risk caused by high impact external events, the Financial Group is working on a project to improve their Business Continuity Plan (BCP) and Business Recovery Plan (BRP) based on a

same-time data replication system at an alternate computer site. The project leader is the Controllershship Executive Management, due to its association with processes, procedures and regulatory compliance. However, the areas of Technology and Operations, Business, and ARO Leadership are also significantly involved. The project’s current progress covers the back-up and recovery of the main critical applications with a wider scope than the one previously reached with external providers.

Legal risk

For the recording and follow-up of legal, administrative and tax issues that may arise from an adverse unfavorable 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.

As part of the Financial Group’s legal risk management initiative, legal contingencies are estimated by the attorneys

that process the issues based on their knowledge in each case. This facilitates the creation of accounting provisions necessary to mitigate any estimated contingencies.

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 real operating losses are recorded in the SCERO in accordance with a predetermined classification.

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.

35. Memorandum accounts

	<u>2006</u>	<u>2005</u>
Bank customers (current accounts).....	\$ 11	\$ 15
Settlement of customer transactions.....	420	(130)
Customer valuables received in custody.....	162,764	123,852
Customer repurchase agreements.....	22,027	26,328
Customer call options transactions.....	—	163
Managed trusts.....	<u>2,768</u>	<u>2,886</u>
	<u>\$ 187,990</u>	<u>\$ 153,114</u>
Guarantees granted.....	\$ —	\$ 28
Other contingent obligations.....	262	1,184
Opening of irrevocable credits.....	2,282	2,260
Amounts committed in transactions with IPAB.....	526	623
Deposits of assets.....	1,186	766
Financial Group securities delivered into custody.....	204	221
Financial Group government securities held in custody.....	292	388
Assets in trusts or under mandate.....	84,355	70,597
Managed assets in custody.....	93,378	86,818
Investment banking transactions on account of third parties (net).....	<u>92,723</u>	<u>93,689</u>
	<u>\$ 275,208</u>	<u>\$ 256,574</u>
Securities to be received in repurchase agreements.....	\$ 198,372	\$ 249,809
Minus: Creditor repurchase agreement.....	<u>(198,582)</u>	<u>(250,082)</u>
	<u>\$ (210)</u>	<u>\$ (273)</u>
Repurchase agreement from debtors.....	\$ 19,518	\$ 74,051
Minus: Securities to be delivered in repurchase agreements.....	<u>(19,518)</u>	<u>(73,963)</u>
	<u>\$ —</u>	<u>\$ 88</u>

36. Commitments

As of December 31, 2006 and 2005, the Financial Group had the following contingent obligations and commitments:

- Third-party guarantees granted, other contingent obligations and opening of credits totaling \$2,544 (\$3,472 in 2005), which are recorded in memorandum accounts.
- Certain real property and operating equipment are leased. The leases establish periodic rental adjustments

based on changes in different future economic factors. Total property lease payments for the periods ended December 31, 2006 and December 31, 2005, were \$160 and \$169, respectively. Total operating equipment rental payments for the periods ended December 31, 2006 and December 31, 2005, were \$59 and \$33, respectively.

- Future minimum lease commitments are:

2007	\$	7
2008		7
2009		6
2010		6
Thereafter		<u>10</u>
Total	\$	<u><u>36</u></u>

37. Contingencies

As of December 31, 2006, there are lawsuits filed against the Financial Group in civil and mercantile court. However, the Financial Group's attorneys consider that the claims filed are unsubstantiated and, in the event of an adverse ruling, they would not affect the Financial Group's financial situation significantly. A reserve of \$139 is recorded for such contentious matters.

Furthermore, contingencies may arise due to differences in taxes derived from a potential review of the tax returns filed by the Financial Group and differences in the interpretation of legal provisions between the Financial Group and the tax authorities.

38. Subsequent events

Acquisition of "UNITELLER"

In January 2007, the Financial Group announced the completion of its purchase of 100% of the outstanding shares of UniTeller Holdings, Inc. (UniTeller), which is a remittances company based in the United States of America. The acquisition was completed after receiving the approval of the SHCP in Mexico and of all the states in the U.S. where UniTeller operates and that regulate the money transfer industry in that country.

The sum of the transaction totaled USD 19 million, which the Financial Group covered with its own resources. UniTeller has total assets equivalent to USD 10 million and a stockholders' equity of USD 5 million. It is based in New Jersey, U.S.A. and has a network of nearly 1,000 agents in that country. It also has agreements with various financial institution and companies in Latin America and the Philippines with over 4,000 paying point in 19 countries, including Mexico.

Sale of Fianzas Banorte, S.A. de C.V.

On July 27, 2006, the Board of Directors in session approved the sale of 100% of the stockholders' equity representative shares of the Bonding Company. This purchase-sale transaction was carried out between the Financial Group and Grupo Valores Operativos Monterrey, Sociedad Anónima de Inversión de Capital Variable on September 22, 2006. A modifying agreement on the same date establishes that such transaction is subject to obtaining each and every one of the authorizations required by the sellers and buyers no later than February 28, 2007. In the event of failure to comply by such a date, the purchase-sale contract will be resolved automatically without any liability on either party.

Agreement to purchase Motran Services Incorporated

On January 24, 2007, Banorte USA Corporation signed an agreement to purchase 100% of the shares in circulation of Motran Services Incorporated ("Motran").

Motran is located mainly in the state of California, in the United States of America and is dedicated to sending remittances to foreign countries. The agreement establishes that Banorte USA will pay US \$2 million for the outstanding shares. It is expected that the purchase price will exceed the market value of the net assets acquired by approximately US \$1.3 million.

39. 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, which differ in certain respects from Mexican Financial Reporting Standards (NIF).

The principal differences and the effect on consolidated net income and consolidated stockholders' equity are presented below with an explanation of the adjustments:

	December 31,	
	2006	2005
Reconciliation of stockholders' equity:		
Stockholders' equity under Mexican Banking GAAP	\$ 27,505	\$ 22,369
Adjustments:		
Loan loss reserves (See B)	376	326
Loan origination fees and costs (See A)	(253)	(376)
Foreclosed assets (See C)	330	305
Insurance & postretirement activities (See A)	1,345	1,630
Derivatives (See A)	(620)	(355)
Business combinations (See D)	(1,208)	—
Purchased loan portfolio (See A)	(967)	(865)
Securitizations (See E)	(12)	—
Repurchase agreements (See A)	(47)	(46)
Investment valuation (See A)	(35)	(134)
Capitalized costs (See A)	(217)	(434)
Share based payment (See F)	(44)	(110)
Deferred taxes (See G)	(64)	(96)
Total adjustments	(1,416)	(155)
Tax effect on adjustments	183	111
Minority interest attributable to adjustments	(289)	(462)
Stockholders' equity under NIF	\$ 25,983	\$ 21,863

Reconciliation of net income:	Year ended December 31,	
	2006	2005
Net income under Mexican Banking GAAP	<u>\$ 5,959</u>	<u>\$ 5,957</u>
Adjustments:		
Loan loss reserves (See B)	50	73
Loan origination fees and costs (See A)	123	(72)
Foreclosed assets (See C)	(44)	(123)
Insurance & postretirement activities (See A)	(285)	201
Derivatives (See A)	(265)	255
Business combinations (See D)	—	—
Purchased loan portfolio (See A)	(102)	543
Securitizations (See E)	11	—
Repurchase agreements (See A)	(1)	(21)
Investment valuation (See A)	(90)	(62)
Capitalized costs (See A)	222	199
Share based payment (See F)	(18)	(54)
Deferred taxes (See G)	<u>(367)</u>	<u>(674)</u>
Total adjustments	(766)	265
Tax effect on adjustments	153	(335)
Minority interest attributable to adjustments	<u>167</u>	<u>(53)</u>
Net income under NIF	<u>\$ 5,513</u>	<u>\$ 5,834</u>

Explanation of reconciling items:

A) General

This difference between Mexican Banking GAAP and NIF is explained in Note 40, as the accounting treatment under NIF 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. In addition, Mexican banks are allowed to establish additional loan loss allowances in excess of those required by the Commission. Under NIF, such excess allowances must be reversed.

C) Foreclosed assets

Under Mexican Banking GAAP, reserves for foreclosed assets are required based on their nature and number of months outstanding. Under NIF, these assets are recognized at the lower of the corresponding loans' book value or the fair value of the foreclosed asset. Potential impairment should also be evaluated and recognized, as necessary, on these assets.

Additionally, for Mexican Banking GAAP foreclosed assets are considered to be monetary assets, while for NIF these are treated as non-monetary assets.

D) Business combinations

Under Mexican Banking GAAP, the Financial Group recorded the put option held by the shareholders' of INB at its contractual value, which increased the amount of goodwill recorded in the preliminary purchase price allocation. Under

NIF, the put option represents a transaction between common shareholders and is therefore reflected in stockholders' equity according to the formula agreed by both parties.

E) Securitizations

Under Mexican Banking GAAP, the Financial Group accounts for its securitization transactions as disclosed in Note 40 J). If it has transferred a financial asset, NIF 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.

F) Share based payment

Under Mexican Banking GAAP the shares held in trust are recorded as an asset, and no compensation cost is recognized for share-based payment awards. NIF establishes the recognition and presentation criteria of the Financial Group's share-based payment awards provided to employees. Compensation cost is determined based on the grant date fair value of the awards at and is recognized over the requisite service period.

G) Deferred taxes

The Financial Group recognizes the benefits related to tax loss carryforwards and asset tax credit carryforwards in its Mexican Banking GAAP financial statements when such amounts are realized. Under NIF, deferred income tax assets are recognized for the estimated future effects of tax loss carryforwards and asset tax credit carryforwards when it is highly probable that sufficient future taxable income will be generated to recover such deferred tax assets.

40. Differences between Mexican Banking GAAP and U.S. GAAP

The Financial Group's consolidated financial statements are prepared in accordance with the accounting practices as prescribed by the Commission, which differ in certain significant respects from U.S. GAAP. The Mexican Banking GAAP consolidated financial statements include the effects of inflation as provided for under Bulletin B-10, "Recognition of the Effects of Inflation in Financial Information", whereas financial statements prepared under U.S. GAAP are presented on a historical cost basis. Notwithstanding the prior comments, the following reconciliation to U.S. GAAP does not include the reversal of the adjustments required under Bulletin B-10, as permitted by the rules and regulations of the Securities and Exchange Commission (the "SEC"). The application of Bulletin B-10 represents a comprehensive measure of the effects of price level changes in the

inflationary Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes. The principal differences, other than inflation accounting, between Mexican Banking GAAP and U.S. GAAP and the effect on consolidated net income and consolidated stockholders' equity are presented below, with an explanation of the adjustments.

Reconciliation of stockholders' equity:	December 31,	
	2006	2005
Stockholders' equity under Mexican Banking GAAP	\$ 27,505	\$ 22,369
U.S. GAAP adjustments:		
Loan loss reserves (See A).....	1,335	1,153
Loan origination fees and costs (See B).....	(253)	(376)
Purchased loan portfolio (See C)	(967)	(865)
Derivatives (See D).....	(620)	(355)
Foreclosed assets (See E).....	250	238
Insurance & postretirement activities (See F).....	1,345	1,630
Business combinations (See G)	191	179
Employee retirement obligations (See H).....	(728)	(355)
Capitalized costs (See I).....	(217)	(434)
Securitized assets (See J).....	343	(2)
Share based payment (See K)	(44)	—
Other adjustments (See L)	(129)	(314)
Deferred taxes (See M)	(1,661)	(1,664)
Total U.S. GAAP adjustments	(1,155)	(1,165)
Tax effect on U.S. GAAP adjustments	(60)	(74)
Minority interest under Mexican Banking GAAP (See N).....	(1,408)	(1,020)
Minority interest attributable to U.S. GAAP adjustments	(291)	(415)
Stockholders' equity under U.S. GAAP	\$ 24,591	\$ 19,695

Reconciliation of net income:	Year ended December 31,		
	2006	2005	2004
Net income under Mexican Banking GAAP	\$ 5,959	\$ 5,957	\$ 2,809
U.S. GAAP adjustments:			
Loan loss reserves (See A).....	182	280	(556)
Loan origination fees and costs (See B).....	123	(72)	(89)
Purchased loan portfolio (See C)	(102)	543	(101)
Derivatives (See D).....	(265)	255	222
Foreclosed assets (See E).....	(57)	(135)	53
Insurance & postretirement activities (See F).....	(285)	201	77
Business combinations (See G)	12	42	11
Employee retirement obligations (See H).....	(38)	(105)	1
Capitalized costs (See I).....	222	199	137
Securitized assets (See J).....	345	(2)	—
Share based payment (See K)	(44)	—	—
Other adjustments (See L)	(196)	(75)	20
Deferred taxes (See M)	(397)	(629)	(915)
Total U.S. GAAP adjustments	(500)	502	(1,140)
Tax effect on U.S. GAAP adjustments	(50)	(410)	173
Minority Interest attributable to U.S. GAAP Adjustments	198	(46)	49
Net income under U.S. GAAP	\$ 5,607	\$ 6,003	\$ 1,891

A rollforward of the Financial Group's U.S. GAAP stockholders' equity balance is as follows:

	2006	2005
Balance at the beginning of the year.....	\$ 19,695	\$ 14,911
Net income under U.S. GAAP	5,607	6,003
Dividends paid.....	(763)	(664)
Issuance (repurchase) of shares	30	(17)
Other comprehensive income (loss).....	22	(538)
Balance at the end of the year	\$ 24,591	\$ 19,695

- 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. In addition, Mexican banks are allowed to establish additional loan loss allowances in excess of those required 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 Statement of Financial Accounting Standard (“SFAS”) No. 5, “Accounting for Contingencies” and 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 nonhomogeneous loans, the Financial Group assesses all individual loans with an outstanding balance greater than 900,000 UDIS for impairment. Specific provisions are calculated when it is determined that it is probable that the Financial Group will not recover the full contractual principal and interest on a loan (impaired loan). 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.

U.S. GAAP loan loss reserves are as follows:

Loan loss reserves	2006	2005	2004
Loan loss reserves for SFAS No. 114	\$ 44	\$ 73	\$ 111
Loan loss reserves for SFAS No. 5	2,046	1,969	1,966
Loan loss reserves US GAAP	2,090	2,042	2,077
Loan loss reserves Mexican Banking GAAP	3,533	3,195	2,950
Stockholders’ equity adjustment (1)	1,335	1,153	873
Net income adjustment	<u>\$ 182</u>	<u>\$ 280</u>	<u>\$ (556)</u>

(1) As a result of the Financial Group’s acquisition of INB as disclosed in Note 40 G), \$ 108 of additional reserves were recorded with an offset to goodwill in its Mexican Banking GAAP consolidated financial statements.

Rollforward of loan loss reserves:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Beginning of the year.....	\$ 2,042	\$ 2,077	\$ 3,728
Charge-offs net of recoveries.....	(1,108)	(1,141)	(2,919)
Charges.....	1,238	1,164	1,461
Restatement effect.....	(82)	(58)	(193)
Ending of the year.....	<u>\$ 2,090</u>	<u>\$ 2,042</u>	<u>\$ 2,077</u>

Ratios:

<u>Loan loss reserves for SFAS No. 114</u>	<u>December 31,</u>			<u>Percentage</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total reserves.....	\$ 44	\$ 73	\$ 111			
Total balances of impaired loans	\$ 202	\$ 254	\$ 290	21.78%	28.74%	38.28%
Total balances of outstanding loans.....	\$ 310	\$ 1,648	\$ 2,143	14.19%	4.43%	5.18%

<u>Loan loss reserves for SFAS No. 5</u>	<u>December 31,</u>			<u>Percentage</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total reserves.....	\$ 2,046	\$ 1,969	\$ 1,966			
Total balances of impaired loans	\$ 1,722	\$ 1,656	\$ 1,635	118.82%	118.90%	120.24%
Total balances of outstanding loans (1)	\$ 143,716	\$ 119,536	\$ 109,463	1.42%	1.65%	1.80%

(1) The Financial Group has also recorded loan loss reserves in accordance with SFAS No. 5, 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 \$ 2,249, \$ 2,288 and \$ 2,523 in 2006, 2005 and 2004 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 on 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 estimated reduction on the future cash flows.

B) Loan origination fees and costs

Under Mexican Banking GAAP, loan origination fees are recognized on a cash basis and loan origination costs are expensed as incurred. Under U.S. GAAP, as required by SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases - an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17", 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.

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 are 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 U.S. GAAP standard SOP 03-3 for its Mexican Banking GAAP financial statements and applied it prospectively to all existing portfolios held. SOP 03-3 addresses 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 SOP and began to apply its guidance for all portfolios purchased after December 31, 2003.

Under U.S. GAAP, Accounting Practice Bulletin 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 purchased 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 collectibility 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 costrecovery 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.

The Financial Group's portfolio disclosures and U.S. GAAP methodology applied are disclosed in the following table:

Portfolio	Stockholders' equity December 31,		Net income Year ended December 31,			Methodology applied under U.S. GAAP
	2006	2005	2006	2005	2004	
Bancrecer I.....	\$ (134)	\$ (146)	\$ 12	\$ (7)	\$ (8)	Cost recovery method
Sfn Santander.....	(88)	(116)	28	289	(90)	Cost recovery method
Meseta.....	(70)	(104)	34	38	35	Cost recovery method
Bancrecer II.....	(7)	(12)	5	3	8	Cost recovery method
Goldman Sachs.....	(297)	(346)	49	26	(92)	Cost recovery method
Cremi.....	(58)	(61)	3	(20)	(25)	Cost recovery method
Banorte Sólida.....	(201)	(231)	30	5	(88)	Cost recovery method
Bancrecer III.....	(8)	(18)	10	(15)	(6)	Cost recovery method
Banco Industrial.....	—	(19)	19	21	6	Cost recovery method
Bancomer I.....	(73)	(53)	(20)	(32)	(21)	Cost recovery method
Bancomer II.....	13	12	1	8	4	Interest Method
Banco Unión.....	13	70	(57)	35	35	Interest Method
Bital I.....	(57)	121	(178)	49	72	Interest Method
Serfin.....	—	38	(38)	143	69	Interest Method
	<u>\$ (967)</u>	<u>\$ (865)</u>	<u>\$ (102)</u>	<u>\$ 543</u>	<u>\$ (101)</u>	

D) Derivatives

Under Mexican Banking GAAP, changes in the fair value of forward and futures contracts that qualify as hedges for accounting purposes are recorded if the underlying item being hedged is recorded at its fair market value. The initial discount or premium on forward and futures contracts is included in results of operations over the life of the contract, on a straight-line basis. For swap contracts that qualify as hedges, the Financial Group recognizes an asset (cash flow receivable) and a liability (cash flow payable) which are recorded and valued on the same basis as the underlying item being hedged, and which are presented as a net figure on the balance sheet.

