



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

Calzada del Valle 407 Ote.  
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San Pedro Garza García, Nuevo León  
66220, Mexico  
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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, 2019.**

As of April 24, 2020, our capital stock is represented by 405,491,056 ordinary, registered, Series "B", Class I no par value shares, out of which 402,039,639 shares are outstanding and fully subscribed and paid for and 3,451,417 shares are kept in treasury.

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."

This Annual Report was translated from Spanish into English and presented only for purpose of complying with the requirements of GRUMA's US\$400 million 4.875% senior notes due 2024. None of the information contained in this report is prepared and published with the intention of claiming an exemption under Rule 12g3-2 (b) of the U.S. Securities Exchange Act of 1934. GRUMA does not authorize, endorse, support or encourage the creation of any unsponsored ADR program in respect of its securities and disclaims any liability whatsoever arising out of an unsponsored ADR program.

Under no circumstances should the contents of this report be construed as a solicitation to purchase any securities of GRUMA.

**KEY INFORMATION WITH RESPECT TO THE DEBT SECURITIES  
(CERTIFICADOS BURSÁTILES) ISSUED BY GRUMA, S.A.B. DE C.V.**

**AS OF DECEMBER 31, 2019**

<b>Ticker Symbol</b>	<b>GRUMA 18</b>
<b>Amount</b>	\$3,000,000,000.00
<b>Number of series in which the issuance is divided</b>	N.A.
<b>Issuance date</b>	September 27, 2018
<b>Maturity date</b>	September 21, 2023
<b>Issuance period</b>	1,820 days as of the Issuance Date, approximately 5 years
<b>Interest rate and calculation procedure</b>	Interest rate on the nominal value of TIIE +38bp
<b>Periodicity in payment of interest</b>	Every 28 days commencing on October 25, 2018
<b>Place and payment method of principal and interests</b>	The principal and accrued interests of the Debt Securities ( <i>Certificados Bursátiles</i> ), will be paid on their Maturity Date and in every Interest Payment Date, by electronic transfer of funds, through Indeval, whose registered offices are located in Paseo de la Reforma No. 255, 3 <sup>rd</sup> floor, Colonia Cuauhtémoc, 06500, Mexico, Mexico City, against the delivery of the Debt Securities ( <i>Certificados Bursátiles</i> ) or of the certificates issued by Indeval.
<b>Subordination</b>	Pari Passu
<b>Amortization and early amortization</b>	The principal of the Debt Securities ( <i>Certificados Bursátiles</i> ) will be amortized at its par value in a single payment on the Maturity Date upon the delivery of the Debt Securities ( <i>Certificados Bursátiles</i> ) or of the certification issued by Indeval.  The Issuer has the right to proceed with an early amortization of all, but not less than all, the Debt Securities ( <i>Certificados Bursátiles</i> ), in any Interest Payment Date after September 23, 2021.
<b>Guarantee</b>	The Debt Securities ( <i>Certificados Bursátiles</i> ) will be unsecured, therefore, will not have a guarantor ( <i>aval</i> ), nor any guarantee.
<b>Trustee</b>	N.A.
<b>Rating</b>	S&P Global Ratings, S.A. de C.V. “mxAA+” Fitch México, S.A. de C.V. “AAA(mex)”
<b>Common Representative</b>	CIBanco, S.A., Institución de Banca Múltiple
<b>Depository</b>	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.

<p><b>Tax treatment</b></p>	<p>The applicable withholding tax rate to the interest paid in accordance with the Debt Securities (<i>Certificados Bursátiles</i>) is subject to: (i) for individuals or legal entities considered as residents of Mexico for tax purposes, articles 54, 135 and other applicable provisions of the current Income Tax Law (<i>Ley del Impuesto Sobre la Renta</i>), and (ii) for individuals and legal entities considered as non-Mexican residents for tax purposes, articles 153, 166 and other applicable provisions of the current Income Tax Law (<i>Ley del Impuesto sobre la Renta</i>). Potential investors shall consult their tax advisors on the tax consequences resulting from their investment in the Debt Securities (<i>Certificados Bursátiles</i>), including the application of specific rules regarding their particular situation. The current tax regime may be modified during the Program term and during the term of any issuance under the Program.</p>
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**Change of Control:** In the event of a Change of Control Event (as defined in the indenture of the Debt Securities (*Certificados Bursátiles*)), the Issuer will be required to make an offer, in accordance with the Debt Securities (*Certificados Bursátiles*)’s indenture, to repurchase all of the Debt Securities (*Certificados Bursátiles*) at a purchase price equal to 101% of the par value of the Debt Securities (*Certificados Bursátiles*) plus the accrued interests but not yet paid on the principal of the Debt Securities (*Certificados Bursátiles*) at the repurchase date.

**Corporate Restructuring:** In the event of a corporate restructuring, the Issuer will disclose to the investors the applicable disclosure document and other information required under applicable laws. In accordance with the indenture of the Debt Securities (*Certificados Bursátiles*), the Issuer may not merge, transfer or dispose all or substantially all of its goods and consolidated assets, except under certain circumstances as per the indenture of the Debt Securities (*Certificados Bursátiles*).

**Essential Assets:** In accordance with the terms of the Debt Securities (*Certificados Bursátiles*), the Issuer may not constitute nor permit any of its subsidiaries to create any liens on “operating assets” (as such term is defined in the indenture of the Debt Securities (*Certificados Bursátiles*)), in order to guarantee any debt, except: (i) for “Permitted Liens” (as such term is defined in the Debt Securities (*Certificados Bursátiles*) indenture), or (ii) if, simultaneously to the creation of any lien, the Issuer guarantees in the same way its obligations under the Debt Securities (*Certificados Bursátiles*).

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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”	Trade Services and Development of Agricultural Markets Agency, an agency of the Secretary of Agriculture and Rural Development (formerly Secretary of Agriculture, Livestock, Rural Development, Fisheries and Food Ministry).
“Azteca Milling”	Azteca Milling, L.P.
“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> ).
“Debt Securities ( <i>Certificados Bursátiles</i> )”	Negotiable instruments of those denominated <i>Certificados Bursátiles</i> , outstanding and issued by the Company in accordance with the Mexican Securities Law, the Program.
“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> (EBITDA is a financial ratio not contemplated by IFRS and it is defined in each credit agreement in which it is used).
“Fitch”	Fitch Ratings.
“GIMSA”	Grupo Industrial Maseca, S.A. 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.
“Gruma USA”	Gruma Corporation and its consolidated subsidiaries, as a whole, except when specific reference is made to any of said entities.
“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.
“Program”	Means Debt Securities ( <i>Certificados Bursátiles</i> ) program under which the Company may issue Short-term and Long-term revolving Debt Securities ( <i>Certificados Bursátiles</i> ), authorized by the CNBV through resolution number 153/12315/2018 dated September 25, 2018.
“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”	S&P Global Ratings.
“TECNOMAÍZ”	Tecno Maíz, S.A. de C.V.
“TIE”	Mexican equilibrium interbank interest rate, determined and published by <i>Banco de México</i> .
“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 nixtamalized 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 nixtamalized 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 nixtamalized corn flour 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.

### 1.1.2. Presentation of Financial Information

This annual report contains our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended on said dates, as of December 31, 2018 and 2017 and for the years ended on said dates, as well as those as of December 31, 2017 and 2016 and for the years ended on 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 24, 2020, on April 26, 2019 and on April 27, 2018, 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. The financial statements of the entities that have a functional currency which differs from our presentation currency are translated as follows: a) assets and liabilities at the closing rate of the period, b) income and expenses at average exchange rates when it has not fluctuated significantly during the period and c) equity 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”. 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,” “the Issuer,” “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.

### *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 Sistematizada 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 as of December 31, 2019 at the exchange rate of Ps.18.8452 to U.S.\$1.00, which was the rate established by *Banco de México* on December 27, 2019.

### *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 nixtamalized 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 an ADR program. 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, 2019, 2018 and 2017 and for the years ended December 31, 2019, 2018 and 2017, is derived from and should be analyzed together with our audited consolidated financial statements included herein and “Section 3.4.2 Results of Operations.”

<b>Income Statement Data:</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(thousands of Mexican Pesos, except per share amounts)		
Net sales.....	Ps. 77,387,658	Ps. 74,037,588	Ps. 70,580,518
Cost of sales.....	(48,672,006)	(46,347,137)	(43,802,989)
Gross profit.....	28,715,652	27,690,451	26,777,529
Selling and administrative expenses .....	(19,412,701)	(18,238,681)	(17,595,163)
Other (expenses) income, net.....	(20,946)	(26,288)	136,878
Operating income.....	9,282,005	9,425,482	9,319,244
Comprehensive financing cost, net .....	(1,722,186)	(1,564,826)	(1,263,231)
Income before income tax.....	7,559,819	7,860,656	8,056,013
Income tax expense.....	(2,711,069)	(2,807,958)	(1,782,063)
Consolidated net income from continuing operations .....	4,848,750	5,052,698	6,273,950
Loss from discontinued operations.....	(11,473)	(81,756)	-
Consolidated net income.....	4,837,277	4,970,942	6,273,950
<b>Attributable to:</b>			
Shareholders .....	4,835,675	4,969,803	6,218,074
Non-controlling interest .....	1,602	1,139	55,876
<b>Per share data<sup>(1)</sup>:</b>			
<b>Basic and diluted earnings (losses) per share (pesos):</b>			
From continuing operations .....	11.60	11.76	14.37
From discontinued operations .....	(0.03)	(0.19)	-
From continuing and discontinued operations.....	11.57	11.57	14.37
 <b>Balance Sheet Data (at period end):</b>	 <b>2019</b>	 <b>2018</b>	 <b>2017</b>
	(thousands of Mexican pesos, except per share amounts and operating data)		
Properties, plant and equipment, net.....	Ps.28,665,642	Ps.30,154,660	Ps.29,326,904
Right-of-use assets.....	4,729,796	-	-
Total assets .....	66,882,870	61,832,703	60,820,763
Short-term debt <sup>(2)</sup> .....	587,076	4,330,288	2,896,675
Short-term lease liability ) .....	612,596	-	-
Long-term debt <sup>(2)</sup> .....	21,038,774	17,164,392	17,310,045
Long-term lease liability ) .....	4,403,642	-	-
Total liabilities.....	40,905,336	35,731,248	34,842,845
Common stock.....	5,120,602	5,248,104	5,363,595
Total equity <sup>(3)</sup> .....	25,977,534	26,101,455	25,977,918
<b>Other Financial Information:</b>			
Capital expenditures.....	1,765,079	3,969,598	5,157,873
Depreciation and amortization.....	3,179,550	2,312,383	2,008,675
Net cash provided by (used in):			
Operating activities.....	7,648,191	7,709,171	4,997,893
Investing activities.....	(1,313,968)	(3,906,735)	(5,186,341)
Financing activities.....	(5,681,905)	(3,635,864)	(2,196,616)

(1) Based upon the weighted average of outstanding shares of our common stock (in thousands), as follows: 417,944 shares for the year ended December 31, 2019, 429,490 shares for the year ended December 31, 2018, and 432,749 shares for the year ended December 31, 2017.

(2) Short-term debt consists of bank loans and the current portion of long-term debt. Long-term debt consists of bank loans, the Debt Securities (*Certificados Bursátiles*) Gruma 18 for \$ 3 billion pesos and our Notes due 2024. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources - Indebtedness.”

(3) Total equity includes non-controlling interests as follows: Ps.(12) million as of December 31, 2019, Ps.(12) million as of December 31, 2018 and Ps.(6) million as of December 31, 2017.

Operating Data:	2019	2018	2017
<i>Sales Volume:</i>			
	(thousands of tons)		
Gruma USA (nixtamalized corn flour, tortillas and other) <sup>(1)</sup>	1,441	1,397	1,367
GIMSA (nixtamalized corn flour and other).....	2,042	2,064	2,039
Gruma Europe (corn grits, nixtamalized corn flour, tortillas and other).....	395	340	374
Gruma Centroamérica (nixtamalized corn flour and other).....	213	210	195
<i>Number of Employees:</i>	20,785	20,833	20,584

(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 through an ADR program 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. Currently, there are no ADR program sponsored by GRUMA. GRUMA does not authorize, endorse, support or encourage the creation of any unsponsored ADR program in respect to its securities and disclaims any liability whatsoever, arising out of any unsponsored ADR program.

As of April 24, 2020, our capital stock is represented by 405,491,056 issued, ordinary, non-par value, Class I, Series B shares, out of which 402,039,639 shares are outstanding and fully subscribed and paid for and 3,451,417 shares are kept in treasury.

### 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 <sup>(1)</sup> )		(U.S.\$ per ADS)	
<b>Annual Price History</b>				
2015.....	259.41	147.78	55.15	39.83
2016.....	293.87	233.10		
2017.....	286.38	227.25		
2018.....	258.06	207.56		
2019.....	234.69	166.07		
<b>Quarterly Price History</b>				
2018				
1st Quarter.....	250.78	208.57		
2nd Quarter.....	242.90	207.70		
3rd Quarter.....	258.06	227.20		
4th Quarter.....	241.00	207.56		
2019				
1st Quarter.....	234.69	198.02		
2nd Quarter.....	202.17	177.86		
3rd Quarter.....	210.75	166.07		
4th Quarter.....	208.07	182.24		

	<b>Mexican Stock Exchange</b>		<b>NYSE</b>	
	<b>Common Stock</b>		<b>ADS(2)</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
	<b>(Ps. Per share <sup>(1)</sup>)</b>		<b>(U.S.\$ per ADS)</b>	
2020				
1st Quarter.....	211.08	170.80		
<b>Monthly Price History <sup>(1)</sup></b>				
October 2019.....	206.88	190.78		
November 2019.....	208.07	197.00		
December 2019.....	200.21	182.24		
January 2020.....	211.08	193.58		
February 2020.....	207.08	189.06		
March 2020.....	191.40	170.80		
April 2020 <sup>(3)</sup> .....	229.78	188.77		

(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) As of April 24, 2020.

On April 24, 2020, the last reported sale price of the B Shares on the Mexican Stock Exchange was Ps.229.78 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 34% and 7%, respectively, of our cost of sales in 2019. 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. 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, swaps 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 contracted 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 nixtamalized corn flour plants and processing ovens for the manufacture of tortillas and related products at our facilities. These energy costs represented approximately 5% of our cost of sales in 2019. 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.

We generally have hedges to deal with fluctuations in natural gas costs, particularly in our operations in the United States of America and Mexico, using futures, swaps and options contracts and fixed price supply contracts in accordance with our risk management policy. Additionally, diesel hedges are contracted to hedge distribution costs of our products in the United States of America, from time to time. As in the corn and wheat hedges, we are exposed to losses in the event of non-performance of our counterparties or in case of unexpected market movements.

*The Inadvertent or Accidental Presence of Genetically Modified Corn or Other Inputs, in Our Products, or of Mycotoxins, Acrylamides, Heavy Metals, Agrochemicals or Residual Materials from the Production Process of Our Inputs, May Have a Negative Impact on Our Sales and Our Results of Operations*

We do not grow our own corn, therefore we purchase it from various farmers and grain sellers. We only contract the procurement of corn suitable for nixtamalization, approved for human consumption and that complies with all the applicable regulations to our operations. However, although we have developed control protocols in order to test and monitor the presence of genetically modified corn in the corn we acquired, we may accidentally or inadvertently incorporate genetically modified corn that is not suitable for nixtamalization, is not approved for human consumption or exceeds the permitted limits by applicable regulations, in our production process.

Additionally, we rely upon third parties to supply us the inputs used in the manufacture of our products and therefore, do not control such production process of such inputs (including corn, wheat flour, packing material and additives). Notwithstanding we have developed control protocols in our inputs to test and monitor the presence of mycotoxins, acrylamides, heavy metals, agrochemicals or other residual or derived materials from our inputs' production process, we may accidentally or inadvertently include such substances and materials in our products, exceeding the permitted limits set by the applicable regulations.

The accidental or inadvertent presence of genetically modified corn in our products, not suitable for nixtamalization, not approved for human consumption, or exceeding the permitted limits by the applicable regulations, or of mycotoxins, acrylamides, heavy metals, agrochemicals or residual or derived materials from our input productions process which exceed from the permitted limits in the applicable regulations, may result in costly recalls, reputational damage, sale reductions, impairment in the performance and functionality of our products, governmental actions, and lawsuits, which could have a negative impact on our sales and results of operations.

*The Presence of Genetically Modified Corn or other Inputs in Our Products, or of Mycotoxins, Acrylamides, Heavy Metals, Agrochemicals, or Residual Materials from the Production Process of Our Inputs, Even Within the Maximum Permitted Limits, May Generate a Negative Perception in the Consumer and therefore a Negative Impact in Our Sales and 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 as well as certain types of mycotoxins, acrylamides, heavy metals, agrochemicals and other residual materials from the food production process are unsafe for human consumption, could be carcinogenic, pose risks 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 restrictions or conditions for the use and import of genetically modified grain and products manufactured with them. Other countries, including the United States, China and other countries from the European Union 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 buy or may be perceived to be a seller of products manufactured with genetically modified grains or with traces of mycotoxins, acrylamides, heavy metals, agrochemicals and residual materials from our input process production, even within permitted limits, may generate a negative perspective of our products in the consumers and a negative impact on our sales 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, food safety, environmental, labor, taxation and antitrust. The adoption of new laws or regulations or any changes in the judicial interpretation of existing legislation 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 the revenues from our international operations account for a significant portion of our revenues. There are risks inherent in conducting our business internationally, including:

- general political and economic instability in markets;
- limitations in the repatriation, nationalization or governmental seizure of our assets, including cash;
- direct or indirect expropriation of our assets;
- varying prices and availability of corn and wheat and the cost and ease of hedging such fluctuations under prevailing 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, interest rates, energy and 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 Possible 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, 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 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.21,626 million (U.S.\$1,148 million) as of December 31, 2019. On a stand-alone basis, we had Ps.20,362 million (U.S.\$1,080 million) of outstanding indebtedness as of December 31, 2019. 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 by 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. As of December 31, 2019, taking into account contracted interest rate swaps approximately 75% of our outstanding indebtedness bore interest at fixed rates and approximately 25% bore interest at floating rates. We constantly monitor the prospects of interest rates in pesos and US dollars, and analyze debt contracting at fixed rates or interest rate swaps to mitigate the risk of interest rate increases.

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

Our long-term corporate credit rating on a global scale is “BBB” by Fitch and Standard & Poor’s. Our U.S.\$400 million 4.875% unsecured senior notes due 2024 are rated “BBB” by Fitch and by Standard & Poor’s. The Debt Securities (*Certificados Bursátiles*) issuance for \$ 3 billion pesos with a maturity date on 2023 under the Program, has a rating of AAA(mex) and mxAA+ by Fitch and Standard & Poor’s, respectively.

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, Pesos or Other Currencies, 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 72% of our outstanding debt denominated in dollars, 23% in Mexican pesos and 5% in euros as of December 31, 2019. 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.



*The Issuer May be Exposed to Both, Cyber-Attacks, Other Computer Security Breaches or Information Technology, Which Could Adversely Affect its Business and Operations.*

It is possible that the Issuer may be subject to cyber-attacks and other threats or computer security breaches that could compromise and materially affect the information technology systems, networks, operation and technological and computer security of the Issuer. The security risks associated with information technology have increased in recent years due to an increase in the sophistication and activities of those people who carry out cyber-attacks. A failure of or an attack on the information technology systems, networks, operation and technological and computer security of the Issuer could adversely affect its business and result in the disclosure or improper use of confidential or personal information (own or of third parties), causing significant interruptions in the services or other operational difficulties, as well as increases in costs or generate losses. Additionally, the unauthorized use and disclosure of confidential and / or sensitive information and / or data privacy derived from a cyber-attack and other threats and computer security breaches could have an adverse effect on the business, reputation and / or profitability of the Issuer.

*Our Business and Operations May be Adversely Affected by Events Outside of our Control*

Our ability to manufacture, distribute and sell products is critical to our success. These activities are subject to inherent risks outside of our control such as natural disasters, power outages, fires or explosions, labor strikes, terrorism, epidemics, pandemics, import, export and other governmental restrictions, regional or global economic, business, environmental or political events, which could disrupt our supply chain and therefore impair our ability to manufacture, distribute or sell our products. This interruption, if not mitigated in advance or otherwise effectively managed when possible, could adversely impact our business, financial condition, and results of operations.

Furthermore, an outbreak of a contagious disease, and other adverse health developments could have an adverse effect on global economic conditions and on our business. On this regard, we are currently facing risks related to the recent outbreak of the COVID-19 virus first identified in December 2019 in Wuhan, China, which has expanded to impact all of China and many other countries on which we have operations, (i.e. in the United States of America, Mexico, Europe, Central America, Asia and Oceania), same that has been declared as a pandemic by the World Health Organization on March 11, 2020.

