



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

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ANNUAL REPORT FILED IN ACCORDANCE WITH THE GENERAL PROVISIONS APPLICABLE TO SECURITIES' ISSUERS AND OTHER SECURITIES MARKET'S PARTICIPANTS FOR THE YEAR ENDED DECEMBER 31, 2016.

As of December 31, 2016, our capital stock is represented by 432,749,079 ordinary, registered, Series "B", Class I no par value shares.

Such securities are registered in the Securities National Registry and are traded in the Mexican Stock Exchange.

Ticker symbol: **GRUMAB**

"The registration before the National Securities Registry does not imply a certification regarding the worth of the securities, the solvency of the issuer or the accuracy or veracity of the information contained in the report, nor ratifies the actions which, in its case, we carried out in contravention of the laws."

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1. GENERAL INFORMATION

Glossary of Terms and Definitions

“ADM”	Archer-Daniels-Midland.
“ADR”	American Depositary Receipts.
“ADS”	American Depositary Shares.
“AGROINSA”	Agroindustrias Integradas del Norte, S.A. de C.V. and Servicios Industriales Agroinsa, S.A. de C.V.
“ASERCA”	Agricultural Incentives and Trade Services, an agency of the Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food Ministry.
“Azteca Milling”	Azteca Milling, L.P.
“BANCOMEXT”	Banco Nacional de Comercio Exterior, S.N.C.
“BMV”	Bolsa Mexicana de Valores, S.A.B. de C.V.
“Bolivars o Bs.”	Venezuelan bolivars.
“CETES”	Treasury Certificates of the Federation (<i>Certificados de la Tesorería de la Federación</i>).
“CIASA”	Constructora Industrial Agropecuaria, S.A. de C.V.
“COFECE”	Federal Economic Competition Commission (<i>Comisión Federal de Competencia Económica</i>).
“Consortio Andino”	Consortio Andino, S.L.
“CNBV”	National Securities and Banking Commission (<i>Comisión Nacional Bancaria y de Valores</i>).
“DEMASECA”	Derivados de Maíz Seleccionados C.A.
“Dollars” or “U.S.\$”	Dollars of the United States of America.
“EBITDA”	<i>Earnings Before Interest, Taxes, Depreciation, and Amortization</i>
“Fitch”	Fitch Ratings.
“GIMSA”	Grupo Industrial Maseca, S.A.B. de C.V.
“GRUMA”	Gruma, S.A.B. de C.V. and its consolidated subsidiaries, as a whole, except where a specific reference is made to Gruma, S.A.B. de C.V. (holding company) or where the context requires otherwise.
“IASB”	International Accounting Standards Board.

“ICSID”	International Centre for Settlement of Investment Disputes.
“IFRS”	International Financial Reporting Standards.
“INDEVAL”	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.
“INTASA”	Investigación de Tecnología Avanzada, S.A. de C.V.
“INTESA”	Investigación Técnica Avanzada, S.A. de C.V.
“LIBOR”	London InterBank Offered Rate.
“MÉXICO”	Mexican United States.
“MONACA”	Molinos Nacionales, C.A.
“Notes due 2024”	U.S. \$400 million 4.875% senior notes due 2024, issued on December 2014.
“NYSE”	New York Stock Exchange.
“Perpetual Bonds”	U.S. \$300 million 7.75% senior unsecured perpetual bonds issued on December 2004 and redeemed in full in 2014.
“Peso”, “Pesos”, “Ps.”, o “\$”	Mexican national currency.
“Primary Shareholder Group”	Ms. Graciela Moreno Hernández, widow of the late Mr. Roberto González Barrera, and certain of her descendants.
“PRODISA”	Productos y Distribuidora Azteca, S.A. de C.V.
“PWC”	PricewaterhouseCoopers, S.C.
“RNV”	National Securities Registry (Registro Nacional de Valores).
“ROTCH”	Rotch Energy Holdings, N.V.
“SEC”	Securities and Exchange Commission.
“SEMARNAT”	Ministry of the Environment and Natural Resources (<i>Secretaría del Medio Ambiente y Recursos Naturales</i>).
“Standard & Poor’s”	Standard & Poor’s Ratings Services.
“TECNOMAÍZ”	Tecno Maíz, S.A. de C.V.
“TIIE”	Mexican equilibrium interbank interest rate.
“Valores Azteca”	Valores Azteca, S.A. de C.V.
“Valores Mundiales”	Valores Mundiales, S.L.
“Venezuelan Companies”	Jointly MONACA and DEMASECA.

1.1. INTRODUCTION

1.1.1. Our Company

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, Mexico and our telephone number is (52) 81 8399-3300. Our legal domicile is San Pedro Garza García, Nuevo León, Mexico.

The company was founded in 1949, when Mr. Roberto González Barrera started producing and selling corn flour in Northeastern Mexico as raw material for producing tortillas and other corn-based products. Prior to our founding, all corn tortillas were made through the corn dough method or *nixtamal* (the “Traditional Method”). Today, both the Traditional Method, as well as the corn flour method are used, additionally, corn flour and the dough prepared through the Traditional Method can be mixed in various proportions to produce tortillas and other corn-based products. Our main operations are in Mexico and the United States and, to a lesser extent, in Central America and Europe.

Later, the company was able to integrate vertically with tortilla production and related products with important operations primarily in the United States and, to a lesser extent, Europe, Asia, Oceania, Central America and Mexico. In addition, we have diversified our product mix to include other types of flatbreads (pita, naan, chapati, pizza bases and piadina) mainly in Europe, Asia and Oceania, and corn grits mainly in Europe, among other products in the regions where we have presence.

1.1.2. Presentation of Financial Information

This annual report contains our audited consolidated financial statements as of December 31, 2016 and 2015 and for the years ended in said dates, as well as the ones as of December 31, 2015 and 2014 and for the years ended in said dates, which have been audited by PricewaterhouseCoopers, S.C., an independent public accounting firm and were approved by our shareholders at the Annual General Shareholders’ Meetings held on April 28, 2017 and on April 29, 2016, respectively.

We publish our financial statements in pesos and prepare our consolidated financial statements included in this annual report in accordance with IFRS, as issued by the IASB.

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

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

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

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

In December 2014, we concluded the sale of our wheat flour operations in Mexico (the “Wheat Milling Transaction”). The results and cash flows generated by these wheat flour operations in Mexico for the period ended December 31, 2014 were reported as a discontinued operation in our audited consolidated financial statements. See Note 26 to our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended in said dates. See “Section 1.3.1 Risks Related to Our Company—Our Financial Information Presented in Previous Filings May Not Be Comparable Because of the Accounting Treatment as Discontinued Operations of our Venezuelan Operations and Mexican Wheat Flour Operations.”

We ceased to consolidate the financial information of MONACA and DEMASECA as of January 22, 2013 and derecognized the assets and liabilities of these companies from the consolidated balance sheet. For disclosure and presentation purposes, we considered these subsidiaries as a significant segment and therefore, applying the guidelines from IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, MONACA and DEMASECA were presented as discontinued operations. Therefore, the results and cash flows generated by these Venezuelan Companies for the periods ended December 31, 2015 and 2014 were reported as discontinued operations in our audited consolidated financial statements. See Notes 26 and 28 to our audited consolidated financial statements. See “Section 1.3.1 Risks Related to Our Company—Our Financial Information Presented in Previous Filings May Not Be Comparable Because of the Accounting Treatment as Discontinued Operations of our Venezuelan Operations and Mexican Wheat Flour Operations.”

1.1.3. Market Share

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

1.1.4. Exchange Rate

This annual report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. These translations are solely intended to facilitate the investors reading comprehension. You should not construe these translations as declarations by us that the monetary amounts used to prepare the financial statements actually represent those amounts or could be converted into Mexican pesos at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from pesos (i) as of December 31, 2016 at the exchange rate of Ps. 20.6640 to U.S.\$1.00, which was the rate established by *Banco de México* on December 29, 2016 and (ii) as of March 31, 2017 at the exchange rate of Ps. 18.8092 to U.S.\$1.00, which was the rate established by *Banco de México* on March 29, 2017.

1.1.5. Forward Looking Statements

This annual report includes forward-looking statements and information regarding our company based on the management’s believes, including statements about our plans, strategies and prospects, as well as on supposed facts with information available to the company as of this date. Some of these statements contain words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “strategy,” “plans”, “budget”, “project” 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 “Section 1.3. Risk Factors,” “Section 2. The Company,” “Section 3.4.3. Financial Condition, Liquidity and Capital Resources.” 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 and other raw materials; potential changes in demand for our products; price and product competition; and other factors discussed herein.

1.2. EXECUTIVE SUMMARY

This summary does not intend to contain all information, which may be relevant to make investment decisions regarding the securities herein mentioned. Therefore, the investor public shall read all the Annual Report, including the financial information and related notes, before making an investment decision. The following summary was prepared in accordance, and subject to, the detailed information and financial statements included in this Annual Report. It is recommended to pay special attention to Section 1.3. “Risk Factors” of this Annual Report, to determine the convenience of making an investment in the securities issued by the Issuer.

1.2.1. General Description of the Company

Founded in 1949, GRUMA, S.A.B. de C.V., is one of the world's leading tortilla and corn flour producers. With leading brands in most of its markets, GRUMA has operations in the United States, Mexico, Central America, Europe, Asia and Oceania.

Our Series B shares are listed in the BMV under the Ticker Symbol GRUMAB since 1994. Likewise, our shares were listed in the United States through ADRs. Nevertheless, such program has been terminated and our shares were delisted from the New York Stock Exchange or NYSE as of September 8, 2015. See "Section 1.2.3. Trading History".

1.2.2. Selected Financial Information

The following tables present our selected consolidated financial data as of and for each of the years indicated. The data as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2016, 2015 and 2014, is derived from and should be analyzed together with our audited consolidated financial statements included herein and "Section 3.4.2 Results of Operations."

In accordance with IFRS, we concluded that we lost control of our Venezuelan subsidiaries, MONACA and DEMASECA, on January 22, 2013. As a result of such loss of control, we ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013. Therefore, the results and cash flows generated by these Venezuelan Companies for the periods ended December 31, 2015 and 2014 are reported as discontinued operations. In 2015, our Company recognized a full impairment to its indirect net investment in MONACA and DEMASECA, as well as the accounts receivable that certain subsidiaries of Gruma had with the Venezuelan Companies. See Notes 26 and 28 to our audited and consolidated financial statements.

Income Statement Data:	2016	2015	2014
	(thousands of Mexican Pesos, except per share amounts)		
Net sales	Ps. 68,206,284	Ps. 58,279,004	Ps. 49,935,328
Cost of sales	(42,150,596)	(35,937,867)	(31,574,750)
Gross profit	26,055,688	22,341,137	18,360,578
Selling and administrative expenses	(17,140,414)	(14,442,285)	(12,040,402)
Other income (expenses), net	206,431	(530,905)	(297,262)
Operating income	9,121,705	7,367,947	6,022,914
Comprehensive financing cost, net	(438,429)	(323,102)	(1,105,403)
Income before income tax	8,683,276	7,044,845	4,917,511
Income tax expense	(2,449,338)	(1,646,449)	(1,059,583)
Consolidated net income from continuing operations	6,233,938	5,398,396	3,857,928
(Loss) income from discontinued operations, net.....	-	(4,313,803)	598,852
Consolidated net income	6,233,938	1,084,593	4,456,780
Attributable to:			
Shareholders	5,922,042	761,812	4,287,310
Non-controlling interest	311,896	322,781	169,470
Per share data⁽¹⁾:			
Basic and diluted earnings (losses) per share (pesos):			
From continuing operations	13.68	11.68	8.38
From discontinued operations	-	(9.92)	1.53
From continuing and discontinued operations	13.68	1.76	9.91

Balance Sheet Data (at period end):	2016	2015	2014
	(thousands of Mexican pesos, except per share amounts and operating data)		
Property, plant and equipment, net	Ps.26,313,385	Ps.20,169,988	Ps. 17,814,336
Total assets	56,357,949	44,333,021	40,636,730

Balance Sheet Data (at period end):	2016	2015	2014
	(thousands of Mexican pesos, except per share amounts and operating data)		
Short-term debt ⁽²⁾	3,724,718	2,660,035	1,437,108
Long-term debt ⁽²⁾	12,229,868	10,494,406	9,324,052
Total liabilities	30,657,683	25,739,135	22,552,484
Common stock	5,363,595	5,363,595	5,363,595
Total equity ⁽³⁾	25,700,266	18,593,886	18,084,246
Other Financial Information:			
Capital expenditures.....	5,598,795	3,073,498	1,719,379
Depreciation and amortization.....	1,898,544	1,598,309	1,460,451
Net cash provided by (used in):			
Operating activities.....	8,977,304	5,056,769	6,730,000
Investing activities	(5,484,777)	(2,845,369)	1,995,588
Financing activities.....	(1,637,019)	(1,076,981)	(8,591,246)

- (1) Based upon the weighted average of outstanding shares of our common stock (in thousands), as follows: 432,749 shares for the year ended December 31, 2016, 432,749 shares for the year ended December 31, 2015, and 432,749 shares for the year ended December 31, 2014. Each of our ADSs represented four Series B Common Shares.
- (2) Short-term debt consists of bank loans, financial leases and the current portion of long-term debt. Long-term debt consists of bank loans, our Notes due 2024 and financial leases. See "Section 3.4.3. Financial Condition, Liquidity and Capital Resources - Indebtedness."
- (3) Total equity includes non-controlling interests as follows: Ps. 1,828 million as of December 31, 2016, Ps.1,560 million as of December 31, 2015 and Ps.1,521 million as of December 31, 2014.

Operating Data:	2016	2015	2014
	(thousands of tons)		
Sales Volume:			
Gruma USA (corn flour, tortillas and other) ⁽¹⁾	1,374	1,341	1,288
GIMSA (corn flour and other).....	1,965	1,847	1,798
Gruma Europe (corn flour, tortillas and other).....	370	404	365
Gruma Centroamérica (corn flour and other).....	203	199	200
Number of Employees:	19,933	19,117	17,845

- (1) Net of intercompany transactions.

1.2.3. Trading History

Our Series B Shares have been traded on the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, or Mexican Stock Exchange, since 1994. The ADSs, each representing four Series B Shares, commenced trading on the New York Stock Exchange in November 1998 and were delisted on September 8, 2015 and our reporting obligations under the Securities Exchange Act of 1934, were extinguished as of December 9, 2015. As of December 31, 2016, our capital stock was represented by 432,749,079 issued Series B shares, all of them fully subscribed and paid for.

1.2.4. 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 NYSE, respectively.

Mexican Stock Exchange		NYSE	
Common Stock		ADS(2)	
High	Low	High	Low

	(Ps. Per share ⁽¹⁾)		(U.S.\$ per ADS)	
Annual Price History				
2012.....	41.54	26.45	12.76	7.79
2013.....	98.92	39.50	31.00	12.32
2014.....	157.32	100.01	48.28	30.48
2015.....	259.41	147.78	55.15	39.83
2016.....	293.87	233.10		
Quarterly Price History				
2014				
1st Quarter.....	206.70	147.78	54.06	39.83
2nd Quarter.....	205.73	184.99	54.18	48.24
3rd Quarter.....	239.03	196.29	55.15	48.62
4th Quarter.....	259.41	227.15		
2015				
1st Quarter.....	293.87	233.10		
2nd Quarter.....	282.07	246.11		
3rd Quarter.....	279.71	242.90		
4th Quarter.....	266.53	241.09		
2017				
1st Quarter.....	286.38	258.77		
Monthly Price History ⁽¹⁾⁽³⁾				
October 2016.....	266.53	251.41		
November 2016.....	260.23	246.01		
December 2016.....	263.10	241.09		
January 2017.....	286.38	258.77		
February 2017.....	284.92	264.92		
March 2017.....	270.80	259.62		
April 2017 ⁽³⁾	268.70	258.27		

(1) Pesos per share reflect nominal price at trade date.

(2) Price per ADS in U.S.\$ represents four Series B Shares. As of September 8, 2015, GRUMA's ADSs stopped trading in NYSE.

(3) Through April 17, 2017.

On April 17, 2017, the last reported sale price of the B Shares on the Mexican Stock Exchange was Ps. 258.27 per B Share.

As of September 8, 2015, GRUMA's ADR stopped trading in NYSE, and the deposit agreement was terminated simultaneously. The latter in order to concentrate the trading of the shares in the BMV, and thereby increasing its liquidity. Likewise, on September 10, 2015 the company requested the deregistration before the SEC, and given that the SEC did not pose any objection on that regard, the cancellation became effective on December 9, 2015. See "Section 1.4. Other Securities".

1.3. RISK FACTORS

The investor public should carefully consider the risk factors described herein prior to any investment decision. Those described herein are not the only risks and uncertainties the company faces. The risks and uncertainties that the company is not aware of, as well as those that the company currently considers of minor significance, may also affect its operations and activities.

The occurrence of any of the risks described herein may have a material adverse effect on the operations, financial condition or operating results of the company.

The risks described herein are intended to highlight those specific to the company, but in no way should be considered as the only risks the company and/or the investor public may face. Such additional risks and uncertainties, including those that generally affect the industry in which the company operates, the geographic areas where it has presence or those risks that it does not deem as important, may also affect its business and value of the investment.

1.3.1. Risks Related to Our Company

Fluctuations in the Cost and Availability of Corn and Wheat May Affect Our Financial Performance

Our financial performance may be affected by the price and availability of corn and wheat. Corn and wheat flour represented 36% and 7%, respectively, of our cost of sales in 2016. Mexican and world markets have experienced periods of either over-supply or shortage of corn and wheat as a result of different factors such as weather conditions, some of which have caused adverse effects on our results of operations. 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 or wheat will occur. In addition, future Mexican or other countries' governmental actions could affect the price and availability of corn or wheat. Any material adverse development in domestic and international corn or wheat markets could have a material adverse effect on our business, financial condition, results of operations, and prospects.

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 generally hedge to cope with fluctuations in the costs of corn and wheat, in particular at our U.S. and Mexican operations, using futures and options contracts and fixed price supply contracts according to our risk management policy, but remain exposed to losses in the event of non-performance by counterparties to the financial instruments or the supply contracts. 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.

Increases in the Cost of Energy Could Affect Our Profitability

We use a significant amount of electricity, natural gas and other energy sources to operate our corn flour plants and processing ovens for the manufacture of tortillas and related products at our facilities. These energy costs represented approximately 4% of our cost of sales in 2016. In addition, considerable amounts of fuels are used in connection with the distribution of our products. The cost of energy may fluctuate widely due to economic and political conditions, government policy and regulation, war, weather conditions or other unforeseen circumstances. An increase in such costs would increase our operating costs and, therefore, could affect our profitability.

The Inadvertent Presence of Genetically Modified Corn Not Approved for Human Consumption in Our Products 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 in the world. Although we only buy corn from farmers and grain sellers who agree to supply us with varieties of corn approved for human consumption and we have developed a protocol in all our operations to test and monitor our corn for certain strains of bacteria and chemicals that have not been approved for human consumption, we may inadvertently buy genetically modified corn that is not approved for human consumption, and use such raw materials in the manufacture of our products. This may result in costly recalls, subject us to lawsuits, and may have a negative impact on our results of operations.

In the past, various allegations have been made, mostly in the United States and the European Union, that genetically modified foods are unsafe for human consumption, pose risks of damage to the environment and create legal, social and ethical dilemmas. Some countries, particularly in the European Union, as well as Australia and some countries in Asia, have instituted a partial limitation on the import of grain produced from genetically modified seeds. Other countries, including the United States have imposed labeling requirements and traceability obligations on genetically modified agricultural and food products, which may affect the acceptance of these products.

To the extent that we may unknowingly buy or may be perceived to be a seller of products manufactured with genetically modified grains not approved for human consumption, this may have a significant negative impact on our financial condition and results of operation.

Regulatory Developments May Adversely Affect Our Business

We are subject to regulation in each of the territories in which we operate. The principal areas in which we are subject to regulation are health, environmental, labor, taxation and antitrust. The adoption of new laws or regulations in the countries in which we operate may increase our operating costs, impose restrictions on our operations or impact our growth opportunities 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 "Section 2.2.5. Applicable Laws and Taxation."

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

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

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

We have expanded our operations to several countries, including Ukraine, Russia, Turkey, Spain and Malaysia, among others. Our presence in these and other markets could present us with new and unanticipated operating challenges. For example, we may encounter labor restrictions or shortages and currency conversion obstacles, or be required to comply with stringent local governmental and environmental regulations. Any of these factors could increase our operating expenses and decrease our profitability.

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

According to our risk management policy, we use derivative instruments to hedge against changes in exchange rates and prices of our main commodities. We may incur losses related to the value of the contracted derivative instruments. This as a result of changes in economic conditions, investor sentiment, monetary and fiscal policies, liquidity of global markets, international and regional political events, and acts of war or terrorism. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources.”

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

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

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

The global macroeconomic environment has not fully recovered from the downturn commencing in 2008. Subsequent years were characterized by instability in the financial markets and the threat of a continued global economic downturn, primarily as a result of the ongoing sovereign debt crisis and general economic outlook of the Eurozone, the high degree of unemployment in certain countries and the level of public debt in the United States and certain European countries. Those developments adversely affected the economy of the United States, Europe and many other parts of the world, including Mexico, and had significant consequences worldwide, including unprecedented volatility, significant lack of liquidity, loss of confidence in the financial markets, disruptions in the credit sector, reduced business activity, rising unemployment, decline in interest rates and erosion of consumer confidence. It is uncertain how long the effects of this global macroeconomic instability will continue and how much of an impact it will have on the global economy in general, or the economies in which we operate in particular, and whether slowing economic growth in any such countries could result in our customers and consumers reducing their spending. As a result, we may need to lower the prices of certain

of our products and services in order to maintain their attractiveness, which could lead to reduced turnover and profit or a decline in demand for our products. Any such development could adversely affect our business, results of operations and financial condition and lead to a drop in the trading price of our shares.

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

We had total consolidated indebtedness of Ps. 15,955 million (U.S.\$772 million) as of December 31, 2016. On a stand-alone basis, we had Ps. 15,055 million (U.S.\$729 million) of outstanding indebtedness as of December 31, 2016, none of which was secured indebtedness. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources—Indebtedness.”

Our level of indebtedness may have important consequences, including:

- increasing our vulnerability to adverse general economic and industry conditions, including raises in interest rates as well as increases in prices of raw materials, foreign currency exchange rate fluctuations and markets’ volatility;
- limiting our ability to generate sufficient cash flow to satisfy our obligations with respect to our indebtedness, particularly in the event of a default under one of our debt instruments;
- limiting cash flow available to fund our working capital, capital expenditures or other general corporate requirements;
- limiting our ability to obtain additional financing on favorable terms to refinance debt or to fund future working capital, capital expenditures, other general corporate requirements and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry.

To the extent that we incur additional indebtedness, the risks outlined above could increase. In addition, our actual cash requirements in the future may be greater than expected. Our ability to make scheduled payments on and refinance our indebtedness when due depends on, and is subject to, several factors, including our financial and operating performance, which is subject to prevailing economic and financial conditions, business and other factors, the availability of financing in the Mexican and international banking and capital markets, and our ability to sell assets and implement operating improvements.

We May Be Adversely Affected by Increases in Interest Rates

Interest rate risk exists primarily with respect to our floating-rate peso and dollar denominated debt, which generally bear interest based on the TIIE or LIBOR, respectively. As a result, if the TIIE or LIBOR rates increase significantly, our ability to service our debt may be adversely affected.

Downgrades of Our Debt May Increase Our Financing Costs, Adversely Affect Us or even Affect Our Stock Price

Our long-term corporate credit rating is rated “BBB” by Standard & Poor’s. Our Foreign Currency Long-Term Issuer Default Rating and our Local Currency Long-Term Issuer Default Rating are rated “BBB” by Fitch. Our U.S.\$400 million 4.875% unsecured senior notes due 2024 bond is rated “BBB” by Fitch and by Standard & Poor’s.

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

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

We had approximately 84% of our outstanding debt denominated in dollars, 15% in Mexican pesos and 1% in other currencies as of December 31, 2016. While it is unlikely, we may not generate sufficient cash in the relevant currency from our operations to service the entire amount of our debt in such currency. A devaluation of certain currencies or a change in our business could adversely affect our ability to service our debt

Our Financial Information Presented in Previous Filings May Not Be Comparable Because of the Accounting Treatment as Discontinued Operations of our Venezuelan Operations and Mexican Wheat Flour Operations

We ceased to consolidate the financial information of the Venezuelan Companies as of January 22, 2013, therefore, the results and cash flows generated by such Venezuelan Companies for the periods ended December 31, 2015 and 2014 were reported as discontinued operations in our audited consolidated financial statements and may not be comparable to our financial information presented in previous periods.

In December 2014, we concluded the sale of our wheat flour operations in Mexico. Accordingly, the results and cash flows generated by our wheat flour operations in Mexico for the year ended December 31, 2014, were reported as discontinued operations in our audited consolidated financial statements and may not be comparable to our financial information presented in previous periods.

See Note 26 to our audited consolidated financial statements.

1.3.2. Risks Related to Mexico

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

We are a Mexican company with 30% of our consolidated assets located in Mexico and 25% of our consolidated net sales derived from our Mexican operations as of and for the year ended December 31, 2016. As a result, Mexican economic conditions could impact our results of operations.

In the past, Mexico has experienced exchange rate instability and devaluation as well as high levels of inflation, interest rates, unemployment, economic recession and reduced consumer purchasing power. These events resulted in limited liquidity for the Mexican government and local corporations. Crime rates and civil and political unrest in Mexico and around the world could also negatively impact the Mexican economy. See “Section 1.3.2. Risk Factors—Developments in Other Countries Could Adversely Affect the Mexican Economy, the Market Value of our Securities and Our Results of Operations.”

Mexico has experienced periods of slow growth since 2001, primarily as a result of the downturn in the U.S. economy. The Mexican economy contracted by 6.1% in 2009 but grew by 5.5% in 2010. In 2011, 2012, 2013, 2014, 2015 and 2016, the Mexican economy grew by 3.9%, 3.9%, 1.1%, 2.1%, 2.5% and 2.3%, respectively.

Developments and trends in the world economy affecting Mexico may have a material adverse effect on our business, financial condition and results of operations. The Mexican economy is tightly connected to the U.S. economy through international trade (approximately 80.9% of Mexican exports were directed to the United States in 2016), international remittances (billions of dollars from Mexican workers in the United States are the country’s second-largest source of foreign exchange), foreign direct investment (approximately 38.9% of Mexican foreign direct investment came from U.S.-based investors in 2016), and financial markets (the U.S. and Mexican financial systems are highly integrated). As the U.S. economy contracts, U.S. citizens consume fewer Mexican imports, Mexican workers in the United States send less money to Mexico, U.S. firms with businesses in Mexico make fewer investments, U.S.-owned banks in Mexico make fewer loans, and the quality of U.S. financial assets held in Mexico deteriorates. Moreover, a collapse in confidence in the U.S. economy may spread to other economies closely connected to it, including Mexico’s. The result may be a potentially deep and protracted recession in Mexico. If the Mexican economy falls into a deep and protracted recession, or if inflation and interest rates increase, consumer purchasing power may decrease and, as a result, demand for our products may decrease. In addition, a recession could affect our operations to the extent we are unable to reduce our costs and expenses in response to falling demand.

Our Business Operations Could Be Affected by Government Policies in Mexico

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

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, results of operations, financial condition and prospects. Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, organized crime (especially drug-related crime) continues to

exist in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in the future. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

The Mexican government supports the commercialization of corn for Mexican corn growers through the Agricultural Incentives and Trade Services Agency (*Apoyos y Servicios a la Comercialización Agropecuaria*, or ASERCA). This program and others may affect our business.

The level of environmental and competition regulations and enforcement in Mexico has increased in recent years for all companies. We consider that the trend toward greater regulation and enforcement will continue and will be accelerated. The promulgation of new and more stringent regulations or higher levels of enforcement could adversely affect our business condition and results of operations.

The Approved Amendments to Mexican Tax Laws May Adversely Affect Us

On December 11, 2013, certain reforms to Mexican tax laws were published in the Official Gazette of Mexico, which became effective as of January 1, 2014. While the corporate income tax rate, which had previously been scheduled for reduction, remained at 30%, the tax reforms resulted in several amendments to corporate tax deductions including, among other things, (i) elimination of deductions that were previously allowed for related-party payments to certain foreign entities and narrowing tax deductions on salaries paid to employees, (ii) imposition of a 10% withholding income tax on dividends paid by the corporation to Mexican individuals or foreign residents in Mexico, (iii) an increase in the value-added tax in certain areas of Mexico, (iv) requirement of the use of electronic invoices and new monthly tax reports to be provided to governmental tax authorities and (v) imposition of a 10% income tax payable by individuals on the sale of stock listed on the BMV.

Additionally, on November 18, 2015, several tax measurements were published in the Official Gazette of Mexico for business groups residing in Mexico, based on the guidelines issued by the OCDE in connection with the BEPS plan (Base Erosion and Profit Shifting) aimed at providing information on the tax situation of Mexican business groups trading in the BMV, as well as those which exceed certain income thresholds. According to such measures and as from 2017, 2016 information regarding inter-company transactions, business activity of the group and its subsidiaries, as well as, information of each country where it has presence, shall be furnished.

Our business, financial condition and results of operations may be adversely affected as a result of higher taxes on salaries and higher costs due to compliance with additional measures.

Devaluations of the Mexican Peso May Affect our Financial Performance

Because we have significant international operations generating revenue in different currencies (mainly in U.S. dollars) and debt denominated in various currencies (mainly in U.S. dollars), we remain exposed to foreign exchange risks that could affect our ability to meet our obligations and result in foreign exchange losses. We posted a net foreign exchange gain of Ps.72 million in 2014, a loss of Ps.103 million in 2015 and a loss of Ps. 400 million in 2016. Major devaluation or depreciation of the Mexican peso may limit our ability to transfer or to convert such currency into U.S. dollars for the purpose of making timely payments of interest and principal on our indebtedness. The Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico. The government could, however, institute restrictive exchange rate policies in the future.

Additionally, the majority of our supplies are dollar linked, which may affect our profitability if we are not able to reflect higher supply costs in our prices.

We May Not Be Able to Make Payments in U.S. Dollars

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican Pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Mexican economy.

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

Mexico has experienced high levels of inflation in the past. The annual rate of inflation, as measured by changes in the National Consumer Price Index was 3.82% for 2011, 3.57% for 2012, 3.97% for 2013, 4.08% for 2014, 2.13% for 2015 and 3.36% for 2016. From January through March 2017, the inflation rate was 2.92%. On April 18, 2017, the 28-day CETES rate was 6.47%. While a substantial part of our debt is dollar-denominated at this time, high interest rates in Mexico may adversely affect the business climate in Mexico generally and our financing costs in the future and thus our financial condition and results of operations.

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

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, economic conditions in Mexico have become increasingly correlated to economic conditions in the United States. Accordingly, the slow recovery of the economy in the United States, and the uncertainty of the impact it could have on the general economic conditions in Mexico and the United States could have a significant adverse effect on our businesses and results of operations. See "Section 1.3.2. Risk Factors—Our Results of Operations Could Be Affected by Economic and Social Conditions in Mexico," and "Section 1.3.4. Risk Factors—Risks Related to the United States—Unfavorable General Economic Conditions in the United States Could Negatively Impact Our Financial Performance." In addition, economic crises in the United States as well as in Asia, Russia, Brazil, Argentina and other emerging market countries have adversely affected the Mexican economy in the past.

Our financial performance may also be significantly affected by general economic, political and social conditions in the emerging markets where we operate, particularly Mexico, Central America, Eastern Europe and Asia. Many countries in Latin America, including Mexico, have suffered significant economic, political and social crises in the past, and these events may occur again in the future. Instability in Latin America has been caused by many different factors, including:

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

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

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

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

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

1.3.3. Risks Related to the United States

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

Net sales in the United States constituted 56% of our total sales in 2016. Unfavorable general economic conditions in the United States could negatively affect the affordability of and consumer demand for some of our products. Under difficult economic conditions, customers and consumers may seek to forego purchases of our products or, if available, shift to lower-priced products offered by other companies. Softer customer and consumer demand for our products in the United States or in other major markets could reduce our profitability and could negatively affect our financial performance.

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

Demand for our products in Mexico may also be disproportionately affected by the performance of the United States economy. See also “Section 1.3.2. Risk Factors—Risks Related to Mexico—Our Results of Operations Could Be Affected by Economic and Social Conditions in Mexico.”

Any International Trade Agreement Renegotiation or Changes in Public Policies by the New Presidential Administration of the United States May Adversely Affect our Operations

The United States held presidential elections on November 8, 2016, where Donald Trump was elected. During his presidential campaign and throughout his office, President Trump, as well as high government officials have made comments indicating their wish to renegotiate certain international trade agreements in force, including the North American Free Trade Agreement (“NAFTA”), as well as their intention to strengthen the U.S. immigration policies.

Demographic changes in the U.S. resulting from the strengthening of the U.S. immigration policies, may affect our sales in the U.S., which represented 56% of our consolidated sales in 2016.

The new U.S. administration may renegotiate the terms, or even, withdraw from the trade agreements between Mexico and the United States, including NAFTA, which may have a material adverse effect on Mexico’s economic policy and on our financial situation and results of operations, since Gruma imports, among others, a significant amount of corn from the U.S., in addition to exporting certain products to our subsidiary in the U.S., mainly wheat flour and *tostadas*.

The introduction of changes in public policies and their effect in the U.S. regulatory framework related to Mexico, may adversely affect our operations

1.3.4. Risks Related to Venezuela

We have Cancelled our Investment in the Venezuelan Companies which are Currently Involved in Expropriation and Arbitration Proceedings

On May 12, 2010, the Venezuelan government published in the Official Gazette of Venezuela decree number 7,394 (the “Expropriation Decree”), which announced the forced acquisition of all assets, property, and real estate of MONACA. The Venezuelan government has expressed to GRUMA’s representatives that the Expropriation Decree extends to DEMASECA.

GRUMA’s interests in MONACA and DEMASECA are held through two Spanish companies Valores Mundiales and Consorcio Andino. In 2010, Valores Mundiales and Consorcio Andino (collectively, the “Investors”) commenced discussions with the

Venezuelan government regarding the Expropriation Decree and related measures affecting MONACA and DEMASECA. Through Valores Mundiales and Consorcio Andino, GRUMA participated in said discussions, which were unsuccessful.

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

In January 2013, the Venezuelan government issued a resolution (*providencia administrativa*) granting the “broadest powers of administration” over MONACA and DEMASECA to special managers (*administradores especiales*) who had been imposed on those companies since 2009 and 2010, respectively as described below. As a result, and in accordance with IFRS, we lost control of our Venezuelan subsidiaries, MONACA and DEMASECA, on January 22, 2013 and, in light of the loss of control, we ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013 and reported any effects retroactively.

On May 10, 2013, Valores Mundiales and Consorcio Andino (the “Claimants”) submitted a Request for Arbitration to the ICSID. The proceeding is currently pending. The tribunal that presides over this arbitration proceeding was constituted in January 2014. In this arbitration proceeding, Claimants assert that the Expropriation Decree and related measures are in breach of certain provisions of the Investment Treaty. Under the provisions of the Investment Treaty, the Claimants have made a claim for compensation resulting from, among others, Venezuela’s expropriation of MONACA and DEMASECA.

While discussions with the government have taken place and may again take place from time to time, we cannot assure that such discussions will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree and related measures. Additionally, we cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on our results of operations or financial position, or the likelihood of collecting a successful arbitration award. See “Section 2.2.11: Legal, Administrative or Arbitration Proceedings—Venezuela—Expropriation Proceedings by the Venezuelan Government.” We do not have insurance for the risk of expropriation.

As disclosed in Note 26 to our audited consolidated financial statements, our income (loss) from our Venezuelan operations was (Ps.40 million) and (Ps. 4,314 million) for the years ended December 31, 2014 and 2015, respectively.

Our interest in the total net assets of Venezuelan operations was Ps.3,109 million at January 22, 2013 and was accounted for as “Available-for-sale financial asset”. In December 2015, our Company recognized a full impairment to its indirect net investment in MONACA and DEMASECA (total net assets), as well as the accounts receivable that certain subsidiaries of GRUMA had with the Venezuelan Companies totaling Ps.1,253 million. See Notes 26 and 28 to our audited consolidated financial statements.

1.3.5. Risks Related to Our Primary Shareholder Group and Capital Structure

The Protections Afforded to Minority Shareholders in Mexico Are Different from Those in Other Countries

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

Exchange Rate Fluctuations May Affect the Value of Our Shares

Fluctuations in the exchange rate between the peso and currencies of other countries will affect the value of an investment in our shares and of dividend and other distribution payments on those shares. See “Section 1.1.4. Exchange Rate.”

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

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

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

Our Primary Shareholder Group Exerts Substantial Control Over Us

As of April 28, 2017 the "Primary Shareholder Group controlled approximately 52.41% of our outstanding shares. See "Section 4.4. Bylaws and other Agreements—Changes in Capital Stock." Consequently, the Primary Shareholder Group, acting together, has 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 the Primary Shareholder Group may differ from those of our other shareholders. See "Section 4.3.3. Major Shareholders."

We cannot assure you that members of the Primary Shareholder Group will continue to hold their shares or act together for purposes of control. Additionally, members of the Primary Shareholder Group may pledge part of their shares in us to secure any future borrowings. If such was the case and members of the Primary Shareholder Group were to default on their payment obligations, the lenders could enforce their rights with respect to such shares and the Primary Shareholder Group could lose its controlling interest in us resulting in a change of control. A change of control could trigger a default in some of our credit agreements and financial instruments. Upon the occurrence of a change of control triggering event (which means the occurrence of both a change of control and a ratings decline, as defined in the indenture governing the Notes due 2024) we may be required to repurchase the Notes due 2024. Such a default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects.

Our Antitakeover Protections May Deter Potential Acquirers

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 "Section 4.4. Bylaws and other Agreements—Other Provisions—Antitakeover Protections."

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

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

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

In addition, Gruma USA is subject to covenants in some of its debt agreements which require the maintenance of specified financial ratios and balances and, upon an event of default, prohibit the payment of cash dividends. For additional information concerning these restrictions on intercompany transfers, see "Section 2.2.13. Dividends" and "Section 3.4.3. Financial Condition, Liquidity and Capital Resources."

We own approximately 85.5% of the outstanding shares of Grupo Industrial Maseca, S.A.B. de C.V., or GIMSA; accordingly, we are entitled to receive only our *pro rata* share of any of its dividends.

1.4. OTHER SECURITIES

The company and its Series B shares are listed in the BMV. The company does not have other securities registered before the RNV.

The type of reports which are sent to the corresponding regulatory agencies and stock exchanges are: Annual Report and Audited Financial Statements, which include the periods reported for the current year versus last year and are filed on an annual basis. Additionally, Quarterly Results Reports are delivered, which include periods reported for the current quarter against the last quarter, as well as the current quarter against the same quarter of the previous year and the aggregate of the current year against the aggregate of the last year. This information is filed on a quarterly basis. The company has timely and completely filed the information in the last three fiscal years.

As of 1998 GRUMA's shares traded in the NYSE, in the form of ADS, through the Series B, 4 shares per ADS, Citibank N.A., being the Depositary Bank. Per decision of the Board of Directors of the Company, on June 26, 2015 GRUMA notified Citibank of its intention to terminate the Deposit Agreement regarding its ADRs, in order to delist its ADRs from the NYSE. As of September 8, 2015, GRUMA's ADR stopped trading in NYSE, and the deposit agreement was terminated simultaneously. The latter in order to concentrate the trading of the shares in the BMV, and thereby increasing its liquidity.

On September 10, 2015 the company filed the 15F Form before the SEC, requesting the deregistration before the SEC. Consequently, and given that the SEC did not pose any objection on that regard, the cancellation became effective on December 9, 2015 and GRUMA's reporting obligations under the Securities Exchange Act of 1934 (the "Exchange Act") were extinguished as of that date.

1.5. SIGNIFICANT CHANGES TO THE RIGHTS OF SECURITIES REGISTERED IN THE REGISTRY

There are no changes to the rights of the securities of the Issuer registered in the RNV.

1.6. DESTINATION OF THE FUNDS

Not applicable.

1.7. PUBLIC DOCUMENTS

The information contained in this report may be reviewed through the investor relations section of our website: www.gruma.com. A description of our company as well as updated financial information can be found there. Likewise, the investor may request a copy of this document directly to the company.

For a more personalized attention, you can address our Investor Relations department:

Investor Relations

Telephone: (52 81) 8399-3349

E-mail: ir@gruma.com

Address: Calzada del Valle 407 Ote.
Col. Del Valle
San Pedro Garza García, N.L.
66220, Mexico

2. THE COMPANY.

2.1 HISTORY AND DEVELOPMENT OF THE COMPANY

Gruma, S.A.B. de C.V. is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) incorporated on December 24, 1971 in Monterrey, Mexico under the *Ley General de Sociedades Mercantiles*, or Mexican Corporations Law, 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, Mexico and our telephone number is (52) 81 8399-3300. Our legal domicile is San Pedro Garza García, Nuevo León, Mexico.

The company was founded in 1949, when Mr. Roberto González Barrera started producing and selling corn flour in Northeastern Mexico as raw material for producing tortillas and other corn-based products. Prior to our founding, all corn tortillas were made through the corn dough method or *nixtamal* (the “Traditional Method”). Today, both the Traditional Method, as well as the corn flour method are used, additionally, corn flour and the dough prepared through the Traditional Method can be mixed in various proportions to produce tortillas and other corn-based products. Our main operations are in Mexico and the United States and, to a lesser extent, in Central America and Europe.

Later, the company was able to integrate vertically with tortilla production and related products with important operations primarily in the United States and, to a lesser extent, Europe, Asia, Oceania, Central America and Mexico. In addition, we have diversified our product mix to include other types of flatbreads (pita, naan, chapati, pizza bases and piadina) mainly in Europe, Asia and Oceania, and corn grits mainly in Europe, among other products in the regions where we have presence.

The following are some significant historical highlights:

- **In 1949**, Roberto González Barrera and a group of predecessor Mexican corporations founded GIMSA, which is engaged principally in the production, distribution and sale of corn flour in Mexico.
- **In 1972**, we entered the Central American market with our first operation in Costa Rica. Today, we have operations in Costa Rica, Guatemala, Honduras, El Salvador and Nicaragua, as well as Ecuador, which we include as part of our Central American operations.
- **In 1977**, we entered the U.S. market. Our operations have grown to include products such as tortillas, corn flour, and other tortilla related products.
- **From 1989 to 1995**, we significantly increased our installed manufacturing capacity in the United States and in Mexico.
- **In 1993**, we entered the Venezuelan corn flour market through an investment in DEMASECA, a Venezuelan corporation producing corn flour.
- **In 1994**, GRUMA became a publicly listed company in both Mexico and the U.S.
- **In 1996**, we strengthened our position in the U.S. corn flour market through an association with ADM. Through this association we combined our existing U.S. corn flour operations and strengthened our position in the United States. This association also allowed us to enter the Mexican wheat flour market by acquiring a 60% ownership interest in ADM’s Mexican wheat flour operations. ADM no longer holds an ownership interest in us and we no longer have the wheat flour operations in Mexico. See “Section 3.4 Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Issuer – Acquisitions and other Relevant Events within our Business Units. —Share Purchase Transaction with Archer-Daniels-Midland” and see “Section 3.4 Section 3.4 Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Issuer – Acquisitions and other Relevant Events within our Business Units. — Wheat Milling Transaction.”
- **From 1997 to 2000**, we initiated a significant plant expansion program. During this period, we acquired or built tortilla plants, corn flour plants and wheat flour plants in the United States, Mexico, Central America, Venezuela and Europe.

- **In 2004**, we increased our presence in Europe by acquiring Ovis Boske, a tortilla company based in the Netherlands, and Nuova De Franceschi & Figli, a grits and corn flour company based in Italy. 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.
- **In 2005**, we continued to expand capacity at existing plants, began the construction of a tortilla plant in the northeast of the U.S., acquired three tortilla plants from Cenex Harvest States or CHS (located in Minnesota, Texas and Arizona) and one more in San Francisco, California.
- **In 2006**, we acquired two small tortilla plants in Australia (Rositas Investments and Oz-Mex Foods) and opened our first tortilla plant in China, which strengthened our presence in the Asian and Oceanian markets. We concluded the acquisition of Pride Valley Foods, a company based in England that produces pita bread, naan, and chapati, thus expanding our product portfolio to other types of flatbreads.
- **In 2007**, we entered into a contract to sell up to 40% stake in MONACA to our former partner in DEMASECA. In conjunction with this transaction, we also agreed to purchase an additional 10% ownership interest in DEMASECA from our then partner. We also purchased the remaining 49% ownership interest in Nuova De Franceschi & Figli. In addition, we made major investments in capacity expansions and upgrades in Gruma USA, started the construction of a tortilla plant in Australia for Gruma Asia & Oceania, and expanded two of GIMSA's plants.
- **From 2008 to 2010**, we invested in the construction of a tortilla plant in southern California, capacity expansions, general manufacturing and technology upgrades to several of our existing facilities, the construction of a tortilla plant in Australia, the construction of a wheat mill in Venezuela, and the acquisition of the leading producer of corn grits in Ukraine.
- **In 2011**, we acquired Semolina, the Turkish leading producer of corn grits, two tortilla plants in the U.S. located in Omaha, Nebraska and Albuquerque, New Mexico, and Solntse Mexico, the leading tortilla manufacturer in Russia.
- **In 2012**, our founder Mr. Roberto González Barrera passed away. In December 2012, we repurchased 23.16% of our issued shares from ADM as well as ADM's minority stakes in Azteca Milling, Molinera de México, S.A. de C.V., Consorcio Andino, and Valores Mundiales. There was also a major focus of the company towards value creation. See "Section 3.4. Management's Discussion and Analysis of the Results of Operation and Financial Situation of the Issuer – Acquisitions and Other Significant Events Within our Business Units—Share Purchase Transaction with Archer-Daniels-Midland."
- **In 2013**, we deconsolidated the Venezuelan Companies. See "Section 1.3.3. Risk Factors—Risks Related to Venezuela— We have Cancelled our Investment in the Venezuelan Companies which are Currently Involved in Expropriation and Arbitration Proceedings".
- **In 2014**, we concluded the sale of our wheat mills. See "Section 3.4. Management's Discussion and Analysis of the Results of Operations and Financial Situation of the Issuer—Acquisitions and Other Significant Events Within Our Business Units." We also issued U.S.\$400 million aggregate principal amount of 4.875% senior notes due 2024. See "Section 3.4.3. Financial Condition, Liquidity and Capital Resources—Indebtedness."
- **In 2015**, GRUMA deregistered its ADRs from the NYSE and cancelled its registration before the SEC, thereby its reporting obligations under the Securities Exchange Act of 1934, were extinguished. See "Section 1.4. Other Securities." Additionally, GRUMA cancelled its total investment in the Venezuelan Companies, writing-off the indirect net investment in the Venezuelan Companies, as well as the accounts receivable that certain subsidiaries of GRUMA had with the Venezuelan Companies. See Notes 26 and 28 to our audited consolidated financial statements.
- **In 2016**, GRUMA continued executing its capital expenditure program through the construction of tortilla plants in Dallas, Malaysia, Russia and Monterrey, in addition to the expansion of the corn flour plant in Evansville, In., and the reopening of the corn flour plant in Chalco, Edo. de Mexico, among others.

2.2. BUSINESS OVERVIEW

2.2.1. Principal Activity

We are a holding company and one of the world's largest tortilla and corn flour producers. With leading brands in most of our markets, we have operations in the United States, Mexico, Central America, Europe, Asia, and Oceania. We are headquartered in San Pedro Garza García, Mexico, and have approximately 20,000 employees. Our shares are publicly traded in Mexico through the BMV and until September 8, 2015 they also traded in the United States of America through the NYSE. We are organized as a *sociedad anónima bursátil de capital variable* under the laws of Mexico.

We believe we are one of the leading producers of corn flour and tortillas in the United States, and one of the leading producers of corn flour in Mexico. We believe that we are also one of the largest producers of corn flour and tortillas in Central America, one of the largest producers of tortilla and other flatbreads, including pita, naan, chapati, pizza bases and piadina in Europe, Asia and Oceania, and one of the leading producers of corn grits in Europe and the Middle East.

Our focus has been and continues to be the efficient and profitable expansion of our core business—corn flour and tortilla. We pioneered the corn flour method of tortilla production, which features significant opportunities for growth. Using our know-how, we will seek to encourage tortilla and other corn-based products manufacturers in the United States, Mexico, Central America, and elsewhere to use corn flour in the production of the same.

The following table sets forth our consolidated revenues by geographic market for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
		(in millions of pesos)	
United States	Ps. 38,141	Ps. 31,664	Ps. 25,557
Mexico	17,358	15,691	15,110
Europe	4,979	4,472	3,722
Central America	4,639	4,057	3,479
Asia and Oceania	3,089	2,395	2,067
Total.....	Ps. 68,206	Ps. 58,279	Ps. 49,935

Strategy

Our strategy is to focus on our core business—corn flour and tortilla—as well as to expand our product portfolio towards the flatbreads category in general. We will continue taking advantage of the increasing popularity of Mexican food and, more importantly, tortillas, in the U.S., European, Asian and Oceanian markets. We will also continue taking advantage of the adoption of tortillas by the consumers of several regions of the world for the preparation of different recipes other than Mexican food. Our strategy includes the following key elements:

Expand in the Retail and Food Service Tortilla Markets in the United States: We believe that the size and growth of retail and food service tortilla markets in this country still offer us significant opportunities for expansion.

Enter and Expand in the Tortilla and Flatbread Markets in Other Regions of the World: We believe that tortilla and flatbread markets in other continents such as Europe, Asia and Oceania offer us significant opportunities. We believe our current operations in Europe will enable us to better serve markets there and in the Middle East. Our presence will enable us to offer our customers in those regions fresher products and respond more quickly to their needs.

Maintain MISSION® and GUERRERO® Tortilla Brands as the First and Second National Brands in the United States and Position our Mission Brand in Other Regions of the World: We intend to achieve this by increasing our efforts at building brand name recognition, and by expanding and utilizing the same distribution network.

Encourage Transition from the Traditional Cooked-Corn Method to the Corn Flour Method as Well as New Uses for Corn Flour: GRUMA introduced the corn flour method for the production of tortilla and other corn-based products to the market. We

believe that there is still much growth potential and that the transition from the Traditional Method to the corn flour method of making tortillas and other corn-based products, is the primary opportunity for increased corn flour sales. We are also working to expand the use of corn flour in the manufacture of different types of products.

Invest in our Core Business and Focus on Optimizing Operational Matters: We intend to focus our capital expenditure program on our core business to enable us to meet future demand, consolidate our leading position in the industry and continue delivering shareholders returns above our cost of capital.

2.2.1.1. U.S. Operations

Overview

We conduct our United States operations principally through our subsidiary Gruma USA, which manufactures corn flour, tortillas, corn chips and other related products. Gruma USA 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 Method to our corn flour method. Eventually, we began to build our own state-of-the-art tortilla plants in certain major tortilla consumption markets.

Gruma USA operates primarily through its Mission Foods division, which produces tortillas and related products, and through Azteca Milling, a limited partnership which produces corn flour. We believe Gruma USA is one of the leading manufacturers and distributors of tortillas and related products throughout the United States through its Mission Foods division. We also believe Gruma USA is one of the leading producers of corn flour in the United States through its Azteca Milling division.

Principal Products. Mission Foods manufactures and distributes corn and wheat tortillas and related products (which include tortilla chips) mainly under the MISSION®, GUERRERO® and CALIDAD® brand names in the United States. By continuing to build MISSION® into a strong national brand oriented to every type of consumer, GUERRERO® into a strong Hispanic consumer focused brand and CALIDAD® as our value brand in tortillas and chips, we expect to increase Mission Foods' market penetration, brand awareness and profitability. Azteca Milling manufactures and distributes corn flour in the United States under the MASECA® brand, and, to a lesser extent, under our value brand TORTIMASA®.

Sales and Marketing. Mission Foods serves both retail and food service customers. In the U.S., retail customers represented approximately 75% of our sales volume in 2016, including supermarkets, mass merchandisers, membership stores and smaller independent stores. Our food service customers include major chain restaurants, food service distributors, schools, hospitals and the military.

For the U.S. tortilla market, Mission Foods' current marketing strategy is to focus on core products and drive organic, profitable, and sustainable growth, while creating a strong value proposition for our consumers through superior consumer knowledge and understanding, excellence in customer service and effective marketing programs. Mission Foods promotes its products primarily through merchandising programs with supermarkets, and, to a lesser extent, joint promotions with other companies' products that may be complementary to ours. We believe these efforts have contributed to greater consumer awareness, and household penetration. Mission Foods also targets food service companies and works with its clients 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 2016, Azteca Milling distributed approximately 33% of the corn flour it produces to Mission Foods' plants in the United States. 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 believe that the growing consumption of Mexican-style foods by non-Hispanics will continue to increase demand for tortillas and tortilla related products, particularly wheat flour tortillas. Additionally, we believe that demand for tortilla and other related products will continue to increase driven by the fact that tortillas are no longer solely used in Mexican food; for example, tortillas are also used for wraps. As it happens in tortillas and related products, the growth in the U.S. corn flour market is also driven by of the Hispanic population growth, the consumption of tortillas and tortilla chips by the general consumer market, and stronger and increased distribution. Additionally, the growth in the U.S. corn flour market is also attributable to the conversion of tortilla and tortilla chip producers from the Traditional Method to the corn flour method.

Competition and Market Position. We believe Mission Foods is one of the leading manufacturers of tortillas and related products throughout the United States. We believe the tortilla market is highly fragmented, regional in nature and extremely

competitive. Mission Foods' main competitors in the U.S. are hundreds of tortilla producers who manufacture locally or regionally and tend to be sole proprietorships. However, there are some competitors that have a presence in several U.S. regions, such as: Olé Mexican Foods, La Tortilla Factory, El Milagro and Reser's Fine Foods, among others. In addition, a few large companies have tortilla manufacturing divisions that compete with Mission Foods, for example, Tyson Foods, General Mills, Hormel Foods, and Bimbo.

We believe Azteca Milling is one of the leading producers of corn flour in the United States. Among our competitors in the U.S. within the corn flour milling industry are Minsa, Hari Masa, Bunge, and 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.

Operations and Capital Expenditures. Annual total production capacity for Gruma USA is estimated at 1.8 million metric tons as of December 31, 2016, with an average utilization of 85% in 2016. The average size of our plants as of December 31, 2016 was approximately 10,951 square meters (about 117,975 square feet).

Capital expenditures for the past three years were U.S.\$205 million, and were primarily used for capacity expansions and general manufacturing and technology upgrades. Capital expenditures during said period were also used for: the construction of a tortilla plant in Dallas and the expansion of the corn flour plant in Evansville, Indiana.

Gruma USA's projected capital expenditures for 2017 are expected to be approximately U.S.\$109 million, mainly for production capacity expansions, especially to finish the tortilla plant in Dallas and the expansion of the corn flour plant in Evansville, and manufacturing and technology upgrades.

Mission Foods produces its tortillas and other related products at 20 plants throughout the United States.

Mission Foods is committed to offering the best quality products to its customers through the implementation of the American Institute of Baking ("AIB") food safety standards, and Global Food Safety Initiative ("GFSI") recognized certification schemes such as British Retail Consortium ("BRC") and Safe Quality Food ("SQF"). Additionally, our plants are regularly evaluated by other third party organizations and customers. All of the Mission Foods manufacturing facilities have earned either a superior or excellent category rating from the AIB-GMP (Good Manufacturing Practice) audits. All of Mission Foods' United States plants have earned the BRC or SQF certification.

In 2008 Mission Foods started the BRC certification process at four plants in the United States. By 2012, 16 plants had completed the certification process and one of our plants was SQF certified. In 2015 we began the transition from BRC to SQF and since 2016 all of the Mission Foods plants have achieved the SQF Certified certification except for the plant located at Lawrenceville, GA.

Azteca Milling produces corn flour at six plants located in Amarillo, Edinburg and Plainview, Texas; Evansville, Indiana; Henderson, Kentucky; and Madera, California. The majority of our plants are located within important corn growing areas. Due to Azteca Milling's manufacturing practices and processes, all six facilities have achieved ISO 9002 certification as well as the AIB certification.

Also, and due to Azteca Milling's manufacturing processes and practices, currently 5 of the 6 plants located in the United States have obtained the SQF (Safe Quality Food), the Madera plant is scheduled to be certified in April of 2017. Further, Azteca Milling implements a GMP's (Good Manufacturing Practices) inspection plan of the AIB institute.

Seasonality. We believe there is no significant seasonality in our products, however certain 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 promotions and advertising by taking advantage of several holidays and major sporting events. Tortilla and tortilla chip sales decrease slightly towards the end of the year when many Mexicans go back to Mexico for the holidays. Sales of corn flour fluctuate seasonally as demand is higher in the fourth quarter during the holidays because of higher use of corn flour in certain Mexican foods that are very popular during this time of the year.

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

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

Corn flour for Mission Foods U.S. operations is supplied by Azteca Milling, and to a much lesser extent, by GIMSA. Wheat flour for the production of wheat tortillas is purchased from third party producers at prices prevailing in the commodities markets. Contracts for wheat flour supply are made on a short-term basis. 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.

Distribution. An important element of Mission Foods' sales growth has been the expansion and improvement of the tortilla distribution network, including a direct-store-delivery system to distribute most of its products, providing national coverage in the United States to the retail stores channel. Distribution in the United States is mainly through independent distributors most of them working exclusively with Mission Foods. Depending on the size of the customer, and the category development index / brand development index metrics ("CDI/BDI Metrics") of the geography, tortillas and other products are generally delivered daily or several times a week. In parts of the country, for example in the Northeast, where CDI/BDI Metrics are relatively low, besides the system of direct distribution to stores, Mission Foods also employs a distribution system through warehouses for products that are particularly displayed in the refrigerated foods section.

The vast majority of corn flour produced by Azteca Milling in the United States is sold to tortilla and tortilla chip manufacturers and is delivered directly from our plants to the customers' manufacturing facilities. 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.

2.2.1.2. Mexican Operations

Overview

Our largest business in Mexico is the manufacture and sale of corn flour, which we conduct through our subsidiary GIMSA. Our other subsidiaries engage in the manufacturing and distribution of tortillas and other related products, 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 corn flour in Mexico, which is then used as a raw material in the preparation of tortillas and other corn-based products. GIMSA also produces corn grits.

GIMSA sells corn flour in Mexico mainly under the brand name MASECA®, which is a fine-textured, ready-mix product that becomes 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 other corn-based products.

GIMSA produces over 50 varieties of corn flour for the manufacture of different food products which are developed to meet the requirements of our different types of customers according to the kind of products they manufacture and markets they serve.

Sales and Marketing. GIMSA sells packaged corn flour in bulk mainly to tortilla manufacturers and manufacturers of other corn-based products, including corn chips and snacks, which purchase corn flour mainly in 20-kilogram sacks. Additionally, GIMSA sells one-kilogram packages through the retail market mostly for domestic use.

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

	2016		2015		2014	
	Tons in thousands	%	Tons in thousands	%	Tons in thousands	%
Corn Flour	1,946	99	1,815	98	1,730	96
Bulk	1,647	84	1,568	85	1,486	83
Retail	299	15	247	13	244	13
Other	19	1	32	2	68	4
Total	1,965	100	1,847	100	1,798	100

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 or through wholesalers who sell the product to smaller grocery stores throughout Mexico. Sales to rural areas are made principally through DICONSA, a government owned enterprise that operated social distribution programs through a network of 27,000 small stores which supply communities in rural areas with basic food products.

Mexico's tortilla industry is highly fragmented, consisting of approximately 100,000 *tortillerías*, most of which continue to utilize the Traditional Method of tortilla production, while some use corn flour and some others mix dough prepared through the Traditional Method and corn flour in various proportions.

We estimate that the Traditional Method is used to manufacture two thirds of the tortillas produced in Mexico. We estimate that approximately one quarter of the corn dough used to produce tortillas in Mexico is made with our corn flour.

GIMSA has embarked on several programs to promote corn flour sales. The promotional activities GIMSA offers include a wide range of top-quality products that meet the diverse needs of our customers, as well as, the availability of easy to use equipment designed specifically for small-volume users and individualized training.

GIMSA has always been observant of market changes in order to adapt at a faster pace or even anticipate, its customers' needs, diversifying its sales force into specialized teams to satisfy different customer profiles, while focusing on product availability and expanding market coverage. During 2016, we continued working on the strategy to offer a business comprehensive proposal, that includes the following initiatives regarding products, services and marketing.

- Better serve our current customers and strengthen commercial relations offering personalized services and sales programs, as well as special promotions specifically tailored to every type of customer;
- Widen the coverage, mainly in regions with low corn flour consumption, developing sales formats which enable us to reach all our customers, regardless of their size or location;
- Achieve a higher product availability and proximity to customers, through the opening of more distribution centers;
- Assist our customers in the implementation of new operation methods through training and technical assistance, which help them to achieve a cost reduction and enable them to increase the profitability of their business;
- Support our clients in the development of new valued added products, according to consumers' trends;
- Development of special flours to satisfy the needs and requirements of our clients;
- Provide assistance and financing for the acquisition or renewal of equipment for the manufacturing of tortillas and other corn-related products, taking into consideration the type of machinery required by each customer;
- Develop tailor made programs and marketing promotions to engage new customers and increase the corn flour consumption in certain market segments.