Under U.S. GAAP, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" 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 ("OCI") 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 Mexican Banking GAAP, the designation of a derivative instrument as a hedge of a net position ("macro hedging") is allowed. However, macro hedging is not permitted under U.S. GAAP.

Under U.S. GAAP, certain implicit or explicit 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.

Under U.S. GAAP, 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.

E) 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.

Under U.S. GAAP, as required by 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.

- 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.

Accumulated deferred acquisition costs (DAC) as of December 31, 2006, 2005 and 2004 under U.S. GAAP are as follows

	December 31,		
	2006	2005	2004
Life.....	\$ 17	\$ 15	\$ 12
P&C	214	180	221
Health.....	20	10	9
Afore.....	782	720	672
Surety.....	80	55	28
Total accumulated DAC	<u>\$ 1,113</u>	<u>\$ 980</u>	<u>\$ 942</u>
DAC - net amount charged to income statement	<u>\$ 133</u>	<u>\$ 38</u>	<u>\$ 122</u>

For the years ended December 31, 2006, 2005 and 2004, the net income effect for the DAC amounted to \$133, \$38 and \$122, respectively.

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. For disaster reserves under U.S. GAAP provisions are based on actuarial calculations for losses incurred using the experience of the Financial Group.

We record a reserve for catastrophic events under Mexican GAAP as a liability which is not allowed by U.S. GAAP.

Loss reserves and unearned premiums:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Life.....	\$ 45	\$ 16
Prevision life.....	—	—
P&C.....	(241)	124
Health.....	(25)	(14)
LAE.....	(68)	(54)
Afore.....	(172)	(242)
Surety.....	(83)	(62)
Pensions.....	<u>506</u>	<u>893</u>
Total.....	<u>(38)</u>	<u>661</u>
Catastrophic reserve:		
P&C.....	126	130
Surety.....	<u>82</u>	<u>65</u>
	<u>208</u>	<u>195</u>
Reinsurance activities.....	<u>62</u>	<u>(206)</u>
Total reserves.....	<u>\$ 232</u>	<u>\$ 650</u>

Summary:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
DAC.....	\$ 1,113	\$ 980
Total reserves.....	<u>232</u>	<u>650</u>
Total adjustments.....	<u>\$ 1,345</u>	<u>\$ 1,630</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, Bulletin B-7, which substantially conforms to the accounting established by U.S. GAAP, 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, SFAS No. 141, "Business Combinations", 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.

As disclosed in Note 2, the Company through its wholly-owned subsidiary Banorte USA acquired 70% of the outstanding common stock of INB on November 16, 2006. The primary purpose of the acquisition was to expand the Financial Group's market share into the United States in areas with close proximity to Mexico. The total purchase price including acquisition costs, exceeded the estimated fair value of tangible net assets acquired by approximately US \$170 million, of which approximately US \$15 million was preliminarily assigned to an identifiable intangible asset with the 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 will complement and create synergies with the Financial Group's existing service locations. Consolidated intangible assets at the acquisition date include amounts previously recorded at INB since the balance sheet of INB was not adjusted to reflect the purchase. 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 preliminary goodwill recorded in the acquisition of INB will be accounted for in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets". Accordingly, goodwill will not be amortized; rather it will be tested for impairment annually. In addition, goodwill is not deductible for tax purposes. Cash flow information relative to the acquisition of INB is as follows:

Fair value of assets acquired	\$1,431
Minority interests	(21)
Cash paid for the capital stock of INB	<u>(260)</u>
Liabilities assumed	<u>\$1,150</u>

In conjunction with the acquisition of 70% of the outstanding shares of INB, Banorte entered into a stock option agreement with INB. The agreement grants 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 grants 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. Under U.S. GAAP, the Put Right is recognized as a free standing financial instrument under the premises of 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. The Call Option is not within the scope of SFAS No. 133 or SFAS No. 150 as it does not meet the definition of a derivative financial instrument or represent an unconditional obligation for the Financial Group to repurchase its subsidiaries' shares.

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- H) Employee retirement obligations

Under Mexican Banking GAAP Bulletin 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 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. Mexican Banking GAAP allows for the Financial Group to amortize the transition obligation related to the adoption of Bulletin D-3 over the expected service life of the employees. 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 Bulletin D-3. For U.S. GAAP, such costs are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions", whereby the liability is measured, similar to Mexican Banking GAAP, using the projected unit credit method at net discount rates. SFAS No. 87 became effective on January 1, 1989 whereas Bulletin 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 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 Bulletin D-3, the Financial Group accounts for such benefits in a manner similar to U.S. GAAP. SFAS No. 106 became effective on January 1, 1993 whereas Bulletin 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 adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)", in 2006. This statement requires companies 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; (3) measure the funded status of defined pension and other postretirement benefit plans as of the date of the company's fiscal year-end; and (4) provide enhanced disclosures. The provisions of this statement are effective for an employer with publicly traded equity securities, or controlled subsidiaries of such companies, in fiscal years ending after December 15, 2006. In addition, a company must now measure the fair value of its plan assets and benefit obligations as of the date of its year-end balance sheet. A company is no longer permitted to measure the funded status of its plan(s) by being able to choose a measurement date up to three months prior to year end. This provision within the standard is effective for all companies in fiscal years ending after December 15, 2008, however this provision does not impact the Financial Group as its measurement date is the same as its fiscal year end. Retrospective application of this standard is not permitted. There is no impact on the Financial Group's consolidated US GAAP results of operations or cash flows. The impact on the Financial Group's consolidated US GAAP stockholders' equity as a result of adopting the provisions of SFAS No. 158 was due to the reclassification of the unrecognized items related to its employee retirement obligations to other comprehensive income.

I) Capitalized costs

Under Mexican Banking GAAP, prior to the issuance of Bulletin C-8, "Intangible Assets", all expenses incurred in the preoperating or development stages were capitalized. Upon adoption of Bulletin 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 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.

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 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 SOP 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

IPAB Notes Securitization

As disclosed in Note 13, on December 22, 2004 the Financial Group securitized a group of IPAB-Bancrecer notes for a total amount of \$ 45,940 (nominal value). Only \$ 1,533 (nominal value) of the Securitization Certificates were sold to third party investors and the remainder of the Securitization Certificates were retained by the Financial Group.

Immediately subsequent to the sale, the Financial Group entered into repurchase agreements of Securitization Certificates with qualified institutional investors. Under these agreements, Securitization Certificates are sold and repurchased in a short period of time (less than 30 days) and renewed at maturity.

As of December 31, 2004 the amount of Securitization Certificates sold under repurchase agreements amounted to \$ 44,297 (nominal value). The remaining \$ 90 (nominal value) remaining of the Securitization Certificates received was recorded as trading securities.

Under Mexican Banking GAAP, based on instructions from the Commission in their letter DGSIF "A"-601-II-52006 dated on February 11, 2005, the Financial Group recorded these transactions as a sale and repurchase agreement.

For U.S. GAAP purposes, neither the securitization nor the repurchase agreement qualify for sale accounting under SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", and therefore, both sales transactions have been reversed in the reconciliation.

The amount outstanding as of December 31, 2006 and 2005 amounted to \$ 0 and \$ 25,524 respectively.

All income earned on the Securitization Certificates is credited to the purchaser's account.

UMS Bonds Securitization (See Note 2d)

During the first quarter of 2006, the Financial Group securitized UMS bonds in the amount of \$ 4,910. The Financial Group retained approximately 99% of the Securitization Certificates issued by the trust and immediately subsequent to the securitization, sold them under repurchase agreements. The Financial Group recorded this transaction as a sale for purposes of its Mexican Banking GAAP financial statements.

For U.S. GAAP purposes, neither the securitization nor the repurchase agreement qualifies for sale accounting under SFAS No. 140, and therefore, both sales transactions have been reversed in the reconciliation.

As disclosed in Note 2d), the Financial Group's subsidiary Banorte transferred its UMS bonds from the held-to-maturity category to available-for-sale. For US GAAP purposes, such reclassification tainted Banorte's portfolio and therefore all held-to-maturity securities have been reclassified to available-for-sale at fair value in accordance with the criteria established by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Mortgage Loans Securitization (See Note 2e)

During December 2006, the Financial Group securitized mortgage loans in the amount of \$ 2,068, 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 has been 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.

Under US GAAP, the securitization met the criteria established by SFAS No. 140 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 \$ 345 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 SFAS No. 115. Subsequent increases or decreases in the fair value of the subordinated certificate will be reflected by an adjustment, net of taxes, being charged or credited to the other comprehensive income portion of stockholders' equity.

- K) Share based payment

Under Mexican Banking GAAP the Financial Group records its stock-based compensation plans as prepaid expenses, based on instructions received from the Commission in its letter 601-II-9477.

Under U.S. GAAP, prior to January 1, 2006, the Financial Group applied Accounting Principles Board Opinion (APB)

No. 25, "Accounting for Stock Issued to Employees", which requires an entity to use an intrinsic value method to determine the value of equity instruments.

Under U.S. GAAP, the Financial Group adopted SFAS No. 123(R), "Share Based Payment", effective January 1, 2006, using the modified prospective application method. The modified prospective application method applies to new awards, to any outstanding liability awards, and to awards modified, repurchased, or cancelled after January 1, 2006. For all awards granted prior to January 1, 2006, compensation cost has been recognized on the portion of awards for which service has been rendered. SFAS No. 123(R) requires all stock-based compensation awards, including stock options, to be accounted for at fair value and to be recognized as

compensation expense over the requisite service period. At December 31, 2006, the Financial Group had certain stock-based compensation plans that are described below

The Financial Group provides a stock option plan to key employees approved by the Board of Directors' Compensation Committee in order to acquire the Financial Group's shares. Compensation cost according to the grant-date fair value of these award is recognized over the vesting period (requisite service period) established in each employees' option agreement.

The following table presents the status of all option plans as of December 31, 2006 and changes during 2006:

	<u>Shares</u>	<u>Weighted Average Exercise Price (Pesos)</u>
Outstanding at January 1, 2006.....	3,595,444	\$ 5.93
Options granted.....	—	—
Options exercised.....	2,711,956	\$ 5.93
Options forfeited.....	13,200	\$ 5.93
Outstanding at December 31, 2006.....	870,288	\$ 5.93
Options exercisable at December 31, 2006.....	870,288	\$ 5.93

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model was developed to estimate the fair value of employee stock options, changes to the subjective assumptions used in the model can result in materially different fair value estimates. The weighted average grant date fair values of the options granted were based on the assumptions below:

	<u>Share volatility</u>	<u>Risk free rate</u>	<u>Expected life of options</u>	<u>Dividend yield</u>
Option Plan	38.87%	9.37%	4 years	—

The Financial Group provides an equity incentive plan to certain key employees approved by the Board of Directors' Compensation Committee in order to acquire the Financial Groups' shares. Due to the particular characteristics of the plan, the Financial Group applied internal valuation methods to calculate the fair value of the equity awards. As of December 31, 2006, approximately 3,738,336 equity awards were outstanding under this plan.

The Financial Group provides an equity incentive plan to certain key executives approved by the Board of Directors' Compensation Committee by means of a nonvested share plan, which is recognized in accordance with the provisions established by SFAS No. 123(R). The number of nonvested shares outstanding as of December 31, 2006 was 845,343.

L) Other adjustments

These include the following:

	Stockholders' equity		Net income		
	December 31,		Year ended December 31,		
	2006	2005	2006	2005	2004
1) Non-accrual loans	\$ (37)	\$ (71)	\$ 34	\$ 11	\$ (51)
2) Guarantees	(15)	(11)	(4)	(8)	(2)
3) Repurchase agreements	(47)	(46)	(1)	(21)	(7)
4) Investment valuation	40	(134)	(226)	(62)	(20)
5) Equity method investees	(70)	(52)	1	5	100
	<u>\$ (129)</u>	<u>\$ (314)</u>	<u>\$ (196)</u>	<u>\$ (75)</u>	<u>\$ 20</u>

These other adjustments are related to the following differences between Mexican Banking GAAP and U.S. GAAP:

- 1) 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 meet 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.
- 2) For U.S. GAAP purposes, guarantees are accounted for under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34", 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.
- 3) Repurchase and resale agreements represent 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. Under Mexican Banking GAAP, repurchase and reverse repurchase agreements are recorded as sales and purchases of securities, respectively. A net asset or liability is recorded at the fair value of the forward commitment to 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 US 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.
- 4) The investment valuation adjustment is 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 recognizes income based on the straight line method.

As disclosed in Note 40J), as a result of tainting its portfolio all of Banorte's held-to-maturity securities under Mexican Banking GAAP have been reclassified as available-for-sale under U.S. GAAP.

- 5) Under Mexican Banking GAAP, investments in associated companies in which the Financial Group has more than a 10% ownership, are 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.

M) Deferred taxes

Under Mexican Banking GAAP as required by Bulletin D-4, “Accounting for Income Tax, Tax on Assets and Employee Statutory Profit Sharing,” 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 bases, measured using enacted rates. The effects of changes in the statutory rates are accounted for in the period that includes the enactment date. 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.

PTU is derived 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 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 that includes the enactment date. 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.

U.S. GAAP differences as described above, to the extent taxable are reflected in the U.S. GAAP deferred tax balances.

N) Minority interest

Under Mexican Banking GAAP, minority interest in consolidated subsidiaries is presented as a separate component within the stockholders’ equity section of the consolidated balance sheet. For U.S. GAAP purposes, minority interest is not included in stockholders’ equity and is presented below total liabilities and above the stockholder’ equity section of the balance sheet.

II Significant disclosures

Consolidation

Under Mexican Banking GAAP, the Financial Group’s consolidated financial statements include all of its subsidiaries within the financial sector, as well as those providing complementary services, and exclude those that are not contained in the financial sector. The determination of which companies are deemed to be within the financial sector is not based solely on the application of a conceptual framework. The SHCP has the right to determine if a Financial Group is or is not within the financial sector, and therefore is required to be consolidated. Companies that may seem to fall within the financial sector based on their operations may not be consolidated due to decisions of the SHCP.

Under U.S. GAAP, the basic rule 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) in 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 net income or stockholders’ equity result due to the consolidation differences 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 SFAS No. 128, “Earnings per Share”, and is

calculated using the weighted-average number of common shares outstanding during each period. Basic and diluted earnings per share are based upon, 2,019,019,115; 2,018,237,486 and 2,018,107,676 weighted-average shares outstanding for 2006, 2005 and 2004, 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:

	<u>Year ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Basic and diluted earnings per share.....	\$ 2.78	\$ 2.97	\$ 0.94

B) Cash flow information

Mexican Banking GAAP establishes presentation requirements related to the statement of changes in financial position. This statement 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 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, 2006, 2005 and 2004, includes the impact of U.S. GAAP adjustments in conformity with recommendations established by the American Institute of Certified Public Accountants SEC Regulations Committees' International Practices Task Force.