It is not possible to currently assess the direct or indirect impact that the COVID-19 outbreak will have in any other risk factors mentioned in this Report, as well as in the global economy, nor on the economies in which we operate, and it is difficult to predict for how long its effects will continue, and whether a possible economic slowdown may result in our customers' reducing their demand for our products or have operational problems or liquidity problems. These effects could also include business disruptions, such as the temporary closure of facilities, difficulties in hiring new employees, distribute our products and in securing raw materials. 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. Although no material impact on the operations has been identified as of the date of this annual report, the administration will continue to monitor the situation closely.

*Changes in the International Financial Reporting Standards ("IFRS") Could Result in Material Impacts on the Issuer's Internal Processes, Business operations, Financial Situation and Compliance with its Contractual Obligations.*

Some IFRS, such as IFRS 16 "Leases", have recently been amended. Other IFRS may be modified or replaced in the future. The initial application of new IFRS could have as a result material impacts in the internal processes of the Issuer, as well as in its operations, financial situation and fulfillment of its contractual obligations, which are not predictable or quantifiable to date. Likewise, it is possible that the financial information that is prepared in accordance with the new IFRS may not be comparable with the financial information reported during previous years.

In relation to IFRS 16 "Leases", which is effective from January 1, 2019, the Issuer has retrospectively adopted the guidelines of this standard from January 1, 2019, without restating the comparative information of previous years, as allowed by the transitory provisions. The change in the accounting policy affected the following items in the balance sheet on January 1, 2019: (a) increase in the right-of-use asset of Ps.5,384 million, (b) increase in the lease liability of Ps.5,569 million. The right-of-use asset was recognized for the same amount as the lease liability, however, at December 31, 2018, the Issuer recognized an accrued rents liability amounting to Ps.185 million, referring to contracts with variable payments that were recorded using the straight-line method in accordance with IAS-17. With the adoption of IFRS-16, this liability was recognized as a decrease in the right-of-use asset.

### 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 28% of our consolidated assets located in Mexico and 27% of our consolidated net sales derived from our Mexican operations as of and for the year ended December 31, 2019. As a result, Mexican economic conditions could impact our results of operations.

In the past, Mexico has experienced instability and devaluation in its currency 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. The Mexican economy contracted by 6.1% in 2009. In 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 the Mexican economy grew by 5.5%, 3.9%, 3.9%, 1.1%, 2.1%, 2.5%, 2.3%, 2.0% and 2.0% respectively. In 2019, the Mexican economy contracted 0.1%.

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 81% of Mexican exports were directed to the United States in 2019), 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 36.8% of Mexican foreign direct investment came from U.S.-based investors in 2019), 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 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.

In the past, the corn flour industry has been negatively affected by Governmental policies, and we cannot assure that this will not happen again in the future, nor can we assure that the Mexican government will not establish price controls or other measures that could negatively impact the corn flour industry and therefore our financial condition and our results of operations. On July 1, 2018, presidential and congressional elections were held, where Andrés Manuel López Obrador, a member of the National Regeneration Movement (*Movimiento de Regeneración Nacional*) Party (“MORENA”), was elected President of Mexico. After these recent elections, MORENA has a strong influence in both houses of Congress, which increases when acting along with other aligned Parties. It is possible that the new Government makes significant changes to Mexico’s governmental policies, including legal reforms. We cannot predict the impact that said changes could have in our business, results of operations, financial condition and prospects.

Neither can we 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.

Historically, the Mexican government has supported the commercialization of corn for Mexican corn growers through ASERCA. However, ASERCA’s 2020 budget has been significantly reduced and therefore the program’s scope may be reduced as of

the Autumn/Winter 2020 cycle. Additionally, the Mexican government has announced the entry into force of a guarantee price program that is intended for small agricultural products producers, including corn. These and other programs could affect our business, the results of operations, financial conditions and prospects.

The level of environmental and competition regulations and enforcement in Mexico has increased in recent years for all companies. Furthermore, the level of labor regulation is expected to increase in the short term. We consider that the trend toward greater regulation and enforcement will continue and will be accelerated. The promulgation of new and more stringent laws and regulations, higher levels of enforcement or interpretations of corresponding investigating authorities, 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 the 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.

Recently, on December 9, 2019, various amendments to the Income Tax Law (*Ley del Impuesto sobre la Renta*), the Value Added Tax Law (*Ley del Impuesto al Valor Agregado*), the Special Tax Law on Production and Services (*Ley del Impuesto Especial sobre Producción y Servicios*), the Federal Law of Rights (*Ley Federal de Derechos*) and the Federal Tax Code (*Código Fiscal de la Federación*), were published in the Official Gazette of Mexico and entered into force on January 1, 2020. In general terms, such reforms aim to continue incorporating to the Mexican tax system, the recommendations issued by the OECD, related to the BEPS action plan, such as: (i) the broadening of the permanent establishment concept, (ii) the fight against hybrid mechanisms, (iii) the limitation for interests deductions, (iv) the strengthening of the transparency rules, also known as “CFC Rules”, (v) regulate activities related to the digital economy and (vi) require the taxpayers to reveal aggressive planning mechanisms. On the other hand, it becomes imperative to identify the business rationale of any legal act that generate direct or indirect tax benefits. We believe the impact of these reforms in the group is not material and does not represent a major risk for our business.

Our business, financial condition and results of operations may be adversely affected as a result of higher taxes and higher costs due to compliance with the new obligations.

#### *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 net gain of Ps.86 million in 2017 and net loss of Ps.233 million in 2018 and a net gain of Ps.154 million in 2019. 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, 3.36% for 2016, 6.77% for 2017, 4.83% for 2018 and 2.83% for 2019. From January through March 2020, the inflation rate was 0.85%. On April 16, 2020, the 28-day CETES rate was 6.0. 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 1.3.3. 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.

*Our Shareholders Could May be Unable to Enforce Foreign Judgements 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. Our shareholders may experience difficulty in effecting service of process on us or our directors and executive officers outside of Mexico and in enforcing civil judgments of non-Mexican courts in Mexico, 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 foreign 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 55% of our total sales in 2019. 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.

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.”

*It is Possible that we may not Maintain Our Profitability Due to the Retail Channel Consolidation*

As the retail grocery trade continues to consolidate, resulting in retailers with increased purchase power that could demand lower prices and larger promotional programs, said retailers could also try to use their position in order to improve their profitability through various strategies that could impact our margins, such as a change in their sales mix towards own-brand products, generic brands and other economic brands. In addition, our reliance on sales to some of these retailers may increase. There is a risk that we cannot maintain our profit margins in the U.S., under these conditions. See “Section 2.2.4. Principal Customers”.

*Changes in the Distribution Methods or a Possible Reclassification on the Legal Status Independent Distributors Are Acknowledged, Could Have an Adverse Effect on the Company*

Mission Foods, a division of Gruma USA, distributes its products mainly through independent distributors, who supply tortillas and other related products directly to retail chains (“Independent Distributors”). Mission Foods legally recognizes its Independent Distributors as independent service providers and not as employees. However, to the extent that Mission Foods would have to reclassify or recognize certain of its Independent Distributor as employees, make significant changes to its distribution method to retail chains, or if there was a significant delay in implementing any change Mission Foods decides or needs to carry out, this could lead to controversies, contingencies, and additional costs for said division and therefore negatively affecting its business, financial condition and results of operation.

*The Renegotiation of the Free Trade Agreements between Mexico, United States of America and Canada, as well as Changes in Public Policies by the United States Government, May Adversely Affect the Operations of the Issuer and The Industry Where It Operates*

The United States held presidential elections on November 8, 2016, where Donald Trump was elected. After the aforementioned elections, the Federal Government of the United States of America has changed its public policies and, among others, questioned the current trade agreements between the North American countries, such as the North America Free Trade Agreement (the “NAFTA”). As a result of the foregoing, the governments of the United States of America, Mexico and Canada entered into a renegotiation process of NAFTA, which led to the execution of a new agreement called the United States Mexico Canada Agreement (“USMCA”) on November 30, 2018. The Congress of all three countries have ratified the USMCA and have notified to each other their fulfillment of their

corresponding required internal procedures, for the new treaty to enter into force. Consequently, the USMCA is scheduled to enter into force on July 1, 2020.

In addition, the current administration has implemented various changes to the immigration public policy regarding the migration from Mexico and other countries. Given that some of the Issuer's subsidiaries import part of their corn needs and other products from the U.S., and export certain products to its subsidiaries in the U.S., mainly nixtamalized corn flour and *tostadas*, any delay on the entry into force of the USMCA, as well as any termination or renegotiation of the free trade agreements between the North American countries in terms that could adversely affect the industry where the Issuer operates, as well as any other changes in public policies of the President Trump's administration, could have an adverse and significant effect on the Mexican economy, the industry where it operates and the business, financial situation and operation results of the Issuer.

Additionally, the demographic changes in the U.S., resulting from the strengthening of the U.S. current immigration policies, may affect the sales of the Issuer in the U.S., which represented 55% of our consolidated sales in 2019.

#### *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 Bolivarian Republic of Venezuela (the "Republic") published the Decree number 7.394 in the Official Gazette of Venezuela (the "Expropriation Decree"), ordering the forced acquisition of all assets, property and real estate of the Company's indirect subsidiary in Venezuela, Molinos Nacionales, C.A. ("MONACA"), through an expropriation proceeding to be initiated and processed with the participation of several agencies of the Republic.

The Republic stated that the Expropriation Decree also extends to the Company's indirect subsidiary, Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA"). The Republic took initial steps to carry out an administrative expropriation procedure in accordance with the Expropriation Decree, but then suspended said procedure indefinitely, which is still suspended to this date, therefore the expropriation has not been carried out.

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 (jointly, the "Investors" or the "Claimants") commenced conversations with the Republic regarding the Expropriation Decree and other measures related to the same, affecting MONACA and DEMASECA. Through the Investors, GRUMA participated in these conversations, in order to resolve the controversy caused by the Expropriation Decree and other measures imposed by the Republic. These conversations ceased without resulting in an agreement with the Republic.

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 formally notified the Republic about the dispute and their agreement to submit said dispute to ICSID arbitration if the parties were unable to reach an amicable agreement.

On January 22, 2013, as part of a criminal proceeding unrelated to MONACA and DEMASECA against a third party where precautionary measures were issued for the insurance of the assets of said third party which, in an extra-limited way, included MONACA and DEMASECA, the Republic published the Administrative Providence number 004-13 dated January 21 of the same year (the "Providence") appointing special administrators for MONACA and DEMASECA granting them the broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of company assets.

Consequently, in accordance with the provisions set forth in IFRS, the Company determined that as of January 22, 2013, it had lost the power to affect the variable returns of its subsidiaries in Venezuela and concluded that the appointment of special administrators with broad powers under the Providence had the effect of taking away its control over MONACA and DEMASECA and as a result, the Company proceeded to deconsolidate both subsidiaries and recognize its investment in Venezuela as a financial asset. Following the provisions set forth in IFRS, GRUMA performed impairment tests on the financial asset related to MONACA and DEMASECA and as of December 31, 2015, recognized an impairment of \$4,362,108 corresponding to the total value of said asset.

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 was to seek compensation for the damages caused

by Venezuela's violation of the Investment Treaty. The tribunal that presided over this arbitration proceeding was constituted in January 2014.

On July 25, 2017, the tribunal decided the arbitration in favor of Valores Mundiales and Consorcio Andino, by dismissing the jurisdictional objections raised by the Republic and concluding that the Republic had violated provisions of the Investment Treaty. According to the Award issued by the arbitration tribunal, the Republic must pay US\$430.4 million to Valores Mundiales and Consorcio Andino as damages resulting from its violation of certain provisions of the Investment Treaty, plus compound interest at Libor +2% since January 22, 2013 and until the Award's effective payment date. As of December 31, 2019, the award plus interest amounts to approximately US\$537.5 million. The arbitration tribunal also ordered the Republic to pay US\$5.9 million for legal expenses incurred by the Claimants during the arbitration. Both, the amount of the award plus interest and the legal expenses incurred by the Claimants, were not recorded since they are considered a contingent asset under IAS 37.

In the Award, the arbitration tribunal granted most of the Claimants' claims and concluded that the Republic had violated the Investment Treaty by (i) not granting a fair and equitable treatment to the Claimants' investments; (ii) adopting arbitrary measures that hindered the management and evolution of the Claimants' investments; and (iii) preventing the free transfer of funds related to the Claimants' investments. The arbitration tribunal dismissed the indirect expropriation claim submitted by the Claimants, since the tribunal considered, amongst other reasons, that the administrative expropriation procedure ordered by the Expropriation Decree had not been concluded and the special administrators appointed by the Republic did not exercised control over the companies in a substantial way. The Claimants retain their right to commence a new claim against the Republic if the latter continues with the enforcement of the Expropriation Decree and materializes the transfer of the right of ownership of the assets subject to the Expropriation Decree.

On November 22, 2017, the Republic filed before the ICSID a request for annulment of the Award issued by the arbitration tribunal and the stay of enforcement of the same while said action is pending resolution. On December 7, 2017, ICSID registered the Republic's annulment request and provisionally stayed the enforcement of the Award. The Committee that will decide on the Award's annulment proceedings was finally constituted on May 23, 2018 ("Annulment Committee").

On June 4, 2018, the Republic formally requested that the Annulment Committee kept suspended the enforcement of the Award during the course of the annulment proceeding. After considering the arguments presented by the parties, on September 6, 2018, the Annulment Committee ordered the lifting of the provisional suspension of the enforcement of the Award, which allows the Investors to begin legal actions to recognize and enforce the Award in different jurisdictions.

In accordance with the procedural calendar governing the annulment proceeding, the Republic filed its Memorial on Annulment on August 23, 2018 and the Investors submitted their Counter Memorial on Annulment on November 16, 2018. The Republic submitted its Reply on January 15, 2019 and the Investors submitted their Rejoinder on March 15, 2019. The written phase of the annulment proceeding has concluded and only the Oral Hearing is pending, after which the Annulment Committee would be in a position to issue its decision months later.

The annulment proceeding Hearing was originally scheduled on May 20, 2019. However, on April 4, 2019, the Annulment Committee decided to suspend the Hearing due to a dispute between representatives of the Republic over who has the power to represent the interests of the Republic in the annulment procedure. On August 29, 2019, after hearing the arguments of the parties, the Committee resolved the aforementioned dispute and invited the parties to propose a new date for the Hearing. Nevertheless, a new date for the Hearing was not established, since on October 29, 2019, the ICSID General Secretary formally proposed to the Annulment Committee to suspend the annulment procedure pursuant to ICSID rules for non-payment of the advance cost by the Republic. Consequently, on November 11, 2019, the Annulment Committee notified the parties its decision to suspend the procedure in accordance with ICSID rules, clarifying that, if the procedure was resumed, the Annulment Committee would set new dates for the Hearing in consultation with the parties. In March 2020, the Republic made the aforementioned payment, consequently the Committee resumed the procedure and set two possible dates for the Hearing; one in September, which would be held virtually and the other in October, which would held in person if the COVID-19 contingency allowed it. The Committee will decide no later than July 21, 2020, on which date the Hearing will be held.

On January 8, 2019, the Investors filed a complaint with the Federal District Court in Washington, D.C. requesting recognition of the Award. The complaint for recognition of the Award was notified to the Republic by consular means on July 26, 2019, granting a period to answer until September 24, 2019 without Venezuela responding. Consequently, on October 21, 2019, the Investors requested the Judge to issue a judgment recognizing the Award considering the Republic's contempt. On March 2, the Republic appeared requesting that our petitions for a contempt judgement be denied and answering our complaint. On March 16, Valores Mundiales and Consorcio Andino requested that a judgment be issued in their favor, and the Republic answered on the 30<sup>th</sup> of this month. The Investor's reply and the Republic's rejoinder were filed on April. A decision from the Judge is expected during the next months.

Nevertheless, even though future discussions with the Republic could 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 the violation to the Investment Treaty in the terms dictated in the Award or for the eventual enforcement of the Expropriation Decree by the Republic. Additionally, the Company cannot predict the results of the Award annulment proceeding, or the proceedings for the recognition and enforcement of the Award that the Investors commenced or may commence or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the Award.

On the other hand, the special administrators appointed through the Providence have been resigning their chargers, the last of them resigning at the end of 2018, without the Republic having appointed new special administrators, and since that moment there has been no direct or indirect participation by representatives of the Republic in the decision-making and management of the administration and operation of MONACA and DEMASECA. These administration activities are only carried out by MONACA and DEMASECA's management team, which is directed by its local Directive Committee in Venezuela. Although it could be concluded that some of the factual assumptions that were taken in account for the determination under IFRS regarding the loss of control no longer exist or have been mitigated, this does not change the previous conclusions following the IFRS guidelines. Likewise, the macroeconomic indicators used to determine the devaluation of the investment in Venezuela have continued deteriorating due to the economic and social situation in that country that has been negatively impacted by hyperinflation and significant currency devaluation.

Given that the enforcement of the Award may present material challenges, the impact of the Award in the Company cannot be reasonably assessed at this time. The Investors, jointly with its legal counsel, will adopt appropriate measures to preserve and defend their legal interests. See Notes 27 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

### *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 24, 2020, the Primary Shareholder Group controlled approximately 46.46% of our capital stock (46.86% of our outstanding shares). See "Section 4.4. Bylaws and other Agreements—Changes in Capital Stock." Consequently, the Primary Shareholder Group, acting together, determines the outcome of most corporate actions requiring approval of our shareholders, including the election of the majority of our directors and the declaration of payment 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 that members of the Primary Shareholder Group will continue to hold their shares or act together for purposes of control. Additionally, the members of the Primary Shareholder Group may pledge the totality or part of their shares in us to guarantee any obligation, including any future borrowings. In the event of any default where lenders exercise their rights against any and all of these shares, the Primary Shareholder Group could lose its controlling interest in us resulting in a change of control. This, in turn, could trigger a default in some of our credit agreements if the established conditions under the terms of the corresponding credit agreements are met, resulting in a default of other debt documents. A Change of Control could also require us to make an offer to repurchase debt, as per the terms in our debt agreements. Said default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects. See “Section 4.3.3. Major Shareholders” for further detail.

#### *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, 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.”

## **1.4. OTHER SECURITIES**

The company and its Series B shares are listed in the BMV.

The Debt Securities (*Certificados Bursátiles*) Gruma 18 issued on September 27, 2018 for \$3,000,000,000.00 pesos, with a maturity date on September 21, 2023, were registered before the RNV under number 0805-4.19-2018-001-01. See “Section 3.3. Relevant Credit Facilities Report” for further details.

The Notes due 2024, issued on December 2014, were registered on the Official List of the Luxembourg Stock Exchange in order to be traded on the Euro MTF. See “Section 3.3 Relevant Credit Facilities Report” for further details.

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. As of this date and during the last three fiscal years, the company has timely and completely filed the information regarding outstanding events and public information as required by the applicable law.

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.

Currently, there are no ADR program sponsored by GRUMA. GRUMA does not authorize, endorse, support or encourage the creation of any unsponsored ADR program in respect to its securities and disclaims any liability whatsoever, arising out of any unsponsored ADR program.

## **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**

All net proceeds from the issuance of the Debt Securities (*Certificados Bursátiles*) Gruma 18 were destined to the repayment of short-term debt.

## **1.7. PUBLIC DOCUMENTS**

The information contained in this report may be reviewed through the investor relations section of our website: [www.gruma.com](http://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. See "Section 1.4. Other Securities."

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

### **Investor Relations**

Telephone: (52 81) 8399-3349

E-mail: [ir@gruma.com](mailto: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, MASECA and MISSION. 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 nixtamalized 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 nixtamalized 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 nixtamalized corn flour 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 of nixtamalized 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, nixtamalized 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. nixtamalized 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."
- **From 1997 to 2000**, we initiated a significant plant expansion program. During this period, we acquired or built tortilla plants, nixtamalized 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 nixtamalized 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 nixtamalized corn mill plant 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 1.3.4. 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 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 Note 27 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.
- **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 nixtamalized corn flour plant in Evansville, In., and the reopening of the nixtamalized corn flour plant in Chalco, Edo. de Mexico, among others.
- **In 2017**, GRUMA successfully concluded a public offer to purchase all the shares of GIMSA that were not owned by GRUMA, through which it obtained more than 99% holding and enabled GIMSA to obtain the authorization for the cancellation of the registration of the shares of GIMSA in the RNV and the cancellation of the listing of the shares of GIMSA on the BMV, respectively. Additionally, GRUMA continued the execution of its capex program, mainly through the opening of the tortilla plant in Russia and the construction of a tortilla plant in Dallas.
- **In 2018**, GRUMA concluded the construction of one of its largest tortilla manufacturing facilities in Dallas, as well as another tortilla manufacturing facility in central Mexico. During this year, the company was actively repurchasing its own shares. Additionally, Debt Securities (*Certificados Bursátiles*) Gruma 18 were issued in the local debt market for an amount of \$3 billion pesos.
- **In 2019**, throughout the year, the Company was actively repurchasing its own shares and continued with several expansions, particularly in its tortilla plant in Dallas.