Competition and Market Position. In the market of raw materials for producing tortilla and other corn-based products, GIMSA faces competition on three levels: from (i) corn used by tortilla producers to make dough through the Traditional Method in their premises; (ii) corn dough produced industrially through the Traditional Method and distributed to *tortillerías* and manufacturers of other corn-based products; and (iii) from other corn flour producers, such as: Grupo Minsa, Hari Masa, Cargill de México, Molinos

Anáhuac, among others. We compete against other corn flour manufacturers on the basis of quality, customer service and geographic coverage. We believe that GIMSA has certain competitive advantages resulting from its economies of scale, service and quality provided to our customers, production efficiencies and 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 18 corn flour mills, all of which are located throughout Mexico, typically within corn growing regions and close to large tortilla consumption areas. GIMSA also produces corn grits in one of its mills. GIMSA has one plant located in Celaya and has been inactive since February 2006. Due to increased demand and consumption of corn flour in the center of the country in recent years, in 2016 we decided to reopen the plant at Chalco, which had been inactive since 1998.

Annual total production capacity for GIMSA is estimated at 2.4 million metric tons as of December 31, 2016, with an average utilization of 81% in 2016. The average size of our plants as of December 31, 2016 was approximately 21,600 square meters (approximately 232,500 square feet).

GIMSA's capital expenditures for the last three years were U.S.\$109 million and have been primarily used to upgrade technology, corn flour production processes, maintenance and capacity expansions at certain plants. GIMSA currently projects total capital expenditures during 2017 of approximately U.S.\$35 million, which will be used primarily for updating technology and production capacity expansion projects at existing plants.

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 "Section 2.2.1.6. Technology and Equipment Operations" and "Section 2.2.9. Organizational Structure."

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

Raw Materials. Corn is the principal raw material required for the production of corn flour, and constituted 62% of GIMSA's cost of sales for 2016. We purchase corn primarily from Mexican growers and grain elevators, and from different parts of the world at international prices based on the prices indicated by the Chicago Board of Trade. In 2016, GIMSA imported approximately 31% of our corn purchases. Most of GIMSA's domestic corn purchases are made through Compañía Nacional Almacenadora, S.A. de C.V. and PRODISA, subsidiaries of GIMSA, which enter into contracts for GIMSA, purchase the corn, and also monitor, select, handle and ship the corn.

We believe that the diverse geographic locations of GIMSA's production facilities in Mexico enable 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.

Domestic corn prices in Mexico typically follow trends in the international market. During most periods, the price at which GIMSA purchases corn depends on the price of corn in the international market. As a result, corn prices are sometimes unstable and volatile. Additionally, in the past, the Mexican government has supported the price of corn. For more information regarding the government's effect on corn prices, see "Section 1.3.2. Risk Related to México—Our Business Operations Could Be Affected by Government Policies in Mexico" and "Section 2.2.5. Applicable Laws and Taxation."

In addition to corn, other important 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. We have our own sales teams that are capable of servicing all sales channels, which allows us to know and serve our clients' needs. GIMSA's products are distributed mainly through independent transportation firms contracted by GIMSA and, to a lesser extent, using our own fleet, depending on the type of client. Most of GIMSA's sales are made ex-works at GIMSA's plants. GIMSA usually pays the freight cost for sales to the Mexican government, large supermarket chains, and snack producers.

2.2.1.3. European Operations

Overview

We conduct our European operations principally through our division Gruma Europe, which manufactures tortillas, corn chips, several types of flatbreads and other related products through Mission Foods Europe, and corn grits and corn flour, among other things, through Azteca Milling Europe. During the year 2000, Gruma Europe opened its first European tortilla and corn chips plant in Coventry, England, initiating our entry into the European market. Since then, our operations have expanded to Italy, The Netherlands, Russia, Turkey, Ukraine and Spain.

Gruma Europe

Principal Products. Mission Foods Europe manufactures and distributes tortillas, flatbreads (such as naan, pita and chapatti), corn chips and other related products mainly under the MISSION®, MEXIFOODS®, DELICADOS® brands and through private label. Azteca Milling Europe manufactures and distributes corn grits and corn flour, the latter under the MASECA® brand, as well as byproducts for the manufacture of animal feed.

Sales and Marketing. Mission Foods Europe mainly operates in the retail (domestic and regional supermarket chains and small retailers) and in the food service channels (restaurants, cafeterias, hotels and fast food chains). Approximately half of the sales of Mission Foods Europe are made through the retail channel and the other half is made through the food service channel. Most of the sales of Azteca Milling Europe are made in bulk to beer, snacks, corn chips and taco shell manufacturers.

Competition and Market Position. We believe Mission Foods Europe is one of the leading manufacturers of tortillas and related products in Europe, our main competitors in the region are Grupo Paulig, General Mills and Aryzta, among others. We believe Azteca Milling Europe is one of the leading producers of corn flour and corn grits in Europe, among our competitors in the region are DACSA, Codrico Rotterdam and Limagrain/Westhove, in addition to several regional mills.

Operations and Capital Expenditures. Annual total production capacity for Gruma Europe is estimated at 508 thousand metric tons as of December 31, 2016, with an average utilization of 76% in 2016. The average size of our plants as of December 31, 2016 was approximately 6,000 square meters (about 65,000 square feet).

Capital expenditures for the past three years were U.S.\$153 million, and were primarily used for capacity expansions and general manufacturing and technology upgrades. Capital expenditures during said period include the acquisition of Mexifoods in 2014, a tortilla and related products company based in Spain, the acquisition of Azteca Foods Europe in March 2015, also based in Spain, and the construction of a tortilla plant in Russia.

Gruma Europe's projected capital expenditures for 2017 are expected to be approximately U.S.\$39 million, mainly for production capacity expansions and manufacturing and technology upgrades. The 2017 capital expenditures budget includes potential acquisitions.

Mission Foods Europe has 6 plants, two plants in England, one plant in The Netherlands, one plant in Russia and two plants in Spain. Azteca Milling Europe has 3 plants, which are located in Italy; Ukraine; and in Turkey.

Seasonality. We believe there is no seasonality in our products, however there is a slight volume increase during the summer months.

Raw Materials. Corn is the main raw material used in our operations of Azteca Milling Europe, and is obtained mainly from local farmers. Azteca Milling Europe only purchases corn from farmers and grain elevators that agree to supply varieties of corn approved for human consumption. Azteca Milling Europe tests and monitors its raw material purchases for corn not approved for human consumption, for certain strains of bacteria, fungi metabolites and chemicals. In addition, Azteca Milling Europe applies certain testing protocols to incoming raw materials to identify genetically modified organisms not approved for human consumption. Azteca Milling Europe does not anticipate any difficulties in securing adequate corn supplies in the future.

Corn and wheat flour are the main raw materials for the manufacture of Mission Foods Europe's products. Wheat flour is purchased mainly from local producers and corn flour is supplied mainly by our corn mill in Italy.

Distribution. The vast majority of corn flour and corn grits produced by Azteca Milling Europe is sold to beer, snacks, corn chips and taco shells manufacturers and is delivered directly from our plants to the customer. We also supply customers in several industries like breakfast cereals and polenta, among others.

Mission Foods Europe's customers are primarily serviced by a network of distributors and independent transportation firms, additionally part of our sales are delivered directly to customers at our plants.

2.2.1.4. Central American Operations

Overview

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

Gruma Centroamérica

Principal Products. Gruma Centroamérica produces corn flour, and to a lesser extent, tortillas and snacks. We also cultivate hearts of palm and process rice. We believe we are one of the largest corn flour producers in the region. We sell corn flour under the MASECA®, TORTIMASA®, MASARICA®, MINSA®, JUANA® and MIMASA® brands. In Costa Rica, we sell corn and wheat tortillas under the TORTIRICAS® and MISSION® brands. In Costa Rica we manufacture tortilla chips, extruded snacks, potato chips and similar products under the TOSTY®, RUMBA®, BRAVOS® and TRONADITAS® brands. Hearts of palm are produced in Costa Rica and Ecuador and are exported to numerous European countries as well as the United States, Canada, Brazil, Argentina, Chile and Mexico.

Sales and Marketing. 77% of Gruma Centroamérica's sales volume in 2016 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 52% and retail sales represented approximately 48% of Gruma Centroamérica's corn flour sales volume during 2016.

Competition and Market Position. We believe that we hold a strong leadership position in the corn flour market in Central America. We believe that there is significant potential for growth in Central America as the majority of tortilla manufacturers use the Traditional Method. Corn flour was used in only approximately 19% of all tortilla production in 2016. We believe that we are the largest producer of tortillas and snacks in Costa Rica.

Within the corn flour industry, the brands of our main competitors are: Del Comal, Doña Blanca, Selecta, Bachosa, Más Tortilla, Chortimasa, Instamasa and Doñarepa. However, our key growth opportunity 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 301 thousand tons as of December 31, 2016, with an average utilization of approximately 72% during 2016. We operate one corn flour plant in Costa Rica, one in Honduras and one in Guatemala. 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 a small tortilla plant, while in Guatemala we have a small plant that produces snacks and in Ecuador we have a small facility which processes hearts of palm. On average, the size of our plants as of December 31, 2016 was approximately 7,132 square meters (approximately 76,777 square feet).

During 2014, 2015 and 2016 most of our capital expenditures were oriented towards general manufacturing upgrades and production capacity expansions at existing corn flour plants. Total capital expenditures for the past three fiscal years were approximately U.S.\$24 million. Capital expenditures for 2017 are projected to be U.S.\$8 million, which will be used primarily for general manufacturing and technology upgrades.

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

Raw Materials. Corn is the most important raw material needed in our operations, representing 33% of the cost of sales during 2016, and is obtained primarily from imports from the United States as well as from local growers. Price fluctuation and volatility are subject to domestic conditions, such as annual crop results and international conditions.

Distribution. In Costa Rica, our sales force serves the largest and most important channels in the country in a specialized way and where we market our products from the corn flour, snacks, rice and hearts of palm businesses. In the retail segment we make direct store deliveries to mom and pop stores and provide a weekly visit, for which we have our own fleet. As for the supermarket chains, we make deliveries to their distribution centers. Regarding special accounts (wholesale, foodservice and industrial channels) we make deliveries to points of sale, foodservice distributors, industries, etc. In both the supermarket and special accounts channels, products are delivered to customers through independent transportation companies contracted through competitive bidding.

For the tortilla business (corn and wheat), we work with an independent and exclusive sales force, through nine distributors located in different geographic areas in Costa Rica. We have distribution coverage of 95% of Costa Rica, which positions us as the company with the fourth largest distribution network in the country, as confirmed by the National Chamber of Retailers, who has recognized us for 19 consecutive years with the Retailer Medal, an important award granted annually to the top 12 commercial companies of Costa Rica. We have also received the Excellence Grand Prize granted by this same Chamber, in two occasions: 2011 and 2016, which acknowledges the service levels and customer service to retail clients.

In Guatemala, the supermarket, wholesale, artisanal *tortillería* and industrial channels are served by our own routes; the retail channel is served through a distributor. In Honduras, all our channels are served through our own routes. In El Salvador the wholesale, supermarkets and retail channels are served through independent distributors and the industrial channel is served by our own route. In Nicaragua the industrial and artisanal *tortillería* channels are served through our own routes and the wholesale, retail and supermarkets channels through distributors.

2.2.1.5. Discontinued Operations

Molinera de México

In 1996, through our former association with ADM, we entered the wheat milling market in Mexico by acquiring a 60% ownership interest in ADM's wheat flour operation, Molinera de México, later increasing our ownership interest to 100% through the ADM transaction. See "Section 5. Operating and Financial Review and Prospects — Acquisitions and Other Significant Events Within our Business Units—Share Purchase Transaction with Archer-Daniels-Midland." Molinera de México's main product is wheat flour, although it also sells wheat bran and other byproducts. Its wheat flour brands are REPOSADA®, PODEROSA® and SELECTA®, among others. SELECTA® is the main brand in the retail segment.

On June 10, 2014, we entered into the Wheat Milling Transaction. As a result of this transaction, we no longer have a participation in the wheat milling industry in Mexico. See Note 26 to our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended on those dates.

Venezuelan Companies

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, ADM acquired the remaining 5% interest in MONACA.

In April of 2006, we entered into a series of transactions to: (i) purchase an additional 10% ownership interest in DEMASECA at a price of U.S.\$2.6 million; (ii) purchase a 2% stake in MONACA from ADM at a price of U.S.\$3.3 million; and (iii) sell a 3% interest in DEMASECA to ADM at a price of U.S.\$780,000.

Additionally, in April of 2006, we entered into a contract for the sale of a stake in MONACA to Rotch, a controlled entity of Mr. Ricardo Fernández Barrueco. As a result, Rotch acquired a 24.14% interest in MONACA. Subsequently, Rotch transferred its equity interests in MONACA to a trust created in Mexico to serve as a payment mechanism with respect to a loan granted by a Mexican financial institution (the "Lender") in favor of a controlled entity of Rotch. In June of 2010, the obligations under the loan became overdue and, according to the terms of the referred trust, the stake in MONACA was sold to a third investor, whose interest in MONACA was held by a Mexican company, currently named Valcon Holdings, S.A. de C.V., which is not affiliated with Mr. Ricardo Fernández Barrueco.

As a result of the foregoing transactions and the ADM Transaction, we currently own 75.86% of Valores Mundiales and Valcon Holdings, S.A. de C.V. owns the remaining 24.14%. As of December 31, 2016, Valores Mundiales was the sole registered shareholder of MONACA. In addition, we own 60% of Consorcio Andino and Valcon Holdings, S.A. de C.V. owns the remaining 40%. As of December 31, 2016, Consorcio Andino was the sole registered shareholder of DEMASECA.

On May 12, 2010, the Venezuelan government published the Expropriation Decree, which announced the forced acquisition of all assets, property and real estate of our subsidiary company in Venezuela, MONACA. Venezuela has expressed to GRUMA's representatives that the Expropriation Decree extends to our subsidiary DEMASECA. In January 22, 2013, the Ministry of Popular Power for Internal Relations issued a resolution (*providencia administrativa*) granting the "broadest powers of administration" over MONACA and DEMASECA to special managers (*administradores especiales*) who had been imposed on those companies since 2009 and 2010, respectively (see below). This resolution granted the Special Managers the broadest authority in order to safeguard the possession, care, custody, use, and conservation of movable and immovable assets of MONACA and DEMASECA. Accordingly, as of the date of this resolution, the Venezuelan government has had control of MONACA and DEMASECA through the Special Managers, who are neither appointed nor employed by GRUMA or its subsidiaries Valores Mundiales or Consorcio Andino. As a consequence of the resolution and on the date it was published, we concluded that we had lost control of the Venezuelan Companies and ceased the consolidation of the operations of MONACA and DEMASECA in our financial statements as of January 22, 2013 and now report them as a discontinued operation. See "Section 2.2.11. Legal, Administrative or Arbitration Proceedings—Venezuela—Expropriation Proceedings by the Venezuelan Government."

As of the issuance of this resolution, the role of GRUMA and its subsidiaries Valores Mundiales and Consorcio Andino in the management of MONACA and DEMASECA, is limited to try to prevent deterioration of the productivity of MONACA and DEMASECA, since now that the Special Managers designated by the Venezuelan government now possess the broadest management authority over these companies in accordance with the Providence.

In December 2015, our Company recognized a full impairment to its indirect net investment in MONACA and DEMASECA, as well as the accounts receivable that certain subsidiaries of GRUMA had with the Venezuelan Companies. See Notes 26 and 28 of our audited consolidated financial statements.

2.2.1.6. Technology and Equipment Operations

We have developed our own technology operations since our founding. Since March 2014 our technology and equipment operations have been conducted principally through INTESA, Tecnomáiz, and CIASA. Prior to this date, our technology and equipment operation had been conducted mainly through INTASA. On March 21, 2014, INTASA was merged into Gruma, S.A.B. de C.V., and ceased to exist. See "Section 2.2.9. Organizational Structure."

The main purpose of INTESA is to provide research and development, equipment, and construction services to the food industry, specifically with respect to tortillas and other corn-based products. Through Tecnomáiz, we also engage in the design, manufacture and commercialization of machines for the production of corn and wheat flour tortillas and tortilla chips, which are sold under the TORTEC® and RODOTEC® trademarks. Through CIASA, we also design and manufacture equipment for corn masa flour such as corn milling machinery, and provide engineering, design and construction services. We manufacture machines for the production of corn tortillas to be sold to tortilla manufacturers and to be used in *tortillerías* located inside supermarkets, as well as modern and high capacity machines for the production of corn and wheat flour tortillas.

We have carried out proprietary technological research and development for corn milling and tortilla production as well as all engineering, plant design and construction mainly through INTESA. We invested Ps.153 million, Ps. 137 million and Ps.159 million on research and development in the years ended December 31, 2014, 2015 and 2016, respectively.

2.2.1.7. Climate Change Effects

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to droughts, hurricanes, tornadoes, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in several countries in an effort to reduce greenhouse gas and other carbon emissions which some believe may be chief contributors to global climate change. We cannot predict the impact that changing climate conditions, if any, will have on our results of operations or our financial condition. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business in the future. The natural disasters caused by the climate change may increase the volatility of the price of grains, which at the same time could have an impact in our results of operations and/or financial condition. See “Section 1.3.1. Risks Related to our Company - Fluctuations in the Cost and Availability of Corn and Wheat May Affect Our Financial Performance.”

2.2.2. Distribution Channels

GRUMA operates through different distribution channels according to the needs of its clients and each segment of its business. For more information regarding the distribution channels, see “Section 2.2. Business Overview.”

2.2.3. Patents, Licenses, Trademarks and other Agreements

Patents

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 61 patents in the United States since 1968, 16 of these patents are in force and effect in the United States as of this date, and the remaining 45 have expired. We currently have three new patents in process in the United States. Additionally, nine of our registered patents and design patents are currently in the process of being published in other countries. None of our patents in force are due to expire. See “Section 2.2.1.5 Technology and Equipment Operations.”

Licenses

On November 29, 2013, we entered into an agreement with GIMSA in connection with the trademark MASECA®, through which GRUMA granted GIMSA the license to exclusively use the trademark MASECA® in Mexico for a term of 6 years. In consideration, GRUMA collected from GIMSA a fixed net royalty for the following six years equivalent to Ps.390.5 million per year, after a 12.75% discount rate for early payment. Therefore, on December 19, 2013, GIMSA paid GRUMA Ps.2,343 million. In turn, in order to support GIMSA in its efforts to promote the MASECA® trademark in Mexico, GRUMA will contribute 0.75% of the annual net sales of GIMSA during each year of the term of the referred agreement, as a contribution for advertising and publicity expenses.

On January 1, 2014, we entered into an agreement with Azteca Milling, LP in connection with the trademarks MASECA®, AGROINSA®, TORTIMASA®, among others (the “Licensed Trademarks”), through which GRUMA granted Azteca Milling, LP a non-exclusive continuing license to use the Licensed Trademarks worldwide, other than within Mexico, Central America and Ecuador. As consideration therein, Azteca Milling will pay GRUMA 4% of the net sales of products bearing the Licensed Trademarks.

In turn, in order to support Azteca Milling in its efforts to promote the Licensed Trademarks, GRUMA will reimburse Azteca Milling for all marketing expenses related to such trademarks within the United States.

Other Contracts

See “Section 3.3. Relevant Credit Facilities Report”.

2.2.4. Principal Customers

During 2016, none of our customers represented more than 10% of our consolidated sales.

2.2.5. Applicable laws and taxation

Mexican Regulation

Corn Commercialization Program

Mexico's Agriculture, Livestock, Rural Development, Fisheries and Food Ministry (*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*, or SAGARPA), supports and promotes a target income for growers who operate under contracted agricultural agreements for grains and oilseeds, through the ASERCA grain commercialization program. This program promotes the commercialization of grains, including corn, in virtually all of Mexico; the corn grower sells his products to the buyer before or after sowing the crop, setting a price calculated under conditions specific to the international grain prices.

The ASERCA corn commercialization program has the following objectives:

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

To the extent that this or other similar programs are cancelled by the Mexican government, we may be required to incur additional costs in purchasing corn for our operations, which could result in an increase to our product prices to reflect these additional costs.

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 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, the *Ley General de Cambio Climático* or Mexican Climate Change Law 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 tortillas is required to obtain an operating license from state environmental authorities upon initiating operations, and then periodically submit a certificate of operation to maintain the operating license. Furthermore, the Mexican Federal Law of Governmental Fees requires that Mexican manufacturing plants pay a fee for water consumption and the discharge of residual waste water to drainage, whenever the quality of such water exceeds mandated thresholds. Also, regulations have been issued concerning hazardous substances and water, air and noise pollution. In particular, Mexican environmental laws and regulations, including the Mexican Climate Change Law, 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 Mexican Economic Competition Law (*Ley Federal de Competencia Económica*) and the related regulations regulate free markets, antitrust matters, monopolies and monopolistic practices, and require Mexican government approval for certain mergers and acquisitions. The Mexican Economic Competition Law grants the government the authority to establish price controls for products and services of national interest through Presidential decree.

On May 23, 2014, a new Mexican Economic Competition Law was published in the Mexican Official Gazette (*Diario Oficial de la Federación*) and became effective on July 7, 2014. This law was issued in order to implement the recent amendment to article 28 of the Mexican Constitution regarding antitrust matters, whereby the Mexican government was entitled to establish a new Mexican Federal Economic Competition Commission (*Comisión Federal de Competencia Económica*, or COFECE), which will have all powers necessary to fulfill its purpose, regulate access to essential facilities, and order any divestiture of assets, rights, ownership interests or shares of economic firms, as necessary to eliminate any anti-competitive effects. 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 Economic Competition Commission.

The Mexican Economic Competition Law may potentially limit our business combinations, mergers and acquisitions and may subject us to greater scrutiny in the future; however, we do not believe that this legislation will have a material adverse effect on our business operations.

Anti-Money Laundering Regulations

The Mexican Federal Law to Prevent and Identify Operations with Resources from Illegal Sources (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) was published in the Mexican Official Gazette on October 17, 2012, and became effective on July 17, 2013. The purpose of this law is to prevent and detect operations carried out with funds obtained from illicit activities and prohibiting payments using cash for certain types of activities above certain amounts. Under this law, persons carrying out activities that are deemed as “vulnerable” are required to identify their clients and counterparties in such activities, to keep a detailed file in connection therewith, and under certain circumstances to report those activities to the Mexican Authorities. Most of the activities are deemed as “vulnerable” only when they exceed certain thresholds set forth in the law or regulations, and reporting of such activities is generally subject to higher thresholds. Examples of such regulated activities are: granting of loans, granting credit facilities and guarantees, leasing real estate properties and receive donations, among others.

Failure to comply with this law may result in monetary and criminal sanctions. We believe we are currently in compliance in all material respects with this law and we do not believe it will have a material adverse effect on our business operations.

Tax Regulations

The economic package for the 2014 fiscal year resulted in a tax reform. This tax reform was published on December 11, 2013 in the Mexican Official Gazette, and became effective on January 1, 2014. As part of this reform, a new Income Tax Law was enacted, which abrogated the Income Tax Law in effect since 2002.

One of the main changes provided by the new Income Tax Law consisted of eliminating the tax consolidation regime in force until December 31, 2013. As a result, we have the obligation to pay the deferred tax determined at that time during the five-year period starting in 2014. Also a new optional regime was established for company groups and we have decided to opt out of the new regime for the 2017 year.

Other changes introduced in the new Income Tax Law, consisted of: (i) eliminating deductions that were previously allowed for related-party payments to certain foreign entities; (ii) establishing limits for exempt benefits in favor of workers; (iii) eliminating deductibility of the social security quotas (*Cuotas IMSS*) paid by the employer on behalf of the workers; (iv) reducing the limits for deductibility of automobile acquisitions; and (v) introducing a 10% withholding tax over dividends paid to natural persons and foreigners, among others. We believe we are currently in compliance in all material respects with this law and we do not believe it will have a material adverse effect on our business operations.

Additionally, on November 18, 2015, several tax measurements were published in the Official Gazette of Mexico for business groups residing in Mexico, based on the guidelines issued by the OCDE in connection with the BEPS plan (Base Erosion and Profit Shifting) aimed at providing information on the tax situation of Mexican business groups trading in the BMV, as well as those which exceed certain income thresholds. According to such measures and as from 2017, 2016 information regarding inter-company transactions, business activity of the group and its subsidiaries, as well as, information of each country where it has presence, shall be furnished.

Energy Regulations

The Electric Industry Law (*Ley de la Industria Eléctrica*) was published in the Mexican Official Gazette on August 11, 2014, and became effective on August 12, 2014. The purpose of this law is to regulate the energy generation, transmission, distribution and power marketing activities. The Electric Industry Law also provides for a Clean Energy Certificate (CEC) system, under which the

Ministry of Energy (*Secretaría de Energía*) will set a percent threshold for annual clean-to-conventional energy production, and power suppliers and qualified consumers will uphold such threshold by purchasing CECs from clean power generators. We believe we are currently in compliance in all material respects with this law and we do not believe it will have a material adverse effect on our business operations.

U.S. Federal and State Regulations

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

European Regulation

Our European subsidiaries are subject to regulation in each country where they operate. 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 the Venezuelan Companies are subject to regulation in each country in which they operate. We believe that Gruma Centroamérica and the Venezuelan Companies are currently in compliance with all applicable legal requirements in all material respects. See “Section 1.3.3. Risk Factors—Risks Related to Venezuela.”

Asia and Oceania Regulation

GRUMA Asia – Oceania is subject to regulation in each country in which it operates a. We believe that we are currently in compliance with all applicable legal requirements in all material respects.

Taxation

The following summary contains a general description of certain Mexican federal income tax provisions related to the acquisition, ownership and disposition of Series B shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or hold Series B shares.

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

For purposes of Mexican taxation, an individual 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. Likewise and for tax purposes, an 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

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

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

Payment of Dividends

As of January 1, 2014, under the Mexican Income Tax Law, dividends, either in cash or in kind, paid to individuals with respect to Series B Shares are subject to Mexican withholding tax of 10%, regardless of whether or not they come from the net tax profit account (*cuenta de utilidad fiscal neta*, or CUFIN). This tax will not be paid if the dividends are paid from the CUFIN generated until December 31, 2013, for which the company paying the dividend shall keep records of both CUFIN accounts, the one generated until December 31, 2013 and the one generated as from January 1, 2014, indicating to which CUFIN the dividends which are being paid belong to.

It is important to mention that the withholding tax may be lower, if the receiver of the dividend resides in a country which has entered into a treaty to avoid the double taxation with Mexico and if such treaty provides for a lower tax. In the case of residents in the United States, the withholding tax is 0%.

A Mexican corporation will not be subject to any tax if the amount of declared dividends does not exceed the CUFIN, regardless of the date on which such CUFIN was generated.

If we pay a dividend in an amount greater than our CUFIN balance (which may occur in a year when net profits exceed the balance in such accounts), then we are required to pay 30% income tax on an amount equal to the product of the portion of the grossed-up amount which exceeds such balance multiplied by 1.4286. This tax would be paid by the company paying the dividend.

Taxation of Dispositions

The sale of Series B shares by a non-resident holder will be subject to a withholding of 10% Mexican tax on the profits, if the transaction is carried out through the Mexican Stock Exchange or other securities markets approved by the Mexican Ministry of Finance.

The tax referred to in the previous paragraph is not payable, if the seller of the shares resides in a country which has entered into a treaty to avoid the double taxation with Mexico. For these purposes, the seller shall deliver to the intermediary a writ in which, under oath, it states that it is a resident for purposes of the treaty and will provide its tax registry identification number.

Sales or other dispositions of Series B shares made in other circumstances generally would be subject to higher rates of Mexican tax, regardless of the nationality or residence of the transferor.

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

Other Mexican Taxes

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

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

2.2.6. Human Resources

As of December 31, 2016, we had a total of 19,933 employees, including 13,243 unionized and 6,690 non-unionized full- and part-time employees. Of this total, we employed 8,004 persons in Mexico, 7,300 in the United States, 1,923 in Central America and Ecuador, 1,025 in Asia and Oceania, and 1,681 in Europe. Total employees for 2014 and 2015 were 17,845 and 19,117, respectively. Of our total employees as of December 31, 2016, approximately 34% were white-collar and 66% 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. Non-salary provisions of these contracts are revised bi-annually. We renewed agreements with 14 unions that represent our workers during 2016 and 2017.

In the United States, we have five collective bargaining agreements that represent a total of 497 workers at five separate facilities (Pueblo, Tempe, Henderson, Omaha and Madera). We renewed such agreements on March 23, 2016, April 2, 2014, March 23, 2014, March 29, 2015, and June 28, 2015, respectively.

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

In the Netherlands, we are covered by a national labor agreement for bakery workers. This agreement is reviewed every 18 months.

In Australia, we have a collective bargaining agreement covering 261 employees at our facility, which is renewed every four years.

In Italy, we are covered by a national labor agreement for industrial food staff. This agreement is reviewed every 36 months nationally.

In China, we have a collective bargaining agreement covering 326 employees at our facility, which is renewed every 3 years.

Wages are reviewed during the negotiations and wage increases processed according to the terms of each agreement as well as non-monetary provisions of the agreement. Wage reviews for non-union employees are conducted once each year, for Mission Foods and Azteca Milling. We believe our current labor relations are sound.

2.2.7. Environmental performance

GRUMA has environmental policies in place related to the mitigation and prevention of environmental pollution in all its plants, and with programs for the protection of the environment. Through our subsidiaries, INTESA and CIASA, our environmental system has carried our investigations and developed technologies aimed at maintaining our plants within the discharge parameters allowed under the norms and laws of Mexico, U.S., Central America, Europe, Asia and Oceania. Likewise, we do not believe our activities pose a significant environmental risk. See “Section 2.2.1.7. Climate Change Effects.”

Additionally, GRUMA has the ISO 14001 environmental acknowledgment for six plants of GIMSA in México.

2.2.8 Market Information

We believe we are one of the leading producers of corn flour and tortillas in the United States, and one of the leading producers of corn flour in Mexico. We believe that we are also one of the largest producers of corn flour and tortillas in Central America, one of the largest producers of tortilla and other flatbreads, including pita, naan, chapati, pizza bases and piadina in Europe, Asia and Oceania, and one of the leading producers of corn grits in Europe and the Middle East. See “Section 2.2. Business Overview”.

Our focus has been and continues to be the efficient and profitable expansion of our core business—corn flour and tortilla. We pioneered the corn flour method of tortilla production, which offers significant opportunities for growth. Using our know-how, we will seek to encourage tortilla and other corn-based products manufacturers in the United States, Mexico, Central America, and elsewhere to use corn flour in the production of tortillas and other corn-based products.

The following table sets forth our consolidated revenues by geographic market for the years ended December 31, 2016, 2015, and 2014.

	2016	2015	2014
	(in millions of pesos)		
United States	Ps. 38,141	Ps. 31,664	Ps. 25,557
Mexico	17,358	15,691	15,110
Europe	4,979	4,472	3,722

Central America	4,639	4,057	3,479
Asia and Oceania	3,089	2,395	2,067
Total.....	Ps. 68,206	Ps. 58,279	Ps. 49,935

2.2.9. Organizational Structure

We are a holding company without significant assets except for the shares of our subsidiaries. Currently we are whole or majority owners of the following subsidiaries deemed as significant for the company, same which, individually, represent more than the 10% of the total assets of GRUMA or more than the 10% of the total consolidated income.

Significant Subsidiaries:	Ownership Percentage
Gruma Corporation	100%
Azteca Milling, L.P.	100%

We conduct our operations through subsidiaries. The table below sets forth our most important subsidiaries as of December 31, 2016.

Name of Company	Principal Markets	Jurisdiction of Incorporation	Percentage Owned(1)	Products/ Services
Mexican Operations				
Grupo Industrial Maseca, S.A.B. de C.V.	Mexico	Mexico	85.5%	Corn flour, Other
U.S. Operations				
Gruma Corporation	United States	Nevada	100%	Tortillas, Tortilla Related Products, Other
Azteca Milling.	United States	Texas	100%	Corn flour
European Operations				
Mexi-Foods, S.L., NDF Azteca Milling Europe SRL, Gruma Netherlands B.V., Solntse Mexico, Semolina Misir Irmigi Gida Sanayi Ve Ticaret A.S., Altera Azteca Milling Ukraine LLC. Gruma Seaham, Ltd. (“Gruma Europe”)	Europe	Spain, Italy, The Netherlands, Russia, Turkey, Ukraine, UK	100%	Tortillas, Tortilla Related Products, Corn Flour, Flatbreads, Corn Grits, Other
Central American Operations				
Gruma de Guatemala, S.A., Derivados de Maíz Alimenticio, S.A., Industrializadora y Comercializadora de Palmito, S.A., Derivados de Maíz de Guatemala, S.A., Tortimasa, S.A., Derivados de Maíz de El Salvador, S.A., and Derivados de Maíz de Honduras, S.A. de C.V. (“Gruma Centroamérica”).....	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	100%	Corn flour, Tortillas, Snacks, Hearts of palm and Rice
Other Subsidiaries				

Mission Foods (Shanghai) Co. Ltd., Gruma Oceania Pty. Ltd., and Mission Foods (Malaysia) Sdn. Bhd. (“Gruma Asia - Oceania”)	Asia and Oceania	China, Malaysia and Australia	100%	Tortillas, Tortilla Related Products, Other
Mission Foods México, S.R.L. de C.V. (“Mission Foods México”)	Mexico	Mexico	100%	Tortillas and Other related products
Investigación Técnica Avanzada, S.A. de C.V. (“INTESA”) (2)	Mexico	Mexico	100%	Construction, Technology and Equipment operations
Deconsolidated Venezuelan Operations (3)				
Molinos Nacionales, C.A. (“MONACA”) (4)	Venezuela	Venezuela	76%	Corn flour, Wheat flour, Other products
Derivados de Maíz Seleccionado, C.A. (“DEMASECA”) (4).....	Venezuela	Venezuela	60%	Corn flour

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

(2) As of March 21, 2014, Investigación de Tecnología Avanzada, S.A. de C.V. (“INTASA”), our former subsidiary that used to conduct our technology and equipment operations, merged into Gruma, S.A.B. de C.V., and ceased to exist. As a result of such merger, all assets and liabilities, rights and obligations of INTASA, including its rights over trademarks, patents and/or any other intellectual property, are now owned by Gruma, S.A.B. de C.V. Since March 2014, our technology and equipment operations have been conducted principally through INTESA.

(3) Together these subsidiaries are referred to as the “Venezuelan Companies.” We deconsolidated the Venezuelan Companies as of January 22, 2013 and report it as a discontinued operation. In 2015, our company our Company recognized a full impairment to its indirect net investment in MONACA and DEMASECA, as well as the accounts receivable that certain subsidiaries of Gruma had with the Venezuelan Companies. See Notes 26 and 28 to our audited and consolidated financial statements.

(4) Valcon Holdings, S.A. de C.V. (formerly named RFB Holdings de Mexico, S.A. de C.V.) holds a 24.14% indirect interest in MONACA and 40% in DEMASECA. See “Section 1.3.3. Risks Related to Venezuela— We have Cancelled our Investment in the Venezuelan Companies which are currently Involved in Expropriation and Arbitration Proceedings” and “Section 3.4. Management’s Discussion and Analysis of Financial Condition and Results of Operations of the Issuer – Acquisitions and other Relevant Events within our Business Units. —Share Purchase Transaction with Archer-Daniels-Midland”.

Our consolidated subsidiaries accounted for the following percentages and amount of our net sales in millions of pesos for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,					
	2016		2015		2014	
	In millions of Pesos	% of Net Sales	In millions of Pesos	% of Net Sales	In millions of Pesos	% of Net Sales
Gruma USA	Ps.38,202	56%	Ps.31,741	54%	Ps. 25,596	51%
GIMSA	17,866	26	15,871	27	15,074	30
Europe.....	4,987	7	4,477	8	3,727	8
Gruma Centroamérica.....	4,639	7	4,057	7	3,479	7
Others and eliminations ...	2,512	4	2,133	4	2,059	4
Total.....	Ps.68,206	100	Ps. 58,279	100	Ps. 49,935	100

2.2.10. Description of Principal Assets

Our most important fixed assets are the plants of our main subsidiaries, a description of which can be found in “Section 2.2. Business Overview.”

All physical assets owned by the company, or under the company’s control and safekeeping, as well as the profit loss caused by the occurrence of incidents, are widely covered for most of the risks insurable in the insurance and reinsurance international markets. As of December 31, 2016, none of the assets of the company or its subsidiaries have been pledged for the purpose of obtaining loans.

2.2.11. Legal, Administrative or Arbitration Proceedings

In the ordinary course of our business, we have been involved in various disputes and litigation, none of which has nor we expect them to have a material adverse effect for the Company.

Discontinued Operations-Venezuela

Expropriation Proceedings by the Venezuelan Government

On May 12, 2010, the Venezuelan government published the Expropriation Decree, which announced the forced acquisition of all assets, property and real estate of MONACA. The Venezuelan government has expressed to GRUMA’s representatives that the Expropriation Decree extends to DEMASECA.

GRUMA’s interests in MONACA and DEMASECA are held through two Spanish companies: Valores Mundiales and Consorcio Andino, respectively. In 2010, Valores Mundiales and Consorcio Andino commenced discussions with the Venezuelan government regarding the Expropriation Decree and related measures affecting MONACA and DEMASECA, which were unsuccessful and thus we were forced to submit an arbitration request as described herein.

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

In January 22, 2013, the Republic issued a resolution (*providencia administrativa*) granting the “broadest powers of administration” over MONACA and DEMASECA’S operations to special managers (*administradores especiales*) who had been imposed on those companies since 2009 and 2010, respectively as described below.

On May 10, 2013, Valores Mundiales and Consorcio Andino submitted a Request for Arbitration to ICSID, which was registered on June 11, 2013 under case No. ARB/13/11. The purpose of the arbitration is to seek compensation for the damages caused by Venezuela’s violation of the Investment Treaty.

The tribunal that presides over this arbitration proceeding was constituted in January 2014. Valores Mundiales and Consorcio Andino filed their memorial in July 2014. On September 14, 2014, Venezuela filed a motion requesting to bifurcate the proceeding into separate jurisdictional and merits phases. On October 1, 2014 the tribunal rejected Venezuela’s request. Venezuela filed its counter-memorial on jurisdiction and merits in March 2015. Valores Mundiales and Consorcio Andino filed their reply on June 25, 2015 and Venezuela filed its rejoinder in October 19, 2015. The hearing was held from February 8 to February 12, 2016. The arbitration proceeding is still ongoing and we are expecting the resolution.

While discussions with the government have taken place and may take place from time to time, we cannot assure that such discussions will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree and related measures. Additionally, we cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a favorable arbitration award.

Intervention Proceedings by the Venezuelan Government.

On December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of assets in which Ricardo Fernández Barrueco had any interest. Purportedly due to Ricardo Fernández

Barrueco's former indirect minority interest in MONACA and DEMASECA through Rotch, these subsidiaries were subject to the precautionary measure. Between 2009 and 2012, the Ministry of Finance of Venezuela, pursuant to the precautionary measure ordered by the court, designated several special managers of the indirect minority shareholding that Ricardo Fernández Barrueco had previously owned in MONACA and DEMASECA. On January 22, 2013, the Ministry of Justice and Internal Relations revoked the prior designations made by the Ministry of Finance of Venezuela and made a new designation of individuals as special managers and representatives of the Venezuelan government in MONACA and DEMASECA, granting those managers the "broadest powers of administration" over both companies.

MONACA and DEMASECA, as well as Consorcio Andino and Valores Mundiales, as direct shareholders of the Venezuelan subsidiaries, filed a petition as aggrieved third-parties in the proceedings against Ricardo Fernández Barrueco challenging the precautionary measures and all related actions. On November 19, 2010, the Eleventh Investigations Court for Criminal Affairs of Caracas ruled that MONACA and DEMASECA are companies wholly owned and controlled by Valores Mundiales and Consorcio Andino, respectively. In spite of this ruling, the court kept the precautionary measures issued on December 4, 2009 in effect. An appeal has been filed, which is pending resolution as of this date, however, time has elapsed without resolution, and thus said matter is barred by the statute of limitations.

The People's Defense Institute for the Access of Goods and Services of Venezuela ("INDEPABIS"¹) issued an order, authorizing the temporary occupation and operation of MONACA for a period of 90 calendar days from December 16, 2009, which was renewed for the same period on March 16, 2010. The order expired on June 16, 2010 and as of the date hereof MONACA has not been notified of any extension. INDEPABIS has also initiated a regulatory proceeding against MONACA in connection with the alleged failure to comply with regulations governing precooked corn flour and for allegedly refusing to sell this product as a result of the December 4, 2009 precautionary asset seizure described above. MONACA filed an appeal against these proceedings that has not been resolved as of this date.

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

2.2.12. Shares evidencing the capital stock

The capital stock as of April 28, 2017 is represented by 432,749,079 issued ordinary, registered, Series B, Class I no par value shares, all of them fully subscribed and paid representing the fixed portion of the capital stock. During the last 3 fiscal years, the company has not made any modification to its capital stock.

2.2.13. Dividends

Our ability to pay dividends may be limited by Mexican law, our *estatutos sociales*, or bylaws, and by financial covenants contained in some of our credit agreements. Because we are a holding company with no significant operations of our own, we have distributable profits to pay dividends to the extent that we receive dividends from our subsidiaries. Accordingly, there can be no assurance that we will pay dividends or of the amount of any such dividends. See "Section 3.4.3. Financial Condition, Liquidity and Capital Resources."

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;

¹ By means of the "Decreto-Ley contenido de la Ley Orgánica de Precios Justos" published on the Official Gazette of Venezuela N° 40.340 dated January 23, 2014, INDEPABIS was absorbed by the "Superintendencia Nacional para la Defensa de los Derechos Socioeconómicos" (SUNDDE)

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

Until, September 8, 2015, holders of our ADRs, on the applicable record date were entitled to receive dividends declared on the shares represented by American Depositary Shares, or ADSs, evidenced by such ADRs.

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, in the case of Gruma Corporation, our principal U.S. subsidiary, its ability to pay dividends in cash is prohibited upon the occurrence of any default or event of default under its principal credit agreements. See "Section 3.4.3. Financial Condition, Liquidity and Capital Resources".

On April 28, 2017, GRUMA approved a cash dividend in the amount of Ps.1,848 million, or Ps.4.27 per shares, payable in 4 installments on: July 18 and October 17, 2017 and January 16 and April 17, 2018. During 2016, we paid cash dividend in the amount of Ps. 865.5 million, or Ps.2.00 per share. During 2015 we paid a cash dividend in the amount of Ps.692 million, or Ps.1.60 per common share and during 2014 we paid Ps.649.12 million, or Ps.1.50 per share.

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 may determine, including a reserve for the repurchase of our shares. The remaining balance of new profits, if any, is available for distribution as dividends prior to their approval at the shareholders' meeting. Cash dividends on the shares held through Indeval will be distributed by us through Indeval. Cash dividends on the shares evidenced by physical certificates will be paid when the relevant dividend coupon registered in the name of its holder is delivered to us. No dividends may be paid, however, unless losses for prior fiscal years have been paid up or absorbed. See "Section 2.2.13. Dividends".

2.2.14. Exchange controls and other limitations which affect holders of certificates

Not applicable.

3. FINANCIAL INFORMATION

3.1 SELECTED FINANCIAL INFORMATION

The following tables present our selected consolidated financial data as of and for each of the years indicated. The data as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2016, 2015 and 2014 are derived from and should be read together with our audited consolidated financial statements included herein and "Section 3.4.3. Financial Condition, Liquidity and Capital Resources".

In accordance with IFRS, we concluded that we lost control of our Venezuelan subsidiaries, MONACA and DEMASECA, on January 22, 2013. As a result of such loss of control, we ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013. Therefore, the results and cash flows generated by these Venezuelan Companies for the periods ended December 31, 2015 and 2014 are reported as discontinued operations. In December 2015, our Company recognized a full impairment to its indirect net investment in MONACA and DEMASECA, as well as the accounts receivable that certain subsidiaries of GRUMA had with the Venezuelan Companies. See Notes 26 and 28 of our audited consolidated financial statements.

In December 2014, we concluded the Wheat Milling Transaction. As a result of the sale, the results and cash flows generated by these wheat flour operations for the year ended December 31, 2014 are reported as discontinued operations.

	2016	2015	2014
	(thousands of Mexican Pesos, except per share amounts)		
Income Statement Data:			
Net sales	Ps. 68,206,284	Ps.58,279,004	Ps. 49,935,328
Cost of sales	(42,150,596)	(35,937,867)	(31,574,750)
Gross profit	26,055,688	22,341,137	18,360,578
Selling and administrative expenses	(17,140,414)	(14,442,285)	(12,040,402)
Other income (expenses), net	206,431	(530,905)	(297,262)
Operating income	9,121,705	7,367,947	6,022,914
Comprehensive financing cost, net	(438,429)	(323,102)	(1,105,403)
Income before income tax	8,683,276	7,044,845	4,917,511
Income tax expense	(2,449,338)	(1,646,449)	(1,059,583)
Consolidated net income from continuing operations.....	6,233,938	5,398,396	3,857,928
Loss (Income) from discontinued operations, net.....	-	(4,313,803)	598,852
Consolidated net income	6,233,938	1,084,593	4,456,780
Attributable to:			
Shareholders.....	5,922,042	761,812	4,287,310
Non-controlling interest	311,896	322,781	169,470
Per share data (1):			
Basic and diluted earnings (losses) per share (pesos):			
From continuing operations	13.68	11.68	8.38
From discontinued operations	-	(9.92)	1.53
From continuing and discontinued operations	13.68	1.76	9.91

	2016	2015	2014
	(thousands of Mexican Pesos, except per share amounts and operating data)		
Balance Sheet Data (at period end):			
Property, plant and equipment, net	Ps.26,313,385	Ps.20,169,988	Ps.17,814,336
Total assets	56,357,949	44,333,021	40,636,730
Short-term debt (2).....	3,724,718	2,660,035	1,437,108
Long-term debt (2).....	12,229,868	10,494,406	9,324,052
Total liabilities	30,657,683	25,739,135	22,552,484
Common stock	5,363,595	5,363,595	5,363,595
Total equity (3)	25,700,266	18,593,886	18,084,246
Other Financial Information:			
Capital expenditures.....	5,598,795	3,073,498	1,719,379
Depreciation and amortization	1,898,544	1,598,309	1,460,451
Net cash provided by (used in):			
Operating activities	8,977,304	5,056,769	6,730,000
Investing activities	(5,484,777)	(2,845,369)	1,995,588
Financing activities	(1,637,019)	(1,076,981)	(8,591,246)

- (1) Based upon the weighted average of outstanding shares of our common stock (in thousands), as follows: 432,749 shares for the year ended December 31, 2016, 432,749 shares for the year ended December 31, 2015 and 432,749 shares for the year ended December 31, 2014. Each ADS represented four Series B Common Shares.
- (2) Short-term debt consists of bank loans, financial leases and the current portion of long-term debt. Long-term debt consists of bank loans, financial leases and our Notes due 2024. "Section 3.4.3. Financial Condition, Liquidity and Capital Resources - Indebtedness."
- (3) Total equity includes non-controlling interests as follows: Ps. 1,828 million as of December 31, 2016, Ps.1,560 million as of December 31, 2015, and Ps.1,521 million as of December 31, 2014.

Operating Data:	2016	2015	2014
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	(thousands of tons)		
Sales Volume:			
Gruma USA (corn flour, tortillas and other) ⁽¹⁾	1,374	1,341	1,288
GIMSA (corn flour and other).....	1,965	1,847	1,798
Gruma Europe (corn flour, tortillas and other).....	370	404	365
Gruma Centroamérica (corn flour and other).....	203	199	200
Number of Employees:	19,933	19,117	17,845

(1) Net of intercompany transactions.

3.2. FINANCIAL INFORMATION BY LINE OF BUSINESS, GEOGRAPHIC MARKET AND EXPORT SALES

The following table sets forth our consolidated revenues by geographic market for the years ended December 31, 2016, 2015 and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in millions of pesos)		
United States	Ps. 38,141	Ps. 31,664	Ps. 25,557
Mexico	17,358	15,691	15,110
Europe	4,979	4,472	3,722
Central America	4,639	4,057	3,479
Asia and Oceania.....	3,089	2,395	2,067
Total	Ps. 68,206	Ps. 58,279	Ps. 49,935

For more information with respect to the financial information by geographic market see “Section 2.2 Business Overview”.

3.3. RELEVANT CREDIT FACILITIES REPORT

Below is a description of our main credit facilities.

2017 Syndicated Facility

On April 21, 2017, we obtained a 5-year syndicated credit facility for up to U.S.\$400 million with Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex, Bank of America, N.A., The Bank of Tokyo-Mitsubishi Ufj, Ltd., Coöperatieve Rabobank U.A., (before Coöperatieve Centrale Raiffeisen Boerenleenbank B.A.) New York Branch, (“Rabobank”), JPMorgan Chase Bank, N.A. and The Bank of Nova Scotia, (the “2017 Syndicated Facility”) with Rabobank acting as administrative agent. The credit facility is composed of 5-year credit facility for U.S.\$150 million and a 5-year committed revolving credit facility for U.S.\$250 million, from which an initial amount of U.S.\$66 million was disbursed. The interest rate for both lines of credit is LIBOR plus a spread of 100 basis points. The 2017 Syndicated Facility contains covenants that require us to maintain a ratio of consolidated EBITDA (as this term is defined in the 2017 Syndicated Facility) to interest charges of not less than 2.5x, and to maintain a Maximum Ratio of Total Funded Debt to EBITDA (as this term is defined in the 2017 Syndicated Facility) of not more than 3.50x. The 2017 Syndicated Facility limits our ability, and our subsidiaries’ ability in certain cases, among other things to, create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into hedging transactions not related to our businesses. Additionally, it limits our subsidiaries’ ability to incur additional indebtedness under certain circumstances.

Notes Due 2024

On December 5, 2014, we issued U.S.\$400 million aggregate principal amount of 4.875% senior notes due 2024 (the “Notes due 2024”), which at the time were rated BB+ by Standard & Poor's Rating Service and BBB- by Fitch Ratings, Ltd. The Notes due

2024 mature on December 1, 2024 and have a make-whole redemption option exercisable by us at any time and a redemption option without a make-whole premium exercisable by us at any time beginning on the date that is three months prior to the scheduled maturity of the notes. We used the net proceeds of the issuance of the Notes due 2024 primarily to redeem and extinguish the Perpetual Bonds and repay other long term indebtedness. The indenture governing the Notes due 2024 contains covenants including limitations on liens, limitations on sale-leaseback transactions, and limitations on consolidations, mergers and transfers of a substantial part of assets. As of December 31, 2016, we have not hedged any interest payments on the Notes due 2024. As of December 31, 2016, U.S.\$400 million of the Notes due 2024 were outstanding.

Rabobank Syndicated Facility

In June 2013, we obtained a 5-year Syndicated Credit Facility for U.S.\$220 million with Coöperatieve Rabobank U.A (before Coöperatieve Centrale Raiffeisen Boerenleenbank B.A.) New York Branch, as administrative agent, with an average term of 4.2 years and amortizations starting on December 2014. This facility had an interest rate based on LIBOR plus a spread between 150 and 300 basis points based on our leverage ratio. BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer and Bank of America, N.A., also participated in this facility (the “Rabobank Syndicated Facility”). The Rabobank Syndicated Facility contained covenants that required us to maintain a ratio of consolidated EBITDA (as this term was defined in the Rabobank Syndicated Facility) to interest charges of not less than 2.5:1, and to maintain a maximum ratio of total funded debt to EBITDA (as this term is defined in the Rabobank Syndicated Facility) of not more than 4.75:1 from June 18, 2013 until September 30, 2013; 4.50:1 from October 1, 2013 until September 30, 2014; 4.0:1 from October 1, 2014 until September 30, 2015; and 3.5:1 from October 1, 2015 and thereafter. The Rabobank Syndicated Facility also limited our ability, and our subsidiaries’ ability in certain cases, among other things to, create liens, make certain investments, merge or consolidate with other companies or sell substantially all of our assets, make certain restricted payments, enter into agreements that prohibited the payment of dividends, engage in transactions with affiliates and enter into certain hedging transactions. Additionally, the Rabobank Syndicated Facility limited our subsidiaries’ ability to guarantee additional indebtedness issued by our company and to incur additional indebtedness under certain circumstances. On March 21, 2017, we repaid the Rabobank Syndicated Facility in full with the funds obtained through the Rabobank Syndicated Revolving Facility (as defined hereinafter) and a bridge loan from Bank of America for U.S.\$90 million obtained on that same date, that was repaid in full on April 21, 2017 with the funds obtained through the 2017 Syndicated Facility.

Rabobank Syndicated Revolving Facility

On August 2015 we obtained a U.S.\$125 million, three-year revolving credit facility from Coöperatieve Rabobank U.A (before Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.) New York Branch and The Bank of Nova Scotia (the “Rabobank Syndicated Revolving Facility”). The interest rate was LIBOR plus a margin between 0.90% and 1.20% depending on our company’s Maximum Leverage Ratio. The Rabobank Syndicated Revolving Facility contained covenants that required us to maintain a ratio of consolidated EBITDA (as this term was defined in the Rabobank Syndicated Revolving Facility) to interest charges of not less than 2.5:1, and to maintain a Maximum Ratio of Total Funded Debt to EBITDA of not more 3.5:1. The Rabobank Syndicated Revolving Facility also limited our ability, and our subsidiaries’ ability in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell substantially all of our assets; and enter into certain hedging transactions. Additionally, it limited our subsidiaries’ ability to guarantee additional indebtedness issued by us and to incur additional indebtedness under certain circumstances. On April 21, 2017, the Rabobank Syndicated Revolving Facility was cancelled as the Rabobank Syndicated Revolving Facility was repaid in full with the funds obtained through the 2017 Syndicated Facility.

Gruma Corporation Loan Facility

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions, which was refinanced and extended to U.S.\$200 million for an additional 5-year term on June 20, 2011, (the “Gruma Corporation Loan Facility”). The facility, as refinanced in 2011, had an interest rate based on LIBOR plus a spread of 1.375% to 2% that fluctuated in relation to Gruma Corporation’s leverage and contains less restrictive provisions than those in the facility replaced. In November, 2012 we increased the aggregate commitment under this facility up to the maximum permitted amount of US \$250,000,000. The additional US \$50,000,000 were used by Gruma Corporation to cover part of the purchase price under the ADM Transaction, specifically the purchase of ADM’s stake in Azteca Milling. This facility contains covenants that limit Gruma Corporation’s ability to merge or consolidate, and require it to maintain a ratio of total funded debt to consolidated EBITDA (as this term is defined in the Gruma Corporation Loan Facility) of not more than 3.0:1. In addition, this facility limits Gruma Corporation’s, and certain of its subsidiaries’ ability, among other things, to create liens; make certain investments; make certain restricted payments; enter into any agreements that prohibit the payment of dividends; and engage in certain transactions with affiliates. This facility also limits Gruma Corporation’s subsidiaries’ ability to incur additional debt. On November 24, 2014, the maturity was extended from June 2016 to November 2019 and the interest rates were reduced 25 basis points for a total all-in rate of

LIBOR plus a spread between 112.5 and 175 basis points, depending on the leverage of the company. The Gruma Corporation Loan Facility was available with no outstanding balance as of December 31, 2016.

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

2011 Syndicated Loan Facility

On March 22, 2011 we obtained a U.S.\$225 million, five-year senior credit facility through a syndicate of banks (the "2011 Syndicated Loan Facility"). The 2011 Syndicated Loan Facility consisted of a term loan ("Term Loan Facility") and a revolving loan facility (the "Revolving Loan Facility"). On December 3, 2012, the permitted leverage ratio established under the 2011 Syndicated Loan Facility was increased, and the interest rate grid was also modified, among other revisions. After such amendment, the interest rate for the Term Loan Facility and for the Revolving Loan Facility depended on our financial ratios. The 2011 Syndicated Loan Facility contained covenants that required us to maintain a ratio of consolidated EBITDA (as this term was defined in the 2011 Syndicated Loan Facility) to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 4.75:1 from December 4, 2012 until September 30, 2013; 4.50:1 from October 1, 2013 until September 30, 2014; 4.0:1 from October 1, 2014 until September 30, 2015; and 3.5:1 from October 1, 2015 and thereafter. On December 8, 2014, we repaid the Term Loan Facility in full and the commitment under the Syndicated Loan Facility was cancelled in full on August 21, 2015.

2011 Rabobank Facility

On June 15, 2011 we obtained a U.S.\$50 million, five-year senior credit facility from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (currently Coöperatieve Rabobank, U.A.) (the "Rabobank Facility"). On June 28, 2012, this facility was increased by U.S.\$50 million to a total principal amount of U.S. \$100 million. On November 29, 2012, the permitted leverage ratio established under the 2011 Rabobank Revolving Facility was increased, and the interest rate grid was modified, among other revisions. After such amendments, the Rabobank Revolving Facility consisted of a revolving loan facility, at a variable interest rate of depending on our financial ratios. The 2011 Rabobank Revolving Facility contained covenants that required us to maintain a ratio of consolidated EBITDA (as this term was defined in the 2011 Rabobank Facility) to interest charges of not less than 2.5:1, and a Maximum Leverage Ratio of not more than 4.75:1 from November 29, 2012 until September 30, 2013; 4.50:1 from October 1, 2013 until September 30, 2014; 4.0:1 from October 1, 2014 until September 30, 2015; and 3.5:1 from October 1, 2015 and thereafter. With the funds obtained through the Rabobank Syndicated Revolving Facility, we repaid the 2011 Rabobank Revolving Facility in full on August 17, 2015.

Other Information

Our credit agreements currently in force and mentioned above contain event of default provisions, which include: (i) non-payment default regarding principal or interests; (ii) cross default and cross acceleration in connection with any of our other indebtedness; (iii) affirmative and negative covenants default; (iv) declaration or request of bankruptcy, liquidation or proceedings seeking *concurso mercantil*; (v) delivery of false or incorrect material information; and (vi) change of control provisions. The foregoing events of default are applicable pursuant to the terms and conditions set forth in such credit agreements, including without limitation certain exceptions and baskets and cure periods.

As of December 31, 2016 we were in compliance with all of the covenants and obligations under our existing debt agreements.

As of December 31, 2016, we had committed lines of credit for the amount of U.S.\$375 million from banks in Mexico or the United States of which we had an outstanding balance of U.S.\$ 66.5 million as of that date.

As of December 31, 2016, we had total cash and cash equivalents of Ps. 5,467 million.

The following table presents our amortization requirements with respect to our total indebtedness as of December 31, 2016.

<u>Year</u>	<u>In Millions of U.S. Dollars</u>
2017	\$180.3
2018	\$189.8
2019	\$2.7
2020	\$1.5
2021 and thereafter	\$397.8
Total.....	\$772.1

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, 2014	0.37	1.25
December 31, 2015	0.41	1.38
December 31, 2016	0.38	1.19

3.4. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE ISSUER.

You should read the following discussion in conjunction with our audited consolidated financial statements and the notes thereto contained elsewhere herein. Our audited consolidated financial statements have been prepared in accordance with IFRS as issued by IASB.

For more information about our financial statements in general, see "Section 1.1.2. Presentation of Financial Information" and "Section 3.4.3. Financial Condition, Liquidity and Capital Resources."

Acquisitions and Other Significant Events Within Our Business Units

Share Purchase Transaction with Archer-Daniels-Midland

We entered into an association with ADM in September 1996. ADM is one of the world's largest agricultural processors and traders. Through our partnership we improved our position in the U.S. corn flour market and gained an immediate presence in the Mexican wheat flour market. On December 14, 2012, we completed a transaction (the "ADM Transaction") in which we acquired, through the exercise of a purchase option pursuant to certain rights of first refusal, the stake that ADM owned directly and indirectly in us and certain of our subsidiaries (the "Equity Interests"), consisting of:

- 18.81% of the then outstanding shares of Gruma S.A.B. de C.V. and, indirectly, an additional 4.35% of the then outstanding shares of Gruma, S.A.B. de C.V. via the acquisition of 45% of the shares of Valores Azteca, a company that at the time of the ADM Transaction owned 9.66% of the shares of Gruma, S.A.B. de C.V.;
- 3% of the partnership interest of Valores Mundiales and Consorcio Andino, holding companies of the Venezuelan Companies, MONACA and DEMASECA, respectively;
- 40% of the shares of Molinera de Mexico, our former wheat flour business in Mexico; and
- 100% of the shares of Valley Holding Inc., a company that at the time of the ADM Transaction owned 20% of Azteca Milling, our corn flour business in the United States.

The Equity Interests were acquired from ADM for U.S.\$450 million plus a contingent payment of up to U.S.\$60 million. Such contingent payment would be payable only if, during the 42 months following the closing of the ADM Transaction (ending on June 14, 2016), certain conditions are met in connection with (i) an increase in the market price of our stock over the closing price of

our stock determined for purposes of the ADM Transaction (the “Closing Price”) by the end of the 42-month period; (ii) the difference between the price of our stock established for public offers made by us and the Closing Price; (iii) the acquisition by a strategic investor of 15% or more of our capital stock or (iv) a reduction in the percentage of our shares that are considered to be held by the public at any time, starting from 26%. We maintain a reserve in the event that any or all of the foregoing contingent payment is made to Archer-Daniels-Midland. Payment of this contingent amount has been reserved for. See Note 29 to our audited consolidated financial statements. The economic terms of the ADM Transaction were based on the terms contained in the offer made by a third party to ADM for the purchase of the Equity Interests. As a result of the ADM Transaction, ADM no longer holds an ownership interest in us.