GRUPO FINANCIERO BANORTE, S.A. DE C.V. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Expressed in thousands of Mexican pesos of constant purchasing power as of
December 31, 2006)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Net income under U.S. GAAP.....	\$ 5,607	\$ 6,003	\$ 1,891
Unrealized investment loss (income).....	316	(208)	(238)
Allowance for loan losses.....	1,337	1,226	1,835
Depreciation and amortization.....	673	755	979
Deferred income taxes and employee profit sharing.....	781	1,185	1,113
Provision for miscellaneous obligations.....	(41)	1,942	290
Minority interest.....	466	606	270
Equity in losses (earnings) of subsidiaries and associated companies.....	(149)	(55)	(29)
Allowance for doubtful accounts.....	19	21	33
Periodic pension cost.....	337	343	120
Loss (gain) on sale of property.....	(14)	(109)	(79)
Loss (gain) on sale of foreclosed assets.....	79	166	(17)
Loss on sale of trading securities.....	748	490	950
Loss on sale of available for sale securities.....	51	329	—
Amortization of purchased portfolios.....	1,540	413	323
Loss from monetary position.....	1,087	636	834
Insurance and postretirement reserves.....	285	(201)	(77)
Amortization of debt issuance fees and costs.....	(123)	72	89
Income recognition of purchased portfolios.....	102	(543)	101
Other non-cash items.....	20	(3)	53
Changes in operating assets and liabilities:			
Trading securities.....	(11,299)	1,372	(2,282)
Trading derivative financial instruments.....	5	(27)	(5)
Deferred income taxes and employee profit sharing.....	—	318	82
(Decrease) increase in settlement accounts payable.....	(1,043)	(272)	914
Decrease in settlement accounts receivable.....	2,827	152	330
Decrease (increase) in other accounts receivable.....	(5,902)	12	(1,313)
Increase (decrease) in other accounts payable.....	5,016	1,876	(1)
Decrease (increase) in deferred charges.....	(504)	59	(354)
Decrease in deferred credits.....	(375)	(256)	(219)
Net cash generated by operating activities.....	<u>1,846</u>	<u>16,302</u>	<u>5,593</u>
Cash flows from investing activities:			
Proceeds from sale of property, furniture and equipment.....	30	172	104
Acquisitions of property, furniture and equipment.....	(874)	(266)	(715)
Investments in shares.....	(103)	(64)	(81)
Cash paid for stock of INB Financial Corp, net of cash acquired.....	(2,521)	—	—
Proceeds from sale of foreclosed assets.....	131	748	2,012
Treasury transactions - held to maturity securities.....	18,704	(5,617)	(1,958)
Treasury transactions - available for sale securities.....	(2,405)	(222)	(351)
(Issuance of) proceeds from loans.....	(20,835)	(14,704)	47,859
Purchased credit portfolios.....	(2,697)	(2,151)	(1,166)
Repurchase agreements - purchases.....	<u>(12,811)</u>	<u>(1,723)</u>	<u>(161)</u>
Net cash (used in) generated by investing activities.....	<u>(23,381)</u>	<u>(23,827)</u>	<u>45,543</u>

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from financing activities:			
Proceeds from (repayments of) subordinated liabilities.....	\$ 6,682	\$ (61)	\$ 2,115
Issuance (repurchase) of shares	30	(17)	5
Dividends paid.....	(763)	(664)	(283)
Merger with Seguros Generali México, S.A. de C.V.....	—	—	18
Deposits	20,661	9,336	(36,876)
Repayments of bank debt and other loans	(2,565)	(3,650)	(6,842)
Repurchase agreements – sales.....	2,191	1,878	5
Debt issue costs of subordinated liabilities.....	(29)	—	(22)
Net cash generated by (used in) financing activities.....	<u>26,207</u>	<u>6,822</u>	<u>(41,880)</u>
Effect of inflation accounting	<u>(1,660)</u>	<u>(1,097)</u>	<u>(1,750)</u>
Net increase (decrease) in cash and cash equivalents	3,012	(1,800)	7,506
Cash and cash equivalents at beginning of year	<u>40,615</u>	<u>42,415</u>	<u>34,909</u>
Cash and cash equivalents at end of year.....	<u>\$43,627</u>	<u>\$40,615</u>	<u>\$42,415</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	2,776	398	287
Interest	25,741	26,228	17,760
Supplemental schedule of non-cash investing activities:			
Transfers from loans to foreclosed assets	105	703	1,234
Transfers from (to) purchased credit portfolio to (from) foreclosed assets.....	<u>(120)</u>	<u>223</u>	<u>—</u>
Transfers to (from) foreclosed assets from (to) loans and purchased credit portfolio, net	<u>\$ (15)</u>	<u>\$ 926</u>	<u>\$ 1,234</u>

During 2006, the Financial Group determined that the consolidated statements of cash flows for the years ended December 31, 2005 and 2004 had not properly been prepared for (i) arithmetic application of certain manual balance sheet adjustments and (ii) the determination of the effects of inflation on cash and cash equivalents. Accordingly, the Financial Group has restated its 2005 and 2004 consolidated statements of cash flows. The effect of the restated presentation of cash flows from operating, investing and financing activities is presented below (in millions of Mexican pesos of purchasing power of December 31, 2006).

	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>As Restated</u>	<u>As Presented</u>	<u>As Restated</u>	<u>As Presented</u>
Cash flows from operating activities	\$ 16,302	\$ 15,523	\$ 5,593	\$ 2,898
Cash flows from investing activities.....	(23,827)	(12,698)	45,543	64,733
Cash flows from financing activities	6,822	(5,566)	(41,880)	(63,779)
Effect of inflation accounting	<u>(1,097)</u>	<u>1,183</u>	<u>(1,750)</u>	<u>1,815</u>
Net (decrease) increase in cash and cash equivalents	<u>\$ (1,800)</u>	<u>\$ (1,558)</u>	<u>\$ 7,506</u>	<u>\$ 5,667</u>

Cash and cash equivalents - 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.

C) New accounting pronouncements

SFAS No.155 “Accounting for certain hybrid financial instruments-and amendment of FASB Statements No. 133 and 140” was issued in February 2006. This statement amends SFAS No. 133 and 140. This statement resolves issues addressed in SFAS 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” This statement permits fair value remeasurement for any hybrid financial instrument

that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Financial Group's management is in the process of determining the potential impact of adopting this statement on its consolidated financial position and results of operations.

SFAS No. 156 "Accounting for servicing of financial assets-an amendment of FASB Statement No.140" was issued in March 2006. This statement amends SFAS No. 140, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. This statement permits an entity to reclassify certain available-for-sale securities to trading securities, regardless of the restriction in paragraph 15 of SFAS No. 115, provided that those available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value. This option is available only once, as of the beginning of the fiscal year in which the entity adopts this statement. An entity should adopt this statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this statement is the date an entity adopts the requirements of this statement. An entity should apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions after the effective date of this statement. The Financial Group's management is in the process of determining the potential impact of adopting this statement on its consolidated financial position and results of operations.

SFAS No. 157 "Fair Value Measurements" was issued in September 2006. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is applicable to other accounting pronouncements that require or permit fair value measurements as established by the FASB. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this statement will change current practice. The definition of fair value retains the exchange price notion in earlier definitions of fair value. This statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the 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 transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This statement also emphasizes that fair value is a market-based measurement, not an entity-specific measurement. This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is encouraged. The Financial Group's management is in the process of determining the potential impact of adopting this Standard on its consolidated financial position and results of operations.

SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115", was issued in February 2007, and provides a fair value option to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. This statement is not expected to impact the Financial Group's consolidated financial operations in future periods.

FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109", was issued in July 2006. FIN No. 48 clarifies the accounting and reporting for income taxes

where interpretation of the tax law may be uncertain. FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Financial Group's management is in the process of determining the potential impact of adopting this interpretation on its consolidated financial position and results of operations.

Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" was issued in September 2006. SAB No. 108 establishes a dual approach that requires quantification of financial statement misstatements based on the effects of the misstatements on an entity's balance sheet and income statement (the iron curtain and roll-over methods) and the related financial statement disclosures. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been applied or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. The Financial Group determined that a cumulative adjustment of prior period misstatements was not required for its fiscal year ending December 2006, since the identified misstatements of prior periods were neither quantitatively nor qualitatively material to prior periods or the current period and thus did not require a prior period or cumulative adjustment.

**BYLAWS
GRUMA, S.A.B. DE C.V.**

NAME, PURPOSE, DOMICILE, DURATION AND NATIONALITY

ARTICLE FIRST. NAME. The Company's legal name is: "GRUMA", which shall always be followed by the words SOCIEDAD ANÓNIMA BURSÁTIL DE CAPITAL VARIABLE (PUBLICLY-HELD STOCK COMPANY) or by its abbreviation "S. A. B. DE C.V."

ARTICLE SECOND. PURPOSE. The Company's purpose is to: (a) purchase, sell, import, export, as well as to manufacture and assemble all kinds of goods or trade products; (b) purchase, sale, manage, negotiate, subscribe, issue, amortize, encumber, and transfer by any legal means, shares or partnership interests, unsecured debt, mortgages or of any other type, securities, derivative financial instruments and any kind of credit instruments; (c) create, organize and manage all types of businesses; (d) grant guaranties, endorsements, sureties, bonds, pledges, mortgages, trust funds and any other credit operation, either real or personal, on its own behalf or on behalf of third parties with which the Company has share, financial or commercial relationships; (e) purchase, sell, encumber, rent or lease, whether as lessor or as lessee, all types of personal property and real estate as may be necessary and/or convenient to achieve the Company's purposes; (f) provide and receive all types of administrative or technical consulting and advisory services to or from any individual or corporation, whether Mexican or foreign; (g) establish branches, agencies or representative offices and to act as intermediary, commission agent, representative, distributor or warehouse depositor for all types of Mexican or foreign businesses; (h) register, acquire, hold, market and transfer brand names, trademarks, patents, copyrights, inventions, processes, and any other type of industrial property, as well as all types of concessions, rights and licenses; (i) grant and take loans; (j) subscribe, issue and negotiate, all types of credit instruments with the intervention of any institution and/or authority, as may be required by the applicable legal regulations; (k) carry out all types of businesses and financial, commercial and industrial transactions which are directly or indirectly related to the Company's purposes; and (l) carry out any actions and enter into contracts permitted by applicable legal regulations, which may be necessary or convenient to achieve the Company's purposes.

ARTICLE THIRD. DOMICILE. The Company's domicile is Monterrey, Nuevo León, México; and the Company may establish agencies or branches anywhere in the Mexican Republic or abroad and subject itself to conventional domiciles in all contracts executed by the same.

ARTICLE FOURTH. DURATION. The duration of the Company shall be 99 (ninety nine) years, commencing on December 24 (twenty four), 1971 (nineteen seventy one).

ARTICLE FIFTH. NATIONALITY. The Company is of Mexican nationality. All foreign nationals whom at the time of incorporation of the Company or at any other time thereafter acquires a stock participation or an interest in said Company shall be considered, due to that fact, as Mexican, regarding said participation or interest, as well as in respect to the property, rights, concessions, participations or interests owned by the Company, or to the rights and duties derived from any agreements entered into by the Company, and said foreign national agrees not to invoke therefore the protection of their governments, under the penalty to forfeit, in favor of the Mexican Nation, any participation or interest they would have acquired.

CAPITAL STOCK, SHARES AND SHAREHOLDERS

ARTICLE SIXTH. CAPITAL STOCK. The Company's capital stock is variable; the fixed and non-redeemable fully subscribed and paid portion of the capital stock is represented by 482'549,952 (FOUR HUNDRED EIGHTY TWO MILLION FIVE HUNDRED FORTY NINE THOUSAND NINE HUNDRED FIFTY TWO) Class I, Series "B", common nominative shares, with no par value; which shares amount to the sum of \$4,893'849,824.74 (FOUR BILLION, EIGHT HUNDRED NINETY THREE MILLION, EIGHT HUNDRED FORTY NINE THOUSAND EIGHT HUNDRED TWENTY FOUR PESOS 74/100 MEXICAN CURRENCY), the variable part of the capital stock shall be represented by Class II, Series "B" common shares with no par value.

All of the shares shall confer the same rights and obligations to their holders within each one of its Series and Classes. Shares may have all other features determined by the General Shareholders' Meeting that approves their issuance thereof, according to the applicable legal regulations. Only the shares which value is fully paid are to be released.

The Company shall only recognize as shareholders those persons or entities registered in the ledger referred to in Article Eighth of these Bylaws.

The corporate entities controlled by the Company may not directly or indirectly be shareholders of said Company, nor of any other corporate entity holding the majority of the shares of the Company.

ARTICLE SEVENTH. SHARE CERTIFICATES REPRESENTATIVE OF THE CAPITAL STOCK. Share certificates representing the capital stock may include one or more shares and shall be signed by 2 (two) members of the Board of Directors. Share certificates shall bare the provisions of Articles Fifth and Eleventh hereof as well as to satisfy all the requirements set forth in Article 125 of the Ley General de Sociedades Mercantiles (“Mexican Corporate Law”).

While the definitive certificates representing the shares issued by the Company are delivered to their holders, provisional share certificates may be issued which shall be exchanged in time for the definitive share certificates.

Upon request and at the expense of its holder, provisional and definitive share certificates may be exchanged for certificates of different denominations.

In the event of loss, theft or destruction of the provisional or definitive share certificates, such certificates will be replaced at holder’s expense, in accordance with the procedure set forth in the General Law of Negotiable Instruments and Credit Operations.

If the capital stock consists of share certificates representing more than one share, and for any reason whatsoever the original certificate has to be divided, any 2 (two) Directors shall sign the new divided share certificates issued to be exchanged for the original divided share certificate. Any Director who signs a new share certificate shall be responsible for receiving and for the cancellation of the old divided share certificate and the issuance of new certificates representing an identical number, class, and series of shares as the original divided certificate. The ownership of the shares shall be transferred by endorsing the corresponding share certificate or title or by any other legal mean.

ARTICLE EIGHTH. REGISTRATION OF SHAREHOLDERS. The Company shall keep a Stock Ledger, which may be kept by the Secretary of the Board of Directors, by any securities depository institution or by any credit institution. All information demanded by Article 128 of the Mexican Corporate Law shall be recorded in said registry. Only those persons listed in the Company’s Stock Ledger will be recognized as shareholders by the Company, and upon request of the relevant holder, all annotations in respect to any transfer, limitation, lien and encumbrance of the shares must be recorded in said Stock Ledger.

ARTICLE NINTH. MODIFICATIONS TO THE CAPITAL STOCK. In the event of increments or reductions of the capital stock, and the amortization of shares with distributable earnings, exception made for transactions by Company to purchase or sell the Company’s own shares in market, in accordance to the dispositions of Article Tenth hereof, the following procedure shall be observed:

The increments or reductions of the fixed part of the capital stock as well as the amortization of shares with distributable earnings, representing the same portion of the capital stock must be approved by the General Extraordinary Shareholders’ Meeting.

The increments or reductions of the variable part of the capital stock, as well as the amortization of shares with distributable earnings representing the same part of the capital stock, should be approved by the General Ordinary Shareholders’ Meeting, and all corresponding minutes taken therein should be formalized before a Civil Law Notary, without having to register the Notarial deed containing the registration of the corresponding resolution before the Public Registry of Property and Commerce.

The shareholders of the variable portion of the capital stock of the Company shall not have the right to redeem shares referred in Article 220 of the Mexican Corporate Law.

Any increments or reductions of the capital stock should be recorded in the registry kept by the Company for said purpose.

The Company may issue unsubscribed shares kept in the treasury to be subscribed thereafter by the investor public through public offering according to the applicable legal regulations or to the conditions set forth by the General Extraordinary Shareholders' Meeting ordering said issuance.

The Company may make, at any time, a private offer of its shares according to the dates, terms, conditions and exemptions provided by the Ley del Mercado de Valores ("Mexican Securities Law") and any other applicable legal regulations.

The capital stock may be incremented also by capitalizing Stockholders' equity accounts referred to in Article 116 of the Mexican Corporate Law or by capitalizing debts. In increments based upon the capitalization of Stockholders' equity accounts, all shares shall be entitled to receive the proportional part of the shares issued to represent the relevant capital stock increment.

Shareholders shall have the preemptive right to subscribe all new shares issued in the event of an increment of the capital stock, proportionate to the number of shares that they own at the time such increment is resolved. Such right must be exercised within the time period determined to that effect by the Shareholders' Meeting that resolved such increase of capital stock, however under no circumstance shall such period be less than 15 (fifteen) days from the day following the publication of the corresponding resolution in the Federal Official Gazette or in one of the newspapers of greater circulation of the Company's domicile. In the event that after the expiration of the term set forth for the shareholders to exercise their preemptive right mentioned in the prior paragraph, there remain unsubscribed shares, these may be offered for their subscription and payment at the conditions and terms determined by the Meeting that had approved the capital stock increase, or pursuant to the terms set forth by the Board of Directors or the delegates designated by the Meeting for such purposes.

Without affecting the foregoing in any manner whatsoever, the preemptive right to subscribe shall not apply regarding capital increases through public offerings or by placing shares owned by the Company that has been previously acquired by the same.

The capital stock may be reduced (i) to absorb losses; (ii) to reimburse capital contributions to shareholders, (iii) due to the release granted to stockholder of non-paid exhibits, (iv) by repurchasing shares according to the applicable legal regulations and to the Bylaws of the Company.

The reductions of capital stock to absorb losses shall be made on a strict proportionate basis among the shareholders, without the need of canceling the corresponding shares since they do not have a nominal value. In the event of reductions of the capital stock for reimbursement to the shareholders, such reimbursement shall be made on a proportionate basis among them, in the understanding that the price of the reimbursement may not be less than the book value of the shares pursuant to the last statement of financial position that had been approved by the Ordinary Shareholders' Meeting.

The General Shareholders' Meeting may decree the amortization of the Company's shares with distributable earnings without reducing the capital stock, complying with the provisions of the Mexican Corporate Law and other applicable legal regulations for the Company. The amortized shares shall be voided and the corresponding certificates shall be cancelled.

ARTICLE TENTH. TRANSACTIONS WITH COMPANY'S OWN SHARES. The Corporation may repurchase shares representing its capital stock or credit instruments representing said shares pursuant to the terms, conditions and exceptions established by the applicable legal regulations, without the application of the prohibition established in the first paragraph of Article 134 of the Mexican Corporate Law and provided that:

- I. The repurchase takes place in any Mexican stock market where the shares of the Company are traded.
- II. The repurchase takes place at the prevailing market price, exception made for public offerings or biddings authorized by the Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission).
- III. That the repurchase be charged to the Stockholders' equity being able to keep them in the power of the Company without having to reduce the capital stock or that the repurchase be charged to the capital stock converting them into treasury shares, in which case no resolution from the Shareholders' Meeting shall be required.

- IV. The General Ordinary Shareholders' Meeting expressly resolves, for each fiscal year, the maximum amount of monetary resources that may be used for the repurchase of the Company's stock or of the credit instruments representing said shares, with the only limitation that the aggregate of such amount of resources under no circumstance shall be greater than the balance of the total net earnings of the Company, including retained earnings.
- V. The Corporation has no pending obligations derived from debt instruments recorded in the Mexican Securities Registry, and
- VI. The percentages referred thereto in Article 54 of the Mexican Securities Law are not exceeded and the requisites to keep the listing in the stock market where the shares operate are met.

The Company shares owned by the Company or, in its case, the treasury shares referred to in this Article, without affecting the provisions established by the Mexican Corporate Law, may be placed among the investor public pursuant to the applicable legal regulations, without requiring the resolution of any Shareholders' Meeting or of the Board of Directors

The Company shares or credit instruments representing said shares owned by the Company may not be represented, nor voted in the Shareholders' Meeting nor any economic or corporate rights of any kind may be exerted therefrom.