## 2.2. BUSINESS OVERVIEW

### 2.2.1. Principal Activity

We are a holding company and one of the world's main tortilla and nixtamalized corn flour producers. With leading brands in most of our markets, we have operations in the United States, Mexico, Europe, Central America, Asia, and Oceania. We are headquartered in San Pedro Garza García, Mexico, and have approximately 20,800 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 main producers of nixtamalized corn flour and tortillas in the United States and nixtamalized corn flour in Mexico. We believe that we are also an important producer of nixtamalized corn flour and tortillas in Central America, of tortilla and other flatbreads, including pita, naan, chapati, pizza bases and piadina in Europe, Asia and Oceania, and 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—nixtamalized corn flour and tortilla. We pioneered the nixtamalized 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 nixtamalized 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, 2019, 2018, and 2017.

	2019	2018	2017
		(in millions of pesos)	
United States.....	Ps. 42,368	Ps. 40,195	Ps. 38,552
Mexico.....	21,046	20,086	19,016
Europe.....	5,691	5,381	5,115
Central America.....	4,603	4,596	4,533
Asia and Oceania.....	3,680	3,780	3,365
Total.....	77,388	Ps. 74,038	Ps. 70,581

### Strategy

Our strategy is to focus on our core business—nixtamalized corn flour and tortilla—as well as to expand our product portfolio towards the flatbreads category in general and flavored corn chips, with emphasis in healthier and higher added value products. 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 Tortilla Market in the United States:* We believe that the size and growth of the tortilla market in this country still offer us significant opportunities for expansion, mainly in the retail channel, looking to continuously innovate our products with emphasis on healthier alternatives and with greater added value based on the preferences of our customers.

*Enter and Expand in the Tortilla, Flatbread Markets and Flavored Corn Chips in Europe, Asia and Oceania:* We believe that markets in other continents such as Europe, Asia and Oceania offer us significant opportunities. We believe our current operations will enable us to better serve our customers in those regions, with fresher products, with emphasis on healthier alternatives and with greater added value, and respond more quickly to their needs.

*Gradually Enter the Flat Bread and Flavored Corn Chips Markets in the United States and Mexico.*

*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 with constant product innovation, with emphasis in healthier and greater added value alternatives, and by expanding and having presence in more supermarket chains.

*Encourage Transition from the Traditional Cooked-Corn Method to the Nixtamalized Corn Flour Method as Well as New Uses for Nixtamalized Corn Flour:* GRUMA introduced the nixtamalized 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 nixtamalized corn flour method of making tortillas and other corn-based products, is the primary opportunity for increased nixtamalized corn flour sales, particularly in Mexico. We continue working in expanding the use of nixtamalized 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 generating returns to the shareholders 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 nixtamalized 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 nixtamalized 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, which produces nixtamalized corn flour. We believe Gruma USA is one of the main producers of tortillas and related products throughout the United States as well as one of the main producers of nixtamalized corn flour in the United States.

*Main Products.* Mission Foods manufactures 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 nixtamalized 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' products are marketed in both retail and food service channels. In the U.S., retail customers represented approximately 77% of our sales volume in 2019, 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, continuous product innovation with emphasis on healthy alternatives, excellence in customer service and effective marketing programs. Mission Foods promotes its products primarily through merchandising programs in supermarkets, and, to a lesser extent, joint promotions with other companies' products that may be complementary to ours. We believe these efforts, among other factors, 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 2019, Azteca Milling sold approximately 30% of its nixtamalized corn flour sales volume 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 nixtamalized corn flour in various quantities, ranging from half a kilo 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. nixtamalized 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 of nixtamalized corn flour. Additionally, the growth in the U.S. nixtamalized 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 main producers 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 compete with Mission Foods, for example, Tyson Foods, General Mills, Hormel Foods, and Bimbo.

Among our competitors in the U.S. within the corn flour milling industry are Bunge, Cargill, LifeLine Foods, and Hari Masa. 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 1.9 million metric tons as of December 31, 2019, with an average utilization of 83% in 2019. The average size of our plants as of December 31, 2019 was approximately 12,996 square meters (about 139,887 square feet).

Capital expenditures for the past three years were U.S.\$234 million and were primarily used for capacity expansions and general manufacturing and technology upgrades. During this period a tortilla plant in Dallas, Texas was built, and the production capacity of the nixtamalized corn flour plants in Lakeland, Florida and Evansville, Indiana, was increased, amongst other projects.

Gruma USA's projected capital expenditures for 2020 are expected to be approximately U.S.\$115 million, mainly for production capacity expansions, especially for the construction of a tortilla plant by The Great Lakes and to continue increasing the capacity of the tortilla plant in Dallas, and also various manufacturing and technology upgrades.

Mission Foods has 20 tortilla and other related products 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 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 SQF certification.

Azteca Milling produces nixtamalized 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 processes and practices, its 6 plants located in the United States have obtained the SQF (Safe Quality Food). 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 nixtamalized corn flour fluctuate seasonally as demand is higher in the fourth quarter during the holidays because of higher use of nixtamalized 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 nixtamalized 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, in order to avoid the introduction in our productive process for corn not approved for human consumption. 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 volatile, Azteca Milling engages in a variety of hedging activities for 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 several 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.

Nixtamalized 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. Since wheat prices are also volatile,

Mission Foods hedges in order to purchase wheat flour, including the purchase of wheat future contracts. 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 its products’ distribution. Mission Foods’ products are distributed in the United States to stores or DSD through direct distribution, and to a much smaller extent, through warehouse distribution. Store or DSD direct distribution is carried out through Independent Distributors, who deliver tortillas, corn chips and other products on a daily basis or several times per week, depending on the customer’s needs and its requirements. Mission Foods legally recognizes its Independent Distributors as independent service providers and not as its employees. See “Section 1.3.3. Risks Related to the UNITED STATES”.

The vast majority of nixtamalized 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 by third parties. To the lesser extent, an important part of our sales goes to wholesalers. Azteca Milling’s retail market is primarily serviced by independent 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 of nixtamalized corn flour, which we conduct through our subsidiary GIMSA. Our other subsidiaries engage in the manufacturing of tortillas and other related products, conduct research and development regarding nixtamalized corn flour and tortilla manufacturing equipment, produce machinery for nixtamalized corn flour and tortilla production and construct our nixtamalized corn flour manufacturing facilities.

#### GIMSA—Nixtamalized Corn Flour Operation

*Main Products.* GIMSA produces nixtamalized corn flour in Mexico, which is then used as a raw material in the preparation of tortillas and other corn-based products. To the lesser extent, GIMSA also produces corn grits.

GIMSA sells nixtamalized corn flour in Mexico mainly under the brand name MASECA®, which is a fine-textured 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 nixtamalized 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 nixtamalized corn flour in bulk mainly to tortilla and other corn-based products manufacturers, including corn chips and snacks manufacturers. 20-kilogram sacks of nixtamalized corn flour are usually sold to tortilla producers. Much bigger sacks are used in sales to big snack producers. Additionally, GIMSA sells one-kilogram packages mostly for domestic use in the retail market.

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

	2019		2018		2017	
	Tons in thousands	%	Tons in thousands	%	Tons in thousands	%
Nixtamalized Corn Flour.....	2,025	99	2,040	99	2,018	99
Bulk.....	1,712	84	1,674	81	1,675	82
Retail.....	313	15	366	18	343	17
Corn Grits.....	17	1	24	1	21	1
Total.....	2,042	100	2,064	100	2,039	100



Retail sales of nixtamalized 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 the government that operates social distribution programs through a network of small stores which supply communities in rural areas with basic food products.

Mexico's tortilla industry is highly fragmented, consisting of approximately 110,000 *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 believe that approximately one quarter of the corn dough used to produce tortillas in Mexico is made with our nixtamalized corn flour.

GIMSA has embarked on several programs to promote nixtamalized 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 2019, 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 nixtamalized 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 and direct delivery at their facilities;
- 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;
- Develop 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 different ways: (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) other corn flour producers, such as: Minsa Group, Hari Masa, Cargill, Molinos Anáhuac, among others. We compete against corn flour manufacturers on the basis of quality, customer service and geographic coverage. We believe that GIMSA has 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, among others.

*Operations and Capital Expenditures.* GIMSA currently owns 18 nixtamalized 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. GIMSA has one plant located in Celaya and has been inactive since February 2006.

Annual total production capacity for GIMSA is estimated at 2.4 million metric tons as of December 31, 2019, with an average utilization of 86% in 2019. The average size of our plants as of December 31, 2019 was approximately 21,647 square meters (approximately 233,006 square feet).

GIMSA's capital expenditures for the last three years were U.S.\$74 million and have been primarily used to upgrade technology, maintenance, storage capacity expansion and purchase of transportation equipment. GIMSA currently projects total capital expenditures during 2020 of approximately U.S.\$35 million, which will be used primarily for the production capacity expansion a new facility in the northeastern region, in addition to transportation equipment and general manufacturing and technology upgrades.

Each of GIMSA's nixtamalized 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 nixtamalized 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 nixtamalized corn flour and constituted 58% of GIMSA's cost of sales for 2019. We purchase corn primarily from Mexican growers and grain elevators, and from different parts of the world, mainly United States, at international prices based on the prices indicated by the Chicago Board of Trade. In 2019, GIMSA imported approximately 21% of our corn purchases through Productos y Distribuidora Azteca, S.A. de C.V., a subsidiary of GIMSA. Most of GIMSA's domestic corn purchases are made through Compañía Nacional Almacenadora, S.A. de C.V., also a subsidiary of GIMSA.

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

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 and the peso-dollar exchange rate. 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 Mexico—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 nixtamalized 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 these inputs' 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 much lesser extent, using our own fleet, particularly for small tortilla producing customers. Most of GIMSA's sales are made ex-works at GIMSA's plants.

### 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. It also manufactures corn grits and nixtamalized corn flour, and other related products, through Azteca Milling Europe. In 2000, Gruma Europe opened its first European tortilla and corn chips plant in Coventry, England, marking our entry into the European market. Since then, our operations have expanded to Italy, The Netherlands, Russia, Turkey, Ukraine and Spain.

#### **Gruma Europe**

*Main Products.* Mission Foods Europe manufactures tortillas, flatbreads (such as naan, pita and chapatti), corn chips and other related products under the MISSIONDELI®, MISSION®, DELICADOS® and MEXIFOODS® brands and through private label. Azteca Milling Europe manufactures mainly corn grits and in a lesser extent, nixtamalized corn flour (under the MASECA® brand), as

well as byproducts for the manufacture of animal feed. Additionally, Azteca Milling Europe also commercializes corn especially in Turkey.

*Sales and Marketing.* The products of Mission Foods Europe are mainly marketed in the retail (domestic and regional supermarket chains and small retailers) and in the food service channels (wholesalers, restaurants, cafeterias, hotels and fast food chains). Approximately 39% of Mission Foods Europe's sales volume is sold through the retail channel and 61% through the food service channel. Most of the sales volume of Azteca Milling Europe is sold in bulk to beer, snacks, corn chips and taco shell manufacturers.

*Competition and Market Position.* We believe Mission Foods Europe is an important manufacturer 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 an important producer of nixtamalized 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 504 thousand metric tons as of December 31, 2019, with an average utilization of 74% in 2019. The average size of our plants as of December 31, 2019 was approximately 7,000 square meters (about 76,000 square feet).

Capital expenditures for the past three years were U.S.\$93 million and were primarily used for the construction of a tortilla plant in Russia, and automation of the packaging area in the tortilla plants in England and The Netherlands, as well as capacity expansions in Spain. Gruma Europe's projected capital expenditures for 2020 are expected to be approximately U.S.\$ 70 million, mainly for increasing capacity production in Spain and in the United Kingdom, in addition to manufacturing and technology upgrades.

Mission Foods Europe has 5 plants, two plants in England, one plant in Russia and two plants in Spain. Azteca Milling Europe has 3 plants, which are located in Italy, Ukraine, and Turkey. On December 4, 2019, the tortilla plant in Roermond, Netherlands, suffered a fire without injuring people. The entire production area was damaged, causing the plant to stop its operations. Currently, the evaluation of the material damages is in progress. Such damages are covered by an insurance policy, which additionally covers part of the damages related to the interruption of the operation of the already mentioned facility. The production of this plant is being absorbed by the rest of Gruma Europe's plants.

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

*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. 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 nixtamalized corn flour is supplied mainly by our corn mill in Italy.

*Distribution.* The vast majority of nixtamalized 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 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**

*Main Products.* Gruma Centroamérica produces nixtamalized corn flour, and to a lesser extent, tortillas and snacks. We also cultivate hearts of palm and process rice. We believe we are an important nixtamalized corn flour producer in the region. We sell nixtamalized corn flour under the MASECA®, TORTIMASA®, MASARICA®, MINSA®, JUANA® and MIMASA® brands. In Costa Rica, we manufacture corn and wheat tortillas under the TORTIRICAS® and MISSION® brands, as well as tortilla chips, extruded snacks, potato chips and similar products under the TOSTY® and RUMBA® brands. We also produce corn chips under BOCA2® in Guatemala. In Nicaragua, we mainly manufacture corn tortillas under the TORTIRICAS® brand. 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.* 82% of Gruma Centroamérica's sales volume in 2019 derived from the sale of nixtamalized corn flour. Gruma Centroamérica nixtamalized corn flour bulk sales are oriented predominantly to small tortilla manufacturers through direct delivery and wholesalers. Supermarkets make up the customer base for retail nixtamalized corn flour. Bulk sales volume represented approximately 44% and retail sales represented approximately 56% of Gruma Centroamérica's nixtamalized corn flour sales volume during 2019.

*Competition and Market Position.* We believe that we are an important producer of nixtamalized corn flour 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 18% of all tortilla production. We believe that we are an important 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, Capitalina, Maturave Oro Maya, Chortimasa, Instamasa and Doñarepa. However, our key growth opportunity is to convert tortilla manufacturers that still use the Traditional method to our nixtamalized corn flour method.

*Operations and Capital Expenditures.* We had an annual installed production capacity of 307 thousand tons as of December 31, 2019, with an average utilization of approximately 72% during 2019. We operate one nixtamalized 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 corn chips and in Ecuador we have a small facility which processes hearts of palm. On average, the size of our plants as of December 31, 2019 was approximately 7,747 square meters (approximately 83,394 square feet).

During 2017, 2018 and 2019 most of our capital expenditures were oriented towards technology upgrades and general maintenance. Total capital expenditures for the past three fiscal years were approximately U.S.\$22 million. Capital expenditures for 2020 are projected to be U.S.\$4 million, which will be used primarily for general manufacturing and technology upgrades.

*Seasonality.* Typically, nixtamalized corn flour sales volume is lower during the first quarter and higher in the fourth quarter of the year due to higher an increased consumption of on nixtamalized corn flour based dishes for the Christmas and New Year season.

*Raw Materials.* Corn is the most important raw material needed in our operations, representing 32% of the cost of sales during 2019, and is obtained primarily from imports from the United States as well as from local growers. Price fluctuation and volatility are subject to international and local conditions, such as crop results.

*Distribution.* We have our own sales teams to that are capable of servicing our main sales channels, which allows us to know and serve our clients' needs. Gruma Centroatamerica's products are marketed through a mix of our own fleet, independent transportation firms and distributors, depending on the corresponding sales format. In both the supermarket and food service channels, products are delivered to customers through independent transportation firms.

### **2.2.1.5. Discontinued Operations**

#### **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, an entity controlled by Mr. Ricardo Fernández Barrueco. As a result, Rotch acquired a 24.14% interest in MONACA. Subsequently, Rotch transferred the ownership of its equity interests in MONACA and DEMASECA 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 an entity controlled by 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 and DEMASECA was sold to a third investor, whose interest in MONACA and DEMASECA was held through a Mexican company, currently named Valcon Holdings, S.A. de C.V., which has no relationship with Mr. Ricardo Fernández Barrueco.

On December 14, 2012, we acquired, rights of first refusal, the stake that ADM owned directly and indirectly in us and certain of our subsidiaries, including 3% of the partnership interest of Valores Mundiales and Consorcio Andino, holding companies of the Venezuelan Companies, MONACA and DEMASECA, respectively.

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, 2019, Valores Mundiales was the sole registered owner 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, 2019, Consorcio Andino was the sole registered owner 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. On January 22, 2013, as part of a criminal proceeding unrelated to MONACA and DEMASECA against a third party where precautionary measures were issued for the insurance of the assets of said third party which, in an extra-limited way, included MONACA and DEMASECA, the Republic published the Administrative Providence number 004-13 dated January 21 of the same year (the “Providence”) appointing special administrators for MONACA and DEMASECA granting them the broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of company assets.

Consequently, in accordance with the provisions set forth in IFRS, the Company determined that as of January 22, 2013, it had lost the power to affect the variable returns of its subsidiaries in Venezuela and concluded that the appointment of special administrators with broad powers under the Providence had the effect of taking away its control over MONACA and DEMASECA and as a result, the Company proceeded to deconsolidate both subsidiaries and recognize its investment in Venezuela as a financial asset. Following the provisions set forth in IFRS, GRUMA performed impairment tests on the financial asset related to MONACA and DEMASECA and as of December 31, 2015, recognized an impairment of \$4,362,108 corresponding to the total value of said asset.

On the other hand, the special administrators appointed through the Providence have been resigning their chargers, the last of them resigning at the end of 2018, without the Republic having appointed new special administrators, and since that moment there has been no direct or indirect participation by representatives of the Republic in the decision-making and management of the administration and operation of MONACA and DEMASECA. These administration activities are only carried out by MONACA and DEMASECA’s management team, which is directed by its local Directive Committee in Venezuela. Although it could be concluded that some of the factual assumptions that were taken in account for the determination under IFRS regarding the loss of control no longer exist or have been mitigated, this does not change the previous conclusions following the IFRS guidelines. Likewise, the macroeconomic indicators used to determine the devaluation of the investment in Venezuela have continued deteriorating due to the economic and social situation in that country that has been negatively impacted by hyperinflation and significant currency devaluation. See “Section 2.2.11. Legal, Administrative or Arbitration Proceedings—Venezuela—Expropriation Proceedings by the Venezuelan Government.” See Note 27 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

#### *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, TECNOMAÍZ, 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 TECNOMAÍZ, we also engage in the design, manufacture and commercialization of machines for the production of nixtamalized 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.157 million, Ps.169 million and Ps.168 million on research and development in the years ended December 31, 2017, 2018 and 2019 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 nixtamalized corn flour, corn/wheat tortilla and corn chips 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 73 patents in the United States since 1968, 24 of these patents are in force and effect in the United States as of this date, and the remaining patents have expired. We currently have 4 new patents in process in the United States. Additionally, 7 of our patents and design patents registered in the United States are currently in the process of being published in other countries. One of our patents in force in the United States is due to expire. See “Section 2.2.1.5 Technology and Equipment Operations.”

##### *Licenses*

On January 31, 2020, 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 3 years. As consideration, GRUMA collected from GIMSA a royalty for the following three years equivalent to Ps.465 million per year. Therefore, on February 24, 2020, GIMSA paid GRUMA Ps.1,395 million. In turn, in order to support GIMSA in its efforts to promote the MASECA® trademark in Mexico, GRUMA will contribute a percentage 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”), as modified from time to time, through which GRUMA granted Azteca Milling, LP an exclusive continuing license to use the Licensed Trademarks worldwide, other than within Mexico, Central America and Ecuador. As consideration, GRUMA collected a royalty equivalent to a percentage of the net sales of products bearing the Licensed Trademarks during the following three years, same which ranged between 4% and 3.75%. Thereafter, both parties

agreed to amend the referred royalty, and agreed that as consideration of the same license, Azteca Milling would pay GRUMA a fixed net royalty for the following seven years, equivalent to U.S.\$108 million. Therefore, on December 19, 2017, Azteca Milling paid U.S.\$108 million to GRUMA. 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*

In its ordinary course of business, GRUMA continuously enters into contracts of diverse natures, such as: raw material and input supply agreements, distribution agreements, marketing agreements, software license agreements, administrative service agreements, manufacturing agreements, equipment purchase and lease agreements, financing agreements, leases, among others. During the last three fiscal years, no material contract has been signed other than those executed in the ordinary course of business. See “Section 3.3. Relevant Credit Facilities Report”.