As a result of the increase in the market price of our stock over the closing price determined for purposes of the ADM Transaction pursuant to scenario (1) above, the contingent payment was settled at the end of the 42 months. Therefore, on June 14, 2016 we paid Ps. 1,110 million (U.S.\$60 million) to ADM.

To fund the ADM Transaction, we entered into: (i) a short-term-unsecured loan in an amount of U.S.\$300 million with Goldman Sachs and Santander for a term of 1 year, which was repaid in full in 2013 (the “2012 Bridge Loan Facility”); and (ii) a short-term-unsecured financing for U.S.\$100 million with Banco Inbursa, which was repaid in full in 2013 (the “Inbursa Loan”) and used proceeds from the Gruma Corporation Loan Facility with Bank of America, N.A. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources —Indebtedness.”

Prior to the closing of the ADM Transaction and obtaining the 2012 Bridge Loan Facility and the Inbursa Loan, our board of directors, with the previous favorable opinion of the Audit Committee and the Corporate Governance Committee based on a fairness opinion issued by an independent expert, approved the exercise by us of the option pursuant to a right of first refusal to acquire the Equity Interests and obtain the required financing.

Wheat Milling Transaction

On June 10, 2014, we reached an agreement with Trimex for the sale of our wheat flour operations in Mexico. As a result of this transaction, Trimex acquired all the shares representing Molinera de México’s capital stock owned by us, as well as the assets owned by a subsidiary of GIMSA related to wheat flour production. This sale was approved by COFECE. The purchase price for the wheat milling business was Ps.3,678 million and was paid on December 8, 2014. The proceeds from the Wheat Milling Transaction were used primarily to repay debt. See Note 26 to our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended on said dates.

3.4.1. Accounting Presentation Overview

Our audited consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

Note 31 to our audited consolidated financial statements discusses new accounting pronouncements under IFRS that will become effective in 2016 or thereafter. In some cases, we are assessing the potential impact on our financial statements resulting from the application of these new standards.

Effects of Inflation

To determine the existence of hyperinflation, we evaluate the qualitative characteristics of the economic environment of each country, as well as the quantitative characteristics established by IFRS, including an accumulated inflation rate equal or higher than 100% in the past three years. Pursuant to this analysis, Mexico is not considered to be hyperinflationary, with annual inflation rates of 4.08% in 2014, 2.13% in 2015 and 3.36% in 2016.

Effects of Depreciation or Appreciation of the Mexican Peso

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 USA’s net sales in U.S. dollars represent a larger portion of our net sales in peso terms than when the peso appreciates against the U.S. dollar. When the peso appreciates against the dollar, Gruma USA’s net sales in U.S. dollars represent a smaller portion of our net sales in peso terms than when the peso depreciates against the dollar. For a description of the peso/dollar exchange rate see “Section 1.1.4. Exchange Rate.”

In addition to the above, our net income may be affected by changes in our foreign exchange gain or loss, which may be impacted by significant variations in the peso/dollar exchange rate. During 2014, 2015 and 2016, we recorded a net foreign exchange gain of Ps.72 million, a loss of Ps.103 million and a loss of Ps400 million, respectively.

Accounting Effects of the Wheat Milling Transaction

As disclosed in Note 26 to our audited consolidated financial statements as of December 31, 2015 and 2014 and for the years ended on said dates, in December 2014, we concluded the Wheat Milling Transaction. The total sale price was Ps. 3,678 million and we recognized in income, a net gain from the sale of wheat flour operations in Mexico of Ps. 215 million, as discontinued operations.

The results and cash flows generated by these wheat flour operations in Mexico for the year ended December 31, 2014, were reported as a discontinued operation in our audited consolidated financial statements.

Accounting Effects of Deconsolidation of the Venezuelan Companies

As disclosed in Note 26 to our audited consolidated financial statements, we concluded that we had lost control of the Venezuelan Companies on January 22, 2013. Consequently, and as a result of such loss of control, we proceeded with the following:

- a) ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013 and derecognized the assets and liabilities of these companies from our consolidated balance sheet; for disclosure and presentation purposes, we considered these subsidiaries as a significant segment and therefore, applying the guidelines from IFRS 5, MONACA and DEMASECA are presented as discontinued operations; consequently, the results and cash flows generated by the Venezuelan Companies for the periods presented are reported as discontinued operations;
- b) the amounts recognized in other comprehensive income relating to these companies were reclassified in the year 2013 to the consolidated income statement as part of the results from discontinued operations, considering that MONACA and DEMASECA were disposed of due to the loss of control; and
- c) recognized the investment in MONACA and DEMASECA as a financial asset, classifying it as an available-for-sale financial asset. We classified our investment in these companies as available for sale since management believed that is the appropriate treatment applicable to a non-voluntary disposition of assets and the asset did not fulfill the requirements of classification in another category of financial assets. Following the applicable guidelines and considering that the range of reasonable fair-value estimates was significant and the probabilities of the various estimates within the range could not be reasonably assessed, we recognized this financial asset at its carrying value translated to the functional currency of GRUMA using an exchange rate of Ps.2.9566 per bolivar (Bs.4.3 per dollar), which was effective at the date of the loss of control, and not at its fair value. The investment in MONACA and DEMASECA is subject to impairment tests at the end of each reporting period when there is objective evidence that the financial asset is impaired.

Impairment tests of the Indirect Net Investment in the Venezuelan Companies

- a) Years 2014 and 2013: As required by IFRS, as of December 31, 2014 and 2013, we performed impairment tests on the investments in MONACA and DEMASECA to determine a potential recoverable amount using two valuation techniques: 1) an income approach taking into account estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital) and 2) a market approach, specifically, the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal costs. In both cases, the potential recoverable amounts using the income and market approach were higher than the carrying value of these investments and therefore, no impairment adjustment was deemed necessary at December 31, 2014 and 2013. Regarding the calculations to determine the potential recoverable amount, our management considered that any reasonably foreseeable change in the key assumptions would not cause the carrying value of our investment in MONACA and DEMASECA to materially exceed the potential recoverable amount described above.

For purposes of these calculations, we used the SICAD I available exchange rate (Bs.12.00 per dollar as of December 31, 2014 and Bs.11.30 per dollar as of December 31, 2013) which was the reference considered by our management for settlement, based on its legal ability to do so. The Venezuelan exchange system, comprising the SICAD, involves different rates at which certain transactions should be executed, including “foreign investments and payment of royalties” for which the reference rate was the Bs.12.00 per dollar.

An alternative exchange rate available as of December 31, 2014 was SICAD II (Bs.49.99 per dollar) and for a simulation exercise using this exchange rate, the result would be an impairment loss in income of year 2014 of Ps.125 million related with our company's investment in MONACA and DEMASECA.

- b) Year 2015: As of December 31, 2015, we considered that SIMADI exchange rate is the most representative among legal exchange rates available. In the absence of auctions for SICAD in the recent past, in a macroeconomic context aggravated by historically low prices in the oil market and the condition of Venezuela's hyperinflationary economy, we decided to consider as reference rate, the one resulting in the allocations conducted through SIMADI, to calculate any related impairment balances that GRUMA has in the Venezuelan Companies, MONACA and DEMASECA. Simultaneously, outstanding accounts receivable were diluted by the application of the new exchange rate and balances of indirect investment of GRUMA in MONACA and DEMASECA, held through its Spanish subsidiaries Valores Mundiales (GRUMA 75.86%, other 24.14%) and Consorcio Andino (GRUMA 60%, other 40%) were impaired, so that both have significant adjustments. The impairment test performed in the fourth quarter of 2015, resulted in an impairment loss of Ps.4,362 million recognized in consolidated income of the month of December 2015, in connection with the balances aforementioned in MONACA and DEMASECA, which was recognized in income as "Income (loss) from discontinued operations".

The historical value of GRUMA's net investment in MONACA and DEMASECA as of January 22, 2013, the date when we ceased the consolidation of the financial information of MONACA and DEMASECA, was Ps.2,914 million and Ps.195 million, respectively. In December 2015, our Company recognized a full impairment of its indirect net investment in MONACA and DEMASECA, as well as the accounts receivable that certain subsidiaries of GRUMA had with the Venezuelan Companies totaling Ps.1,253 million.

For more information about discontinued operations of the Venezuelan Companies, please see Notes 26 and 28 to our audited consolidated financial statements.

Exchange Rates in Venezuela

As of December 31, 2014, there were three legal exchange rates in Venezuela that could be used: the government-operated National Center of Foreign Commerce (CENCOEX) exchange rate, mainly intended for the import of essential goods and services by designated industry sectors and two auction-based exchange rates, Supplementary Foreign Currency Administration System (SICAD I and SICAD II).

As of February 12, 2015, the SICAD I and SICAD II exchange rates were merged (currently SICAD) by the Venezuelan government and a new exchange rate denominated Foreign Exchange Marginal System (SIMADI) was created, which means that there are continue to be three legal exchange rates between the Venezuelan currency (Bs.) and U.S. dollars, all of which meet the definition of a spot exchange rate in IAS 21.

For more information, please see Notes 4 A and 26 to our audited consolidated financial statements.

Factors Affecting Financial Condition and Results of Operations

Our financial condition and results of operations may be influenced by some of the following factors:

- level of demand for tortillas and corn flour;
- increase or decrease in the Hispanic population in the United States;
- increases in Mexican food consumption by the non-Hispanic population in the United States; and use of tortillas in non-Mexican cuisine in the United States, Europe, Asia and Oceania;
- costs and availability of corn and wheat flour;
- costs of energy and other related products;
- acquisitions, plant expansions and divestitures;
- effects of government initiatives and policies;

- effects from variations of interest rates and exchange rates;
- volatility in corn and wheat prices and energetics costs;
- competition from tortilla manufacturers, especially in the United States;
- competition in the corn flour business; and
- general economic conditions in the countries where we operate and worldwide.

3.4.2. Results of Operations

The following table sets forth our consolidated income statement data on an IFRS basis for the years ended December 31, 2016, 2015 and 2014, expressed as a percentage of net sales. All financial information has been prepared in accordance with IFRS. For a description of the method, see “Section 3.4.1. Accounting Presentation Overview” and “Section 3.5. Critical Accounting Estimates, Provisions or Reserves.”

	2016	2015	2014
Income Statement Data			
Net Sales.....	100%	100%	100%
Cost of Sales.....	61.8	61.7	63.2
Gross profit.....	38.2	38.3	36.8
Selling and administrative expenses.....	25.1	24.8	24.1
Other income (expenses), net.....	0.3	(0.9)	(0.6)
Operating income.....	13.4	12.6	12.1
Net comprehensive financing cost.....	(0.6)	(0.6)	(2.2)
Current and deferred income taxes.....	3.6	2.8	2.1
Loss (income) from discontinued operations, net.....	-	(7.4)	1.2
Non-controlling interest.....	0.5	0.6	0.3
Net income attributable to shareholders.....	8.7	1.3	8.6

The following table sets forth our net sales and operating income as represented by our principal subsidiaries for 2016, 2015, and 2014. Net sales and operating income of our subsidiaries Mission Foods Mexico and INTESA are part of “others and eliminations.” Financial information with respect to GIMSA includes sales of Ps.473 million, Ps.966 million and Ps.1,530 million in 2014, 2015 and 2016, respectively, mainly of corn flour to Gruma USA, Mission Foods Mexico and Gruma Centroamérica. Financial information with respect to Mission Foods Mexico includes sales of Ps.160 million, Ps.336 million and Ps.489 million in 2014, 2015 and 2016, respectively, in tortilla related products mainly to Gruma USA.

Financial information with respect to INTESA includes sales of Ps.712 million, Ps.1,041 million and Ps.1,531 million, in 2014, 2015 and 2016, 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,					
	2016		2015		2014	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
	(in millions of pesos)					
Gruma USA.....	Ps. 38,202	Ps. 5,293	Ps. 31,741	Ps. 3,802	Ps. 25,596	Ps. 2,739
GIMSA.....	17,866	2,274	15,871	2,205	15,074	2,129
Europe.....	4,987	142	4,477	137	3,727	123
Gruma Centroamérica.....	4,639	426	4,057	369	3,479	232
Others and eliminations.....	2,512	987	2,133	855	2,059	800

Total	<u>Ps. 68,206</u>	<u>Ps. 9,122</u>	<u>Ps. 58,279</u>	<u>Ps. 7,368</u>	<u>Ps. 49,935</u>	<u>Ps. 6,023</u>
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Net Sales by Subsidiary: By major subsidiary, the percentages of consolidated net sales in 2016, 2015 and 2014 were as follows:

Subsidiary	Percentage of Consolidated Net Sales		
	2016	2015	2014
Gruma USA	56%	54%	51%
GIMSA	26	27	30
Europe	7	8	8
Gruma Centroamérica.....	7	7	7
Others and eliminations	4	4	4

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Consolidated Results

Sales volume increased 3% to 3,959 thousand tons in 2016 compared with 3,831 thousand tons in 2015. Sales volume was driven mainly by GIMSA and Gruma USA.

Net sales increased 17% to Ps.68,206 million in 2016 compared with Ps.58,279 million in 2015, due primarily to (1) the Peso depreciation effect against the dollar, which benefited sales mainly at Gruma USA when measured in peso terms and, to a lesser extent, to (2) sales volume growth and price increases at GIMSA, the latter, in relation to higher corn costs.

Cost of sales rose 17% to Ps.42,151 million in 2016 compared with Ps.35,938 million in 2015, due primarily to the Peso depreciation effect, which mainly impacted Gruma USA's numbers and generated higher raw material costs, particularly at GIMSA, and, to a lesser extent, to the aforementioned sales volume growth. Cost of sales as a percentage of net sales increased to 61.8% in 2016 from 61.7% in 2015, driven mainly by GIMSA and Gruma Europe.

Selling and administrative expenses increased 19% to Ps.17,140 million in 2016 compared with Ps.14,442 million in 2015, due primarily to Peso weakness and, to a lesser extent, to higher expenses at Gruma USA, GIMSA and Gruma Centroamérica. Selling and administrative expenses as a percentage of net sales increased to 25.1% in 2016 from 24.8% in 2015, due mostly to higher expenses at Gruma USA and Gruma Centroamérica.

Other income, net, was Ps.206 million in 2016 compared with other expenses, net for Ps.531 million in 2015. This improvement was mostly due to (1) gains on corn hedging at Gruma USA and GIMSA; (2) gains on energy hedging at Gruma USA and GIMSA, compared to losses in 2015; (3) reversal of losses due to impairment of assets during 2016 in connection to the reopening of a plant in GIMSA; and (4) lower loss on fixed asset sales. Additionally, in 2015 Gruma USA registered a goodwill impairment related to the Netherlands tortilla plant, which benefited the comparison against 2016.

Operating income increased 24% to Ps.9,122 million in 2016 compared with an income of Ps.7,368 million in 2015 mostly due to better operational performance at Gruma USA and to the Peso weakness positive effect. Operating margin improved 13.4% in 2016 from 12.6% in 2015 due primarily to the benefit in other income, net.

Net comprehensive financing cost rose 36% to Ps.438 million in 2016, compared with Ps.323 million in 2015. This increase resulted mostly from larger foreign exchange losses from dollar-denominated loans from Gruma USA to GRUMA related, among other things, to the payment made to ADM for U.S.\$60 million for the repurchase of GRUMA's shares.

Income taxes increased 49% to Ps.2,449 million in 2016 compared with Ps.1,646 million in 2015, due primarily to higher income before taxes and the use of tax losses in 2015. The effective tax rate was 28.2% in 2016 and 23.4% in 2015.

Net income attributable to shareholders was Ps.5,922 million in 2016 compared with Ps.762 million in 2015. This improvement was primarily due to the non-cash charge, in 2015, for the write-off of the indirect net investment related to MONACA and DEMASECA, as well as accounts receivable from the Venezuelan Companies owed to some of GRUMA's subsidiaries.

Results of Subsidiaries

Gruma USA

Sales volume increased 2% to 1,374 thousand tons compared with 1,341 thousand tons in 2015. Gruma USA reflected a positive effect of one additional week of operations in 2016, in line with the closing of its fiscal year-end accounting, which occurs every five to six years. This additional week led to volume growth during the year. Aside from the additional week, the corn flour operations achieve sales volume growth, which mainly resulted from (1) increased market share as a result of better quality and service; (2) higher sales to snack producers, as a result of a greater demand for their products; (3) higher sales to food service distributors, as they benefit from growth at small Mexican food restaurants and small tortilla companies; and (4) higher sales to manufacturers of tortilla related products (most notably taco shells) due to the successful launch of new items at large restaurant chains. In the tortilla business, retail sales growth was more than offset by the food service channel, where the company continued its SKUs rationalization process and also due to weaker performance by some customers, particularly large restaurant chains.

Net sales rose 20% to Ps.38,202 million compared with Ps.31,741 million in 2015, mainly due to Peso weakness, and, to a lesser extent, sales volume. In dollar terms, net sales grew 2%, primarily due to the aforementioned sales volume growth as a result of the additional week in 2016.

Cost of sales increased 19% to Ps.21,919 million in 2016 compared with Ps.18,442 million in 2015, due mainly to the Peso weakness effect. Measured in Dollar terms, cost of sales remained very similar, as the effect of the extra week, accelerated depreciation of certain assets and higher labor liabilities, among other things, was partially compensated by lower raw material costs. As a percentage of net sales, cost of sales improved to 57.4% in 2016 from 58.1% in 2015, driven by (1) lower raw material costs, mainly corn and wheat flour; (2) a change in the sales mix towards the retail channel in the tortilla business; and (3) a better sales mix toward higher-margin products in the tortilla business, in both, retail and foodservice channels.

Selling and administrative expenses increased 22% to Ps.11,028 million compared with Ps.9,077 million in 2015 mainly due to the Peso weakness effect. Measured in Dollar terms, selling and administrative expenses rose 3% due primarily to (1) the additional week; and, to a lesser extent; (2) higher marketing expenses related to the retail tortilla operation; (3) donations to universities; (4) consulting fees on labor relations improvement programs; and the (5) strengthening of the tortilla retail sales department which caters to the retail tortilla channel. Selling and administrative expenses as a percentage of net sales, increased to 28.9% compared with 28.7% in 2015 due to the aforementioned increase in selling and administrative expenses.

Other income, net, was Ps.38 versus a Ps.420 million expense, a Ps.458 million improvement related mostly to the combination of (1) hedging gains in corn; (2) hedging gains in energy and fuel in 2016, as opposed to losses in 2015; and (3) goodwill impairment related to the Netherlands tortilla plant in 2015, which helped the comparison against 2016.

Operating income rose 39% to Ps.5,293 million from Ps.3,802 million in 2015. Operating margin expanded to 13.9% from 12.0%. In dollar terms, operating income increased 18%.

GIMSA

Sales volume rose 6% to 1,965 thousand tons compared with 1,847 thousand tons in 2015, due mainly to (1) increased penetration of corn flour among tortilla makers, especially in Central Mexico, driven by commercial initiatives aimed at improving customer service and more competitive corn flour pricing; (2) higher sales to our U.S. operations; (3) higher sales to wholesalers driven especially by improved customer service and direct contact. Commercial initiatives were focused on increasing distribution and product availability, better product quality and increased promotion of corn flour varieties which resemble the Traditional Method, among other initiatives.

Net sales grew 13% to Ps.17,866 million compared with Ps.15,871 million in 2015 due mainly to (1) the aforementioned sales volume growth; (2) price increases implemented in December 2015, June and December 2016, reflecting higher corn costs and other inputs derived from Peso weakness; and, to a lesser extent, (3) the effect of Peso weakness on U.S. dollar-denominated sales to our U.S. operations.

Cost of sales increased 17% to Ps.12,919 million in 2016 compared with Ps.11,001 million in 2015 due to (1) sales volume growth; (2) higher corn costs mainly as a result of Peso weakness, which was offset by gains in foreign exchange hedging reported under net comprehensive financing income; (3) an increase in transportation expenses due to higher tariffs and longer distances; and (4) higher additives, packaging and fuel costs partially due to Peso weakness, as well as to changes in formulations and improved packaging for some SKUs. As a percentage of net sales, cost of sales increased to 72.3% in 2016 from 69.3% in 2015 mainly due to the aforementioned higher costs, which were not fully absorbed by price increases.

Selling and administrative expenses rose 11% to Ps.2,853 million compared with Ps.2,573 million in 2015 due mainly to (1) the aforementioned sales volume growth; (2) the strengthening of commercial initiatives aimed at enhancing customer service through the opening of distribution centers and additional company-owned distribution routes; and (3) higher freight expenses resulting from higher tariffs, increased intercompany shipments and from plants to distribution centers. Selling and administrative expenses as a percentage of net sales improved to 16.0% in 2016 from 16.2% in 2015 due to better absorption.

Other income, net, was Ps.180 million, versus an expense of Ps.92 million in 2015, due to gains on corn and natural gas hedging, as well as to the reversal of an impairment loss in connection with the reopening of a plant in Central Mexico.

Operating income increased 3% to Ps.2,274 million in 2016 from Ps.2,205 million in 2015 driven by the aforementioned benefit from other income. Operating margin decreased to 12.7% from 13.9% in 2015 due to the aforementioned cost increases, mainly the increase in the cost of corn, which was not fully reflected in corn flour prices, but was compensated by gains in foreign exchange hedging, reported under net comprehensive financing income.

Gruma Europe

Sales volume declined 8% to 370 thousand tons compared with 404 thousand tons in 2015. This decrease was mainly due to reductions in the corn milling business as a result of (1) technology upgrades in the Italian mill, which suspended production from November 2015 to April 2016; (2) lower sales volume of brewing and snack grits; and, as a result, (3) lower sales volume of byproducts for animal feed.

Net sales increased 11% to Ps.4,987 million compared with Ps.4,477 million in 2015, due mainly to Peso weakness. In dollar terms, net sales declined 6%, primarily due to the sales volume reduction and the weakness of the British pound, which was partially offset by a better sales mix.

Cost of sales rose 13% to Ps.3,825 million in 2016 compared with Ps.3,380 million in 2015, mainly due the Peso weakness effect. In dollar terms, cost of sales declined 4%, due primarily to the sales volume reduction and the weakness of the British pound. As a percentage of net sales, cost of sales increased 76.7% in 2016 from 75.5% in 2015, primarily by (1) lower absorption of fixed costs; (2) reclassification of selling and administrative expenses towards cost of sales; and (3) higher labor costs due to the increase in the number of shifts and production lines in several tortilla plants.

Selling and administrative expenses rose 8% to Ps.1,029 million compared with Ps.951 million in 2015 mainly due to the Peso weakness effect. In dollar terms, selling and administrative expenses decreased 8% due primarily to lower freight expenses in connection with sales volume reduction, the weakness of the British pound, and the aforementioned reclassification of selling and administrative expenses to cost of sales. As a percentage of net sales, selling and administrative expenses improved to 20.6% compared with 21.3% in 2015 due mainly to the aforementioned reclassification of selling and administrative expenses to cost of sales.

Other income, net, was Ps.9 million, and improvement of Ps.18 million mainly due to the impairment of assets of the Netherlands plant during 2015.

Operating income grew 3% to Ps.142 million from Ps.137 million in 2015, and operating margin declined to 2.8% from 3.1%. Measured in Dollar terms, operating income decreased 12%.

Gruma Centroamérica

Sales volume increased 2% to 203 thousand tons in 2016 compared with 199 thousand tons in 2015, mainly due to extraordinary sales of corn, taking advantages of opportunities in the market.

Net sales rose 14% to Ps.4,639 million in 2016 from Ps.4,057 million in 2015, which mostly resulted from Peso weakness against the dollar.

Cost of sales grew 11% to Ps.2,830 million in 2016 compared with Ps.2,544 million in 2015, due to the Peso weakness effect. Cost of sales as a percentage of net sales improved to 61% in 2016 from 62.7% in 2015 due mainly to lower costs, particularly corn and energy costs.

Selling and administrative expenses rose 21% to Ps.1,400 million compared with Ps.1,161 million in 2015, due mainly to (1) the Peso weakness and, to a lesser extent, to (2) higher distribution expenses due to increased direct contact with customers that had previously been served through distributors; and (3) higher marketing and advertising expenses. As a percentage of net sales, selling and administrative expenses increased to 30.2% in 2016 versus 28.6% in 2015 mainly due to the aforementioned expenses.

Other income, net was Ps.17 million compared with an income of Ps.16 million in 2015, due to higher asset sales.

Operating income grew 15% to Ps.426 million compared with Ps.369 million in 2015. Operating margin improved to 9.2% in 2016 from 9.1% in 2015.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Consolidated Results

Sales volume increased 4% to 3,831 thousand tons in 2015 compared with 3,674 thousand tons in 2014. Sales volume was driven mainly by GIMSA, Gruma Europe, Gruma USA and, to a lesser extent, Gruma Asia-Oceania.

Net sales grew 17% to Ps.58,279 million in 2015 compared with Ps.49,935 million in 2014, due mainly to (1) the Peso weakness effect against the U.S. dollar, which particularly benefited sales at Gruma USA, and to (2) sales volume growth.

Cost of sales rose 14% to Ps.35,938 million in 2015 compared with Ps.31,575 million in 2014, due primarily to Peso weakness and, to a lesser extent, higher sales volume. Cost of sales as a percentage of net sales improved to 61.7% in 2015 from 63.2% in 2014 as a result of better performance particularly at Gruma USA.

Selling and administrative expenses increased by 20% to Ps.14,442 million in 2015 compared with Ps.12,040 million in 2014, due mainly to the Peso weakness effect and, to a lesser extent, higher expenses at all subsidiaries. Selling and administrative expenses as a percentage of net sales rose to 24.8% in 2015 from 24.1% in 2014, due primarily by Other Subsidiaries and Eliminations, due mostly to several legal, fiscal and financial advisory services, and to higher expenses at Gruma Centroamérica.

Other expenses, net, increased 79% to Ps.531 million in 2015 compared with Ps.297 million in 2014. The increase was mainly due to impairment of assets in Gruma USA and Gruma Europe and on corn hedging losses at Gruma USA.

Operating income rose 22% to Ps.7,368 million in 2015 compared with Ps.6,023 million in 2014 and operating margin improved to 12.6% in 2015 from 12.1% in 2014 due to better operating performance at Gruma USA and, to a lesser extent, in Gruma Centroamérica and Gruma Asia-Oceania.

Net comprehensive financing cost decreased 71% to Ps.323 million in 2015 compared with Ps.1,105 million in 2014. This decrease resulted from lower financial expenses due to (1) non-cash charges reported in 2014 related to the amortization of debt issuance expenses, mostly from Perpetual Bonds; and (2) significant debt reductions and better conditions obtained by the company at the end of 2014. Additionally, during 2015 GRUMA had gains on currency derivative instruments related to corn procurement at GIMSA versus losses in 2014.

Income taxes increased 55% to Ps.1,646 million in 2015 compared with Ps.1,060 million in 2014, due primarily to higher income before taxes. The effective tax rate was 23.4% for 2015 and 21.5% for 2014.

Discontinued operations in 2015 resulted in a loss of Ps.4,314 million, compared with an income of Ps.599 million in 2014. The loss in 2015 was due to the non-cash charge for the write-off of the indirect net investment related to MONACA and DEMASECA, as well as accounts receivable from the Venezuelan Companies owed to some of GRUMA's subsidiaries.

Shareholders' net income was Ps.762 million in 2015 compared with Ps.4,287 million in 2014. The decline was due to the aforementioned write-off related to the indirect net investment in Venezuela.

Results of Subsidiaries

Gruma USA

Sales volume increased 4% to 1,341 thousand tons in 2015 compared with 1,288 thousand tons in 2014. Corn flour and tortilla operations benefited from the growth of the tortilla industry, especially among non-Hispanic consumers. Corn flour also rose as

a result of gaining market share through our better quality and service; and from snack producers' growth. The tortilla operations, retail in particular, benefited from increased distribution, shelf space gains, product assortment optimization, increased popularity of some of our tortillas due to better quality, new private label agreements and an increase in the number of secondary displays on perimeter locations of stores, usually aimed at making consumers aware of how to eat our products and providing recipe ideas. Tortilla operations in the foodservice channel benefited from organic growth and expansion of several Mexican restaurant chains, as well as the launch of tortilla-based meals by several restaurant chains and through new distribution customers.

Net sales rose 24% to Ps.31,741 million in 2015 compared with Ps.25,596 million in 2014, due primarily to Peso weakness and, to a lesser extent, sales volume. Measured in Dollar terms, net sales grew 4% due mainly to sales volume growth.

Cost of sales increased 21% to Ps.18,442 million in 2015 compared with Ps.15,297 million in 2014 due mainly to the Peso weakness effect and, to a lesser extent, sales volume growth. Measured in Dollar terms, cost of sales grew 1%. As a percentage of net sales, cost of sales improved to 58.1% in 2015 from 59.8% in 2014, due primarily to the U.S. tortilla business in connection with (1) a change in the sales mix towards higher-margin products, presentations and brands; (2) lower raw material costs while our product prices were relatively stable; (3) lower allowances; (4) better fixed cost absorption; and (5) production efficiencies, among other things.

Selling and administrative expenses increased 22% to Ps.9,077 million in 2015 compared with Ps.7,425 million in 2014 due primarily to the Peso depreciation effect. Measured in Dollar terms, selling and administrative expenses increased by 2% due primarily to higher commissions as a result of volume growth and a better sales mix in the U.S. tortilla business. Selling and administrative expenses as a percentage of net sales decreased to 28.6% in 2015 from 29.0% in 2014, due to better absorption.

Other expenses, net were Ps.420 million, an increase of Ps.286 million due mainly to the impairment of goodwill related to the Netherlands tortilla plant and to losses in corn hedging.

Operating income increased 39% to Ps.3,802 million in 2015 from Ps.2,739 million in 2014, and operating margin improved to 12.0% from 10.7%. Measured in Dollar terms, operating income rose 14%

GIMSA

Sales volume increased 3% to 1,847 thousand tons in 2015 compared with 1,798 thousand tons in 2014. Corn flour sales volume rose 5%, but was partially offset by the reclassification of by-products for animal feed since as of April 2015, this operation is no longer part of GIMSA and was constituted as a new subsidiary which is now reported under Other Subsidiaries and Eliminations. The increase in corn flour volume was mainly a result of higher sales to (1) tortilla producers due to the strengthening of commercial initiatives aimed at improving customer service and due to higher corn flour quality; (2) snack producers, who shifted from the Traditional Method to corn flour; and (3) the corn flour operations in the U.S. as a strategy to support their growth.

Net sales increased 5% to Ps.15,871 million in 2015 compared with Ps.15,074 million in 2014, due primarily to the growth in sales volume. In addition, net sales grew because of higher average prices as a result of the change in the sales mix towards corn flour due to the aforementioned reclassification of the by-products for animal feed business, and mainly because of the extraordinary corn sale to third parties for Ps.250 million in 2015, which benefited net sales but is not reflected in sales volume.

Cost of sales increased 6% to Ps.11,001 million in 2015 compared with Ps.10,380 million in 2014, due to (1) sales volume growth; (2) higher raw material costs mainly as a result of the Peso depreciation effect; (3) extraordinary sales of corn; and (4) an increase in transportation expenses due to higher tariffs and longer distances. As a percentage of net sales, cost of sales increased to 69.3% in 2015 from 68.9% in 2014 mainly due to the extraordinary sales of corn at very low margins and the aforementioned higher costs, whose increases were not fully absorbed by price increases.

Selling and administrative expenses rose 6% to Ps.2,573 million in 2015 compared with Ps.2,436 million in 2014 due primarily to (1) higher freight expenses in connection with volume growth, better customer service initiatives, higher freight tariffs and intercompany shipments due to capacity constraints in some regions; and by (2) higher commissions and salaries as a result of the strengthening of the sales teams and volume growth. Selling and administrative expenses as a percentage of net sales remained unchanged at 16.2% in 2015 and 2014.

Other expenses, net were Ps.92 million, a reduction of Ps.37 million due to impairment of assets in 2014.

Operating income increased 4% to Ps.2,205 million in the 2015 from Ps.2,129 million in 2014. Operating margin decreased to 13.9% from 14.1%.

Gruma Europe

Sales volume increased 11% to 404 thousand tons in 2015 compared with 365 thousand tons in 2014. Sales volume grew as a result of higher sales of brewing and snack grits; higher sales of byproducts for animal feed and due to the recent acquisition in Spain.

Net sales grew 20% to Ps.4,477 million in 2015 compared with Ps.3,727 million in 2014, due mainly to sales volume and higher average price, partly due to a better sales mix as a result of the acquisition in Spain. In dollar terms, net sales grew 0.5%, at a lower pace than the increase in volume mainly due to the weakness of European currencies.

Cost of sales rose 19% to Ps.3,380 million in 2015 compared with Ps.2,842 million in 2014 due mainly to sales volume growth and higher raw material costs, particularly corn. In dollar terms, cost of sales declined 1%, primarily due to the weakness of European currencies. As a percentage of net sales, cost of sales improved to 75.5% in 2015 from 76.3% in 2014, due mainly to higher average prices and better fixed cost absorption.

Selling and administrative expenses increased 24% to Ps.951 million in 2015 compared with Ps.764 million in 2014 due mainly to sales volume growth and to (1) the launch of the Mission brand in several European countries; (2) the strengthening of the sales and administrative areas to support growth of the tortilla and flatbreads businesses in Europe; and (3) the recent acquisition in Spain. Selling and administrative expenses as a percentage of net sales increased to 21.2% in 2015 compared with 20.5% in 2014 due to the aforementioned increase in selling and administrative expenses. Measured in Dollar terms, selling and administrative expenses only grew 5% due to the weakness in European currencies.

Other expenses, net were Ps.9 million, an increase of Ps.11 million due mainly to impairment of fixed assets at a tortilla planta in the Netherlands.

Operating income grew 12% to Ps.137 million in 2015 from Ps.123 million in 2014, and operating margin declined to 3.1% from 3.3%. Measured in Dollar terms, operating income decreased 9%.

Gruma Centroamérica

Sales volume declined 1% to 199 thousand tons in 2015 compared with 200 thousand tons in 2014, due primarily to lower corn flour sales in connection with more aggressive competition in Honduras and lower sales to government segments in Guatemala. To a lesser extent, the hearts of palm and rice segments also contributed to the decrease in volume.

Net sales increased 17% to Ps.4,057 million in 2015 compared with Ps. 3,479 million in 2014, due mainly to the Peso depreciation effect and, to a lesser extent, to price increases, particularly in corn flour.

Cost of sales increased 12% to Ps.2,544 million in 2015 compared with Ps.2,278 million in 2014, caused by the Peso depreciation effect. Cost of sales as a percentage of net sales improved to 62.7% in 2015 from 65.5% in 2014, due primarily to lower energy costs and the aforementioned price increases.

Selling and administrative expenses rose 24% to Ps.1,161 million in 2015 compared with Ps.936 million in 2014, due to (1) the Peso depreciation effect; and, to a lesser extent, (2) royalty fees to Gruma Holding; (3) higher marketing and advertising expenses; and (4) the strengthening of the sales teams. As a percentage of net sales, selling and administrative expenses increased to 28.6% in 2015 from 26.9% in 2014 due primarily to the aforementioned expenses and lower fixed cost absorption.

Other income, net was Ps.16 million compared with an expense of Ps.33 million in 2014. This improvement was a result of losses on asset disposals and impairment of assets related to the closing of the El Salvador plant in 2014, as well as insurance claims recoveries during 2015.

Operating income increased 60% to Ps.369 million in 2015, compared with Ps.232 million in 2014. Operating margin improved to 9.1% in 2015 from 6.7% in 2014.

3.4.3. Financial Condition, Liquidity and Capital Resources

Historically, we have generated and expect to continue to generate positive cash flow from operations. Cash flow from operations primarily represents inflows from net earnings (adjusted for depreciation and other non-cash items) and outflows from increases in working capital needed to grow our business. Cash flow used in investing activities represents our investment in property

and capital equipment required for our growth, as well as our acquisition activity. Cash flow from financing activities is primarily related to changes in indebtedness borrowed to grow the business or indebtedness repaid with cash from operations or refinancing transactions as well as dividends paid.

Our principal capital needs are for working capital, capital expenditures related to maintenance, expansion and acquisitions and debt service. Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations, overall capacity and terms of financing arrangements and our access to the capital markets. We believe that our future cash from operations together with our access to funds available under such financing arrangements and the capital markets will provide adequate resources to fund our foreseeable operating requirements, capital expenditures, acquisitions and new business development activities.

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

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

The following is a summary of the principal sources and uses of cash for the three years ended December 31, 2016, 2015, and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(thousands of Mexican pesos)		
Resources provided by (used in):			
Operating activities	Ps. 8,977,304	Ps. 5,056,769	Ps. 6,730,000
From continuing operations.....	8,977,304	5,056,769	6,379,354
From discontinued operations.....	-	-	350,646
Investing activities	(5,484,777)	(2,845,369)	1,995,588
From continuing operations	(5,484,777)	(2,845,369)	2,071,052
From discontinued operations.....	-	-	(75,464)
Financing Activities	(1,637,019)	(1,076,981)	(8,591,246)
From continuing operations	(1,637,019)	(1,076,981)	(8,586,690)
From discontinued operations.....	-	-	(4,556)

During 2016, net cash generated from operations was Ps. 8,977 million after changes in working capital of Ps. 1,992 million, of which Ps. 160 million was due to a decrease in accounts receivable, Ps. 25 million reflected an increase in inventory, Ps. 875 million reflected an increase in accounts payable and Ps. 2,953 million of income tax paid. Net cash used for financing activities during 2016 was Ps. 1,637 million, of which Ps. 7,440 million reflected payments of debt, Ps. 7,518 million of proceeds from borrowings, Ps. 586 million in cash interest payments, Ps. 433 million of dividends paid to our shareholders and Ps. 46 million of dividends paid to minority shareholders of GIMSA. Net cash used for investment activities during 2016 was Ps. 5,485 million, primarily attributable to investments for capacity expansions, general manufacturing upgrades and efficiency improvements in our subsidiaries in the U.S., Europe, Mexico and Asia by Ps. 5,599 million.

Factors that could decrease our sources of liquidity include a significant decrease in the demand for, or price of, our products, each of which could limit the amount of cash generated from operations, and a lowering of our corporate credit rating or any other credit downgrade, which could impair our liquidity and increase our costs with respect to new debt and cause our stock price to suffer. Our liquidity is also affected by factors such as the depreciation or appreciation of the peso and changes in interest rates. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources —Indebtedness.”

As further described below, Gruma, S.A.B. de C.V. is subject to financial covenants contained in its debt agreements which requires it to maintain certain financial ratios and balances on a consolidated basis, among other limitations. Gruma USA is also subject to financial covenants contained in one of its debt agreements which require it to maintain certain financial ratios and balances on a consolidated basis. A default under any of our existing debt obligations for borrowed money could result in acceleration of the

due dates for payment of the amounts owing thereunder and, in certain cases, in a cross-default under some of our existing credit agreements and the indenture governing our 2024 Notes. See “Section 3.3. Relevant Credit Facilities Report.”

We are required to maintain a leverage ratio no greater than 3.5:1, and an interest coverage ratio no lower than 2.5:1. As of December 31, 2016, Gruma, S.A.B. de C.V.’s leverage ratio was 1.5:1, and the interest coverage ratio was 16.7:1. Likewise, Gruma Corporation is required to maintain an overall leverage ratio no greater than 3.0:1 and tangible net worth of U.S.\$240 million. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources — Indebtedness.” As of December 31, 2016, Gruma Corporation’s leverage ratio was 0.0x, therefore the applicable interest rate range under the Gruma Corporation Loan Facility in case of disposition would be LIBOR + 112.5 bp.

Members of the Primary Shareholder Group may pledge part of their shares in us to secure any future borrowings. If there is a default and the lenders enforce their rights against any or all of these shares, the Primary Shareholder Group could lose control over us and a change of control could result. A change of control could trigger a default in some of our credit agreements, which could then trigger a default in our other debt documents. A change of control could also require us to offer to repurchase other debt, such a default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects. For more information about this pledge, see “Section 4.3.3. Major Shareholders”.

Our long-term corporate credit rating is rated “BBB” by Standard & Poor’s. Our Foreign Currency Long-Term Issuer Default Rating and our Local Currency Long-Term Issuer Default Rating are rated “BBB” by Fitch. On December 14, 2012, after the announcement of the ADM Transaction and Gruma’s increase in its leverage, Standard & Poor’s confirmed its “BB” credit rating and the outlook remains stable. On December 17, 2012, Fitch also confirmed its “BB” rating. Fitch and Standard & Poor’s upgraded the “BB” rating to “BB+” on December 11, 2013 and March 4, 2014, respectively. Fitch and Standard & Poor’s upgraded the “BB+” rating to “BBB-” on November 10, 2014 and March 27, 2015, respectively. On November 9, 2015, Fitch upgraded the “BBB-” rating to “BBB” worldwide in local and foreign currency as well as for the 2024 Notes. On March 8, 2016, Standard & Poor’s upgraded our corporate credit and debt ratings from “BBB-” to “BBB”. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revisions or withdrawals at any time.

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

Indebtedness

Our indebtedness bears interest at fixed and floating rates. As of December 31, 2016, approximately 62% of our outstanding indebtedness bore interest at fixed rates and approximately 38% bore interest at floating rates. From time to time, we partially hedge both our interest rate exposure and our foreign exchange rate exposure as discussed below. See “Section 3.3. Relevant Credit Facilities Report.”

We are exposed to marked risks derived from changes in interest rates, exchange rates, stock prices and supplies prices. Occasionally, we use derivative instruments in a selective way to manage these risks. Also, in the past we have used certain derivative instruments for trading purposes. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources — Treasury Policy”. As of December 31, 2016, 2015 and 2014, our total debt was approximately Ps. 15,955 million, Ps.13,235 million and Ps.10,844 million, respectively. As of December 31, 2016, our long-term debt was approximately Ps. 12,230 million.

As of December 31, 2016, approximately 84% of our total debt was U.S. dollar-denominated, 15% in Mexican Pesos and the rest in other currencies.

Treasury Policy

The company maintains centralized treasury operations.

GRUMA’s short-term liquid assets are invested primarily in peso denominated short-term instruments, liquid government bonds, or in short-term debt instruments issued by companies with a minimum “A” rating or its equivalent. Occasionally GRUMA

also invests in dollar denominated instruments, including short-term bank instruments and other short term securities issued by first tier financial institutions.

The excess liquidity of Gruma USA, our division in the United States, is invested in US short-term government instruments, money market funds, as well as US commercial paper issued by corporations rated “A1/P1”.

We maintain and control our treasury operations and global financial risks through practices approved by our management and board of directors.

Off-balance Sheet Arrangements

As of December 31, 2016 we do not have any outstanding off-balance sheet arrangements.

3.4.4. Internal Control

(a) Disclosure controls and procedures.

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Chief Administrative Officer, as appropriate to allow timely decisions regarding required disclosure.

Likewise, the effectivity of our internal control processes over the financial information is annually audited by PricewaterhouseCoopers, S.C.

(b) Management’s annual report on internal controls over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Board of Directors, Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer and other personnel, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (v.2013) by the Committee of Sponsoring Organizations of the Treadway Commission.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Control—Integrated Framework (v.2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

(c) Changes in internal control over financial reporting.

There has been no change in our internal control over financial reporting during 2016 that has materially affected, or is reasonably likely that could materially affect, our internal control over financial reporting.

3.5. CRITICAL ACCOUNTING ESTIMATES, PROVISIONS OR RESERVES

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

We have identified certain key accounting estimates that are used to determine our financial condition and results of operations. These key accounting estimates often involve complex matters or are based on subjective judgments or decisions that require management to make estimates and assumptions that affect the amounts reported in our financial statements. We have identified below the most critical accounting principles that involve a higher degree of judgement and complexity and that management believes are important to a more complete understanding of our financial position and results of operations. Additional accounting policies that are also used in the preparation of our audited consolidated financial statements are outlined in the notes thereto included in this annual report.

Property, Plant and Equipment

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

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

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

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

Goodwill and Other Intangible Assets

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

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

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

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

Impairment of GRUMA's investment in Venezuela

Our investment in Venezuela is subject to impairment tests to determine a potential annual recoverable amount, using two valuation techniques: 1) an income approach taking into account estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital) and 2) a market approach, specifically, the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal costs. An impairment is recognized when the carrying value is higher than the recoverable amount. In December 2015, we recognized a full impairment of our investment in Venezuela.

Income Tax

We are subject to income taxes in many jurisdictions. A significant judgment is required in the determination of the global provision for income taxes. There are many transactions and calculations for which the final tax determination is uncertain. Where the final tax result is different from the amounts initially recorded, such differences will have an effect on current income tax and deferred income tax assets and liabilities in the period when the determination is made.

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

Fair Value of Derivatives and Other Financial Instruments

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

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

We use our judgment to select from a variety of methods and make assumptions that are mainly based on existing market conditions at the end of each reporting period. When available, we measure the fair value of the derivatives and other financial instruments based on quoted market prices. If quoted market prices are not available, we estimate the fair value of derivatives and other financial instruments using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market observable inputs, including interest rates and currency rates, among others. Also included in the determination of the fair value of our liability positions is our own credit risk, which has been classified as an unobservable input.

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

Employee Benefits

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

We use estimates in three specific areas that have a significant effect on these amounts: (a) the rate of increase in salaries that we assume we will observe in future years, (b) the discount rate that we use to calculate the present value of our future obligations and the expected returns on plan assets and (c) the expected rate of inflation. The assumptions we have applied are identified in Note 17 to our audited consolidated financial statements. These estimates are determined based on actuarial studies performed by independent experts using the projected unit credit method. The latest actuarial computation was prepared as of December 31, 2016. We review the estimates each year, and if we change them, our reported expense for post-employment benefits may increase or decrease according to market conditions.

4. MANAGEMENT

4.1. EXTERNAL AUDITORS

Audit Committee Approval Policies and Procedures

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

In the last three fiscal years there has been no change in the external auditors of GRUMA. In the last three fiscal years the external auditors have not issued any reserved opinion, negative opinion, nor have abstained from issuing an opinion regarding GRUMA's consolidated financial statements.

The procedure to appoint the external auditors is mainly based on the following:

- International presence based in the coverage of countries where GRUMA has operations and the coverage of countries worldwide.
- Capability and experience in Mexican companies regulated by the CNBV.
- Costs of the audit fees.
- Quality of the audit services.

The board of directors of GRUMA is in charge of approving the changes of auditors, with the endorsement of the audit committee.

The services rendered to GRUMA during 2016 by the external auditors, different to those of audit, were:

- Transfer pricing studies for tax purposes.
- Legal, tax and accounting consultancy services.
- Audit procedures required to comply with several regulatory certifications.

Fees for Audit and Non Audit Services

The following table sets forth the fees billed to us and our subsidiaries by our independent public accountants, PricewaterhouseCoopers, during the fiscal year ended December 31, 2016:

Year ended December 31, 2016	
(thousands of Mexican pesos)	Percentage of Total Fees

Audit Fees.....	Ps. 73,305	87%
Tax Fees.....	5,768	7%
Other Fees.....	4,700	6%
<u>Total Fees.....</u>	<u>Ps. 83,773</u>	<u>100%</u>

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

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

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

4.2. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

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

Transactions with Subsidiaries

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

Since 2014, the outstanding balance of loans from GIMSA to GRUMA, at their peak on October 3, 2016, were Ps. 2,592 million. The average interest rate for these loans from January 1, 2016 to March 31, 2017 was 5.35%. As of March 31, 2017, we had an outstanding balance owed to GIMSA of Ps. 1,231 million, with an interest rate of 7.57%.

Additionally, as of December 31, 2016, GIMSA had an outstanding balance owing to us for the amount of Ps.619 million at an interest rate of 6.94%, which has been repaid in full. Likewise, as of March 31, 2017, GIMSA has no outstanding balance owing to us.

In September of 2001, Gruma USA started to make loans to us. Since 2014 these operations, at their peak on November 2016 reached the amount of U.S.\$170 million. From 2014 to March 31, 2017, we borrowed money from Gruma USA at an average rate of 1.44%. As of March 31, 2017, GRUMA has an outstanding balance owing to Gruma USA of U.S.\$50 million.

Additionally, on July 1, 2013, Gruma USA entered into a 2-year loan with GRUMA for the amount of U.S.\$180 million, with equal quarterly payments and an interest rate of 4.5%, which has already been paid.

Likewise, GRUMA have entered into license agreements with GIMSA and Azteca Milling. L.P. See “Section 2.2.3. Patents, Licenses, Trademarks and other Agreements.”

For more information about related party transactions, please see Note 30 to our audited consolidated financial statements.

4.3. MANAGEMENT AND SHAREHOLDERS

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

4.3.1. Board of 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. 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 28, 2017, currently consists of 12 directors, with each director having a corresponding alternate director; seven of our directors are independent within the meaning of the Mexican Securities Law. At said meeting, Mr. Juan A. González Moreno was ratified as Chairman of our board of directors and Mr. Carlos Hank Gonzalez was ratified as Vice Chairman. 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.

Juan A. González Moreno	Age:	59
	Years as Director:	23
	Principal Occupation:	Chairman of the Board and Chief Executive Officer of GRUMA and GIMSA
	Outside Directorships:	Director of Grupo Financiero Banorte, Banco Mercantil del Norte, Fundación Gruma, Consejo Mexicano de Hombres de Negocios, Fondo de Agua Metropolitano de Monterrey, Museo del Acero, and Nueva Visión para el Desarrollo Agroalimentario de México, A.C. (VIDA)
	Business Experience:	Several positions in GRUMA, including Chief Executive Officer of Special Projects of Gruma USA, President of Azteca Milling, Vice President of Central and Eastern Regions of Mission Foods, President and Vice President of Sales of Azteca Milling, Chief Executive Officer of Gruma Asia-Oceania
	Directorship Type: Alternate:	Shareholder, Related Raúl Cavazos Morales
Carlos Hank González	Age:	45
	Years as Director:	4
	Principal Occupation:	Chairman of the Board of Grupo Financiero Banorte; Chief Executive Officer of Grupo Hermes; Chairman of the Banorte Foundation.
	Outside Directorships:	Director of Grupo Hermes; Chairman of the Board of Cerrey; Director of Bolsa Mexicana de Valores.
	Business Experience:	Chief Executive Officer of Grupo Financiero Interacciones, Casa de Bolsa Interacciones, Banco Interacciones and Automotriz Hermer
	Directorship Type: Alternate:	Shareholder, Related Graciela González Moreno
Homero Huerta Moreno	Age:	54
	Years as Director:	4
	Principal Occupation:	Chief Administrative Officer of GRUMA
	Outside Directorships:	None
	Business Experience:	Several positions within GRUMA including Corporate Internal Audit Vice President, Management Information Systems Vice President, Controller Vice President of Gruma USA and Finance and Administrative Vice President of Gruma Venezuela
	Directorship Type: Alternate:	Related Rogelio Sánchez Martínez
Eduardo Livas Cantú	Age:	74
	Years as Director:	24
	Principal Occupation:	Member of GRUMA's Executive Committee
	Outside Directorships:	Director of GIMSA and Grupo Financiero Banorte

	Business Experience:	Business consultant in different companies, several positions in GRUMA, including Chief Financial Officer and Chief Executive Officer of Gruma USA and GRUMA
	Directorship Type:	Shareholder, Related
	Alternate:	Gonzalo García Méndez
Javier Vélez Bautista	Age:	60
	Years as Director:	14
	Principal Occupation:	Chief Executive Officer of Mission Foods U.S. and member of GRUMA's Executive Committee
	Outside Directorships:	Director of GIMSA, United States-Mexico Chamber of Commerce and Cox School of Business
	Business Experience:	Chief Executive Officer of Value Link and Nacional Monte de Piedad, Chief Financial Officer of GRUMA, Chief Financial Officer of Gruma USA, Project Director at Booz Allen Hamilton
	Directorship Type:	Related
	Alternate:	Jorge Vélez Bautista
Gabriel A. Carrillo Medina	Age:	60
	Years as Director:	4
	Principal Occupation:	President and shareholder of Mail Rey and Detecno
	Outside Directorships:	Director of GIMSA
	Business Experience:	President of Asociación de Casas de Bolsa de Nuevo León and Club Deportivo San Agustín, several positions within Interacciones Casa de Bolsa, including Chief Financial Officer
	Directorship Type:	Independent
	Alternate:	Gabriel Carrillo Cattori
Everardo Elizondo Almaguer	Age:	73
	Years as Director:	3
	Principal Occupation:	Economics Professor at EGADE/ITESM and regular columnist of Reforma/El Norte
	Outside Directorships:	Director of GIMSA, Grupo Financiero Banorte, CEMEX, Autlán, Rassini, Grupo Senda and Fibra Inn; Advisory Council of Coca-Cola/KOF and External Advisory Council of the UANL
	Business Experience:	Deputy Director of Banco de México, Economic Studies Director of Grupo Financiero Bancomer and Economic Studies Director of Grupo Industrial Alfa
	Directorship Type:	Independent
	Alternate:	Ricardo Sada Villarreal
Jesús Oswaldo Garza Martínez	Age:	60
	Years as Director:	1
	Principal Occupation:	Advisor to CEO of Grupo Financiero Afirmé and Financial Consultant
	Outside Directorships:	None
	Business Experience:	Director of Grupo Financiero Banorte, Casa de Bolsa Banorte, Banorte-IXE Tarjetas, Seguros Banorte and Afore XXI Banorte, President of Centro Bancario del Estado de Nuevo León, Regional Director of Banco de México, Chief Executive Officer of Banco Mercantil del Norte and several executive positions at Banco Bilbao Vizcaya, Casa de Bolsa Probusa and Valores Finamex
	Directorship Type:	Independent
	Alternate:	Miguel Ángel Garza Martínez

Thomas S. Heather Rodríguez	Age: 62 Years as Director: 4 Principal Occupation: Lawyer, Partner of Ritch, Mueller, Heather y Nicolau, S.C. Outside Directorships: Director of GIMSA, EMX Capital-CKD and Grupo Financiero Banorte and subsidiaries Business Experience: Forty years of professional independent practice; Director and Administrator of Satélites Mexicanos, Director of Grupo Financiero Scotiabank, JP Morgan, Bank of America México, Hoteles Nikko, Grupo Modelo and Grupo Bimbo; Collaborator in the Ethics and Law Committees of Consejo Coordinador Empresarial and arbitrator in international courts Directorship Type: Independent Alternate: Thomas Edward Heather
Javier Martínez-Ábrego Gómez	Age: 75 Years as Director: 2 Principal Occupation: Chairman and Chief Executive Officer of Grupo Motomex Outside Directorships: Chairman of Grupo Motomex Business Experience: Businessman since 1959 Directorship Type: Independent Alternate: Javier Martínez-Ábrego Martínez
Alberto Santos Boesch	Age: 45 Years as Director: 4 Principal Occupation: Chairman of the Board and Chief Executive Officer of Ingenios Santos Outside Directorships: Director of Axtel, Interpuerto Monterrey, Development Committee of the Instituto Tecnológico y de Estudios Superiores de Monterrey, Instituto Nuevo Amanecer, Renace, En Nuestras Manos, Red de Filantropía de Egresados y Amigos del Tec, Museo Nacional de Energía y Tecnología, Committee of the Consulting Board of the Facultad de Ciencias Políticas y Administración Pública de la Universidad Autónoma de Nuevo León and Unidos por el Arte contra el Cáncer Infantil Business Experience: President of Aeropuerto del Norte, Director of Arena Monterrey and Chief Executive Officer of Mundo Deadeveras Directorship Type: Independent Alternate: Carlos González Bolio
Joseph Woldenberg Russell	Age: 50 Years as Director: 1 Principal Occupation: Vice-Chairman of the Board and Executive President of Tubacero Outside Directorships: Director of CANACERO, Banamex North Region, Silica Desarrollos, Divanz Capital, Horno3 Steel Museum and W International Group and PLANIGRUPO Business Experience: Vice President of Aceros Generales and Director of CAINTRA Directorship Type: Independent Alternate: Teodoro González Garza

Juan A. González Moreno and Graciela González Moreno (jointly referred to as “Messrs. González Moreno”), members and alternate members of our board of directors, are siblings. Homero Huerta Moreno, member of our board of directors, is the cousin of Messrs. González Moreno. Carlos Hank González, member of our board of directors, is the son of Graciela González Moreno and the nephew of Juan A. González Moreno.

Jorge Vélez Bautista, alternate member of our board of directors, is the brother of Javier Vélez Bautista. Gabriel Carrillo Cattori, alternate member of our board of directors, is the son of Gabriel A. Carrillo Medina. Javier Martínez-Abrego Martínez, alternate member of our board of directors, is the son of Javier Martínez-Ábrego Gómez. Miguel Ángel Garza Martínez, alternate member of our board of directors, is the brother of Jesús Oswaldo Garza Martínez. Thomas Edward Heather alternate member of our board of directors, is the son of Thomas S. Heather Rodríguez.

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.

Audit and Corporate Governance Committees

As required by the Mexican Securities Law and our bylaws, an audit committee and a corporate governance committee were appointed by the meeting of the board of directors held on April 26, 2017. 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 28, 2017, from among the members appointed by the board.

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

Thomas S. Heather	Position:	Chairman of the audit and corporate governance committees.
	Directorship Type:	Independent
Gabriel A. Carrillo Medina	Position:	Member of the audit and corporate governance committees.
	Directorship Type:	Independent
Everardo Elizondo Almaguer	Position:	Member and Financial Expert of the audit and corporate governance committees.
	Directorship Type:	Independent
Jesús Oswaldo Garza Martínez	Position:	Member of the audit and corporate governance committees.
	Directorship Type:	Independent

Executive Committee

An executive committee was created by the meeting of the board of directors held on February 27, 2013 to strengthen the link between the Board of Directors and our management for the decision making process. Members of the executive committee were selected from members of the board of directors.

Set forth below are the names of our executive committee members, their positions, and their directorship type:

Juan A. González Moreno	Position:	Chairman of the Board of Directors and Chief Executive Officer
	Directorship Type:	Shareholder, Related
Carlos Hank González	Position:	Vice Chairman of the Board of Directors
	Directorship Type:	Shareholder, Related
Eduardo Livas Cantú	Position:	Member of the Board of Directors
	Directorship Type:	Shareholder, Related
Javier Vélez Bautista	Position:	Member of the Board of Directors

Years at GRUMA:	20
Current Position:	General Counsel
Other Positions:	General Counsel of GIMSA
Business Experience:	Positions at Grupo Alfa, Protexa and Proeza; Senior Partner of two law firms, including Margáin-Rojas-González-Vargas-De la Garza y Asociados

Homero Huerta Moreno, our Chief Administrative Officer, is the cousin of Messrs. González Moreno.

Code of Ethics

We have adopted a code of ethics, which is applicable to, among others, our Board of Directors, executive officers and employees. This code sets forth the conduct standards that these persons must observe in the performance of their duties, which shall serve as guidelines to achieve a transparent decision making process in accordance with the ethical responsibility concept governing the members of GRUMA. Our code of ethics is available on our website: www.gruma.com.

Compensation of Directors and Senior Management

Members of the board of directors are paid a fee of Ps.88,200 for each board meeting they attend. Additionally, members of the audit committee are paid a fee of Ps.88,200 and members of the corporate governance committee are paid a fee of Ps.44,100 for each committee meeting they attend.

For 2016, the aggregate amount of compensation paid to all directors, alternate directors, executive officers and audit and corporate governance committees members was approximately Ps. 206 million. The contingent or deferred compensation reserved as of December 31, 2016 was Ps. 49 million.

We offer an Executive Bonus Plan that applies to managers, vice presidents, and executive officers. The variable compensation under this plan can range from 21% to 50% of annual base compensation, depending upon the employee's level, his individual performance and the results of our operations.

Share Ownership

Based on the information available to us, Ms. Graciela Hernández Moreno, widow of the late Mr. Roberto González Barrera, and certain of her descendants, directly and indirectly own 226,802,366 representing approximately 52.41% of our outstanding shares. Jointly all of them comprise the Primary Shareholder Group.

In the case of Ms. Graciela Hernández Moreno, she holds her shares indirectly through a trust created by her for her benefit and the benefit of certain of her descendants as beneficiaries of the trust (the "Trust"). Most of the other members of the Primary Shareholder Group (including some of the beneficiaries of the Trust) hold our shares directly, while a smaller portion of the members hold them indirectly through other trusts.

The Trust is the only shareholder that individually owns more than 10% of our capital stock; holding 35.20% of our capital stock as of April 28, 2017. Amongst the beneficiaries of the Trust, Mr. Juan Antonio Gonzalez Moreno and Mrs. Graciela Sylvia Gonzalez Moreno are main beneficiary shareholders, given that each of them is beneficiary of more than 10.86% of our capital stock through the Trust, without considering the shares of our capital stock held directly by them, which in both cases do not exceed 1% of our outstanding shares. This Trust, acting alone or jointly with the rest of the persons comprising the Primary Shareholder Group, exerts significant influence, control and power of command over us.

As of April 28, 2017, Carlos Hank González is the only director with an individual shareholding greater than 1% and lower than 10% of our outstanding shares, which amounts to 1.54% of our capital stock. His shareholding is part of the total stake attributed to the Primary Shareholder Group.