ARTICLE ELEVENTH. REQUIREMENTS FOR THE PURCHASE AND SALE OF COMPANY'S SHARES. The prior written approval from the Board of Directors of the Company as provided in this Article shall be required for any Person (as such term is defined below) that individually or jointly with any Related Party (as such term is defined below), intends to acquire common Shares (as such term is defined below), or rights over common Shares by any means or under any title, directly or indirectly, whether in a single event or in a set of consecutive events, regardless of the lapse of time between them, which consequence or effect be the following:

- a) That its shareholdings, individually or jointly with the Shares previously held, being acquired or intended to be acquired in the future be equal or greater than 5% (five percent) of the total common Shares.
- b) The ownership rights over common Shares, individually or jointly with any Shares previously held, being acquired or intended to be acquired, be equal or greater than 5% (five percent) of the total common Shares.

Such prior approval from the Company' Board of Directors must be obtained each time the shareholdings thresholds are intended to be exceeded as provided hereto, in a percentage equal to or greater than 5% (five percent) (and multiples thereof) of common Shares or ownership rights therefrom, except for Persons who directly or indirectly are deemed to be Competitor (as such term is defined below) of the Company or of any of its Subsidiaries (as this term is defined bellow), in which case the Person in question must obtain the prior approval of the Board of Directors for future acquisitions where a limit of 2% (two percent) (or multiples thereof) of common Shares is intended to be exceeded.

For the purposes hereof, the Person in question shall comply with the following:

I. Approval of the Board of Directors:

1 (one) The Person in question shall submit a written authorization request to the Board of Directors. Such request must be indubitably delivered to the domicile of the Company and addressed to the Chairman of the Board of Directors, with carbon copy to the Secretary and to their respective Alternates of the same Board. The mentioned application shall set forth and enumerate the following:

- (a) the number, class or series of Shares that the Person in question or any Related Party thereto (i) owns or co-owns, whether directly or indirectly through any Person or through any relative by consanguinity, affinity or adoption, within the fifth degree or spouse under civil or common law marriage or by means of an intermediary, or (ii) in respect to which such Person has, Shares or enjoys any right, be it as a result of an agreement or by any other cause.
- (b) the number, class or series of Shares which the Person in question or any Related Party thereto intends to acquire, be it directly or through any Person in which it should have an interest or participation, either in its capital stock or in the direction, management or operation or otherwise, through any relative by consanguinity, affinity or adoption, within the fifth degree or spouse under civil or common law marriage or by means of an intermediary.

- (c) the number and class or series of Shares in respect to which such Person intends to acquire or share any right, be it as a result of an agreement or by any other legal means.
- (d) (i) the Shares percentage referred to in the previous paragraph (a) represent the total Shares issued by the Company; (ii) the Shares percentage referred to in the previous paragraph (a) represent the class or series pertaining to the same; (iii) the Shares percentage referred to in the previous paragraphs (b) and (c) represent the total Shares issued by the Company, and; (iv) the Shares percentage referred to in the previous paragraphs (b) and (c) represent the class or series pertaining to the same.
- (e) the identity and nationality of the Person or group of Persons intending to acquire the Shares, provided that if any of such Persons is a corporate entity, trust or its equivalent or any other means, enterprise, corporation or form of economic or commercial association, the identity and nationality of the partners or shareholders, settlors and trustees or their equivalent, members of the technical committee or their equivalent, successors, members or limited partners must also be identified, including the nationality and identity of the Person or Persons that Control (as such term is defined below) directly or indirectly such corporate entity, trust or its equivalent or any other means, enterprise, corporation or form of economic or commercial association thereto, until the Persons maintaining any right, interest or participation of any nature with such corporate entity, trust or any other equivalent or any other means, entity, corporation or form of economic or commercial association can be identified, including the documents evidencing economic solvency and good standing of such Person or Group of Persons.
- (f) the reasons and purposes behind such acquisition of Shares, in particular mentioning if the purpose is to acquire directly or indirectly (i) additional Shares to those referred in the approval application, (ii) a Significant Participation (as this term is defined bellow) or; (iii) the Control of the Company.
- (g) if such Person is, directly or indirectly, a Competitor of the Company or of any other Subsidiary or Affiliate (as these terms are defined bellow) thereof and if such Person has the authority to legally acquire the Shares pursuant to the terms of these Corporate Bylaws and the applicable legal regulations. Furthermore, the application must indicate if the Person intending to acquire the Shares has any relative by consanguinity, affinity or adoption, within the fifth degree or spouse under civil or common law marriage that may be considered a Competitor of the Company or of any Subsidiary or Affiliate thereof or has an economic relationship with a Competitor or any interest or participation, be it in the capital stock or in the direction, management or operation of a Competitor, directly or through any Person or any relative by consanguinity, affinity or adoption, within the fifth degree or spouse under civil or common law marriage.
- (h) the origin of the funds intended to be used to pay the price of the Shares, subject matter of the application. In the event, the funds come from any financing arrangement, the identity and nationality of the one providing such funds should be specified and a document issued by such funding Person accrediting and explaining the conditions of the financing arrangement should be delivered along with the authorization request.
- (i) if the Person in question is a part of any economic group formed by one or more Related Parties which as such, in a single event or in a set of consecutive events, intends to acquire Shares or rights over the same or, if applicable, if such economic group is the owner of Shares or of rights over the same.
- (j) if the Person in question has received resources as a loan or for any other concept, from a Related Party or if such Person has provided funds as a loan or under any other capacity to a Related Party for the purpose of paying the price of the Shares.
- (k) the identity and nationality of the financial institution that would act as broker, assuming that the relevant transaction is to be carried through tender offer.
- (l) the address for receiving notices of the petitioner.

2 (two). Within the 10 (ten) business days, following the date in which the request for authorization, referred to in the above mentioned section 1 (one), had been received, the Chairman or Secretary, or in absence of the latter, his Alternate, shall convene the Board of Directors for a meeting to discuss and resolve the aforementioned authorization request. For the purposes herein, the notices for the meetings of the Board of Directors shall be made in writing and they should be delivered by the Chairman or Secretary, or in absence of the latter by his alternate, by certified mail, private courier service, telegram or fax to each one of the Proprietary Directors and their Alternates, at least 45 (forty five) days prior to the date set forth for the

meeting, to their domiciles or to the addresses given in writing by the Directors for all matters referred to in this Article of the Corporate Bylaws. The Alternate Directors may only discuss and vote in cases where the Proprietary Directors are not present in the meeting convened upon. The notices must contain the time, date and place of the meeting and the relevant agenda.

For the purposes of this Article of the Corporate Bylaws, the resolutions taken without a meeting of the Board of Directors shall not be valid.

3 (three) In order for the Board to validly hold a meeting, at least the majority of the Directors or their respective alternates shall be in attendance and its decision and resolutions, to be valid, shall be adopted by the favorable vote of the majority of the Directors in attendance. The Chairman of the Board shall have a deciding vote, in the event of a tie.

The Meetings of the Board of Directors convened to resolve over the above-mentioned authorization request shall consider and adopt resolutions solely with regards to the authorization request referred to in this section 1 (one).

4 (four). The Board of Directors shall resolve over each submitted request for authorization within 60 (sixty) calendar days following the submission date.

The Board of Directors may request from the Person intending to acquire the Shares in question, the additional documents or clarifications deemed necessary to decide over the submitted authorization request, including the documents evidencing the veracity of the information referred to in paragraphs “a” to “l” of the above section 1 (one) of this Article. Assuming that the Board of Directors requests the abovementioned clarification or documents, the 60 (sixty) day term referred to in the first paragraph of this section 4 (four) shall be considered as of the date the aforementioned Person furnishes or delivers, as the case may be, the documents or clarification requested by the Board of Directors through its Chairman, Secretary or his or her alternate.

Assuming that jointly, coordinated or by agreement, one or more Persons are intending to acquire Shares, regardless of the legal act originating the same, shall be deemed as a single Person for the purposes of this Article of the Corporate Bylaws.

In the same manner, for the purposes of this Article, it shall be understood as Shares belonging to the same Person, the Shares held by a Person plus the Shares: (i) held by any consanguinity, affinity or adoption relative, within the fifth degree, or by any spouse under a civil or common law marriage of the Person holding such Shares, or; (ii) Shares held by an entity, trust or its equivalent, means, enterprise or economic or commercial association, whenever such entity, trust or its equivalent, means, enterprise or economic or commercial association is Controlled by the abovementioned Person or; (iii) Shares held by any Related Party (related) to such Person.

In the assessment of the authorization request referred to in this Article, the Board of Directors shall take into account those factors deemed appropriate, considering the interests of the Company and of its shareholders, including issues of financial nature, market, business and the moral and economic standards of the potential buyers, whether the intended transaction represents a conflict of interests or not, if it leads to a change of Control of the Company or to an acquisition of a Significant Participation of the common Shares, if the reports and/or authorizations requests, referred to in this Article, were submitted on time, among others factors.

The Board of Directors may deny the authorization request referred to in this Article, among other reasons in connection to with the items provided by the preceding paragraph, for the following reasons:

- (a) Due to petitioner lack of economic solvency or good standing;
- (b) When financing is required to carry out the requested transaction;
- (c) When it refers to a Competitor of the Company or of its Subsidiaries;
- (d) When the petitioner’s interests are contrary to the ones of the Company or of its Shareholders;
- (e) Due to the object, cause, motive or purpose of the requested acquisition;

- (f) Due to the existence of economic, family or similar ties with other shareholders of the Company or with competitors of the same or of its Subsidiaries;
- (g) When it entails transactions with Related Parties;
- (h) If the funds required to carry out the intended transaction are of unknown or doubtful origin;
- (i) When the information furnished in the authorization request or any complementary information thereof should prove deficient, doubtful, non verifiable, erroneous, incomplete or be imprecise or incorrect, among others;
- (j) When it entails the acquisition of a Significant Participation or its purpose is a change of Control of the Company.
- (k) The failure to submit the information and/or notices provided in the last paragraph of section II of this Article.

The request for authorization shall be deemed denied if the Board Meeting has been convened upon the terms provided hereof, but said Board Meeting was unable to convene for any reason whatsoever.

5 (five). In case the Board of Directors approves the proposed acquisition of Shares and such acquisition should entail the acquisition of a Significant Participation without such acquisition exceeding half of the common Shares, then the Person intending to acquire the relevant Shares must make a public tender offer, at a price payable in cash, for the percentage of Shares equivalent to the percentage of common voting Shares that said Person is intending to acquire or by 10% (ten percent) of the Shares, whichever is greater, pursuant to the terms and conditions of the Mexican Securities Law.

The public tender offer referred to in this section five (5) must be made simultaneously in Mexico's and United State's stock markets, as long as the stock of the Company continues to be traded in said countries.

Effective from the time the public tender offer is made and until the conclusion of the same, the Company, as well as its Directors and senior officers shall refrain from making or closing transactions which, in detriment to the minority investors, are aimed to hinder the development of said offer.

Notwithstanding the foregoing, the Board of Directors shall, within 10 (ten) business days following the commencement of the public tender offer, prepare, under the advise of the Corporate Governance Committee and disclose to the investor public through SEDI (Electronic Information Carriage and Disclosure System, as authorized to the applicable Stock Exchange by the Mexican Banking and Securities Commission, or whichever system substitutes SEDI for this purposes), its opinion in connection with the public tender offer. If the Board of Directors should face a situation where it may create a conflict of interest or when more than one offer is made at conditions not directly comparable to those contained in the opinion, then the opinion may be coupled with another opinion issued by an independent expert retained for such purposes by the Company at the request of the Corporate Governance Committee.

Directors who may also be shareholders of the Company shall disclose to Bolsa de Valores, S.A. de C.V. (Mexican Stock Exchange), to be circulated through SEDI network (Electronic Information Carriage and Disclosure System, as authorized to the applicable Stock Exchange by the Mexican Banking and Securities Commission, or whichever system substitutes SEDI for this purposes), not later than the beginning of the last business day of the public tender offer period, which decision they will take as to their Shares in connection with the public tender offer.

The shareholders, in the event of any public tender offer, shall have the right to hear more competitive offers.

6 (six). An approval of the Board of Directors will not be necessary for any Person that wishes to acquire, directly or indirectly, a participation of more than 50% (fifty percent) of the common Shares or the Control of the Company, in which case, the Person shall make a public tender offer for 100% (one hundred percent) minus 1 (one) of the common Shares issued by the Company, according to the provisions of the Mexican Securities Law and other applicable legal regulations. Nevertheless, if in such public tender offer, the Person making the tender offer is not able to acquire at least half plus 1 (one) of the total of the Shares representing the capital stock, said Person must obtain approval from the Board of Directors upon the terms provided hereto.

The public tender offer referred to in this section six (6) must be made simultaneously in Mexico's and US stock markets, as long as the stock of the Company continues to be traded in said countries.

Effective from the time the public tender offer is made and until the conclusion of the same, the Company, as well as its Directors and senior officers shall refrain from making or closing transactions which, in detriment to the minority investors, are aimed to hinder the development of said offer.

Notwithstanding the foregoing, the Board of Directors shall, within 10 (ten) business days following the commencement of the public tender offer, prepare, under the advise of the Corporate Governance Committee and disclose to the investor public through SEDI (Electronic Information Carriage and Disclosure System, as authorized to the applicable Stock Exchange by the Mexican Banking and Securities Commission, or whichever system substitutes SEDI for this purposes), its opinion in connection with the public tender offer. If the Board of Directors should face a situation where it may create a conflict of interest or when more than one offer is made at conditions not directly comparable to those contained in the opinion, then the opinion may be coupled with another opinion issued by an independent expert retained for such purposes by the Company at the request of the Corporate Governance Committee.

Directors who may also be shareholders of the Company shall disclose to Bolsa de Valores, S.A. de C.V. (Mexican Stock Exchange), to be circulated through SEDI network (Electronic Information Carriage and Disclosure System, as authorized to the applicable Stock Exchange by the Mexican Banking and Securities Commission, or whichever system substitutes SEDI for this purposes), not later than the beginning of the last business day of the public tender offer period, which decision they will take as to their Shares in connection with the public tender offer.

The shareholders, in the event of any public tender offer, shall have the right to hear more competitive offers.

7 (seven). Any Person performing a Share acquisition approved by the Board of Directors, shall not be registered in the Stock Ledger of the Company but until such time when the public tender offer referred to in sections five (5) and six (6) above has been concluded. Consequently, such Person shall not be able to exercise the corporate nor the economic rights corresponding to the Shares which acquisition has been approved, but until such time when the tender offer has been concluded.

In case of Persons who are already shareholders of the Company and therefore, are registered in the Stock Ledger of the Company, the Share acquisition approved by the Board of Directors shall not be registered in the Stock Ledger of the Company but until such time when the public tender offer had been concluded and, consequently, such Persons shall not be able to exercise the corporate nor the economic rights corresponding to the Shares acquired by the authorization given by the Board of Directors until they are entered in the Stock Ledger.

II. General Provisions:

If the terms contained in this Article are not met, then the Person or Persons in question may not, directly or indirectly exercise corporate or economic rights vested into the Shares acquired without the appropriate approval, and such Shares shall not be taken into account for the purposes of computing quorum at Shareholders' Meetings and the Company shall refrain from recording the Shares acquired in breach of the terms established by these Bylaws in the Company's Stock Ledger referred to in the Mexican Corporate Law, and any Registry kept by any securities depository institution shall have no effect whatsoever, and thus, the certificates or listings referred to in the first paragraph of Article 290 of the Mexican Securities Law shall not be proof of ownership of Shares nor will they evidence the right to attend the Shareholders' Meetings nor will they entitle exercise of any action whatsoever, including those of procedural nature.

The Persons that obtained the approval of the Board of Directors to acquire Shares as provided under this Article, shall be bound to inform of such situation to said collegiate body, through a written notice addressed and delivered to the same under the terms set forth in the first paragraph of section one (1) of this Article within 5 (five) calendar days following the date the authorized acts and operations are carried out.

The approvals granted by the Board of Directors pursuant to this Article shall cease to be effective automatically and without the need of any statement if the approved transactions are not carried out within a maximum term of sixty (60) calendar-days following the notice of the corresponding approval to the interested party, unless the Board of Directors, prior petition of said person, extends the aforementioned term.

Holders of Shares reaching (or in its case, exceeding) the percentages referred hereunder, shall provide written notice of such circumstance to the Company, which notice shall be addressed and delivered under the terms set forth in the first paragraph of section one (1) of this Article, within a term of five (5) business days after obtaining, reaching or exceeding Ownership: (i) non competitors: each 2% (two percent) of common Shares; (ii) Competitors: each 1% (one percent) of common Shares.

III. Exceptions:

The provisions of this Article of the Corporate Bylaws shall not be applicable to:

- (a) acquisitions or transfers of Shares made by succession, either with or without will, or
- (b) acquisitions of Shares by: (i) the Person who directly or indirectly has the authority or possibility of appointing the majority of the Directors of the Company's Board of Directors; (ii) any company, trust or similar form of venture, means, entity, corporation or economic or mercantile association, which may be under the Control of the Person referred to in section (i) above; (iii) the heirs of the Person referred to in section (i) above; (iv) the Person referred to in section (i) above when such Person should be repurchasing the Shares of any corporation, trust or similar form of venture, means, entity, corporation or economic or mercantile association referred to in section (ii) above, and; (v) the Company or trusts created by the Company.
- (c) Such Person(s) that as of December 4th (fourth), 2003 (two thousand three) hold(s), directly or indirectly, 20% (twenty percent) or more of the Shares representing the Company's capital stock.
- (d) Any other exception contained in the Mexican Securities Law and other applicable legal regulations.

IV. Definitions:

For the purposes of the foregoing Article, the terms indicated below shall have the meanings assigned thereto:

"Shares" and/or "common Shares" means the shares of stock representative of the capital stock of the Company, of any class or series or any certificate, security or instrument issued under such shares or which otherwise confer rights upon such shares or which may be convertible into such shares, and specifically including ordinary participation certificates (CPO's) representing shares of stock of the Company.