#### *2.2.4. Principal Customers*

During 2019, Walmart, Inc. and its several subsidiaries (Sam’s Club, Walmart Mexico and Centralamerica, Asda, etc.) was the only customer that represented more than 10% of our consolidated sales, approximately representing 11% of the consolidated sales of the Company.

#### *2.2.5. Applicable laws and taxation*

##### *Mexican Regulation*

##### *Corn Commercialization Program*

Mexico’s Agriculture and Rural Development (“SADER”) (formerly the 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.

ASERCA’s 2020 budget has been significantly reduced and therefore the program’s scope may be reduced as of the Autumn/Winter 2020 cycle. In recent years, GIMSA has been purchasing corn through private contracts directly with suppliers outside of ASERCA’s agricultural program and will continue to use this purchasing system in the future.

To the extent that this or other similar programs are introduced, modified or 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 nixtamalized corn 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 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. Certain activities are considered “vulnerable” per se, regardless of the total amount of the transaction; 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 and Taxation*

According to the tax laws in force, the company is obliged to assess and pay several taxes, mainly the Income Tax (“ISR”) and the Value Added Tax (“IVA”). Likewise, it is obliged to withhold and pay taxes (ISR and/or IVA) with respect to salaries, fees, freights, leases and certain foreign payments.

ISR. The ISR is calculated at a rate of 30% on the tax income obtained from subtracting the authorized deductions and tax previous fiscal years’ tax loss carryforwards from the taxable income.

IVA. The main activities generated by the group’s entities are subject to IVA at a 0% rate. On a monthly basis, the company has to report payable or refundable IVA; which is calculated by deducting the IVA paid for the purchase of goods and services from the IVA generated as a result the sale of goods and services, given that the paid services and certain purchases are subject to a 16% rate. The balance is recovered monthly through a filing made before the Tax Administration Office of the Ministry of Finance and Public Credit.

## *Tax Reform*

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 in the aforementioned reform to the 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.

Other changes introduced in the Income Tax Law reform, 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, 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.

On December 9, 2019, the decree by which several provisions of the Income Tax Law (*Ley del Impuesto sobre la Renta*), the Value Added Tax Law (*Ley del Impuesto al Valor Agregado*), the Special Tax on Production and Services Law (*Ley del Impuesto Especial sobre Producción y Servicios*) and the Federal Tax Code (*Código Fiscal de la Federación*) were amended, added and removed and was published in the Official Gazette of Mexico and entered into force on January 1, 2020. Among other issues, the limitation to deduct interests that exceed 30% of the taxpayer’s adjusted tax income, as well as the non-deduction of payments to related parties residing, abroad that are considered subject to the Preferential Tax Regimes (REFIPRES) or that they represent a hybrid mechanism, to the extent that certain conditions are not met, stand out. Regarding the transparency regime, new elements are incorporated, and some issues are limited in order to define if the income is obtained by a resident in Mexico or by a resident abroad with a permanent establishment in the country, through a foreign entity which are subject to preferential tax regimes. Finally, it becomes necessary to justify the business rationale of the legal acts that generate a direct or indirect benefit for the taxpayer. We believe that the impact of these reforms in the group entities’ will be moderated and therefore will not represent a major risk for our business.

Regarding the creation of formal obligations, the obligation to disclose reportable schemes is established in the Federal Tax Code. The group will comply with this obligation to the extent that it is in the legal or de facto situation contemplated in the abovementioned provision.

## *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 storage 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.

### *U.S. Tax Reform*

On December 2017, a tax reform was enacted, and became effective on January 1, 2018. The main changes introduced by this reform were the following: (i) a reduction in the corporate Income Tax rate from 35% to 21%; (ii) the elimination of the Alternative Minimum Tax or AMT; (iii) as of 2018, generated tax losses may be carried over for any future year up to 80% of the taxable income; (iv) new anti-base erosion rules Base Erosion Avoidance Tax (BEAT) are introduced in order to regulate and discourage payments to related parties outside of the U.S. that erode the basis; (v) a limitation to the payment of interests of 30% of a metric similar to EBITDA, is introduced; (vi) the mandatory repatriation of retained earnings in U.S. subsidiaries over 8 years, in general terms, with a 15.5% tax rate over cash and equivalents and 8% over the rest of the assets; (vii) a 100% exemption for dividends received by U.S. companies from abroad.

## *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 Regulation*

Gruma Centroamérica is subject to regulation in each country in which it operates. We believe that Gruma Centroamérica is currently in compliance with all applicable legal requirements in all material respects.

## *Asia and Oceania Regulation*

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

## *2.2.6. Human Resources*

As of December 31, 2019, we had a total of 20,785 employees, including 13,596 unionized and 7,189 non-unionized full- and part-time employees. Of this total, we employed 8,423 persons in Mexico, 7,646 in the United States, 1,957 in Central America and Ecuador, 1,013 in Asia and Oceania, and 1,746 in Europe. Total employees for 2017 and 2018 were 20,584 and 20,833, respectively. Of our total employees as of December 31, 2019, approximately 35% were white-collar and 65% 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 100 collective bargaining agreements with 6 unions (CROC, CROM, CTM, FNSI, Petroquímica y FASIM) that represent our workers during 2019.

In the United States, we have 5 collective bargaining agreements that represent a total of 943 workers at five separate facilities (Mountain Top, Pueblo, Tempe, Henderson and Madera). We renewed such agreements on April 18, 2018, March 26, 2019, September 6, 2017, March 19, 2017 and June 28, 2015, respectively.

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

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

In Spain, we have a collective labor agreement covering all of Mexifoods’ personnel and another collective labor agreement for Azteca Foods’ personnel. These agreements are reviewed every 12-24 months.

In Australia, we have a collective bargaining agreement covering 263 employees at our facility, which is renewed every four years.

In China, we have a collective bargaining agreement covering 335 employees at our facility, which is renewed every 3 years.

We believe our current, individual and collective 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 6 plants of GIMSA in Mexico. Additionally, GIMSA has the OSHA 18,000 security acknowledgment in 1 plant.

### 2.2.8 Market Information

We believe we are one of the main producers of nixtamalized corn flour and tortillas in the United States, and one of the main producers of nixtamalized corn flour in Mexico. We believe that we are an important producers of nixtamalized 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 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— nixtamalized corn flour and tortilla. We pioneered the nixtamalized 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 nixtamalized 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, 2019, 2018, and 2017.

	2019		2018		2017	
			(in millions of pesos)			
United States.....	Ps.	42,368	Ps.	40,195	Ps.	38,552
Mexico.....		21,046		20,086		19,016
Europe.....		5,691		5,381		5,115
Central America.....		4,603		4,596		4,533
Asia and Oceania.....		3,680		3,780		3,365
Total.....	Ps.	77,388	Ps.	74,038	Ps.	70,581

## 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.

<b>Significant Subsidiaries:</b>	<b>Ownership Percentage</b>
Gruma Corporation	100%
Azteca Milling, L.P.	100%
Molinos Azteca, S.A. de C.V.	100%

We conduct our operations through subsidiaries. The table below sets forth our most important subsidiaries as of December 31, 2019.

<b>Name of Company</b>	<b>Principal Markets</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage Owned(1)</b>	<b>Products/ Services</b>
<b>Mexican Operations</b>				
GIMSA .....	Mexico	Mexico	99.9%	Nixtamalized corn flour, Other
<b>U.S. Operations</b> .....				
Gruma Corporation .....	United States	Nevada	100%	Tortillas, Tortilla Related Products, Other
Azteca Milling. ....	United States	Texas	100%	Nixtamalized corn flour
<b>European Operations</b>				
Mexi-Foods, S.L., NDF Azteca Milling Europe SRL, Gruma Netherlands B.V., Solntse Mexico, Limited Liability Company, Mission Foods Stupino, 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 Productos, Flatbreads, Corn Grits, Nixtamalized corn Flour, Other
<b>Central American Operations</b> .....				
Gruma de Guatemala, S.A., Derivados de Maíz Alimenticio, S.A., Industrializadora y Comercializadora de Palmito, S.A., Derivados de Maíz de Guatemala, S.A., Tortimasa, S.A., Derivados de Maíz de El Salvador, S.A., and Derivados de Maíz de Honduras, S.A. de C.V. (“Gruma Centroamérica”).....	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua, Ecuador	100%	Nixtamalized corn flour, Tortillas, Snacks, Hearts of palm and Rice
<b>Other Subsidiaries</b> .....				

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. de R.L. de C.V. (“Mission Foods Mexico”) .....	Mexico	Mexico	100%	Tortillas and Other related products
Investigación Técnica Avanzada, S.A. de C.V. (“INTESA”).....	Mexico	Mexico	100%	Construction, Technology and Equipment operations

## Deconsolidated Venezuelan Operations (2)

Molinos Nacionales, C.A. (“MONACA”) (3)	Venezuela	Venezuela	76%	Corn flour, Wheat flour, Other products
Derivados de Maíz Seleccionado, C.A. (“DEMASECA”) (3).....	Venezuela	Venezuela	60%	Corn flour

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

(2) 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 Note 27 to our audited and consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

(3) 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 1.3.4. 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, 2019, 2018 and 2017.

	Year ended December 31,					
	2019		2018		2017	
	In millions of Pesos	% of Net Sales	In millions of Pesos	% of Net Sales	In millions of Pesos	% of Net Sales
Gruma USA .....	Ps. 42,442	55%	Ps.40,287	55%	Ps.38,617	55%
GIMSA .....	21,585	28	20,508	28	19,508	28
Europe.....	5,701	7	5,390	7	5,123	7
Gruma Centroamérica.....	4,603	6	4,596	6	4,533	6
Others and eliminations.....	3,057	4	3,257	4	2,800	4
Total.....	Ps. 77,388	100	Ps. 74,038	100	Ps. 70,581	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, 2019, 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 and other actions by the Venezuelan Government**

On May 12, 2010, the Bolivarian Republic of Venezuela published the Decree number 7.394 in the Official Gazette of Venezuela, ordering the forced acquisition of all assets, property and real estate of the Company's indirect subsidiary in Venezuela, Molinos Nacionales, C.A., through an expropriation proceeding to be initiated and processed with the participation of several agencies of the Republic. The Republic stated that the Expropriation Decree also extends to the Company's indirect subsidiary, Derivados de Maíz Seleccionado, DEMASECA, C.A. The Republic took initial steps to carry out an administrative expropriation procedure in accordance with the Expropriation Decree, but then suspended said procedure indefinitely, which is still suspended to this date, therefore the expropriation has not been carried out.

GRUMA's interests in MONACA and DEMASECA are held through two Spanish companies, Valores Mundiales, S.L., and Consorcio Andino, S.L. In 2010, Valores Mundiales and Consorcio Andino commenced conversations with the Republic regarding the Expropriation Decree and other measures related to the same, affecting MONACA and DEMASECA. Through the Investors, GRUMA participated in these conversations, in order to resolve the controversy caused by the Expropriation Decree and other measures imposed by the Republic. These conversations ceased without resulting in an agreement with the Republic.

Venezuela and the Kingdom of Spain are parties to a Treaty on Reciprocal Promotion and Protection of Investments, dated November 2, 1995, under which the Investors may settle investment disputes by means of arbitration before the International Centre for Settlement of Investment Disputes. On November 9, 2011, the Investors, MONACA and DEMASECA formally notified the Republic about the dispute and their agreement to submit said dispute to ICSID arbitration if the parties were unable to reach an amicable agreement.

On January 22, 2013, as part of a criminal proceeding unrelated to MONACA and DEMASECA against a third party where precautionary measures were issued for the insurance of the assets of said third party which, in an extra-limited way, included MONACA and DEMASECA, the Republic published the Administrative Providence number 004-13 dated January 21 of the same year appointing special administrators for MONACA and DEMASECA granting them the broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of company assets.

Consequently, in accordance with the provisions set forth in IFRS, the Company determined that as of January 22, 2013, it had lost the power to affect the variable returns of its subsidiaries in Venezuela and concluded that the appointment of special administrators with broad powers under the Providence had the effect of taking away its control over MONACA and DEMASECA and as a result, the Company proceeded to deconsolidate both subsidiaries and recognize its investment in Venezuela as a financial asset. Following the provisions set forth in IFRS, GRUMA performed impairment tests on the financial asset related to MONACA and DEMASECA and as of December 31, 2015, recognized an impairment of \$4,362,108 corresponding to the total value of said asset.

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 was to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty. The tribunal that presided over this arbitration proceeding was constituted in January 2014.

On July 25, 2017, the tribunal decided the arbitration in favor of Valores Mundiales and Consorcio Andino, by dismissing the jurisdictional objections raised by the Republic and concluding that the Republic had violated provisions of the Investment Treaty. According to the Award issued by the arbitration tribunal, the Republic must pay US\$430.4 million to Valores Mundiales and Consorcio Andino as damages resulting from its violation of certain provisions of the Investment Treaty, plus compound interest at Libor +2% since January 22, 2013 and until the Award's effective payment date. As of December 31, 2019, the award plus interest amounts to approximately US\$537.5 million. The arbitration tribunal also ordered the Republic to pay US\$5.9 million for legal expenses incurred by the Claimants during the arbitration. Both, the amount of the award plus interest and the legal expenses incurred by the Claimants, were not recorded since they are considered a contingent asset under IAS 37.

In the Award, the arbitration tribunal granted most of the Claimants' claims and concluded that the Republic had violated the Investment Treaty by (i) not granting a fair and equitable treatment to the Claimants' investments; (ii) adopting arbitrary measures that hindered the management and evolution of the Claimants' investments; and (iii) preventing the free transfer of funds related to the Claimants' investments. The arbitration tribunal dismissed the indirect expropriation claim submitted by the Claimants, since the tribunal considered, amongst other reasons, that the administrative expropriation procedure ordered by the Expropriation Decree had not been concluded and the special administrators appointed by the Republic did not exercised control over the companies in a substantial way. The Claimants retain their right to commence a new claim against the Republic if the latter continues with the enforcement of the Expropriation Decree and materializes the transfer of the right of ownership of the assets subject to the Expropriation Decree.

On November 22, 2017, the Republic filed before the ICSID a request for annulment of the Award issued by the arbitration tribunal and the stay of enforcement of the same while said action is pending resolution. On December 7, 2017, ICSID registered the Republic's annulment request and provisionally stayed the enforcement of the Award. The Committee that will decide on the Award's annulment proceedings was finally constituted on May 23, 2018 ("Annulment Committee").

On June 4, 2018, the Republic formally requested that the Annulment Committee kept suspended the enforcement of the Award during the course of the annulment proceeding. After considering the arguments presented by the parties, on September 6, 2018, the Annulment Committee ordered the lifting of the provisional suspension of the enforcement of the Award, which allows the Investors to begin legal actions to recognize and enforce the Award in different jurisdictions.

In accordance with the procedural calendar governing the annulment proceeding, the Republic filed its Memorial on Annulment on August 23, 2018 and the Investors submitted their Counter Memorial on Annulment on November 16, 2018. The Republic submitted its Reply on January 15, 2019 and the Investors submitted their Rejoinder on March 15, 2019. The written phase of the annulment proceeding has concluded and only the Oral Hearing is pending, after which the Annulment Committee would be in a position to issue its decision months later.

The annulment proceeding Hearing was originally scheduled on May 20, 2019. However, on April 4, 2019, the Annulment Committee decided to suspend the Hearing due to a dispute between representatives of the Republic over who has the power to represent the interests of the Republic in the annulment procedure. On August 29, 2019, after hearing the arguments of the parties, the Committee resolved the aforementioned dispute and invited the parties to propose a new date for the Hearing. Nevertheless, a new date for the Hearing was not established, since on October 29, 2019, the ICSID General Secretary formally proposed to the Annulment Committee to suspend the annulment procedure pursuant to ICSID rules for non-payment of the advance cost by the Republic. Consequently, on November 11, 2019, the Annulment Committee notified the parties its decision to suspend the procedure in accordance with ICSID rules, clarifying that, if the procedure was resumed, the Annulment Committee would set new dates for the Hearing in consultation with the parties. In March 2020, the Republic made the aforementioned payment, consequently the Committee resumed the procedure and set two possible dates for the Hearing; one in September, which would be held virtually and the other in October, which would held in person if the COVID-19 contingency allowed it. The Committee will decide no later than July 21, 2020, on which date the Hearing will be held.

On January 8, 2019, the Investors filed a complaint with the Federal District Court in Washington, D.C. requesting recognition of the Award. The complaint for recognition of the Award was notified to the Republic by consular means on July 26, 2019, granting a period to answer until September 24, 2019 without Venezuela responding. Consequently, on October 21, 2019, the Investors requested the Judge to issue a judgment recognizing the Award considering the Republic's contempt. On March 2, the Republic appeared requesting that our petitions for a contempt judgement be denied and answering our complaint. On March 16, Valores Mundiales and Consorcio Andino requested that a judgment be issued in their favor, and the Republic answered on the 30<sup>th</sup> of this month. The Investor's reply and the Republic's rejoinder were filed on April. A decision from the Judge is expected during the next months.

Nevertheless, even though future discussions with the Republic could 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 the violation to the Investment Treaty in the terms dictated in the Award or for the eventual enforcement of the Expropriation Decree by the Republic. Additionally, the Company cannot predict the results of the Award annulment proceeding, or the proceedings for the recognition and enforcement of the Award that the Investors commenced or may commence or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the Award.

On the other hand, the special administrators appointed through the Providence have been resigning their chargers, the last of them resigning at the end of 2018, without the Republic having appointed new special administrators, and since that moment there has been no direct or indirect participation by representatives of the Republic in the decision-making and management of the administration and operation of MONACA and DEMASECA. These administration activities are only carried out by MONACA and DEMASECA's management team, which is directed by its local Directive Committee in Venezuela. Although it could be concluded that some of the

factual assumptions that were taken in account for the determination under IFRS regarding the loss of control no longer exist or have been mitigated, this does not change the previous conclusions following the IFRS guidelines. Likewise, the macroeconomic indicators used to determine the devaluation of the investment in Venezuela have continued deteriorating due to the economic and social situation in that country that has been negatively impacted by hyperinflation and significant currency devaluation.

Given that the enforcement of the Award may present material challenges, the impact of the Award in the Company cannot be reasonably assessed at this time. The Investors, jointly with its legal counsel, will adopt appropriate measures to preserve and defend their legal interests. See Notes 27 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

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

Due to a criminal proceeding, not related with MONACA and DEMASECA, initiated in Venezuela by the Republic against Mr. Ricardo Fernández Barruecos, on December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of Mr. Fernández Barrueco's assets, including assets in which he had any kind of interest. Based on the purported indirect minority interest that ROTCH ENERGY HOLDINGS, N.V., (company supposedly linked to Mr. Fernández Barrueco), previously had in MONACA and DEMASECA. MONACA and DEMASECA were included by the Republic amongst the assets of Mr. Fernández Barruecos to be seized and therefore were subject to the aforementioned precautionary measure. Between 2009 and 2012, the Ministry of Finance of Venezuela, pursuant to the precautionary measures ordered by the court and, for the purposes of enforcing them, appointed several special administrators regarding the assets of Mr. Fernandez Barrueco, including the indirect minority interest that Mr. Fernández Barrueco allegedly owned in MONACA and DEMASECA. On January 21, 2013, the Ministry of Justice and Internal Relations revoked the prior appointments made by the Ministry of Finance of Venezuela and made a new designation of special administrators in particular for MONACA and DEMASECA through the publication of the Providence, granting them the "broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of the companies' assets.

As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino and Valores Mundiales, as direct shareholders of said companies, filed a petition as aggrieved third-parties to the criminal proceeding the Republic carried against Mr. Fernández Barrueco and that was not related to MONACA and DEMASECA, in order to revert the precautionary measures and all related actions, given that MONACA and DEMASECA were not and are not property of Mr. Fernández Barruecos and therefore should not have been affected by the precautionary measures established in the criminal proceeding against said person. 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. However, the court kept the precautionary measures issued on December 4, 2009 in effect, without substantiating their decision. An appeal has been filed, which has not been admitted and is pending resolution as of this date despite the multiple requests for pronouncement.