4.3.3. Major Shareholders

The following table sets forth certain information regarding the direct and indirect ownership of our capital stock as of April 28, 2017 (which consists entirely of Series B Shares), according to the information on record obtained from our Annual Shareholders Meeting held on such date and information available to us. The Primary Shareholder Group, which includes the Trust, are the only

shareholders we know to collectively own, directly and indirectly, more than 10% of our capital stock. See “Section 2.2.12. Shares evidencing the Capital Stock” for a further discussion of our capital stock. Our majority shareholder does not have different or preferential voting rights with respect to those shares they own.

Name	Number of Series B Shares	Percentage of Outstanding Shares
Primary Shareholder Group ⁽¹⁾	226,802,366 (1)	52.41%
Other shareholders	205,946,713	47.59%
Total	432,749,079 ⁽²⁾	100.00%

(1) The shares beneficially owned by the Primary Shareholder Group include 152,334,598 shares held indirectly by certain members of the Primary Shareholder Group through the Trust.

(2) As of April 28, 2017, our capital stock was represented by 432,749,079 issued Series B, class I, no par value shares (“Series B shares”), of which 432,749,079 shares were outstanding, all of them fully subscribed and paid.

The Primary Shareholder Group controls approximately 52.41% of our outstanding shares and therefore has the power to elect a majority of our 12 directors. In addition, under Mexican law, any holder or group of holders representing 10% or more of our capital stock may elect one director for each 10% of capital stock held.

We cannot provide assurances that members of the Primary Shareholder Group will continue to hold their shares or act together for purposes of control. Additionally, members of the Primary Shareholder Group may pledge part of their shares in us to secure any future borrowings. If such were the case, and members of the Primary Shareholder Group were to default on their payment obligations, the lenders could enforce their rights with respect to such shares, and the Primary Shareholder Group could lose its controlling interest in us resulting in a change of control. A change of control could trigger a default in some of our credit agreements. Upon the occurrence of a Change of Control Triggering Event (which means the occurrence of both a Change of Control and a Ratings Decline, as defined in the indenture governing the Notes due 2024) we may be required to repurchase the Notes due 2024. Such a default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects. Other than changes resulting from the ADM Transaction, the death of Mr. Roberto González Barrera’s and the creation and administration of the Trust, we are not aware of any significant changes in the percentage of ownership of any shareholders that held 5% or more of our outstanding shares during the past three years.

4.4. BYLAWS AND OTHER AGREEMENTS

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 12 members.

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

Our bylaws provide that the board of directors has the authority and responsibility to: (i) set the general strategies for our business; (ii) oversee the performance and conduct of our business; (iii) oversee our main risks, 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 our 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 guarantees or the assumption of liabilities for more than 5% of our corporate assets; (v) the appointment, and in its case, removal of the Chief Executive Officer, as the designation of integral compensation policies for all other senior officers; (vi) internal control and internal audit guidelines; (vii) our accounting guidelines; (viii) our 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 in regard to the above matters is exclusive to the board and may not be delegated.

See "Section 4.3.1. Board of Directors" 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 us. Such Committees should be exclusively comprised by independent directors and by a minimum of three members, elected by the board of directors at the proposal of the Chairman of the Board. The Chairman of such Committees shall be exclusively designated and/or removed from office by the annual ordinary general shareholders' meeting.

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

Likewise, for the performance of its duties, the Audit Committee shall: (i) render its opinion to the board of directors, pursuant to the Mexican Securities Law; (ii) request the opinion of independent experts when deemed convenient; (iii) convene shareholders meetings and include issues in the agenda they deem appropriate; (iv) assess the performance of the external auditing firm, as well as analyze the opinions and reports rendered by the external auditor; (v) discuss our financial statements 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 our company, as well as carry out the actions deemed appropriate; (xi) request meetings with senior officers in connection with the internal control and internal audit; (xii) inform the board of directors about the material irregularities detected while exerting their duties, and in case of any irregularities, notify the board of directors of any corrective measures taken; (xiii) ensure that the Chief Executive Officer complies with the resolutions taken by the

Shareholders' Meetings and by the board of directors; (xiv) oversee the establishment of internal controls in order to verify that our transactions conform to the applicable legal regulations; and (xv) be responsible of any other activity provided by law or our bylaws.

Fiduciary Duties - Duty of Diligence

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

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

Fiduciary Duties - Duty of Loyalty

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

The directors and secretary of the board of directors will be deemed to have violated their duty of loyalty and will be liable for any damages when they, directly or through third parties, obtain an economic benefit by virtue of their position without legitimate cause. Furthermore, the directors will fail to comply with their duty of loyalty if they: (i) vote at a board meeting or take any action where there is a conflict of interest; (ii) fail to disclose a conflict of interest they may have during a board meeting; (iii) knowingly favor a particular shareholder of our company against the interests of other shareholders; (iv) approve related party transactions without complying with the requirements of the Mexican Securities Law; (v) use our assets in a manner which infringes upon the policies approved by the board of directors; (vi) unlawfully use material non-public information concerning us; 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 us 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 our 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, our business strategies; (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 applicable to us, 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 our own stock; (vi) exert any corresponding corrective measures and liability suits; (vii) assure that adequate accounting, registry and information systems are maintained by us; (viii) prepare and submit to the board of directors his annual report; (ix) establish mechanisms and internal controls permitting

certification that our actions and transactions conform to the applicable regulations; and (x) exercise his right to file the liability suits referred to in the Mexican Securities Law against related parties or third parties that allegedly cause damage to us.

Voting Rights and Shareholders' Meetings

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

General shareholders' meetings may be ordinary or extraordinary. Extraordinary general shareholders' meetings are called to consider matters specified in Article 182 of the Mexican Corporations Law, including, principally, changes in the authorized fixed share capital and other amendments to the bylaws, the issuance of preferred stock, the liquidation, merger and spin-off of our 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 capital stock or other appropriate evidence of ownership either with the secretary of our board of directors, with a credit institution, or with Indeval. The secretary, credit institution or Indeval will hold the certificates until after the general shareholders' meeting has taken place.

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

Shareholders' meetings may be called by the board of directors, the Chairman of the Board of Directors, 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 our 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 San Pedro Garza García, Nuevo León at least 15 days prior to the meeting. Shareholders' meetings may be held without such publication provided that 100% of the outstanding shares are represented. Shareholders' meetings must be held within the corporate domicile in San Pedro Garza García, 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 may determine, including a reserve for the repurchase of our shares. The remaining balance of new profits, if any, is available for distribution as dividends prior to their approval at the shareholders' meeting. Cash dividends on the shares held through Indeval will be distributed by us through Indeval. Cash dividends on the shares evidenced by physical certificates will be paid when the relevant dividend coupon registered in the name of its holder is delivered to us. No dividends may be paid, however, unless losses for prior fiscal years have been paid up or absorbed. See "Section 2.2.13. 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 our debts, taxes and the expenses of the liquidation. Common stock that has not been paid in full will be entitled to these proceeds in proportion to the paid-in amount.

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

Changes in Capital Stock

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

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

As of April 28, 2017, our capital stock was represented by 432,749,079 issued Series B shares, all of them 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.

Restrictions Affecting Non-Mexican Shareholders

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

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

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

Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government with respect to his rights as a shareholder, but is not deemed to have waived any other rights he may have with respect to its investment in us, including any rights under U.S. securities laws. If a shareholder should invoke governmental protection in violation of this provision, his shares could be forfeited to the Mexican government. Mexican law requires that such a provision be included in the bylaws of all Mexican companies unless such bylaws prohibit ownership of shares by non-Mexicans. See “Section 1.3.5. Risk Factors—Risks Related to Our Primary Shareholder Group and Capital Structure—Mexican Law Restricts the Ability of Non-Mexican Shareholders to Invoke the Protection of Their Governments with Respect to Their Rights as Shareholders.”

Registration and Transfer

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

Other Provisions

Appraisal Rights

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

Share Repurchases

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

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

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

Repurchase in the Event of Delisting

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

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

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

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

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

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

Shareholder's Conflicts of Interest

Any shareholder that has a direct or indirect conflict of interest with respect to any transaction must abstain from voting thereon at the relevant shareholders' meeting. A shareholder that votes on a business transaction in which its interest conflicts with ours may be liable for damages if the transaction would not have been approved without such shareholder's vote.

Rights of Shareholders

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

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 foreign company. See "Section 1.3.5. Risk Factors—

Risks Related to Our Primary Shareholder Group and Capital Structure—The Protections Afforded to Minority Shareholders in Mexico Are Different from Those in other Countries.”

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 of 5% (and multiples thereof) is intended to be exceeded, except for persons who, directly or indirectly, are competitors (as such term is defined below) of us or of any of our 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 us or by any of our 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 purchaser must properly deliver a written application complying with the applicable requirements set forth in our bylaws. Such application shall state, among other things: (i) the number and class of our shares the person beneficially owns or to which such person has any right, (ii) the number and class of shares the Person intends to acquire, (iii) the number and class of shares with respect to which such Person intends to acquire any right, (iv) the percentage that the shares referred to in (i) represent of our total outstanding shares and of the class or series to which such shares belong, (v) the percentage that the shares referred to in (ii) and (iii) represent of our total outstanding shares and of the class or series to which such shares belong, (vi) the person’s identity and nationality, or in the case of a purchaser which is a corporation, trust or legal entity, the nationality and identity of its shareholders, partners or beneficiaries as well as the identity and nationality of each person effectively controlling such corporation, trust or legal entity, (vii) the reasons and purpose behind such acquisition, (viii) if such person is, directly or indirectly, a competitor of us or any of our subsidiaries or affiliates, and if such person has the authority to legally acquire the shares pursuant to our bylaws and Mexican law, (ix) its source of financing the intended acquisition, (x) if the Person is part of an economic group, formed by one or more of its related parties, which intends to acquire shares of our common stock or rights to such shares, (xi) if the person has obtained any financing from one of its related parties for the payment of the shares, (xii) the identity and nationality of the financial institution, if any, that will act as the underwriter or broker in connection with any tender offer, and (xiii) the person’s address for receiving notices.

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

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

Mandatory Tender Offers in the Case of Certain Acquisitions.

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

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

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

Notices.

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

Exceptions.

The provisions of our bylaws summarized above will not apply to: (i) transfers of shares by operation of the laws of succession; (ii) acquisitions of shares by (a) any person who, directly or indirectly, has the authority or possibility of appointing the majority of the directors of our board of directors, (b) any company, trusts or similar form of venture, vehicle, entity, corporation or economic or mercantile association, which may be under the control of the aforementioned person, (c) the heirs of the aforementioned person, (d) the aforementioned person when such person is repurchasing the shares of any corporation, trust or similar form of venture, vehicle, entity, corporation or economic or mercantile association referred to in the item (b) above, and (e) our company or by trusts created by us; (iii) any person(s) that as of December 4, 2003 hold(s), directly or indirectly, more than 20% of the shares representing our capital stock; and (iv) any other exceptions provided for in the Mexican Securities Law and other applicable legal dispositions.

4.5. OTHER CORPORATE GOVERNANCE PRACTICES

Not applicable.

5. CAPITAL MARKET

5.1. SHAREHOLDING STRUCTURE

Our Series B shares are listed in the BMV under the Ticker Symbol GRUMAB as of 1994. Formerly our shares were listed in the United States of America through ADR's. Each ADR represented four Series B Shares. As previously explained, such program has been terminated and our shares were delisted from the NYSE as of September 8, 2015. See "Section 1.4. Other Securities".

5.2. BEHAVIOR OF THE SHARES IN THE STOCK MARKET

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 NYSE, respectively.

<u>Mexican Stock Exchange</u>	<u>NYSE</u>
<u>Common Stock</u>	<u>ADS⁽²⁾</u>

	High	Low	High	Low
	(Ps. per share ⁽¹⁾)		(U.S.\$ per ADS)	
Annual Price History				
2012.....	41.54	26.45	12.76	7.79
2013.....	98.92	39.50	31.00	12.32
2014.....	157.32	100.01	48.28	30.48
2015.....	259.41	147.78	55.15	39.83
2016.....	293.87	233.10		
Quarterly Price History				
2015				
1 st Quarter	206.70	147.78	54.06	39.83
2 nd Quarter	205.73	184.99	54.18	48.24
3 rd Quarter.....	239.03	196.29	55.15	48.62
4 th Quarter.....	259.41	227.15		
2016				
1 st Quarter	293.87	233.10		
2 nd Quarter	282.07	246.11		
3 ^{er} Quarter.....	279.71	242.90		
4 th Quarter.....	266.53	241.09		
2017				
1 st Quarter	286.38	258.77		
Monthly Price History ⁽¹⁾⁽³⁾				
October 2016	266.53	251.41		
November 2016	260.23	246.01		
December 2016.....	263.10	241.09		
January 2017.....	286.38	258.77		
February 2017.....	284.92	264.92		
March 2017.....	270.80	259.62		
April 2016 ⁽³⁾	268.70	258.27		

(1) Pesos per share reflect nominal price at trade date.

(2) Price per ADS in U.S.\$; one ADS represents four Series B Shares. As of September 8, 2015, GRUMA's ADS stopped trading in NYSE.

(3) Through April 17, 2017.

On April 17, 2017, the last reported sale price of the B Shares on the Mexican Stock Exchange was Ps. 258.27 per B Share.

As of September 8, 2015, GRUMA's ADR stopped trading in NYSE, and the deposit agreement was terminated simultaneously. The latter in order to concentrate the trading of the shares in the BMV, and thereby increasing its liquidity. Likewise, on September 10, 2015 the company requested the deregistration before the SEC, and given that the SEC did not pose any objection on that regard, the cancellation became effective on December 9, 2015. See "Section 1.4. Other Securities".

5.3. MARKET MAKER

On September 30, 2009, we entered into an agreement with UBS Casa de Bolsa ("UBS") pursuant to which UBS acts as a market maker for our common shares listed on the Mexican Stock Exchange. The purpose of the agreement was to provide liquidity for our shares. This agreement was in effect until September 30, 2014. Given the increased liquidity that GRUMA's stock has experienced in recent years, we determined it was not necessary to keep using the services of a market maker.

6. UNDERLYING ASSETS

Not applicable

7. RESPONSIBLE PARTIES

The undersigned state under oath of telling the truth, that within the scope of our respective positions, we prepared the information regarding the issued contained in this annual report for the year ended December 31, 2016, which, to our true knowledge and understanding, reasonably reflects its situation. Likewise, we state that we have no knowledge of relevant information which was omitted or distorted in this annual report nor that the same contains information which may mislead investors.

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

[Illegible Signature]

Name: Juan A. González Moreno
Title: Chief Executive Officer

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

[Illegible Signature]

Name: Homero Huerta Moreno
Title: Chief Administrative Officer

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

[Illegible Signature]

Name: Salvador Vargas Guajardo
Title: General Counsel

8. EXHIBITS

- Audited Financial Statements for the last three fiscal years.
- Audit Committee's Report
- Board of Directors' Opinion regarding the Content of the Chief Executive Officer's Report
- Board of Directors' Report regarding the Accounting and Information Policies and Criteria Followed for the Preparation of the Financial Information.

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016 AND 2015

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

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND 2015

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Report of Independent Auditors

To the Shareholders and Directors of Gruma, S. A. B. de C. V.

Opinion

We have audited the consolidated financial statements of Gruma, S. A. B. de C. V. and its subsidiaries (Company), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of net income and comprehensive income, of changes in equity and of cash flows for the year then ended and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Ethics Standards of Mexican Institute of Public accountants together with other requirements applicable to our audit in Mexico. We have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matter

1. Impairment testing of goodwill:

As mentioned in Notes 3-H and 12 of the consolidated financial statements, the Company conducts an annual estimation of the recoverable value of its cash generating units (CGU) related to goodwill, in order to determine whether it has been impaired.

We have focused on that caption principally in view of the significance of the book value of goodwill (\$3,665 million at December 31, 2016) and due to the fact that the estimation of the recoverable value of CGUs on which goodwill has been recognized by the US, Mexico and Spain involves significant management judgments and requires our attention given the possibility of changes in the economic context within which the CGUs related to the goodwill operate.

We particularly focused on significant judgment pertaining to future business results, growth rates and the discount rates applied to future cash flow projections.

How our audit addressed the key audit matter

Our audit procedures included an analysis of risks to determine changes in the economic context of the different CGUs and identify modifications that could pose a risk of impairment for those units.

We gained an understanding of the processes followed by management in projecting future cash flows for the CGUs involved in that goodwill and corroborated that management prepared projections as required by established processes in the manner in which it exercises timely supervision, and whether those projections are consistent with budgets approved by the Board of Directors.

We compared actual results for the current year to figures budgeted in the preceding year for this year, in order to determine whether any of the assumptions usually included in projections could be considered overly optimistic or unrealistic on the basis of Company history.

We ensured that the models applied in determining the recovery value of assets are recognized methods used to value similar types of assets.

With the help of our appraisal experts, we challenged and compared the significant assumptions and judgments used in management projections pertaining to:

- Long-term growth rates, which we compared to economic and industry projections; and
- The discount rate used when evaluating the cost of capital for the Company and similar entity, as well as specific territory factors.

We conducted sensitivity tests and discussed the results with management. We also evaluated the extent to which the assumptions would need to be modified to recognize impairment, so as to be in a position to evaluate the disclosures made by management concerning those assumptions.



2. Risk covered through financial instruments

As mentioned in Notes 4 and 20 to the consolidated financial statements, the Company entered into agreements for uncomplicated basic and standard derivative financial instruments to cover the risk arising from changes in prices and in the supply of certain materials. Those derivative financial instruments are mainly gas and corn swaps and foreign-currency forwards and option agreements. Derivative financial instrument assets total \$373 million and derivative instrument liabilities total \$7 million.

We have focused on that caption, mainly due to the fact that the number of derivative financial instrument transactions entered into by the Company was considerable this year and given their importance within the context of the financial statements taken as a whole.

We particularly concentrated our audit efforts on understanding and evaluating the internal control environment established by the Company for that type of financial instrument and on key entry data used for their valuation, such as the value of the exchange rate and the value of gas and corn products (commodities) at the date of valuation.

The following procedures were applied as part of our audit:

- We gained an understanding of and evaluated the design and operating effectiveness of key controls involved in the approval of those transactions by corporate governance bodies and determination of fair value.
- We discussed with the Audit Committee its monitoring of the strategy pertaining to the use of derivative financial instruments contracted by the Company.
- We secured confirmations, on a selective basis, from counterparties of the existence of instruments whose positions were open at December 31, 2016.
- We verified that the valuation method used by the Company is a commonly accepted financial model for that type of instrument.
- With the support of our appraisal experts, we used selective testing to independently determine the fair value of a sample of derivative financial instruments, using valuation models commonly accepted in the market and data from market sources, which we matched to the values determined by management.
- We used selective sampling to inspect financial settlements of profits and losses arising from termination of derivative financial instruments.

We matched key information related to the exchange rate and values of corn and gas commodities used in determining fair value to information from independent sources and recognized market sources at the date of valuation.



Other Information

Management is responsible for the other information. The other information comprises the annual report presented to Comisión Nacional Bancaria y de Valores (CNBV) and the annual information presented to shareholders but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Víctor Gabriel Vecchi.

A handwritten signature in black ink, appearing to read "Victor Vecchi", is written over the typed name below.

P.A. Víctor Gabriel Vecchi
Audit Partner
Monterrey, N. L., April 10, 2017

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
A s s e t s			
Current:			
Cash and cash equivalents.....	7	Ps. 5,466,530	Ps. 2,919,054
Derivative financial instruments.....	20	373,501	158,411
Accounts receivable, net.....	8	7,641,463	6,723,757
Inventories.....	9	8,682,347	7,816,767
Recoverable income tax.....		651,543	704,131
Prepaid expenses.....		294,052	191,894
Total current assets.....		<u>23,109,436</u>	<u>18,514,014</u>
Non-current:			
Long-term notes and accounts receivable.....	10	237,483	245,741
Property, plant and equipment, net.....	11	26,313,385	20,169,988
Intangible assets, net.....	12	4,025,654	3,502,060
Deferred tax assets.....	13	2,671,991	1,901,218
Total non-current assets.....		<u>33,248,513</u>	<u>25,819,007</u>
Total Assets.....		<u>Ps. 56,357,949</u>	<u>Ps. 44,333,021</u>
L i a b i l i t i e s			
Current:			
Short-term debt.....	14	Ps. 3,724,718	Ps. 2,660,035
Trade accounts payable.....		5,204,033	3,914,328
Derivative financial instruments.....	20	6,932	28,526
Provisions.....	15	123,075	191,319
Income tax payable.....		615,198	487,711
Other current liabilities.....	16	4,571,909	4,385,196
Total current liabilities.....		<u>14,245,865</u>	<u>11,667,115</u>
Non-current:			
Long-term debt.....	14	12,229,868	10,494,406
Provision for deferred taxes.....	13	2,753,772	2,370,918
Employee benefits obligations.....	17	736,173	645,673
Provisions.....	15	654,945	490,344
Other non-current liabilities.....		37,060	70,679
Total non-current liabilities.....		<u>16,411,818</u>	<u>14,072,020</u>
Total Liabilities.....		<u>30,657,683</u>	<u>25,739,135</u>
E q u i t y			
Shareholders' equity:			
Common stock.....	18	5,363,595	5,363,595
Reserves.....		2,284,597	516,287
Retained earnings.....	18	16,223,897	11,154,288
Total shareholders' equity.....		<u>23,872,089</u>	<u>17,034,170</u>
Non-controlling interest.....		1,828,177	1,559,716
Total Equity.....		<u>25,700,266</u>	<u>18,593,886</u>
Total Liabilities and Equity.....		<u>Ps. 56,357,949</u>	<u>Ps. 44,333,021</u>

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of Mexican pesos, except per-share data)
(Notes 1, 2 and 3)

	Note	2016	2015
Net sales.....	6	Ps. 68,206,284	Ps. 58,279,004
Cost of sales.....	21	<u>(42,150,596)</u>	<u>(35,937,867)</u>
Gross profit.....		26,055,688	22,341,137
Selling and administrative expenses.....	21	(17,140,414)	(14,442,285)
Other income (expenses), net.....	22	<u>206,431</u>	<u>(530,905)</u>
Operating income.....		9,121,705	7,367,947
Comprehensive financing cost, net.....	24	<u>(438,429)</u>	<u>(323,102)</u>
Income before income tax.....		8,683,276	7,044,845
Income tax expense.....	25	<u>(2,449,338)</u>	<u>(1,646,449)</u>
Consolidated net income from continuing operations.....		6,233,938	5,398,396
Loss from discontinued operations, net.....	26	<u>-</u>	<u>(4,313,803)</u>
Consolidated net income.....		<u>Ps. 6,233,938</u>	<u>Ps. 1,084,593</u>
Attributable to:			
Shareholders.....		Ps. 5,922,042	Ps. 761,812
Non-controlling interest.....		311,896	322,781
		<u>Ps. 6,233,938</u>	<u>Ps. 1,084,593</u>
From continuing operations:			
Basic and diluted earnings per share (pesos).....		<u>Ps. 13.68</u>	<u>Ps. 11.68</u>
From discontinued operations:			
Basic and diluted losses per share (pesos).....		<u>Ps. -</u>	<u>Ps. (9.92)</u>
From continuing and discontinued operations:			
Basic and diluted earnings per share (pesos).....		<u>Ps. 13.68</u>	<u>Ps. 1.76</u>
Weighted average shares outstanding (thousands).....		<u>432,749</u>	<u>432,749</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 COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Consolidated net income		Ps. 6,233,938	Ps. 1,084,593
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of employment benefit obligations	17	(27,350)	(14,544)
Income taxes	13	7,740	6,935
		<u>(19,610)</u>	<u>(7,609)</u>
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments		1,731,161	647,571
Cash flow hedges		88,286	35,877
Other		33,348	(9,420)
Income taxes	13	(48,636)	6,286
		<u>1,804,159</u>	<u>680,314</u>
Other comprehensive income, net of tax		<u>1,784,549</u>	<u>672,705</u>
Total comprehensive income		<u>Ps. 8,018,487</u>	<u>Ps. 1,757,298</u>
Total comprehensive income for the period is attributable to:			
Shareholders		Ps. 7,703,417	Ps. 1,440,405
Non-controlling interest		315,070	316,893
		<u>Ps. 8,018,487</u>	<u>Ps. 1,757,298</u>
Total comprehensive income for the period attributable to shareholders arises from:			
Continuing operations		Ps. 7,703,417	Ps. 5,733,796
Discontinued operations		-	(4,293,391)
		<u>Ps. 7,703,417</u>	<u>Ps. 1,440,405</u>

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	Common stock (Note 18-A)		Reserves		Retained earnings (Note 18-B)	Total share-holders' equity	Non-controlling interest	Total equity
	Number of shares (thousands)	Amount	Foreign currency translation (Note 18-C)	Cash flow hedges and other reserves (Note 20-C)				
Balances at December 31, 2014	432,749	Ps. 5,363,595	Ps. (166,119)	Ps. (5,813)	Ps. 11,371,983	Ps. 16,563,646	Ps. 1,520,600	Ps. 18,084,246
Transactions with owners of the Company:								
Dividends paid (Ps.1.60 per share).....	-	-	-	-	(692,399)	(692,399)	(87,686)	(780,085)
Effect on acquisition of non-controlling interest, net of taxes (Note 19).....	-	-	-	-	(277,482)	(277,482)	(190,091)	(467,573)
	-	-	-	-	(969,881)	(969,881)	(277,777)	(1,247,658)
Comprehensive income:								
Net income of the year.....					761,812	761,812	322,781	1,084,593
Foreign currency translation adjustment (Net of taxes of Ps.13,048).....			659,104			659,104	1,515	660,619
Remeasurement of employment benefit obligations (Net of taxes of Ps.6,935).....					(6,157)	(6,157)	(1,452)	(7,609)
Cash flow hedges (Net of taxes of Ps.(6,762)).....				29,115	(3,469)	29,115	-	29,115
Other.....					752,186	1,440,405	316,893	1,757,298
Comprehensive income of the year.....					1,154,288	1,154,288	1,559,716	1,893,004
Balances at December 31, 2015	432,749	Ps. 5,363,595	Ps. 492,985	Ps. 23,302	Ps. 11,154,288	Ps. 17,034,170	Ps. 1,559,716	Ps. 18,593,886
Transactions with owners of the Company:								
Dividends paid (Ps.2.00 per share).....	-	-	-	-	(865,498)	(865,498)	(46,609)	(912,107)
	-	-	-	-	(865,498)	(865,498)	(46,609)	(912,107)
Comprehensive income:								
Net income of the year.....					5,922,042	5,922,042	311,89€	6,233,938
Foreign currency translation adjustment (Net of taxes of Ps.(18,456)).....			1,711,036			1,711,036	1,669	1,712,705
Remeasurement of employment benefit obligations (Net of taxes of Ps.7,740).....					(20,283)	(20,283)	673	(19,610)
Cash flow hedges (Net of taxes of Ps.(30,180)).....				57,274	33,348	57,274	832	58,106
Other.....					33,348	33,348	-	33,348
Comprehensive income of the year.....					5,935,107	7,703,417	315,070	8,018,487
Balances at December 31, 2016	432,749	Ps. 5,363,595	Ps. 2,204,021	Ps. 80,576	Ps. 16,223,897	Ps. 23,872,089	Ps. 1,828,177	Ps. 25,700,266

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	Note	2016	2015
Operating activities:			
Income before taxes.....		Ps. 8,683,276	Ps. 7,044,845
Foreign exchange (gain) loss from working capital.....		8,769	(66,963)
Net cost of the year for employee benefit obligations.....		211,501	182,190
Items related with investing activities:			
Depreciation and amortization.....		1,898,544	1,598,309
Impairment of long-lived assets.....		(77,964)	172,792
Cost of disposed fixed assets.....		21,975	-
Interest income.....		(13,178)	(7,300)
Loss in sale of fixed assets and damaged assets.....		7,792	114,390
Items related with financing activities:			
Derivative financial instruments.....	22 and 24	(776,279)	(153,655)
Foreign exchange loss (gain) from debt.....		391,366	170,249
Interest expense.....		613,682	519,244
		<u>10,969,484</u>	<u>9,574,101</u>
Accounts receivable, net.....		159,924	(981,684)
Inventories.....		(25,026)	(707,173)
Prepaid expenses.....		(65,222)	(17,591)
Trade accounts payable.....		874,896	69,564
Accrued liabilities and other accounts payables.....		190,534	4,508
Income taxes paid.....		(2,952,561)	(2,684,816)
Payments of employee benefits obligations.....		(174,725)	(200,140)
		<u>(1,992,180)</u>	<u>(4,517,332)</u>
Net cash flows from operating activities.....		<u>8,977,304</u>	<u>5,056,769</u>
Investing activities:			
Acquisitions of property, plant and equipment.....	6	(5,598,795)	(2,431,514)
Sale of property, plant and equipment.....		161,707	230,743
Acquisition of subsidiaries, net of cash acquired.....	5	-	(641,984)
Acquisition of intangible assets.....	12	(55,210)	(3,818)
Interests collected.....		13,178	7,300
Other.....		(5,657)	(6,096)
Net cash flows from investing activities.....		<u>(5,484,777)</u>	<u>(2,845,369)</u>
Cash to be used in financing activities.....		<u>3,492,527</u>	<u>2,211,400</u>
Financing activities:			
Proceeds from debt.....		7,517,954	8,453,486
Payment of debt.....		(7,440,085)	(8,098,907)
Payment of contingent liability.....	29	(1,110,276)	-
Interests paid.....		(585,871)	(485,805)
Derivative financial instruments collected.....		460,618	301,903
Acquisition of non-controlling interest.....	19	-	(467,573)
Dividends paid.....		(479,359)	(780,085)
Net cash flows from financing activities.....		<u>(1,637,019)</u>	<u>(1,076,981)</u>
Net increase in cash and cash equivalents.....		1,855,508	1,134,419
Exchange differences on cash.....		691,968	319,547
Cash and cash equivalents at the beginning of the year.....		<u>2,919,054</u>	<u>1,465,088</u>
Cash and cash equivalents at the end of the year.....		<u>Ps. 5,466,530</u>	<u>Ps. 2,919,054</u>

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

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1. ENTITY AND OPERATIONS

Gruma, S.A.B. de C.V. (GRUMA) is a Mexican company with subsidiaries located in Mexico, the United States of America, Central America, Europe, Asia and Oceania, together referred to as the "Company". The Company's main activities are the production and sale of corn flour, tortillas and related products.

GRUMA is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) organized under the laws of Mexico. The address of its registered office is Río de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico. GRUMA is listed on the Mexican Stock Exchange.

On June 26, 2015, GRUMA notified Citibank, N.A. (the "Depositary") of its intention to terminate its Deposit Agreement regarding its American Depositary Receipts ("ADRs"), to delist its ADRs from the New York Stock Exchange ("NYSE"). As of September 8, 2015, GRUMA's ADRs suspended its trading on the NYSE and the deposit agreement was terminated simultaneously.

Furthermore, on September 10, 2015, the Company filed Form 15F with the U.S. Securities and Exchange Commission (the "SEC") requesting its deregistration. Consequently, and given that the SEC did not pose any objection on such regard, the cancellation became effective on December 9, 2015 and GRUMA's reporting obligations under the Securities Exchange Act of 1934 (U.S. Securities Market Law) were extinguished as of that date.

The consolidated financial statements were authorized by the Chief Administrative Office of the Company on February 22, 2017.

2. BASIS OF PREPARATION

The consolidated financial statements of Gruma, S.A.B. de C.V. and Subsidiaries for all the periods presented have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The IFRS also include the International Accounting Standards (IAS) in force, as well as all the related interpretations issued by the IFRS Interpretations Committee, including those previously issued by the Standing Interpretations Committee.

The following standards have been adopted by the Company for the first time for the fiscal year beginning on January 1, 2016:

- Annual improvements to IFRS 2012 – 2014 Cycle.
- Disclosure Initiative - Amendments to IAS 1.

All new standards effective as of January 1, 2016, including the annual improvements to IFRS, were adopted by the Company; however, there was no significant impact on the Company's financial position or operating results.

A) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the basis of historical cost, except for the fair value of certain financial instruments as described in the policies shown below (see Note 3-K).

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The preparation of financial statements requires that management make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

B) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Mexican pesos, which is the functional currency of GRUMA.

C) USE OF ESTIMATES AND JUDGMENTS

The relevant estimates and assumptions are reviewed on a regular basis. The review of accounting estimates are recognized in the period in which the estimate is reviewed and in any future period that is affected.

In particular, the information for assumptions, uncertainties from estimates, and critical judgments in the application of accounting policies, that have the most significant effect in the recognized amounts in these consolidated financial statements are described below:

- The assumptions used for the determination of fair values of financial instruments (Note 20).
- The assumptions and uncertainties with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income (Notes 13 and 25).
- The key assumptions in impairment testing for long-lived assets used for the determination of the recoverable amount for the different cash generating units (Notes 11 and 12).
- The actuarial assumptions used for the determination of employee benefits obligations (Note 17).
- The key assumptions in impairment testing of the investment in Venezuela (Notes 26 and 28).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF CONSOLIDATION

a. Subsidiaries

The subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are incorporated in the consolidated financial statements starting on the date on which the control begins, until the date such control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

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At December 31, 2016 and 2015, the main subsidiaries included in the consolidation are:

	% of ownership	
	2016	2015
Gruma Corporation and subsidiaries.....	100.00	100.00
Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries.....	85.50	85.50
Gruma International Foods, S.L. and subsidiaries.....	100.00	100.00
Mission Foods México, S. de R.L. de C.V.....	100.00	100.00

At December 31, 2016 and 2015, there were no significant restrictions for the investment in the subsidiaries mentioned above, except for those described in Note 26.

b. Transactions with non-controlling interest without change of control

The Company applies a policy of treating transactions with non-controlling interest as transactions with equity owners of the Company. When purchases from non-controlling interest take place, the difference between any consideration paid and the relevant interest acquired of the carrying value of net assets of the subsidiary is recognized as equity transactions; therefore, no goodwill is recognized with these acquisitions. Disposals of non-controlling interests result in gains or losses for the Company and are recorded in equity when there is no loss of control.

c. Business combinations

Business combinations are recognized through the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred by the Company with the previous owners and the equity instruments issued by the Company. The cost of an acquisition also includes the fair value of any contingent payment.

The related acquisition costs are recognized in the income statement when incurred.

Identifiable assets acquired, liabilities assumed and contingent liabilities in a business combination are measured at fair value at the acquisition date.

The Company recognizes any non-controlling interest as the proportional share of the net identifiable assets of the acquired entity.

The Company recognizes goodwill when the cost including any amount of non-controlling interest in the acquired entity exceeds the fair value at acquisition date of the identifiable assets acquired and liabilities assumed.

When the entity or entities acquired are, before and after the acquisition, ultimately controlled by the same entity, and such control is not temporary, it is assumed that the entities are under common control and therefore, there is no business combination. Transactions and exchanges between entities under common control are recognized on the basis of the carrying value of assets and liabilities transferred on the date of the transaction, and therefore, goodwill is not recognized.

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B) FOREIGN CURRENCY

a. Transactions in foreign currency

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. The differences that arise from the translation of foreign currency transactions are recognized in the income statement.

b. Foreign currency translation

The financial statements of the Company's entities are measured using the currency of the main economic environment where each entity operates (functional currency). The consolidated financial statements are presented in Mexican pesos, currency that corresponds to the presentation currency of the Company.

The financial position and results of the entities that have a functional currency which differs from the Company's presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate of the period.
- Income and expenses are translated at average exchange rates when it has not fluctuated significantly during the period.
- Equity is translated at the effective exchange rate in the date when the contributions were made and the earnings were generated.
- All resulting exchange differences are recognized in other comprehensive income as a separate component of equity denominated "Foreign currency translation adjustments".

Previous to the translation to Mexican pesos, the financial statements of foreign subsidiaries with functional currency from a hyperinflationary environment are adjusted by inflation in order to reflect the changes in purchasing power of the local currency. Subsequently, assets, liabilities, equity, income, costs, and expenses are translated to the presentation currency at the closing rate at the end of the period. To determine the existence of hyperinflation, the Company evaluates the qualitative characteristics of the economic environment, as well as the quantitative characteristics established by IFRS of an accumulated inflation rate equal or higher than 100% in the past three years.

The Company applies hedge accounting to foreign exchange differences originated between the functional currency of a foreign subsidiary and the functional currency of the Company. Exchange differences resulting from the translation of a financial liability designated as hedge for a net investment in a foreign subsidiary, are recognized in "other comprehensive income" as a separate component denominated "Foreign currency translation adjustments" while the hedge is effective. See Note 3-L for the accounting of the net investment hedge.

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The closing exchange rates used for preparing the financial statements are as follows:

	<u>As of December 31, 2016</u>	<u>As of December 31, 2015</u>
Pesos per U.S. dollar.....	20.6640	17.2065
Pesos per Euro.....	21.6745	18.8101
Pesos per Swiss franc.....	20.1876	17.4084
Pesos per Venezuelan bolivar (Bs.).....	1.5307	1.2746
Pesos per Australian dollar.....	14.9177	12.5330
Pesos per Chinese yuan.....	2.9734	2.6514
Pesos per Pound sterling.....	25.3506	25.4880
Pesos per Malaysian ringgit.....	4.6074	4.0096
Pesos per Costa Rica colon.....	0.0369	0.0316
Pesos per Ukrainian hryvnia.....	0.7626	0.7173
Pesos per Russian ruble.....	0.3407	0.2361
Pesos per Turkish lira.....	5.8718	5.9178

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short term highly liquid investments with original maturities of less than three months. These items are recognized at historical cost, which do not differ significantly from its fair value.

D) ACCOUNTS RECEIVABLE

Trade receivables are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method, less provision for impairment. The Company has determined that the amortized cost does not represent significant differences with respect to the invoiced amount from short-term trade receivables, since the transactions do not have relevant associated costs.

Allowances for doubtful accounts or impairment represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due. These estimates are based on the maturity dates of customers' balances, specific credit circumstances and the Company's historical experience on doubtful accounts.

E) INVENTORIES

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the average cost method. The net realizable value is the estimated selling price of inventory in the normal course of business, less applicable variable selling expenses. The cost of finished goods and production in process includes raw materials, direct labor, other direct costs and related production overheads. Cost of inventories could also include the transfer from comprehensive income of any gains or losses on cash flow hedges for purchases of raw materials.

F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition cost, less accumulated depreciation and recognized impairment losses. Cost includes expenses that are directly attributable to the asset acquisition.

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Subsequent costs, including major improvements, are capitalized and are included in the carrying value of the asset or recognized as a separate asset, only when it is probable that future economic benefits associated with the specific asset will flow to the Company and the costs can be measured reliably. Repairs and maintenance are recognized in the income statement when incurred. Major improvements are depreciated during the remaining useful life of the related asset. Leasehold improvements are depreciated using the lower of the lease term or useful life. Land is not depreciated.

Costs of borrowings, general and specific, of qualifying assets that require a substantial period of time (over one year) for acquisition or construction, are capitalized as part of the acquisition cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Depreciation is calculated over the asset cost less residual value, considering its components separately. Depreciation is recognized in income using the straight-line method and applying annual rates that reflect the estimated useful lives of the assets. The estimated useful lives are summarized as follows:

	<u>Years</u>
Buildings.....	25 – 50
Machinery and equipment.....	5 – 25
Leasehold improvements.....	10 *

* The lesser of 10 years or the term of the leasehold agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses from sale of assets result from the difference between revenues of the transaction and the book value of the assets, which is included in the income statement as other income (expenses), net.

G) INTANGIBLE ASSETS

a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or whenever the circumstances indicate that the value of the asset might be impaired. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to the operating segment.

b. Intangible assets with finite useful lives

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

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	<u>Years</u>
Non-compete agreements.....	3 - 20
Patents and trademarks.....	3 - 20
Customer lists.....	5 - 20
Software for internal use.....	3 - 7

c. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized, but subject to impairment tests on an annual basis or whenever the circumstances indicate that the value of the asset might be impaired.

d. Research and development

Research costs are expensed when incurred.

Costs from development activities are recognized as an intangible asset when such costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits will be obtained, and the Company pretends and has sufficient resources in order to complete the development and use or sell the asset. The amortization is recognized in income based on the straight-line method during the estimated useful life of the asset.

Development costs that do not qualify as intangible assets are recognized in income when incurred.

H) IMPAIRMENT OF LONG-LIVED ASSETS

The Company performs impairment tests for its property, plant and equipment and intangible assets with finite useful lives, when certain events and circumstances suggest that the carrying value of the assets might not be recovered. Intangible assets with indefinite useful lives and goodwill are subject to impairment tests at least once a year.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of an asset's fair value less costs to sell and value in use. To determine value in use, estimated future cash flows are discounted at present value, using a pre-tax discount rate that reflect time value of money and considering the specific risks associated with the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses on goodwill are not reversed. For other assets, impairment losses are reversed if a change in the estimates used for determining the recoverable amount has occurred. Impairment losses are reversed to the extent that the book value does not exceed the book value that was determined, net of depreciation or amortization, if no impairment loss was recognized.

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I) LONG-LIVED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Long-lived assets are classified as held for sale when (a) their carrying amount is to be recovered mainly through a sale transaction, rather than through continuing use, (b) the assets are held immediately for sale and (c) the sale is considered highly probable in its current condition.

For the sale to be considered highly probable:

- Management must be committed to a sale plan.
- An active program must have begun in order to locate a buyer and to complete the plan.
- The asset must actively be quoted for its sale at a price that is reasonable to its current fair value; and
- The sale is expected to be completed within a year starting the date of classification.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operations are the operations and cash flows that can be clearly distinguished from the rest of the entity, that either have been disposed of or have been classified as held for sale, and:

- Represent a line of business or geographical area of operations.
- Are part of a single coordinated plan to dispose of a line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

J) FINANCIAL INSTRUMENTS

Regular purchases and sales of financial instruments are recognized in the balance sheet on the trade date, which is the date when the Company commits to purchase or sell the instrument.

a. Financial assets

Classification

In its initial recognition and based on its nature and characteristics, the Company classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) financial assets held until maturity, and (iv) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Balances of financial instruments held by the Company at December 31, 2016 and 2015 are disclosed in Note 20-A.

i. Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss when designated as held for trading or classified as such in its initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are carried at fair value, and directly attributable transaction costs and corresponding changes of fair value are recognized in the income statement. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

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ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

iii. Financial assets held until maturity

When the Company has the intention and capacity to keep debt instruments until maturity, these financial assets are classified as held until maturity. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in current assets, except for assets with maturities greater than 12 months. These assets are initially recognized at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at fair value. If these assets cannot be measured through an active market, then they are measured at cost (See Note 26). Profit or losses from changes in the fair value are recognized in other comprehensive income in the period when incurred. At disposition date, such profit or losses are recognized in income.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established.

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. See Note 3-D for the accounting policy for the impairment of accounts receivable.

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b. Financial liabilities

i. Debt and financial liabilities

Debt and financial liabilities that are non-derivatives are initially recognized at fair value, net of transaction costs directly attributable to them; subsequently, these liabilities are recognized at amortized cost. The difference between the net proceeds and the amount payable is recognized in the income statement during the debt term, using the effective interest rate method.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for trading and financial liabilities designated at initial recognition.

K) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value and are subsequently re-measured at their fair value; the transaction costs are recognized in the income statement when incurred. Derivative financial instruments are classified as current, except for maturities exceeding twelve months.

Fair value is determined based on recognized market prices. When not quoted in markets, fair value is determined using valuation techniques commonly used in the financial sector. Fair value reflects the credit risk of the instrument and includes adjustments to consider the credit risk of the Company or the counterparty, when applicable.

The method for recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge and, if so, the nature of the item being hedged. The Company designates derivative financial instruments as follows:

- Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, including objectives, strategies for risk management and the method for assessing effectiveness in the hedge relationship.

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. At December 31, 2016 and 2015, the Company did not have this type of hedging.

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b. Cash flow hedges

For cash flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in equity, based on the evaluation of the hedge effectiveness, and are reclassified to the income statement in the periods when the projected transaction is realized, see Note 20-C.

Hedge effectiveness is determined when changes in the fair value or cash flows of the hedged position are compensated with changes in the fair value or cash flows of the hedge instrument in a quotient that ranges between 80% and 125% of inverse correlation. Ineffective portions from changes in the fair value of derivative financial instruments are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecasted transaction is ultimately registered in the income statement.

c. Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold, see Note 18-C.

L) LEASES

a. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the period of the lease.

b. Finance leases

Leases where the Company has substantially all the risks and rewards of ownership, are classified as finance leases.

Under finance leases, at the initial date, both assets and liabilities are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. In order to discount the minimum payments, the Company uses the interest rate implicit in the lease, if this is practicable to determine; if not, the Company's incremental borrowing rate is used.

Lease payments are allocated between the interest expense and the reduction of the pending liability. Interest expense is recognized in each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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M) EMPLOYEE BENEFITS

a. Post-employment benefits

In Mexico, the Company has the following defined benefit plans:

- Single-payment retirement plan, when employees reach the required retirement age, which is 60.
- Seniority premium, after 15 years of service.

The Company has established trust funds in order to meet its obligations for the seniority premium. Employees do not contribute to these funds.

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation, less the fair value of plan assets. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using discount rates in accordance with IAS-19, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the income statement.

In the United States, the Company has saving and investment plans that incorporate voluntary employees 401(k) contributions with matching contributions of the Company in this country. The Company's contributions are recognized in the income statement when incurred.

b. Termination benefits

Termination benefits are payable when employment is terminated by decision of the Company, before the normal retirement date.

The Company recognizes termination benefits as a liability at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes restructuring costs that represents a provision and involves the payment of termination benefits. Termination benefits that do not meet this requirement are recognized in the income statement in the period when incurred.

c. Short term benefits

Short term employee benefits are measured at nominal base and are recognized as expenses as the related service is provided. If the Company has the legal or constructive obligation to pay as a result of a service rendered by the employee in the past and the amount can be estimated, an obligation is recognized for short term bonuses or profit sharing.

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N) PROVISIONS

Provisions are recognized when (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

O) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

P) REVENUE RECOGNITION

Sales are recognized upon shipment of products to, and acceptance by, the Company's customers or when the risk of ownership has passed to the customers. Revenue is recognized at the fair value of the consideration received or receivable, net of returns, discounts, and rebates. Provisions for discounts and rebates to customers, returns and other adjustments are recognized in the same period that the related sales are recorded and are based upon either historical estimates or actual terms.

Q) INCOME TAXES

The tax expense of the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized from the analysis of the balance sheet considering temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been approved or substantially approved at the date of the balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for tax loss carry-forwards not used, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In each period-end deferred income tax assets are reviewed and reduced to the extent that it is not probable that the benefits will be realized.

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Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to set off assets against liabilities and are related to income tax levied by the same tax authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

R) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, which include convertible debt and share options.

For the years ended December 31, 2016 and 2015, the Company had no dilutive instruments issued.

S) SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity. Operating results from an operating segment are regularly reviewed by the entity's chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. RISK AND CAPITAL MANAGEMENT

A) RISK MANAGEMENT

The Company is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. The Company's risk management policy focuses on the risks that prevents or endangers the accomplishment of its financial objectives, seeking to minimize the potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge some of these risks.

Currency risk

The Company operates internationally and thus, is exposed to currency risks, particularly with the U.S. dollar. Currency risks arise from commercial operations, recognized assets and liabilities and net investments in foreign subsidiaries.

The following tables detail the exposure of the Company to currency risks at December 31, 2016 and 2015. The tables show the carrying amount of the Company's financial instruments denominated in currencies other than Mexican pesos.

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At December 31, 2016:

Amounts in thousands of Mexican pesos					
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 7,744,165	Ps. 407,194	Ps. 680,946	Ps. 2,193,826	Ps. 11,026,131
Non-current.....	15,891	-	2,667	53,483	72,041
Monetary liabilities:					
Current.....	(6,838,400)	(260,063)	(423,225)	(897,809)	(8,419,497)
Non-current.....	(12,834,617)	(431)	(183,991)	(58,244)	(13,077,283)
Net position.....	Ps. (11,912,961)	Ps. 146,700	Ps. 76,397	Ps. 1,291,256	Ps. (10,398,608)

At December 31, 2015:

Amounts in thousands of Mexican pesos					
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 4,717,782	Ps. 408,071	Ps. 522,109	Ps. 1,514,281	Ps. 7,162,243
Non-current.....	13,129	-	2,054	25,210	40,393
Monetary liabilities:					
Current.....	(6,007,908)	(308,674)	(377,618)	(832,925)	(7,527,125)
Non-current.....	(10,912,265)	(1,704)	(196,522)	(72,816)	(11,183,307)
Net position.....	Ps. (12,189,262)	Ps. 97,693	Ps. (49,977)	Ps. 633,750	Ps. (11,507,796)

(1) Approximately 70% of this balance corresponds to accounts receivable.

For the years ended December 31, 2016 and 2015, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	2016	2015
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investment in foreign subsidiaries, recorded directly to equity as an effect of foreign currency translation adjustments.....	Ps. (2,165,941)	Ps. (1,594,427)
Exchange differences arising from foreign currency transactions recognized in the income statement.....	(400,135)	(103,286)
	Ps. (2,566,076)	Ps. (1,697,713)

Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. Sales generated in Mexican pesos were 25% in 2016 and 27% in 2015 of total net sales. Sales generated in U.S. dollars were 55% in 2016 and 56% in 2015 of total net sales. Additionally, at December 31, 2016 and 2015, 71% and 68%, respectively, of total assets were denominated in different currencies other than Mexican pesos, mainly in U.S. dollars. An important portion of operations are financed through debt denominated in U.S. dollars. For the years ended December 31, 2016 and 2015, net sales in currencies other than Mexican pesos amounted to Ps.50,848,202 and Ps.42,588,370, respectively.

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An important currency risk for the debt denominated in U.S. dollars is present in subsidiaries that are not located in the United States, which represented 100% of total debt denominated in U.S. dollars. Nevertheless, the investment that the Company maintains in its operations in the United States generated a hedge.

During 2016 and 2015, the Company entered into forward and options transactions in order to hedge the Mexican peso to U.S. dollar foreign exchange rate risk related to the price of corn purchases for the summer and winter corn harvests in Mexico. At December 31, 2016 and 2015, the Company has open positions of foreign exchange derivative instruments of Ps.134,363 and Ps.40,298, respectively.

The effect of foreign currency translation adjustments recognized in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015, amounted Ps.1,731,161 and Ps.647,571, respectively. Considering the exposure at December 31, 2016 and 2015, and assuming an increase or decrease of 10% in the Peso/U.S. dollar exchange rates, while keeping constant the rest of the variables, the effect in the Company's consolidated statements of comprehensive income will be an increase or a decrease of Ps.1,240,813 and Ps.757,862, respectively.

The effect of foreign exchange differences recognized in the consolidated income statements for the years ended December 31, 2016 and 2015, related with the assets and liabilities denominated in foreign currency, totaled a loss of Ps.(400,135) and Ps.(103,286), respectively. Considering the exposure at December 31, 2016 and 2015, and assuming an increase or decrease of 10% in the Peso/U.S. dollar exchange rates while keeping constant the rest of the variables such as interest rates, the effect after taxes in the Company's consolidated results will be an increase or a decrease of Ps.2,991 and Ps.10,840, respectively.

Interest rate risk

The variations in interest rates could affect the interest expense of financial liabilities bearing variable interest rates, and could also modify the fair value of financial liabilities bearing fixed interest rates.

For the Company, interest rate risk is mainly derived from debt financing transactions, including debt securities, bank and vendor credit facilities and leases. These financing transactions generate exposure to interest rate risk, principally due to changes in relevant base rates (mainly, LIBOR, and to a lesser extent, TIE and EUROLIBOR) that are used to determine the interest rates applicable to the borrowings.

The following table shows, at December 31, 2016 and 2015, the Company's debt at fixed and variable rates:

	<u>Amounts in thousands of Mexican pesos</u>	
	<u>2016</u>	<u>2015</u>
Debt at fixed interest rate.....	Ps. 9,922,854	Ps. 7,059,623
Debt at variable interest rate.....	6,031,732	6,094,818
Total.....	<u>Ps. 15,954,586</u>	<u>Ps. 13,154,441</u>

From time to time, the Company uses derivative financial instruments such as interest rate swaps for the purposes of hedging a portion of its debt, in order to reduce the Company's exposure to increases in interest rates.

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For variable rate debt, an increase in interest rates will increase interest expense. A hypothetical increase of 100 basis points in interest rates on debt at December 31, 2016 and 2015 will have an effect on the results of the Company of Ps.60,317 and Ps.60,948, respectively, considering debt and interest rates at that date, and assuming that the rest of the variables remain constant.

Commodity price risk and derivatives

The availability and price of corn, wheat and other agricultural commodities and fuels, are subject to wide fluctuations due to factors outside of the Company's control, such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand/supply due to population growth and global production of similar and competitive crops, as well as fuels. The Company hedges a portion of its production requirements through commodity futures and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas, diesel and soy oils which exist as part of ongoing business operations. The open positions for hedges of purchases do not exceed the maximum production requirements for a period no longer than 18 months, based on the Company's corporate policies.

During 2016 and 2015, the Company entered into short-term hedge transactions through commodity futures and options to hedge a portion of its requirements. All derivative financial instruments are recorded at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive income in equity, depending on whether the derivative qualifies for hedge accounting and is effective as part of a hedge transaction. Ineffectiveness results when the change in the fair value of the hedge instruments differs from the change in the fair value of the position.

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

Gains and losses from derivative transactions that do not qualify for hedge accounting and do not comply with hedge effectiveness tests are recognized in the income statement.

At December 31, 2016 and 2015, financial instruments that qualify as hedge accounting represented a favorable effect of Ps.23,320 and an unfavorable effect of Ps.31,266, respectively, which was recognized as comprehensive income within equity.

From time to time, the Company hedges commodity price risks using futures and options strategies that do not qualify for hedge accounting. As a result of non-qualification, these derivative financial instruments are recognized at their fair values and the associated effect is recorded in current period earnings. For the years ended December 31, 2016 and 2015, the Company recognized a favorable effect of Ps.198,628 and an unfavorable effect of Ps.19,220, respectively. Additionally, as of December 31, 2016 the Company realized a net gain of Ps.22,968 and as of December 31, 2015 a net loss of Ps.169,329, on commodity price risk hedges that did not qualify for hedge accounting.

Based on the Company's overall commodity exposure at December 31, 2016 and 2015, a decrease or increase of 10 percent in market prices applied to the fair value of these instruments would result in a gain or loss in the income statement of Ps.62,586 and Ps.31,745, respectively (for non-qualifying contracts).

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

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

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

Credit risk

The Company's regular operations expose it to defaults when customers and counterparties are unable to comply with their financial or other commitments. The Company seeks to mitigate this risk by entering into transactions with a diverse pool of counterparties. However, the Company continues to remain subject to unexpected third party financial failures that could disrupt its operations.

The Company is also exposed to risks in connection with its activities of cash management and obtaining debt and temporary investments, and any disruption that affects its financial intermediaries could also adversely affect its operations.

The Company's exposure to risk due to trade receivables is limited given the large number of its customers located in different parts of Mexico, the United States, Central America, Europe, Asia and Oceania. For this reason, there is not a significant concentration of credit risk. However, the Company still maintains allowances for doubtful accounts. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Since most of the clients do not have an independent rating of credit quality, the Company's management determines the maximum credit risk for each one, taking into account its financial position, past experience, and other factors. Credit limits are established according to policies set by the Company, which also includes controls that assure its compliance.

During 2016 and 2015, credit limits were complied with and, consequently, management does not expect any important losses from trade accounts receivable.

The Company has centralized its treasury operations in Mexico and regional treasuries for its international operations. Liquid assets are invested primarily in government bonds and short term debt instruments with a minimum grade of "A1/P1" in the case of operations in the United States and "A" for operations in Mexico. For operations in Central America, the Company only invests cash reserves with leading local banks and local branches of international banks. Additionally, small investments are maintained abroad.

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The Company faces credit risk from potential defaults of their counterparts with respect to the derivative financial instruments used. Substantially all of these financial instruments are not guaranteed. Additionally, when the Company enters into hedge contracts for exchange rates, interest rates and/or commodities, it minimizes the risk of default by the counterparts by contracting derivative financial instruments only with major national and international financial institutions using contracts and standard forms issued by the International Swaps and Derivatives Association, Inc. ("ISDA") and operations standard confirmation formats.

Investment risk in Venezuela

The recent political and civil instability that has prevailed in Venezuela has represented a risk to the Company's investment in this country. The Company does not have insurance for the risk of appropriation of its investments. See Notes 26 and 28 for additional information.

Liquidity risk

The Company funds its liquidity and capital resource requirements through a variety of sources, including:

- cash generated from operations;
- committed and uncommitted short-term and long-term lines of credit;
- medium- and long-term debt contracting;
- offerings in Bond markets; and
- sales of its equity securities and those of its subsidiaries and affiliates from time to time.

Factors that could decrease the sources of liquidity include a significant decrease in the demand for, or price of, our products, or a considerable increase in the cost of raw materials, which could limit the amount of cash generated from operations. The Company's liquidity is also affected partially by factors such as the volatility of currencies, changes in interest rates, and a decrease of the corporate credit rating, which could further impair the liquidity and increase costs with respect to new debt and cause a negative impact in stock price.

The following tables show the remaining contractual maturities of financial liabilities of the Company:

At December 31, 2016:

	Less than a year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Short and long term debt.....	Ps. 3,721,423	Ps.3,989,476	Ps. 39,308	Ps.8,268,388	Ps. 16,018,595
Interest payable from short and long term debt.....	523,795	853,171	806,787	1,208,951	3,392,704
Financing leases.....	3,295	-	-	-	3,295
Trade accounts and other payables.....	10,514,215	-	-	-	10,514,215
Derivative financial instruments.....	6,932	-	-	-	6,932
	<u>Ps.14,769,660</u>	<u>Ps.4,842,647</u>	<u>Ps. 846,095</u>	<u>Ps.9,477,339</u>	<u>Ps. 29,935,741</u>

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At December 31, 2015:

	<u>Less than a year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short and long term debt.....	Ps. 2,655,427	Ps.3,615,614	Ps. 64,699	Ps.6,892,186	Ps. 13,227,926
Interest payable from short and long term debt.....	438,655	769,107	671,933	1,342,108	3,221,803
Financing leases.....	4,608	2,859	-	-	7,467
Trade accounts and other payables.....	8,978,554	-	-	-	8,978,554
Derivative financial instruments.....	28,526	-	-	-	28,526
	<u>Ps.12,105,770</u>	<u>Ps.4,387,580</u>	<u>Ps. 736,632</u>	<u>Ps.8,234,294</u>	<u>Ps. 25,464,276</u>

The Company expects to meet its obligations with cash flows generated by operations. Additionally, the Company has access to credit line agreements with various banks to address potential cash needs.

B) CAPITAL MANAGEMENT

The Company's objectives when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) are to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk, to protect the Company's ability to continue as a going concern while taking advantage of strategic opportunities in order to provide sustainable returns for shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase shares issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

In addition, to monitor capital, debt agreements contain financial covenants which are disclosed in Note 14.

5. BUSINESS COMBINATIONS

A) AZTECA FOODS EUROPE

On March 31, 2015, the Company executed a purchase agreement through its subsidiary Gruma International Foods, S.L. together with Fat Taco, S.L. and Azteca Foods, Inc., by which the Company acquired the operations for the production and distribution of tortillas, wraps, corn chips, salsas and processed foods in Spain. All of the shares and ownership interests representing the capital stock of Azteca Foods Europe, S.A. and AFIFT Azteca, S.L. (jointly, "Azteca Foods Europe") were acquired through this transaction. Azteca Foods Europe owns one plant in Spain and distributes its products in Europe, the Middle East and Northern Africa.

The price agreed for this transaction is approximately Ps.652,837 (EUR\$38,580 thousand).

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This purchase was accounted for using the acquisition method, following the business combination rules. The purpose of this acquisition is to contribute to the expansion of the Company and the strengthening of the tortilla business and related products in Europe, Africa and the Middle East and represents the Company's consolidation in the Southern Europe market.

The following table summarizes the consideration paid and the fair value of the net assets acquired at acquisition date:

Cash.....	Ps. 10,853
Accounts receivable.....	60,222
Inventories.....	16,327
Prepaid expenses.....	1,162
Current liabilities.....	(51,714)
Working capital.....	<u>Ps. 36,850</u>
Property, plant and equipment.....	144,392
Customer lists.....	96,215
Trademarks and other assets.....	2,297
Long term debt.....	(120,658)
Deferred tax liabilities.....	(19,945)
Fair value of identifiable net assets.....	<u>Ps. 139,151</u>
Goodwill.....	<u>513,686</u>
Total consideration paid in cash.....	<u><u>Ps. 652,837</u></u>

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in Europe, Africa and the Middle East. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.3,947, and were recognized in the income statement as selling and administrative expenses.

No contingent liabilities and contingent consideration arrangements have arisen from this acquisition.

From January 1, 2014 to December 31, 2014, this business recorded revenues of Ps.341,292 and a net income of approximately Ps.31,200.

6. SEGMENT INFORMATION

The Company's reportable segments are strategic business units that offer different products in different geographical regions. These business units are managed separately because each business segment requires different technology and marketing strategies.