"Affiliate" means any Person Controlling, under Control of or under common Control of any Person.

"Competitor" means any Person devoted, directly or indirectly to (i) the business of production and/or marketing of corn or wheat flour, and/or (ii) any other activity carried by the Company or by any of its Subsidiaries or Affiliates.

"Control", "Controlling" or "Controlled" means the capacity of a person or group of persons to carry out any of the following activities: (a) to directly or indirectly impose decisions in General Shareholders' Meetings, Partners' Meetings or any equivalent entities, or appoint destitute the majority of the Directors, managers, or their equivalent, of a corporate entity; (b) to hold the rights that directly or indirectly allow voting regarding more than 50% (fifty percent) of the capital stock of a corporate entity; (c) to directly or indirectly direct the management strategies or main policies of a corporate entity, whether this be through the ownership of securities, by contract or by any other means.

"Significant Participation" means the direct or indirect ownership or holding of 30% (thirty percent) or more of the common voting Shares.

"Person" means any natural person, corporate entity, trust or similar form of venture, vehicle, entity, corporation or economic or commercial 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, by an arrangement or in a coordinated manner under the terms of this Article.

"Related Party" means the ones that regarding the Company, fall in any one of the following assumptions: (a) Controlling persons having a significant influence in a corporate entity belonging to the corporate group or consortium to which the issuer belongs, as well as the Directors or managers and the senior officers of the companies comprising said group or consortium; (b) persons with management authority in a corporate entity that is a part of a corporate group or consortium to which the issuer belongs; (c) the spouse, concubine, concubinary and blood and non-blood related persons up to the fourth degree or by affinity up to the third degree with individuals that fall in any of the assumptions indicated in the aforementioned sections (a) and (b), as well as partners and co-owners keeping business relationship with the individuals mentioned in said sections; (d) corporate entities that are part of a corporate group or consortium to which the issuer belongs;

(e) the corporate entities over which any one of the persons referred to in the foregoing sections (a) to (c) have control or significant influence.

“Subsidiary” means any company in respect to which a Person should be the owner of the majority of the shares of stock representative of its capital stock or in respect to which a Person should have the right to appoint the majority of the Directors of its Board of Directors or otherwise the Sole Director.

The foregoing covenant shall be filed with the Public Registry of Commerce of the corporate domicile of the Company and shall be inserted accordingly in the certificates of the shares of stock of the Company, so that third parties may be warned of the foregoing provisions.

ARTICLE TWELFTH. PENALTIES. As provided for in Article 2117 of the Código Civil Federal (“Federal Civil Code”), any Person acquiring Shares in violation to the terms of Article Eleventh of these Corporate Bylaws, shall be obligated to pay to the Company, as penalty, an amount equal to the Market Value of the entirety of the Shares such party had purchased without obtaining the approval referred to in said Article of these Corporate Bylaws or the Market Value of the shares representing 5% (five percent) of the capital stock, whichever is greater. In the event of gratuitous transfers of Shares made in violation to the terms of Article Eleventh hereof, the amount payable as penalty shall be of an amount equal to the Market Value of the Shares subject matter of the transfer or the Market Value of shares representing 5% (five percent) of the capital stock, whichever is greater.

The term “Market Value” means and/or be understood as the quoted value on closing of operations of the Mexican Stock Exchange on the day of the transaction in which the percentage of shares requiring approval according to said Article had been exceeded.

MANAGEMENT AND DIRECTION

ARTICLE THIRTEENTH. THE MANAGEMENT OF THE COMPANY. The Company’s Management shall be entrusted to a Board of Directors and a Chief Executive Officer, whom shall have the authorities and attributions established in these Bylaws and the applicable legal regulations.

ARTICLE FOURTEENTH. INTEGRATION OF THE BOARD OF DIRECTORS. The Board of Directors shall be composed of at least 5 (five) and not more than 21 (twenty one) Proprietary Directors, as determined by the Shareholders’ Meeting, of which at least 25% of the members shall be Independent Directors. Each Proprietary Director will have an appointed corresponding Alternate, in the understanding that the Alternate Directors of such Proprietary Independent Directors must also meet the same requirements. In the same manner, the Board of Directors or the General Shareholders’ Meeting shall appoint a Secretary that will not be a part of said corporate entity who shall be subject to the obligations and responsibilities imposed to said officers by applicable legal regulations.

Directors shall remain in office for a year with a possibility of reelection. Directors shall remain in office even though their term for which they were designated had concluded or due to their resignation, for up to 30 (thirty) calendar days, if no designation of their substitute has been made, or when the substitute has not taken office, without being subject to the dispositions of Article 154 of the Mexican Corporate Law. In the absence of any of the Directors, and provided no Alternate Director has been designated, the Board of Directors may designate Provisional Directors without the intervention of the Shareholders’ Meeting, whom shall ratify the referred appointment or designate other alternate Directors in the Shareholders Meeting following such event.

Anyone who has served as external auditor of the Company or of any of the corporate entities integrating the business group or consortium to which the Company belongs, may not be Director of the Company during the 12 (twelve) months immediately presiding the date of their appointment. In the same manner, such persons whose positions as Directors had been revoked may not serve as Directors of the Company during the 12 (twelve month) period following the date their positions were revoked.

Independent Directors shall be those Directors that comply with the independence requirements established by the Mexican Securities Law and other applicable legal regulations for the Company.

The General Shareholders’ Meeting designating or ratifying the Directors, or in its case, the one informing or disclosing such designations or ratifications shall qualify the independence of Independent Directors whom shall be elected by their

experience, capacity and professional prestige, considering also that according to their characteristics they are able to perform their duties without any conflict of interest and without being subject to personal, patrimonial or economic interests.

Independent Directors that during their office term cease to have such character should inform the Board of Directors not later than the date following the Board Meeting carried out after said requirements cease to exist.

ARTICLE FIFTEENTH. COMPENSATION OF DIRECTORS. Upon taking office, the Members of the Board of Directors shall receive the compensation indicated by the General Shareholders' Meeting. In the same manner, the Meeting may set forth additional compensation for the members of the Committees of the Board of Directors.

ARTICLE SIXTEENTH. CHAIRMAN OF THE BOARD OF DIRECTORS. The General Shareholders' Meeting, upon designating the members of the Board of Directors or the Board itself in its first meeting immediately following said Shareholders' Meeting, shall designate one of its members to act as Chairman.

The Chairman of the Board of Directors shall be, due to such designation, the representative of said Board and shall have authority to execute the resolutions of the Board of Directors, without the need of a special resolution of any sort. To exert his authority as Chairman of the Board of Directors, he shall have the powers of attorney enumerated in sections I to V of Article Eighteenth of these Corporate Bylaws.

In the same manner, the Chairman of the Board of Directors shall propose said Board or said Shareholders' Meeting, the members that shall integrate the Corporate Governance and the Audit Committees, as it corresponds.

ARTICLE SEVENTEENTH. MEETINGS OF THE BOARD OF DIRECTORS. The Board of Directors must meet at least 4 (four) times during each fiscal year.

The Chairman of the Board of Directors or the Chairman of the Corporate Governance and Audit Committees, as well as 25% (twenty five percent) of the Company's Directors may convene a Board Meeting and insert in the agenda the issues they deem convenient.

The notices for the Meetings of the Board of Directors should be sent to Directors by email, regular mail, fax, or by any other communication means, to the last address that said Directors had informed to the Company, at least 5 (five) working days prior to the date of the Meeting.

The Company's External Auditor may be convened to the Meetings of the Board of Directors, to be heard but without voting rights, refraining to attend such issues relevant to the agenda where auditor has a conflict of interest or that may compromise his independence

In the same manner, the Chief Executive Officer and any other Company's senior officers may be convened to the Meetings of the Board of Directors, but without voting rights.

The validity of the Meetings of the Board of Directors requires the attendance of the majority of its members. The meetings of the Board of Directors shall be presided by its Chairman. If the Chairman is not present at the meeting, it shall be presided by its corresponding alternate and in absence of both, by the Board member designated by the majority of the remaining members of this Board. In the same manner, the person that has been designated as such by the Board of Directors or by the Shareholders' Meeting shall act as Secretary. If absent, he shall be substituted by the Alternate Secretary and in the absence of both, by the person designated therein by the majority of votes of the Directors.

The Board of Directors shall adopt its resolutions through the majority of the votes of the attending members. The Chairman of the Board shall have the tie breaking vote in case of a tie. The minutes of each meeting of the Board of Directors shall be registered in the relevant Book and shall be signed by the Chairman and by the Secretary.

Resolutions taken outside the meeting of the Board of Directors by unanimous vote of its members shall have, for all legal effects, the same validity as if they were adopted in a Board meeting, provided that they are confirmed in writing.

In the same manner, any Director may postpone a Board meeting when said Director had not been convened for such meeting or if the notice was not made in time or, in its case, if the Director did not receive the information delivered to the other

Directors. Said postponement shall be for up to 3 (three) calendar days, being the Board of Directors being able to meet without the need of a new notice, provided the deficiency has been remedied.

ARTICLE EIGHTEENTH. AUTHORITIES OF THE BOARD OF DIRECTORS. The Board of Directors shall have all the authority to manage and administrate the Company, pursuant to the provisions of these Corporate Bylaws and of the applicable legal regulations, in the same manner, the Board may establish the measures, procedures and other actions deemed necessary or convenient in order to comply with the legal dispositions binding the Company, being able to perform all actions that directly or indirectly are related to the corporate object, in which case the Board shall have:

I. GENERAL POWER FOR COLLECTION AND LITIGATION, with all the general and special powers requiring special power or special clause, without any limitation whatsoever, with the amplexness of the first paragraph of Article 2554 and of Article 2587 of the Federal Civil Code and the corresponding Articles in the Civil Codes of all States of the Mexican Republic, including, but not limited to the authority to promote and dismiss any legal action including the “amparo” proceeding, to settle or compromise or subject to any arbitration proceedings the Company’s rights and legal proceeding, accept reductions of amounts due and grant additional time for compliance, intervene as a bidder in auctions, formulate and present questionnaires, to file complaints and accusations for any felony directly or indirectly committed in detriment of the Company, as well as granting pardons, to recuse judges, magistrates or any other public servant, jurisdictional body or Labor Board in individual or collective matters, and in general, to represent the Company in any and all administrative or judicial disputes before any and all authorities and before any individuals.

II.- GENERAL POWER OF ATTORNEY FOR ACTS OF ADMINISTRATION, being empowered to enter into any kind of agreements, contracts or any other legal acts, whether civil, mercantile, administrative or of any other nature, pursuant to the terms of the second paragraph of Article 2554 and Article 2587 of the Federal Civil Code and the correlative Articles in the Civil Codes of the States of the Mexican Republic.

III.- GUARANTEE AND SURETYSHIP POWER OF ATTORNEY, pursuant to the terms of Articles 9 and 85 of the General Law of Negotiable Instruments and Credit Operations, being empowered to grant, accept, draw, subscribe, issue, endorse, guarantee and negotiate in any manner, all kinds of contracts and credit instruments on behalf of the Company.

IV.- GENERAL POWER OF ATTORNEY FOR ACTS OF OWNERSHIP, being empowered to sell, mortgage, pledge, or put in a in trust, and in general dispose of and encumber in any manner and under any legal title, the assets of the Company, both those that constitute Fixed Assets as well as the Current Assets, with all legal authorities of ownership pursuant to the terms of the third paragraph of Article 2554 of the Federal Civil Code and the correlative Articles in the Civil Codes of the States of the Mexican Republic.

V.- Regarding the aforementioned Powers, the Board of Directors shall have the right to delegate them and grant General or Special Powers of Attorney and to revoke those previously granted.

ARTICLE NINETEENTH. DUTIES OF THE BOARD OF DIRECTORS. The Board of Directors shall have the following responsibilities:

I. To set general strategies for the conduction of the business of the Company and the ones of the corporate entities controlled by said Company.

II. To oversee the performance and conduction of business of the Company and of the corporate entities controlled by said Company, considering the relevance that these corporate entities have in the Company’s legal, administrative and financial situation, as the performance of the senior officers.

III. To approve, after obtaining the opinion of the corresponding Committee:

- a) the policies and guidelines for the use or enjoyment of the Company’s assets and of the corporate entities controlled by the same, by any related party;
- b) every individual transaction entered into by the Company with a related party, or corporate entities controlled by said Company.

No approval from the Board of Directors shall be required for any of the transactions indicated bellow, provided that they conform to the policies and guidelines approved by the Board of Directors to that effect:

1. Transactions which amount are not relevant for the Company or for the corporate entities controlled by the same.
 2. Transactions executed between the Company and the corporate entities controlled by the same or those where the Company has a significant influence or between any of these corporate entities, provided that:
 - (i) they fall under their ordinary or habitual course of business
 - (ii) they are deemed as done within price market or supported by assessments made by specialized external agents.
 3. Transactions carried out with employees provided these are under the same conditions as with any other client or as a result from labor benefits of general nature.
- c) Transactions executed either simultaneously or consecutively, that due to their characteristics may be considered as one sole transaction intended to be performed by the Company or by the corporate entities controlled by the same within the term of a fiscal year, when they are unusual or non-habitual or that its amount represent, based upon figures corresponding to the previous approved trimester, on any of the following assumptions:
1. The purchase or sale of property which value is greater than or equal to 5% (five percent) of the Company's consolidated assets.
 2. The granting of warranties or taking on debt for an amount greater than or equal to 5% (five percent) of the Company's consolidated assets.
- Debt security or banking instruments investments are excluded therefrom, provided they are carried out pursuant to the policies approved by the Board of Directors for said effect.
- d) Appointment, election, and in its case, destitution of the Chief Executive Officer of the Company and his integral compensation, as the designation of integral compensation policies for all other senior officers.
 - e) Policies to grant muttums, loans or any other kind of credits or guaranties to any related party.
 - f) Dispensations granted to allow Directors, senior officers or persons with managing power to take business opportunities favorable to them or to any third parties, that correspond to the Company or to the corporate entities controlled by the same or over which the Company has a significant influence.
 - g) Internal control and internal audit guidelines of the Company and of the corporate entities controlled by the same.
 - h) Company's accounting policies conforming to the accounting principles accepted or issued by the Mexican Banking and Securities Commission through general dispositions.
 - i) Company's financial statements.
 - j) The hiring of the firm providing external audit services and, in its case, any services additional or supplemental to the external audit.

When the determinations of the Board of Directors are not according with the opinions furnished by the corresponding Committee, said Committee should instruct the Chief Executive Officer to reveal such circumstance to the investor public through the stock market where the Company's shares or where the credit instruments representing said shares are traded, conforming to the terms and conditions established by the internal regulations of said stock market.

IV. To submit before the General Shareholders' Meeting held at the closing of the fiscal year:

- a) The reports referred to in Article 43 of the Mexican Securities Law.

- b) The report prepared by the Chief Executive Officer pursuant to the provisions of Section XI of Article 44 of the aforementioned Law, along with the opinion of the external auditor.
- c) The opinion issued by the Board of Directors over the contents of the Chief Executive Officer's report referred to in the previous section.
- d) The report referred to in section b) of Article 172 of the Mexican Corporate Law containing the main policies, accounting principles and information criteria, considered to prepare the financial report.
- e) The report regarding any transaction and activity where the Company had intervened, pursuant to the provisions of the Mexican Securities Law.

V. To follow up the main risks encountered by the Company and by the corporate entities controlled by the same, identified by the information submitted by the Committees, the Chief Executive Officer and the firm providing the external auditing services, as well as the accounting systems, internal control, and internal auditing, registration, files or information, both regarding the Company as the corporate entities controlled by the same, which may be carried out through the Committee exercising such auditing duties.

VI. To approve the information and communication policies with shareholders and the market, as well as with the Directors and senior officers to comply with the provisions hereof.

VII. To determine the relevant actions to remedy any known irregularity and to implement the corresponding corrective measures.

VIII. To establish the terms and conditions to be followed by the Chief Executive Officer while exerting any authority derived from the power of attorney for acts of ownership.

IX. To instruct the Chief Executive Officer, to reveal to the investor public, any relevant information when known.

X. Any other responsibilities set forth by the Mexican Securities Law, by any other applicable legal regulations, or provided by these Bylaws.

ARTICLE TWENTIETH. DUTIES OF THE DIRECTORS. The members of the Board of Directors, and in its case, the Secretary of the Board of Directors, when exerting their duties and authorities, shall comply with the duty of diligence and loyalty before the Company and the corporate entities controlled by said Company or those where the Company has a significant influence according to the terms of the Mexican Securities Law.

ARTICLE TWENTY-FIRST. LIABILITIES OF THE DIRECTORS. Members of the Board of Directors failing to comply with duty of diligence and loyalty, and/or those incurring in illegal acts, actions or omissions, pursuant to the terms of the Mexican Securities Law, shall be jointly liable for any damages caused to the Company and to the corporate entities controlled by said Company or to those where the Company has a significant influence. Directors found guilty of incurring in illegal acts, actions or omissions, and/or those who fail to comply with loyalty duties pursuant to the terms of the Mexican Securities Law shall be removed from their offices.

Liability for damages caused to the Company or to the corporate entities controlled by said Company or to those companies where the Company has a significant influence incurred by the members of the Board of Directors caused by breaches to their duty of diligence may be limited by the terms and conditions determined by the General Shareholders' Meeting unless arising from willful misconduct, bad faith or illegal acts according to applicable legal regulations.

In the same manner, the Company may settle payment for indemnifications and may purchase, in favor of the members of the Board, insurance policies, surety bonds or bails covering the indemnification amount for damages caused by their performance to the Company or to the corporate entities controlled by said Company or to those where the Company has a significant influence, exception made for those acts arising from willful misconduct or made in bad faith, or that are illegal according to the corresponding applicable legal regulations, in which case, it shall be not legal to stipulate said indemnifications or contracting insurance policies, surety bonds or bail bonds payable to them.