On July 30, 2014, the Twenty-Eighth Court in Trial Functions ordered the dismissal of the criminal case initiated by the Republic against Mr. Fernández Barrueco and ordered the lifting of all securing measures regarding his assets. This decision became final on July 18, 2017 by decision of the Chamber 1 of the Court of Appeals and its clarification of August 4, 2017, which ratifies the lifting of the measures for securing his assets. This decree of dismissal and the lifting of the securing measures regarding the assets of Mr. Fernández Barruecos, by firm decision, led to the decaying of the securing measures that were established against MONACA and DEMASECA, including the Providence, without as of this date existing any legal basis for such measures to remain in force. Therefore, in addition and regardless of the incident that had been promoted in the aforementioned criminal proceeding as injured third parties, on August 13, 2018, MONACA and DEMASECA requested that the Twenty-Eighth Trial Judge terminate and lift all precautionary measures decreed in the aforementioned criminal proceeding that affect these companies, including the Providence in which special administrators were appointed. MONACA and DEMASECA, have orally ratified this request on several occasions before the Judge and in written on October 29, 2018 and October 3, 2019, however, the Court has not issued a ruling.

The Company and its subsidiaries intend to exhaust all legal remedies available in order to safeguard and protect their legitimate interests.

#### *2.2.12. Shares evidencing the capital stock*

The capital stock as of December 31, 2018 is represented by 432,749,079 issued ordinary, registered, Series B, Class I no par value shares, out of which 423,430,920 shares were outstanding and fully subscribed and paid for and 9,318,159 shares were kept in treasury, representing the fixed portion of the capital stock. During 2018 and 2017, the company has not made any modification to its capital stock.



In the Extraordinary General Shareholders Meeting of GRUMA held on April 26, 2019, 11,791,586 ordinary, registered, Series B, Class I no par value shares, which had been repurchased by the Company, were cancelled. Consequently, the capital stock on April 26, 2019 is represented by 420,957,493 ordinary, registered, Series “B”, Class I, no par value shares, out of which 419,564,294 shares are outstanding and fully subscribed and paid for and 1,393,199 shares are kept in treasury.

The capital stock as of December 31, 2019 is represented by 420,957,493 issued ordinary, registered, Series B, Class I no par value shares, out of which 413,143,708 shares were outstanding and fully subscribed and paid for and 7,813,785 shares were kept in treasury.

In the Extraordinary General Shareholders Meeting of GRUMA held on April 24, 2020, 15,466,437 ordinary, registered, Series B, Class I, no par value shares, which had been repurchased by the Company, were cancelled. Consequently, the capital stock on April 24, 2020, is represented by 405,491,056 ordinary, registered, Series B, Class I no par value shares, out of which 402,039,639 shares are outstanding and fully subscribed and paid for and 3,451,417 shares are kept in treasury.

### 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;
- 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.

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 24, 2020, GRUMA approved a cash dividend in the amount of Ps.5.64 per share, payable in 4 installments, of Ps.1.41 per share, on: July 10 and October 9, 2020, and January 8 and April 9, 2021. During 2019, 2018 and 2017 GRUMA approved to pay cash dividends in the amount of, or Ps.4.65 per share, Ps.4.28 per share and Ps.4.27 per share, respectively.

### *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, 2019, 2018 and 2017 and for the years ended December 31, 2019, 2018 and 2017 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”.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(thousands of Mexican Pesos, except per share amounts)		
<b>Income Statement Data:</b>			
Net sales.....	Ps. 77,387,658	Ps. 74,037,588	Ps. 70,580,518
Cost of sales .....	(48,672,006)	(46,347,137)	(43,802,989)
Gross profit .....	28,715,652	27,690,451	26,777,529
Selling and administrative expenses .....	(19,412,701)	(18,238,681)	(17,595,163)
Other (expenses) income, net .....	(20,946)	(26,288)	136,878
Operating income .....	9,282,005	9,425,482	9,319,244
Comprehensive financing cost, net.....	(1,722,186)	(1,564,826)	(1,263,231)
Income before income tax .....	7,559,819	7,860,656	8,056,013
Income tax expense .....	(2,711,069)	(2,807,958)	(1,782,063)
Consolidated net income from continuing operations.....	4,848,750	5,052,698	6,273,950
Loss from discontinued operations.....	(11,473)	(81,756)	-
Consolidated net income .....	4,837,277	4,970,942	6,273,950
<b>Attributable to:</b>			
Shareholders.....	4,835,675	4,969,803	6,218,074
Non-controlling interest .....	1,602	1,139	55,876
<b>Per share data (1):</b>			
<b>Basic and diluted earnings (losses) per share (pesos):</b>			
From continuing operations.....	11.60	11.76	14.37
From discontinued operations .....	(0.03)	(0.19)	-
From continuing and discontinued operations.....	11.57	11.57	14.37

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(thousands of Mexican Pesos, except per share amounts, ratios, dividends and operating data)		
<b>Balance Sheet Data (at period end):</b>			
Property, plant and equipment, net.....	Ps.28,665,642	Ps.30,154,660	Ps.29,326,904
Right-of-use assets.....	4,729,796	-	-
Total assets .....	66,882,870	61,832,703	60,820,763
Short-term debt (2).....	587,076	4,330,288	2,896,675
Short-term lease liability .....	612,596	-	-
Long-term debt (2).....	21,038,774	17,164,392	17,310,045
Long-term lease liability .....	4,403,642	-	-
Total liabilities .....	40,905,336	35,731,248	34,842,845
Common stock.....	5,120,602	5,248,104	5,363,595

<b>Balance Sheet Data (at period end):</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(thousands of Mexican Pesos, except per share amounts, ratios, dividends and operating data)		
Total equity (3) .....	25,977,534	26,101,455	25,977,918
<b>Other Financial Information:</b>			
Capital expenditures.....	1,765,079	3,969,598	5,157,873
Depreciation and amortization .....	3,179,550	2,312,383	2,008,675
Net cash provided by (used in):			
Operating activities .....	7,648,191	7,709,171	4,997,893
Investing activities .....	(1,313,968)	(3,906,735)	(5,186,341)
Financing activities .....	(5,681,905)	(3,635,864)	(2,196,616)
Accounts receivable turnover ratio .....	49.4	46.1	46.8
Accounts payable turnover ratio .....	75.8	83.6	92.7
Inventory turnover ratio .....	83.1	86.3	88.7
Declared dividends per share (pesos).....	4.65	4.28	4.27

- (1) Based upon the weighted average of outstanding shares of our common stock (in thousands), as follows: 417,944 shares for the year ended December 31, 2019, 429,490 shares for the year ended December 31, 2018 and 432,749 shares for the year ended December 31, 2017.
- (2) Short-term debt consists of bank loans and the current portion of long-term debt. Long-term debt consists of bank loans, the Debt Securities (*Certificados Bursátiles*) Gruma 18 issued for Ps\$3 billion pesos and our Notes due 2024. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources - Indebtedness.”
- (3) Total equity includes non-controlling interests as follows: Ps.(12) million as of December 31, 2019, Ps.(12) million as of December 31, 2018 and Ps.(6) million as of December 31, 2017.

<b>Operating Data:</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(thousands of tons)		
<b>Sales Volume:</b>			
Gruma USA (nixtamalized corn flour, tortillas and other) <sup>(1)</sup> .....	1,441	1,397	1,367
GIMSA (nixtamalized corn flour and other).....	2,042	2,064	2,039
Gruma Europe (nixtamalized corn flour, tortillas and other).....	395	340	374
Gruma Centroamérica (nixtamalized corn flour and other).....	213	210	195
<b>Number of Employees:</b>	20,785	20,833	20,584

(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, 2019, 2018, and 2017.

	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(in millions of pesos)</b>		
United States .....	Ps. 42,368	Ps. 40,195	Ps. 38,552
Mexico.....	21,046	20,086	19,016
Europe.....	5,691	5,381	5,115
Central America.....	4,603	4,596	4,533
Asia and Oceania.....	3,680	3,780	3,365
Total .....	Ps. 77,388	Ps. 74,038	Ps. 70,581

For more information with respect to the financial information by geographic market see “Section 2.2 Business Overview”. Likewise, see Note 5 to the audited financial statements as of December 31, 2019 and 2018 and for the years ended on said dates.

### 3.3. RELEVANT CREDIT FACILITIES REPORT

Below is a description of our main credit facilities. The Company is up to date in the payment of principal and interests under these Agreements.

#### *Long Term Loan 2019*

On December 19, 2019, we obtained a U.S.\$250 million dollar loan from The Bank of Nova Scotia (the “2019 Long-Term Loan”) with a 6 year maturity including a one-year extension option as of the loan’s second anniversary. The loan has a fixed annual interest rate of 2.789% and the proceeds were used to pay short-term debt in pesos.

The 2019 Long-Term Loan contains covenants that require us to maintain a ratio of consolidated EBITDA (as this term is defined in the 2019 Long-Term Loan credit agreement) to interest charges of not less than 2.5x and a Maximum Net Leverage Ratio of no more than 3.50x. The 2019 Long-Term Loan limits our ability and our subsidiaries’ in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell a substantial part of our assets; and enter into hedging transactions for speculative purposes. Additionally, it limits our subsidiaries’ ability to incur additional indebtedness under certain circumstances.

#### *Mission Foods Iberia Loan*

On October 16, 2019, our European subsidiary, Mission Foods Iberia, S.A.U., obtained a loan facility from BBVA, S.A., with GRUMA as the guarantor, for a total of EUR\$45 million Euros with five principal payments of EUR\$9 million Euros from the third to the seventh anniversary of the loan. The loan accrues interests at a fixed annual rate of 0.95% and the proceeds will be used to finance investments in Europe.

The Mission Foods Iberia Loan limits our ability and our subsidiaries’ in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell a substantial part of our assets; and enter into hedging transactions for speculative purposes.

#### *Gruma Corporation Revolving Credit Facility*

In October 2006, Gruma Corporation entered into a U.S.\$100 million 5-year revolving credit facility with a syndicate of financial institutions (the “Gruma Corporation RCF”). This facility was refinanced in June 2011 for U.S.\$200 million for an additional 5-year term and in November 2012, it was increased to U.S.\$250 million. On November 24, 2014, Gruma Corporation extended the revolving credit facility for U.S.\$250 million and its maturity to November 2019. In May 2019, the Gruma Corporation RCF extended once again for U.S.\$250 million and with maturity extended to May 2024 and a spread between 100 and 162.5 basis points, depending on the leverage of the company. The banks participating in the credit facility are Bank of America, N.A., acting as sole lead arrangement, Wells Fargo Bank, N.A., Coöperatieve Rabobank, U.A. New York Branch, Mizuho Bank Ltd., and BNP Paribas.

The Gruma Corporation RCF contains covenants that require to maintain a ratio of consolidated EBITDA (as this term is defined in the Gruma Corporation RCF) to interest charges of not less than 2.5x and a Maximum Net Leverage Ratio of no more than 3.50x. Additionally, the credit facility contains financial covenants that limit Gruma Corporation to merge or consolidate with other companies and limit the ability of Gruma Corporation and its subsidiaries’, to: create liens; make certain investments or restricted payments; enter into any agreement that restricts dividend payment; and become involved in certain transactions with affiliates, among others.

In the event of an even of default under the credit facility, Gruma Corporation will be prohibited to pay GRUMA any cash dividend. The aforementioned covenants and other covenants could limit Gruma Corporation’s ability to support our cash flow and our required capital resources.

As of December 31, 2019 the Gruma Corporation RCF was still in force and with no outstanding balance. *Debt Securities*

#### *(Certificados Bursátiles) Gruma 18*

As part of the short and long-term Debt Securities (Certificados Bursátiles) Program for an amount of up to \$ 8 billion pesos authorized on September 25, 2018, on September 27, 2018 we issued long-term Debt Securities (Certificados Bursátiles) in the local debt market, for a total amount of \$ 3 billion pesos, for a 5-year term. The Debt Securities (Certificados Bursátiles) accrue interests at a 28-day TIE rate plus 38 basis points. The brokers were Casa de Bolsa Santander, S.A. de C.V., Citibanamex Casa de Bolsa S.A. de C.V., and Scotia Inverlat Casa de Bolsa S.A. of C.V. The proceeds were used to pay short-term bank loans in Mexican pesos. The

issuance may be paid in advance, in full, as from September 23, 2021. See “3.4.3. Financial Condition, Liquidity and Capital Resources” for further details on the Program.

The issuance contains covenants that, in certain cases, limit our ability and our subsidiaries’, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell a substantial part of our assets. During February, 2019 we entered into an interest rate hedging transaction for the Debt Securities (*Certificados Bursátiles*) resulting in a fixed interest rate of 8.52% for the entire term of the Debt Securities (*Certificados Bursátiles*).

### ***2018 Syndicated Facility in Pesos***

On September 27, 2018, we obtained a 3- year syndicated facility for \$ 2 billion pesos with Bank of America Mexico, SA, Institución de Banca Múltiple, BBVA Bancomer, SA, Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, and HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC, Scotiabank Inverlat, SA, Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, ("Scotiabank"), with Scotiabank acting as administrative bank. As per the syndicated facility, we have the obligation to pay monthly interests at a rate of 28-day TIIE plus an applicable margin of 55 basis points. The principal under this facility is payable upon maturity. Proceeds from this facility were used to cover short term bank loans in Mexican pesos.

The 2018 Syndicated Facility in Pesos contains covenants that require us to maintain a ratio of consolidated EBITDA (as this term is defined in the 2008 Syndicated Facility in Pesos) to interest charges of not less than 2.5x, and a Maximum Net Leverage Ratio of not more than 3.50x. The 2018 Syndicated Facility in Pesos limits our ability and our subsidiaries’ in certain cases, among other things, to: create liens; make certain investments or other restricted payments; merge or consolidate with other companies or sell a substantial part of our assets; and enter into hedging transactions for speculative purposes. Additionally, it limits our subsidiaries’ ability to incur additional indebtedness under certain circumstances.

### ***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 for speculative reasons. Additionally, it limits our subsidiaries’ ability to incur additional indebtedness under certain circumstances. As of December 31, 2019, the term loan had a U.S.\$131 million balance and the revolving credit facility was still in force and with no outstanding balance.

### ***2017 Revolving Credit Facility***

On September 27, 2017, we obtained a 3-year secured revolving credit facility for up to U.S.\$120 million with The Bank of Nova Scotia and Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex, in equal portions (the “2017 Revolving Credit Facility”), with The Bank of Nova Scotia acting as administrative agent. The interest rate for the line of credit is LIBOR plus a spread of 75 basis points. The 2017 Revolving Credit Facility contain covenants that require us to maintain a ratio of consolidated EBITDA (as defined in the 2017 Revolving Credit Facility) to interest charges of not less than 2.5x, and to maintain a Maximum Ratio of Total Funded Debt (as defined in the 2017 Revolving Credit Facility) to EBITDA of not more than 3.50x. The 2017 Revolving Credit 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 for speculative reasons, Additionally, it limits our subsidiaries’ ability to incur additional indebtedness under certain circumstances. In September 2019, an amendment agreement was executed in order to extend the expiry date of the credit facility until September 2022. As of December 2019, U.S. \$40 million have been disbursed.

## ***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, 2019, we have not hedged any interest payments on the Notes due 2024. As of December 31, 2019, U.S.\$400 million of the Notes due 2024 were outstanding.

### **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**

##### ***Public Offer for the Acquisition of the Shares evidencing GIMSA’s Capital Stock***

On June 26, 2017, we launched a public offer to acquire up to 133,176,125 representing up to 14.5% of the registered, paid and outstanding capital stock of GIMSA, at a price of Ps.\$25.00 per share, same which concluded on July 28, 2017. The main purpose of this offer was to acquire the minority interest of GIMSA that GRUMA did not own at the time, and then proceed with all the necessary steps for the cancellation of the registration of the shares of GIMSA in the RNV and the cancellation of the listing of the shares of GIMSA on the BMV, in terms of the applicable regulations.

As a result of the referred public offer, we acquired 131,225,968 shares equivalent to 14.29% of the capital stock of GIMSA. Subsequently, we acquired 914,921 shares of GIMSA through the BMV.

Additionally, on November 13, 2017, GIMSA launched a public offer for the forced acquisition of up to 1,035,236 shares evidencing its capital stock, which represented all the shares of GIMSA which were not owned by GRUMA, at a price of Ps.\$25.00 per share. Said offer concluded on December 11, 2017 and the number of shares which participated in the same was 288,588 equivalent to 0.03% of the shares evidencing the capital stock of GIMSA. As a result of this offer, only 0.08% of the capital of GIMSA was left in the hands of the investor public, therefore on December 20, 2017, the CNBV authorized the cancellation of the registration of the shares of GIMSA in the RNV and on the same date, the cancellation of the listing of the shares of GIMSA on the BMV was requested.

As of December 20, 2017 and pursuant to the provisions of the applicable law, GIMSA created the Management and Payment Irrevocable Trust No. 750338, with Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, in order to acquire the shares of GIMSA from those shareholders who did not participate in the forced acquisition public offer launched by GIMSA during November 2017, at the same purchase price that GIMSA offered in said acquisition public offer. This trust was in force during a term of 6 months counted as of said date and was terminated on June 20, 2018. As of December 31, 2019, GRUMA owned 917,439,684 shares of GIMSA, equivalent to 99.93% of the capital stock of GIMSA.

##### ***3.4.1. Accounting Presentation Overview***

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

##### ***New Financial Standards Issued but Not Yet Effective***

Certain standards have been issued by the IASB, which are not effective for reporting periods as of December 31, 2019, and our company has not early adopted them. The Company has assessed the effects of these new standards and are described below:

## Materiality definition – Amendments to IAS-1 and IAS-8

The IASB has proposed amendments to IAS-1, Presentation of Financial Statements and to IAS-8, Accounting Policies, Changes in Accounting Estimates and Errors, to use a consistent definition of materiality in all International Financial Reporting Standards, to clarify the moment in which the information is considered material and to incorporate certain guides in IAS-1 on intangible information. Particularly, the amendments clarify: (a) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and (b) the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need. These amendments are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

## Business Definition - amendments to IFRS-3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. These changes are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

## Conceptual framework for financial reporting

The IASB has issued a modified Conceptual Framework to be used in standard-setting decisions with immediate effect. The key changes are: (a) increasing the prominence of stewardship in the objective of financial reporting; (b) reinstating prudence as a component of neutrality; (c) defining a reporting entity, which may be a legal entity, or a portion of an entity; (d) revising the definitions of an asset and a liability; (e) removing the probability threshold for recognition and adding guidance on derecognition; (f) adding guidance on different measurement basis, and (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. These changes are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

## *Changes in Accounting Policies*

The Company has initially applied the guidelines from IFRS 16, Leases, starting January 1, 2019. Comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, as allowed by the transitory provisions of the new standard, therefore reclassifications and adjustments derived from the new lease guidelines are recognized in the balance sheet at adoption date.

As part of the implementation of IFRS 16, liabilities were recognized for leases that, until December 31, 2018, had been classified as “operating leases” under IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental rate on the date of the initial application. The weighted average incremental interest rate of the lessee applied to lease liabilities as of January 1, 2019 was 5.19%.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019: (a) increase in the right-of-use asset of Ps.5,384 million and (b) increase in the lease liability of Ps.5,569 million. The right-of-use asset was recognized for the same amount as the lease liability, however, at December 31, 2018, the Company recognized an accrued rents liability amounting to Ps.185 million referring to contracts with variable payments that were recorded using the straight-line method in accordance with IAS-17. With the adoption of IFRS-16, this liability was recognized as a decrease in the right-of-use asset.

For more information, please see Notes 11 and 31 of our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

## *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 6.77% in 2017, 4.83% in 2018 and 2.83% in 2019.

### ***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 2017, 2018 and 2019, we recorded a net foreign exchange gain of Ps.86 million, a net loss of Ps.233 million and a net gain of Ps.154 million, respectively.

### ***Investment in Venezuela***

In accordance with the provisions set forth in IFRS, the Company determined that as of January 22, 2013, it had lost the power to affect the variable returns of its subsidiaries in Venezuela and concluded that the appointment of special administrators with broad powers under the Providence had the effect of taking away its control over MONACA and DEMASECA and as a result, the Company proceeded to deconsolidate both subsidiaries and recognize its investment in Venezuela as a financial asset. Following the provisions set forth in IFRS, GRUMA performed impairment tests on the financial asset related to MONACA and DEMASECA and as of December 31, 2015, recognized an impairment of \$4,362,108 corresponding to the total value of said asset.