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The Company's reportable segments are as follows:

- **Corn flour and packaged tortilla division (United States):**
Manufactures and distributes more than 20 varieties of corn flour that are used mainly to produce and distribute different types of tortillas and tortilla chip products in the United States. The main brands are MASECA for corn flour and MISSION and GUERRERO for packaged tortillas.
- **Corn flour division (Mexico):**
Engaged principally in the production, distribution and sale of corn flour in Mexico under MASECA brand. Corn flour produced by this division is used mainly in the preparation of tortillas and other related products.
- **Corn flour and packaged tortilla and other (Europe):**
Manufactures and distributes varieties of flour that are used to produce different types of tortillas, flat breads, grits and other in the same category in Europe. The main brands are MASECA for corn flour and MISSION for packaged products.
- **Other segments:**
This section represents those segments whose amounts on an individual basis do not exceed 10% of the consolidated total of net sales, operating income and assets. These segments are:
 - a) Corn flour, hearts of palm, rice, and other products (Central America).
 - b) Packaged tortillas (México).
 - c) Wheat flour tortillas and snacks (Asia and Oceania).
 - d) Technology and equipment, which conducts research and development regarding flour and tortilla manufacturing equipment, produces machinery for corn flour and tortilla production and is engaged in the construction of the Company's corn flour manufacturing facilities.

All inter-segment sales prices are market-based. The Chief Executive Officer evaluates performance based on operating income of the respective business units. The accounting policies for the reportable segments are the same as the policies described in Notes 2 and 3.

Segment information as of and for the year ended December 31, 2016:

	Corn flour and packaged tortilla division (United States)	Corn flour division (Mexico)	Corn flour and packaged tortilla division (Europe)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers.....	Ps. 38,140,885	Ps. 16,336,326	Ps. 4,978,823	Ps. 8,726,813	Ps. 23,437	Ps. 68,206,284
Inter-segment net sales.....	61,057	1,529,591	7,949	2,127,934	(3,726,531)	-
Operating income.....	5,293,164	2,274,128	141,949	727,479	684,985	9,121,705
Depreciation and amortization.....	1,231,907	689,428	199,405	299,776	(577,961)	1,842,555
Total assets.....	24,768,779	15,443,754	6,523,845	11,707,394	(2,085,823)	56,357,949
Total liabilities.....	7,463,795	4,041,499	2,199,419	6,127,888	10,825,082	30,657,683
Expenditures paid in the year for fixed assets....	2,329,740	838,782	1,077,068	1,295,148	58,057	5,598,795

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Segment information as of and for the year ended December 31, 2015:

	Corn flour and packaged tortilla division (United States)	Corn flour division (Mexico)	Corn flour and packaged tortilla division (Europe)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers.....	Ps. 31,663,496	Ps. 14,905,180	Ps. 4,472,022	Ps. 7,231,108	Ps. 7,198	Ps. 58,279,004
Inter-segment net sales.....	77,373	966,168	5,124	1,418,516	(2,467,181)	-
Operating income.....	3,801,527	2,205,140	137,557	646,929	576,794	7,367,947
Depreciation and amortization.....	1,192,663	736,697	191,446	215,160	(564,865)	1,771,101
Total assets.....	18,201,691	12,302,185	5,187,173	9,984,501	(1,342,529)	44,333,021
Total liabilities.....	6,250,347	2,579,023	1,411,960	5,138,424	10,359,381	25,739,135
Expenditures paid in the year for fixed assets....	810,466	616,934	250,088	738,872	15,154	2,431,514

A summary of information by geographic segment for the years ended December 31, 2016 and 2015 is presented below:

	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>
<u>Net sales to external customers:</u>				
United States.....	Ps. 38,140,885	56	Ps. 31,663,496	54
Mexico.....	17,358,082	25	15,690,630	27
Europe.....	4,978,823	7	4,472,022	8
Central America.....	4,638,775	7	4,057,470	7
Asia and Oceania.....	3,089,719	5	2,395,386	4
	<u>Ps. 68,206,284</u>	<u>100</u>	<u>Ps. 58,279,004</u>	<u>100</u>
<u>Expenditures paid in the year for fixed assets:</u>				
United States.....	Ps. 2,329,740	42	Ps. 810,466	33
Mexico.....	1,443,302	26	897,601	37
Europe.....	1,077,068	19	250,088	11
Central America.....	188,624	3	121,816	5
Asia and Oceania.....	560,061	10	351,543	14
	<u>Ps. 5,598,795</u>	<u>100</u>	<u>Ps. 2,431,514</u>	<u>100</u>
<u>Identifiable assets</u>				
United States.....	Ps. 24,768,779	44	Ps. 18,201,691	41
Mexico.....	17,025,660	30	14,613,937	33
Europe.....	6,523,845	12	5,187,173	12
Central America.....	3,216,550	6	2,593,895	6
Asia and Oceania.....	4,823,115	8	3,736,325	8
	<u>Ps. 56,357,949</u>	<u>100</u>	<u>Ps. 44,333,021</u>	<u>100</u>

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7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Cash at bank.....	Ps. 5,420,607	Ps. 2,392,900
Short-term investments (less than 3 months).....	45,923	526,154
	<u>Ps. 5,466,530</u>	<u>Ps. 2,919,054</u>

8. ACCOUNTS RECEIVABLE

Accounts receivable comprised the following:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Trade accounts and notes receivable.....	Ps. 6,754,387	Ps. 5,776,570
Accounts receivable with Venezuelan companies.....	1,564,665	1,253,095
Recoverable value-added tax.....	861,594	576,874
Other debtors.....	314,154	657,499
Allowance for doubtful accounts.....	(288,672)	(287,186)
Impairment of accounts receivable with Venezuelan companies.....	(1,564,665)	(1,253,095)
	<u>Ps. 7,641,463</u>	<u>Ps. 6,723,757</u>

The age analysis of accounts receivable is as follows:

	<u>Total</u>	<u>Not past due date balances</u>	<u>Past due balances</u>		
			<u>1 to 120 days</u>	<u>121 to 240 days</u>	<u>More than 240 days (*)</u>
Accounts receivable.....	Ps. 7,930,135	Ps. 5,603,722	Ps. 2,071,637	Ps. 85,067	Ps. 169,709
Allowance for doubtful accounts..	(288,672)	-	(152,815)	(24,333)	(111,524)
Total at December 31, 2016.....	<u>Ps. 7,641,463</u>	<u>Ps. 5,603,722</u>	<u>Ps. 1,918,822</u>	<u>Ps. 60,734</u>	<u>Ps. 58,185</u>

	<u>Total</u>	<u>Not past due date balances</u>	<u>Past due balances</u>		
			<u>1 to 120 days</u>	<u>121 to 240 days</u>	<u>More than 240 days (*)</u>
Accounts receivable.....	Ps. 7,010,943	Ps. 4,680,095	Ps. 2,138,115	Ps. 65,369	Ps. 127,364
Allowance for doubtful accounts..	(287,186)	(61,096)	(89,899)	(25,357)	(110,834)
Total at December 31, 2015.....	<u>Ps. 6,723,757</u>	<u>Ps. 4,618,999</u>	<u>Ps. 2,048,216</u>	<u>Ps. 40,012</u>	<u>Ps. 16,530</u>

(*) Accounts receivable with Venezuelan companies refer to discontinued operations and were not included in the age analysis of accounts receivable for 2016 and 2015.

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For the years ended December 31, 2016 and 2015, the movements on the allowance for doubtful accounts are as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance.....	Ps. (287,186)	Ps. (255,067)
Allowance for doubtful accounts.....	(26,221)	(60,802)
Receivables written off during the year.....	41,422	42,221
Exchange differences.....	(16,687)	(13,538)
Ending balance.....	<u>Ps. (288,672)</u>	<u>Ps. (287,186)</u>

9. INVENTORIES

Inventories consisted of the following:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Raw materials, mainly corn and wheat.....	Ps. 4,876,294	Ps. 4,418,806
Finished products.....	1,304,677	1,133,922
Materials and spare parts.....	2,045,647	1,647,877
Production in process.....	219,526	237,827
Advances to suppliers.....	133,179	168,980
Inventory in transit.....	103,024	209,355
	<u>Ps. 8,682,347</u>	<u>Ps. 7,816,767</u>

For the years ended December 31, 2016 and 2015, the cost of raw materials consumed and the changes in the inventories of production in process and finished goods, recognized as cost of sales amounted to Ps.25,692,882 and Ps. 21,386,168, respectively.

For the years ended December 31, 2016 and 2015, the Company recognized Ps.102,607 and Ps.145,993, respectively, for inventory that was damaged, slow-moving and obsolete.

10. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE

Long-term notes and accounts receivable are as follows:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Long-term notes receivable.....	Ps. 140,655	Ps. 185,600
Guarantee deposits.....	45,549	36,426
Long-term recoverable value-added tax.....	38,508	8,964
Other.....	12,771	14,751
	<u>Ps. 237,483</u>	<u>Ps. 245,741</u>

At December 31, 2016 and 2015, long-term notes receivable are denominated in pesos, maturing from 2018 to 2020 and bearing monthly interests at an annual average rate of 16.5% for both years.

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11. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the years ended December 31, 2016 and 2015 were as follows:

	Land and buildings	Machinery and equipment	Leasehold improvements	Construction in progress	Total
At December 31, 2014					
Cost.....	Ps. 7,661,597	Ps. 27,864,912	Ps. 1,504,589	Ps. 501,843	Ps. 37,532,941
Accumulated depreciation.....	(2,579,721)	(16,405,521)	(733,363)	-	(19,718,605)
Net book value.....	<u>Ps. 5,081,876</u>	<u>Ps. 11,459,391</u>	<u>Ps. 771,226</u>	<u>Ps. 501,843</u>	<u>Ps. 17,814,336</u>
For the year ended December 31, 2015					
Opening net book value...	Ps. 5,081,876	Ps. 11,459,391	Ps. 771,226	Ps. 501,843	Ps. 17,814,336
Exchange differences.....	483,717	1,118,691	114,340	59,128	1,775,876
Additions.....	46,660	455,466	50,906	1,761,939	2,314,971
Disposals.....	(20,922)	(299,605)	(11,997)	(11,849)	(344,373)
Depreciation charge of the year.....	(190,202)	(1,236,834)	(92,331)	-	(1,519,367)
Transfers.....	63,709	1,148,509	116,291	(1,328,509)	-
Acquisition through business combinations....	49,377	92,890	-	2,125	144,392
Impairment.....	-	(15,847)	-	-	(15,847)
Closing net book value...	<u>Ps. 5,514,215</u>	<u>Ps. 12,722,661</u>	<u>Ps. 948,435</u>	<u>Ps. 984,677</u>	<u>Ps. 20,169,988</u>
At December 31, 2015					
Cost.....	Ps. 8,570,612	Ps. 31,164,784	Ps. 1,802,066	Ps. 984,677	Ps. 42,522,139
Accumulated depreciation.....	(3,056,397)	(18,442,123)	(853,631)	-	(22,352,151)
Net book value.....	<u>Ps. 5,514,215</u>	<u>Ps. 12,722,661</u>	<u>Ps. 948,435</u>	<u>Ps. 984,677</u>	<u>Ps. 20,169,988</u>
For the year ended December 31, 2016					
Opening net book value...	Ps. 5,514,215	Ps. 12,722,661	Ps. 948,435	Ps. 984,677	Ps. 20,169,988
Exchange differences.....	632,363	1,281,316	151,518	308,930	2,374,127
Additions.....	37,954	617,897	924	4,942,020	5,598,795
Disposals.....	(5,021)	(83,329)	(49,170)	(53,954)	(191,474)
Depreciation charge of the year.....	(210,837)	(1,508,449)	(100,190)	-	(1,819,476)
Transfers.....	612,191	1,151,643	109,961	(1,873,795)	-
Other assets leased, net of depreciation.....	-	103,461	-	-	103,461
Impairment.....	31,092	46,872	-	-	77,964
Closing net book value...	<u>Ps. 6,611,957</u>	<u>Ps. 14,332,072</u>	<u>Ps. 1,061,478</u>	<u>Ps. 4,307,878</u>	<u>Ps. 26,313,385</u>
At December 31, 2016					
Cost.....	Ps. 10,198,951	Ps. 35,694,595	Ps. 2,088,692	Ps. 4,307,878	Ps. 52,290,116
Accumulated depreciation.....	(3,586,994)	(21,362,523)	(1,027,214)	-	(25,976,731)
Net book value.....	<u>Ps. 6,611,957</u>	<u>Ps. 14,332,072</u>	<u>Ps. 1,061,478</u>	<u>Ps. 4,307,878</u>	<u>Ps. 26,313,385</u>

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For the years ended December 31, 2016 and 2015, depreciation expense was recognized as follows:

	<u>2016</u>	<u>2015</u>
Cost of sales.....	Ps. 1,450,094	Ps. 1,189,514
Selling and administrative expenses.....	369,382	329,853
	<u>Ps. 1,819,476</u>	<u>Ps. 1,519,367</u>

At December 31, 2016 and 2015, property, plant and equipment included idle assets with a carrying value of approximately Ps.119,490 and Ps.367,604, respectively, resulting from the temporary shut-down of the productive operations of various plants in Mexico and the United States, mainly in the corn flour division in Mexico and packaged tortilla division in the United States.

For the years ended December 31, 2016 and 2015, the Company recognized a reversal of impairment on fixed assets of Ps.77,964 and an impairment loss on fixed assets of Ps.(15,847), respectively, within "Other income (expenses)".

The reversal of impairment in 2016 for Ps.77,964 was due to the opening of the Chalco Plant, which is part of the segment "Corn flour division (Mexico)".

In 2016, and as a result of the increase in demand and consumption of corn flour in Central Mexico in recent years, the Company's management decided to reopen the Chalco Plant, which was closed in 1998. Tests were carried out on the amount reserved for impairment to ensure that it corresponds to an amount such that the assets do not exceed their carrying value, net of depreciation or amortization, considering that no impairment has been recognized.

The impairment loss recognized in 2015 for Ps.15,847 referred to the subsidiary Gruma Holding Netherlands B.V., which is part of the segment "Corn flour and packaged tortilla division (Europe)". This impairment loss reflects a decrease in the recoverable value of the fixed assets of this cash-generating unit due to its continuous operating losses and the effect of strategic changes in the region in which it operates.

The Company recognized equipment under finance lease arrangements that are described in Note 27-B.

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12. INTANGIBLE ASSETS

Changes in intangible assets for the years ended December 31, 2016 and 2015 were as follows:

	Intangible assets acquired					Internally generated intangible assets and others	Total
	Goodwill	Covenants not to compete	Patents and trademarks	Customer lists	Software for internal use		
At December 31, 2014							
Cost.....	Ps. 2,595,683	Ps. 467,357	Ps. 197,384	Ps. 109,748	Ps. 389,933	Ps. 23,138	Ps. 3,783,243
Accumulated amortization.....	-	(464,487)	(113,978)	(34,744)	(367,009)	(10,879)	(991,097)
Net book value.....	<u>Ps. 2,595,683</u>	<u>Ps. 2,870</u>	<u>Ps. 83,406</u>	<u>Ps. 75,004</u>	<u>Ps. 22,924</u>	<u>Ps. 12,259</u>	<u>Ps. 2,792,146</u>
For the year ended December 31, 2015							
Opening net book value...	Ps. 2,595,683	Ps. 2,870	Ps. 83,406	Ps. 75,004	Ps. 22,924	Ps. 12,259	Ps. 2,792,146
Exchange differences.....	251,523	293	7,057	19,162	1,547	113	279,695
Additions.....	-	-	-	-	997	2,821	3,818
Amortization charge.....	-	(2,492)	(7,734)	(12,963)	(3,602)	(2,061)	(28,852)
Acquisition through business combinations....	513,686	-	2,297	96,215	-	-	612,198
Impairment.....	(156,945)	-	-	-	-	-	(156,945)
Closing net book value...	<u>Ps. 3,203,947</u>	<u>Ps. 671</u>	<u>Ps. 85,026</u>	<u>Ps. 177,418</u>	<u>Ps. 21,866</u>	<u>Ps. 13,132</u>	<u>Ps. 3,502,060</u>
At December 31, 2015							
Cost.....	Ps. 3,203,947	Ps. 460,762	Ps. 213,095	Ps.231,798	Ps. 396,713	Ps. 29,400	Ps. 4,535,715
Accumulated amortization.....	-	(460,091)	(128,069)	(54,380)	(374,847)	(16,268)	(1,033,655)
Net book value.....	<u>Ps. 3,203,947</u>	<u>Ps. 671</u>	<u>Ps. 85,026</u>	<u>Ps. 177,418</u>	<u>Ps. 21,866</u>	<u>Ps. 13,132</u>	<u>Ps. 3,502,060</u>
For the year ended December 31, 2016							
Opening net book value...	Ps. 3,203,947	Ps. 671	Ps. 85,026	Ps. 177,418	Ps. 21,866	Ps. 13,132	Ps. 3,502,060
Exchange differences.....	461,179	63	14,097	28,099	4,236	(336)	507,338
Additions.....	-	-	-	-	55,210	-	55,210
Disposals.....	-	-	(104)	-	(21)	(10,732)	(10,857)
Amortization charge.....	-	(734)	(5,209)	(16,005)	(4,085)	(2,064)	(28,097)
Closing net book value...	<u>Ps. 3,665,126</u>	<u>Ps. -</u>	<u>Ps. 93,810</u>	<u>Ps. 189,512</u>	<u>Ps. 77,206</u>	<u>Ps. -</u>	<u>Ps. 4,025,654</u>
At December 31, 2016							
Cost.....	Ps. 3,665,126	Ps. 463,459	Ps. 181,108	Ps. 271,443	Ps. 453,090	Ps. 21,621	Ps. 5,055,847
Accumulated amortization.....	-	(463,459)	(87,298)	(81,931)	(375,884)	(21,621)	(1,030,193)
Net book value.....	<u>Ps. 3,665,126</u>	<u>Ps. -</u>	<u>Ps. 93,810</u>	<u>Ps. 189,512</u>	<u>Ps. 77,206</u>	<u>Ps. -</u>	<u>Ps. 4,025,654</u>

At December 31, 2016 and 2015, except for goodwill, the Company does not have indefinite-lived intangible assets.

For the years ended December 31, 2016 and 2015, amortization expense of intangible assets from continuing operations amounted to Ps.28,097 and Ps. 28,852, respectively, which were recognized in the income statement as selling and administrative expenses.

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Research and development costs of Ps.159,106 and Ps. 136,538 that did not qualify for capitalization were recognized in the income statement for the years ended December 31, 2016 and 2015, respectively.

Goodwill acquired in business combinations is allocated at acquisition date to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combinations. The carrying values of goodwill allocated to the CGU or a group of CGU are as follows:

<u>Cash-generating unit</u>	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Mission Foods Division (1).....	Ps. 1,229,095	Ps. 1,023,443
Gruma Spain (2).....	759,842	659,428
Gruma UK (2).....	406,745	352,993
Rositas Investments Pty, Ltd (2).....	220,031	184,856
Gruma Corporation.....	212,765	212,765
Azteca Milling, L.P (1).....	152,149	126,691
Semolina, A.S (2).....	146,716	147,865
NDF Azteca Milling Europe SRL (2).....	121,574	99,318
Grupo Industrial Maseca, S.A.B. de C.V.....	98,622	98,622
Agroindustrias Integradas del Norte, S.A. de C.V (3).....	86,325	86,325
Solntse Mexico (2).....	55,270	38,301
Gruma Centroamérica (2).....	51,207	51,207
Altera LLC (2).....	44,685	42,033
Molinos Azteca de Chiapas, S.A. de C.V (3).....	28,158	28,158
Harinera de Yucatán, S.A. de C.V (3).....	18,886	18,886
Harinera de Maíz de Mexicali, S.A. de C.V (3).....	17,424	17,424
Molinos Azteca, S.A. de C.V (3).....	8,926	8,926
Harinera de Maíz de Jalisco, S.A. de C.V (3).....	6,706	6,706
	<u>Ps. 3,665,126</u>	<u>Ps. 3,203,947</u>

(1) Subsidiary of Gruma Corporation

(2) Subsidiary of Gruma International Foods, S.L.

(3) Subsidiary of Grupo Industrial Maseca, S.A.B. de C.V.

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In 2016 and 2015, the discount rates and growth rates in perpetuity used by the Company for determining the discounted cash flows of the CGU with the main balances of goodwill are the following:

Cash-generating unit	After-tax discount rates		Growth rates	
	2016	2015	2016	2015
Mission Foods Division.....	6.0%	7.3%	1.7%	2.0%
Gruma Spain.....	9.0%	9.4%	2.5%	2.5%
Gruma UK.....	7.9%	8.2%	2.5%	2.5%
Rositas Investment PTY, LTD.....	8.7%	8.7%	3.0%	3.0%
Gruma Corporation.....	6.0%	6.1%	2.5%	2.5%
Azteca Milling, L.P.....	7.0%	7.3%	1.7%	2.0%
Semolina A.S.....	9.5%	9.9%	2.5%	2.5%
NDF Azteca Milling Europe SRL.....	8.8%	9.3%	2.1%	2.5%
Grupo Industrial Maseca, S.A.B. de C.V.....	8.3%	8.7%	2.5%	2.5%
Agroindustrias Integradas del Norte, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%
Solntse Mexico.....	10.2%	10.1%	2.5%	2.5%
Gruma Centroamérica.....	9.4%	9.9%	2.5%	2.5%
Altera LLC.....	16.5%	18.3%	2.5%	2.5%
Molinos Azteca de Chiapas, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%
Harinera de Yucatán, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%
Harinera de Maíz de Mexicali, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%
Molinos Azteca, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%
Harinera de Maíz de Jalisco, S.A. de C.V.....	8.3%	8.7%	2.5%	2.5%

The discount rate used reflects the Company's specific risks related to its operations. The long-term growth rate used is consistent with projections included in industry reports.

With respect to the determination of the CGU's value in use, the Company's management considered that a reasonably possible change in the key assumptions used, will not cause that the CGU's carrying value to materially exceed their value in use. The recovery amount of cash-generating units has been determined based on calculations of the values in use. These calculations use cash flow projections based on financial budgets approved by the Company's management for a 5-year period.

For the year ended December 31, 2015, the Company recognized an impairment loss on goodwill of Ps.156,945, respectively, in "Other income (expenses)". Impairment loss in 2015 refers to the CGU of Gruma Holding Netherlands B.V., which is part of the segment "Corn flour and packaged tortilla division (Europe)". This impairment loss reflects a decrease in the recoverable value of this CGU due to its continuous operating losses and the effect of strategic changes in the region in which it operates.

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13. DEFERRED TAX ASSETS AND LIABILITIES

A) COMPONENTS OF DEFERRED TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	At December 31, 2016	At December 31, 2015
Deferred tax asset:		
To be recovered after more than 12 months.....	Ps. (2,014,810)	Ps. (1,352,832)
To be recovered within 12 months.....	(657,181)	(548,386)
	<u>(2,671,991)</u>	<u>(1,901,218)</u>
Deferred tax liability:		
To be recovered after more than 12 months.....	2,750,819	2,314,111
To be recovered within 12 months.....	2,953	56,807
	<u>2,753,772</u>	<u>2,370,918</u>
Deferred tax liability, net.....	<u>Ps. 81,781</u>	<u>Ps. 469,700</u>

The principal components of deferred tax assets and liabilities are summarized as follows:

	(Asset) Liability	
	At December 31, 2016	At December 31, 2015
Net operating loss carryforwards and other tax credits.....	Ps. (1,543,909)	Ps. (988,448)
Customer advances.....	(10,777)	(5,362)
Allowance for doubtful accounts.....	(4,401)	(5,190)
Provisions.....	(892,208)	(751,102)
Deferred income for trademarks license with subsidiary.....	(351,819)	(468,969)
Derivative financial instruments.....	11,964	(15,193)
Other.....	(125,970)	(114,410)
Deferred tax asset.....	<u>(2,917,120)</u>	<u>(2,348,674)</u>
Property, plant and equipment, net.....	2,532,274	2,294,239
Prepaid expenses.....	19,840	2,862
Inventories.....	19,145	1,616
Intangible assets.....	363,871	369,057
Other.....	445	28,210
	<u>2,935,575</u>	<u>2,695,984</u>
Tax consolidation effect.....	63,326	122,390
Deferred tax liability.....	<u>2,998,901</u>	<u>2,818,374</u>
Net provision for deferred taxes.....	<u>Ps. 81,781</u>	<u>Ps. 469,700</u>

At December 31, 2016 and 2015, the Company did not recognize a deferred income tax asset of Ps.382,596 and Ps.1,293,784, respectively, for tax loss carryforwards, since sufficient evidence was not available to determine that these tax loss carryforwards will be realized during their amortization period. These tax losses expire in the year 2025.

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At December 31, 2016 and 2015, undistributed taxable income of subsidiaries amounted to Ps.1,713,594 and Ps.1,603,365, respectively. No deferred income tax has been recognized for this undistributed taxable income, since the Company has the ability to control the time for its reversal and it is probable that in the foreseeable future these temporary differences will not reverse. If the Company had not chosen this option, the deferred tax liability of these items would have amounted to Ps.514,078 and Ps.481,009 as of December 31, 2016 and 2015, respectively.

The changes in the temporary differences during the year were as follows:

	Balance at January 1, 2016	Recognized in income	Recognized in other compre- hensive income	Reclassifi- cations	Foreign currency translation	Balance at December 31, 2016
Net operating loss carryforwards and other tax credits.....	Ps. (988,448)	Ps. (610,596)	Ps. -	Ps. 11,915	Ps. 43,220	Ps. (1,543,909)
Customer advances.....	(5,362)	(5,415)	-	-	-	(10,777)
Allowance for doubtful accounts	(5,190)	(584)	-	(356)	1,729	(4,401)
Provisions.....	(751,102)	(39,628)	(7,559)	(10,359)	(83,560)	(892,208)
Deferred income from trademark license with subsidiary.....	(468,969)	117,150	-	-	-	(351,819)
Derivative financial instruments.	(15,193)	-	30,180	-	(3,023)	11,964
Others.....	(114,410)	40,375	-	(10,733)	(41,202)	(125,970)
Deferred tax asset.....	<u>(2,348,674)</u>	<u>(498,698)</u>	<u>22,621</u>	<u>(9,533)</u>	<u>(82,836)</u>	<u>(2,917,120)</u>
Property, plant and equipment...	2,294,239	(129,507)	-	8,127	359,415	2,532,274
Prepaid expenses.....	2,862	15,247	-	-	1,731	19,840
Inventories.....	1,616	16,809	-	(7)	727	19,145
Intangible assets.....	369,057	(42,741)	-	-	37,555	363,871
Others.....	28,210	6,857	18,275	1,760	(54,657)	445
	<u>2,695,984</u>	<u>(133,335)</u>	<u>18,275</u>	<u>9,880</u>	<u>344,771</u>	<u>2,935,575</u>
Tax consolidation effect.....	122,390	(59,064)	-	-	-	63,326
Deferred tax liability.....	<u>2,818,374</u>	<u>(192,399)</u>	<u>18,275</u>	<u>9,880</u>	<u>344,771</u>	<u>2,998,901</u>
Net provision for deferred taxes	<u>Ps. 469,700</u>	<u>Ps. (691,097)</u>	<u>Ps. 40,896</u>	<u>Ps. 347</u>	<u>Ps. 261,935</u>	<u>Ps. 81,781</u>

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	Balance at January 1, 2015	Recognized in income	Recognized in other compre- hensive income	Reclassifi- cations	Foreign currency translation	Balance at December 31, 2015
Net operating loss carryforwards and other tax credits.....	Ps. (252,872)	Ps. (700,091)	Ps. -	Ps. 193	Ps.(35,678)	Ps.(988,448)
Customer advances.....	(956)	5,365	-	(9,771)	-	(5,362)
Allowance for doubtful accounts.....	(3,460)	(1,118)	-	(58)	(554)	(5,190)
Provisions.....	(643,612)	(34,919)	(5,160)	(2,281)	(65,130)	(751,102)
Deferred income from trademark license with subsidiary.....	(586,119)	117,150	-	-	-	(468,969)
Derivative financial instruments.....	(18,780)	-	6,762	-	(3,175)	(15,193)
Others.....	(114,107)	10,687	-	95	(11,085)	(114,410)
Deferred tax asset.....	(1,619,906)	(602,926)	1,602	(11,822)	(115,622)	(2,348,674)
Property, plant and equipment...	2,143,603	(109,007)	-	6,673	252,970	2,294,239
Prepaid expenses.....	1,515	1,347	-	-	-	2,862
Inventories.....	2,188	1,106	-	226	(1,904)	1,616
Intangible assets.....	372,632	(90,138)	-	22,003	64,560	369,057
Others.....	(18,946)	28,695	(14,823)	3,474	29,810	28,210
	2,500,992	(167,997)	(14,823)	32,376	345,436	2,695,984
Tax consolidation effect.....	193,930	(71,540)	-	-	-	122,390
Deferred tax liability.....	2,694,922	(239,537)	(14,823)	32,376	345,436	2,818,374
Net provision for deferred taxes	Ps. 1,075,016	Ps. (842,463)	Ps. (13,221)	Ps. 20,554	Ps. 229,814	Ps. 469,700

B) TAX LOSS CARRYFORWARDS

At December 31, 2016, the Company had tax loss carryforwards which amounted to approximately Ps.4,147,060. Based on projections prepared by the Company's management of expected future taxable income, it has been determined that only tax losses for an amount of Ps.2,871,742 will be used. Therefore, the Company did not recognize a deferred tax asset for the difference. Tax losses that will be used have the following expiration dates:

Year	Amount
2017.....	Ps. 20,503
2018.....	1,268,052
2019.....	202,915
2020.....	192,098
2021 to 2024.....	1,188,174
Total.....	Ps. 2,871,742

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C) UNCERTAIN TAX POSITIONS

At December 31, 2016 and 2015, the Company recognized a liability for uncertain tax positions of Ps.18,308 and Ps.34,334, respectively, excluding interest and penalties, and it is included in Other non-current liabilities. The following table shows a reconciliation of the Company's uncertain tax positions, excluding interest and penalties:

	2016	2015
Uncertain tax positions at beginning of year.....	Ps. 34,334	Ps. 41,200
Translation adjustment of the beginning balance.....	25,344	(15,358)
Increase as result of uncertain tax positions taken in the year.....	-	344
Reductions due to settlements.....	(5,249)	-
Reductions due to a lapse of the statute of limitations.....	(36,121)	8,148
Uncertain tax positions at end of year.....	<u>Ps. 18,308</u>	<u>Ps. 34,334</u>

It is expected that the amount of uncertain tax positions will change in the next 12 months; however, the Company does not expect the change to have a significant impact on its consolidated financial position or results of operations. The Company had accrued interest and penalties of approximately Ps.2,211 and Ps.5,833 related to uncertain tax positions for 2016 and 2015, respectively.

D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME

Deferred taxes related to other comprehensive income are comprised of:

	At December 31, 2016	At December 31, 2015
Foreign currency translation adjustments.....	Ps. 18,456	Ps. (13,048)
Remeasurement of employment benefit obligations.....	(7,740)	(6,935)
Cash flow hedges.....	30,180	6,762
Total.....	<u>Ps. 40,896</u>	<u>Ps. (13,221)</u>

E) TAX CONSOLIDATION

Until December 31, 2013, the Company determined its income tax under the tax consolidation regime, together with its subsidiaries in Mexico. This was due to the abrogation of the Income Tax Law effective until December 31, 2013, which eliminated this tax regime. The Company decided not to join the new Optional Regime for Company Groups for the year 2014.

Due to the elimination of the tax consolidation regime, the Company has the obligation to pay the deferred tax determined at that time during the following five-year period. The payment corresponding to the 70% of the income tax resulting from the deconsolidation was paid in 2016 (20%) and 2015 and 2014 (25% in each year) and the remaining income tax (restated with inflation factors) must be paid to the tax authority in accordance with the following deadlines:

1. 15% no later than April 30, 2017
2. 15% no later than April 30, 2018

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In accordance with subsection d) of section XV of the transitional Article 9 of the 2014 Income Tax Law, and since the Company was the parent entity at December 31, 2013 and at such date was subject to the payment schedule contained in the section VI of Article 4 of the transitional provisions of the Income Tax Law published in the Official Gazette on December 7, 2009, or Article 70-A of the 2013 Income Tax Law that was abrogated, the Company shall continue to settle its deferred income tax from tax consolidation pertaining to 2007 and previous years, under the provisions above mentioned, until its payment is completed.

At December 31, 2016, the liability arising from tax consolidation regime effective December 31, 2013 amounted to Ps.133,295 and is estimated to be incurred as follows:

<u>Year of payment</u>	<u>Amount</u>
2017.....	Ps. 69,969
2018.....	63,326
Total.....	<u>Ps. 133,295</u>

At December 31, 2016, income tax to be settled in the next 12 months was classified in the statement of financial position as short-term income tax payable for Ps.69,969. The remaining liability considered as long-term for Ps.63,326, in accordance with the requirements of the Income Tax Law, was included as a component of the deferred income taxes.

14. DEBT

Debt is summarized as follows:

Short-term:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Bank loans.....	Ps. 2,971,580	Ps. 1,979,983
Current portion of long-term bank loans.....	749,843	675,444
Current portion of financing lease liabilities.....	3,295	4,608
	<u>Ps. 3,724,718</u>	<u>Ps. 2,660,035</u>

Long-term:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Bank loans.....	Ps. 12,979,711	Ps. 11,166,991
Financing lease liabilities.....	3,295	7,467
	<u>Ps. 12,983,006</u>	<u>Ps. 11,174,458</u>
Current portion of long-term bank loans.....	(749,843)	(675,444)
Current portion of financing lease liabilities.....	(3,295)	(4,608)
	<u>Ps. 12,229,868</u>	<u>Ps. 10,494,406</u>

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The terms, conditions and carrying values of debt are as follows:

	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
10-year Senior notes ^(b)	U.S.\$	4.875%	2024	Ps. 8,209,779	Ps. 6,821,234
Syndicated loan ^(a)	U.S.\$	LIBOR + 1.5%	2015-2018	3,176,445	3,207,039
Credits.....	Pesos	5.53% - 6.43%	2017	1,500,000	-
Revolving credit ^(a)	U.S.\$	LIBOR + 0.95%	2018	1,368,484	851,315
Credits.....	Pesos	6.05% - 6.20%	2017	800,000	1,000,000
Credits.....	U.S.\$	1.85% - 2.29%	2017	671,580	705,467
Credit.....	Euros	1.19% - 3.95%	2016-2022	209,780	230,914
Credit.....	Pesos	5.98%	2021	15,223	56,489
Financing lease liability.....	Euros	3.99%	2014-2017	3,295	7,467
Credit.....	U.S.\$	0.92%	2016	-	154,859
Credit.....	Liras	13.50%	2016	-	119,657
Total.....				<u>Ps. 15,954,586</u>	<u>Ps. 13,154,441</u>

(a) Quarterly interest payments; (b) Semiannual interest payments
- The remaining debt pays interests on a monthly basis, at maturity.

At December 31, 2016 and 2015, short-term debt bore interest at an average rate of 5.22% and 4.04%, respectively. At December 31, 2016 and 2015, interest expense included interest related to debt amounting Ps.613,682 and Ps. 519,244, respectively.

At December 31, 2016, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2018.....	Ps. 3,921,335
2019.....	56,658
2020.....	31,143
2021.....	8,165
2022 and thereafter	8,212,567
Total.....	<u>Ps. 12,229,868</u>

The Company has credit line agreements for Ps.7,749,000 (U.S.\$375 million), of which Ps.6,374,844 (U.S.\$308.5 million) are available as of December 31, 2016. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.15% to 0.20% over the unused amounts, which is recognized as interest expense of the year.

The outstanding credit agreements contain covenants mainly related to compliance with certain financial ratios and delivery of financial information, which, if not complied with during the period, as determined by creditors, may be considered a cause for early maturity of the debt.

Financial ratios are calculated according to formulas established in the credit agreements. The main financial ratios contained in the credit agreements are the following:

- Interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) of the last twelve months to consolidated interest charges, should not be less than 2.50 to 1.00.

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- Leverage ratio, defined as the ratio of total consolidated indebtedness (as described in the credit agreements) to consolidated EBITDA, should be no greater than 3.50 to 1.00.

At December 31, 2016 and 2015, the Company was in compliance with the financial covenants, as well as with the delivery of the required financial information.

15. PROVISIONS

The movements of provisions are as follows:

	<u>Labor provisions</u>	<u>Restoration provision</u>	<u>Tax and custom dispute provision</u>	<u>Compensation for import of contaminated rice</u>	<u>Total</u>
Balance at January 1, 2015.....	Ps. 367,421	Ps. 152,070	Ps. 41,319	Ps. 13,414	Ps. 574,224
Charge (credit) to income:					
Additional provisions.....	261,439	6,773	5,457	-	273,669
Unused amounts reversed.....	(2,375)	(4,048)	-	(14,503)	(20,926)
Used during the year.....	(241,376)	-	(607)	-	(241,983)
Exchange differences.....	63,164	25,928	6,498	1,089	96,679
Balance at December 31, 2015.....	<u>448,273</u>	<u>180,723</u>	<u>52,667</u>	<u>-</u>	<u>681,663</u>
Charge (credit) to income:					
Additional provisions.....	274,953	35,618	9,441	-	320,012
Unused amounts reversed.....	(69)	-	(26,353)	-	(26,422)
Used during the year.....	(257,549)	(66,380)	(5,218)	-	(329,147)
Exchange differences.....	91,751	33,290	6,873	-	131,914
Balance at December 31, 2016.....	<u>Ps. 557,359</u>	<u>Ps. 183,251</u>	<u>Ps. 37,410</u>	<u>Ps. -</u>	<u>Ps. 778,020</u>
Of which current.....	Ps. 123,075	Ps. -	Ps. -	Ps. -	Ps. 123,075
Of which non-current.....	434,284	183,251	37,410	-	654,945

Labor provisions

In the United States, when permitted by law, the Company self insures against workers' compensation claims arising from medical expenses incurred due to work accidents or illness. For uncovered risks, the Company estimates the associated liabilities through an actuarial calculation, considering historical information of claims, demographic factors, severity of past events and other actuarial assumptions; to estimate the expected outflows of economic resources and projected timing of the settlement of these claims. The discount rate applied during 2016 was 2.88%. At December 31, 2016, the Company has Ps.28,599 (U.S.\$1,384 thousand) of expected insurance reimbursements that are included in consolidated balance sheet as a component of accounts receivable.

Likewise, the subsidiary in Italy established a provision to meet legal costs arising from labor claims related mainly to work accidents.

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Restoration provision

In the United States and Europe, the Company has recognized an obligation to remove equipment and leasehold improvements from certain of its leased manufacturing facilities in order to restore the facilities to their original condition, less normal wear and tear as determined by the terms of the lease. The Company has estimated the expected outflows of economic resources associated with these obligations and the probability of possible settlement dates based upon the terms of the lease. These estimates are used to calculate the present value of the estimated expenditures using a pre-tax discount rate and taking into account any specific risks associated with these obligations. The discount rate applied during 2016 was 4.68%.

Tax and custom dispute provision

In Central America, for the periods from 2005 to 2011, tax authorities have lodged tax assessments against the Company for approximately Ps.36,000 (971 million colons) in connection with sales and income tax. Based on the criteria of the Company's management and the opinion of tax consultants hired for the Company's defense, there is a probability that some of the tax assessments will be settled. For this reason, the Company has accrued the necessary amounts to cover the payment of these obligations.

Additionally in Central America, during 2014 tax authorities have decided not to issue authorizations for the use of tax loss carryforwards from previous years, arguing that they are reviewing the procedure for granting such tax benefit. Tax loss carryforwards prescribed during 2014 amounted to Ps.73,000 (1,988 million colons); therefore, the Company has accrued approximately Ps.21,000 (575 million colons) corresponding to the tax impact of this matter, considering that the Company will exercise its right in court, where a favorable outcome is reserved.

At December 31, 2015, the Company in one of its subsidiaries in Europe recognized a provision of Ps.3,551, corresponding to the ongoing legal case with the Customs Office regarding a conflict with the Harmonized System Code for imported goods. The Company has accrued the necessary amounts to cover the payment of the obligations that may arise at the end of this process, such as penalties, fees, etc. This case was settled during 2016 after payment of various customs duties to the Customs Office for approximately Ps.4,000.

Compensation for import of contaminated rice

At December 31, 2014 in Central America, the Company recognized a provision for Ps.13,414 (496 million colons), corresponding to the probable loss due to the refusal of the government due to its determination of excess of agrochemicals in imported rice. During 2015, this provision was reversed, since the Company had an insurance reimbursement of 100% of this provision.

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16. OTHER CURRENT LIABILITIES

At December 31, 2016 and 2015, Other current liabilities include the following:

	At December 31, 2016	At December 31, 2015
Contingent liability (Note 29).....	Ps. -	Ps. 1,009,750
Employee benefits payable.....	1,055,232	913,788
Promotion and advertising payable.....	426,753	393,722

The rest of the items that comprise Other current liabilities correspond to accrued expenses payable.

17. EMPLOYEE BENEFITS OBLIGATIONS

Employee benefits obligations recognized in the balance sheet, by country, were as follows:

Country	At December 31, 2016	At December 31, 2015
Mexico.....	Ps. 577,522	Ps. 509,306
United States and Europe.....	137,817	116,219
Central America.....	20,834	20,148
Total.....	Ps. 736,173	Ps. 645,673

A) MEXICO

In Mexico, labor obligations recognized by the Company correspond to the single-payment retirement plan and seniority premium. The benefits for the retirement plan and seniority premium are defined benefit plans, based on the projected salary at the date in which the employee is assumed to receive the benefits. Currently, the plan operates under Mexican law, which does not require minimum funding.

The plans in Mexico typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk:

- Investment risk. The expected return rate for investment funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on plan asset is below this rate, it will create a plan deficit. Due to the long-term nature of the plan liabilities, the Company considers appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
- Interest risk. A decrease in the interest rate will increase the plan liability; the volatility in interest rates depends exclusively in the economic environment.
- Longevity risk. The present value of the defined benefit plan liability is calculated by reference to the best estimate of mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.

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- Salary risk. The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary expectancy of the plan participants will increase the plan's liability.

The reconciliation between the beginning and ending balances of the present value of the defined benefit obligations (DBO) is as follows:

	<u>2016</u>	<u>2015</u>
DBO at beginning of the year.....	Ps. 571,219	Ps. 561,445
Add (deduct):		
Current service cost.....	31,024	29,606
Financial cost.....	34,910	32,675
Remeasurement for the period.....	25,301	17,888
Benefits paid.....	(21,683)	(70,447)
Past service cost.....	(106)	52
DBO at end of the year.....	<u>Ps. 640,665</u>	<u>Ps. 571,219</u>

The reconciliation between the beginning and ending balances of the employee benefit plan assets at fair value for the years 2016 and 2015 is shown below:

	<u>2016</u>	<u>2015</u>
Plan assets at fair value at beginning of the year..	Ps. 61,913	Ps. 55,647
Add (deduct):		
Return on plan assets.....	3,279	2,922
Return on plan assets recognized in other comprehensive income.....	(2,049)	3,344
Plan assets at fair value at end of the year.....	<u>Ps. 63,143</u>	<u>Ps. 61,913</u>

The following table shows the reconciliation between the present value of the defined benefit obligation and the plan assets at fair value, and the projected net liability included in the balance sheet:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Employee benefit (assets) liabilities:		
DBO.....	Ps. 640,665	Ps. 571,219
Plan assets.....	(63,143)	(61,913)
Employee benefits obligations.....	<u>Ps. 577,522</u>	<u>Ps. 509,306</u>

The value of the DBO related to the pension plan amounted to Ps.570,454 and Ps.499,368 at December 31, 2016 and 2015, respectively, while the value of the DBO related to seniority premiums amounted to Ps.70,211 and Ps.71,851, respectively.

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At December 31, 2016 and 2015, the components of net cost comprised the following:

	<u>2016</u>	<u>2015</u>
Current service cost.....	Ps. 31,024	Ps. 29,606
Past service cost.....	(106)	52
Financial cost.....	34,910	32,675
Return on plan assets.....	(3,279)	(2,922)
Net cost for the year.....	<u>Ps. 62,549</u>	<u>Ps. 59,411</u>

The net cost for the year related to the pension plan amounted to Ps.56,321 and Ps.54,019 at December 31, 2016 and 2015, respectively, while the net cost related to seniority premiums amounted to Ps.6,228 and Ps.5,392, respectively.

The net cost for the year 2016 and 2015 of Ps.62,549 and Ps.59,411, respectively, was recognized as follows:

	<u>2016</u>	<u>2015</u>
Cost of sales.....	Ps. 20,438	Ps. 12,488
Selling and administrative expenses.....	42,111	46,923
Net cost for the year.....	<u>Ps. 62,549</u>	<u>Ps. 59,411</u>

Remeasurements of the defined benefit obligation recognized in other comprehensive income are comprised of:

	<u>2016</u>	<u>2015</u>
Return on plan assets (excluding amounts included in net cost of the year).....	Ps. 2,049	Ps. (3,344)
Actuarial gains and losses arising from changes in demographic assumptions.....	34,590	-
Actuarial gains and losses arising from changes in financial assumptions.....	(46,487)	(14,967)
Actuarial gains and losses arising from experience adjustments.....	37,198	32,855
	<u>Ps. 27,350</u>	<u>Ps. 14,544</u>

The total amount recognized in other comprehensive income is described below:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year.....	Ps. 299,962	Ps. 285,418
Remeasurements that occurred during the year...	27,350	14,544
Balance at the end of the year.....	<u>Ps. 327,312</u>	<u>Ps. 299,962</u>

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At December 31, 2016 and 2015, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	<u>At December 31, 2016</u>		<u>At December 31, 2015</u>	
Equity securities, classified by type of industry:	Ps. 53,400	85%	Ps. 50,664	82%
Consumer industry.....	15,759		15,114	
Financial institutions.....	37,641		35,550	
Fixed rate securities.....	9,743	15%	11,249	18%
Fair value of plan assets.....	<u>Ps. 63,143</u>	<u>100%</u>	<u>Ps. 61,913</u>	<u>100%</u>

As of December 31, 2016, the funds maintained in plan assets were considered sufficient to face the Company's short-term needs; therefore, the Company's management has determined that for the time being there is no need for additional contributions to increase these assets.

The main actuarial assumptions used were as follows:

	<u>At December 31, 2016</u>	<u>At December 31, 2015</u>
Discount rate.....	7.50%	6.50%
Future increase rate in compensation levels.....	4.50%	4.50%
Long-term inflation rate.....	3.50%	3.50%

At December 31 2016 and 2015, the impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.11,796 and Ps.16,082, respectively.

The sensitivity analysis mentioned above is based on the change in the discount rate while keeping constant the rest of the assumptions. In practice, this is unlikely to occur, and changes in some of the assumptions can be correlated.

The methods used in preparing the sensitivity analysis did not change from those used in prior years.

The average duration of the benefit obligation at December 31, 2016 and 2015 is 11 and 12 years, respectively.

The Company does not expect to contribute during the next fiscal year.

B) OTHER COUNTRIES

In the United States, the Company has a savings and investment plan that incorporates voluntary employee 401(k) contributions with matching contributions from the Company in this country. For the years ended December 31, 2016 and 2015, total expenses related to this plan amounted to Ps.132,892 and Ps.109,956, respectively (U.S.\$7,063 and U.S.\$6,900 thousand, respectively).

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Additionally, the Company has established an unfunded nonqualified deferred compensation plan for a selected group of management and highly compensated employees. The plan is voluntary and allows employees to defer a portion of their salary or bonus in excess of the savings and investment plan limitations. The employees elect investment options and the Company monitors the result of those investments and records a liability for the obligation. For the years ended December 31, 2016 and 2015, total expenses related to this plan were approximately Ps.5,193 and Ps.1,833, respectively (U.S.\$276 and U.S.\$115 thousand, respectively).

At December 31, 2016 and 2015, the liability recognized for both of these plans amounted to Ps.124,046 and Ps.105,579, respectively (U.S.\$6,003 and U.S.\$6,136 thousand, respectively).

In Central America, the retirement and severance provisions are determined according to the current Labor Legislation of each country. At December 31, 2016 and 2015, the liability recognized for this item amounted to Ps.20,834 and Ps.20,148, respectively, and the total labor obligation cost amounted Ps.9,436 and Ps.10,593, respectively.

18. EQUITY

A) COMMON STOCK

At December 31, 2016 and 2015, the Company's outstanding common stock consisted of 432,749,079 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval.

B) RETAINED EARNINGS

In October 2013, the Chamber of Senators and Deputies approved the issuance of the new Income Tax Law, effective starting January 1, 2014. Among other, the Law establishes a 10% tax rate on earnings from 2014 and thereafter, for dividend paid to foreign residents and Mexican individuals; additionally, this law states that for the years 2001 to 2013, the net taxable income will be determined in accordance with the Income Tax Law that was effective for each year.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN) and will be taxed at a rate that fluctuates between 32% and 35% if they are paid from the reinvested Net Tax Profit Account. Dividends paid that exceed CUFIN and reinvested CUFIN are subject to an income tax payable at a rate of 30% if paid in 2017. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment. As of December 31, 2016, CUFIN amounted to Ps.9,053,270.

Legal reserve

In accordance with Mexican Corporate Law, the legal reserve must be increased annually by 5% of annual net profits until it reaches a fifth of the fully paid common stock amount. The legal reserve is included within retained earnings.

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Movements in the legal reserve for the years ended December 31, 2016 and 2015 are as follows:

	<u>Amount</u>
Balance at December 31, 2014.....	Ps. 588,305
Increases during the year.....	<u>65,986</u>
Balance at December 31, 2015.....	654,291
Increases during the year.....	<u>38,091</u>
Balance at December 31, 2016.....	<u>Ps. 692,382</u>

Purchase of common stock

The Shareholders' Meeting held on April 29, 2016 approved to increase the reserve to repurchase the Company's own shares up to Ps.650,000, which is included within retained earnings. The maximum amount of proceeds that can be used to purchase the Company's own shares cannot exceed, in any case, the net earnings of the entity, including retained earnings. The difference between the acquisition cost of the repurchased shares and their stated value, composed of common stock and share premium, is recognized as part of the reserve to repurchase the Company's own shares, which is included within retained earnings from prior years. The gain or loss on the sale of the Company's own shares is recorded in retained earnings.

The balance of the reserve for acquisition of Company's own shares for the years ended December 31, 2016 and 2015 was Ps.650,000. During 2016 and 2015 no movements in this reserve occurred.

C) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of year.....	Ps. 466,646	Ps. (179,408)
Effect of the year from translating net investment in foreign subsidiaries.....	3,895,434	2,240,481
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries.....	<u>(2,165,941)</u>	<u>(1,594,427)</u>
Balance at end of year.....	<u>Ps. 2,196,139</u>	<u>Ps. 466,646</u>

The investment of the Company in its subsidiaries in the United States (Gruma Corporation and subsidiaries) generated a hedge for its U.S. dollar debt of up to U.S.\$621 and U.S.\$637 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.897 and Ps.(772), respectively.

On February 16, 2017, the Company received dividends from its United States subsidiary Gruma Corporation amounting to Ps.1,831,563 (U.S.\$90 million).

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20. FINANCIAL INSTRUMENTS

A) FINANCIAL INSTRUMENTS BY CATEGORY

The carrying values of financial instruments by category are presented below:

	At December 31, 2016			
	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at fair value through profit or loss	Hedge derivatives	Total categories
<u>Financial assets:</u>				
Cash and cash equivalents.....	Ps. 5,466,530	Ps. -	Ps. -	Ps. 5,466,530
Derivative financial instruments.....	-	268,774	104,727	373,501
Accounts receivable.....	7,641,463	-	-	7,641,463
Long term notes receivable and other (Note 10).....	153,426	-	-	153,426
<u>Financial liabilities:</u>				
Current debt.....	3,724,718	-	-	3,724,718
Trade accounts payable.....	5,204,033	-	-	5,204,033
Derivative financial instruments.....	-	6,932	-	6,932
Long-term debt.....	12,229,868	-	-	12,229,868
Other liabilities (excludes non-financial liabilities)....	52,435	-	-	52,435

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	At December 31, 2015			
	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at fair value through profit or loss	Hedge derivatives	Total categories
<u>Financial assets:</u>				
Cash and cash equivalents.....	Ps. 2,919,054	Ps. -	Ps. -	Ps. 2,919,054
Derivative financial instruments.....	-	51,816	106,595	158,411
Accounts receivable.....	6,146,882	-	-	6,146,882
Long term notes receivable and other (Note 10).....	200,351	-	-	200,351
<u>Financial liabilities:</u>				
Current debt.....	2,660,035	-	-	2,660,035
Trade accounts payable.....	3,914,328	-	-	3,914,328
Derivative financial instruments.....	-	28,526	-	28,526
Long-term debt.....	10,494,406	-	-	10,494,406
Contingent payment due to repurchase of the Company's own shares (Note 29).....	-	1,009,750	-	1,009,750
Other liabilities (excludes non-financial liabilities)....	39,623	-	-	39,623

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable and other current liabilities approximate their fair value, due to their short maturity. In addition, the net book value of accounts receivable and recoverable taxes represents the expected cash flow to be received.

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

	At December 31, 2016	
	Carrying amount	Fair value
Assets:		
Derivative financial instruments – corn ⁽¹⁾	Ps. 104,727	Ps. 104,727
Derivative financial instruments – exchange rate.....	134,363	134,363
Derivative financial instruments – fuel ⁽¹⁾	134,411	134,410
Long-term notes receivable.....	140,655	120,462
Liabilities:		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	8,209,779	8,663,589
Short and long-term debt.....	7,744,807	7,822,479
Derivative financial instruments – natural gas.....	6,932	6,932

- (1) At December 31, 2016, the balance of derivative financial instruments receivable amounted to Ps.373,501 which is comprised of Ps.291,277 corresponding to the gain from the valuation of open positions in corn, fuel and exchange rate derivative financial instruments at the end of the year, and Ps.82,224 corresponding to revolving funds or margin calls that arise from price changes in the underlying asset that the Company maintains with the third party, to be applied against payments, related to corn and fuel derivatives.

	At December 31, 2015	
	Carrying amount	Fair value
Assets:		
Derivative financial instruments – corn ⁽¹⁾	Ps. 106,595	Ps. 106,595
Derivative financial instruments – exchange rate.....	40,298	40,298
Derivative financial instruments – fuel ⁽¹⁾	11,518	11,518
Long-term notes receivable.....	185,600	158,094
Liabilities:		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	6,821,234	7,071,872
Short and long-term debt.....	6,333,207	6,407,390
Contingent payment due to repurchase of the Company's own shares.....	1,009,750	1,009,750
Derivative financial instruments – natural gas.....	28,526	28,526

- (1) At December 31, 2015, the balance of derivative financial instruments receivable amounted to Ps.158,411 which is comprised of Ps.34,145 corresponding to the loss from the valuation of open positions in corn, fuel and exchange rate derivative financial instruments at the end of the year, and Ps.192,556 corresponding to revolving funds or margin calls that arise from price changes in the underlying asset that the Company maintains with the third party, to be applied against payments, related to corn and fuel derivatives.

The fair values at December 31, 2016 and 2015 were determined by the Company as follows:

- The fair values of bonds in U.S. dollars were determined based on available market prices. Fair values of bonds are classified as level 1 in the fair value hierarchy.

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- The fair value for the rest of the long-term debt was based on the present value of the cash flows discounted at interest rates based on readily observable market inputs. Fair value of long-term debt is classified as level 3 in the fair value hierarchy. The average discount rate used was 1.39% in 2016 and 1.57% in 2015.
- Long-term notes receivable are classified as level 2 in the fair value hierarchy. Its fair value was based on the present value of future cash flows using a discount rate of 8.27% in 2016 and 8.58% in 2015.

C) DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2016 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures.....	17,755,000 Bushels	Ps. 19,098	Ps. -
Corn swaps.....	32,350,000 Bushels	-	6,932
Natural gas swaps.....	7,520,000 Mmbtu	120,069	-
Fuel swaps.....	1,764,000 Gallons	17,747	-
Exchange rate forwards.....	\$6,961,500 USD	2,807	-
Exchange rate options.....	\$100,122,400 USD	131,556	-

At December 31, 2016, open positions of corn derivatives were recorded at fair value. The result of the valuation at December 31, 2016 of financial instruments that qualified as cash flow hedge represented a gain of Ps.23,320, which was recognized in comprehensive income within equity. At December 31, 2016, the Company had open positions of financial instruments for corn, natural gas and fuel that did not qualify as hedge accounting. These open positions represented a gain of Ps.198,628, which was recognized in income as other income (expenses), net.

Operations terminated at December 31, 2016 on corn, natural gas and fuel derivatives represented a gain of Ps.22,968 which was recognized in income as other income (expenses), net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2016, valuation of the open positions of these instruments resulted in a gain of Ps.94,066 recognized in income as comprehensive financing cost, net (Note 24). Likewise, for the year ended December 31, 2016, terminated operations of these instruments represented a gain of Ps.496,705, which was recognized in income as comprehensive financing cost, net (Note 24).

At December 31, 2016, the Company had revolving funds denominated “margin calls” amounting Ps.82,224, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2016, the Company reclassified the amount of Ps.26,732 from comprehensive income and recognized it as part of inventory. This amount refers to the loss from the terminated operations for corn hedges, in which the grain, subject to these hedges, was received. Additionally, the corn hedges terminated during the period and for which no corn has been received, originated a gain of Ps.77,948, which was recognized in comprehensive income. It is expected that in the following 12-month period, corn derivatives that qualified as hedge accounting will affect the Company’s results of the year.

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At December 31, 2015 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures.....	14,375,000 Bushels		Ps. 31,266
Natural gas swaps.....	4,990,000 Mmbtu		28,091
Fuel swaps.....	3,696,000 Gallons		43,612
Exchange rate forwards.....	\$54,581,000 USD	Ps. 40,298	

At December 31, 2015, open positions of corn derivatives were recorded at fair value. The result of the valuation at December 31, 2015 of financial instruments that qualified as cash flow hedge represented a loss of Ps.31,266, which was recognized in comprehensive income within equity. At December 31, 2015, the Company had open positions of financial instruments for corn, natural gas and fuel that did not qualify as hedge accounting. These open positions represented a loss of Ps.19,220, which was recognized in income as other income (expenses), net.

Operations terminated at December 31, 2015 on corn, natural gas and fuel derivatives represented a loss of Ps.169,329 which was recognized in income as other income (expenses), net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2015, valuation of the open positions of these instruments resulted in a gain of Ps.40,298 recognized in income as comprehensive financing cost, net (Note 24). Likewise, for the year ended December 31, 2015, terminated operations of these instruments represented a gain of Ps.301,906, which was recognized in income as comprehensive financing cost, net (Note 24).

At December 31, 2015, the Company had revolving funds denominated “margin calls” amounting Ps.192,566, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2015, the Company reclassified the amount of Ps.113,958 from comprehensive income and recognized it as part of inventory. This amount refers to the loss from the terminated operations for corn hedges, in which the grain, subject to these hedges, was received. Additionally, the corn hedges terminated during the period and for which no corn has been received, originated a gain of Ps.44,404, which was recognized in comprehensive income.

D) FAIR VALUE HIERARCHY

A three-level hierarchy is used to measure and disclose fair values. An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

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The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

a. Determination of fair value

When available, the Company generally uses quoted market prices to determine fair value and classifies such items in Level 1. If quoted market prices are not available, fair value is valued using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rates, currency rates, volatilities, etc. Items valued using such inputs are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some inputs that are readily observable. In addition, the Company considers assumptions for its own credit risk and the respective counterparty risk.

b. Measurement

Assets and liabilities measured at fair value are summarized below:

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Plan assets – seniority premium fund....	Ps. 63,143	Ps. -	Ps. -	Ps. 63,143
Derivative financial instruments – corn..	104,727	-	-	104,727
Derivative financial instruments – fuel...	58,941	75,470	-	134,411
Derivative financial instruments – exchange rate.....	-	134,363	-	134,363
	Ps. 226,811	Ps. 209,833	Ps. -	Ps. 436,644
<i>Liabilities:</i>				
Derivative financial instruments – corn..	Ps. -	6,932	Ps. -	Ps. 6,932
	Ps. -	6,932	Ps. -	Ps. 6,932

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	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Plan assets – seniority premium fund	Ps. 61,913	Ps. -	Ps. -	Ps. 61,913
Derivative financial instruments – corn.....	106,595	-	-	106,595
Derivative financial instruments – fuel.....	11,518	-	-	11,518
Derivative financial instruments – exchange rate.....	-	40,298	-	40,298
	Ps. 180,026	Ps. 40,298	Ps. -	Ps. 220,324
<i>Liabilities:</i>				
Derivative financial instruments – natural gas.....	Ps. -	-	Ps. 28,526	Ps. 28,526
Contingent payment due to repurchase of the Company’s own shares.....	-	-	1,009,750	1,009,750
	Ps. -	Ps. -	Ps. 1,038,276	Ps. 1,038,276

There were no transfers between the three levels in the period.

Level 1 - Quoted prices for identical instruments in active markets

Financial instruments that are negotiated in active markets are classified as Level 1. The inputs used in the Company’s financial statements to measure the fair value include quoted market prices of corn listed on the Chicago Board of Trade.

Level 2 - Quoted prices for similar instruments in active markets

Financial instruments that are classified as Level 2 refer mainly to quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, as well as model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Derivative financial instruments - exchange rate

Exchange rate derivative financial instruments were recorded at fair value, which was determined using future cash flow discounted to present value. Significant data used to determine the fair value of these instruments is as follows:

	2016
Forward exchange rate	Ps. 20.66
Discount rate.....	4.66%

Derivative financial instruments - fuel

Fuel derivative financial instruments were recorded at fair value, which was determined using future cash flow discounted to present value, using quoted market prices of fuel listed in the NYMEX Exchange.