The Company, however, may never agree to any benefits or exemption clauses that limit, release from, substitute or compensate the obligations for the liability derived from the breach of their duty of loyalty or illegal acts, actions or omissions, nor shall contract in favor of any person whatsoever, insurance policies, surety bonds or bails covering the indemnification amount for any damages caused thereof.

To guarantee their performance, and only upon request of the General Shareholders' Meeting, proprietary and alternate Directors, members of the Audit Committee and members of the Corporate Governance Committee shall deposit in the treasury of the Company the amount in Mexican currency determined by said Meeting or they shall contract a surety bond for said amount, payable to the Company when taking office. The deposit or bond may not be withdrawn until the performance of the relevant Director or Directors has been approved by the General Shareholders' Meeting of the Company. In absence of the express indication from the General Shareholders' Meeting, it shall be understood that the Meeting has released the board members of the Company from guaranteeing their performance therein.

ARTICLE TWENTY-SECOND. CIVIL LIABILITY SUIT. Liability derived from the acts referred to in Articles Twenty-First and Twenty-Eighth hereof shall be, exclusively, in favor of the Company or in favor of the corporate entities controlled by said Company or in favor of those companies where the Company has a significant influence enduring the patrimonial damage. The liability suit may be exerted: (i) by the Company, or (ii) by the Company's shareholders that jointly or individually are holders of 5% (five percent) or more of the shares representing the capital stock of the Company.

Plaintiff may settle by trial, the indemnity amount for damages, provided, however, plaintiff previously submits the terms and conditions of the corresponding settlement to be approved by the Company's Board of Directors. Lack of said formality shall cause relative nullity.

The exertion of the suits, referred to in this Article shall not be bound to the compliance of the requisites established in Articles 161 and 163 of the Mexican Corporate Law. But said suit should comprise the total amount of liabilities in favor of the

Company or in favor of the corporate entities controlled by said Company or in favor of those companies where the Company has a significant influence and not only plaintiffs' personal interests.

ARTICLE TWENTY-THIRD. LIABILITY EXEMPTIONS. Without affecting the provisions of the previous Article Twenty-Second, Directors shall not jointly or individually incur in any liability for damages caused to the Company or to corporate entities controlled by the Company or to those companies where the Company has significant influence, derived from the suits exerted by the same, nor over the decisions adopted by them when, while acting in good faith, any of the following liability exemptions occur:

- I. While complying with the provisions that the Mexican Securities Law or these Bylaws establish to approve the issues to be resolved by the Board of Directors or in its case by the Committees to which they belong.
- II. While adopting resolutions or voting in the Board meetings or, in its case, in the meetings of the Committees to which they belong, based upon the information furnished by the senior officers, by the corporate entity rendering the external audit services or the independent experts, whose capacity and credibility imply no reasonable doubt.
- III. When, to the best of their ability, they have chosen the best alternative or when negative patrimonial effects have not been foreseeable, in both cases, considering the information available at the moment;
- IV. While following the resolutions of the Shareholders' Meeting as long as they are not in violation of applicable legal regulations.

ARTICLE TWENTY-FOURTH. COMMITTEES OF THE BOARD OF DIRECTORS. For the performance of their duties the Board of Directors, shall be assisted by an Audit Committee and by a Corporate Governance Committee. Said Committees shall be exclusively integrated by Independent Directors and by a minimum of 3 (three) members, designated by the Board of Directors proposed by the Chairman of the Board of Directors.

Notwithstanding the foregoing, the Chairman of said Committees shall be exclusively designated and/or removed from office by the General Shareholders' Meeting and they may not preside the Company's Board of Directors. Independent Board Members designated to integrate any of the aforementioned Committees may be, in turn, designated to some other

Company's Committee. In the same manner, the Board of Directors may create other Committees different from the aforementioned ones to care for and/or follow-up specific issues for the establishment of policies or for other specified purposes granting said Committees with the authorities that the Board of Directors deems convenient. The Company may provide the necessary funds for the performance of the tasks of each Committee.

In case the minimum number of members of the Audit Committee are not present, for any reason, and the Board of Directors has not appointed provisional Directors, any shareholder may request from the Chairman of the Board of Directors to convene a General Shareholders' Meeting to make the corresponding designations pursuant to the terms established by the Mexican Securities Law.

ARTICLE TWENTY-FIFTH. MEETINGS OF THE CORPORATE GOVERNANCE AND AUDIT COMMITTEES.

The Audit and the Corporate Governance Committees should meet as many times as it is necessary to comply with the obligations and authorities indicated in these Bylaws and in the applicable legal regulations.

The Chairman of the Board of Directors, any of the members of the Corporate Governance and Audit Committees, the Secretary of the Board of Directors, the Secretary of any of these Committees the Chief Executive Officer, as well as 25% (twenty five percent) of the Directors of the Company, may convene a meeting of any of the Corporate Governance and Audit Committees and insert in the agenda any issues they deem pertinent.

The notices for the meetings of the Corporate Governance and Audit Committees should be sent to the Directors integrating the same, by e-mail, regular mail, fax, or by any other communication means, to the last address registered by the same in the Company, at least 5 (five) working days prior to the date of the meeting. The Company's External Auditor, Chief Executive Officer and other senior officers and employees of the Company may be invited thereto.

The meetings of the Committees shall only be valid with the attendance of the majority of its members. In the same manner, their resolutions shall be taken by the majority of the attending members.

The resolutions unanimously adopted by the members of any Committee without a meeting shall have, for all legal effects, the same authority as if they had been adopted in a meeting, provided they are confirmed in writing. The minutes of each meeting of the Committees shall be recorded in the relevant Book and they shall be signed by the Chairman and the Secretary.

ARTICLE TWENTY-SIXTH. SURVEILLANCE OF THE COMPANY. The Board of Directors, through the Corporate Governance Committee and the Audit Committee as well as through the firm performing the external audit of the Company, shall be in charge of the surveillance of the Company and of the corporate entities controlled by the same, considering the influence the latter have in the, legal, administrative and financial situation of the first one.

Additionally to the powers of attorney, duties and liabilities indicated in the applicable legal regulations, the Corporate Governance Committee and the Audit Committee shall be in charge of developing the following activities, as it may correspond:

I. The Corporate Governance Committee shall:

- a) render an opinion to the Board of Directors over the issues corresponding to said Committee, pursuant to the Mexican Securities Law;
- b) request the opinion of independent experts, when deemed convenient, for the adequate performance of their duties or as required by law;
- c) convene shareholders meetings and include issues they deem pertinent in the agenda thereof;
- d) support the Board of Directors when making the annual reports of the corresponding fiscal year to be submitted to the General Shareholders' Meeting.
- e) any other activity established for the Company by the Mexican Securities Law and other legal applicable regulations or provided by these Bylaws.

II. The Audit Committee shall:

- a) render an opinion to the Board of Directors over the issues corresponding to said Committee, pursuant to the Mexican Securities Law;
- b) assess the performance of the firm providing the external audit services as well as analyze the opinions, reports or documents made and signed by the external auditor. For that effect, the Committee may require the attendance of the mentioned auditor when deemed convenient without affecting auditor's obligation to meet with said Committee at least once a year;
- c) discuss the financial statements of the Company with the persons responsible for making and revising the same, and based upon said financial statements, recommend its approval to the Board of Directors;
- d) inform the Board of Directors of the condition and status of the internal controls and internal auditing systems of the Company or of the corporate entities controlled by the Company, including any irregularities detected therein;
- e) prepare the opinion of the report rendered by the Chief Executive Officer and submit the same to the consideration of the Board of Directors to be presented thereafter before the Shareholders' Meeting supported by the opinion of the external auditor. Said opinion should indicate at least:
 - 1. If the accounting and information policies and criteria followed by the Company are adequate and sufficient considering the particularities of the same.
 - 2. If said policies and criteria had been consistently applied in the information presented by the Chief Executive Officer.
 - 3. If, as a consequence of the previous sections 1 and 2, the information presented by the Chief Executive Officer reflects, in a reasonable manner, the financial situation and the profit and losses of the Company.
- f) support the Board of Directors in the preparation of the reports referred to in paragraphs d) and e) of Section IV of Article 28 of the Mexican Securities Law;
- g) oversee that the operations referred to in Section III of Article 28 and Article 47 of the Mexican Securities Law be carried out conforming to the relevant provisions contained therein;
- h) request the opinion of independent experts when deemed convenient for the adequate performance of their duties or as required by law;
- i) require from the senior officers and from other employees of the Company or of the corporate entities controlled by the Company, reports relevant to the preparation of the financial information and of any other kind deemed necessary for the performance of their duties;
- j) investigate possible breaches known to them, both committed by the Company or by the corporate entities controlled by said Company, examining the documents, register books and other probative evidence in the degree and scope necessary to carry out such surveillance;
- k) receive any observation made by shareholders, Directors, senior officers, employees, and in general, any third parties, regarding the issues referred to in the previous paragraph, as well as to carry out the actions deemed appropriate relevant to such observations;
- l) request periodical meetings with senior officers as well as surrendering any kind of information in connection with the internal control and internal audit of the Company to corporate entities controlled by the same;
- m) inform the Board of Directors about the material irregularities detected while exerting their duties, and in its case, notify the corrective measures thereof;
- n) convene Shareholders' Meetings and request that the issues they deem convenient be inserted in the agenda of said Meetings;

o) oversee that the Chief Executive Officer complies with the resolutions taken by the Shareholders' Meetings and by the Board of Directors;

p) oversee the establishment of internal controls and mechanisms in order to verify that the actions and transactions of the Company, and of the corporate entities controlled by said Company, conform to the legal applicable regulations.

q) any other activity established for the Company by the Mexican Securities Law and other legal applicable regulations or provided by these Bylaws.

In the same manner, the Chairman of the Corporate Governance and Audit Committees must prepare an annual report about the activities corresponding to said bodies and submit the same to the Board of Directors complying with the requirements established by applicable legal regulations. To prepare said reports, as well as the opinions referred to in this Article, the Corporate Governance and Audit Committees shall consider the opinions of the senior officers of the Company. In case there is a difference of opinions with the latter, said differences shall be incorporated into said reports and/or opinions.

The Company shall not be subject to the provisions of section V of Article 91 of the Mexican Corporate Law, nor shall be applicable Articles 164 to 171, last paragraph of Article 172, 173 and 176 and other Articles related to the statutory auditor of the Company provided by the mentioned Law.

ARTICLE TWENTY-SEVENTH. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall be in charge of running, conducting and executing the Company's business and the ones of the corporate entities controlled by the same, pursuant to this Article, complying with the strategies, policies and guidelines approved by the Board of Directors.

To comply with his duties, the Chief Executive Officer shall have the most ample power of attorney to represent the Company for acts of administration and for collection and litigation, including the special powers of attorney that according to law, require a special clause, in the same terms indicated in Article Eighteenth hereof. The Chief Executive Officer shall not have a power of attorney for acts of ownership except when this power is expressly granted or delegated by the Board of Directors of the Company or by any person holding a power of attorney or authorized to do so.

Without limiting the foregoing, the Chief Executive Officer shall:

I. Submit, for the approval of the Board of Directors, the business strategies of the Company and of the corporate entities controlled by the same, pursuant to the information rendered by said corporate entities.

II. Carry out the resolutions of the Shareholders' Meetings and of the Board of Directors according, in its case, to the instructions given by the same Board.

III. Propose to the Audit Committee, the internal control system and internal audit guidelines of the Company and of the corporate entities controlled by the same, as well as execute the guidelines approved thereof by the Board of Directors.

IV. Subscribe within his scope, any information relevant to the Company along with the senior officers in charge of preparing the same.

V. Disclose the relevant information and events that should be disclosed to the public, conforming to the provisions of the Mexican Securities Law.

VI. Comply with the provisions relevant to the purchase and placement transactions of Company's own shares of stock.

VII. Exert, either personally or through an authorized delegate, within the scope of the Chief Executive Officer or as directed by the Board of Directors, the corresponding corrective measures and liability suits.

VIII. Oversight, in its case, that the capital contributions made by the shareholders are carried out.

IX. Comply with the legal and statutory requisites established regarding dividends paid to shareholders.

X. Assure that adequate accounting, registry and information systems are maintained by the Company.

XI. Prepare and submit to the Board of Directors the report referred to in Article 172 of the Mexican Corporate Law, exception made for the provisions of section (b) of said precept.

XII. Establish mechanisms and internal controls permitting to certify that the actions and transactions of the Company and of the corporate entities controlled by the same conform to the applicable regulations, and take any necessary measures thereof.

XIII. Exert the liability suits referred to in the Mexican Securities Law and in Article Twenty-Second hereof, against related parties or third parties that allegedly had caused a damage to the Company or to the corporate entities controlled by the same or to companies where said Company has a significant influence, exception made for the cases when the Board of Directors, after having obtained the approval from the Audit Committee, determines that the damages caused are not relevant.

XIV. Provide anything necessary to comply with the provisions of Article 31 of the Mexican Securities Law in the corporate entities controlled by the Company.

The Chief Executive Officer shall carry out his duties and activities, as well as comply with the obligations set forth by applicable legal regulations assisted by the senior officers designated thereof and by any other employee of the Company or of the corporate entities controlled by the same.

ARTICLE TWENTY-EIGHTH. LIABILITY OF THE CHIEF EXECUTIVE OFFICER AND OTHER SENIOR OFFICERS. The Chief Executive Officer and other senior officers shall perform their duties intending to generate value in benefit of the Company and without favoring any determined shareholder or group of shareholders. To that effect, they shall act diligently adopting educated decisions and complying with other duties that are to be imposed to them, and therefore, they shall be liable for the damages derived from the performance of their corresponding duties. In the same manner, the liabilities for damages set forth in Article 46 of the Mexican Securities Law, shall be applicable, as well as the liability exemptions and limits referred to in Articles 33 and 40 of the same Mexican Securities Law.

GENERAL SHAREHOLDERS MEETINGS

ARTICLE TWENTY-NINTH. MEETINGS. The General Shareholders' Meeting convened pursuant to the provisions hereof, is the outmost body of the Company.

The General Shareholders' Meetings shall be Ordinary or Extraordinary. Extraordinary Meetings shall be the ones convened to deal with any of the issues included in Article 182 of the Mexican Corporate Law or, or that according to the applicable legal regulations, should have such character; all other meetings shall be Ordinary Meetings.

ARTICLE THIRTIETH. GENERAL ORDINARY MEETINGS. General Ordinary Shareholders' Meetings shall be held at least once a year within the 4 (four) month period following the closing of each fiscal year. When said annual Meeting is held, besides other specific issues of the agenda, said Annual Meeting shall: (i) discuss, revise, and in its case, approve the reports and opinions indicated in Section IV of Article 28 of the Mexican Securities Law; (ii) appoint the members of the Board of Directors, qualify the independence of the Directors proposed with such character and set their compensations, same which shall be included in the expenses of the relevant fiscal year; (iii) appoint the chairmen of the Corporate Governance Committee and the Audit Committee; (iv) resolve the application of the fiscal year profits, and; (v) decide the maximum resource amount to be destined to repurchase Company's own shares.

In the same manner it shall be a non delegable authority of the General Ordinary Shareholders' Meeting to approve the transactions intended by the Company or by the corporate entities controlled by the same when they represent 20% (twenty percent) or more of the consolidated assets of the Company based upon the figures corresponding to the previous closing quarter, notwithstanding their form of execution, whether this be simultaneously or successively, but that due to their nature be considered as a sole operation.

ARTICLE THIRTY-FIRST. SHAREHOLDERS' RIGHTS.

I. Shareholders that individually or jointly hold 5% (five percent) or more of the capital stock may exert the liability suit provided by Article Twenty-Second hereof.

II. Shareholders that individually or jointly hold 10% (ten percent) of the capital stock of the Company shall be entitled to:

- a) designate and revoke in the General Shareholders' Meeting, a member of the Board of Directors. Such designation may only be revoked by other shareholders when the appointment of all other Directors is revoked, in which case, the persons to be substituted may not be appointed with such character during the 12 (twelve) month period following the date of revocation;
- b) require from the Chairman of the Board or from the Corporate Governance Committee and Audit Committee, at any time, that a General Shareholders' Meeting be convened, without the application of the percentage indicated in Article 184 of the Mexican Corporate Law;
- c) request that the voting of any issue over which they consider they are not sufficiently informed be postponed for a maximum of 3 (three) calendar days, and for one time only without the need of a new notice, without the application of the percentage indicated in Article 199 of the Mexican Corporate Law;

III. Shareholders that individually or jointly hold 20% (twenty percent) of the capital stock may oppose in court the resolutions of the General Meetings where they have a right to vote, without the application of the percentage indicated in Article 201 of the Mexican Corporate Law;

IV. In the same manner, the Company's shareholders shall have the following rights:

- a) have access, at the Company's offices, to the information and the documentation for every item Shareholders' Meeting agenda, free from any charge, and at least 15 (fifteen) calendar days prior to the date of the Meeting.
- b) Prevent that the matters be discussed in the General Shareholders' Meeting as "general matters" or its equivalent.
- c) Enter into agreements with the other shareholders pursuant to the terms provided by the applicable legal regulations. Such agreements should be notified to the Company within 5 (five) working days following their subscription, to be revealed to the investor public through the stock market where the shares or certificates representing said shares are traded, pursuant to the terms and conditions established by the same, being accessible to the public for consultation in the Company's offices. These agreements shall not be opposable to the Company except in cases of judicial resolutions which breaching shall not affect the validity of the vote in Shareholders' Meetings, but they may only effective between the parties when they have been revealed to the investor public.

ARTICLE THIRTY-SECOND. NOTICES. Shareholders' Meetings may be convened by the Board of Directors, by the Corporate Governance Committee or by the Audit Committee, as the case may be. In the same manner, shareholders representing at least 10% (ten percent) of the capital stock may require from the Chairman of the Board of Directors or from the Committees, in writing, at any time, to convene a General Shareholders' Meeting to discuss the issues specified in their request. Shareholders owning one share have the same right as any of the cases referred to in Article 185 of the Mexican Corporate Law. If the notice is not made within 15 (fifteen) days following the date of the request, a civil or a district judge of the domicile of the Company shall make such notice upon request from anyone of the interested parties.