On the other hand, the special administrators appointed through the Providence have been resigning their chargers, the last of them resigning at the end of 2018, without the Republic having appointed new special administrators, and since that moment there has been no direct or indirect participation by representatives of the Republic in the decision-making and management of the administration and operation of MONACA and DEMASECA. These administration activities are only carried out by MONACA and DEMASECA's management team, which is directed by its local Directive Committee in Venezuela. Although it could be concluded that some of the factual assumptions that were taken in account for the determination under IFRS regarding the loss of control no longer exist or have been mitigated, this does not change the previous conclusions following the IFRS guidelines. Likewise, the macroeconomic indicators used to determine the devaluation of the investment in Venezuela have continued deteriorating due to the economic and social situation in that country that has been negatively impacted by hyperinflation and significant currency devaluation. See "Section 2.2.11. Legal, Administrative or Arbitration Proceedings—Venezuela—Expropriation Proceedings by the Venezuelan Government." See Note 27 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

As of December 31, 2019, the circumstances for which the investment in these subsidiaries was impaired have not changed.

For more information, please see Note 27 of our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in such dates.

### **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 nixtamalized 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, 2019, 2018 and 2017, 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.”

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Income Statement Data</b>			
Net Sales.....	100%	100%	100%
Cost of Sales.....	62.9	62.6	62.1
Gross profit.....	37.1	37.4	37.9
Selling and administrative expenses.....	25.1	24.6	24.9
Other (expenses) income, net.....	-	(0.1)	0.2
Operating income.....	12.0	12.7	13.2
Net comprehensive financing cost.....	(2.2)	(2.1)	(1.8)
Current and deferred income taxes.....	3.5	3.8	2.5
Loss from discontinued operations.....	(0.1)	(0.1)	-
Non-controlling interest.....	-	-	0.1
Net income attributable to shareholders.....	6.2	6.7	8.8

The following table sets forth our net sales and operating income as represented by our principal subsidiaries for 2019, 2018, and 2017. 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.1,536 million, Ps.1,560 million and Ps.1,900 million in 2017, 2018 and 2019, respectively, mainly of nixtamalized corn flour to Gruma USA, Mission Foods Mexico and Gruma Centroamérica. Financial information with respect to Mission Foods Mexico includes sales Ps.579 million, Ps.641 million and Ps.747 million in 2017, 2018 and 2019, respectively, in tortilla related products mainly to Gruma USA.

Financial information with respect to INTESA includes sales of Ps.1,206 million, Ps.1,148 million and Ps.656 million, in 2017, 2018 and 2019, 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.

	<b>Year Ended December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>Net Sales</b>	<b>Operating Income</b>	<b>Net Sales</b>	<b>Operating Income</b>	<b>Net Sales</b>	<b>Operating Income</b>
	(in millions of pesos)					
Gruma USA.....	Ps. 42,442	Ps. 5,908	Ps.40,287	Ps. 5,690	Ps. 38,617	Ps. 5,359
GIMSA.....	21,585	2,529	20,508	2,404	19,508	2,293
Europe.....	5,701	246	5,390	187	5,123	180
Gruma Centroamérica.....	4,603	380	4,596	378	4,533	320

Others and eliminations .....	3,057	219	3,257	766	2,800	1,167
Total .....	<u>Ps. 77,388</u>	<u>Ps. 9,282</u>	<u>Ps. 74,038</u>	<u>Ps. 9,425</u>	<u>Ps. 70,581</u>	<u>Ps. 9,319</u>

**Net Sales by Subsidiary:** By major subsidiary, the percentages of consolidated net sales in 2019, 2018 and 2017 were as follows:

<b>Subsidiary</b>	<b>Percentage of Consolidated Net Sales</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Gruma USA .....	55%	55%	55%
GIMSA .....	28	28	28
Europe .....	7	7	7
Gruma Centroamérica.....	6	6	6
Others and eliminations .....	4	4	4

### **Year Ended December 31, 2019 Compared with Year Ended December 31, 2018**

#### ***Consolidated Results***

Sales volume increased 2% in 2019 to 4,116 thousand tons, compared with 4,055 thousand tons in 2018. Sales volume growth was driven mainly by Gruma Europe and Gruma USA.

Net sales increased 5% to Ps.77,388 million in 2019 compared with Ps.74,038 million in 2018, due primarily to (1) higher sales volume at Gruma USA, coupled with the change in the sales mix within the tortilla business favoring higher-priced SKUs; (2) higher prices at GIMSA to offset cost pressures; and (3) higher sales volume at Gruma Europe.

Cost of sales rose 5% to Ps.48,672 million in 2019 compared with Ps.46,347 million in 2018, driven especially by Gruma USA and GIMSA. Cost of sales as a percentage of net sales increased to 62.9% in 2019 from 62.6% in 2018, due mainly to Other Subsidiaries and Eliminations, resulting from less activity at the technology division in line with GRUMA's lower capital expenditures program.

Selling, general and administrative expenses ("SG&A") increased 6% to Ps.19,413 million in 2019 compared with Ps.18,239 million in 2018, due primarily to higher expenses at Gruma USA, GIMSA, and Other Subsidiaries and Eliminations. SG&A as a percentage of net sales increased to 25.1% in 2019 from 24.6% in 2018 driven mostly by higher brand equity expenses at corporate, lower absorption at the technology division, and information technology projects.

Other expense, net, was Ps.21 million in 2019 compared with Ps.26 million in 2018.

Operating income declined 2% to Ps.9,282 million in 2019 compared with Ps.9,425 million in 2018, mostly due to Other Subsidiaries and Eliminations. Operating margin decreased to 12% in 2019, from 12.7% in 2018.

Net comprehensive financing cost rose 10% to Ps.1,722 million in 2019, compared with Ps.1,565 million in 2018. This increase resulted from higher interest expense driven largely by (1) Ps.275 million from the adoption of IFRS 16; and (2) a higher proportion of peso denominated debt.

Income taxes decreased 3% to Ps.2,711 million in 2019 compared with Ps.2,808 million in 2018, in connection with lower pre-tax income. The effective tax rate was fairly stable at 35.9% in 2019 from 35.7% in 2018.

Net income attributable to shareholders decreased 3% to Ps.4,836 million in 2019 compared with Ps.4,970 million in 2018, driven primarily by higher SG&A and interest expenses.

#### ***Results of Subsidiaries***

##### ***Gruma USA***

Sales volume increased 3% to 1,441 thousand tons in 2019 compared with 1,397 thousand tons in 2018. The increase was driven mainly by the nixtamalized corn flour business, which surged 7% in connection with (1) successful promotions at large restaurant chains; (2) more frequent promotions and more in-store displays, and for longer periods of time, at the retail channel; (3) gain of customers based on superior service and product quality; and (4) growth at small Mexican food restaurants and small tortilla companies supplied by foodservice distributors and club formats. The tortilla business rose 1% driven primarily by (1) healthier consumer trends favoring carb-balance and gluten-free tortillas, coupled with increased shelf-space and distribution; and (2) incremental displays in fresh areas of the grocery stores, benefiting super soft wheat flour tortillas.

Net sales rose 5% to Ps.42,441 million in 2019 compared with Ps.40,287 million in 2018 due primarily to (1) higher sales volume and; (2) better sales mix at the tortilla business favoring higher-priced SKUs, especially carb-balance, gluten-free, and super soft wheat flour tortillas. In dollar terms, net sales grew also 5%.

Cost of sales increased 6% to Ps.24,479 million in 2019 compared with Ps.23,184 million in 2018, driven by volume growth and higher costs, the latter due in particular to (1) labor; (2) the change in the sales mix favoring healthier and value-added products, which have higher material costs; and (3) higher depreciation from increased production capacity. Measured in dollar terms, cost of sales rose 5%. As a percentage of net sales, cost of sales increased to 57.7% in 2019 from 57.5% in 2018, driven by (1) the aforementioned cost increases; and (2) the sales mix favoring the nixtamalized corn flour business, which has a lower gross margin than the tortilla business. The company continues to benefit from the change in the sales mix within the tortilla business favoring higher-margin SKUs; however, the aforementioned factors offset those benefits.

Selling and administrative expenses increased 6% to Ps.12,054 million in 2019 compared with Ps.11,391 million in 2018 due primarily to (1) distribution expenses in connection with sales volume growth and higher average prices arising from the sales mix change favoring higher-priced SKUs; and (2) information technology projects and severance payments. Measured in dollar terms, SG&A rose 5%. As a percentage of net sales, SG&A was similar at 28.4% from 28.3%.

Other expense, net, was non-existent in 2019 versus a Ps.22 million expense in 2018.

Operating income rose 4% to Ps.5,908 million in 2019 from Ps.5,690 million in 2018, and operating margin declined to 13.9% from 14.1%. In dollar terms, operating income increased 3%.

### ***GIMSA***

Sales volume declined 1% to 2,042 thousand tons in 2019 compared with 2,064 thousand tons in 2018 due to lower sales to wholesalers.

Net sales rose 5% to Ps.21,585 million in 2019 compared with Ps.20,508 million in 2018 due principally to (1) price increases to offset cost pressures; and (2) better average prices arising from the change in the sales mix toward bulk presentations.

Cost of sales increased 5% to Ps.15,405 million in 2019 compared with Ps.14,692 million in 2018 due especially to higher costs for corn procurement, energy, and additives. As a percentage of net sales, cost of sales improved to 71.4% in 2019 from 71.6% in 2018 as the aforementioned costs pressures were absorbed by the better sales mix and price increases.

Selling and administrative expenses rose 4% to Ps.3,551 million in 2019 compared with Ps.3,407 million in 2018 due mainly to higher freight expenses in connection with higher tariffs and higher intercompany shipments between plants and distribution centers to face demand in some regions, especially when considering rising exports. SG&A as a percentage of net sales improved to 16.5% in 2019 from 16.6% in 2018 due to better absorption.

Other expense, net, was Ps.100 million in 2019 versus Ps.5 million in 2018 due mainly to losses on natural gas hedging.

Operating income increased 5% to Ps.2,528 million in 2019 from Ps.2,404 million in 2018. Operating margin was flat at 11.7%.

### ***Gruma Europe***

Sales volume increased 16% to 395 thousand tons in 2019 compared with 340 thousand tons in 2018. The corn milling business surged 20% benefitting from (1) capture of new snack grits customers in several countries; (2) resumption of sales to former beer grits customers; (3) extraordinary sales of corn; (4) inventory build-up by some customers; (5) and higher sales of byproducts in line with the higher sales of grits. The tortilla business rose 8% driven mostly by (1) new retail customers, especially in the United Kingdom; (2) expanded distribution at existing retail customers coupled with branded new product launches; and (3) increased use of tortillas at global quick-service restaurant chains and for Middle Eastern cuisine dishes at local restaurants.

Net sales increased 6% to Ps.5,701 million in 2019 compared with Ps.5,390 million in 2018 due to sales volume growth. Average prices declined mostly from (1) sales mix favoring the corn milling business and, more importantly, byproducts; and, (2) negative impacts from exchange rate fluctuations, in particular, the U.S. dollar strengthening versus the British pound and the euro. In dollar terms, net sales rose 5%.

Cost of sales increased 5% to Ps.4,328 million in 2019 compared with Ps.4,122 million in 2018 due to sales volume growth, which was partially offset by exchange rate fluctuations as well as cost reductions and efficiencies, especially at the tortilla business. In dollar terms, cost of sales rose 5%. As a percentage of net sales, cost of sales improved to 75.9% in 2019 from 76.5% in 2018, mainly reflecting (1) better absorption; (2) lower costs for raw materials and packaging; and (3) efficiencies from packaging automation at tortilla plants.

Selling, general and administrative expenses rose 6% in 2019 to Ps.1,154 million compared with Ps.1,092 million in 2018 in connection with (1) sales volume growth; (2) higher marketing expenses at the tortilla business; and (3) strengthening of the sales force at the corn milling business. In dollar terms, SG&A increased 5%. As a percentage of net sales, SG&A slightly increased to 20.2% in 2019 compared with 20.3% in 2018 due to a better absorption.

Other income, net, rose to Ps.40 million in 2019 compared with Ps.12 million in 2018, resulting from a Ps.26 million gain on insurance reimbursements.

Operating income rose 38% to Ps.259 million in 2019 from Ps.187 million in 2018, and operating margin improved 100 basis points to 4.5%. Measured in dollar terms, operating income also increased 38%.

### ***Gruma Centroamérica***

Sales volume increased 1% to 213 thousand tons in 2019 compared with 210 thousand tons in 2018, mainly due to (1) lack of corn and high local corn prices, which favored demand for nixtamalized corn flour; and (2) increased distribution and demand of our nixtamalized corn flour flanker brand.

Net sales were similar at Ps.4,603 million in 2019 and Ps.4,596 million in 2018 as average prices declined in connection with the sales mix favoring flanker brands in nixtamalized corn flour.

Cost of sales was fairly flat at Ps.2,987 million in 2019 compared with Ps.2,996 million in 2018. Cost of sales as a percentage of net sales improved to 64.9% from 65.2%, driven by primarily by lower raw-material costs.

Selling and administrative expenses rose 1% to Ps.1,237 million in 2019 compared with Ps.1,224 million in 2018, and as a percentage of net sales increased to 26.9% in 2019 from 26.6% in 2018, due mainly to (1) higher marketing expenses; and (2) provisions for doubtful accounts.

Other income, net was Ps.1 million in 2019 compared with Ps.2 million in 2018.

Operating income was similar at Ps.380 million in 2019 versus Ps.378 million in 2018. Operating margin was flat at 8.2%.

## **Year Ended December 31, 2018 Compared with Year Ended December 31, 2017**

### ***Consolidated Results***

Sales volume increased 1% in 2018 to 4,055 thousand tons, compared with 4,009 thousand tons in 2017. Sales volume was driven mainly by Gruma USA, GIMSA and, to a lesser extent, Gruma Central America, and Gruma Asia-Oceania.

Net sales increased 5% to Ps.74,038 million in 2018 compared with Ps.70,581 million in 2017, due primarily to (1) higher sales volume in Gruma USA, coupled with the change in the sales mix within the retail tortilla business favoring higher-priced SKUs; (2) higher sales volume and prices in GIMSA, the latter implemented to offset cost pressures; and (3) the peso weakness effect. Net sales had a negative impact of Ps.763 million resulting from the adoption of International Financial Reporting Standard 15 (“IFRS 15”), effective January 2018, by which some selling expenses are reclassified as a deduction to net sales.

Cost of sales rose 6% to Ps.46,347 million in 2018 compared with Ps.43,803 million in 2017, driven especially by Gruma USA and GIMSA, as well as the peso weakness effect. Cost of sales as a percentage of net sales increased to 62.6% in 2018 from 62.1% in

2017, driven mainly by lower absorption reflecting the net sales reduction of Ps.763 million related to the adoption of IFRS 15, which caused a negative impact of 60 basis points.

Selling, general and administrative expenses (“SG&A”) increased 4% to Ps.18,239 million in 2018 compared with Ps.17,595 million in 2017, due primarily to higher expenses at other subsidiaries and eliminations, and GIMSA, in addition to peso weakness. Selling and administrative expenses as a percentage of net sales improved to 24.6% in 2018 from 24.9% in 2017, in connection with the adoption of IFRS 15, which led to a decline in SG&A of Ps.763 million, representing a benefit of 80 basis points.

Other expense, net, was Ps.26 million in 2018 compared with other income, net of Ps.137 million in 2017. This resulted from a Ps.249 million benefit in 2017 related to recovered tax on assets.

Operating income increased 1% to Ps.9,425 million in 2018 compared with Ps.9,319 million in 2017, mostly due to better performance at Gruma USA, and GIMSA, coupled with peso weakness. Operating margin decreased to 12.7% in 2018, from 13.2% in 2017, due mainly to other subsidiaries and eliminations.

Net comprehensive financing cost rose 24% to Ps.1,565 million in 2018, compared with Ps.1,263 million in 2017. This increase resulted mostly from (1) higher interest expense driven by higher debt, higher interest rates coupled with a higher proportion of peso denominated debt, and peso weakness; and (2) foreign exchange losses.

Income taxes increased 58% to Ps.2,808 million in 2018 compared with Ps.1,782 million in 2017, driven primarily by (1) a non-recurring benefit of Ps.578 million in 2017 on deferred taxes at Gruma USA in connection with the decline of the corporate income tax rate in the United States from 35% to 21%; and (2) the use of tax-loss-carryforwards in 2017 by Gruma Holding when receiving dividends from Gruma USA. The effective tax rate climbed to 35.7% in 2018 from 22.1% in 2017, mostly explained by the aforementioned factors.

Net income attributable to shareholders decreased 20% to Ps.4,970 million in 2018 compared with Ps.6,218 million in 2017. This decline was driven primarily by higher taxes, higher net comprehensive financing cost, and lower other income. Higher taxes and reductions in other income were mostly related to non-recurring events in 2017.

## ***Results of Subsidiaries***

### ***Gruma USA***

Sales volume increased 2% to 1,397 thousand tons in 2018 compared with 1,367 thousand tons in 2017. The increase was driven by the nixtamalized corn flour business as (1) the company gained customers based on service and product quality; (2) food service distributors and club formats continued to benefit from growth at small Mexican food restaurants and small tortilla companies; and (3) there were more frequent promotions and more in-store displays at the retail channel.

Net sales rose 4% to Ps.40,287 million in 2018 compared with Ps.38,617 million in 2017 due to (1) peso weakness; (2) higher sales volume and; (3) the change in the sales mix, especially within the retail tortilla business, driven by increased consumption of higher-priced SKUs. However, the adoption of IFRS 15 resulted in a net sales reduction of about Ps.407 million. Excluding this adoption, net sales would have risen 5%. In dollar terms, net sales grew 2%, and 3% when excluding the effect from the adoption of IFRS 15.

Cost of sales increased 6% to Ps.23,184 million in 2018 compared with Ps.21,814 million in 2017, driven by peso weakness, volume growth, and higher costs, in particular for (1) health insurance and workers compensation; (2) labor and salaries, reflecting the company’s effort to retain talent amid a competitive labor market; (3) higher raw-material costs mostly in connection with the change in the sales mix favoring healthier alternatives; (4) higher depreciation, primarily reflecting the new Dallas plant; and (5) higher transportation and packaging costs. Measured in dollar terms, cost of sales rose 4%. As a percentage of net sales, cost of sales increased to 57.5% in 2018 from 56.5% in 2017, driven by (1) the adoption of IFRS 15, which resulted in lower cost absorption and represented a negative impact of approximately 50 basis points; (2) the aforementioned cost increases; and (3) the sales mix favoring the nixtamalized corn flour business, which has a lower gross margin than the tortilla business. The company continues to benefit from the change in the sales mix within the tortilla business favoring higher-margin SKUs, however, the aforementioned factors offset those benefits.

SG&A expenses were nearly flat at Ps.11,391 million in 2018 compared with Ps.11,376 million in 2017 in connection to peso weakness. Measured in dollar terms, SG&A expenses declined 2% due to the reclassification of Ps.407 million from the adoption of IFRS 15. As a percentage of net sales, SG&A improved to 28.3% from 29.5% due to (1) the aforementioned reclassification of some selling expenses in connection with the adoption of IFRS 15, representing an approximate benefit of 70 basis points; and (2) better expense absorption.

Other expenses, net, were Ps.22 million versus a Ps.68 million expense in the year prior, a decline of Ps.46 million.

Operating income rose 6% to Ps.5,690 million from Ps.5,359 million in 2017 and operating margin improved to 14.1% from 13.9%. In dollar terms, operating income increased 4%.

### ***GIMSA***

Sales volume rose 1% to 2,064 thousand tons in 2018 compared with 2,039 thousand tons in 2017, due mainly to (1) wholesalers expanding their distribution; (2) higher sales to GRUMA's U.S. nixtamalized corn flour operations; and (3) higher sales to government channels.

Net sales grew 5% to Ps.20,508 million compared with Ps.19,508 million in 2017 due principally to (1) price increases to offset cost pressures; and (2) the aforementioned sales volume growth.

Cost of sales increased 4% to Ps.14,692 million in 2018 compared with Ps.14,173 million in 2017 due especially to higher costs for (1) corn procurement in connection with higher transportation tariffs, and warehousing expenses related to the company's initiative to rest the corn for longer periods of time to improve quality; (2) energy; and (3) sales volume growth. As a percentage of net sales, cost of sales improved to 71.6% in 2018 from 72.7% in 2017 as the aforementioned costs pressures were absorbed by price increases.

Selling and administrative expenses rose 10% to Ps.3,407 million compared with Ps.3,103 million in 2017 due mainly to (1) higher energy prices, which resulted, among others, in higher freight tariffs and sales expenses; (2) higher intercompany shipments and distribution in order to enhance customer service; (3) salary increases; and (4) higher information technology expenses. Selling and administrative expenses as a percentage of net sales increased to 16.6% in 2018 from 15.9% in 2017 due to the aforementioned expense increases.

Other expense, net, was Ps.5 million, versus an income of Ps.61 million in 2017, which represented a negative variation of Ps.66 million, mostly resulting from the sale of GIMSA's Mission brand to Gruma Holding for Ps.94 million in 2017.