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Level 3 - Valuation techniques

The Company has classified as Level 3 those financial instruments whose fair values are obtained using valuation models that include observable inputs but also include certain unobservable inputs.

The table below includes a roll-forward of the balance sheet amounts for the years ended December 31, 2016 and 2015 for financial instruments classified by the Company within Level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within Level 3, it is due to the use of significant unobservable inputs. However, Level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains or losses in the table below include changes in fair value due, in part, to observable factors that are part of the valuation methodology:

	Contingent payment due to repurchase of the Company's own shares	Derivative financial instruments – natural gas	Investment available for sale
	Ps.	Ps.	Ps.
Balance as of December 31, 2014.....	823,960	49,024	3,109,013
Total gains or losses:			
In the income statement.....	185,790	(20,498)	(3,109,013)
In the comprehensive income statement..	-	-	-
Additional provision.....	-	-	-
Balance as of December 31, 2015.....	1,009,750	28,526	-
Total gains or losses:			
In the income statement.....	100,526	(28,526)	-
In the comprehensive income statement..	-	-	-
Net amount paid.....	(1,110,276)	-	-
Balance as of December 31, 2016.....	-	-	-

Contingent payment due to repurchase of the Company's own shares

Regarding the contingent payment due to repurchase of the Company's own shares and as mentioned in Note 29, the Company recognized a contingent payment liability amounting to Ps.1,009,750 (U.S.\$58,684 thousand) at December 31, 2015, regarding the scenario identified as (i) in that Note. This provision was related to the increase in GRUMA's shares market price, over the closing price of GRUMA's shares determined for purposes of the acquisition of non-controlling interest from Archer Daniels Midland, at the end of a 42-month period.

The contingent payment liability was recognized at fair value, which was determined using discounted future cash flows and a discount rate which represented the average rate of return of bonds issued by companies comparable to GRUMA. Subsequent changes in the fair value of the contingent payment liability will be recognized in the income statement. The Monte Carlo simulation model was used to estimate the future price of the shares; this model includes the expected return and weighted volatility of historical prices of GRUMA's shares over a period of 42 months.

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Significant data used to determine the fair value of the contingent payment liability is as follows:

	2015
Weighted volatility of historical prices of GRUMA's shares.....	28.43%
Weighted average price of GRUMA's shares (simulated).....	Ps.310.78 per share
Forward exchange rate.....	Ps. 17.45 per dollar
Discount rate.....	4.89%

An increase or decrease of 10% in the discount rate used for the calculation of fair value, would result in an effect of Ps. 2,200, at December 31, 2015.

Due to the increase in GRUMA's shares market price, over the closing price of GRUMA's shares determined for purposes of the acquisition of non-controlling interest from Archer Daniels Midland, as described in Note 29 as scenario (i), the contingent payment was settled at the end of the 42-month period. Therefore, on June 14, 2016 the Company paid ADM a total of Ps.1,110,276 (U.S.\$60,000 thousand).

Derivative financial instruments – natural gas

Natural gas derivative financial instruments were recognized at fair value, which was determined using future cash flow discounted to present value, using quoted market prices of natural gas listed on the NYMEX Exchange.

For the Company, the unobservable input included in the valuation of this Level 3 financial instrument refers solely to the Company's own credit risk. For the year 2016, the Company did not have this type of instruments.

21. EXPENSES BY NATURE

Expenses by nature are presented in the income statement within the captions of cost of sales and selling and administrative expenses and are analyzed as follows:

	2016	2015
Cost of raw materials consumed and changes in inventory (Note 9).....	Ps. 25,692,882	Ps. 21,386,168
Employee benefit expenses (Note 23).....	17,513,503	14,380,536
Depreciation.....	1,870,446	1,569,457
Amortization.....	28,098	28,852
Rental expense of operating leases (Note 27).....	979,765	832,719
Research and development expenses (Note 12).....	159,106	136,538

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22. OTHER INCOME (EXPENSES), NET

Other income (expenses), net comprised the following:

	<u>2016</u>	<u>2015</u>
Net loss from sale of fixed assets.....	Ps. (34,647)	Ps. (130,384)
Net gain from sale of scrap.....	3,029	1,543
Reversal of (loss) impairment on long-lived assets.....	77,964	(172,792)
Cost of disposed fixed assets.....	(21,975)	-
Current employees' statutory profit sharing.....	(63,361)	(55,174)
Income from recovery of insurance claims for damaged assets.....	23,825	14,451
Result from derivative financial instruments.....	221,596	(188,549)
Total.....	<u>Ps. 206,431</u>	<u>Ps. (530,905)</u>

23. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses are comprised of the following:

	<u>2016</u>	<u>2015</u>
Salaries, wages and benefits (including termination benefits).....	Ps. 16,361,228	Ps. 13,415,089
Social security contributions.....	940,774	783,257
Employment benefits (Note 17).....	211,501	182,190
Total.....	<u>Ps. 17,513,503</u>	<u>Ps. 14,380,536</u>

24. COMPREHENSIVE FINANCING COST

Comprehensive financing cost, net is comprised by:

	<u>2016</u>	<u>2015</u>
Interest expense (Note 14).....	Ps. (656,540)	Ps. (611,772)
Interest income.....	63,559	49,752
Result from derivative financial instruments (Note 20).....	554,687	342,204
Result from foreign exchange differences, net.....	(400,135)	(103,286)
Comprehensive financing cost, net.....	<u>Ps. (438,429)</u>	<u>Ps. (323,102)</u>

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25. INCOME TAX EXPENSE

A) INCOME BEFORE INCOME TAX

The domestic and foreign components of income before income tax are the following:

	For the years ended December 31,	
	2016	2015
Domestic.....	Ps. 3,181,926	Ps. 2,859,923
Foreign.....	5,501,350	4,184,922
	<u>Ps. 8,683,276</u>	<u>Ps. 7,044,845</u>

B) COMPONENTS OF INCOME TAX EXPENSE

The components of income tax expense are the following:

	2016	2015
Current tax:		
Current tax on profits for the year.....	Ps. (3,065,830)	Ps. (2,680,036)
Adjustments in respect of prior years.....	(74,605)	191,124
Total current tax.....	<u>(3,140,435)</u>	<u>(2,488,912)</u>
Deferred tax:		
Origin and reversal of temporary differences.....	691,097	805,380
Use of tax loss carryforwards not previously recognized.....	-	37,083
Total deferred tax.....	<u>691,097</u>	<u>842,463</u>
Total income tax expense.....	<u>Ps. (2,449,338)</u>	<u>Ps. (1,646,449)</u>

Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	For the year ended December 31,	
	2016	2015
Current:		
Domestic federal.....	Ps. (921,838)	Ps. (770,571)
Foreign federal.....	(1,976,538)	(1,583,653)
Foreign state.....	(242,059)	(134,688)
	<u>(3,140,435)</u>	<u>(2,488,912)</u>
Deferred:		
Domestic federal.....	669,368	751,475
Foreign federal.....	42,464	110,572
Foreign state.....	(20,735)	(19,584)
	<u>691,097</u>	<u>842,463</u>
Total income taxes.....	<u>Ps. (2,449,338)</u>	<u>Ps. (1,646,449)</u>

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C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME

For the years ended December 31, 2016 and 2015, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	2016	2015
Statutory federal income tax (30% for 2016 and 2015).....	Ps. (2,604,983)	Ps. (2,113,454)
Benefit due to subsidiaries' tax losses.....	26,400	467,610
Inflation effects on tax values.....	(204,323)	(46,690)
Foreign income tax rate differences.....	(251,296)	(171,837)
Tax credit derived from foreign dividends.....	(81,098)	44,052
Unrecognized tax loss carryforwards of the year.....	821,495	292,565
Recoverable asset tax from prior years.....	-	61,632
Nondeductible expenses and others.....	(155,533)	(180,327)
Effective income tax (28.21% and 23.37% for 2016 and 2015, respectively).....	<u>Ps. (2,449,338)</u>	<u>Ps. (1,646,449)</u>

26. DISCONTINUED OPERATIONS

A) LOSS OF CONTROL OF VENEZUELA

The Ministry of Popular Power for Internal Relations and Justice published on January 22, 2013 Administrative Providence number 004-13 dated January 21, 2013 (the "Providence") in the Official Gazette of the Bolivarian Republic of Venezuela (the "Republic"). Given this Providence, which designated special managers with the broadest management faculties conferred by the Republic, GRUMA determined that it had lost control of the subsidiaries in Venezuela: Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA"). Refer to Note 28 for additional detail on the processes in Venezuela.

Following the principles set by IFRS, the Company lost the ability to affect the variable returns and concluded that it had lost the control of MONACA and DEMASECA on January 22, 2013. Consequently, and as a result of such loss of control, the Company proceeded with the following:

- a) Ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013 and derecognized the assets and liabilities of these companies from the consolidated balance sheet. For disclosure and presentation purposes, the Company considered these subsidiaries as a significant segment and therefore, applied the guidelines from IFRS 5 for their accounting treatment as discontinued operations. Consequently, the results and cash flows generated by the Venezuelan companies for the periods presented were classified as discontinued operations.
- b) The amounts recognized in other comprehensive income relating to these companies were reclassified in the year 2013 to the consolidated income statement as part of the results from discontinued operations, considering that MONACA and DEMASECA were disposed of due to the loss of control.

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- c) Recognized the investment in MONACA and DEMASECA as a financial asset, classifying it as an available-for-sale financial asset. The Company classified its investment in these companies as available for sale since management believed that is the appropriate treatment applicable to a non-voluntary disposition of assets and the asset did not fulfill the requirements of classification in another category of financial assets. Following the applicable guidelines and considering that the range of reasonable fair-value estimates was significant and the probabilities of the various estimates within the range could not be reasonably assessed, the Company recognized this financial asset at its carrying value translated to the functional currency of the Company using an exchange rate of \$2.9566 Mexican pesos per bolivar (4.3 Venezuelan bolivars per U.S. dollar), which was effective at the date of the loss of control, and not at its fair value. The investment in MONACA and DEMASECA is subject to impairment tests at the end of each reporting period when there is objective evidence that the financial asset is impaired. See section B below.

While negotiations with the government may take place from time to time, the Company cannot assure that such negotiations will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated assets and investments under applicable law, including investment treaties and customary international law.

B) IMPAIRMENT OF THE INVESTMENT IN VENEZUELA

- a) Year 2014: As required by IFRS, at December 31, 2014, GRUMA performed impairment tests on the investments in MONACA and DEMASECA to determine a potential recoverable amount, using two valuation techniques: 1) an income approach considering estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital), and 2) a market approach, such as the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal expenses. In both cases, the potential recoverable amounts using the income and market approach were higher than the carrying value of these investments and therefore, no impairment adjustment was deemed necessary at December 31, 2014. Regarding the calculations to determine the potential recoverable amount, the Company's management believed that a possible reasonable change in the key assumptions would not cause the carrying value of the Company's investment in MONACA and DEMASECA materially exceed the potential recoverable amount before described.

As of December 31, 2014, there were three legal exchange rates in Venezuela that could be used: the government-operated National Center of Foreign Commerce (CENCOEX) exchange rate, mainly intended for the import of essential goods and services by designated industry sectors and two auction-based exchange rates Supplementary Foreign Currency Administration System (SICAD I and SICAD II).

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For purposes of these calculations, the Company used the SICAD I available exchange rate (12.00 Venezuelan bolivars per U.S. dollar as of December 31, 2014, which was the reference considered by Management for settlement, based on its legal ability to do so. The Venezuelan exchange system, comprising the SICAD, involves different rates at which certain transactions should be executed, including “foreign investments and payment of royalties” for which the reference rate is 12.00 Venezuelan bolivars per U.S. dollar.

An alternative exchange rate available as of December 31, 2014 was SICAD II (49.99 Venezuelan bolivars per U.S. dollar) and for a simulation exercise using this exchange rate, the result would be an impairment loss in income of year 2014 of Ps.124,578 related with the Company’s investment in MONACA and DEMASECA.

- b) Year 2015: As of February 12, 2015, the SICAD I and SICAD II exchange rates were merged (currently SICAD) by the Venezuelan government and a new exchange rate denominated Foreign Exchange Marginal System (SIMADI) was created, which means that there are continue to be three legal exchange rates between the Venezuelan currency (VEF) and U.S. dollars (USD), all of which meet the definition of a spot exchange rate in IAS 21.

As of December 31, 2015, SICAD exchange rate was 13.50 Venezuelan bolivars per U.S. dollar and SIMADI exchange rate was 198.70 Venezuelan bolivars per U.S. dollar.

As of December 31, 2015, the Company considered that SIMADI exchange rate is the most representative among legal exchange rates available. In the absence of auctions for SICAD I in the recent past, in a macroeconomic context aggravated by historically low prices in the oil market and the condition of Venezuela’s hyperinflationary economy, the Company has decided to consider as reference rate the one resulting in the allocations conducted through SIMADI, to calculate any related impairment balances that the Company has in its Venezuelan subsidiaries Molinos Nacionales, C.A. (MONACA) and Derivados de Maíz Seleccionado, DEMASECA, C.A. (DEMASECA). Simultaneously, outstanding accounts receivable were diluted by the application of the new exchange rate and balances of indirect investment of GRUMA in MONACA and DEMASECA, held through its Spanish subsidiaries Valores Mundiales, S.L. (GRUMA 75.86%, other 24.14%) and Consorcio Andino, S.L. (GRUMA 60%, other 40%), so that both have significant adjustments. The impairment test performed in the fourth quarter of 2015, resulted in an impairment loss of Ps.4,362,108 recognized in consolidated income for the year ended December 31, 2015, in connection with the balances aforementioned in MONACA and DEMASECA, which was recognized in income as “Income (loss) from discontinued operations”, following a presentation according to the one of the financial statement, in which the loss of control of the Venezuelan subsidiaries was initially recognized.

If a sensitivity analysis was performed using the SICAD exchange rate and other variables were held constant, the impairment loss would have been of Ps.1,983,619.

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The historical value of the net investment in MONACA and DEMASECA at January 22, 2013, the date when the Company ceased the consolidation of the financial information of these entities, was Ps.2,913,760 and Ps.195,253, respectively.

The financial information of MONACA and DEMASECA at January 22, 2013 was:

	At January 22, 2013*
Current assets.....	Ps. 4,345,709
Non-current assets.....	2,558,444
Total assets.....	6,904,153
<i>Percentage of consolidated total assets.....</i>	14.0%
Current liabilities.....	2,641,540
Non-current liabilities.....	96,103
Total liabilities.....	2,737,643
<i>Percentage of consolidated total liabilities.....</i>	7.8%
Total net assets.....	4,166,510
<i>Percentage of consolidated total net assets.....</i>	29.1%
Non-controlling interest.....	1,057,497
Interest of Gruma in total net assets.....	Ps. 3,109,013

* No material transactions between MONACA and DEMASECA and the Company need to be eliminated.

Additionally, at December 31, 2016 and 2015 certain subsidiaries of GRUMA have accounts receivable with the Venezuelan companies for a total amount of Ps.1,564,665 and Ps.1,253,095, respectively, which were fully impaired and are included as part of the impairment loss recognized in income.

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The analysis of the gain or loss from discontinued operation related to the loss of control of the Venezuelan subsidiaries is:

	<u>2015</u>
Net sales.....	Ps. -
Cost of sales.....	-
Gross profit.....	-
Selling and administrative expenses.....	-
Other expenses, net.....	-
Operating income.....	-
Comprehensive financing cost, net.....	-
Income before income taxes.....	-
Income taxes.....	-
Discontinued operations.....	-
Cancellation of the investment in Venezuela available for sale.....	(3,109,013)
Impairment of accounts receivable of royalties and dividends.....	(1,253,095)
Foreign exchange gain (loss) from accounts receivable with Venezuela.....	48,305
Loss from discontinued operations, net.....	<u>Ps. (4,313,803)</u>
Attributable to:	
Shareholders.....	Ps. (4,293,391)
Non-controlling interest.....	(20,412)
	<u>Ps. (4,313,803)</u>

27. COMMITMENTS

A) OPERATING LEASES

The Company is leasing certain facilities and equipment under long-term lease agreements in effect through 2032, which include an option for renewal. These agreements are recognized as operating leases, since the contracts do not transfer substantially all risks and advantages inherent to ownership.

Future minimum lease payments under operating lease agreements are as follows:

	<u>2016</u>	<u>2015</u>
No later than 1 year.....	Ps. 885,406	Ps. 692,798
Later than 1 year and no later than 5 years.....	2,438,699	1,644,908
Later than 5 years.....	1,968,711	1,264,518
Total.....	<u>Ps. 5,292,816</u>	<u>Ps. 3,602,224</u>

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Rental expense was approximately Ps.979,765 and Ps.832,719 for the years ended December 31, 2016 and 2015, respectively.

B) FINANCE LEASES

At December 31, 2016 and 2015, the net carrying values of assets recorded under finance leases totaled Ps.14,028 and Ps.15,169, respectively, and corresponded to transportation and production equipment.

Future minimum lease payments under finance lease agreements are as follows:

	<u>2016</u>	<u>2015</u>
No later than 1 year.....	Ps. 3,341	Ps. 4,791
Later than 1 year and no later than 5 years.....	-	2,882
	<u>3,341</u>	<u>7,673</u>
Future finance charges on finance leases.....	(46)	(206)
Present value of finance lease liabilities.....	<u>Ps. 3,295</u>	<u>Ps. 7,467</u>

The present value of finance lease liabilities is as follows:

	<u>2016</u>	<u>2015</u>
No later than 1 year.....	Ps. 3,295	Ps. 4,608
Later than 1 year and no later than 5 years.....	-	2,859
Total.....	<u>Ps. 3,295</u>	<u>Ps. 7,467</u>

C) OTHER COMMITMENTS

At December 31, 2016 and 2015, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps.4,897,368 and Ps.3,647,778, respectively (U.S.\$237 million and U.S.\$212 million, respectively) and in Mexico for approximately Ps.3,512,880 and Ps.2,993,931, respectively (U.S.\$170 million and U.S.\$174 million, respectively), which will be delivered during 2017. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2016 and 2015, the Company had outstanding commitments to purchase machinery and equipment in the United States amounting to approximately Ps.950,544 and Ps.757,086, respectively.

28. CONTINGENCIES

VENEZUELA

Expropriation Proceedings by the Venezuelan Government.- On May 12, 2010, the Venezuelan Government published in the Official Gazette of Venezuela decree number 7,394 (the "Expropriation Decree"), which announced the forced acquisition of all assets, property and real estate of the Company's subsidiary in Venezuela, Molinos Nacionales, C.A. ("MONACA"). The Venezuelan Government has expressed to GRUMA's representatives that the Expropriation Decree extends to its subsidiary, Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA").

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GRUMA's interests in MONACA and DEMASECA are held through two Spanish companies: Valores Mundiales, S.L. ("Valores Mundiales") and Consorcio Andino, S.L. ("Consorcio Andino"). In 2010, Valores Mundiales and Consorcio Andino (collectively, the "Investors") commenced discussions with the Republic regarding the Expropriation Decree and related measures affecting MONACA and DEMASECA. Through Valores Mundiales and Consorcio Andino, GRUMA participated in these discussions, which have explored the possibility of (i) entering into a joint venture with the Venezuelan government; and/or (ii) obtaining adequate compensation for the assets subject to expropriation. As of this date, these discussions have not resulted in an agreement with the Venezuelan Government.

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

In January 2013, the Republic issued a resolution (*providencia administrativa*) granting the "broadest powers of administration" over MONACA and DEMASECA to special managers (*administradores especiales*) that had been imposed on those companies since 2009 and 2010, respectively.

On May 10, 2013, Valores Mundiales and Consorcio Andino submitted a Request for Arbitration to ICSID, which was registered on June 11, 2013 under case No. ARB/13/11. The purpose of the arbitration is to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty.

The tribunal that presides over this arbitration proceeding was constituted in January 2014. Valores Mundiales and Consorcio Andino filed their memorial in July 2014. On September 14, 2014, the Republic filed a motion requesting to bifurcate the proceeding into separate jurisdictional and merits phases. On October 1, 2014 the tribunal rejected Venezuela's request. Venezuela filed its counter-memorial in March 2015. Valores Mundiales and Consorcio Andino filed their reply on June 25, 2015 and Venezuela filed its rejoinder in October 19, 2015. From February 8 to 12, 2016 the hearing of the arbitration trial was held. The arbitration proceeding is still ongoing.

While discussions with the government may take place from time to time, the Company cannot assure that such discussions will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree and related measures. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award.

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While awaiting resolution of this matter and as required by the IFRS, GRUMA performed impairment tests on the investments in MONACA and DEMASECA as of December 31, 2015, to determine a potential recoverable amount, using two valuation techniques: 1) an income approach considering estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital) and 2) a market approach, such as the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal expenses. As indicated in Note 26, in both cases, the potential recoverable amounts using the income and market approach were lower than the carrying value of these investments and therefore, an impairment adjustment of Ps.4,362,108 was recognized.

Intervention Proceedings by the Venezuelan Government. - On December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of assets in which Ricardo Fernández Barrueco had any interest. Purportedly due to Ricardo Fernández Barrueco's former indirect minority interest in MONACA and DEMASECA, these subsidiaries were subject to the precautionary measure. Between 2009 and 2012, the Ministry of Finance of Venezuela, pursuant to the precautionary measure ordered by the court, designated several special managers of the indirect minority shareholding that Ricardo Fernández Barrueco previously owned in MONACA and designated several special managers of DEMASECA. On January 22, 2013, the Ministry of Justice and Internal Relations revoked the prior designations made by the Ministry of Finance of Venezuela and made a new designation of individuals as special managers and representatives on behalf of the Republic of MONACA and DEMASECA, granting those managers the "broadest powers of administration" over both companies.

As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino and Valores Mundiales, as direct shareholders of the Venezuelan subsidiaries, filed a petition as aggrieved third-parties to the proceedings against Ricardo Fernández Barrueco challenging the precautionary measures and all related actions. On November 19, 2010, the Eleventh Investigations Court for Criminal Affairs of Caracas ruled that MONACA and DEMASECA are companies wholly owned and controlled by Valores Mundiales and Consorcio Andino, respectively. In spite of this ruling, the court kept the precautionary measures issued on December 4, 2009 in effect. An appeal has been filed, which is pending resolution as of this date.

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

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

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29. TRANSACTIONS WITH NON-CONTROLLING INTEREST

A) ACQUISITION OF NON-CONTROLLING INTEREST FROM ARCHER DANIELS MIDLAND (ADM)

On December 14, 2012, GRUMA acquired the non-controlling interest from ADM consisting of:

- a. Acquired 23.16% of the issued shares of GRUMA, through the acquisition of 18.81% of the issued shares of GRUMA and 45% of the issued shares of Valores Azteca, a company that owns 9.66% of the issued shares of GRUMA. The acquisition was carried out against GRUMA's shareholder's equity, using funds reserved for the purchase of own shares authorized by GRUMA's General Ordinary Shareholders' Meeting;
- b. Acquired 3% of the capital stock of Valores Mundiales, S.L. and Consorcio Andino, S.L., holding companies of GRUMA's subsidiaries in Venezuela, Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, C.A. ("DEMASECA"), respectively;
- c. Acquired 40% of the shares of Molinera de México; and
- d. Acquired 20% of the shares of Azteca Milling (subsidiary of Gruma Corporation), through the acquisition of 100% of the shares of Valley Holding Inc., which has no assets or liabilities other than the investment in shares of Azteca Milling.

The Company recognized a contingent payment liability from the acquisition of the non-controlling interest from ADM that took place in December 2012. This liability corresponded to a contingent payment of up to U.S.\$60 million, proportionally distributed between GRUMA's and Valores Azteca's shares that were part of the equity interests, payable only if during the following 42 months after closing the transaction, certain conditions were met in connection with (i) GRUMA's stock market price increase over the closing price of GRUMA's stock determined for purposes of the transaction (the "Closing Price"), at the end of the 42 months' period; (ii) the difference between GRUMA's stock price established for public offers made by GRUMA and the Closing Price; (iii) the acquisition, by a strategic investor, of 15% or more of GRUMA's capital stock; or (iv) the reduction of the percentage of GRUMA's shares that are considered to be held by the public at any time, starting from 26%.

Due to the increase in GRUMA's shares market price, over the closing price of GRUMA's shares determined for purposes of the acquisition of non-controlling interest from ADM, described as scenario (i), the contingent payment was settled at the end of the 42-month period. Therefore, on June 14, 2016 the Company paid ADM a total of Ps.1,110,276 (U.S.\$60,000 thousand).

At December 31, 2015, Other short-term liabilities included Ps.1,009,750 corresponding to this contingent payment. The Company recognized a liability solely regarding the scenario (i), in connection to GRUMA's stock market price increase, over GRUMA's stock Closing Price determined for purposes of the purchase of the Equity Interests, at the end of the 42 months' period. At December 31, 2015, the Company did not consider as probable scenarios (ii), (iii) and (iv) for the contingent payment abovementioned, so there was no contingent payment obligation recorded in connection with these cases.

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The contingent payment liability was registered at fair value, which was determined using projected future cash flows discounted to present value and the discount rate used was the average rate of return of any corporate bonds issued by companies comparable to GRUMA. The Monte Carlo simulation model was used to estimate the future shares price, which included the expected return and the weighted volatility of historical prices of GRUMA's stock over a period of 42 months. The significant data used to determine the fair value of the contingent payment liability as of December 31, 2015 is presented in Note 20-D.

Subsequent changes in the fair value of the contingent payment liability were recognized in the income statement. For the years ended December 31, 2016 and 2015, the effect in income was Ps.100,526 and Ps.185,790, respectively, and were recognized as "Comprehensive financing cost, net".

30. RELATED PARTIES

A) TRANSACTIONS WITH RELATED PARTIES

For the year ended December 31, 2016 and 2015, the Company did not perform transactions with related parties. Other transactions with related parties are identified in Note 29.

B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management includes Board members, alternate Board members, officers and members of the Audit Committee and Corporate Practice Committee. The compensation paid to key management for employee services is shown below:

	<u>2016</u>	<u>2015</u>
Salaries and other short-term employee benefits.....	Ps. 200,367	Ps. 170,589
Termination benefits.....	5,506	18,748
Total.....	<u>Ps. 205,873</u>	<u>Ps. 189,337</u>

At December 31, 2016 and 2015, the reserve for deferred compensation amounted to Ps.48,905 and Ps.42,652, respectively.

C) BALANCES WITH RELATED PARTIES

At December 31, 2016 and 2015, the Company had no balances with related parties.

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31. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new IFRS, which will become effective after the issuance of the Company's financial statements, are explained below. This list includes those IFRS standards which the Company reasonably expects to apply in the future. The Company has the intention of adopting these new IFRS on the date they become effective.

A) NEW STANDARDS

a. IFRS 15, "Revenue from contracts with customers"

IFRS 15, "Revenue from contracts with customers", issued in May 2014 by the International Accounting Standards Board (IASB), to address revenue recognition and principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus, has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, "Revenue", and IAS 11, "Construction contracts", and related interpretations.

In September 2015, the IASB issued "Effective Date of IFRS 15", to announce the deferral of the effective date of IFRS 15 by one year to January 1, 2018. The changes published by IASB only have the purpose of amending the effective date of IFRS 15 for annual periods beginning on or after January 1, 2018 (instead of annual periods beginning on or after January 1, 2017). Early adoption of IFRS 15 is still permitted. Entities continue to have the election of applying the standard either retrospectively in each reporting period or retrospectively with the cumulative effect of initially applying this standard recognized at the date of the initial adoption.

b. IFRS 9, "Financial instruments"

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. A new expected credit losses model replaces the incurred loss impairment model used in IAS 39. IFRS relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

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c. IFRS 16, “Leases”

The IASB issued on January 2016 a new standard for the lease accounting. This standard replaces IAS 17 ‘Leases’, which classifies leases on operating and financing. IAS 17 identifies leases as financing leases when the risks and benefits of an asset are transferred; all other leases are classified as operating. Under the new IFRS 16, ‘Leases’ there is not distinction among operating and financing leases and requires recognition of a liability for all the future payments and an asset for the “rights of use” in most of the leases. It is important to mention that the IASB has included some exceptions on short term leases and low valued assets. Most of the changes are applicable only for the lessees accounting while for the lessors accounting there are not significant changes compared with the current standard. The most significant impact of the adoption of this standard will be an increase on assets and liabilities for lessees, with a new impact on the income statement for depreciation and financial expense of the assets and liabilities mentioned, and a decrease on expenses related to lessees previously recognized as operating lessees. The standard is effective for annual periods beginning on or after January 1, 2019 with an earlier application permitted if IFRS 15 “Revenue from contracts with customers” is adopted at the same time.

The Company continues to assess the effect of the adoption of IFRS 9 and IFRS 15 on its financial position or results of operation. With respect to IFRS 16, the Company is currently assessing the potential impact on its financial statements resulting from the application of this new standard.

[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]

C.P. Thomas S. Heather Rodriguez
Chairman of the Audit Committee
Gruma, S.A.B. de C.V.
Rio de la Plata, No 407
Col. Del Valle
66260 Garza Garcia, N.L.

April 10, 2017

Dear Mr. Heather,

In compliance with the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants (Provisions), issued by the Ministry of Finance and Public and Public Credit-National Banking and Securities Commission (Commission), which became effective on March 20, 2003, and were last amended on November 15, 2016, under oath of saying the truth and pursuant to Article 84 Bis of said Provisions, I state the following in connection with the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2016:

- I. As of the date on which I render my services as external auditor of the Issuer, during the execution of my audit and until the issuance date of the corresponding opinion, I do not meet any of the scenarios referred to in article 83 of the Provisions.
- II. I grant my consent to provide to the Commission the information it requires to verify my independence with the Issuer.
- III. I undertake to physically or through electromagnetic means, keep in my offices for a period no less than 5 years, all documentation, and information and else elements of judgment used to prepare the corresponding report and to furnish them to the Commission.
- IV. I have current documents, which evidence my technical capacity.
- V. I do not have any offering to be a director or officer of the Issuer.

P.A. Víctor Gabriel Vecchi
Audit Partner

[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]

C.P. Thomas S. Heather Rodriguez
Chairman of the Audit Committee
Gruma, S.A.B. de C.V.
Calzada del Valle 407 Ote.
Col. Del Valle, 66220, Garza Garcia, N.L.

Monterrey, N.L., April 28, 2017

Dear Mr. Heather,

In addition to the independence letter signed on April 10, 2017, regarding the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2016 and in compliance with the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants (Provisions), issued by the Ministry of Finance and Public and Public Credit-National Banking and Securities Commission (Commission), which became effective on March 20, 2003, and were last amended on November 15, 2016, under oath of saying the truth and pursuant to Article 84 Bis of said Provisions, I state the following in connection with the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2016:

I grant my consent for the Issuer to include the report on the financial statements issued by me, in the annual information referred to in articles 33, section I, letter b), number 1. and 36, section I, letter c) of the Provisions.

The above, in the understanding that I previously ensured that the information contained in the financial statements included in the corresponding annual report, as well as any other financial information contained in said document which derived from the referred financial statements or report presented by me, corresponds to the audited information, in order for said information to become of public knowledge.

P.A. Víctor Gabriel Vecchi
Audit Partner

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AS OF DECEMBER 31, 2015 AND 2014

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Independent auditor's report

Monterrey, N. L., March 18, 2016

To the Shareholders' Meeting of
Gruma, S. A. B. de C. V.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

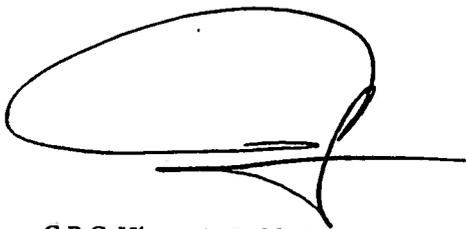
Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gruma, S. A. B. de C. V. and its subsidiaries at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter

Without qualifying our opinion, we draw attention to the disclosed in notes to the financial statements: (i) Notes 26 and 28, where is explained that, on January 22, 2013, the Ministry of Justice and Internal Relations in Venezuela designated individuals as special managers representing the Bolivarian Republic of Venezuela, for the foreign subsidiaries located in that country, providing the right to take control over such subsidiaries. Consequently and as a result of the loss of control, the Company stopped consolidating the financial information of the Venezuelan subsidiaries as of January 22, 2013. Additionally, during 2015 and following the guideline established by IFRS and considering the assumptions and factors mentioned in Note 26, the Company performed impairment tests on the investments and balances held with the Venezuelan subsidiaries, which resulted in an impairment loss of Ps.4,362,108 (thousands) and was recognized in the consolidated income statement as "(Loss) income from discontinued operations" following the presentation according to the financial statements in which the loss of control of the Venezuelan subsidiaries was initially recognized; (ii) Note 26, related to the sale of the wheat flour operations in Mexico on December 2014 and as a result, the financial performance and cash flows for those operations, on the accompanying financial statements, were classified as discontinued operations, as required by IFRS.

PricewaterhouseCoopers, S. C.



C.P.C. Víctor A. Robledo Gómez
Audit Partner

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

A s s e t s	Note	2015	2014
Current:			
Cash and cash equivalents.....	7	Ps. 2,919,054	Ps. 1,465,088
Derivative financial instruments.....	20	158,411	96,376
Accounts receivable, net.....	8	6,723,757	6,489,396
Inventories.....	9	7,816,767	6,556,777
Recoverable income tax.....		704,131	707,242
Prepaid expenses.....		191,894	153,770
Total current assets.....		18,514,014	15,468,649
Non-current:			
Long-term notes and accounts receivable.....	10	245,741	182,843
Property, plant and equipment, net.....	11	20,169,988	17,814,336
Intangible assets, net.....	12	3,502,060	2,792,146
Deferred tax assets.....	13	1,901,218	1,269,743
Investment in Venezuela available for sale.....	26	-	3,109,013
Total non-current assets.....		25,819,007	25,168,081
Total Assets.....		Ps. 44,333,021	Ps. 40,636,730
L i a b i l i t i e s			
Current:			
Short-term debt.....	14	Ps. 2,660,035	Ps. 1,437,108
Trade accounts payable.....		3,914,328	3,555,521
Derivative financial instruments.....	20	28,526	49,024
Provisions.....	15	191,319	129,047
Income tax payable.....		487,711	623,867
Other current liabilities.....	16	4,385,196	3,011,424
Total current liabilities.....		11,667,115	8,805,991
Non-current:			
Long-term debt.....	14	10,494,406	9,324,052
Provision for deferred taxes.....	13	2,370,918	2,344,759
Employee benefits obligations.....	17	645,673	619,983
Provisions.....	15	490,344	445,177
Other non-current liabilities.....	29	70,679	1,012,522
Total non-current liabilities.....		14,072,020	13,746,493
Total Liabilities.....		25,739,135	22,552,484
E q u i t y			
Shareholders' equity:			
Common stock.....	18	5,363,595	5,363,595
Reserves.....		516,287	(171,932)
Retained earnings.....	18	11,154,288	11,371,983
Total shareholders' equity.....		17,034,170	16,563,646
Non-controlling interest.....		1,559,716	1,520,600
Total Equity.....		18,593,886	18,084,246
Total Liabilities and Equity.....		Ps. 44,333,021	Ps. 40,636,730

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos, except per-share data)
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Net sales.....	6	Ps. 58,279,004	Ps. 49,935,328
Cost of sales.....	21	<u>(35,937,867)</u>	<u>(31,574,750)</u>
Gross profit.....		22,341,137	18,360,578
Selling and administrative expenses.....	21	(14,442,285)	(12,040,402)
Other expenses, net.....	22	<u>(530,905)</u>	<u>(297,262)</u>
Operating income.....		7,367,947	6,022,914
Comprehensive financing cost, net.....	24	<u>(323,102)</u>	<u>(1,105,403)</u>
Income before income tax.....		7,044,845	4,917,511
Income tax expense.....	25	<u>(1,646,449)</u>	<u>(1,059,583)</u>
Consolidated net income from continuing operations.....		5,398,396	3,857,928
(Loss) income from discontinued operations, net.....	26	<u>(4,313,803)</u>	<u>598,852</u>
Consolidated net income.....		<u>Ps. 1,084,593</u>	<u>Ps. 4,456,780</u>
Attributable to:			
Shareholders.....		Ps. 761,812	Ps. 4,287,310
Non-controlling interest.....		322,781	169,470
		<u>Ps. 1,084,593</u>	<u>Ps. 4,456,780</u>
From continuing operations:			
Basic and diluted earnings per share (pesos).....		<u>Ps. 11.68</u>	<u>Ps. 8.38</u>
From discontinued operations:			
Basic and diluted (losses) earnings per share (pesos).....		<u>Ps. (9.92)</u>	<u>Ps. 1.53</u>
From continuing and discontinued operations:			
Basic and diluted earnings per share (pesos).....		<u>Ps. 1.76</u>	<u>Ps. 9.91</u>
Weighted average shares outstanding (thousands).....		<u>432,749</u>	<u>432,749</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 COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Consolidated net income		Ps. 1,084,593	Ps. 4,456,780
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of employment benefit obligations.....	17	(14,544)	(11,414)
Income taxes.....	13	6,935	(4,223)
		(7,609)	(15,637)
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments.....		647,571	(162,033)
Cash flow hedges.....		35,877	110,810
Other.....		(9,420)	-
Income taxes.....	13	6,286	17,981
		<u>680,314</u>	<u>(33,242)</u>
Other comprehensive income, net of tax.....		<u>672,705</u>	<u>(48,879)</u>
Total comprehensive income		Ps. 1,757,298	Ps. 4,407,901
Attributable to:			
Shareholders.....		Ps. 1,440,405	Ps. 4,239,705
Non-controlling interest.....		316,893	168,196
		<u>Ps. 1,757,298</u>	<u>Ps. 4,407,901</u>

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	Common stock (Note 18-A)		Reserves		Retained earnings (Note 18-B)	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares (thousands)	Amount	Foreign currency translation (Note 18-D)	Cash flow hedges and other reserves (Note 20-C)				
Balances at December 31, 2013	432,749	Ps. 5,363,595	Ps. (28,317)	Ps. (103,892)	Ps. 7,741,678	Ps. 12,973,064	Ps. 1,453,796	Ps. 14,426,860
Transactions with owners of the Company:								
Dividends paid (Ps.1.50 per share).....	-	-	-	-	(649,123)	(649,123)	(101,392)	(750,515)
Comprehensive income:					(649,123)	(649,123)	(101,392)	(750,515)
Net income of the year.....					4,287,310	4,287,310	169,470	4,456,780
Foreign currency translation adjustment (Net of taxes of Ps.30,712).....			(137,802)			(137,802)	6,481	(131,321)
Remeasurement of employment benefit obligations (Net of taxes of Ps.(4,223)).....					(7,882)	(7,882)	(7,755)	(15,637)
Cash flow hedges (Net of taxes of Ps.(12,731)).....				98,079		98,079	-	98,079
Comprehensive income of the year.....	-	-	(137,802)	98,079	4,279,428	4,239,705	168,196	4,407,901
Balances at December 31, 2014	432,749	5,363,595	(166,119)	(5,813)	11,371,983	16,563,646	1,520,600	18,084,246
Transactions with owners of the Company:								
Dividends paid (Ps.1.60 per share).....					(692,399)	(692,399)	(87,686)	(780,085)
Effect on acquisition of non-controlling interest, net of taxes (Note 19).....					(277,482)	(277,482)	(190,091)	(467,573)
Comprehensive income:					(969,881)	(969,881)	(277,777)	(1,247,658)
Net income of the year.....					761,812	761,812	322,781	1,084,593
Foreign currency translation adjustment (Net of taxes of Ps.13,048).....			659,104			659,104	1,515	660,619
Remeasurement of employment benefit obligations (Net of taxes of Ps.6,935).....					(6,157)	(6,157)	(1,452)	(7,609)
Cash flow hedges (Net of taxes of Ps.(6,762)).....				29,115		29,115	-	29,115
Other.....					(3,469)	(3,469)	(5,951)	(9,420)
Comprehensive income of the year.....	-	-	659,104	29,115	752,186	1,440,405	316,893	1,757,298
Balances at December 31, 2015	432,749	Ps. 5,363,595	Ps. 492,985	Ps. 23,302	Ps. 11,154,288	Ps. 17,034,170	Ps. 1,559,716	Ps. 18,593,886

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos)
(Notes 1, 2 and 3)

	Note	2015	2014
Operating activities:			
Income before taxes	Ps.	7,044,845	Ps. 4,917,511
Foreign exchange (gain) loss from working capital.....		(66,963)	(188,825)
Net cost of the year for employee benefit obligations.....		182,190	142,017
Items related with investing activities:			
Depreciation and amortization.....		1,598,309	1,460,451
Impairment of long-lived assets.....		172,792	14,395
Written-down fixed assets.....		-	64,503
Interest income.....		(7,300)	(13,273)
Loss in sale of fixed assets and damaged assets.....		114,390	42,788
Items related with financing activities:			
Derivative financial instruments.....	22 and 24	(153,655)	145,274
Foreign exchange loss (gain) from debt.....		170,249	116,412
Interest expense.....		519,244	1,008,251
		<u>9,574,101</u>	<u>7,709,504</u>
Accounts receivable, net.....		(981,684)	258,084
Inventories.....		(707,173)	382,429
Prepaid expenses.....		(17,591)	46,445
Trade accounts payable.....		69,564	(110,409)
Accrued liabilities and other accounts payables.....		4,508	44,845
Income taxes paid.....		(2,684,816)	(1,816,012)
Payments of employee benefits obligations.....		(200,140)	(135,532)
Net cash flows from operating activities of discontinued operations.....		-	350,646
		<u>(4,517,332)</u>	<u>(979,504)</u>
Net cash flows from operating activities		<u>5,056,769</u>	<u>6,730,000</u>
Investing activities:			
Acquisitions of property, plant and equipment.....	6	(2,431,514)	(1,597,298)
Sale of property, plant and equipment.....		230,743	115,574
Acquisition of subsidiaries, net of cash acquired.....	5	(641,984)	(122,081)
Acquisition of intangible assets.....	12	(3,818)	(17,126)
Sale of wheat flour operation in Mexico.....	26	-	3,677,788
Interests collected.....		7,300	13,273
Other.....		(6,096)	922
Net cash flows used in investing activities of discontinued operations.....		-	(75,464)
Net cash flows (used in) provided by investing activities		<u>(2,845,369)</u>	<u>1,995,588</u>
Cash to be used in financing activities		<u>2,211,400</u>	<u>8,725,588</u>
Financing activities:			
Proceeds from debt.....		8,453,486	8,838,154
Payment of debt.....		(8,098,907)	(15,649,521)
Interests paid.....		(485,805)	(1,010,976)
Derivative financial instruments collected.....		301,903	(13,832)
Acquisition of non-controlling interest.....	19	(467,573)	-
Dividends paid.....		(780,085)	(750,515)
Net cash flows used in investing activities of discontinued operations.....		-	(4,556)
Net cash flows used in financing activities		<u>(1,076,981)</u>	<u>(8,591,246)</u>
Net increase in cash and cash equivalents.....		1,134,419	134,342
Exchange differences on cash.....		319,547	(7,809)
Cash and cash equivalents at the beginning of the year		1,465,088	1,338,555
Cash and cash equivalents at the end of the year	Ps.	<u>2,919,054</u>	Ps. <u>1,465,088</u>

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

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos, except where otherwise indicated)

1. ENTITY AND OPERATIONS

Gruma, S.A.B. de C.V. (GRUMA) is a Mexican company with subsidiaries located in Mexico, the United States of America, Central America, Europe, Asia and Oceania, together referred to as the "Company". The Company's main activities are the production and sale of corn flour, tortillas and related products.

GRUMA is a publicly held corporation (*Sociedad Anónima Bursátil de Capital Variable*) organized under the laws of Mexico. The address of its registered office is Rio de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico. GRUMA is listed on the Mexican Stock Exchange.

On June 26, 2015, GRUMA notified Citibank, N.A. (the "Depositary") of its intention to terminate its Deposit Agreement regarding its American Depositary Receipts ("ADRs"), to delist its ADRs from the New York Stock Exchange ("NYSE"). As of September 8, 2015, GRUMA's ADRs suspended its trading on the NYSE and the deposit agreement was terminated simultaneously.

Furthermore, on September 10, 2015, the Company filed Form 15F with the U.S. Securities and Exchange Commission (the "SEC") requesting its deregistration. Consequently and given that the SEC did not pose any objection on such regard, the cancellation became effective on December 9, 2015 and GRUMA's reporting obligations under the Securities Exchange Act of 1934 (U.S. Securities Market Law) were extinguished as of that date.

The consolidated financial statements were authorized by the Chief Administrative Office of the Company on February 24, 2016.

2. BASIS OF PREPARATION

The consolidated financial statements of Gruma, S.A.B. de C.V. and Subsidiaries for all the periods presented have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The IFRS also include the International Accounting Standards (IAS) in force, as well as all the related interpretations issued by the IFRS Interpretations Committee, including those previously issued by the Standing Interpretations Committee. The Company applied IFRS that were effective at December 31, 2015, with no significant impact on its financial statements.

A) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the basis of historical cost, except for the fair value of certain financial instruments as described in the policies shown below (see Note 3-K).

The preparation of financial statements requires that management make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

B) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Mexican pesos, which is the functional currency of GRUMA.

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos, except where otherwise indicated)

C) USE OF ESTIMATES AND JUDGMENTS

The relevant estimates and assumptions are reviewed on a regular basis. The review of accounting estimates are recognized in the period in which the estimate is reviewed and in any future period that is affected.

In particular, the information for assumptions, uncertainties from estimates, and critical judgments in the application of accounting policies, that have the most significant effect in the recognized amounts in these consolidated financial statements are described below:

- The assumptions used for the determination of fair values of financial instruments (Note 20).
- The assumptions and uncertainties with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income (Notes 13 and 25).
- The key assumptions in impairment testing for long-lived assets used for the determination of the recoverable amount for the different cash generating units (Notes 11 and 12).
- The actuarial assumptions used for the determination of employee benefits obligations (Note 17).
- The key assumptions in impairment testing of the investment in Venezuela (Notes 26 and 28).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF CONSOLIDATION

a. Subsidiaries

The subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are incorporated in the consolidated financial statements starting on the date on which the control begins, until the date such control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Company.

At December 31, 2015 and 2014, the main subsidiaries included in the consolidation are:

	% of ownership	
	2015	2014
Gruma Corporation and subsidiaries.....	100.00	100.00
Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries.....	85.50	83.18
Gruma International Foods, S.L. and subsidiaries.....	100.00	100.00
Mission Foods México, S. de R.L. de C.V.....	100.00	100.00

At December 31, 2015 and 2014, there were no significant restrictions for the investment in the subsidiaries mentioned above, except for those described in Note 26.

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos, except where otherwise indicated)

b. Transactions with non-controlling interest without change of control

The Company applies a policy of treating transactions with non-controlling interest as transactions with equity owners of the Company. When purchases from non-controlling interest take place, the difference between any consideration paid and the relevant interest acquired of the carrying value of net assets of the subsidiary is recognized as equity transactions; therefore, no goodwill is recognized with these acquisitions. Disposals of non-controlling interests result in gains or losses for the Company and are recorded in equity when there is no loss of control.

c. Business combinations

Business combinations are recognized through the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred by the Company with the previous owners and the equity instruments issued by the Company. The cost of an acquisition also includes the fair value of any contingent payment.

The related acquisition costs are recognized in the income statement when incurred.

Identifiable assets acquired, liabilities assumed and contingent liabilities in a business combination are measured at fair value at the acquisition date.

The Company recognizes any non-controlling interest as the proportional share of the net identifiable assets of the acquired entity.

The Company recognizes goodwill when the cost including any amount of non-controlling interest in the acquired entity exceeds the fair value at acquisition date of the identifiable assets acquired and liabilities assumed.

When the entity or entities acquired are, before and after the acquisition, ultimately controlled by the same entity, and such control is not temporary, it is assumed that the entities are under common control and therefore, there is no business combination. Transactions and exchanges between entities under common control are recognized on the basis of the carrying value of assets and liabilities transferred on the date of the transaction, and therefore, goodwill is not recognized.

B) FOREIGN CURRENCY

a. Transactions in foreign currency

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. The differences that arise from the translation of foreign currency transactions are recognized in the income statement.

b. Foreign currency translation

The financial statements of the Company's entities are measured using the currency of the main economic environment where each entity operates (functional currency). The consolidated financial statements are presented in Mexican pesos, currency that corresponds to the presentation currency of the Company.

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of Mexican pesos, except where otherwise indicated)

The financial position and results of the entities that have a functional currency which differs from the Company's presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate of the period.
- Income and expenses are translated at average exchange rates when it has not fluctuated significantly during the period.
- Equity is translated at the effective exchange rate in the date when the contributions were made and the earnings were generated.
- All resulting exchange differences are recognized in other comprehensive income as a separate component of equity denominated "Foreign currency translation adjustments".

Previous to the translation to Mexican pesos, the financial statements of foreign subsidiaries with functional currency from a hyperinflationary environment are adjusted by inflation in order to reflect the changes in purchasing power of the local currency. Subsequently, assets, liabilities, equity, income, costs, and expenses are translated to the presentation currency at the closing rate at the end of the period. To determine the existence of hyperinflation, the Company evaluates the qualitative characteristics of the economic environment, as well as the quantitative characteristics established by IFRS of an accumulated inflation rate equal or higher than 100% in the past three years.

The Company applies hedge accounting to foreign exchange differences originated between the functional currency of a foreign subsidiary and the functional currency of the Company. Exchange differences resulting from the translation of a financial liability designated as hedge for a net investment in a foreign subsidiary, are recognized in "other comprehensive income" as a separate component denominated "Foreign currency translation adjustments" while the hedge is effective. See Note 3-L for the accounting of the net investment hedge.

The closing exchange rates used for preparing the financial statements are as follows:

	As of December 31, 2015	As of December 31, 2014
Pesos per U.S. dollar.....	17.2065	14.7180
Pesos per Euro.....	18.8101	17.8912
Pesos per Swiss franc.....	17.4084	14.8847
Pesos per Venezuelan bolivar (Bs.).....	1.2746	1.2265
Pesos per Australian dollar.....	12.5330	12.0462
Pesos per Chinese yuan.....	2.6514	2.4040
Pesos per Pound sterling.....	25.4880	22.9042
Pesos per Malaysian ringgit.....	4.0096	4.2081
Pesos per Costa Rica colon.....	0.0316	0.0270
Pesos per Ukrainian hryvnia.....	0.7173	0.9302
Pesos per Russian ruble.....	0.2361	0.2616
Pesos per Turkish lira.....	5.9178	6.3470

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015 AND 2014
(In thousands of Mexican pesos, except where otherwise indicated)

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short term highly liquid investments with original maturities of less than three months. These items are recognized at historical cost, which do not differ significantly from its fair value.

D) ACCOUNTS RECEIVABLE

Trade receivables are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method, less provision for impairment. The Company has determined that the amortized cost does not represent significant differences with respect to the invoiced amount from short-term trade receivables, since the transactions do not have relevant associated costs.

Allowances for doubtful accounts or impairment represent the Company's estimates of losses that could arise from the failure or inability of customers to make payments when due. These estimates are based on the maturity dates of customers' balances, specific credit circumstances and the Company's historical experience on doubtful accounts.

E) INVENTORIES

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the average cost method. The net realizable value is the estimated selling price of inventory in the normal course of business, less applicable variable selling expenses. The cost of finished goods and production in process includes raw materials, direct labor, other direct costs and related production overheads. Cost of inventories could also include the transfer from comprehensive income of any gains or losses on cash flow hedges for purchases of raw materials.

F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at acquisition cost, less accumulated depreciation and recognized impairment losses. Cost includes expenses that are directly attributable to the asset acquisition.

Subsequent costs, including major improvements, are capitalized and are included in the carrying value of the asset or recognized as a separate asset, only when it is probable that future economic benefits associated with the specific asset will flow to the Company and the costs can be measured reliably. Repairs and maintenance are recognized in the income statement when incurred. Major improvements are depreciated during the remaining useful life of the related asset. Leasehold improvements are depreciated using the lower of the lease term or useful life. Land is not depreciated.

Costs of borrowings, general and specific, of qualifying assets that require a substantial period of time (over one year) for acquisition or construction, are capitalized as part of the acquisition cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Depreciation is calculated over the asset cost less residual value, considering its components separately. Depreciation is recognized in income using the straight-line method and applying annual rates that reflect the estimated useful lives of the assets. The estimated useful lives are summarized as follows:

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	<u>Years</u>
Buildings.....	25 – 50
Machinery and equipment.....	5 – 25
Leasehold improvements.....	10 *

* The lesser of 10 years or the term of the leasehold agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses from sale of assets result from the difference between revenues of the transaction and the book value of the assets, which is included in the income statement as other expenses, net.

G) INTANGIBLE ASSETS

a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or whenever the circumstances indicate that the value of the asset might be impaired. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

b. Intangible assets with finite useful lives

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

	<u>Years</u>
Non-compete agreements.....	3 - 20
Patents and trademarks.....	3 - 20
Customer lists.....	5 - 20
Software for internal use.....	3 - 7

c. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized, but subject to impairment tests on an annual basis or whenever the circumstances indicate that the value of the asset might be impaired.

d. Research and development

Research costs are expensed when incurred.

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Costs from development activities are recognized as an intangible asset when such costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits will be obtained, and the Company pretends and has sufficient resources in order to complete the development and use or sell the asset. The amortization is recognized in income based on the straight-line method during the estimated useful life of the asset.

Development costs that do not qualify as intangible assets are recognized in income when incurred.

H) IMPAIRMENT OF LONG-LIVED ASSETS

The Company performs impairment tests for its property, plant and equipment and intangible assets with finite useful lives, when certain events and circumstances suggest that the carrying value of the assets might not be recovered. Intangible assets with indefinite useful lives and goodwill are subject to impairment tests at least once a year.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of an asset's fair value less costs to sell and value in use. To determine value in use, estimated future cash flows are discounted at present value, using a pre-tax discount rate that reflect time value of money and considering the specific risks associated with the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses on goodwill are not reversed. For other assets, impairment losses are reversed if a change in the estimates used for determining the recoverable amount has occurred. Impairment losses are reversed to the extent that the book value does not exceed the book value that was determined, net of depreciation or amortization, if no impairment loss was recognized.

I) LONG-LIVED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Long-lived assets are classified as held for sale when (a) their carrying amount is to be recovered mainly through a sale transaction, rather than through continuing use, (b) the assets are held immediately for sale and (c) the sale is considered highly probable in its current condition.

For the sale to be considered highly probable:

- Management must be committed to a sale plan.
- An active program must have begun in order to locate a buyer and to complete the plan.
- The asset must actively be quoted for its sale at a price that is reasonable to its current fair value; and
- The sale is expected to be completed within a year starting the date of classification.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operations are the operations and cash flows that can be clearly distinguished from the rest of the entity, that either have been disposed of or have been classified as held for sale, and:

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- Represent a line of business or geographical area of operations.
- Are part of a single coordinated plan to dispose of a line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

J) FINANCIAL INSTRUMENTS

Regular purchases and sales of financial instruments are recognized in the balance sheet on the trade date, which is the date when the Company commits to purchase or sell the instrument.

a. Financial assets

Classification

In its initial recognition and based on its nature and characteristics, the Company classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) financial assets held until maturity, and (iv) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Balances of financial instruments held by the Company at December 31, 2015 and 2014 are disclosed in Note 20-A.

i. Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss when designated as held for trading or classified as such in its initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are carried at fair value, and directly attributable transaction costs and corresponding changes of fair value are recognized in the income statement. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than 12 months. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

iii. Financial assets held until maturity

When the Company has the intention and capacity to keep debt instruments until maturity, these financial assets are classified as held until maturity. Initially, these assets are carried at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at amortized cost using the effective interest rate method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in current assets, except

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for assets with maturities greater than 12 months. These assets are initially recognized at fair value plus any transaction costs directly attributable to them; subsequently, these assets are recognized at fair value. If these assets cannot be measured through an active market, then they are measured at cost (See Note 26). Profit or losses from changes in the fair value are recognized in other comprehensive income in the period when incurred. At disposition date, such profit or losses are recognized in income.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established.

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. See Note 3-D for the accounting policy for the impairment of accounts receivable.

b. Financial liabilities

i. Debt and financial liabilities

Debt and financial liabilities that are non-derivatives are initially recognized at fair value, net of transaction costs directly attributable to them; subsequently, these liabilities are recognized at amortized cost. The difference between the net proceeds and the amount payable is recognized in the income statement during the debt term, using the effective interest rate method.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for trading and financial liabilities designated at initial recognition.

K) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value and are subsequently re-measured at their fair value; the transaction costs are recognized in the income statement when incurred. Derivative financial instruments are classified as current, except for maturities exceeding twelve months.

Fair value is determined based on recognized market prices. When not quoted in markets, fair value is determined using valuation techniques commonly used in the financial sector. Fair value reflects the credit risk of the instrument and includes adjustments to consider the credit risk of the Company or the counterparty, when applicable.

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The method for recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge and, if so, the nature of the item being hedged. The Company designates derivative financial instruments as follows:

- Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, including objectives, strategies for risk management and the method for assessing effectiveness in the hedge relationship.

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. At December 31, 2015 and 2014, the Company did not have this type of hedging.

b. Cash flow hedges

For cash flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in equity, based on the evaluation of the hedge effectiveness, and are reclassified to the income statement in the periods when the projected transaction is realized, see Note 20-C.

Hedge effectiveness is determined when changes in the fair value or cash flows of the hedged position are compensated with changes in the fair value or cash flows of the hedge instrument in a quotient that ranges between 80% and 125% of inverse correlation. Ineffective portions from changes in the fair value of derivative financial instruments are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecasted transaction is ultimately registered in the income statement.

c. Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold, see Note 18-D.

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L) LEASES

a. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the period of the lease.

b. Finance leases

Leases where the Company has substantially all the risks and rewards of ownership, are classified as finance leases.

Under finance leases, at the initial date, both assets and liabilities are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. In order to discount the minimum payments, the Company uses the interest rate implicit in the lease, if this practicable to determine; if not, the Company's incremental borrowing rate is used.

Lease payments are allocated between the interest expense and the reduction of the pending liability. Interest expense is recognized in each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

M) EMPLOYEE BENEFITS

a. Post-employment benefits

In Mexico, the Company has the following defined benefit plans:

- Single-payment retirement plan, when employees reach the required retirement age, which is 60.
- Seniority premium, after 15 years of service.

The Company has established trust funds in order to meet its obligations for the seniority premium. Employees do not contribute to these funds.

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation, less the fair value of plan assets. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using discount rates in accordance with IAS-19, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

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Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the income statement.

In the United States, the Company has saving and investment plans that incorporate voluntary employees 401(k) contributions with matching contributions of the Company in this country. The Company's contributions are recognized in the income statement when incurred.

b. Termination benefits

Termination benefits are payable when employment is terminated by decision of the Company, before the normal retirement date.

The Company recognizes termination benefits as a liability at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes restructuring costs that represents a provision and involves the payment of termination benefits. Termination benefits that do not meet this requirement are recognized in the income statement in the period when incurred.

c. Short term benefits

Short term employee benefits are measured at nominal base and are recognized as expenses as the related service is provided. If the Company has the legal or constructive obligation to pay as a result of a service rendered by the employee in the past and the amount can be estimated, an obligation is recognized for short term bonuses or profit sharing.

N) PROVISIONS

Provisions are recognized when (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

O) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

P) REVENUE RECOGNITION

Sales are recognized upon shipment of products to, and acceptance by, the Company's customers or when the risk of ownership has passed to the customers. Revenue is recognized at the fair value of the consideration received or receivable, net of returns, discounts, and rebates. Provisions for discounts and

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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.

Q) INCOME TAXES

The tax expense of the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized from the analysis of the balance sheet considering temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been approved or substantially approved at the date of the balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for tax loss carry-forwards not used, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In each period-end deferred income tax assets are reviewed and reduced to the extent that it is not probable that the benefits will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if the entity has a legally enforceable right to set off assets against liabilities and are related to income tax levied by the same tax authority on the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

R) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, which include convertible debt and share options.

For the years ended December 31, 2015 and 2014, the Company had no dilutive instruments issued.

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S) SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity. Operating results from an operating segment are regularly reviewed by the entity's chief executive officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. RISK AND CAPITAL MANAGEMENT

A) RISK MANAGEMENT

The Company is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. The Company's risk management policy focuses on the risks that prevents or endangers the accomplishment of its financial objectives, seeking to minimize the potential adverse effects on its financial performance. The Company uses derivative financial instruments to hedge some of these risks.

Currency risk

The Company operates internationally and thus, is exposed to currency risks, particularly with the U.S. dollar. Currency risks arise from commercial operations, recognized assets and liabilities and net investments in foreign subsidiaries.

The following tables detail the exposure of the Company to currency risks at December 31, 2015 and 2014. The tables show the carrying amount of the Company's financial instruments denominated in currencies other than Mexican pesos.