In absence of the minimum amount of members required for the Corporate Governance Committee and Audit Committees to convene, and only when the Board of Directors had not made the appointment of provisional Directors and/or members of the Committees, any shareholder may request from the Chairman of the Board of Directors to convene, within a term of 3 (three) calendar days, a General Shareholders' Meeting so that the latter makes the corresponding designations.

ARTICLE THIRTY-THIRD. PUBLICATION OF NOTICES. Meeting notices should be published in the Federal Official Gazette or in a newspaper of major circulation of the Company's domicile at least 15 (fifteen) calendar days prior to the date set for said Meeting. Notices shall contain the agenda and shall be signed by the person or persons making such notice. The General Shareholders' Meeting may be held without a previous notice if all the capital stock is represented therein at voting time.

ARTICLE THIRTY-FOURTH. SHAREHOLDER'S PROXIES. The Shareholders of the Company may be represented in the Shareholders' Meetings by the person or persons designated by said shareholders by a simple proxy or by a power of attorney given in the forms prepared by the Company, which forms shall be at the disposal of shareholders through market brokers or through the Company, at least 15 (fifteen) days prior to the date of each Meeting complying with the following

requisites: (i) notice shall indicate in a noticeable manner the name of the Company as well as the corresponding agenda; (ii) it shall contain a space to be filled with the instructions given by grantor to exert said power of attorney. The Secretary of the Board of Directors should verify that the provisions contained in this Article are observed and shall inform the General Shareholders' Meeting of said compliance, evidencing the same in the relevant minute.

ARTICLE THIRTY-FIFTH. DEVELOPMENT OF THE MEETINGS. The Meetings shall be presided by the Chairman of the Board of Directors and in his absence, by his Alternate, and in the absence of the latter, by the person designated by the majority of votes of the Shareholders. In the same manner, it shall serve as Secretary, the one designated as such by the Board of Directors and/or by the Shareholders' Meeting, and in his absence, he shall be substituted by the Alternate Secretary, and in absence of both, by the person designated by the Shareholders by a majority of votes therein.

The Minutes of the Meetings shall be recorded in the relevant Book and shall be signed by the Chairman and by the Secretary of the meeting.

ARTICLE THIRTY-SIXTH. QUORUM FOR THE GENERAL MEETINGS. General Ordinary Shareholders' Meetings held by first notice shall be valid if at least 50% (fifty percent) of the capital stock is represented therein and their resolutions shall be valid when they are adopted by the assenting vote of the majority of the shares represented therein. In the Meetings, each common share shall be entitled to one vote.

The Extraordinary Shareholders' Meetings held by first notice shall be valid if at least 75% (seventy five percent) of the capital stock is represented therein and their resolutions shall be valid when they are adopted by the assenting vote of shares representing at least 50% (fifty percent) of the capital stock.

Regarding Ordinary Meetings, if the number of shares established in the previous Articles in the date set forth for the first notice were not represented therein, this shall reconvene and said Meeting shall decide the issues contained in the agenda, notwithstanding the number of shares represented in the same. If it should be a Extraordinary Meeting it shall require, in all cases, the assenting vote of the shares representing at least 50% (fifty percent) of the capital stock.

ARTICLE THIRTY-SEVENTH. RIGHT TO ATTEND MEETINGS. In order to be entitled to attend to and vote in a Shareholders' Meeting, all shareholders shall previously deposit their share certificates with the Company's Secretary, in any Mexican or Foreign Bank or any Securities Depository Institution, not later than the day immediately preceding the date set forth for the Meeting. The deposit slip of the share will accredit the right to attend the Meetings. The Stock Ledger of the Company shall be closed, and therefore no recordings shall be permitted the day prior to the date of the Meeting.

FISCAL YEARS, FINANCIAL INFORMATION, PROFITS AND LOSSES

ARTICLE THIRTY-EIGHTH. FISCAL YEARS. Fiscal years shall coincide with calendar years pursuant to the terms of Article 8-A of the Mexican Corporate Law.

ARTICLE THIRTY-NINTH. ANNUAL REPORT. The Company through its Board of Directors shall annually submit to the Shareholders' Meeting held for the closing of the fiscal year the following: (i) the report prepared by the Chief Executive Officer pursuant to the provisions of Section XI of Article 44 of the Mexican Securities Law; (ii) the opinion of the Board of Directors over the contents of the report prepared by the Chief Executive Officer; (iii) the report provided in Article 172 of the General Law of Commercial Companies, containing the main policies, accounting principles and information criteria followed to prepare the financial information of the Company; (iv) the reports of the Chairman of the Corporate Governance Committee and the Chairman of the Audit Committee, and (v) the report containing the transactions and activities where the Company had intervened pursuant to the provisions of the Mexican Securities Law.

Notwithstanding the foregoing, the Board of Directors shall be free to submit any financial statements referring to any date during the fiscal year and the Meeting may approve them for all legal effects thereof.

ARTICLE FORTIETH. APPLICATION OF PROFITS AND LOSSES. Net profits shown in the Financial Statements approved in the Shareholders' Meetings shall be distributed as follows:

(i) 5% (five percent) to reconstitute the legal reserve fund until said fund reaches at least 20% (twenty percent) of the capital stock; (ii) if it is so determined by the Meeting it may designate the amounts deemed convenient to constitute a contingency

fund, as well as special reserve funds, and; (iii) the remaining profits, if any, shall be applied in the manner resolved by the General Ordinary Shareholders' Meeting.

Losses, if any, shall be supported primarily by the reserves, and in lack of these, by the capital stock.

ARTICLE FORTY-FIRST. DISTRIBUTION OF DIVIDENDS. The Ordinary Shareholders' Meeting may declare a dividend payment throughout the fiscal year, in the form, term, and conditions agreed by said Meeting, complying with the legal requirements and after making the corresponding legal reserves.

DISSOLUTION AND LIQUIDATION

ARTICLE FORTY-SECOND. DISSOLUTION. The Company shall be dissolved in any of the events specified in Article 229 of the Mexican Commercial Law.

ARTICLE FORTY-THIRD. LIQUIDATION. Once the Company has been dissolved it shall be liquidated. One or more liquidators appointed by the General Extraordinary Shareholders' Meeting shall be in charge of the Liquidation. If the Meeting fails to appoint said liquidator, a Civil or District Judge, of the domicile of the Company shall do so, upon petition of any of the shareholders.

ARTICLE FORTY-FOURTH. BASIS FOR LIQUIDATION. In absence of specific instructions given by the Meeting to the Liquidators, Liquidation shall be performed according to the following general basis:

- I. Conclusion of all pending businesses with the minimum damage to creditors and shareholders.
- II. Preparation of the General Balance Sheet and Inventory.
- III. Collection of all Credits and payment of all debts.
- IV. Sale of all Company's Assets and application of profits for the purpose of the Liquidation.
- V. Distribution of the remnant, if any, among the shareholders, in proportion to their shares.

ARTICLE FORTY-FIFTH. APPLICATION OF LIQUIDATION REMNANT. Once the Liquidation transactions are concluded, the Liquidator or Liquidators shall convene a General Meeting to examine, during the same, the Liquidation Account Statements, to render an opinion on said Statements, and resolve the application of the remnant, if any.

CANCELLATION OF REGISTRATION AND CONFLICT RESOLUTION

ARTICLE FORTY-SIXTH. CANCELLATION OF REGISTRATION AT THE MEXICAN SECURITIES REGISTRY. Cancellation of the registration of the Company's shares in the Mexican Securities Registry, should be carried out within the prices, dates, terms, conditions and exceptions established by the Mexican Securities Law and other legal regulations applicable to the Company.

ARTICLE FORTY-SEVENTH. DISPUTE RESOLUTION. It is the will of the shareholders of the Company to expressly waive the judicial venue and submit to arbitration all controversies, issues, or incidence that should arise against the Company regarding these Bylaws. Said arbitration shall be of law and shall be resolved by an arbitration court composed by 3 (three) arbiters. Each one of the parties shall be entitled to appoint an arbiter and both parties shall appoint a third arbiter. The arbitration shall be governed and controlled, regarding arbitration proceedings, by the relevant Articles of Commercial Arbitration contained in the Código de Comercio ("Mexican Commerce Code").

ARTICLE FORTY-EIGHTH. HEADINGS. All headings and titles contained in each one of the Articles herein, are for convenience and reference only and they will not affect, in any manner whatsoever, the interpretation of these Bylaws.

[Published CUSIP Number:]

CREDIT AGREEMENT

Dated as of October 30, 2006

among

GRUMA CORPORATION,
as the Borrower,

BANK OF AMERICA, N.A.,
as Administrative Agent, Documentation Agent and L/C Issuer,

and

The Other Lenders Party Hereto

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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

CREDIT AGREEMENT

This CREDIT AGREEMENT (“Agreement”) is entered into as of October 30, 2006, 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 and L/C Issuer.

The Borrower has requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree 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. 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 6.02(a):

Pricing Level	Leverage Ratio	Commitment Fee	Eurodollar Rate for Revolving Loans and Letters of Credit	Daily Floating LIBOR Rate for Swing Line Loans	Base Rate for Loans
1.....	Less than or equal to 1.50 to 1.00	0.100	0.350	0.350	0.000
2.....	Greater than 1.50 to 1.00, but less than or equal to 2.50 to 1.00	0.125	0.400	0.400	0.000
3.....	Greater than 2.50 to 1.00	0.150	0.450	0.450	0.000

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 third Fiscal Quarter of Fiscal Year 2006 shall be Pricing Level 1.

“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.

“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 31, 2005, 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 higher of (a) the Federal Funds Rate plus 1/2 of 1% and (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.” 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 such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“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 on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“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, or should be in accordance with Financial Accounting Standards Board Statement No. 13, classified and accounted for as a “capital lease” on the balance sheet of such Person prepared in accordance with GAAP.

“Cash Collateralize” has the meaning specified in Section 2.03(g).

“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.

“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. 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 Interest Charges” means, for any Measurement Period, for the Borrower and its Subsidiaries, the sum of (a) all interest, premium payments, fees, charges and related expenses of the Borrower and its 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 GAAP, and (b) the portion of rent expense of the Borrower and its Subsidiaries with respect to such period under capital or financial leases that is treated as interest in accordance with GAAP.

“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 any Lender that (a) has failed to fund any portion of the Loans, participations in L/C Obligations or participations required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder unless such failure has been cured, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

“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 an 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 4001(a)(14) of ERISA, or is a member of a group that includes the Borrower 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 Borrower 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 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, 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 constitutes 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 for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Rate” means, 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 the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business 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. 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 by Bank of America 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 Business Days prior to the commencement of such Interest Period.

“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 and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 10.12), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), 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).

“Existing Credit Agreement” means that certain Revolving Credit Agreement, dated as of June 5, 2003, among the Borrower, the lenders thereto and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., “Rabobank International,” New York Branch, as agent, as amended, modified and supplemented.

“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 Letter” means the letter agreement, dated September 1, 2006, between the Borrower and the Administrative Agent.

“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. 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.

“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 business.

“GAAP” means 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.

“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.” means Gruma, S.A. 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 Coverage Ratio” means, for the Measurement Period, the ratio of (a) Consolidated EBITDA to (b) Consolidated Interest Charges.

“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.

“IRS” means the United States Internal Revenue Service.

“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 2.03(g).

“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. 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(i).

“Letter of Credit Sublimit” means an amount equal to \$25,000,000. 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 Letter, 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.

“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) October 30, 2011, 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.

“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 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.

“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 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 Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“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” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or any ERISA Affiliate.

“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.

“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.

“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, 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.

"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 "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, 7.10 or 7.11 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 at any time any change in GAAP 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 in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) 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 in GAAP.

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.

(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) a default of any Lender's obligation to fund under Section 2.03(c) exists or any Lender is at such time a Defaulting Lender hereunder, unless the L/C Issuer has entered into a reasonably satisfactory arrangement with the Borrower or such Lender to eliminate the L/C Issuer's risk with respect to such Lender.

(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 fall 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 two 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 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 12:00 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 greater of the Federal Funds Rate and a rate determined by the L/C Issuer in accordance with banking industry rules on interbank compensation, 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 such 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.

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) Cash Collateral. Upon the request of the Administrative Agent, (i) if an Event of Default with respect to the payment of principal and/or interest occurs and is continuing, or (ii) if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the date of such Event of Default or the Letter of Credit Expiration Date, as the case may be). For purposes of this Section 2.03 and Section 8.02(c), "Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the L/C Issuer (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative Agent, for the benefit of the L/C Issuer and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be initially maintained in blocked, interest bearing deposit accounts at Bank of America (the "L/C Cash Collateral Account") and shall be under the sole dominion and control of the Administrative Agent. The Borrower, no more than once in any calendar month, may direct the Administrative Agent to invest the funds held in the L/C Cash Collateral Account (so long as the aggregate amount of such funds exceeds any relevant minimum investment requirement) 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 the funds held in the L/C Cash Collateral Account (so long as the aggregate amount of such funds exceeds any relevant minimum investment requirement) 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.

(h) Applicability of ISP and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is issued, (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.

(i) 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. 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.

(j) 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 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 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.

(k) 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 Fee Letter shall control.

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 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 Federal Funds Rate from time to time in effect. 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 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. 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 for its own account an annual administrative fee in the amount and at the time 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. 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 10.09, 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 2.11(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.

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 comprised 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 to 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:

(i) 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

(ii) 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 or (y) 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).

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 \$150,000,000; 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 and the L/C Issuer (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.

(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.

ARTICLE III.
TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by Applicable Law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making 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 deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law.

(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) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and the L/C Issuer, 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) 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. A certificate as to the amount of 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.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by Applicable Law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by Applicable Law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, in the event that the Borrower is resident for tax purposes in the United States, any Foreign Lender 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) duly completed copies 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) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) 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) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by Applicable Law to permit the Borrower to determine the withholding or deduction required to be made.

(f) **Treatment of Certain Refunds.** 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 of 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 Change in 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 Eurodollar Rate Loans, 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, 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 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, 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, 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. 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 (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, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended 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 Eurodollar Rate Loan (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 and repayment of all other Obligations hereunder.

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;

(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 five 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 Letter 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 October 31, 2006.

(e) Simultaneously with the initial Loan under this Agreement, the financial institutions under the Existing Credit Agreement shall be paid all amounts owing them under the Existing Credit Agreement and the Existing Credit Agreement shall be concurrently terminated.

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.** Except as disclosed in Schedule 5.05 and, with respect to paragraph (b) below only, as otherwise disclosed by the Borrower in the financial statements delivered pursuant to Section 6.01(a), 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) 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 31, 2005.

(b) The Borrower's unaudited financial statements for the Fiscal Quarter ended June 30, 2006 (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 has 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 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 Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower 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 Borrower, 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 Borrower, is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower 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 Borrower 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 Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

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.

(a) The Borrower will instruct the Administrative Agent to pay, on or immediately after the Closing Date, the proceeds of a portion of the Loans to repay the Existing Credit Agreement.

(b) 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.

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; and

(q) 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 **Interest Coverage Ratio.** The Borrower shall not permit its Interest Coverage Ratio, as determined for any Measurement Period, to be less than 2.00 to 1.00.

7.10 **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.

7.11 **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 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 Section 2.03(c), 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.

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(i) and (j), 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 2.13 or Section 8.03 or any other provision of this Agreement 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 Letter 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, except that the Commitment of such Lender may not be increased or extended without the consent of such 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 sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices 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 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.** 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.

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 September 1, 2006, (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 Indemnitee, 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 Indemnitee 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 Indemnitee 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 assignee (or to an 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 or an Affiliate of a Lender;

(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, if any, required as set forth in Schedule 10.06; 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 Natural Persons. No such assignment shall be made to a natural person.

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, 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. 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. In addition, at any time that a request for a consent for a material or other substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register.

(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 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. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.12 as though it were a Lender.

(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 (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 electronic copy 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.

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 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.

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.

REMAINDER OF PAGE LEFT INTENTIONALLY BLANK

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-Corporate Controller

Signature Page to Credit Agreement

BANK OF AMERICA, N.A., as
Administrative Agent

By: /s/ David A. Johanson
Name: David A. Johanson
Title: Vice President

BANK OF AMERICA, N.A., as a Lender, L/C
Issuer and Swing Line Lender

By: /s/ David McCauley
Name: David McCauley
Title: President

COMERICA BANK

By: /s/ Juan Carlos Sanchez
Name: Juan Carlos Sanchez
Title: Vice President

**COÖPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", NEW YORK BRANCH**

By: /s/ Bert Corum
Name: Bert Corum
Title: Executive Director

By: /s/ Rebecca Morrow
Name: Rebecca Morrow
Title: Executive Director & Counsel

**BANCO SANTANDER CENTRAL HISPANO,
S.A. NEW YORK BRANCH**

By: /s/ Jesus Lopez
Name: Jesus Lopez
Title: Vice President

**MIZUHO CORPORATE BANK, NEW YORK
BRANCH**

By: /s/ Takeo Kada
Name: Takeo Kada
Title: Deputy General Manager

**COMMITMENTS
AND APPLICABLE PERCENTAGES**

Lender	Commitment	Applicable Percentage
Bank of America, N.A.	\$ 16,750,000	16.750%
Comerica Bank	\$ 16,650,000	16.650%
Coöperatieve Centrale Raiffeisen-BoerenleenBank B.A., “Rabobank Nederland,” New York Branch	\$ 16,650,000	16.650%
Banco Bilbao Vizcaya Argentaria S.A., Grand Cayman Branch.....	\$ 16,650,000	16.650%
Banco Santander Central Hispano, S.A. New York Branch	\$ 16,650,000	16.650%
Mizuho Corporate Bank, New York Branch	\$ 16,650,000	16.650%
Total.....	\$100,000,000.00	100%

EXISTING LITIGATION

1. ***Dennis Johnson and Arnold Rosenfeld, et al. v. Gruma Corporation, a Nevada corporation dba Mission Foods Corporation, Gruma S.A. de C.V., et al.***; JAMS Arbitration No. 1220026252 (Assigned to Hon. Richard C. Neal [Ret.]