Operating income increased 5% to Ps.2,404 million in 2018 from Ps.2,293 million in 2017. Operating margin decreased to 11.7% from 11.8% in 2017.

### ***Gruma Europe***

Sales volume declined 9% to 340 thousand tons compared with 374 thousand tons in 2017. This decline was driven by the corn milling business due mostly to (1) lower demand for grits as (a) brewing companies switched to other grains, and (b) snack producers favored competitors that offered lower prices; and (2) lower sales volume of byproducts, in line with the reduction in grits.

Net sales increased 5% to Ps.5,390 million compared with Ps.5,123 million in 2017, due mainly to (1) a change in the sales mix towards the tortilla business; (2) a better sales mix within the tortilla business favoring branded products; (3) price increases and rationalization of low-price customers; and (4) peso weakness. In dollar terms, net sales grew 3%.

Cost of sales climbed 7% to Ps.4,122 million in 2018 compared with Ps.3,853 million in 2017, primarily due to (1) growth at the tortilla business, whose products are more value-added than at the corn milling business; (2) higher costs for raw materials, labor, energy and packaging; and (3) peso weakness. In dollar terms, cost of sales rose 5%. As a percentage of net sales, cost of sales increased to 76.5% in 2018 from 75.2%, mainly reflecting (1) the aforementioned cost increases; and (2) lower cost absorption in connection with the adoption of IFRS 15, which negatively impacted cost of sales as a percentage of net sales by 50 basis points.

Selling, general and administrative expenses fell 1% in 2018 to Ps.1,093 million compared with Ps.1,101 million in 2017 due to the adoption of IFRS 15. In dollar terms, SG&A expenses decreased 2%. As a percentage of net sales, SG&A expenses improved to 20.3% compared with 21.5% in 2017 due mainly to the (1) better expense absorption; and (2) the aforementioned adoption of IFRS 15, representing a 50-basis point benefit.

Other income, net, was Ps.12 million, an improvement of Ps.1 million.

Operating income grew 4% to Ps.187 million from Ps.180 million in 2017, and operating margin was flat at 3.5%. Measured in dollar terms, operating income declined 1%.

## *Gruma Centroamérica*

Sales volume increased 8% to 210 thousand tons in 2018 compared with 195 thousand tons in 2017, mainly due to higher nixtamalized corn flour sales in Honduras in connection with: (1) less aggressive competition; (2) increased distribution of our nixtamalized corn flour flanker brand; (3) higher sales to the United Nations World Food Programme; (4) failed corn crops, due to droughts in Honduras and reduced planting areas in Nicaragua, which favored demand for nixtamalized corn flour.

Net sales rose 1% to Ps.4,596 million in 2018 from Ps.4,533 million in 2017, which resulted from the aforementioned sales volume increase. Net sales grew at a lower rate than volume principally because of the adoption of IFRS 15, which resulted in a negative impact of about Ps.236 million. Excluding this adoption, net sales for Gruma Centroamérica would have risen 7%.

Cost of sales increased 6% to Ps.2,996 million in 2018 compared with Ps.2,829 million in 2017, mostly in connection with sales volume growth. Cost of sales as a percentage of net sales increased to 65.2% from 62.4%, driven by the adoption of IFRS 15, which resulted in lower cost absorption of 320 basis points.

Selling and administrative expenses declined 11% to Ps.1,224 million compared with Ps.1,382 million in 2017, due principally to the adoption of IFRS 15. As a percentage of net sales, selling and administrative expenses improved to 26.6% in 2018 versus 30.5% in 2017 due mainly to the adoption of IFRS 15, representing a benefit of 360 basis points.

Other income, net was Ps.2 million compared with an expense of Ps.2 million in 2017.

Operating income increased 18% to Ps.378 million compared with Ps.320 million in 2017. Operating margin improved to 8.2% in 2018 from 7.1% in 2017.

### *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, 2019, 2018, and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(thousands of Mexican pesos)		
Resources provided by (used in):			
<b>Operating activities</b> .....	<b>Ps. 7,648,191</b>	<b>Ps. 7,709,171</b>	<b>Ps. 4,997,893</b>
<b>Investing activities</b> .....	<b>(1,313,968)</b>	<b>(3,906,735)</b>	<b>(5,186,341)</b>

Financing Activities .....	(5,681,905)	(3,635,864)	(2,196,616)
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During 2019, net cash generated from operations was Ps.7,648 million which includes working capital used of Ps.5,257 million, of which Ps.1,802 million was due to an increase in accounts receivable, Ps.483 million reflected an increase in inventory, Ps.193 million reflected a decrease in accounts payable and Ps.2,839 million of income tax paid. Net cash used for financing activities during 2019 was Ps.5,682 million, of which Ps.55,027 million reflected payments of debt, Ps.55,746 million of proceeds from borrowings, Ps.1,662 million in cash interest payments, Ps.892 million in payments of liabilities and interest of leases, Ps.1,872 million of dividends paid to our shareholders and Ps.1,995 million of acquisition of own shares. Net cash used for investment activities during 2019 was Ps.1,314 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.1,765 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.”

On September 25, 2018 the CNBV authorized our short- and long-term revolving Debt Securities (*Certificados Bursátiles*) Program for a total amount of \$ 8 billion pesos, limiting the short-term issuances not to exceed \$ 3 billion pesos. Several issuances may be made under the Program, provided however, that the outstanding principal of the totality of the outstanding Debt Securities (*Certificados Bursátiles*) does not exceed the total authorized amount of the program. Each issuance of the Debt Securities (*Certificados Bursátiles*) as per the Program will have its own specifications in terms of amount, date, term, interest rate, periodicity of interest payments, among others, which will be agreed to and documented in each issuance. The Program will have a 5-year term. The first issuance under this Program was issued on September 27, 2018. See “Section 3.3. Relevant Credit Facilities Report” for further details

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, 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. 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 agreement, including the supplement of the Debt Securities (*Certificados Bursátiles*) Gruma 18, and the indenture governing our 2024 Notes. See “Section 3.3. Relevant Credit Facilities Report.”

Some credit agreements require to maintain a net leverage ratio no greater than 3.5:1, and an interest coverage ratio no lower than 2.5:1. As of December 31, 2019, Gruma, S.A.B. de C.V.’s net leverage ratio was 1.82x, and the interest coverage ratio was 6.60x. Likewise, Gruma Corporation is required to maintain an overall leverage ratio no greater than 3.5x and an interest coverage ratio no lower than 2:5:1. See “Section 3.4.3. Financial Condition, Liquidity and Capital Resources —Indebtedness.” As of December 31, 2019, 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 + 100 bp.

The members of the Primary Shareholder Group may pledge the totality or part of their shares in us to guarantee any obligation, including any future borrowings. In the event of any default where lenders exercise their rights against any and all of these shares, the Primary Shareholder Group could lose its controlling interest in us resulting in a change of control. This, in turn, could trigger a default in some of our credit agreements if the established conditions under the terms of the corresponding credit agreements are met, resulting in a default of other debt documents. A Change of Control could also require us to make an offer to repurchase debt, as per the terms in our debt agreements. Said default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects. See “Section 4.3.3. Major Shareholders” for further detail.

Our long-term corporate credit rating on a global scale is “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. Standard & Poor’s and Fitch upgraded the “BBB-” rating to “BBB” on March 8, 2016 and November 9, 2015, respectively. Additionally, the issuance of the Debt Securities (*Certificados Bursátiles*) for \$ 3 billion pesos with a maturity date on 2023, was rated as “AAA(mex)” and “mxAA+” by Fitch and Standard & Poor’s, respectively. We also have a short-term rating of “F1+(mex)” and “mxA-1+” in the national scale by Fitch and Standard & Poor’s, respectively.

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, 2019, approximately 75% of our outstanding indebtedness bore interest at fixed rates and approximately 25% 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, 2019, 2018 and 2017, our total debt was approximately Ps.21,626 million, Ps.21,495 million and Ps.20,207 million, respectively. As of December 31, 2019, our long-term debt was approximately Ps.21,039 million.

As of December 31, 2019, approximately 72% of our total debt was U.S. dollar-denominated, 23% in Mexican Pesos and the rest in euros.

Our credit agreements currently in force 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, 2019, we were in compliance with all of the covenants and obligations under our existing debt agreements.

As of December 31, 2019, we had committed lines of credit for the amount of U.S.\$620 million from banks in Mexico and the United States of which we had an available balance of U.S.\$580 million as of that date.

As of December 31, 2019, we had total cash and cash equivalents of Ps.3,944 million.

The following table presents our amortization requirements with respect to our total indebtedness as of December 31, 2019.

<u>Year</u>	<u>In Millions of U.S. Dollars</u>
2020 .....	31.2
2021 .....	134.7
2022 .....	134.6
2023 .....	169.3
2024 and thereafter .....	677.8
<b>Total.....</b>	<b>\$1,147.6</b>

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

<u>Date</u>	<u>Ratio of Consolidated Debt to Total Capitalization</u>	<u>Ratio of Consolidated Liabilities to Total Stockholders’ Equity</u>
December 31, 2017 .....	0.44	1.34
December 31, 2018 .....	0.45	1.37
December 31, 2019 .....	0.51	1.57

## 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", with first tier financial institutions.

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, 2019, 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, 2019. 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.

#### (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, 2019.

#### (c) *Changes in internal control over financial reporting.*

There has been no change in our internal control over financial reporting during 2019 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 assets (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 assets (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, swaps 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-based observable inputs, including interest rates, currency rates, volatilities, 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 18 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates. 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, 2019. 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**

The approval of the Board of Directors, through the Audit Committee, is required for (i) the designation or, where applicable, the annual ratification of the firm in charge of the external audit; if applicable (ii) the replacement of the firm or the external auditor in charge of the audit; (iii) the contracting of services other than the external audit of financial statements; and (iv) the fees amount for both the external audit service and services other than the external audit of financial statements. Additionally, we have adopted approval policies and procedures under which all audit and non-audit services provided by our external auditors must be approved by the audit committee and the Board of Directors. Any service proposals submitted by external auditors need to be discussed and approved by the audit committee and the Board of Directors 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, as well as in the corresponding minutes of the Board of Directors meetings. 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 2019 by the external auditors, different to those of audit, were:

- Transfer pricing studies for tax purposes.
- Review of Federal and State taxes, general tax consultations and other tax advice.
- Audit procedures required to comply with several regulatory certifications.
- Others

### *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, 2019:

	<b>Year ended December 31, 2019</b>	
	<b>(thousands of Mexican pesos)</b>	<b>Percentage of Total Fees</b>
Audit Fees.....	Ps. 76,604	82%
Tax Fees.....	10,205	11%
Other Fees.....	6,433	7%
<b>Total Fees.....</b>	<b>Ps. 93,242</b>	<b>100%</b>

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, preparation of transfer pricing studies 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 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 at market interest rates.

Since 2017, the outstanding balance of loans from GIMSA to GRUMA, at their peak on December 2018, were Ps.1,931 million. The average annual interest rate for these loans during 2019, 2018 and 2017 was 8.23%, 8.65% and 7.78%, respectively. As of December 31, 2019, we had an outstanding balance owed to GIMSA for Ps.1,149 million at an interest rate of 7.68%. As of March 31, 2020, we had an outstanding balance owed to GIMSA of Ps.1,414 million, with an interest rate of 7.39%.

Since 2017, the outstanding balance of loans from GRUMA to GIMSA, at their peak on April 2018, were Ps.979 million. The average annual interest rate for these loans during 2019, 2018 and 2017, was 9.70%, 8.73% and 8.06% respectively. Likewise, as of December 31, 2019 and as of March 31, 2020, there were no loans from GRUMA to GIMSA.

In September of 2001, Gruma Corporation started to grant loans to GRUMA. Since 2017 these operations, at their peak on March 2020, reached the amount of U.S.\$220 million. The average annual interest rate for these loans during 2019, 2018 and 2017 was of 2.81%, 3.00% and 1.93%, respectively. Likewise, as of December 31, 2019 and as of March 31, 2020, there were loans from Gruma Corporation to GRUMA of U.S. \$220 million and U.S. \$280 million, respectively.

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

All the above mentioned intercompany transactions are eliminated from the audited financial statements.

For more information about related party transactions, please see Note 29 to our audited consolidated financial statements as of December 31, 2019 and 2018 and for the years ended in said dates.

#### **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 24, 2020, currently consists of 10 directors, all of them male, with each director having a corresponding alternate director, one of them being a female; seven of our directors are independent within the meaning of the Mexican Securities Law. At said meeting it was stated that, Mr. Juan A. González Moreno will continue 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:	62
	Years as Director:	26
	Principal Occupation:	Chairman of the Board and Chief Executive Officer of GRUMA
	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:	Shareholder, Related	
Alternate:	Raúl Cavazos Morales	
Carlos Hank González	Age:	48
	Years as Director:	7
	Principal Occupation:	Vice-Chairman of the Board of GRUMA; Chairman of the Board of Grupo Financiero Banorte y Banco Mercantil del Norte; Chief Executive Officer of Grupo Hermes; Chairman of the Banorte Foundation
	Outside Directorships:	Director of Grupo Hermes; Chairman of the Board of Cerrey; Independent Director of Grupo Televisa; Director of Bolsa Mexicana de Valores
	Business Experience:	Chief Executive Officer of Grupo Financiero Interacciones, Casa de Bolsa Interacciones, Banco Interacciones, Grupo Industrial Hermes, Automotriz Hermer and Assistant Managing Director of Grupo Financiero Banorte.
Directorship Type:	Shareholder, Related	
Alternate:	Graciela González Moreno	
Homer Huerta Moreno	Age:	57
	Years as Director:	7
	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:	Related	

	Alternate:	Rogelio Sánchez Martínez
Gabriel A. Carrillo Medina	Age:	63
	Years as Director:	7
	Principal Occupation:	President and shareholder of Mail Rey and Detecno
	Outside Directorships:	None
	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:	76
	Years as Director:	6
	Principal Occupation:	Economics Professor at EGADE/ITESM, Economics Professor at UANL and regular columnist of Reforma/El Norte
	Outside Directorships:	Director of Grupo Financiero Banorte, Autlán, Rassini, Cemex and Afore XXI Banorte, Member of the External Advisory Council of UANL
	Business Experience:	Economic Investigations Director of Grupo Industrial Alfa Economic Studies Director of Grupo Financiero Bancomer and Deputy Director of Banco de México
	Directorship Type:	Independent
	Alternate:	Ricardo Sada Villarreal
Jesús Oswaldo Garza Martínez	Age:	63
	Years as Director:	4
	Principal Occupation:	Advisor to CEO of Grupo Financiero Afirme and Financial Consultant
	Outside Directorships:	Director of Grupo Financiero Afirme and Director of Aseguradora Afirme
	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 Commercial Officer of Banco Mercantil del Norte and several executive positions at Banco Bilbao Vizcaya, Casa de Bolsa Probursa and Valores Finamex
	Directorship Type:	Independent
	Alternate:	Miguel Ángel Garza Martínez
Thomas S. Heather Rodríguez	Age:	65
	Years as Director:	7
	Principal Occupation:	Lawyer, Partner of Ritch, Mueller, Heather y Nicolau, S.C.
	Outside Directorships:	Director of the Audit, Corporate Practices and Risk Policies Committee of Grupo Financiero Banorte and subsidiaries; Director, President of the Investment Committee and member of the Audit and Corporate Practices Committee of Afore XXI Banorte; Secretary of the Audit and Corporate Practices Committee of Grupo Televisa; Director of RLH Properties
	Business Experience:	Forty years of professional independent practice; Director and Administrator of Satélites Mexicanos, Director of Grupo Financiero Banorte, Scotiabank, JP Morgan, Bank of America Mexico, Hoteles Nikko, Grupo Modelo and Grupo Bimbo; Collaborator in the Ethics and Law Committees of Consejo



	Directorship Type:	Coordinador Empresarial and arbitrator in international courts and fellow of the American College of Bankruptcy
	Alternate:	Independent Thomas Edward Heather
Javier Martínez-Ábrego Gómez	Age:	78
	Years as Director:	5
	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:	48
	Years as Director:	7
	Principal Occupation:	Chairman of the Board and Chief Executive Officer of Ingenios Santos
	Outside Directorships:	Director of Axtel, BBVA Bancomer, Interpuerto Monterrey, Development Committee of the Instituto Tecnológico y de Estudios Superiores de Monterrey, Instituto Nuevo Amanecer, Renace, 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, Chief Executive Officer of Mundo DeaDeveras, Councillor of the municipality of San Pedro Garza Garcia, N.L., Vice-Chairman of Grupo Tres Vidas Acapulco
	Directorship Type:	Independent
	Alternate:	Carlos González Bolio
Joseph Woldenberg Russell	Age:	53
	Years as Director:	4
	Principal Occupation:	President of the Board and Executive President of Tubacero
	Outside Directorships:	Director of Canacero, Banamex North Region, Planigrupo, Silica Desarrollos, Divanz Capital, and W International Group, UDEM, Horno3 Steel Museum and Centro Cultural Rosa de los Vientos
	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.

Gabriel Carrillo Cattori, alternate member of our board of directors, is the son of Gabriel A. Carrillo Medina. Javier Martínez-Ábrego 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. Rodrigo Martínez Villarreal, and his alternate is Mr. David Alejandro Salazar Cavazos. Mr. Martínez Villarreal and Mr. Salazar Cavazos are not members 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 22, 2020. 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 24, 2020, 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*

Before, the Board of Directors was assisted by an executive committee, which functions have terminated as agreed by the Board of Directors of GRUMA at its meeting held on February 21, 2018. As of this date, no other intermediate management bodies exist in addition to the Audit and Corporate Governance Committees.

### *4.3.2 Senior Management*

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

Juan A. González Moreno	Age:	62
	Years as Executive Officer:	16
	Years at GRUMA:	40
	Current Position:	Chief Executive Officer
	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
Raúl Cavazos Morales	Age:	60
	Years as Executive Officer:	8
	Years at GRUMA:	32
	Current Position:	Chief Financial Officer
	Business Experience:	Several finance positions within GRUMA, including Chief Treasury Officer and Vice President of Corporate Treasury
Homero Huerta Moreno	Age:	57

	Years as Executive Officer:	18
	Years at GRUMA:	35
	Current Position:	Chief Administrative Officer
	Business Experience:	Several positions within GRUMA including Corporate Internal Audit Vice President, Management Information Systems Vice President, Controllership Vice President of Gruma Corporation and Finance and Administrative Vice President of Gruma Venezuela
Francisco Martínez Saldívar	Age:	60
	Years as Executive Officer:	4
	Years at GRUMA:	7
	Current Position:	Chief Procurement Officer
	Business Experience:	National Manager of Corn Procurement and Vice President of Corn Procurement at Azteca Milling; Vice President of Corn Procurement in the US, Mexico, Central America, Asia and Oceania
Felipe Antonio Rubio Lamas	Age:	62
	Years as Executive Officer:	18
	Years at GRUMA:	37
	Current Position:	Chief Technology Officer
	Business Experience:	Several managerial and Senior Vice President positions within Gruma USA related to manufacturing processes, engineering, design, and construction of production facilities
Rodrigo Martínez Villarreal	Age:	42
	Years as Executive Officer:	2
	Years at GRUMA:	12
	Current Position:	General Counsel
	Business Experience:	Legal VP at GRUMA, Corporate Counsel at Cemex and foreign associate at Milbank, Tweed, Hadley & McCloy

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 emphasizes that any distinction, exclusion, restriction or preference based on any of the following reasons: ethnicity or national origin, skin color, culture, gender, age, disabilities, social, economic or health condition, religion, physical appearance, genetic characteristics, immigration status, pregnancy, opinions, sexual preferences, political identity or affiliation, marital status, among others, is not allowed in GRUMA.

Our code of ethics is available on our website: [www.gruma.com](http://www.gruma.com).

#### *Compensation of Directors and Senior Management*

Members of the board of directors are paid a fee of Ps.100,000 for each board meeting they attend. Additionally, members of the audit committee are paid a fee of Ps.100,000 and members of the corporate governance committee are paid a fee of Ps.50,000 for each committee meeting they attend.

For 2019, the aggregate amount of compensation paid to all directors, alternate directors, executive officers and audit and corporate governance committees' members was approximately Ps.186 million. The deferred compensation reserved as of December 31, 2019 was Ps.47 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, as of April 24, 2020, Ms. Graciela Moreno Hernández, widow of the late Mr. Roberto González Barrera, and certain of her descendants, directly and indirectly own 188,386,671 representing approximately 46.46% of our capital stock (46.86% of our outstanding shares). Jointly all of them, in virtue of their kinship, may be considered as the Primary Shareholder Group.