At December 31, 2015:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 4,717,782	Ps. 408,071	Ps. 522,109	Ps. 1,514,281	Ps. 7,162,243
Non-current.....	13,129	-	2,054	25,210	40,393
Monetary liabilities:					
Current.....	(6,007,908)	(308,674)	(377,618)	(832,925)	(7,527,125)
Non-current.....	(10,912,265)	(1,704)	(196,522)	(72,816)	(11,183,307)
Net position.....	<u>Ps. (12,189,262)</u>	<u>Ps. 97,693</u>	<u>Ps. (49,977)</u>	<u>Ps. 633,750</u>	<u>Ps. (11,507,796)</u>

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At December 31, 2014:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 2,917,159	Ps. 370,185	Ps. 384,298	Ps. 1,402,849	Ps. 5,074,491
Non-current.....	9,994	-	836	19,742	30,572
Monetary liabilities:					
Current.....	(5,476,106)	(278,869)	(291,244)	(869,436)	(6,915,655)
Non-current.....	(9,100,161)	(2,075)	(36,458)	(180,569)	(9,319,263)
Net position.....	Ps. (11,649,114)	Ps. 89,241	Ps. 57,432	Ps. 372,586	Ps. (11,129,855)

(1) Approximately 70% of this balance corresponds to accounts receivable.

For the years ended December 31, 2015 and 2014, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	2015	2014
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investment in foreign subsidiaries, recorded directly to equity as an effect of foreign currency translation adjustments.....	Ps. (1,594,427)	Ps. (961,855)
Exchange differences arising from foreign currency transactions recognized in the income statement.....	(103,286)	72,413
	Ps. (1,697,713)	Ps. (889,442)

Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. Sales generated in Mexican pesos were 27% in 2015 and 30% in 2014 of total net sales. Sales generated in U.S. dollars were 56% in 2015 and 53% in 2014 of total net sales. Additionally, at December 31, 2015 and 2014, 68% and 70%, respectively, of total assets were denominated in different currencies other than Mexican pesos, mainly in U.S. dollars. An important portion of operations are financed through debt denominated in U.S. dollars. For the years ended December 31, 2015 and 2014, net sales in currencies other than Mexican pesos amounted to Ps.42,588,370 and Ps.34,825,230, respectively.

An important currency risk for the debt denominated in U.S. dollars is present in subsidiaries that are not located in the United States, which represented 100% of total debt denominated in U.S. dollars. Nevertheless, the investment that the Company maintains in its operations in the United States generated a hedge.

During 2015 and 2014, the Company entered into forward transactions in order to hedge the Mexican peso to U.S. dollar foreign exchange rate risk related to the price of corn purchases for the summer and winter corn harvests in Mexico. At December 31, 2015, the Company has open positions of foreign exchange derivative instruments of Ps.40,298. At December 31, 2014, the Company had no open positions of foreign exchange derivative instruments.

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The effect of foreign exchange differences recognized in the consolidated income statements for the years ended December 31, 2015 and 2014, related with the assets and liabilities denominated in foreign currency, totaled a loss of Ps.(103,286) and a gain of Ps.72,413, respectively. Considering the exposure at December 31, 2015 and 2014, and assuming an increase or decrease of 10% in the exchange rates while keeping constant the rest of the variables such as interest rates, the effect after taxes in the Company's consolidated results will be an increase or a decrease of Ps.10,840 and Ps.12,521, respectively.

Interest rate risk

The variations in interest rates could affect the interest expense of financial liabilities bearing variable interest rates, and could also modify the fair value of financial liabilities bearing fixed interest rates.

For the Company, interest rate risk is mainly derived from debt financing transactions, including debt securities, bank and vendor credit facilities and leases. These financing transactions generate exposure to interest rate risk, principally due to changes in relevant base rates (mainly, LIBOR, and to a lesser extent, TIEE and EUROLIBOR) that are used to determine the interest rates applicable to the borrowings.

The following table shows, at December 31, 2015 and 2014, the Company's debt at fixed and variable rates:

	Amounts in thousands of Mexican pesos	
	2015	2014
Debt at fixed interest rate.....	Ps. 7,059,623	Ps. 5,855,096
Debt at variable interest rate.....	6,094,818	4,906,064
Total.....	Ps. 13,154,441	Ps. 10,761,160

From time to time, the Company uses derivative financial instruments such as interest rate swaps for the purposes of hedging a portion of its debt, in order to reduce the Company's exposure to increases in interest rates.

For variable rate debt, an increase in interest rates will increase interest expense. A hypothetical increase of 100 basis points in interest rates on debt at December 31, 2015 and 2014 will have an effect on the results of the Company of Ps.60,948 and Ps.49,061, respectively, considering debt and interest rates at that date, and assuming that the rest of the variables remain constant.

Commodity price risk and derivatives

The availability and price of corn, wheat and other agricultural commodities and fuels, are subject to wide fluctuations due to factors outside of the Company's control, such as weather, plantings, government (domestic and foreign) farm programs and policies, changes in global demand/supply due to population growth and global production of similar and competitive crops, as well as fuels. The Company hedges a portion of its production requirements through commodity futures and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas, diesel and soy oils which exist as part of ongoing business operations. The open positions for hedges of purchases do not exceed the maximum production requirements for a period no longer than 18 months, based on the Company's corporate policies.

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During 2015 and 2014, the Company entered into short-term hedge transactions through commodity futures and options to hedge a portion of its requirements. All derivative financial instruments are recorded at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive income in equity, depending on whether the derivative qualifies for hedge accounting and is effective as part of a hedge transaction. Ineffectiveness results when the change in the fair value of the hedge instruments differs from the change in the fair value of the position.

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

Gains and losses from derivative transactions that do not qualify for hedge accounting and do not comply with hedge effectiveness tests are recognized in the income statement.

At December 31, 2015 and 2014, financial instruments that qualify as hedge accounting represented a unfavorable effect of Ps.31,266 and Ps.25,133, respectively, which was recognized as comprehensive income within equity.

From time to time the Company hedges commodity price risks using futures and options strategies that do not qualify for hedge accounting. As a result of non-qualification, these derivative financial instruments are recognized at their fair values and the associated effect is recorded in current period earnings. For the years ended December 31, 2015 and 2014, the Company recognized an unfavorable effect of Ps.19,220 and Ps.45,534, respectively. Additionally, as of December 31, 2015 and 2014 the Company realized Ps.169,330 and Ps.76,635, respectively, in net losses on commodity price risk hedges that did not qualify for hedge accounting.

Based on the Company's overall commodity exposure at December 31, 2015 and 2014, a decrease or increase of 10 percent in market prices applied to the fair value of these instruments would result in a gain or loss in the income statement of Ps.31,745 and Ps.34,693, respectively (for non-qualifying contracts).

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

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

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

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Credit risk

The Company's regular operations expose it to defaults when customers and counterparties are unable to comply with their financial or other commitments. The Company seeks to mitigate this risk by entering into transactions with a diverse pool of counterparties. However, the Company continues to remain subject to unexpected third party financial failures that could disrupt its operations.

The Company is also exposed to risks in connection with its activities of cash management and obtaining debt and temporary investments, and any disruption that affects its financial intermediaries could also adversely affect its operations.

The Company's exposure to risk due to trade receivables is limited given the large number of its customers located in different parts of Mexico, the United States, Central America, Europe, Asia and Oceania. For this reason, there is not a significant concentration of credit risk. However, the Company still maintains allowances for doubtful accounts. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Since most of the clients do not have an independent rating of credit quality, the Company's management determines the maximum credit risk for each one, taking into account its financial position, past experience, and other factors. Credit limits are established according to policies set by the Company, which also includes controls that assure its compliance.

During 2015 and 2014, credit limits were complied with and, consequently, management does not expect any important losses from trade accounts receivable.

The Company has centralized its treasury operations in Mexico and in the United States for its operations in that country. Liquid assets are invested primarily in government bonds and short term debt instruments with a minimum grade of "A1/P1" in the case of operations in the United States and "A" for operations in Mexico. For operations in Central America, the Company only invests cash reserves with leading local banks and local branches of international banks. Additionally, small investments are maintained abroad. The Company faces credit risk from potential defaults of their counterparts with respect to the financial instruments used. Substantially all of these financial instruments are not guaranteed. Additionally, when the Company enters into hedge contracts for exchange rates, interest rates and/or commodities, it minimizes the risk of default by the counterparts by contracting derivative financial instruments only with major national and international financial institutions using contracts and standard forms issued by the International Swaps and Derivatives Association, Inc. ("ISDA") and operations standard confirmation formats.

Investment risk in Venezuela

The recent political and civil instability that has prevailed in Venezuela has represented a risk to the Company's investment in this country. The Company does not have insurance for the risk of expropriation of its investments. See Notes 26 and 28 for additional information.

Liquidity risk

The Company funds its liquidity and capital resource requirements through a variety of sources, including:

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- cash generated from operations;
- committed and uncommitted short-term and long-term lines of credit;
- medium- and long-term debt contracting;
- offerings in Bond markets; and
- sales of its equity securities and those of its subsidiaries and affiliates from time to time.

Factors that could decrease the sources of liquidity include a significant decrease in the demand for, or price of, its products, each of which could limit the amount of cash generated from operations, and a decrease of the corporate credit rating, which could further impair the liquidity and increase costs with respect to new debt and cause stock price to suffer. The Company's liquidity is also affected partially by factors such as the depreciation or appreciation of the peso and changes in interest rates.

The following tables show the remaining contractual maturities of financial liabilities of the Company:

At December 31, 2015:

	<u>Less than a year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short and long term debt.....	Ps. 2,655,427	Ps.3,615,614	Ps. 64,699	Ps.6,892,186	Ps. 13,227,926
Interest payable from short and long term debt.....	438,655	769,107	671,933	1,342,108	3,221,803
Financing leases.....	4,608	2,859	-	-	7,467
Trade accounts and other payables.....	8,978,554	-	-	-	8,978,554
Derivative financial instruments.....	28,526	-	-	-	28,526
	<u>Ps.12,105,770</u>	<u>Ps.4,387,580</u>	<u>Ps. 736,632</u>	<u>Ps.8,234,294</u>	<u>Ps. 25,464,276</u>

At December 31, 2014:

	<u>Less than a year</u>	<u>From 1 to 3 years</u>	<u>From 3 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Short and long term debt.....	Ps. 1,428,641	Ps.1,647,598	Ps. 1,860,880	Ps.5,887,200	Ps. 10,824,319
Interest payable from short and long term debt.....	387,229	692,162	589,194	1,148,003	2,816,588
Financing leases.....	8,467	10,931	-	-	19,398
Trade accounts and other payables.....	7,319,859	-	-	-	7,319,859
Other non-current liabilities..	-	823,960	-	-	823,960
Derivative financial instruments.....	49,024	-	-	-	49,024
	<u>Ps. 9,193,220</u>	<u>Ps.3,174,651</u>	<u>Ps.2,450,074</u>	<u>Ps.7,035,203</u>	<u>Ps. 21,853,148</u>

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The Company expects to meet its obligations with cash flows generated by operations. Additionally, the Company has access to credit line agreements with various banks to address potential cash needs.

B) CAPITAL MANAGEMENT

The Company's objectives when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) are to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk, to protect the Company's ability to continue as a going concern while taking advantage of strategic opportunities in order to provide sustainable returns for shareholders.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase shares issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

In addition, to monitor capital, debt agreements contain financial covenants which are disclosed in Note 14.

5. BUSINESS COMBINATIONS

A) AZTECA FOODS EUROPE

On March 31, 2015, the Company executed a purchase agreement through its subsidiary Gruma International Foods, S.L. together with Fat Taco, S.L. and Azteca Foods, Inc., by which the Company acquired the operations for the production and distribution of tortillas, wraps, corn chips, salsas and processed foods in Spain. All of the shares and ownership interests representing the capital stock of Azteca Foods Europe, S.A. and AFIFT Azteca, S.L. (jointly, "Azteca Foods Europe") were acquired through this transaction. Azteca Foods Europe owns one plant in Spain and distributes its products in Europe, the Middle East and Northern Africa.

The price agreed for this transaction is approximately Ps.652,837 (EUR\$38,580 thousand).

This purchase was accounted for using the acquisition method, following the business combination rules. The purpose of this acquisition is to contribute to the expansion of the Company and the strengthening of the tortilla business and related products in Europe, Africa and the Middle East and represents the Company's consolidation in the Southern Europe market.

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The following table summarizes the consideration paid and the fair value of the net assets acquired at acquisition date:

Cash.....	Ps. 10,853
Accounts receivable.....	60,222
Inventories.....	16,327
Prepaid expenses.....	1,162
Current liabilities.....	<u>(51,714)</u>
Working capital.....	Ps. 36,850
Property, plant and equipment.....	144,392
Customer lists.....	96,215
Trademarks and other assets.....	2,297
Long term debt.....	(120,658)
Deferred tax liabilities.....	<u>(19,945)</u>
Fair value of identifiable net assets.....	Ps. 139,151
Goodwill.....	<u>513,686</u>
Total consideration paid in cash.....	<u><u>Ps. 652,837</u></u>

The goodwill recorded for this acquisition represents the value of acquiring an on-going business with an assembled and trained workforce, and business growth prospects in Europe, Africa and the Middle East. None of the goodwill recognized is expected to be deductible for tax purposes.

Acquisition-related costs such as advisory fees, appraisal fees, valuation services and legal fees amounted to Ps.3,947, were recognized in the income statement as selling and administrative expenses.

No contingent liabilities and contingent consideration arrangements have arisen from this acquisition.

From January 1, 2014 to December 31, 2014, this business recorded revenues of Ps.341,292 and a net income of approximately Ps.31,200.

6. SEGMENT INFORMATION

The Company's reportable segments are strategic business units that offer different products in different geographical regions. These business units are managed separately because each business segment requires different technology and marketing strategies.

The Company's reportable segments are as follows:

- Corn flour and packaged tortilla division (United States and Europe):
Manufactures and distributes more than 20 varieties of corn flour that are used mainly to produce and distribute different types of tortillas and tortilla chip products in the United States. The main brands are MASECA for corn flour and MISSION and GUERRERO for packaged tortillas.

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- 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.
- Other segments:
This section represents those segments whose amounts on an individual basis do not exceed 10% of the consolidated total of net sales, operating income and assets. These segments are:
 - a) Corn flour, hearts of palm, rice, and other products (Central America).
 - b) Wheat flour (México) – Discontinued operation.
 - c) Packaged tortillas (México).
 - d) Wheat flour tortillas and snacks (Asia and Oceania).
 - e) Technology and equipment, which conducts research and development regarding flour and tortilla manufacturing equipment, produces machinery for corn flour and tortilla production and is engaged in the construction of the Company’s corn flour manufacturing facilities.

All inter-segment sales prices are market-based. The Chief Executive Officer evaluates performance based on operating income of the respective business units. The accounting policies for the reportable segments are the same as the policies described in Notes 2 and 3.

Segment information as of and for the year ended December 31, 2015:

	Corn flour and packaged tortilla division (United States and Europe)	Corn flour division (Mexico)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers.....	Ps. 36,135,518	Ps. 14,905,180	Ps. 7,231,108	Ps. 7,198	Ps. 58,279,004
Inter-segment net sales.....	82,496	966,168	1,418,516	(2,467,180)	-
Operating income (loss).....	3,939,084	2,205,140	646,929	576,794	7,367,947
Depreciation and amortization.....	1,384,110	736,697	215,160	(564,866)	1,771,101
Total assets.....	23,374,550	12,302,185	9,984,501	(1,328,215)	44,333,021
Total liabilities.....	7,647,613	2,579,023	5,138,424	10,374,075	25,739,135
Expenditures paid in the year for fixed assets.....	1,060,554	616,934	738,872	15,154	2,431,514

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Segment information as of and for the year ended December 31, 2014:

	Corn flour and packaged tortilla division (United States and Europe)	Corn flour division (Mexico)	Other segments	Eliminations and corporate expenses	Total
Net sales to external customers.....	Ps. 29,278,747	Ps. 14,601,217	Ps. 6,033,808	Ps. 21,556	Ps. 49,935,328
Inter-segment net sales.....	44,162	472,889	1,128,571	(1,645,622)	-
Operating income (loss).....	2,861,967	2,129,365	355,281	676,301	6,022,914
Depreciation and amortization.....	1,066,561	698,493	242,269	(467,974)	1,539,349
Total assets.....	18,742,701	10,908,911	8,327,030	2,658,088	40,636,730
Total liabilities.....	7,452,455	2,943,529	3,688,623	8,467,877	22,552,484
Expenditures paid in the year for fixed assets....	796,255	343,813	426,239	30,991	1,597,298

A summary of information by geographic segment for the years ended December 31, 2015 and 2014 is presented below:

	2015	%	2014	%
<u>Net sales to external customers:</u>				
United States and Europe.....	Ps. 36,135,518	62	Ps. 29,278,747	59
Mexico.....	15,690,630	27	15,110,099	30
Central America.....	4,057,470	7	3,478,894	7
Asia and Oceania.....	2,395,386	4	2,067,588	4
	Ps. 58,279,004	100	Ps. 49,935,328	100
<u>Expenditures paid in the year for fixed assets:</u>				
United States and Europe.....	Ps. 1,060,554	44	Ps. 796,255	50
Mexico.....	897,601	37	621,123	39
Central America.....	121,816	5	83,213	5
Asia and Oceania.....	351,543	14	96,707	6
	Ps. 2,431,514	100	Ps. 1,597,298	100
<u>Identifiable assets</u>				
United States and Europe.....	Ps. 23,374,550	53	Ps. 18,742,701	46
Mexico.....	14,628,251	33	16,397,034	40
Central America.....	2,593,895	6	2,416,331	6
Asia and Oceania.....	3,736,325	8	3,080,664	8
	Ps. 44,333,021	100	Ps. 40,636,730	100

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7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Cash at bank.....	Ps. 2,392,900	Ps. 1,250,167
Short-term investments (less than 3 months).....	526,154	214,921
	<u>Ps. 2,919,054</u>	<u>Ps. 1,465,088</u>

8. ACCOUNTS RECEIVABLE

Accounts receivable comprised the following:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Trade accounts and notes receivable.....	Ps. 5,776,570	Ps. 4,893,079
Accounts receivable with Venezuelan companies.....	1,253,095	1,123,900
Recoverable value-added tax.....	576,874	327,938
Other debtors.....	657,499	399,546
Allowance for doubtful accounts.....	(287,186)	(255,067)
Impairment of accounts receivable with Venezuelan companies.....	(1,253,095)	-
	<u>Ps. 6,723,757</u>	<u>Ps. 6,489,396</u>

The age analysis of accounts receivable is as follows:

	<u>Total</u>	<u>Not past due date balances</u>	<u>Past due balances</u>		
			<u>1 to 120 days</u>	<u>121 to 240 days</u>	<u>More than 240 days</u>
Accounts receivable.....	Ps. 7,010,943	Ps. 4,680,095	Ps. 2,138,115	Ps. 65,369	Ps. 127,364
Allowance for doubtful accounts..	(287,186)	(61,096)	(89,899)	(25,357)	(110,834)
Total at December 31, 2015.....	<u>Ps. 6,723,757</u>	<u>Ps. 4,618,999</u>	<u>Ps. 2,048,216</u>	<u>Ps. 40,012</u>	<u>Ps. 16,530</u>

	<u>Total</u>	<u>Not past due date balances</u>	<u>Past due balances</u>		
			<u>1 to 120 days</u>	<u>121 to 240 days</u>	<u>More than 240 days</u>
Accounts receivable.....	Ps. 6,744,463	Ps. 4,327,191	Ps. 1,196,623	Ps. 39,869	Ps. 1,180,780
Allowance for doubtful accounts..	(255,067)	(132,714)	(55,424)	(5,285)	(61,644)
Total at December 31, 2014.....	<u>Ps. 6,489,396</u>	<u>Ps. 4,194,477</u>	<u>Ps. 1,141,199</u>	<u>Ps. 34,584</u>	<u>Ps. 1,119,136</u>

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For the years ended December 31, 2015 and 2014, the movements on the allowance for doubtful accounts are as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance.....	Ps. (255,067)	Ps. (327,856)
Allowance for doubtful accounts.....	(60,802)	(20,426)
Receivables written off during the year.....	42,221	99,870
Exchange differences.....	(13,538)	(6,655)
Ending balance.....	<u>Ps. (287,186)</u>	<u>Ps. (255,067)</u>

9. INVENTORIES

Inventories consisted of the following:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Raw materials, mainly corn and wheat.....	Ps. 4,418,806	Ps. 3,971,721
Finished products.....	1,133,922	939,410
Materials and spare parts.....	1,647,877	1,223,602
Production in process.....	237,827	160,243
Advances to suppliers.....	168,980	90,267
Inventory in transit.....	209,355	171,534
	<u>Ps. 7,816,767</u>	<u>Ps. 6,556,777</u>

For the years ended December 31, 2015 and 2014, the cost of raw materials consumed and the changes in the inventories of production in process and finished goods, recognized as cost of sales amounted to Ps.21,386,168 and Ps. 19,047,263, respectively.

For the years ended December 31, 2015 and 2014, the Company recognized Ps.145,993 and Ps. 93,013, respectively, for inventory that was damaged, slow-moving and obsolete.

10. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE

Long-term notes and accounts receivable are as follows:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Long-term notes receivable from sale of tortilla machines.....	Ps. 185,600	Ps. 134,502
Guarantee deposits.....	36,426	29,596
Long-term recoverable value-added tax.....	8,964	7,453
Other.....	14,751	11,292
	<u>Ps. 245,741</u>	<u>Ps. 182,843</u>

At December 31, 2015 and 2014, long-term notes receivable are denominated in pesos, maturing from 2017 to 2019 and bearing monthly interests at an annual average rate of 16.5% for both years.

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11. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 were as follows:

	Land and buildings	Machinery and equipment	Leasehold improvements	Construction in progress	Total
At December 31, 2013					
Cost.....	Ps. 7,747,517	Ps. 26,801,643	Ps. 1,314,759	Ps. 772,825	Ps. 36,636,744
Accumulated depreciation.....	(2,695,536)	(15,459,182)	(577,054)	-	(18,731,772)
Net book value.....	<u>Ps. 5,051,981</u>	<u>Ps. 11,342,461</u>	<u>Ps. 737,705</u>	<u>Ps. 772,825</u>	<u>Ps. 17,904,972</u>
For the year ended December 31, 2014					
Opening net book value...	Ps. 5,051,981	Ps. 11,342,461	Ps. 737,705	Ps. 772,825	Ps. 17,904,972
Exchange differences.....	278,400	699,298	80,285	36,649	1,094,632
Additions.....	138,727	427,996	13,791	1,132,298	1,712,812
Disposals.....	(4,684)	(232,215)	(2,341)	(14,095)	(253,335)
Depreciation charge from continuing operations....	(176,029)	(1,090,620)	(88,750)	-	(1,355,399)
Transfers.....	404,565	967,484	31,194	(1,403,243)	-
Acquisition through business combinations....	-	26,282	-	-	26,282
Impairment.....	(14,395)	-	-	-	(14,395)
Discontinued operations..	(596,689)	(681,295)	(658)	(22,591)	(1,301,233)
Closing net book value...	<u>Ps. 5,081,876</u>	<u>Ps. 11,459,391</u>	<u>Ps. 771,226</u>	<u>Ps. 501,843</u>	<u>Ps. 17,814,336</u>
At December 31, 2014					
Cost.....	Ps. 7,661,597	Ps. 27,864,912	Ps. 1,504,589	Ps. 501,843	Ps. 37,532,941
Accumulated depreciation.....	(2,579,721)	(16,405,521)	(733,363)	-	(19,718,605)
Net book value.....	<u>Ps. 5,081,876</u>	<u>Ps. 11,459,391</u>	<u>Ps. 771,226</u>	<u>Ps. 501,843</u>	<u>Ps. 17,814,336</u>
For the year ended December 31, 2015					
Opening net book value...	Ps. 5,081,876	Ps. 11,459,391	Ps. 771,226	Ps. 501,843	Ps. 17,814,336
Exchange differences.....	483,717	1,118,691	114,340	59,128	1,775,876
Additions.....	46,660	455,466	50,906	1,761,939	2,314,971
Disposals.....	(20,922)	(299,605)	(11,997)	(11,849)	(344,373)
Depreciation charge of the year.....	(190,202)	(1,236,834)	(92,331)	-	(1,519,367)
Transfers.....	63,709	1,148,509	116,291	(1,328,509)	-
Acquisition through business combinations....	49,377	92,890	-	2,125	144,392
Impairment.....	-	(15,847)	-	-	(15,847)
Closing net book value...	<u>Ps. 5,514,215</u>	<u>Ps. 12,722,661</u>	<u>Ps. 948,435</u>	<u>Ps. 984,677</u>	<u>Ps. 20,169,988</u>
At December 31, 2015					
Cost.....	Ps. 8,570,612	Ps. 31,164,784	Ps. 1,802,066	Ps. 984,677	Ps. 42,522,139
Accumulated depreciation.....	(3,056,397)	(18,442,123)	(853,631)	-	(22,352,151)
Net book value.....	<u>Ps. 5,514,215</u>	<u>Ps. 12,722,661</u>	<u>Ps. 948,435</u>	<u>Ps. 984,677</u>	<u>Ps. 20,169,988</u>

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For the years ended December 31, 2015 and 2014, depreciation expense was recognized as follows:

	<u>2015</u>	<u>2014</u>
Cost of sales.....	Ps. 1,189,514	Ps. 1,094,832
Selling and administrative expenses.....	329,853	260,567
	<u>Ps. 1,519,367</u>	<u>Ps. 1,355,399</u>

At December 31, 2015 and 2014, property, plant and equipment included idle assets with a carrying value of approximately Ps.367,604 and Ps. 476,760, respectively, resulting from the temporary shut-down of the productive operations of various plants in Mexico and the United States, mainly in the corn flour division in Mexico and packaged tortilla division in the United States.

For the years ended December 31, 2015 and 2014, the Company recognized impairment losses on fixed assets by Ps.15,847 and Ps.14,395, respectively, within "Other expenses".

The impairment loss recognized in 2015 for Ps.15,847 referred to the subsidiary Gruma Holding Netherlands B.V., which is part of the segment "Corn flour and packaged tortilla division (United States and Europe)". This impairment loss reflects a decrease in the recoverable value of the fixed assets of this cash-generating unit due to its continuous operating losses and the effect of strategic changes in the region in which it operates. The impairment loss recognized in 2014 for Ps.14,395 referred to the subsidiary Gruma Centroamérica, which is part of "other segments". This impairment loss reflects a decrease in the recoverable value of the fixed assets of this cash-generating unit since these assets will not be used for the purposes they were acquired for.

The Company recognized equipment under finance lease arrangements that are described in Note 27-B.

12. INTANGIBLE ASSETS

Changes in intangible assets for the years ended December 31, 2015 and 2014 were as follows:

	<u>Intangible assets acquired</u>					<u>Internally generated intangible assets and others</u>	<u>Total</u>
	<u>Goodwill</u>	<u>Covenants not to compete</u>	<u>Patents and trade-marks</u>	<u>Customer lists</u>	<u>Software for internal use</u>		
At December 31, 2013							
Cost.....	Ps. 2,472,692	Ps. 465,125	Ps. 135,508	Ps. 71,657	Ps. 417,002	Ps. 23,980	Ps. 3,585,964
Accumulated amortization.....	-	(419,644)	(96,384)	(24,557)	(401,895)	(12,383)	(954,863)
Net book value.....	<u>Ps. 2,472,692</u>	<u>Ps. 45,481</u>	<u>Ps. 39,124</u>	<u>Ps. 47,100</u>	<u>Ps. 15,107</u>	<u>Ps. 11,597</u>	<u>Ps. 2,631,101</u>
For the year ended December 31, 2014							
Opening net book value...	Ps. 2,472,692	Ps. 45,481	Ps. 39,124	Ps. 47,100	Ps. 15,107	Ps. 11,597	Ps. 2,631,101
Exchange differences.....	67,676	401	5,679	5,416	995	(474)	79,693
Additions.....	-	-	-	-	10,434	6,692	17,126
Disposals.....	-	-	-	-	(34)	(3,326)	(3,360)
Amortization charge from continuing operations.....	-	(43,012)	(5,684)	(6,561)	(1,836)	(849)	(57,942)
Acquisition through business combinations....	84,089	-	44,287	29,049	-	-	157,425
Discontinued operations..	(28,774)	-	-	-	(1,742)	(1,381)	(31,897)
Closing net book value...	<u>Ps. 2,595,683</u>	<u>Ps. 2,870</u>	<u>Ps. 83,406</u>	<u>Ps. 75,004</u>	<u>Ps. 22,924</u>	<u>Ps. 12,259</u>	<u>Ps. 2,792,146</u>

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	Intangible assets acquired					Internally generated intangible assets and others	Total
	Goodwill	Covenants not to compete	Patents and trade-marks	Customer lists	Software for internal use		
At December 31, 2014							
Cost.....	Ps. 2,595,683	Ps. 467,357	Ps. 197,384	Ps. 109,748	Ps. 389,933	Ps. 23,138	Ps. 3,783,243
Accumulated amortization.....	-	(464,487)	(113,978)	(34,744)	(367,009)	(10,879)	(991,097)
Net book value.....	<u>Ps. 2,595,683</u>	<u>Ps. 2,870</u>	<u>Ps. 83,406</u>	<u>Ps. 75,004</u>	<u>Ps. 22,924</u>	<u>Ps. 12,259</u>	<u>Ps. 2,792,146</u>
For the year ended December 31, 2015							
Opening net book value...	Ps. 2,595,683	Ps. 2,870	Ps. 83,406	Ps. 75,004	Ps. 22,924	Ps. 12,259	Ps. 2,792,146
Exchange differences.....	251,523	293	7,057	19,162	1,547	113	279,695
Additions.....	-	-	-	-	997	2,821	3,818
Amortization charge from continuing operations.....	-	(2,492)	(7,734)	(12,963)	(3,602)	(2,061)	(28,852)
Acquisition through business combinations....	513,686	-	2,297	96,215	-	-	612,198
Impairment.....	(156,945)	-	-	-	-	-	(156,945)
Closing net book value...	<u>Ps. 3,203,947</u>	<u>Ps. 671</u>	<u>Ps. 85,026</u>	<u>Ps. 177,418</u>	<u>Ps. 21,866</u>	<u>Ps. 13,132</u>	<u>Ps. 3,502,060</u>
At December 31, 2015							
Cost.....	Ps. 3,203,947	Ps. 460,762	Ps. 213,095	Ps. 231,798	Ps. 396,713	Ps. 29,400	Ps. 4,535,715
Accumulated amortization.....	-	(460,091)	(128,069)	(54,380)	(374,847)	(16,268)	(1,033,655)
Net book value.....	<u>Ps. 3,203,947</u>	<u>Ps. 671</u>	<u>Ps. 85,026</u>	<u>Ps. 177,418</u>	<u>Ps. 21,866</u>	<u>Ps. 13,132</u>	<u>Ps. 3,502,060</u>

At December 31, 2015 and 2014, except for goodwill, the Company does not have indefinite-lived intangible assets.

For the years ended December 31, 2015 and 2014, amortization expense of intangible assets from continuing operations amounted to Ps.28,852 and Ps. 57,942, respectively, which were recognized in the income statement as selling and administrative expenses.

Research and development costs of Ps.136,538 and Ps. 152,967 that did not qualify for capitalization were recognized in the income statement for the years ended December 31, 2015 and 2014, respectively.

Goodwill acquired in business combinations is allocated at acquisition date to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combinations. The carrying values of goodwill allocated to the CGU or a group of CGU are as follows:

Cash-generating unit	At December 31, 2015	At December 31, 2014
Mission Foods Division (1).....	Ps. 1,023,443	Ps. 875,427
Azteca Foods Europe (2).....	571,020	-
Gruma Seaham Ltd (2).....	352,993	335,748
Gruma Corporation.....	212,765	212,765
Rositas Investments Pty, Ltd (2).....	184,856	177,676
Semolina, A.S (2).....	147,865	158,582
Azteca Milling, L.P (1).....	126,691	108,369
NDF Azteca Milling Europe SRL (2).....	99,318	92,177
Grupo Industrial Maseca, S.A.B. de C.V.....	98,622	98,622
MexiFoods, S.L. (2).....	88,408	84,089

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Cash-generating unit	At December 31, 2015	At December 31, 2014
Agroindustrias Integradas del Norte, S.A. de C.V (3).....	86,325	86,325
Gruma Centroamérica (2).....	51,207	51,207
Altera LLC (2).....	42,033	54,510
Solntse Mexico (2).....	38,301	42,443
Molinos Azteca de Chiapas, S.A. de C.V (3).....	28,158	28,158
Harinera de Yucatán, S.A. de C.V (3).....	18,886	18,886
Harinera de Maíz de Mexicali, S.A. de C.V (3).....	17,424	17,424
Molinos Azteca, S.A. de C.V (3).....	8,926	8,926
Harinera de Maíz de Jalisco, S.A. de C.V (3).....	6,706	6,706
Gruma Holding Netherlands B.V (1).....	-	137,643
	Ps. 3,203,947	Ps. 2,595,683

- (1) Subsidiary of Gruma Corporation
(2) Subsidiary of Gruma International Foods, S.L.
(3) Subsidiary of Grupo Industrial Maseca, S.A.B. de C.V.

In 2015 and 2014, the discount rates and growth rates in perpetuity used by the Company for determining the discounted cash flows of the CGU with the main balances of goodwill are the following:

Cash-generating unit	After-tax discount rates		Growth rates	
	2015	2014	2015	2014
Mission Foods Division.....	7.3%	7.0%	2.0%	1.8%
Azteca Foods Europe.....	9.4%	-	2.5%	-
Gruma Seaham.....	8.2%	7.9%	2.5%	2.5%
Gruma Corporation.....	6.1%	6.1%	2.5%	2.5%
Rositas Investment PTY, LTD.....	8.7%	7.3%	3.0%	3.0%
Semolina A.S.....	9.9%	9.4%	2.5%	2.5%
Azteca Milling, L.P.....	7.3%	7.0%	2.0%	1.8%
Grupo Industrial Maseca, S.A.B. de C.V.....	8.7%	8.6%	2.5%	2.5%
Agroindustrias Integradas del Norte, S.A. de C.V.....	8.7%	8.6%	2.5%	2.5%

The discount rate used reflects the Company's specific risks related to its operations. The long-term growth rate used is consistent with projections included in industry reports.

With respect to the determination of the CGU's value in use, the Company's management considered that a reasonably possible change in the key assumptions used, will not cause that the CGU's carrying value to materially exceed their value in use. The recovery amount of cash-generating units has been determined based on calculations of the values in use. These calculations use cash flow projections based on financial budgets approved by the Company's management for a 5-year period.

For the years ended December 31, 2015, the Company recognized an impairment loss on goodwill of Ps.156,945 in "Other expenses". Impairment loss in 2015 refers to the CGU of Gruma Holding Netherlands B.V., which is part of the segment "Corn flour and packaged tortilla division (United States and Europe)". This impairment loss reflects a decrease in the recoverable value of this CGU due

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to its continuous operating losses and the effect of strategic changes in the region in which it operates. For the year ended December 31, 2014, no impairment losses on goodwill were recognized.

13. DEFERRED TAX ASSETS AND LIABILITIES

A) COMPONENTS OF DEFERRED TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Deferred tax asset:		
To be recovered after more than 12 months.....	Ps. (1,352,832)	Ps. (803,084)
To be recovered within 12 months.....	(548,385)	(466,659)
	<u>(1,901,217)</u>	<u>(1,269,743)</u>
Deferred tax liability:		
To be recovered after more than 12 months.....	2,314,111	2,273,512
To be recovered within 12 months.....	56,806	71,247
	<u>2,370,917</u>	<u>2,344,759</u>
Deferred tax liability, net.....	<u>Ps. 469,700</u>	<u>Ps. 1,075,016</u>

The principal components of deferred tax assets and liabilities are summarized as follows:

	<u>(Asset) Liability</u>	
	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Net operating loss carryforwards and other tax credits.....	Ps. (988,448)	Ps. (252,872)
Customer advances.....	(5,362)	(956)
Allowance for doubtful accounts.....	(5,190)	(3,460)
Provisions.....	(751,102)	(643,612)
Deferred income for trademarks license with subsidiary.....	(468,969)	(586,119)
Derivative financial instruments.....	(15,193)	(18,780)
Other.....	(114,410)	(114,107)
Deferred tax asset.....	<u>(2,348,674)</u>	<u>(1,619,906)</u>
Property, plant and equipment, net.....	2,294,239	2,143,603
Prepaid expenses.....	2,862	1,515
Inventories.....	1,616	2,188
Intangible assets.....	369,057	372,632
Other.....	28,210	(18,946)
	<u>2,695,984</u>	<u>2,500,992</u>
Tax consolidation effect.....	122,390	193,930
Deferred tax liability.....	<u>2,818,374</u>	<u>2,694,922</u>
Net provision for deferred taxes.....	<u>Ps. 469,700</u>	<u>Ps. 1,075,016</u>

At December 31, 2015 and 2014, the Company did not recognize a deferred income tax asset of Ps.1,293,784 and Ps. 1,634,646, respectively, for tax loss carryforwards, since sufficient evidence was not available to determine that these tax loss carryforwards will be realized during their amortization period. These tax losses expire in the year 2024.

At December 31, 2015 and 2014, undistributed taxable income of subsidiaries amounted to Ps.1,603,365 and Ps. 1,930,922, respectively. No deferred income tax has been recognized for this

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undistributed taxable income, since the Company has the ability to control the time for its reversal and it is probable that in the foreseeable future these temporary differences will not reverse. If the Company had not chosen this option, the deferred tax liability of these items would have amounted to Ps.481,009 and Ps.579,277 as of December 31, 2015 and 2014, respectively.

The changes in the temporary differences during the year were as follows:

	Balance at January 1, 2015	Recognized in income	Recognized in other compre- hensive income	Reclassifi- cations	Foreign currency translation	Balance at December 31, 2015
Net operating loss carryforwards and other tax credits.....	Ps. (252,872)	Ps. (700,091)	Ps. -	Ps. 193	Ps. (35,678)	Ps. (988,448)
Customer advances.....	(956)	5,365	-	(9,771)	-	(5,362)
Allowance for doubtful accounts	(3,460)	(1,118)	-	(58)	(554)	(5,190)
Provisions.....	(643,612)	(34,919)	(5,160)	(2,281)	(65,130)	(751,102)
Deferred income from trademark license with subsidiary.....	(586,119)	117,150	-	-	-	(468,969)
Derivative financial instruments.	(18,780)	-	6,762	-	(3,175)	(15,193)
Others.....	(114,107)	10,687	-	95	(11,085)	(114,410)
Deferred tax asset.....	<u>(1,619,906)</u>	<u>(602,926)</u>	<u>1,602</u>	<u>(11,822)</u>	<u>(115,622)</u>	<u>(2,348,674)</u>
Property, plant and equipment...	2,143,603	(109,007)	-	6,673	252,970	2,294,239
Prepaid expenses.....	1,515	1,347	-	-	-	2,862
Inventories.....	2,188	1,106	-	226	(1,904)	1,616
Intangible assets.....	372,632	(90,138)	-	22,003	64,560	369,057
Others.....	(18,946)	28,695	(14,823)	3,474	29,810	28,210
	<u>2,500,992</u>	<u>(167,997)</u>	<u>(14,823)</u>	<u>32,376</u>	<u>345,436</u>	<u>2,695,984</u>
Tax consolidation effect.....	193,930	(71,540)	-	-	-	122,390
Deferred tax liability.....	<u>2,694,922</u>	<u>(239,537)</u>	<u>(14,823)</u>	<u>32,376</u>	<u>345,436</u>	<u>2,818,374</u>
Net provision for deferred taxes	<u>Ps.1,075,0016</u>	<u>Ps. (842,463)</u>	<u>Ps. (13,221)</u>	<u>Ps. 20,554</u>	<u>Ps. 229,814</u>	<u>Ps. 469,700</u>

	Balance at January 1, 2014	Recognized in income	Recognized in other compre- hensive income	Reclassifi- cations	Disconti- nued operations	Foreign currency translation	Balance at December 31, 2014
Net operating loss carryforwards and other tax credits.....	Ps. (322,530)	Ps. 49,757	Ps. -	Ps. (933)	Ps. 30,056	Ps. (9,222)	Ps. (252,872)
Customer advances.....	(3,884)	(956)	-	3,866	18	-	(956)
Allowance for doubtful accounts	(17,858)	1,289	-	42	13,134	(67)	(3,460)
Provisions.....	(516,933)	(112,509)	4,593	1,132	22,360	(42,255)	(643,612)
Deferred income from trademark license with subsidiary.....	(703,269)	117,150	-	-	-	-	(586,119)
Derivative financial instruments.	(30,377)	-	12,731	-	-	(1,134)	(18,780)
Others.....	(115,040)	2,131	-	(32)	-	(1,166)	(114,107)
Deferred tax asset.....	<u>(1,709,891)</u>	<u>56,862</u>	<u>17,324</u>	<u>4,075</u>	<u>65,568</u>	<u>(53,844)</u>	<u>(1,619,906)</u>
Property, plant and equipment...	1,758,421	363,920	-	5,937	(78,161)	93,486	2,143,603
Prepaid expenses.....	3,376	(681)	-	-	(1,180)	-	1,515
Inventories.....	15,133	(16,375)	-	3,020	-	410	2,188
Intangible assets.....	352,573	(38,978)	-	17,346	1,091	40,600	372,632
Investment in associates.....	403,384	(490,059)	-	-	-	86,675	-
Others.....	24,836	(7,755)	(31,082)	(3,966)	-	(979)	(18,946)
	<u>2,557,723</u>	<u>(189,928)</u>	<u>(31,082)</u>	<u>22,337</u>	<u>(78,250)</u>	<u>220,192</u>	<u>2,500,992</u>
Tax consolidation effect.....	910,618	(716,688)	-	-	-	-	193,930
Deferred tax liability.....	<u>3,468,341</u>	<u>(906,616)</u>	<u>(31,082)</u>	<u>22,337</u>	<u>(78,250)</u>	<u>220,192</u>	<u>2,694,922</u>
Net provision for deferred taxes	<u>Ps.1,758,450</u>	<u>Ps. (849,754)</u>	<u>Ps. (13,758)</u>	<u>Ps. 26,412</u>	<u>Ps. (12,682)</u>	<u>Ps. 66,348</u>	<u>Ps. 1,075,016</u>

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B) TAX LOSS CARRYFORWARDS

At December 31, 2015, the Company had tax loss carryforwards which amounted to approximately Ps.5,713,687. Based on projections prepared by the Company's management of expected future taxable income, it has been determined that only tax losses for an amount of Ps.1,401,072 will be used. Therefore, the Company did not recognize a deferred tax asset for the difference. Tax losses that will be used have the following expiration dates:

<u>Year</u>	<u>Amount</u>
2016.....	Ps. 150,934
2017.....	161,365
2018.....	214,930
2019.....	201,476
2020 to 2024.....	672,367
Total.....	<u>Ps. 1,401,072</u>

C) UNCERTAIN TAX POSITIONS

At December 31, 2015 and 2014, the Company recognized a liability for uncertain tax positions of Ps.34,334 and Ps.41,200, respectively, excluding interest and penalties, and it is included in Other non-current liabilities. The following table shows a reconciliation of the Company's uncertain tax positions, excluding interest and penalties:

	<u>2015</u>	<u>2014</u>
Uncertain tax positions at beginning of year.....	Ps. 41,200	Ps. 41,421
Translation adjustment of the beginning balance.....	(15,358)	(7,178)
Increase as result of uncertain tax positions taken in the year.....	344	5,225
Reductions due to a lapse of the statute of limitations.....	8,148	1,732
Uncertain tax positions at end of year.....	<u>Ps. 34,334</u>	<u>Ps. 41,200</u>

It is expected that the amount of uncertain tax positions will change in the next 12 months; however, the Company does not expect the change to have a significant impact on its consolidated financial position or results of operations. The Company had accrued interest and penalties of approximately Ps.5,833 and Ps.4,298 related to uncertain tax positions for 2015 and 2014, respectively.

D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME

Deferred taxes related to other comprehensive income are comprised of:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Foreign currency translation adjustments.....	Ps. (13,048)	Ps. (30,712)
Remeasurement of employment benefit obligations.....	(6,935)	4,223
Cash flow hedges.....	6,762	12,731
Total.....	<u>Ps. (13,221)</u>	<u>Ps. (13,758)</u>

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E) TAX CONSOLIDATION

Until December 31, 2013, the Company determined its income tax under the tax consolidation regime, together with its subsidiaries in Mexico. This was due to the abrogation of the Income Tax Law effective until December 31, 2013, which eliminated this tax regime. The Company decided not to join the new Optional Regime for Company Groups for the year 2014.

Due to the elimination of the tax consolidation regime, the Company has the obligation to pay the deferred tax determined at that time during the following five-year period. The payment corresponding to the 50% of the income tax resulting from the deconsolidation was paid in 2015 and 2014 (25% in each year) and the remaining income tax (restated with inflation factors) must be paid to the tax authority in accordance with the following deadlines:

1. 20% no later than April 30, 2016
2. 15% no later than April 30, 2017
3. 15% no later than April 30, 2018

In accordance with subsection d) of section XV of the transitional Article 9 of the 2014 Income Tax Law, and since the Company was the parent entity at December 31, 2013 and at such date was subject to the payment schedule contained in the section VI of Article 4 of the transitional provisions of the Income Tax Law published in the Official Gazette on December 7, 2009, or Article 70-A of the 2013 Income Tax Law that was abrogated, the Company shall continue to settle its deferred income tax from tax consolidation pertaining to 2007 and previous years, under the provisions above mentioned, until its payment is completed.

At December 31, 2015, the liability arising from tax consolidation regime effective December 31, 2013 amounted to Ps.213,951 and is estimated to be incurred as follows:

<u>Year of payment</u>	<u>Amount</u>
2016.....	Ps. 91,561
2017.....	64,410
2018.....	57,980
Total.....	<u>Ps. 213,951</u>

At December 31, 2015, income tax to be settled in the next 12 months was classified in the statement of financial position as short-term income tax payable for Ps.91,561. The remaining liability considered as long-term for Ps.122,390 in accordance with the requirements of the Income Tax Law, was included as a component of the deferred income taxes.

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14. DEBT

Debt is summarized as follows:

Short-term:

	At December 31, 2015	At December 31, 2014
Bank loans.....	Ps. 1,979,983	Ps. 973,499
Current portion of long-term bank loans.....	675,444	455,142
Current portion of financing lease liabilities.....	4,608	8,467
	<u>Ps. 2,660,035</u>	<u>Ps. 1,437,108</u>

Long-term:

	At December 31, 2015	At December 31, 2014
Bank loans.....	Ps. 11,166,991	Ps. 9,768,263
Financing lease liabilities.....	7,467	19,398
	<u>Ps. 11,174,458</u>	<u>Ps. 9,787,661</u>
Current portion of long-term bank loans.....	(675,444)	(455,142)
Current portion of financing lease liabilities.....	(4,608)	(8,467)
	<u>Ps. 10,494,406</u>	<u>Ps. 9,324,052</u>

The terms, conditions and carrying values of debt are as follows:

	Currency	Interest rate	Maturity date	At December 31, 2015	At December 31, 2014
10-year Senior notes (b).....	U.S.\$	4.875%	2024	Ps. 6,821,234	Ps. 5,820,558
Syndicated loan (a).....	U.S.\$	LIBOR + 1.5%	2015-2018	3,207,039	3,060,147
Credits.....	Pesos	3.75% - 3.80%	2016	1,000,000	-
Syndicated loan (a).....	U.S.\$	LIBOR + 0.95%	2018	851,315	-
Credits.....	U.S.\$	1.47% - 2.12%	2016	705,467	863,457
Credit.....	Euros	1.19% - 5.50%	2015-2022	230,914	15,140
Credit.....	U.S.\$	0.92%	2016	154,859	-
Credit.....	Liras	13.50%	2016	119,657	101,096
Credit.....	Pesos	5.45% - 6.64%	2019	56,489	81,364
Financing lease liability.....	Euros	3.99%	2014-2017	7,467	19,398
Syndicated loan.....	Pesos	TIIE + 1.625%	2015-2018	-	800,000
Total.....				<u>Ps. 13,154,441</u>	<u>Ps. 10,761,160</u>

(a) Quarterly interest payments; (b) Semiannual interest payments
- The remaining debt pays interests on a monthly basis, at maturity.

At December 31, 2015 and 2014, short-term debt bore interest at an average rate of 4.04% and 3.42%, respectively. At December 31, 2015 and 2014, interest expense included interest related to debt amounting Ps.519,244 and Ps.1,008,251, respectively.

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At December 31, 2015, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2017.....	Ps. 626,453
2018.....	2,972,434
2019.....	48,709
2020.....	15,990
2021 and thereafter	6,830,820
Total.....	<u>Ps. 10,494,406</u>

On November 24, 2014 the conditions were renegotiated for Gruma Corporation revolving credit with Bank of America, N.A., which was carried out on June 20, 2011 for U.S.\$250 million. Its maturity date was extended from June 2016 to November 2019, and the interest rate was reduced by 25 basis points to LIBOR plus a spread between 112.5 and 175 basis points, based on the Company's leverage ratio.

In order to refinance the perpetual notes, on December 5, 2014 the Company issued 10-year senior notes of Ps.5,820,558 (U.S.\$400 million) in international markets, payable at maturity on December 1, 2024. The senior notes have an annual fixed interest rate of 4.875% payable semi-annually. The senior notes were placed by Goldman Sachs & Co. and Santander Investment Securities Inc., as leading agents, and Banco Bilbao Vizcaya Argentaria, SA, Credit Agricole Securities and Scotia Capital Inc., as secondary agents. The proceeds were used to redeem the Perpetual Notes on December 15, 2014 and for the repayment of additional indebtedness of U.S.\$100 million.

The Company has credit line agreements for Ps.6,452,438 (U.S.\$375 million), of which Ps.5,592,113 (U.S.\$325 million) are available as of December 31, 2015. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.15% to 0.30% over the unused amounts, which is recognized as interest expense of the year.

The outstanding credit agreements contain covenants mainly related to compliance with certain financial ratios and delivery of financial information, which, if not complied with during the period, as determined by creditors, may be considered a cause for early maturity of the debt.

Financial ratios are calculated according to formulas established in the credit agreements. The main financial ratios contained in the credit agreements are the following:

- Interest coverage ratio, defined as the ratio of consolidated earnings before interest, tax, depreciation and amortization (EBITDA) of the last twelve months to consolidated interest charges, should not be less than 2.50 to 1.00.
- Leverage ratio, defined as the ratio of total consolidated indebtedness (as described in the credit agreements) to consolidated EBITDA, should be no greater than 3.50 to 1.00.

At December 31, 2015 and 2014, the Company was in compliance with the financial covenants, as well as with the delivery of the required financial information.

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15. PROVISIONS

The movements of provisions are as follows:

	Labor provisions	Restoration provision	Tax and custom dispute provision	Compensation for import of contaminated rice	Total
Balance at December 31, 2013.....	Ps. 231,355	Ps. 123,482	Ps. 22,947	Ps. -	Ps. 377,784
Charge (credit) to income:					
Additional provisions.....	289,715	14,729	15,719	12,146	332,309
Unused amounts reversed.....	(1,481)	(1,763)	-	-	(3,244)
Used during the year.....	(190,719)	(1,015)	(62)	-	(191,796)
Exchange differences.....	38,551	16,637	2,715	1,268	59,171
Balance at December 31, 2014.....	<u>367,421</u>	<u>152,070</u>	<u>41,319</u>	<u>-</u>	<u>574,224</u>
Charge (credit) to income:					
Additional provisions.....	261,439	6,773	5,457	-	276,852
Unused amounts reversed.....	(2,375)	(4,048)	-	(14,503)	(24,109)
Used during the year.....	(241,376)	-	(607)	-	(241,983)
Exchange differences.....	63,164	25,928	6,498	1,089	96,679
Balance at December 31, 2015.....	<u>Ps. 448,273</u>	<u>Ps. 180,723</u>	<u>Ps. 52,667</u>	<u>Ps. -</u>	<u>Ps. 681,663</u>
Of which current.....	Ps. 139,545	Ps. 51,774	Ps. -	Ps. -	Ps. 191,319
Of which non-current.....	308,728	128,949	52,667	-	490,344

Labor provisions

In the United States, when permitted by law, the Company self insures against workers' compensation claims arising from medical expenses incurred due to work accidents or illness. For uncovered risks, the Company estimates the associated liabilities through an actuarial calculation, considering historical information of claims, demographic factors, severity of past events and other actuarial assumptions; to estimate the expected outflows of economic resources and projected timing of the settlement of these claims. The discount rate applied during 2015 was 3.26%. At December 31, 2015, the Company has Ps.30,834 (U.S.\$1,792 thousand) of expected insurance reimbursements that are included in consolidated balance sheet as a component of accounts receivable.

Likewise, the subsidiary in Italy established a provision to meet legal costs arising from labor claims related mainly to work accidents.

Restoration provision

In the United States and Europe, the Company has recognized an obligation to remove equipment and leasehold improvements from certain of its leased manufacturing facilities in order to restore the facilities to their original condition, less normal wear and tear as determined by the terms of the lease. The Company has estimated the expected outflows of economic resources associated with these obligations and the probability of possible settlement dates based upon the terms of the lease. These estimates are used to calculate the present value of the estimated expenditures using a pre-tax discount rate and taking into account any specific risks associated with these obligations. The discount rate applied during 2015 was 4.36%.

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Tax and custom dispute provision

In Central America, for the periods from 2005 to 2011, tax authorities have lodged tax assessments against the Company for approximately Ps.31,000 (971 million colons) in connection with sales and income tax. Based on the criteria of the Company's management and the opinion of tax consultants hired for the Company's defense, there is a probability that some of the tax assessments will be settled. For this reason, the Company has accrued the necessary amounts to cover the payment of these obligations.

Additionally in Central America, during 2014 tax authorities have decided not to issue authorizations for the use of tax loss carryforwards from previous years, arguing that they are reviewing the procedure for granting such tax benefit. Tax loss carryforwards prescribed during 2014 amounted to Ps.63,000 (1,988 million colons); therefore, the Company has accrued approximately Ps.19,000 (596 million colons) corresponding to the tax impact of this matter, considering that the Company will exercise its right in court, where a favorable outcome is reserved.

At December 31, 2015, the Company in one of its subsidiaries in Europe recognized a provision of Ps.3,551, corresponding to the ongoing legal case with the Customs office regarding a conflict with the Harmonized System Code for imported goods. The Company has accrued the necessary amounts to cover the payment of the obligations that may arise at the end of this process, such as penalties, fees, etc.

Compensation for import of contaminated rice

At December 31, 2014 in Central America, the Company recognized a provision for Ps.13,414 (496 million colons), corresponding to the probable loss due to the refusal of the government due to its determination of excess of agrochemicals in imported rice. During 2015, this provision was reversed, since the Company had an insurance reimbursement of 100% of this provision.

16. OTHER CURRENT LIABILITIES

At December 31, 2015 and 2014, Other current liabilities includes the following:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Contingent liability (Note 29).....	Ps. 1,009,750	Ps. -
Employee benefits payable.....	913,788	802,706
Promotion and advertising payable.....	393,722	255,694

The rest of the items that comprise Other current liabilities correspond to accrued expenses payable.

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17. EMPLOYEE BENEFITS OBLIGATIONS

Employee benefits obligations recognized in the balance sheet, by country, were as follows:

<u>Country</u>	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Mexico.....	Ps. 509,306	Ps. 505,798
United States and Europe.....	116,219	103,864
Central America.....	20,148	10,321
Total.....	<u>Ps. 645,673</u>	<u>Ps. 619,983</u>

A) MEXICO

In Mexico, labor obligations recognized by the Company correspond to the single-payment retirement plan and seniority premium. The benefits for the retirement plan and seniority premium are defined benefit plans, based on the projected salary at the date in which the employee is assumed to receive the benefits. Currently, the plan operates under Mexican law, which does not require minimum funding.

The plans in Mexico typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk:

- Investment risk. The expected return rate for investment funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and fixed-rate instruments. Due to the long-term nature of the plan liabilities, the Company considers appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund; however, a minimum 30% must be invested in government bonds as required by Mexican tax laws.
- Interest risk. A decrease in the interest rate will increase the plan liability; the volatility in interest rates depends exclusively in the economic environment.
- Longevity risk. The present value of the defined benefit plan liability is calculated by reference to the best estimate of mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.
- Salary risk. The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary expectancy of the plan participants will increase the plan's liability.

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The reconciliation between the beginning and ending balances of the present value of the defined benefit obligations (DBO) is as follows:

	<u>2015</u>	<u>2014</u>
DBO at beginning of the year.....	Ps. 561,445	Ps. 579,667
Add (deduct):		
Current service cost.....	29,606	28,083
Financial cost.....	32,675	31,591
Remeasurement for the period.....	17,888	7,851
Benefits paid.....	(70,447)	(85,747)
Past service cost.....	52	-
DBO at end of the year.....	<u>Ps. 571,219</u>	<u>Ps. 561,445</u>

At December 31, 2015 and 2014, liabilities relating to vested employee benefits amounted to Ps.342,784 and Ps.337,619, respectively.

The reconciliation between the beginning and ending balances of the employee benefit plan assets at fair value for the years 2015 and 2014 is shown below:

	<u>2015</u>	<u>2014</u>
Plan assets at fair value at beginning of the year..	Ps. 55,647	Ps. 56,240
Add (deduct):		
Return on plan assets.....	2,922	2,970
Return on plan assets recognized in other comprehensive income.....	3,344	(3,563)
Plan assets at fair value at end of the year.....	<u>Ps. 61,913</u>	<u>Ps. 55,647</u>

The following table shows the reconciliation between the present value of the defined benefit obligation and the plan assets at fair value, and the projected net liability included in the balance sheet:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Employee benefit (assets) liabilities:		
DBO.....	Ps. 571,219	Ps. 561,445
Plan assets.....	(61,913)	(55,647)
Employee benefits obligations.....	<u>Ps. 509,306</u>	<u>Ps. 505,798</u>

The value of the DBO related to the pension plan amounted to Ps.499,368 and Ps.495,808 at December 31, 2015 and 2014, respectively, while the value of the DBO related to seniority premiums amounted to Ps.71,851 and Ps.65,637, respectively.

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At December 31, 2015 and 2014, the components of net cost comprised the following:

	<u>2015</u>	<u>2014</u>
Current service cost.....	Ps. 29,606	Ps. 28,083
Past service cost.....	52	-
Financial cost.....	32,675	31,591
Return on plan assets.....	(2,922)	(2,970)
Net cost for the year.....	<u>Ps. 59,411</u>	<u>Ps. 56,704</u>

The net cost for the year 2015 and 2014 of Ps.59,411 and Ps.56,704, respectively, was recognized as follows:

	<u>2015</u>	<u>2014</u>
Cost of sales.....	Ps. 12,488	Ps. 10,150
Selling and administrative expenses.....	46,923	41,498
Discontinued operations.....	-	5,056
Net cost for the year.....	<u>Ps. 59,411</u>	<u>Ps. 56,704</u>

Remeasurements of the defined benefit obligation recognized in other comprehensive income are comprised of:

	<u>2015</u>	<u>2014</u>
Return on plan assets (excluding amounts included in net cost of the year).....	Ps. (3,344)	Ps. 3,563
Actuarial gains and losses arising from changes in demographic assumptions.....	-	59,940
Actuarial gains and losses arising from changes in financial assumptions.....	(14,967)	(15,234)
Actuarial gains and losses arising from experience adjustments.....	32,855	(36,855)
	<u>Ps. 14,544</u>	<u>Ps. 11,414</u>

The total amount recognized in other comprehensive income is described below:

	<u>2015</u>	<u>2014</u>
Balance at the beginning of the year.....	Ps. 285,418	Ps. 274,004
Remeasurements that occurred during the year...	14,544	11,414
Balance at the end of the year.....	<u>Ps. 299,962</u>	<u>Ps. 285,418</u>

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At December 31, 2015 and 2014, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	<u>At December 31, 2015</u>		<u>At December 31, 2014</u>	
Equity securities, classified by type of industry:	Ps. 50,664	82%	Ps. 42,508	76%
Consumer industry.....	15,114		10,191	
Financial institutions.....	35,550		32,317	
Fixed rate securities.....	11,249	18%	13,139	24%
Fair value of plan assets.....	Ps. 61,913	100%	Ps. 55,647	100%

The Company has a policy of maintaining at least 30% of its trust assets in Mexican Federal Government instruments. Guidelines have been established for the remaining 70% and investment decisions are taken in accordance with these guidelines to the extent market conditions and available funds allow it.

As of December 31, 2015, the funds maintained in plan assets were considered sufficient to face the Company's short-term needs; therefore, the Company's management has determined that for the time being there is no need for additional contributions to increase these assets.

The main actuarial assumptions used were as follows:

	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>
Discount rate.....	6.50%	6.25%
Future increase rate in compensation levels.....	4.50%	4.50%
Long-term inflation rate.....	3.50%	3.50%

At December 31 2015 and 2014, the impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.16,082 and Ps.10,147, respectively.

The sensitivity analysis mentioned above is based on the change in the discount rate while keeping constant the rest of the assumptions. In practice, this is unlikely to occur, and changes in some of the assumptions can be correlated.

The methods used in preparing the sensitivity analysis did not change from those used in prior years.

The average duration of the benefit obligation at December 31, 2015 and 2014 is 12 and 13 years, respectively.

The Company does not expect to contribute during the next fiscal year.

B) OTHER COUNTRIES

In the United States, the Company has a savings and investment plan that incorporates voluntary employee 401(k) contributions with matching contributions from the Company in this country. For the years ended December 31, 2015 and 2014, total expenses related to this plan amounted to Ps.109,956 and Ps.81,215, respectively (U.S.\$6,900 and U.S.\$6,082 thousand, respectively).