On or about November 29, 2001, one of the Borrower's independent distributors filed a putative class action lawsuit against the Borrower. The case was removed from California state court to federal court. Prior to April 2005, the Borrower did not consider this claim to be material because two court orders had held that the claim must be arbitrated and that the arbitration would be for the individual plaintiff's claims only and because the total exposure on the individual claim was for a small amount. On or about April 25, 2005, the United States District Court, based on a recent U.S. Supreme Court decision, ordered that the original claims should be referred to arbitration and that the arbitrator could decide whether the matter should proceed as a class action. No decision has yet been made as to whether the claims should proceed as a class action. The claims, as recently amended, allege that the Borrower's distributors are actually employees, that the Borrower has failed to make wage and other payments required for employees, that the Borrower has violated the California antitrust laws and unfair competition statutes, and that the Borrower has otherwise committed fraud and negligent misrepresentations. The arbitrator subsequently dismissed the antitrust claims. The other claims continue to be asserted by the two named plaintiffs. The plaintiffs seek damages and equitable relief but have not yet specified the total amount of damages sought. The Borrower intends to vigorously defend against this action.

2. ***Ramon Moreno, et al. v. Guerrero Mexican Food Products, Inc. and Gruma Corporation***; U. S. District Court, Central District of California, Los Angeles

In October 2005, the Borrower was named in a class action suit, Ramon Moreno et al. v. Guerrero Mexico Food Products, Inc. and Gruma Corporation, filed in the United States District Court for the Central District of California, Los Angeles County. This is a putative wage and hour class action alleging a misclassification of the Teamster-represented drivers as exempt when they should be treated as non-exempt and paid overtime for all hours worked in excess of eight in a workday and forty in a workweek. Plaintiffs also contend that the putative class members have been denied state-mandated meal periods and are due penalties under California Labor Code Section 226.7. Plaintiff subsequently amended the Complaint to add a second plaintiff, who is a current employee. The Borrower filed an answer asserting 33 affirmative defenses. The Borrower then filed a third-party complaint against Teamsters Local 63 asserting a breach of contract and seeking declaratory relief. Teamsters Local 63 filed a motion to dismiss our third-party complaint against it. On June 19, 2006, the court denied Teamsters Local 63's motion. Also on June 19, 2006, the court set a trial date of June 26, 2007. Plaintiffs has filed a motion to strike three of the Borrower's affirmative defenses, on the basis that the alleged affirmative defenses could not provide, as a matter of law, a defense to the claims asserted by Plaintiffs. The Plaintiffs set the hearing for their motion to strike affirmative defenses on July 10, 2006. In response, the Borrower will file an opposition arguing that it is premature at this stage of the proceedings for the court to make any determination on the merits of the claims and defenses in this case and, in any event, the motion lacks merit. The Borrower is continuing to investigate. Limited discovery has taken place thus far. The Borrower intends to vigorously defend the action. It is too early to determine or offer an opinion on the likely outcome of the litigation or scope of any potential financial loss.

MATERIAL SUBSIDIARIES

Azteca Milling, L.P., a Texas limited partnership(1)

(1) Gruma Holding, Inc., a wholly-owned Subsidiary of the Borrower, is the 79.2% limited partner in Azteca Milling, L.P (“Azteca”). The general partner of Azteca, which holds a 1% equity interest in Azteca, is Gruma-ADM, Inc (“General Partner”). Gruma Holding owns 80% of the issued and outstanding shares of the General Partner. The combined ownership provides Gruma Holding with an 80% aggregate interest in Azteca. Since Azteca is the actual operating subsidiary, it has been listed as a Material Subsidiary, and neither Gruma Holding or Gruma ADM are listed as Material Subsidiaries, since each is merely a holding entity for the Borrower’s ownership interest in Azteca.

BURDENSOME AGREEMENTS

None

MATERIAL SUBSIDIARY GUARANTIES

Azteca Milling, L.P., has guaranteed the obligations of the Borrower related to (a) the Rancho Cucamonga, California Capital Lease dated April 30, 1996, (b) the John Hancock Mutual Life Insurance Company Note Purchase Agreement dated January 14, 1994, and (c) the Letter of Credit Reimbursement Agreements in favor of Cooperatieve Centrale Raiffeisen-BoerenleenBank B.A., "Rabobank International," New York Branch dated November 1, 1994, for the industrial development bonds due 2009.

**ADMINISTRATIVE AGENT'S OFFICE;
CERTAIN ADDRESSES FOR NOTICES**

THE BORROWER:

Gruma Corporation
1159 Cottonwood Lane, Suite 200
Irving, Texas 75038
Attention: Peter M. Nystrom, Vice President - Corporate Controller
Telephone: (972) 232-5080
Telecopier: (972) 232-5080
Electronic Mail: peter_nystrom@missionfoods.com
U.S. Taxpayer Identification Number: 95-3576486
Website: www.gruma.com

ADMINISTRATIVE AGENT:

Administrative Agent's Office
(for payments and Requests for Credit Extensions):
Bank of America, N.A.
901 Main Street
Mail Code: TX1-492-14-14
Dallas, Texas 75202

Primary
Attention: Michelle Huff
Telephone: 214-209-0590
Telecopier: 214-290-9423
Electronic Mail: michelle.huff@bankofamerica.com

Secondary
Attention: Deanna Betik
Telephone: 214-209-3259
Telecopier: 214-290-9414
Electronic Mail: deanna.betik@bankofamerica.com

Account No.: 1292000883
Ref: GRUMA
ABA# 026009593
Attn: Credit Services

Other Notices as Administrative Agent:
Bank of America, N.A.
Agency Management
231 South LaSalle Street
Mail Code: IL1-231-08-30
Chicago, Illinois 60604
Attention: Charlene Wright-Jones, Assistant Vice President
Telephone: (312) 828-3935
Facsimile: (977) 206-8427
Electronic Mail: charlene.wright-jones@bankofamerica.com

SWING LINE LENDER:

Bank of America, N.A.
901 Main Street
Mail Code: TX1-492-14-14
Dallas, Texas 75202

Primary

Attention: Michelle Huff
Telephone: 214-209-0590
Telecopier: 214-290-9423
Electronic Mail: michelle.huff@bankofamerica.com

Secondary

Attention: Deanna Betik
Telephone: 214-209-3259
Telecopier: 214-290-9414
Electronic Mail: deanna.betik@bankofamerica.com

Account No.: 1292000883
Ref: GRUMA
ABA# 026009593
Attn: Credit Services

PROCESSING AND RECORDATION FEES

The Administrative Agent will charge a processing and recordation fee (an “Assignment Fee”) in the amount of \$2,500 for each assignment; provided, however, that in the event of two or more concurrent assignments to members of the same Assignee Group (which may be effected by a suballocation of an assigned amount among members of such Assignee Group) or two or more concurrent assignments by members of the same Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group), the Assignment Fee will be \$2,500 plus the amount set forth below:

<u>Transaction</u>	<u>Assignment Fee</u>
First four concurrent assignments or suballocations to members of an Assignee Group (or from members of an Assignee Group, as applicable)	-0-
Each additional concurrent assignment or suballocation to a member of such Assignee Group (or from a member of such Assignee Group, as applicable)	\$ 500

FORM OF REVOLVING LOAN NOTICE

Date: _____,

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of October 30, 2006 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Gruma Corporation, a Nevada corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender.

The undersigned hereby requests (select one):

- A Borrowing of Revolving Loans
- A conversion or continuation of Loans

1. On _____ (a Business Day).

2. In the amount of \$ _____.

3. Comprised of _____
[Type of Revolving Loan requested]

4. For Eurodollar Rate Loans: with an Interest Period of _____ months.

The Revolving Borrowing, if any, requested herein complies with the provisos to the first sentence of Section 2.01 of the Agreement.

GRUMA CORPORATION

By: _____
 Name: _____
 Title: _____

FORM OF SWING LINE LOAN NOTICE

Date: _____,

To: Bank of America, N.A., as Swing Line Lender
Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of October 30, 2006 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Gruma Corporation, a Nevada corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender.

The undersigned hereby requests a Swing Line Loan:

1. On _____ (a Business Day).
2. In the amount of \$ _____.

The Swing Line Borrowing requested herein complies with the requirements of the provisos to the first sentence of Section 2.03(a) of the Agreement.

GRUMA CORPORATION

By: _____
Name: _____
Title: _____

FORM OF REVOLVING LOAN NOTE

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to _____ or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of each Revolving Loan from time to time made by the Lender to the Borrower under that certain Credit Agreement, dated as of October 30, 2006 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Loan from the date of such Revolving Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in Dollars in immediately available funds at the Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Revolving Loan Note is one of the Revolving Loan Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Revolving Loan Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Revolving Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Revolving Loan Note and endorse thereon the date, amount and maturity of its Revolving Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Revolving Loan Note.

THIS REVOLVING LOAN NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

GRUMA CORPORATION

By: _____
Peter M. Nystrom
Vice President-Corporate Controller

LOANS AND PAYMENTS WITH RESPECT THERETO

<u>Date</u>	<u>Type of Loan Made</u>	<u>Amount of Loan Made</u>	<u>End of Interest Period</u>	<u>Amount of Principal or Interest Paid This Date</u>	<u>Outstanding Principal Balance This Date</u>	<u>Notation Made By</u>
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FORM OF SWING LINE NOTE

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to the order of BANK OF AMERICA, N.A. (the "Swing Line Lender") or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of each Swing Line Loan from time to time made by the Swing Line Lender to the Borrower under that certain Credit Agreement, dated as of October 30, 2006 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Swing Line Loan from the date of such Swing Line Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Swing Line Lender in Dollars in immediately available funds at the Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Swing Line Note is one of the Swing Line Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Swing Line Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Swing Line Loans made by the Swing Line Lender shall be evidenced by one or more loan accounts or records maintained by the Swing Line Lender in the ordinary course of business. The Swing Line Lender may also attach schedules to this Swing Line Note and endorse thereon the date, amount and maturity of its Swing Line Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Swing Line Note.

THIS SWING LINE NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

GRUMA CORPORATION

By: _____
Peter M. Nystrom
Vice President-Corporate Controller

LOANS AND PAYMENTS WITH RESPECT THERETO

<u>Date</u>	<u>Type of Loan Made</u>	<u>Amount of Loan Made</u>	<u>End of Interest Period</u>	<u>Amount of Principal or Interest Paid This Date</u>	<u>Outstanding Principal Balance This Date</u>	<u>Notation Made By</u>
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FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____,

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of October 30, 2006 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Gruma Corporation, a Nevada corporation (the "Borrower"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of the Borrower, and that, as such, he/she is authorized to execute and deliver this Compliance Certificate (this "Certificate") to the Administrative Agent on the behalf of the Borrower, and that:

[Use following paragraph 1 for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.01(a) of the Agreement for the fiscal year of the Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following paragraph 1 for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(b) of the Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present the financial position and results of operations of the Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, 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.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of the Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, the Borrower performed and observed each covenant and condition of the Loan Documents applicable to it, and no Default has occurred and is continuing.]

—or—

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. The representations and warranties of the Borrower contained in Article V of the Agreement or any other Loan Document, or which are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct in all material respects on and as of the date hereof, 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 Certificate, the representations and warranties contained in subsections (a)

and (b) of Section 5.06 of the Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Agreement, including the statements in connection with which this Certificate is delivered; provided that this certification 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 hereof could not result in a Material Adverse Effect.

5. The financial covenant analyses and information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, _____.

GRUMA CORPORATION

By: _____
Name: _____
Title: _____

For the Quarter/Year ended

("Statement Date")

SCHEDULE 2
TO THE COMPLIANCE CERTIFICATE
(\$ IN 000'S)

I. Leverage Ratio – For Determination of Applicable Rate.

A.	Consolidated Funded Debt for the Borrower and its Subsidiaries:		
	1. All obligations for borrowed money:	\$	
	2. Any obligation in respect of a lease or hire purchase contract treated as a financial or capital lease under GAAP:	\$	
	3. Any reimbursement obligations for letters of credit that have been drawn upon and remain outstanding:	\$	
	4. Total Debt (Lines I.A.1. + 2. + 3.):	\$	
B.	Consolidated EBITDA for the Measurement Period most recently ended:		
	1. Consolidated operating income determined in accordance with GAAP:	\$	
	2. To the extent deducted in determining consolidated operating income, depreciation and amortization expense:	\$	
	3. Consolidated EBITDA (Lines I.B.1. + 2.):	\$	
C.	Leverage Ratio (Line I.A.4. ÷ Line I.B.3.):		to 1

II. Section 7.09 – Interest Coverage Ratio.

A.	Consolidated EBITDA (Line I.B.3.):	\$	
B.	Consolidated Interest Expense for the Measurement Period most recently ended:		
	1. All interest, premium payments, fees, charges and related expenses in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, to the extent treated as interest pursuant to GAAP:	\$	
	2. Portion of rent expense under capital or financial leases to the extent treated as interest pursuant to GAAP:	\$	
	3. Consolidated Interest Charges (Lines II.B.1. + 2.):	\$	
C.	Interest Coverage Ratio (Line II.A. ÷ II.B.3.):		to 1.00
D.	Minimum Interest Coverage Ratio:		2.00 to 1.00

III. Section 7.10 — Maximum Leverage Ratio.

A.	Consolidated Funded Debt (Line I.A.4.):	\$	
B.	Consolidated EBITDA (Line I.B.3.):	\$	
C.	Leverage Ratio (Line III.A. ÷ Line III.B.):		to 1.00

D. Maximum Leverage Ratio: 3.00 to 1.00

IV. Section 7.11 — Consolidated Tangible Net Worth.

A. Consolidated Tangible Net Worth:

1. Total Stockholder's Equity \$

2. Intangible Assets: \$

3. Consolidated Tangible Net Worth (Line IV.A.1. - Line IV.A.2.): \$

B. Minimum Consolidated Tangible Net Worth: \$240,000,000

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor’s rights and obligations as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including, without limitation, the Swing Line Loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor:
2. Assignee: [and is an Affiliate/Approved Fund of [*identify Lender*](2)]
3. Borrower: Gruma Corporation
4. Administrative Agent: Bank of America, N.A., as the Administrative Agent under the Credit Agreement
5. Credit Agreement: The Credit Agreement, dated as of October 30, 2006 among the Borrower, the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent and Swing Line Lender

(2) Select as applicable.

6. Assigned Interest:(3)

Facility Assigned(4)	Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/Loans Assigned	Percentage Assigned of Commitment/Loans(5)	CUSIP Number
	\$	\$	%	
	\$	\$	%	
	\$	\$	%	

- [7. Trade Date:](6)

Effective Date: _____, 20 [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: _____
Title:

-
- (3) Amount to be adjusted by the counterparts to take into account any payments or prepayments made between the Trade Date and the Effective Date.
 - (4) Fill in the appropriate terminology for the types of facilities under the Credit Agreement that are being assigned under this Assignment and Assumption (“Revolving Loan” and “Swing Line Loan”).
 - (5) Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.
 - (6) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

[Consented to and](7) Accepted:

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Title:

[Consented to:](8)

By: _____
Title:

-
- (7) To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.
 - (8) To be added only if the consent of the Borrower and/or other parties (e.g. Swing Line Lender) is required by the terms of the Credit Agreement.

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York. To the extent that this Assignment and Assumption is to be cleared through an electronic clearing system, the Administrative Agent currently intends, based on circumstances existing on the date hereof, to use the ClearPar Settlement System, to the extent practicable and consistent with then current practice.

List of Principal Subsidiaries
Of
Gruma, S.A.B. de C.V.

Subsidiary	Jurisdiction of Incorporation
Grupo Industrial Maseca, S.A.B. de C.V. (“GIMSA”)	Mexico
Molinera de México, S.A. de C.V. (“Molinera de México”)	Mexico
Productos y Distribuidora Azteca, S.A. de C.V. (“PRODISA”)	Mexico
Gruma Corporation	Nevada, United States
Azteca Milling LP	Texas, United States
Gruma Centroamérica, LLC	Nevada, United States
Molinos Nacionales, C.A. (“MONACA”)	Venezuela
Derivados de Maíz Seleccionado, C.A. (“DEMASECA”)	Venezuela
Investigación de Tecnología Avanzada, S.A. de C.V.	Mexico

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. §1350)**

I, Jairo Senise, certify that:

1. I have reviewed this annual report on Form 20-F of Gruma, S.A.B. de C.V. (the "Company");
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The Company's other certifying officer 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 15a-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 annual report is being prepared;
 - b. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision;
 - 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 changes in the Company's internal control over financial reporting that occurred during the Company's most recent quarter (the Company's fourth quarter in the case of this annual report), that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
5. The Company's other certifying officer 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 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.

/s/ Jairo Senise

Name: Jairo Senise

Title: Chief Executive Officer

Date: June 29, 2007

**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. (the "Company");

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The Company's other certifying officer 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 15a-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 annual report is being prepared;

b. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision;

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 changes in the Company's internal control over financial reporting that occurred during the Company's most recent quarter (the Company's fourth quarter in the case of this annual report), that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

5. The Company's other certifying officer 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 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.

/s/ Juan Antonio Quiroga García

Name: Juan Antonio Quiroga García

Title: Chief Corporate Officer

Date: June 29, 2007

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on form 20-F for the year ended December 31, 2006 (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: June 29, 2007

/s/ Jairo Senise
Jairo Senise
Chief Executive Officer

Dated: June 29, 2007

/s/ Juan Antonio Quiroga García
Juan Antonio Quiroga García
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.