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Additionally, the Company has established an unfunded nonqualified deferred compensation plan for a selected group of management and highly compensated employees. The plan is voluntary and allows employees to defer a portion of their salary or bonus in excess of the savings and investment plan limitations. The employees elect investment options and the Company monitors the result of those investments and records a liability for the obligation. For the years ended December 31, 2015 and 2014, total expenses related to this plan were approximately Ps.1,833 and Ps.7,184, respectively (U.S.\$115 and U.S.\$538 thousand, respectively). At December 31, 2015 and 2014, the liability recognized for these items amounted to Ps.105,579 and Ps.94,151, respectively (U.S.\$6,136 and U.S.\$6,397 thousand, respectively).

In Central America, the retirement and severance provisions are determined according to the current Labor Legislation of each country. At December 31, 2015 and 2014, the liability recognized for this item amounted to Ps.20,148 and Ps.10,321, respectively, and the total labor obligation cost amounted Ps.10,593 and Ps.1,586, respectively.

18. EQUITY

A) COMMON STOCK

At December 31, 2015 and 2014, the Company's outstanding common stock consisted of 432,749,079 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval.

B) RETAINED EARNINGS

In accordance with Mexican Corporate Law, the legal reserve must be increased annually by 5% of annual net profits until it reaches a fifth of the fully paid common stock amount. The legal reserve is included within retained earnings.

Movements in the legal reserve for the years ended December 31, 2015 and 2014 are as follows:

	<u>Amount</u>
Balance at December 31, 2013.....	Ps. 304,631
Increases during the year.....	<u>283,674</u>
Balance at December 31, 2014.....	588,305
Increases during the year.....	<u>65,986</u>
Balance at December 31, 2015.....	<u><u>Ps. 654,291</u></u>

In October 2013, the Chamber of Senators and Deputies approved the issuance of the new Income Tax Law, effective starting January 1, 2014. Among other, the Law establishes a 10% tax rate on earnings from 2014 and thereafter, for dividend paid to foreign residents and Mexican individuals; additionally, this law states that for the years 2001 to 2013, the net taxable income will be determined in accordance with the Income Tax Law that was effective for each year.

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Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN) and will be taxed at a rate that fluctuates between 32% and 35% if they are paid from the reinvested Net Tax Profit Account. Dividends paid that exceed CUFIN and reinvested CUFIN are subject to an income tax payable at a rate of 30% if paid in 2016. The tax is payable by the Company and may be credited against the normal income tax payable by the Company in the year in which the dividends are paid or in the following two years. Dividends paid from earnings previously taxed are not subject to any withholding or additional tax payment. As of December 31, 2015, CUFIN amounted to Ps.9,544,413.

C) PURCHASE OF COMMON STOCK

The Shareholders' Meeting held on April 24, 2015 approved to increase the reserve to repurchase the Company's own shares up to Ps.650,000. The maximum amount of proceeds that can be used to purchase the Company's own shares cannot exceed, in any case, the net earnings of the entity, including retained earnings. The difference between the acquisition cost of the repurchased shares and their stated value, composed of common stock and share premium, is recognized as part of the reserve to repurchase the Company's own shares, which is included within retained earnings from prior years. The gain or loss on the sale of the Company's own shares is recorded in retained earnings.

The balance of the reserve for acquisition of Company's own shares for the years ended December 31, 2015 and 2014 was Ps.650,000. During 2015 and 2014 no movements in this reserve occurred.

D) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

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

	2015	2014
Balance at beginning of year.....	Ps. (179,408)	Ps. (10,895)
Effect of the year from translating net investment in foreign subsidiaries.....	2,240,481	793,342
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries.....	(1,594,427)	(961,855)
Balance at end of year.....	<u>Ps. 466,646</u>	<u>Ps. (179,408)</u>

The investment that the Company maintains in its operations in the United States and Europe generated a hedge of up to U.S.\$637 and U.S.\$597 million at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.(772) and Ps.(2,288), respectively.

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19. SUBSIDIARIES

The table below shows details of non-wholly subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Country of incorporation and business	% of non-controlling interest at December 31,		Income allocated to non-controlling interest for the years ended at December 31,	
		2015	2014	2015	2014
Grupo Industrial Maseca, S.A.B. de C.V.	Mexico	14.50%	16.82%	Ps. 343,416	Ps. 201,651

Name of subsidiary	Accumulated non-controlling interest at December 31,	
	2015	2014
Grupo Industrial Maseca, S.A.B. de C.V.	Ps. 1,630,161	Ps. 1,566,037

During 2015, GRUMA acquired an additional 2.32% of the non-controlling interest for an amount of Ps.467,573. Summarized financial information in respect of the Company's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represents amounts before inter-company eliminations.

Grupo Industrial Maseca, S.A.B. de C.V.

	At December 31, 2015		At December 31, 2014	
Current assets.....	Ps.	5,514,737	Ps.	4,375,184
Non-current assets.....		6,787,448		6,533,727
Current liabilities.....		2,087,683		2,291,459
Non-current liabilities.....		491,340		652,070
Equity attributable to owners of the Company.....		8,093,001		6,399,345
Non-controlling interests.....		1,630,161		1,566,037
Dividends paid to non-controlling interests.....		87,686		101,392

	For the year ended December 31,			
	2015		2014	
Net sales.....	Ps.	15,871,348	Ps.	15,074,107
Net income.....		2,205,333		1,199,763
Comprehensive income.....		2,190,159		1,162,092
Cash flows:				
Operating activities.....	Ps.	999,170	Ps.	2,481,087
Investment activities.....		(561,015)		(171,624)
Financing activities.....		(140,861)		(2,111,933)

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20. FINANCIAL INSTRUMENTS

A) FINANCIAL INSTRUMENTS BY CATEGORY

The carrying values of financial instruments by category are presented below:

	At December 31, 2015			
	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at fair value through profit or loss	Hedge derivatives	Total categories
<u>Financial assets:</u>				
Cash and cash equivalents.....	Ps. 2,919,054	Ps. -	Ps. -	Ps. 2,919,054
Derivative financial instruments.....	-	51,816	106,595	158,411
Accounts receivable.....	6,146,882	-	-	6,146,882
Long term notes receivable from sale of tortilla machines and other (Note 10).....	200,351	-	-	200,351
<u>Financial liabilities:</u>				
Current debt.....	Ps. 2,660,035	Ps. -	Ps. -	Ps. 2,660,035
Trade accounts payable.....	2,914,328	-	-	2,914,328
Derivative financial instruments.....	-	28,526	-	28,526
Long-term debt.....	10,494,406	-	-	10,494,406
Contingent payment due to repurchase of the Company's own shares (Note 29).....	-	1,009,750	-	1,009,750
Other liabilities (excludes non-financial liabilities)....	39,623	-	-	39,623

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At December 31, 2014

	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at fair value through profit or loss	Hedge derivatives	Assets available for sale	Total categories
<u>Financial assets:</u>					
Cash and cash equivalents.....	Ps. 1,465,088	Ps. -	Ps. -	Ps. -	Ps. 1,465,088
Derivative financial instruments.....	-	8,575	87,801	-	96,376
Accounts receivable.....	6,489,396	-	-	-	6,489,396
Investment in Venezuela available for sale.....	-	-	-	3,109,013	3,109,013
Long term notes receivable from sale of tortilla machines and other (Note 10).....	145,794	-	-	-	145,794
<u>Financial liabilities:</u>					
Current debt.....	Ps. 1,437,108	Ps. -	Ps. -	Ps. -	Ps. 1,437,108
Trade accounts payable.....	3,555,521	-	-	-	3,555,521
Derivative financial instruments.....	-	49,024	-	-	49,024
Long-term debt.....	9,324,052	-	-	-	9,324,052
Contingent payment due to repurchase of the Company's own shares (Note 29).....	-	823,960	-	-	823,960
Other liabilities (excludes non-financial liabilities)....	27,053	-	-	-	27,053

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, trade accounts payable and other current liabilities approximate their fair value, due to their short maturity. In addition, the net book value of accounts receivable and recoverable taxes represent the expected cash flow to be received.

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

	At December 31, 2015	
	Carrying amount	Fair value
Assets:		
Derivative financial instruments – corn ⁽¹⁾	Ps. 106,595	Ps. 106,595
Derivative financial instruments – exchange rate.....	40,298	40,298
Derivative financial instruments – fuel ⁽¹⁾	11,518	11,518
Long-term notes receivable from sale of tortilla machines	185,600	158,094
Liabilities:		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	6,821,234	7,071,872
Short and long-term debt.....	6,333,207	6,407,390
Contingent payment due to repurchase of the Company's own shares.....	1,009,750	1,009,750
Derivative financial instruments – natural gas.....	28,526	28,526

- (1) At December 31, 2015, the balance of derivative financial instruments receivable amounted to Ps.158,411, and is comprised of Ps.34,145 corresponding to the loss from the valuation of open positions in corn, fuel and exchange rate derivative financial instruments at the end of the year, and Ps.192,556 corresponding to revolving funds or margin calls that arise from price changes in the underlying asset that the Company maintains with the third party, to be applied against payments, related to corn and fuel derivatives.

	At December 31, 2014	
	Carrying amount	Fair value
Assets:		
Derivative financial instruments – fuel ⁽¹⁾	Ps. 7,804	Ps. 7,804
Derivative financial instruments – corn ⁽¹⁾	88,572	88,572
Investment in Venezuela available for sale.....	3,109,013	3,109,013 ⁽²⁾
Long-term notes receivable from sale of tortilla machines	134,502	145,780
Liabilities:		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	5,820,558	6,063,816
Short and long-term debt.....	4,940,602	5,042,515
Contingent payment due to repurchase of the Company's own shares.....	823,960	823,960
Derivative financial instruments - other raw materials.....	49,024	49,024

- (1) At December 31, 2014, the balance of derivative financial instruments receivable amounted to Ps.96,376, and is comprised of Ps.23,127 corresponding to the loss from the valuation of open positions in corn and fuel derivative financial instruments at the end of the year, and Ps.119,503 corresponding to revolving funds or margin calls that arise from price changes in the underlying asset that the Company maintains with the third party, to be applied against payments, related to corn and fuel derivatives.
- (2) Following the applicable guidelines and considering that the range of reasonable fair-value estimates was significant and the probabilities of the various estimates within the range could not be reasonably assessed, the Company recognized this financial asset at its carrying value and not at its fair value. See Note 26.

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The fair values at December 31, 2015 and 2014 were determined by the Company as follows:

- The fair values of bonds in U.S. dollars were determined based on available market prices. Fair values of bonds are classified as level 1 in the fair value hierarchy.
- The fair value for the rest of the long-term debt was based on the present value of the cash flows discounted at interest rates based on readily observable market inputs. Fair value of long-term debt is classified as level 3 in the fair value hierarchy. The average discount rate used was 1.57% in 2015 and 3.34% in 2015.
- Long-term notes receivable from sale of tortilla machines are classified as level 2 in the fair value hierarchy. Its fair value was based on the present value of future cash flows using a discount rate of 8.58% in 2015 and 9.01% in 2014.

C) DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2015 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures.....	14,375,000 Bushels		Ps. 31,266
Natural gas swaps.....	4,990,000 Mmbtu		28,091
Fuel swaps.....	3,696,000 Gallons		43,612
Exchange rate forwards.....	\$54,581,000 USD	Ps. 40,298	

At December 31, 2015, open positions of corn derivatives were recorded at fair value. The result of the valuation at December 31, 2015 of financial instruments that qualified as cash flow hedge represented a loss of Ps.31,266, which was recognized in comprehensive income within equity. At December 31, 2015, the Company had open positions of financial instruments for corn, natural gas and fuel that did not qualify as hedge accounting. These open positions represented a loss of Ps.19,220, which was recognized in income as other expenses, net.

Operations terminated at December 31, 2015 on corn, natural gas and fuel derivatives represented a loss of Ps.169,329 which was recognized in income as other expenses, net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2015, valuation of the open positions of these instruments resulted in a gain of Ps.40,298 recognized in income as comprehensive financing cost, net (Note 24). Likewise, for the year ended December 31, 2015, terminated operations of these instruments represented a gain of Ps.301,906, which was recognized in income as comprehensive financing cost, net (Note 24).

At December 31, 2015, the Company had revolving funds denominated “margin calls” amounting Ps.192,566, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2015, the Company reclassified the amount of Ps.113,958 from comprehensive income and recognized it as part of inventory. This amount refers to the loss from the terminated operations for corn hedges, in which the grain, subject to these hedges, was received.

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Additionally, the corn hedges terminated during the period and for which no corn has been received, originated a gain of Ps.44,404, which was recognized in comprehensive income.

At December 31, 2014 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures.....	12,345,000 Bushels	Ps. -	Ps. 21,249
Natural gas swaps.....	3,360,000 Mmbtu	-	49,024
Fuel swaps.....	5,544,000 Gallons	-	1,878

At December 31, 2014, open positions of corn derivatives were recorded at fair value. The result of the valuation of financial instruments that qualified as cash flow hedge represented a loss of Ps.25,133, which was recognized in comprehensive income within equity. At December 31, 2014, the Company had open positions of financial instruments for corn, natural gas and fuel that did not qualify as hedge accounting. These open positions represented a loss of Ps.45,534, which was recognized in income as other expenses, net.

Operations terminated at December 31, 2014 on corn and natural gas derivatives represented a loss of Ps.76,365 which was recognized in income as other expenses, net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. At December 31, 2014, the Company had no open positions of these instruments. Likewise, for the year ended December 31, 2014, terminated operations of these instruments represented a loss of Ps.23,375, which was recognized in income as comprehensive financing cost, net (Note 24).

At December 31, 2014, the Company had revolving funds denominated “margin calls” amounting Ps.119,503, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2014, the Company reclassified the amount of Ps.251,746 from comprehensive income and recognized it as part of inventory. This amount refers to the loss from the terminated operations for corn hedges, in which the grain, subject to these hedges, was received. Additionally, the corn hedges terminated during the period and for which no corn has been received, originated a gain of Ps.2,395, which was recognized in comprehensive income.

D) FAIR VALUE HIERARCHY

A three-level hierarchy is used to measure and disclose fair values. An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

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- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

a. Determination of fair value

When available, the Company generally uses quoted market prices to determine fair value and classifies such items in Level 1. If quoted market prices are not available, fair value is valued using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rates, currency rates, volatilities, etc. Items valued using such inputs are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some inputs that are readily observable. In addition, the Company considers assumptions for its own credit risk and the respective counterparty risk.

b. Measurement

Assets and liabilities measured at fair value are summarized below:

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
<i>Assets:</i>				
Plan assets – seniority premium fund	Ps. 61,913	Ps. -	Ps. -	Ps. 61,913
Derivative financial instruments – corn.....	106,595	-	-	106,595
Derivative financial instruments – fuel.....	11,518	-	-	11,518
Derivative financial instruments – exchange rate.....	-	40,298	-	40,298
	<u>Ps. 180,026</u>	<u>Ps. 40,298</u>	<u>Ps. -</u>	<u>Ps. 220,324</u>
<i>Liabilities:</i>				
Derivative financial instruments – natural gas.....	Ps. -	-	Ps. 28,526	Ps. 28,526
Contingent payment due to repurchase of the Company’s own shares.....	-	-	1,009,750	1,009,750
	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. 1,038,276</u>	<u>Ps. 1,038,276</u>

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At December 31, 2014			
	Level 1	Level 3	Total
<i>Assets:</i>			
Plan assets – seniority premium fund	Ps. 55,647	Ps. -	Ps. 55,647
Derivative financial instruments – corn.....	88,572	-	88,572
Derivative financial instruments – fuel.....	7,804	-	7,804
Investment in Venezuela available for sale.....	-	3,109,013	3,109,013 ⁽¹⁾
	Ps. 152,023	Ps. 3,109,013	Ps. 3,261,036
<i>Liabilities:</i>			
Derivative financial instruments – natural gas.....	Ps. -	Ps. 49,024	Ps. 49,024
Contingent payment due to repurchase of the Company’s own shares.....	-	823,960	823,960
	Ps. -	Ps. 872,984	Ps. 872,984

- (1) Following the applicable guidelines and considering that the range of reasonable fair-value estimates was significant and the probabilities of the various estimates within the range could not be reasonably assessed, the Company recognized this financial asset at its carrying value and not at its fair value. See Note 26.

There were no transfers between the three levels in the period.

Level 1 - Quoted prices for identical instruments in active markets

Financial instruments that are negotiated in active markets are classified as Level 1. The inputs used in the Company’s financial statements to measure the fair value include quoted market prices of corn listed on the Chicago Board of Trade.

Level 2 - Quoted prices for similar instruments in active markets

Financial instruments that are classified as Level 2 refer mainly to quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, as well as model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Derivative financial instruments - exchange rate

Exchange rate derivative financial instruments were recorded at fair value, which was determined using future cash flow discounted to present value. Significant data used to determine the fair value of these instruments is as follows:

	2015
Forward exchange rate	Ps. 17.20
Discount rate.....	3.55%

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Level 3 - Valuation techniques

The Company has classified as Level 3 those financial instruments whose fair values are obtained using valuation models that include observable inputs but also include certain unobservable inputs.

The table below includes a roll-forward of the balance sheet amounts for the years ended December 31, 2015 and 2014 for financial instruments classified by the Company within Level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within Level 3, it is due to the use of significant unobservable inputs. However, Level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains or losses in the table below include changes in fair value due, in part, to observable factors that are part of the valuation methodology:

	Contingent payment due to repurchase of the Company's own shares	Derivative financial instruments – natural gas	Investment available for sale
Balance as of December 31, 2013.....	Ps. 671,069	Ps. -	Ps. 3,109,013
Total gains or losses:			
In the income statement.....	152,891	49,024	-
In the comprehensive income statement..	-	-	-
Additional provision.....	-	-	-
Balance as of December 31, 2014.....	823,960	49,024	3,109,013
Total gains or losses:			
In the income statement.....	185,790	(20,498)	(3,109,013)
In the comprehensive income statement..	-	-	-
Additional provision.....	-	-	-
Balance as of December 31, 2015.....	Ps. 1,009,750	Ps. 28,526	Ps. -

Contingent payment due to repurchase of the Company's own shares

Regarding the contingent payment due to repurchase of the Company's own shares and as mentioned in Note 29, the Company recognized a contingent payment liability amounting to Ps.1,009,750 (U.S.\$58.6 million) and Ps. 823,960 (U.S.\$ 55.9 million) at December 31, 2015 and 2014, respectively, regarding the scenario identified as (i) in that Note. This provision is related to the increase in GRUMA's shares market price, over the closing price of GRUMA's shares determined for purposes of the acquisition of non-controlling interest from Archer Daniels Midland, at the end of a 42-month period.

The contingent payment liability was recognized at fair value, which was determined using discounted future cash flows and a discount rate which represented the average rate of return of bonds issued by companies comparable to GRUMA. Subsequent changes in the fair value of the contingent payment liability will be recognized in the income statement. The Monte Carlo simulation model was used to estimate the future price of the shares; this model includes the expected return and weighted volatility of historical prices of GRUMA's shares over a period of 42 months.

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Significant data used to determine the fair value of the contingent payment liability is as follows:

	At December 31,	
	2015	2014
Weighted volatility of historical prices of GRUMA's shares.....	28.43%	27.05%
Weighted average price of GRUMA's shares (simulated).....	Ps.310.78 per share	Ps.364.97 per share
Forward exchange rate.....	Ps. 17.45 per dollar	Ps. 15.27 per dollar
Discount rate.....	4.89%	4.87%

An increase or decrease of 10% in the discount rate used for the calculation of fair value, would result in an effect of Ps.2,200 and Ps.5,480, at December 31, 2015 and 2014, respectively.

Derivative financial instruments – natural gas

Natural gas derivative financial instruments were recognized at fair value, which was determined using future cash flow discounted to present value, using quoted market prices of natural gas listed on the NYMEX Exchange.

For the Company, the unobservable input included in the valuation of this Level 3 financial instrument refers solely to the Company's own credit risk. For the year 2015 the Company's management believes that a possible reasonable change in this unobservable assumption will not cause a change where the fair value can materially exceed the carrying value.

Investment available for sale

The investment in Venezuela available for sale is recognized at the best estimated amount considered by the Company, which is represented by its carrying value, since no active market exists for this investment. See Note 26 for more information.

21. EXPENSES BY NATURE

Expenses by nature are presented in the income statement within the captions of cost of sales and selling and administrative expenses and are analyzed as follows:

	2015	2014
Cost of raw materials consumed and changes in inventory (Note 9).....	Ps. 21,386,168	Ps. 19,047,263
Employee benefit expenses (Note 23).....	14,380,536	11,824,788
Depreciation.....	1,569,457	1,402,509
Amortization.....	28,852	57,942
Rental expense of operating leases (Note 27).....	832,719	875,293
Research and development expenses (Note 12).....	136,538	152,967

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22. OTHER EXPENSES, NET

Other expenses, net comprised the following:

	<u>2015</u>	<u>2014</u>
Net loss from sale of fixed assets.....	Ps. (130,384)	Ps. (40,981)
Net gain from sale of scrap.....	1,543	1,845
Impairment loss on long-lived assets.....	(172,792)	(14,395)
Cost of written-down fixed assets.....	-	(64,503)
Current employees' statutory profit sharing.....	(55,174)	(53,677)
Non-recoverable cost of damaged assets.....	14,451	(3,652)
Result from derivative financial instruments.....	(188,549)	(121,899)
Total.....	<u>Ps. (530,905)</u>	<u>Ps. (297,262)</u>

23. EMPLOYEE BENEFIT EXPENSES

Employee benefit expenses are comprised of the following:

	<u>2015</u>	<u>2014</u>
Salaries, wages and benefits (including termination benefits).....	Ps. 13,415,089	Ps. 11,028,190
Social security contributions.....	783,257	654,581
Employment benefits (Note 17).....	182,190	142,017
Total.....	<u>Ps. 14,380,536</u>	<u>Ps. 11,824,788</u>

24. COMPREHENSIVE FINANCING COST

Comprehensive financing cost, net is comprised by:

	<u>2015</u>	<u>2014</u>
Interest expense (Note 14).....	Ps. (611,772)	Ps. (1,189,993)
Interest income.....	49,752	35,552
Result from derivative financial instruments (Note 20).....	342,204	(23,375)
Result from foreign exchange differences, net.....	(103,286)	72,413
Comprehensive financing cost, net.....	<u>Ps. (323,102)</u>	<u>Ps. (1,105,403)</u>

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25. INCOME TAX EXPENSE

A) INCOME BEFORE INCOME TAX

The domestic and foreign components of income before income tax are the following:

	For the years ended December 31,	
	2015	2014
Domestic.....	Ps. 2,859,923	Ps. 1,987,178
Foreign.....	4,184,922	2,930,333
	<u>Ps. 7,044,845</u>	<u>Ps. 4,917,511</u>

B) COMPONENTS OF INCOME TAX EXPENSE

The components of income tax expense are the following:

	2015	2014
Current tax:		
Current tax on profits for the year.....	Ps. (2,680,036)	Ps. (2,103,594)
Adjustments in respect of prior years.....	191,124	194,257
Total current tax.....	<u>(2,488,912)</u>	<u>(1,909,337)</u>
Deferred tax:		
Origin and reversal of temporary differences.....	805,380	865,992
Use of tax loss carryforwards not previously recognized.....	37,083	(16,238)
Total deferred tax.....	<u>842,463</u>	<u>849,754</u>
Total income tax expense.....	<u>Ps. (1,646,449)</u>	<u>Ps. (1,059,583)</u>

Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	For the year ended December 31,	
	2015	2014
Current:		
Domestic federal.....	Ps. (770,571)	Ps. (714,311)
Foreign federal.....	(1,583,653)	(1,082,163)
Foreign state.....	(134,688)	(112,863)
	<u>(2,488,912)</u>	<u>(1,909,337)</u>
Deferred:		
Domestic federal.....	751,475	709,553
Foreign federal.....	110,572	156,612
Foreign state.....	(19,584)	(16,411)
	<u>842,463</u>	<u>849,754</u>
Total income taxes.....	<u>Ps. (1,646,449)</u>	<u>Ps. (1,059,583)</u>

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C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME

For the years ended December 31, 2015 and 2014, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	2015	2014
Statutory federal income tax (30% for 2015 and 2014).....	Ps. (2,113,454)	Ps. (1,475,253)
Benefit due to subsidiaries' tax losses.....	467,610	-
Inflation effects on tax values.....	(46,690)	(109,626)
Foreign income tax rate differences.....	(171,837)	(41,826)
Tax credit derived from foreign dividends.....	44,052	718,135
Unrecognized tax loss carryforwards of the year.....	292,565	23,341
Recoverable asset tax from prior years.....	61,632	-
Nondeductible expenses and others.....	(180,327)	(174,354)
Effective income tax (23.37% and 21.55% for 2015 and 2014, respectively).....	<u>Ps. (1,646,449)</u>	<u>Ps. (1,059,583)</u>

In October 2013, the Chamber of Senators and Deputies approved the issuance of the new Income Tax Law, effective starting January 1, 2014, abrogating the Income Tax Law published on January 1, 2002. The new Income Tax Law captures the essence of the previous Income Tax Law; however, this new law makes significant changes, including an income tax rate of 30% for 2014 and the following years; compared to the previous Income Tax Law, which established tax rates of 30%, 29% and 28% for 2013, 2014 and 2015, respectively. This change had no significant effect in the income of the year 2014.

26. DISCONTINUED OPERATIONS

A) LOSS OF CONTROL OF VENEZUELA

The Ministry of Popular Power for Internal Relations and Justice published on January 22, 2013 Administrative Providence number 004-13 dated January 21, 2013 (the "Providence") in the Official Gazette of the Bolivarian Republic of Venezuela (the "Republic"). Given this Providence, which designated special managers with the broadest management faculties conferred by the Republic, GRUMA determined that it had lost control of the subsidiaries in Venezuela: Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA"). Refer to Note 28 for additional detail on the processes in Venezuela.

Following the principles set by IFRS, the Company lost the ability to affect the variable returns and concluded that it had lost the control of MONACA and DEMASECA on January 22, 2013. Consequently and as a result of such loss of control, the Company proceeded with the following:

- a) Ceased the consolidation of the financial information of MONACA and DEMASECA starting January 22, 2013 and derecognized the assets and liabilities of these companies from the consolidated balance sheet. For disclosure and presentation purposes, the Company considered these subsidiaries as a significant segment and therefore, applied the guidelines from IFRS 5 for their accounting treatment as discontinued operations. Consequently, the results and cash flows generated by the Venezuelan companies for the periods presented were classified as discontinued operations.

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- b) The amounts recognized in other comprehensive income relating to these companies were reclassified in the year 2013 to the consolidated income statement as part of the results from discontinued operations, considering that MONACA and DEMASECA were disposed of due to the loss of control.
- c) Recognized the investment in MONACA and DEMASECA as a financial asset, classifying it as an available-for-sale financial asset. The Company classified its investment in these companies as available for sale since management believed that is the appropriate treatment applicable to a non-voluntary disposition of assets and the asset did not fulfill the requirements of classification in another category of financial assets. Following the applicable guidelines and considering that the range of reasonable fair-value estimates was significant and the probabilities of the various estimates within the range could not be reasonably assessed, the Company recognized this financial asset at its carrying value translated to the functional currency of the Company using an exchange rate of \$2.9566 Mexican pesos per bolivar (4.3 Venezuelan bolivars per U.S. dollar), which was effective at the date of the loss of control, and not at its fair value. The investment in MONACA and DEMASECA is subject to impairment tests at the end of each reporting period when there is objective evidence that the financial asset is impaired. See section B below.

While negotiations with the government may take place from time to time, the Company cannot assure that such negotiations will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated assets and investments under applicable law, including investment treaties and customary international law.

B) IMPAIRMENT OF THE INVESTMENT IN VENEZUELA

- a) Year 2014: As required by IFRS, at December 31, 2014, GRUMA performed impairment tests on the investments in MONACA and DEMASECA to determine a potential recoverable amount, using two valuation techniques: 1) an income approach considering estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital), and 2) a market approach, such as the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal expenses. In both cases, the potential recoverable amounts using the income and market approach were higher than the carrying value of these investments and therefore, no impairment adjustment was deemed necessary at December 31, 2014. Regarding the calculations to determine the potential recoverable amount, the Company's management believed that a possible reasonable change in the key assumptions would not cause the carrying value of the Company's investment in MONACA and DEMASECA materially exceed the potential recoverable amount before described.

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As of December 31, 2014, there were three legal exchange rates in Venezuela that could be used: the government-operated National Center of Foreign Commerce (CENCOEX) exchange rate, mainly intended for the import of essential goods and services by designated industry sectors and two auction-based exchange rates Supplementary Foreign Currency Administration System (SICAD I and SICAD II).

For purposes of these calculations, the Company used the SICAD I available exchange rate (12.00 Venezuelan bolivars per U.S. dollar as of December 31, 2014, which was the reference considered by Management for settlement, based on its legal ability to do so. The Venezuelan exchange system, comprising the SICAD, involves different rates at which certain transactions should be executed, including “foreign investments and payment of royalties” for which the reference rate is 12.00 Venezuelan bolivars per U.S. dollar.

An alternative exchange rate available as of December 31, 2014 was SICAD II (49.99 Venezuelan bolivars per U.S. dollar) and for a simulation exercise using this exchange rate, the result would be an impairment loss in income of year 2014 of Ps.124,578 related with the Company’s investment in MONACA and DEMASECA.

- b) Year 2015: As of February 12, 2015, the SICAD I and SICAD II exchange rates were merged (currently SICAD) by the Venezuelan government and a new exchange rate denominated Foreign Exchange Marginal System (SIMADI) was created, which means that there are continue to be three legal exchange rates between the Venezuelan currency (VEF) and U.S. dollars (USD), all of which meet the definition of a spot exchange rate in IAS 21.

As of December 31, 2015, SICAD exchange rate was 13.50 Venezuelan bolivars per U.S. dollar and SIMADI exchange rate was 198.70 Venezuelan bolivars per U.S. dollar.

As of December 31, 2015, the Company considered that SIMADI exchange rate is the most representative among legal exchange rates available. In the absence of auctions for SICAD I in the recent past, in a macroeconomic context aggravated by historically low prices in the oil market and the condition of Venezuela's hyperinflationary economy, the Company has decided to consider as reference rate the one resulting in the allocations conducted through SIMADI, to calculate any related impairment balances that the Company has in its Venezuelan subsidiaries Molinos Nacionales, C.A. (MONACA) and Derivados de Maíz Seleccionado, DEMASECA, C.A. (DEMASECA). Simultaneously, outstanding accounts receivable were diluted by the application of the new exchange rate and balances of indirect investment of GRUMA in MONACA and DEMASECA, held through its Spanish subsidiaries Valores Mundiales, S.L. (GRUMA 75.86%, other 24.14%) and Consorcio Andino, S.L. (GRUMA 60%, other 40%), so that both have significant adjustments. The impairment test performed in the fourth quarter of 2015, resulted in an impairment loss of Ps.4,362,108 recognized in consolidated income for the year ended December 31, 2015, in connection with the balances aforementioned in MONACA and DEMASECA, which was recognized in income as “Income (loss) from discontinued operations”, following a presentation according to the one of the financial statement, in which the loss of control of the Venezuelan subsidiaries was initially recognized.

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If a sensitivity analysis was performed using the SICAD exchange rate and other variables were held constant, the impairment loss would have been of Ps.1,983,619.

The historical value of the net investment in MONACA and DEMASECA at January 22, 2013, the date when the Company ceased the consolidation of the financial information of these entities, was Ps.2,913,760 and Ps.195,253, respectively.

The financial information of MONACA and DEMASECA at January 22, 2013 was:

	At January 22, 2013*
Current assets.....	Ps. 4,345,709
Non-current assets.....	2,558,444
Total assets.....	6,904,153
<i>Percentage of consolidated total assets.....</i>	14.0%
Current liabilities.....	2,641,540
Non-current liabilities.....	96,103
Total liabilities.....	2,737,643
<i>Percentage of consolidated total liabilities.....</i>	7.8%
Total net assets.....	4,166,510
<i>Percentage of consolidated total net assets.....</i>	29.1%
Non-controlling interest.....	1,057,497
Interest of Gruma in total net assets.....	Ps. 3,109,013

* No material transactions between MONACA and DEMASECA and the Company need to be eliminated.

Additionally, at December 31, 2015 certain subsidiaries of GRUMA have accounts receivable with the Venezuelan companies for a total amount of Ps.1,253,095, which were fully impaired and are included as part of the impairment loss recognized in income as of this date altogether with the investment.

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The analysis of the gain or loss from discontinued operation related to the loss of control of the Venezuelan subsidiaries is:

	<u>2015</u>	<u>2014</u>
Net sales.....	Ps. -	Ps. -
Cost of sales.....	-	-
Gross profit.....	-	
Selling and administrative expenses.....	-	(23,393)
Other expenses, net.....	-	-
Operating income.....	-	(23,393)
Comprehensive financing cost, net.....	-	-
Income before income taxes.....	-	(23,393)
Income taxes.....	-	-
Discontinued operations.....	-	(23,393)
Cancellation of the investment in Venezuela available for sale.....	(3,109,013)	-
Cancellation of accounts receivable of royalties and dividends.....	(1,253,095)	-
Foreign exchange gain (loss) from accounts receivable with Venezuela.....	48,305	(16,642)
Loss from discontinued operations, net.....	<u>Ps. (4,313,803)</u>	<u>Ps. (40,035)</u>
Attributable to:		
Shareholders.....	Ps. (4,293,391)	Ps. (8,048)
Non-controlling interest.....	(20,412)	(31,987)
	<u>Ps. (4,313,803)</u>	<u>Ps. (40,035)</u>

C) AGREEMENT FOR THE SALE OF THE WHEAT FLOUR OPERATIONS IN MEXICO

On June 10, 2014, GRUMA reached an agreement with Grupo Trimex, S.A. de C.V. (“Grupo Trimex”) for the sale of its wheat flour operations in Mexico. This transaction is in line with the Company’s strategy of focusing on its core businesses. Through this transaction, Grupo Trimex acquired all the shares representing Molinera de México, S.A. de C.V.’s capital stock (including transfer of personnel and assets), as well as the assets owned by Agroindustrias Integradas del Norte, S.A. de C.V., subsidiary of Grupo Industrial Maseca, S.A. B. de C.V. related to wheat flour production.

During December 2014, the Company concluded the sale of its wheat flour operations in Mexico. The total sale price was Ps.3,677,788. The Company recognized in income a gain of Ps.214,755 as discontinued operations.

Income and cash flows related to the wheat flour operations in Mexico for the periods presented were classified as discontinued operations.

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The assets and liabilities of the wheat flour operations in Mexico, at November 30, 2014 are shown below:

	At November 30, 2014
Accounts receivable, net.....	Ps. 823,764
Inventories.....	1,332,661
Other current assets.....	119,895
Total current assets.....	2,276,320
Property, plant and equipment.....	1,323,744
Other non-current assets.....	233,284
Total non-current assets.....	1,557,028
Total assets.....	Ps. 3,833,348
Current liabilities.....	268,971
Non-current liabilities.....	101,344
Total liabilities.....	Ps. 370,315

The analysis of the gain or loss from discontinued operations related with the sale of the wheat flour operations in Mexico is as follows:

	2014
Net sales.....	Ps. 4,807,420
Cost of sales.....	(3,824,071)
Gross profit.....	983,349
Selling and administrative expenses.....	(540,674)
Other expenses, net.....	(8,411)
Operating income.....	434,264
Share of profits of associated company.....	3,036
Comprehensive financing cost, net.....	(9,652)
Income before income taxes.....	427,648
Income taxes.....	(3,516)
Income from discontinued operation, net.....	Ps. 424,132
Net gain from the sale of wheat flour operations in Mexico...	214,755
Income from discontinued operations of wheat flour operations in Mexico.....	Ps. 638,887
Attributable to:	
Shareholders.....	Ps. 670,907
Non-controlling interest.....	(32,020)
	Ps. 638,887

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27. COMMITMENTS

A) OPERATING LEASES

The Company is leasing certain facilities and equipment under long-term lease agreements in effect through 2031, which include an option for renewal. These agreements are recognized as operating leases, since the contracts do not transfer substantially all risks and advantages inherent to ownership.

Future minimum lease payments under operating lease agreements are as follows:

	<u>2015</u>	<u>2014</u>
No later than 1 year.....	Ps. 692,798	Ps. 586,002
Later than 1 year and no later than 5 years.....	1,644,908	1,116,360
Later than 5 years.....	1,264,518	271,441
Total.....	<u>Ps. 3,602,224</u>	<u>Ps. 1,973,803</u>

Rental expense was approximately Ps.832,719 and Ps.875,293 for the years ended December 31, 2015 and 2014, respectively.

B) FINANCE LEASES

At December 31, 2015 and 2014, the net carrying values of assets recorded under finance leases totaled Ps.15,169 and Ps.26,264, respectively, and corresponded to transportation and production equipment.

Future minimum lease payments under finance lease agreements are as follows:

	<u>2015</u>	<u>2014</u>
No later than 1 year.....	Ps. 4,791	Ps. 8,467
Later than 1 year and no later than 5 years.....	2,882	11,576
	<u>7,673</u>	<u>20,043</u>
Future finance charges on finance leases.....	(206)	(645)
Present value of finance lease liabilities.....	<u>Ps. 7,467</u>	<u>Ps. 19,398</u>

The present value of finance lease liabilities is as follows:

	<u>2015</u>	<u>2014</u>
No later than 1 year.....	Ps. 4,608	Ps. 8,467
Later than 1 year and no later than 5 years.....	2,859	10,931
Total.....	<u>Ps. 7,467</u>	<u>Ps. 19,398</u>

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C) OTHER COMMITMENTS

At December 31, 2015 and 2014, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps.3,647,778 and Ps.4,466,913, respectively (U.S.\$212 million and U.S.\$303.5 million, respectively) and in Mexico for approximately Ps.2,993,931 and Ps.3,576,474, respectively (U.S.\$174 million and U.S.\$243 million, respectively), which will be delivered during 2016. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2015 and 2014, the Company had outstanding commitments to purchase machinery and equipment in the United States amounting to approximately Ps.757,086 and Ps.110,385, respectively.

28. CONTINGENCIES

VENEZUELA

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

GRUMA’s interests in MONACA and DEMASECA are held through two Spanish companies: Valores Mundiales, S.L. (“Valores Mundiales”) and Consorcio Andino, S.L. (“Consorcio Andino”). In 2010, Valores Mundiales and Consorcio Andino (collectively, the “Investors”) commenced discussions with the Republic regarding the Expropriation Decree and related measures affecting MONACA and DEMASECA. Through Valores Mundiales and Consorcio Andino, GRUMA participated in these discussions, which have explored the possibility of (i) entering into a joint venture with the Venezuelan government; and/or (ii) obtaining adequate compensation for the assets subject to expropriation. As of this date, these discussions have not resulted in an agreement with the Venezuelan Government.

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

In January 2013, the Republic issued a resolution (*providencia administrativa*) granting the “broadest powers of administration” over MONACA and DEMASECA to special managers (*administradores especiales*) that had been imposed on those companies since 2009 and 2010, respectively.

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On May 10, 2013, Valores Mundiales and Consorcio Andino submitted a Request for Arbitration to ICSID, which was registered on June 11, 2013 under case No. ARB/13/11. The purpose of the arbitration is to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty.

The tribunal that presides over this arbitration proceeding was constituted in January 2014. Valores Mundiales and Consorcio Andino filed their memorial in July 2014. On September 14, 2014, the Republic filed a motion requesting to bifurcate the proceeding into separate jurisdictional and merits phases. On October 1, 2014 the tribunal rejected Venezuela's request. Venezuela filed its counter-memorial in March 2015. Valores Mundiales and Consorcio Andino filed their reply on June 25, 2015 and Venezuela filed its rejoinder in October 19, 2015. From February 8 to 12, 2016 the hearing of the arbitration trial was held. The arbitration proceeding is still ongoing.

While discussions with the government may take place from time to time, the Company cannot assure that such discussions will be successful or will result in the Investors receiving adequate compensation, if any, for their investments subject to the Expropriation Decree and related measures. Additionally, the Company cannot predict the results of any arbitral proceeding, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting a successful arbitration award.

While awaiting resolution of this matter and as required by the IFRS, GRUMA performed impairment tests on the investments in MONACA and DEMASECA as of December 31, 2015, to determine a potential recoverable amount, using two valuation techniques: 1) an income approach considering estimated future cash flows as a going concern business, discounted at present value using an appropriate discount rate (weighted average cost of capital) and 2) a market approach, such as the public company market multiple method using implied multiples such as earnings before interest, taxes, depreciation and amortization, and revenues of comparable companies adjusted for liquidity, control and disposal expenses. As indicated in Note 26, in both cases, the potential recoverable amounts using the income and market approach were lower than the carrying value of these investments and therefore, an impairment adjustment of Ps.4,362,108 was recognized.

Intervention Proceedings by the Venezuelan Government.- On December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of assets in which Ricardo Fernández Barrueco had any interest. Purportedly due to Ricardo Fernández Barrueco's former indirect minority interest in MONACA and DEMASECA, these subsidiaries were subject to the precautionary measure. Between 2009 and 2012, the Ministry of Finance of Venezuela, pursuant to the precautionary measure ordered by the court, designated several special managers of the indirect minority shareholding that Ricardo Fernández Barrueco previously owned in MONACA and designated several special managers of DEMASECA. On January 22, 2013, the Ministry of Justice and Internal Relations revoked the prior designations made by the Ministry of Finance of Venezuela and made a new designation of individuals as special managers and representatives on behalf of the Republic of MONACA and DEMASECA, granting those managers the "broadest powers of administration" over both companies.

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As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino and Valores Mundiales, as direct shareholders of the Venezuelan subsidiaries, filed a petition as aggrieved third-parties to the proceedings against Ricardo Fernández Barrueco challenging the precautionary measures and all related actions. On November 19, 2010, the Eleventh Investigations Court for Criminal Affairs of Caracas ruled that MONACA and DEMASECA are companies wholly owned and controlled by Valores Mundiales and Consorcio Andino, respectively. In spite of this ruling, the court kept the precautionary measures issued on December 4, 2009 in effect. An appeal has been filed, which is pending resolution as of this date.

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

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

29. TRANSACTIONS WITH NON-CONTROLLING INTEREST

A) ACQUISITION OF NON-CONTROLLING INTEREST FROM ARCHER DANIELS MIDLAND

On December 14, 2012, GRUMA acquired the non-controlling interest from ADM consisting of:

- a. Acquired 23.16% of the issued shares of GRUMA, through the acquisition of 18.81% of the issued shares of GRUMA and 45% of the issued shares of Valores Azteca, a company that owns 9.66% of the issued shares of GRUMA. The acquisition was carried out against GRUMA's shareholders equity, using funds reserved for the purchase of own shares authorized by GRUMA's General Ordinary Shareholders' Meeting;
- b. Acquired 3% of the capital stock of Valores Mundiales, S.L. and Consorcio Andino, S.L., holding companies of GRUMA's subsidiaries in Venezuela, Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, C.A. ("DEMASECA"), respectively;
- c. Acquired 40% of the shares of Molinera de México; and
- d. Acquired 20% of the shares of Azteca Milling (subsidiary of Gruma Corporation), through the acquisition of 100% of the shares of Valley Holding Inc., which has no assets or liabilities other than the investment in shares of Azteca Milling.

At December 31, 2015 and 2014, Other short-term liabilities and Other long-term liabilities included Ps.1,009,750 and Ps.823,960, respectively, corresponding to a contingent payment from the agreement for the acquisition of the non-controlling interest from ADM in December 2012. This liability corresponds to a contingent payment of up to U.S.\$60 million, proportionally distributed between GRUMA's and Valores Azteca's shares that are part of the equity interests, payable only if during the following 42 months after closing the transaction, certain conditions are met in connection with (i) GRUMA's stock market price increase over the closing price of GRUMA's stock determined for purposes of the transaction (the "Closing Price"), at the end of the 42 months' period; (ii) the difference between GRUMA's stock price established for public offers made by GRUMA and the Closing Price;

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(iii) the acquisition, by a strategic investor, of 15% or more of GRUMA's capital stock; or (iv) the reduction of the percentage of GRUMA's shares that are considered to be held by the public at any time, starting from 26%.

The Company has recognized a liability solely regarding the scenario (i) as mentioned in the previous paragraph, in connection to GRUMA's stock market price increase, over GRUMA's stock Closing Price determined for purposes of the purchase of the Equity Interests, at the end of the 42 months' period. As of December 31, 2015 and 2014, the Company did not consider as probable scenarios (ii), (iii) and (iv) for the contingent payment abovementioned, so there was no contingent payment obligation recorded in connection with these cases.

The contingent payment liability was registered at fair value, which was determined using projected future cash flows discounted to present value and the discount rate used is the average rate of return of any corporate bonds issued by companies comparable to GRUMA. The Monte Carlo simulation model was used to estimate the future shares price, which includes the expected return and the weighted volatility of historical prices of GRUMA's stock over a period of 42 months. The significant data used to determine the fair value of the contingent payment liability as of December 31, 2015 and 2014 is presented in Note 20-D.

Subsequent changes in the fair value of the contingent payment liability are recognized in the income statement. For the years ended December 31, 2015 and 2014, the effect in income was Ps. 185,790 and Ps.152,891, respectively, and were recognized as "Comprehensive financing cost, net".

30. RELATED PARTIES

For the year ended December 31, 2015, the Company did not carry out transactions with related parties. Related party transactions in 2014 were carried out at market value.

A) SALES OF GOODS AND SERVICES

For the year ended December 31, 2015, the Company did not carry out sales transactions of goods and services with related parties. For the year ended December 31, 2014, the Company carried out sales transactions of goods to an associate amounting to Ps.39,156.

B) PURCHASES OF GOODS AND SERVICES

For the year ended December 31, 2015, the Company did not carry out purchase transactions of goods and services with related parties. For the year ended December 31, 2014, the Company carried out purchase transactions of services with an associate amounting to Ps.32,413.

Other transactions with related parties are identified in Note 29.

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C) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management includes Board members, alternate Board members, officers and members of the Audit Committee and Corporate Practice Committee. The compensation paid to key management for employee services is shown below:

	2015	2014
Salaries and other short-term employee benefits.....	Ps. 170,589	Ps. 145,739
Termination benefits.....	18,748	25,322
Total.....	<u>Ps. 189,337</u>	<u>Ps. 171,061</u>

At December 31, 2015 and 2014, the reserve for deferred compensation amounted to Ps.42,652 and Ps.36,648, respectively.

D) BALANCES WITH RELATED PARTIES

At December 31, 2015 and 2014 the Company had no balances with related parties.

31. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new IFRS, which will become effective after the issuance of the Company’s financial statements, are explained below. This list includes those IFRS standards which the Company reasonably expects to apply in the future. The Company has the intention of adopting these new IFRS on the date they become effective.

A) NEW STANDARDS

a. IFRS 15, “Revenue from contracts with customers”

IFRS 15, “Revenue from contracts with customers”, issued in May 2014 by the International Accounting Standards Board (IASB), to address revenue recognition and principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus, has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, “Revenue”, and IAS 11, “Construction contracts”, and related interpretations.

In September 2015, the IASB issued “Effective Date of IFRS 15”, to announce the deferral of the effective date of IFRS 15 by one year to January 1, 2018. The changes published by IASB only have the purpose of amending the effective date of IFRS 15 for annual periods beginning on or after January 1, 2018 (instead of annual periods beginning on or after January 1, 2017). Early adoption of IFRS 15 is still permitted. Entities continue to have the election of applying the standard either retrospectively in each reporting period or retrospectively with the cumulative effect of initially applying this standard recognized at the date of the initial adoption.

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b. IFRS 9, “Financial instruments”

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. A new expected credit losses model replaces the incurred loss impairment model used in IAS 39. IFRS relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

c. IFRS 16, “Leases”

The IASB issued on January 2016 a new standard for the lease accounting. This standard replaces IAS 17 ‘Leases’, which classifies leases on operating and financing. IAS 17 identifies leases as financing leases when the risks and benefits of an asset are transferred; all other leases are classified as operating. Under the new IFRS 16, ‘Leases’ there is not distinction among operating and financing leases and requires recognition of a liability for all the future payments and an asset for the “rights of use” in most of the leases. It is important to mention that the IASB has included some exceptions on short term leases and low valued assets. Most of the changes are applicable only for the lessees accounting while for the lessors accounting there are not significant changes compared with the current standard. The most significant impact of the adoption of this standard will be an increase on assets and liabilities for lessees, with a new impact on the income statement for depreciation and financial expense of the assets and liabilities mentioned, and a decrease on expenses related to lessees previously recognized as operating lessees. The standard is effective for annual periods beginning on or after January 1st 2019 with an earlier application permitted if IFRS 15 “Revenue from contracts with customers” is adopted at the same time.

The Company is assessing the potential impact on its financial statements resulting from the application of these new standards.

B) AMENDMENTS

a. IAS 16, “Property, plant and equipment” and IAS 38, “Intangible assets”

In May 2014 the IASB amended IAS 16 and IAS 38 to establish that the determination of the useful life of an asset requires the consideration that the expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset might reflect a reduction of the future economic benefits of the asset. Additionally, the amendment includes that a depreciation or amortization method that is based on revenue that is generated by an activity that includes the use of an asset may not be appropriate. These amendments to IAS 16 and IAS 38 are effective for annual periods beginning on or after January 1, 2016.

The Company’s management expects that the adoption of the amendments explained above will not have significant effects in its financial statements.

[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]

C.P. Thomas S. Heather Rodriguez
Chairman of the Audit Committee
Gruma, S.A.B. de C.V.
Rio de la Plata, No 407
Col. Del Valle
66260 Garza Garcia, N.L.

March 18, 2016

Dear Mr. Heather,

In compliance with the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants (Provisions), issued by the Ministry of Finance and Public and Public Credit-National Banking and Securities Commission (Commission), which became effective on March 20, 2003, and were last amended on December 31, 2015, under oath of saying the truth and pursuant to Article 84 Bis of said Provisions, I state the following in connection with the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2015:

- I. As of the date on which I render my services as external auditor of the Issuer, during the execution of my audit and until the issuance date of the corresponding opinion, I do not meet any of the scenarios referred to in article 83 of the Provisions.
- II. I grant my consent to provide to the Commission the information it requires to verify my independence with the Issuer.
- III. I undertake to physically or through electromagnetic means, keep in my offices for a period no less than 5 years, all documentation, and information and else elements of judgment used to prepare the corresponding report and to furnish them to the Commission.
- IV. I have current documents, which evidence my technical capacity.
- V. I do not have any offering to be a director or officer of the Issuer.

C.P.C. Victor A. Robledo Gomez
Audit Partner

[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]

Lic. Thomas S. Heather Rodriguez
Chairman of the Audit Committee
Gruma, S.A.B. de C.V.
Calzada del Valle 407 Ote.
San Pedro Garza Garcia, Nuevo Leon
66220, Mexico

Monterrey, N.L., April 29, 2016

Dear Mr. Heather,

In addition to the independence letter signed on March 18, 2016, regarding the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2015 and in compliance with the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants (Provisions), issued by the Ministry of Finance and Public and Public Credit-National Banking and Securities Commission (Commission), which became effective on March 20, 2003, and were last amended on December 31, 2015, under oath of saying the truth and pursuant to Article 84 Bis of said Provisions, I state the following in connection with the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2015:

I grant my consent for the Issuer to include the report on the financial statements issued by me, in the annual information referred to in articles 33, section I, letter b), number 1. of the Provisions, as well as any other financial information derived from said financial statements or report presented by me, in order for said information to become of public knowledge.

The above, in the understanding that I previously ensured that the information contained in the financial statements included in the corresponding annual report, as well as any other financial information contained in said document which derived from the referred financial statements or report presented by me, corresponds to the audited information.

C.P.C. Victor A. Robledo Gomez
Audit Partner



REPORT BY THE AUDIT COMMITTEE FOR THE 2016 YEAR

April 26, 2017

To the Board of Directors of GRUMA, S.A.B. de C.V. (“GRUMA”)

In compliance with article 43 of the Securities Exchange Law (*Ley del Mercado de Valores*) and article Twenty sixth of the Company’s Bylaws, I submit to you the report of activities carried out during the year ended December 31, 2016. While establishing its work program, the Committee has been mindful of the recommendations set forth on the Best Corporate Practices Code, as well as what is set forth in the applicable laws and norms.

1. Internal Audit

We regularly meet with the person entrusted with the Corporate Internal Audit area of the Company, ensuring the establishment of the general standards in internal control matters, as well as the necessary processes for their implementation and enforcement.

Work plans and quarterly reports from the Internal Audit area of the Company were reviewed, as well as the areas of opportunity, incidents, operating risks and the follow-up to the standardization of the internal control processes and self-evaluation of the Company. Also, follow-up reports on the found observations were presented to us, without having to mention any relevant findings.

2. Ethics Code

Compliance with the Ethics Code, which regulates the actions of its directors, officers and employees, was monitored, not having to this date any relevant cases to report and having reviewed the modifications to it.

The operation of the channel of communication between officers and employees with the Audit Committee was supervised. It was periodically verified that the Management catered to the observations that warranted it in an effective and timely manner. Also, the scope of the aforementioned channel continued to be expanded.

3. External Audit

The firm PricewaterhouseCoopers, S.C. provides external audit services to the Company and its subsidiaries. During the 2016 year, the partner responsible for the audit of these companies was replaced.

Periodically we meet with the external auditors and with the management of the Company, who we interviewed thoroughly and our concerns were satisfactorily solved, therefore we consider that the internal control and internal audit systems satisfactorily comply with their main purposes.

We reviewed the work plan of the external auditors of the Company for the 2016 year and followed up to its implementation progress.

In our interviews and meetings of the Audit Committee with the auditors, we ensured the compliance with the rotation and independence requirements of its personnel. We also reviewed with them and with the management, the observations that were issued on internal control, as well as the objectives, proceedings and scope of the external audit for 2016 year. In our view, the external audit services duly comply with what is required.

The additional services provided by the external audit firm were approved, which included, the certification work of the internal control system, studies on intercompany transfer prices and other tax related services. We consider that the services approved by the Committee do not affect the independence of the external audit firm.

4. Financial Information

We reviewed the quarterly financial information of the Company regarding the 2016 year, prior analysis of the information of each quarter, we concluded that said information was prepared in compliance with the applicable financial information regulations, we did not identify irregularities or omissions in said information and, consequently, we agreed on its presentation to the Board of Directors and its publication.

Support was provided to the Board of Directors in the preparation of the reports and opinions referred to in article 28, section IV, letters “c”, “d” and “e” in relation with financial year 2015. Additionally, the annual report of the activities carried out by this Committee for financial year 2015 was prepared and presented before the Board of Directors and the Shareholders’ Meeting.

Each quarter we monitored the exchange rate and corn purchases’ hedges reports, ensuring that the policies established by the Company for such purpose were complied with.

We reviewed the Company’s audited financial statements as of December 31, 2016, the auditors’ report and the accounting policies used for its preparation. After having reviewed the letter of the independent auditors addressed to the management, we advised the Board of Directors its approval for such to be presented to the consideration of the Shareholders’ Meeting.

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), which also include the current International Accounting Standards (IAS), the related interpretations that are issued by the International Financial Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC), which were audited by the independent firm of public accountants PricewaterhouseCoopers, S.C. We ensured that no significant change to the accounting policies nor the information and accounting regulations previously mentioned has been enacted.

5. Applicable Laws and Regulations

We ensured the existence and trustworthiness of the internal controls established by GRUMA to fully comply with the different contractual obligations and legal provisions to which it is bound.

The status of the main legal matters where the Company is involved were reviewed with the members of the Corporate Legal Department, including the international arbitration claim filed by GRUMA’s Spanish subsidiaries, Valores Mundiales, S.L. and Consorcio Andino, S.L., against the

Republic of Venezuela that is conducted at the International Centre for Settlement of Investment Disputes (ICSID) due to the expropriation of Molinos Nacionales, C.A. and Derivados de Maíz Seleccionado, Demaseca, C.A., entities that as of January 2013 composed GRUMA's Venezuela Division, as well as in respect to the compliance with the laws applicable to GRUMA and its subsidiaries.

We also noted the filing of the Tax Report for the 2015 year.

6. In support of the Board of Directors

The Audit Committee granted its favorable opinion in relation to the subscription of exchange rate and corn purchases' hedges, which were required for the Company's operations during the financial year 2016. Also, the Committee monitored the management's compliance with the authorizations granted by the Board of Directors.

The Committee followed-up on and gave its favorable opinion in connection with the Refinancing Project of two dollar-denominated credit facilities obtained by the Company.

We noted the Policy on Fraud Prevention and the creation of the Anti-Fraud Committee of the Company. Likewise, we noted the corporate reorganization of the European subsidiary entities.

Finally, it is important to mention that we reviewed with the Management, the requirements from the CNBV and the report on non-recurring operations greater than 5% of the value of the company's assets.

The work carried out by the Committee was duly documented in each meeting's corresponding minutes, which were reviewed and approved in a timely manner by the members of the Committee.

On behalf of the Audit Committee of GRUMA, S.A.B. de C.V.

[Illegible Signature]

THOMAS S. HEATHER
Chairman



April 26, 2017

To the General Shareholders' Meeting of
GRUMA, S.A.B. DE C.V.

OPINION ON THE REPORT BY THE
CHIEF EXECUTIVE OFFICER OF GRUMA, S.A.B. DE C.V.
FINANCIAL YEAR 2016

In accordance with Article 28 section IV, letter "c" of the Securities Exchange Law (*Ley del Mercado de Valores*) and the bylaws of the Company, the Board of Directors of **GRUMA, S.A.B. DE C.V.**, through me, submits its Opinion on the Content of the Report submitted to the Board of Directors and presented before this General Shareholders' Meeting by the Company's Chief Executive Officer, to this Annual Shareholders' Meeting.

The Chief Executive Officer of the Company submits his Annual Report in compliance with articles 44 section IX of the Securities Exchange Law and 172 of the General Law of Business Organizations, letters a, c, d, e, f, g, and presents, in a suitable and sufficient manner, the development and/or performance of the company for the year ending on December 31st, 2016 under the business strategies previously set by this corporate governance body, as well as the policies followed on the financial year and the challenges and opportunities that the Company faces, which include the major current projects.

The Report provides a general overview of the growth program in which the Company is currently immersed and offers suitable explanations on the variations in the results at a consolidated level, explaining the variations in the financial statements at the end of the financial year in a reasonable and sufficient manner.

To issue this opinion, the Board of Directors took into consideration that its Audit Committee previously reviewed the Company's Financial Information as of December 31, 2016, as well as the accounting policies used on its preparation and that such Financial Information was audited by the firm of independent auditors, PricewaterhouseCoopers, S.C., including its financial position, income, comprehensive income, changes in equity and cash flow statements as of December 31, 2016, both consolidated and individual, and concluded that such Financial Information, reasonably reflects, in all material aspects, the financial position of **GRUMA, S.A.B. DE C.V.**, as of the aforementioned date, in compliance with the International Financial Reporting Standards.

In view of the above, in the opinion of the Board of Directors, the content of the Chief Executive Officer's report, presented before this Meeting reasonably reflects, in every material aspect, the financial position of **GRUMA, S.A.B. DE C.V.** as of December 31, 2016, as well as its financial performance and cash flow, for the year ending on such date, in compliance with the International Financial Reporting Standards.

On behalf of the Board of Directors

[Illegible Signature]

Raúl Cavazos Morales
Deputy Director of the Board of Directors
GRUMA, S.A.B. DE C.V.



April 26, 2017

**REPORT ON THE ACCOUNTING AND INFORMATION POLICIES AND STANDARDS IMPLEMENTED
FOR THE PREPARATION OF THE FINANCIAL INFORMATION**

**To the General Shareholders' Meeting of
GRUMA, S.A.B DE C.V.**

In compliance with article 28 section IV, letter "d" of the Securities Exchange Law (*Ley del Mercado de Valores*) and the Company's bylaws, the Board of Directors of **GRUMA, S.A.B. DE C.V.**, through me, submits the reports on the main accounting and information standards and policies followed for the preparation of the financial information corresponding to the financial year starting on January 1 and ending on December 31, 2016.

For the preparation of the Company's Financial Information, which consists of the Financial Position Statement, Income Statement, Comprehensive Income Statement, Changes in Equity Statement and Cash Flow Statement for the 2016 year, both consolidated and individual for **GRUMA, S.A.B. DE C.V.**, as an independent legal entity, the administration followed the International Financial Reporting Standards (IFRS), which also include the current International Accounting Standards (IAS), the related interpretations that are issued by the International Financial Reporting Interpretations Committee (IFRIC), including those issued previously by the Standing Interpretations Committee (SIC).

Both, the Audit Committee of the Company and the firm of Public Accountants PricewaterhouseCoopers, S.C., independent auditors, examined the implementation of the aforementioned IFRS, IAS, IFRIC and SIC by the administration for the preparation of the Company's Financial Information for the 2016 year, without detecting any incorrect implementation of such rules on the preparation of the Company's Financial Information.

Based on the aforesaid, the Board of Directors considers that the Accounting and Financial Information Policies and Standards used by the administration for the preparation of the Company's Financial Information, are reasonable, suitable and sufficient, therefore, such information reflects in an truthful, reasonable and sufficient manner the financial position of **GRUMA, S.A.B. DE C.V.** as of December 31, 2016, and the results of its operations, the changes in equity and cash flow, for the year ended on such date, in accordance with the International Financial Reporting Standards.

On behalf of the Board of Directors

[Illegible Signature]

Raúl Cavazos Morales
Deputy Director of the Board of Directors
GRUMA, S.A.B. de C.V.