In the case of Ms. Graciela Moreno Hernández, she holds her shares indirectly through the trust number 111559-4 created by her in Banco Nacional de México, S.A., Integrante del Grupo Financiero Banamex for her benefit and the benefit of certain of her descendants as beneficiaries of the trust (the “Trust”). For the case of the other members of the Primary Shareholder Group (including some of the beneficiaries of the Trust), some of them hold our shares directly, while a larger portion of the members hold them indirectly through other trusts, among which is the trust number 75174-8 created by Mr. Juan Antonio González Moreno together with his descendants in Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte (the “Banorte Trust”). See “Section 4.4. Bylaws and Other Agreements”.

The Trust is the only shareholder that as of April 24, 2020, directly and individually owns more than 10% of our capital stock; holding 37.05% of our capital stock (37.37% of our outstanding shares) as of April 24, 2020. Amongst the beneficiaries of the Trust, only two of them are beneficiaries of more than 10% of our capital stock. Specifically, Mr. Juan Antonio Gonzalez Moreno and Mrs. Graciela Sylvia Gonzalez Moreno, both Directors, are as of April 24, 2020, main beneficiary shareholders, given that each of them is beneficiary of more than 11.59% of our capital stock (11.69% of our outstanding shares) through the Trust, Mr. Juan Antonio González Moreno also indirectly holds the 0.52% of our capital stock (0.52% of our outstanding shares) through the Banorte Trust.

This Trust, acting alone or jointly with all or some of the persons comprising the Primary Shareholder Group, exerts significant influence, control and power of command over us.

As of April 24, 2020, 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 1.64% 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 24, 2020 (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 on said date. The Trust is the only shareholder we know to individually and directly own more than 10% of our capital stock and Mr. Juan Antonio Gonzalez Moreno and Mrs. Graciela Sylvia Gonzalez Moreno, both Directors, are our only main beneficiary shareholders since, each of them indirectly through the Trust and directly own 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 Outstanding Series B Shares	Percentage of Outstanding Shares
Primary Shareholder Group <sup>(1)</sup>	188,386,671	46.86%
Other shareholders	213,652,968	53.14%
Total	402,039,639 <sup>(2)</sup>	100%

(1) The shares beneficially owned by the Primary Shareholder Group include 150,229,259 shares held indirectly by certain members of the Primary Shareholder Group through the Trust.

(2) As of April 24, 2020, our capital stock was represented by 405,491,056 issued Series B, Class I, no par value shares (“Series B shares”), of which 402,039,639 shares were outstanding, all of them fully subscribed and paid and 3,451,417 shares were kept in treasury.

The Primary Shareholder Group controls approximately 46.46% of our capital stock (46.86% of our outstanding shares) and therefore elects the majority of our 10 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 assure that members of the Primary Shareholder Group will continue to hold their shares or will act together for purposes of control. Additionally, the members of the Primary Shareholder Group may pledge the totality or part of their shares in us to guarantee any obligation, including any future borrowings. In the event of any default where lenders exercise their rights against any and all of these shares, the Primary Shareholder Group could lose its controlling interest in us resulting in a change of control. This, in turn, could trigger a default in some of our credit agreements if the established conditions under the terms of the corresponding credit agreements are met, resulting in a default of other debt documents. A Change of Control could also require us to make an offer to repurchase debt, as per the terms in our debt agreements. Said default or repurchase obligation could have a material adverse effect upon our business, financial condition, results of operations and prospects.

We are not aware of any significant changes in the percentage of ownership of any shareholder 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 10 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 electronic system established by the Ministry of Economy and optionally 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 24, 2020, our capital stock was represented by 405,491,056 issued, non-par value, Class I, Series B shares, out of which 402,039,639 shares were outstanding, fully subscribed and paid for and 3,451,417 shares are kept in treasury.

### *Preemptive Rights*

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

#### ***Other Agreements***

Mr. Juan Antonio González Moreno, together with his sons Juan Antonio González Marcos and Jesús Antonio González Marcos, established as trustors and trustees the Banorte Trust, to which they contributed 2,101,203 shares, 9,975,041 shares and 9,736,125 shares, respectively, which together represent 5.38% of our capital stock.

The Banorte Trust has the following main characteristics:

- Mr. Juan Antonio González Moreno has the character of Administrator, for which he has the power to instruct the voting sense of all the shares contributed to it.
- It will be in force as long as Mr. Juan Antonio González Moreno lives, during which time the contributed shares may not be withdrawn from the trust except for their sale through a stock exchange, provided the Administrator authorizes such transactions.
- The economic rights of the shares contributed, are kept by each of the respective trustees.
- The trustee rights are subject to preemptive rights among the trustees in the event of the sale of such rights, with the exception of donations to lineal ascendants or descendants.

#### **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. Currently, there are no ADR program sponsored by GRUMA. GRUMA does not authorize, endorse, support or encourage the creation of any unsponsored ADR program in respect to its securities and disclaims any liability whatsoever, arising out of any unsponsored ADR program. 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.

	Mexican Stock Exchange		NYSE	
	Common Stock		ADS(2)	
	High	Low	High	Low
	(Ps. Per share <sup>(1)</sup> )		(U.S.\$ per ADS)	
<b>Annual Price History</b>				
2015.....	259.41	147.78	55.15	39.83
2016.....	293.87	233.10		
2017.....	286.38	227.25		
2018.....	258.06	207.56		
2019	234.69	166.07		
<b>Quarterly Price History</b>				
2018				
1st Quarter.....	250.78	208.57		
2nd Quarter .....	242.90	207.70		
3rd Quarter .....	258.06	227.20		
4th Quarter .....	241.00	207.56		
2019				
1st Quarter.....	234.69	198.02		
2nd Quarter .....	202.17	177.86		
3rd Quarter .....	210.75	166.07		
4th Quarter .....	208.07	182.24		
2020				
1st Quarter.....	211.08	190.78		
<b>Monthly Price History <sup>(1)(3)</sup></b>				
October 2019.....	206.88	190.78		
November 2019.....	208.07	197.00		
December 2019 .....	200.21	182.24		
January 2020 .....	211.08	193.58		
February 2020 .....	207.08	189.06		
March 2020 .....	191.40	170.80		
April 2020 <sup>(3)</sup> .....	229.78	188.77		

(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) As of April 24, 2020.

On April 24, 2020, the last reported sale price of the B Shares on the Mexican Stock Exchange was Ps.229.78 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, 2019, 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]*

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Name: Homero Huerta Moreno  
Title: Chief Administrative Officer\*

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

*[Illegible Signature]*

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Name: Raúl Cavazos Morales  
Title: Chief Financial Officer

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

*[Illegible Signature]*

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Name: Rodrigo Martínez Villarreal  
Title: General Counsel

\*Responsible for the elaboration of the financial information of the Company.



*[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]*

The undersigned under oath of saying the truth state, that the attached consolidated financial statements of Gruma, S.A.B. de C.V. and subsidiaries, as of December 31, 2019, 2018 and 2017, contained in this Annual Report, were audited on April 8, 2020, April 4, 2019 and April 12, 2018; pursuant to the International Standards on Auditing.

Additionally, we state that we have read this annual report and based on our reading and within the scope of the audit work carried out, we have no knowledge of material mistakes or inconsistencies in the financial information that is included and that is derived from the audited financial statements referred to in the previous paragraph, nor that the information has been omitted or distorted in this annual report, nor that the same contains financial information that may mislead the investors.

Notwithstanding the foregoing, we, the undersigned, were not hired, and did not carry out additional procedures to express our opinion regarding the other information contained in this annual report, which is not derived from the financial statements audited by us.

/S/

C.P.A. Víctor Gabriel Vecchi  
Audit Partner

/S/

C.P.A. Felipe Córdova Otero  
Legal Representative

## **8. EXHIBITS**

- Audited Financial Statements for the last three fiscal years.
- Audit Committee's Report
- Corporate Governance Committee's Report

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2019 AND 2018

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

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018

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## **Report of Independent Auditors Translated from Spanish**

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

### **Opinion**

We have audited the consolidated financial statements of Gruma, S. A. B. de C. V. and its subsidiaries (the Company), which comprise the consolidated statement of balance sheet as at December 31, 2019, 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 notes to the consolidated financial statements, including 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, 2019, and its financial performance and its 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 Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the consolidated financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with these 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

## How our audit addressed the 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 1) in view of the significance of the book value of goodwill (\$3,493 million at December 31, 2019), 2) 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 including the consideration of the possibility of changes in the economic context within which the CGUs involved in the goodwill operate.

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

For the CGUs of US, México and Spain, 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 in order to define the nature and extent of the procedures applied for each CGU based on its risk level, as follow:

We gained an understanding of the processes followed by management in projecting future cash flows and assessed 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 assess whether any of the assumptions usually included in projections could be considered overly optimistic or unrealistic based on 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 income growth rates, which we compared to historic trend of grow of the GCUs and growth rates expected from industry; and
- The discount rate used when evaluating the cost of capital for the Company and similar entity, as well as specific territory factors.



## 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, primarily in México and US. Derivative financial instrument assets total \$102 million and derivative instrument liabilities total \$331 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, not only because of the valuation that such financial instruments may have, but also due to the effect that these could have on the net income for the year.

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.

On a selective basis:

- We inspected evidence of authorization of the contracting of the new derivative financial instruments during the year, by the executives defined for this purpose.
- We secured confirmations, from counterparties of the existence of instruments whose positions were open at December 31, 2019.
- 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 inspected 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 the products (commodities) of corn and gas 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) (but does not include the consolidated 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 do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company 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.

## **Auditor's 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 consolidated 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.

**Other Matter**

This version of our report is a translation from the original report, which was prepared in Spanish. In all matters of interpretation of information, views or opinions, the original Spanish language version of our report takes precedence over this translation

The engagement partner on the audit resulting in this independent auditor's report is stated below.

PricewaterhouseCoopers, S. C.

C.P.C. Víctor Gabriel Vecchi  
Audit Partner

Monterrey, N. L., April 8, 2020

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2019 AND 2018**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

<b>A s s e t s</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Current:</b>			
Cash and cash equivalents.....	6	Ps. 3,943,501	Ps. 3,435,722
Derivative financial instruments.....	20	102,325	66,049
Accounts receivable, net.....	7	10,609,012	9,476,303
Inventories.....	8	11,238,374	11,115,967
Recoverable income tax.....		314,310	517,809
Prepaid expenses.....		492,425	449,544
Total current assets.....		26,699,947	25,061,394
<b>Non-current:</b>			
Long-term notes and accounts receivable.....	9	277,873	263,717
Property, plant and equipment, net.....	10	28,665,642	30,154,660
Right-of-use assets.....	11	4,729,796	-
Intangible assets, net.....	12	4,125,216	4,318,509
Deferred tax assets.....	13	2,384,396	2,034,423
Total non-current assets.....		40,182,923	36,771,309
<b>Total Assets.....</b>		Ps. 66,882,870	Ps. 61,832,703
<b>L i a b i l i t i e s</b>			
<b>Current:</b>			
Short-term debt.....	14	Ps. 587,076	Ps. 4,330,288
Short-term lease liability.....	11	612,596	-
Trade accounts payable.....	15	5,652,236	5,968,044
Derivative financial instruments.....	20	172,153	118,841
Provisions.....	16	198,421	148,271
Income tax payable.....		479,310	411,337
Other current liabilities.....	17	4,597,291	4,795,296
Total current liabilities.....		12,299,083	15,772,077
<b>Non-current:</b>			
Long-term debt.....	14	21,038,774	17,164,392
Long-term lease liability.....	11	4,403,642	-
Derivative financial instruments.....	20	159,651	-
Provision for deferred taxes.....	13	1,249,687	1,395,571
Employee benefits obligations.....	18	974,052	814,752
Provisions.....	16	547,120	491,566
Other non-current liabilities.....		233,327	92,890
Total non-current liabilities.....		28,606,253	19,959,171
<b>Total Liabilities.....</b>		40,905,336	35,731,248
<b>E q u i t y</b>			
<b>Shareholders' equity:</b>			
Common stock.....	19	5,120,602	5,248,104
Reserves.....		294,604	1,224,803
Retained earnings.....	19	20,574,206	19,640,139
Total shareholders' equity.....		25,989,412	26,113,046
Non-controlling interest.....		(11,878)	(11,591)
<b>Total Equity.....</b>		25,977,534	26,101,455
<b>Total Liabilities and Equity.....</b>		Ps. 66,882,870	Ps. 61,832,703

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, 2019 AND 2018**  
(In thousands of Mexican pesos, except per-share data)  
(Notes 1, 2 and 3)

	Note	2019	2018
Net sales.....	5	Ps. 77,387,658	Ps. 74,037,588
Cost of sales.....	21	<u>(48,672,006)</u>	<u>(46,347,137)</u>
<b>Gross profit.....</b>		28,715,652	27,690,451
Selling and administrative expenses.....	21	(19,412,701)	(18,238,681)
Other expenses, net.....	22	<u>(20,946)</u>	<u>(26,288)</u>
<b>Operating income.....</b>		9,282,005	9,425,482
Comprehensive financing cost, net.....	24	<u>(1,722,186)</u>	<u>(1,564,826)</u>
<b>Income before income tax.....</b>		7,559,819	7,860,656
Income tax expense.....	25	<u>(2,711,069)</u>	<u>(2,807,958)</u>
<b>Consolidated net income from continuing operations.....</b>		4,848,750	5,052,698
Loss from discontinued operations.....		<u>(11,473)</u>	<u>(81,756)</u>
<b>Consolidated net income.....</b>		<u>Ps. 4,837,277</u>	<u>Ps. 4,970,942</u>
Attributable to:			
Shareholders.....		Ps. 4,835,675	Ps. 4,969,803
Non-controlling interest.....		1,602	1,139
		<u>Ps. 4,837,277</u>	<u>Ps. 4,970,942</u>
<b>From continued operations:</b>			
Basic and diluted earnings per share (pesos).....		<u>Ps. 11.60</u>	<u>Ps. 11.76</u>
<b>From discontinued operations:</b>			
Basic and diluted losses per share (pesos).....		<u>Ps. (0.03)</u>	<u>Ps. (0.19)</u>
<b>From continued and discontinued operations:</b>			
Basic and diluted earnings per share (pesos).....		<u>Ps. 11.57</u>	<u>Ps. 11.57</u>
Weighted average shares outstanding (thousands).....		<u>417,944</u>	<u>429,490</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, 2019 AND 2018**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
<b>Consolidated net income</b> .....		Ps. 4,837,277	Ps. 4,970,942
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of employment benefit obligations.....	18	(138,619)	47,598
Income taxes.....	13	26,310	(6,658)
		<u>(112,309)</u>	<u>40,940</u>
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments.....		(723,014)	(708,017)
Cash flow hedges.....		(485,621)	(192,148)
Other.....		(1,116)	(80,505)
Income taxes.....	13	8,887	8,676
		<u>(1,200,864)</u>	<u>(971,994)</u>
Other comprehensive income, net of tax.....		<u>(1,313,173)</u>	<u>(931,054)</u>
<b>Total comprehensive income</b> .....		<u>Ps. 3,524,104</u>	<u>Ps. 4,039,888</u>
Total comprehensive income for the period is attributable to:			
Shareholders.....		Ps. 3,522,966	Ps. 4,045,705
Non-controlling interest.....		1,138	(5,817)
		<u>Ps. 3,524,104</u>	<u>Ps. 4,039,888</u>
Total comprehensive income for the period is attributable to shareholders arises from:			
Continuing operations.....		Ps. 3,534,439	Ps. 4,127,461
Discontinued operations.....		(11,473)	(81,756)
		<u>Ps. 3,522,966</u>	<u>Ps. 4,045,705</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, 2019 AND 2018**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Common stock (Note 19-A)		Reserves		Retained earnings and other reserves (Note 19-B)	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares (thousands)	Amount	Foreign currency translation (Note 19-C)	Cash flow hedges and other reserves (Note 20-C)				
<b>Balances at January 1, 2018</b> .....	432,749	Ps. 5,363,595	Ps. 1,872,713	Ps. 240,415	Ps. 18,499,806	Ps. 25,976,529	Ps. (5,774)	Ps. 25,970,755
Transactions with owners of the Company:								
Dividends paid (Ps.4.28 per share).....	(9,318)	(115,491)			(1,852,166)	(1,852,166)	-	(1,852,166)
Purchase of own shares.....	(9,318)	(115,491)			(1,941,531)	(2,057,022)	-	(2,057,022)
<b>Comprehensive income:</b>					(3,793,697)	(3,909,188)	-	(3,909,188)
Net income of the year.....					4,969,803	4,969,803	1,139	4,970,942
Foreign currency translation adjustment (Net of taxes of Ps.14,195).....			(690,991)			(690,991)	(2,831)	(693,822)
Remeasurement of employment benefit obligations (Net of taxes of Ps.(6,658)).....				40,914		40,914	26	40,940
Cash flow hedges (Net of taxes of Ps.(5,378)).....				(197,334)		(197,334)	(192)	(197,526)
Other (Net of taxes of Ps.(141)).....				(197,334)		(197,334)	(3,959)	(80,646)
<b>Comprehensive income of the year</b> .....					4,934,030	4,045,705	(5,817)	4,039,888
<b>Balances at December 31, 2018</b> .....	423,431	Ps. 5,248,104	Ps. 1,181,722	Ps. 43,081	Ps. 19,640,139	Ps. 26,113,046	Ps. (11,591)	Ps. 26,101,455
Transactions with owners of the Company:								
Dividends paid (Ps.4.65 per share).....	(10,287)	(127,502)			(1,951,439)	(1,951,439)	(1,425)	(1,952,864)
Purchase of own shares.....	(10,287)	(127,502)			(1,836,300)	(1,963,802)		(1,963,802)
Effect on minority share purchase.....					(503)	(503)		(503)
<b>Comprehensive income of the year</b> .....					(3,788,242)	(3,915,744)	(1,425)	(3,917,169)
Costs of cash flow hedging transferred to the carrying value of inventory purchased during the year, net of taxes.....				269,144		269,144		269,144
<b>Comprehensive income:</b>					4,835,675	4,835,675	1,602	4,837,277
Net income of the year.....				269,144		269,144		269,144
Foreign currency translation adjustment (Net of taxes of Ps.64,304).....					(3,788,242)	(3,646,600)	(1,425)	(3,648,025)
Remeasurement of employment benefit obligations (Net of taxes Ps.26,310).....			(786,877)			(786,877)	(441)	(787,318)
Cash flow hedges (Net of taxes of Ps.73,191).....				(412,466)		(412,466)	(59)	(412,309)
Other (Net of taxes).....					(1,116)	(1,116)		(1,116)
<b>Comprehensive income of the year</b> .....					4,722,309	3,522,966	1,138	3,524,104
<b>Balances at December 31, 2019</b> .....	413,144	Ps. 5,120,602	Ps. 394,845	Ps. (100,241)	Ps. 20,574,206	Ps. 25,989,412	Ps. (11,878)	Ps. 25,977,534

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, 2019 AND 2018**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Note	2019	2018
Operating activities:			
<b>Income before taxes</b> .....		Ps. 7,559,819	Ps. 7,860,656
Derivative financial instruments.....	20 and 22	49,717	(55,337)
Foreign exchange gain (loss) from working capital.....		(89,352)	145,752
Net cost of the year for employee benefit obligations.....		281,577	244,014
Allowance for doubtful accounts.....		63,464	34,650
Damaged, slow-moving and obsolete inventory.....		168,465	118,921
Items related with investing activities:			
Depreciation and amortization.....		3,179,550	2,312,383
Impairment of long-lived assets.....		66,259	3,403
Interest income.....		(81,124)	(51,084)
Gain (loss) in sale of fixed assets and damaged assets.....	22	(54,689)	15,611
Items related with financing activities:			
Derivative financial instruments.....	20 and 24	(19,928)	66,560
Gain (loss) foreign exchange loss from debt.....		(39,775)	87,585
Foreign exchange gain from lease liability.....		(24,400)	
Interest expense.....		1,845,988	1,287,245
		<u>12,905,571</u>	<u>12,070,359</u>
Accounts receivable.....		(1,801,573)	(1,099,576)
Inventories.....		(483,067)	(555,556)
Prepaid expenses.....		16,676	(131,443)
Trade accounts payable.....		(193,420)	(467,653)
Accrued liabilities and other accounts payables.....		301,046	239,221
Income taxes paid.....		(2,839,426)	(2,081,871)
Payments of employee benefits obligations.....		(257,616)	(264,310)
		<u>(5,257,380)</u>	<u>(4,361,188)</u>
<b>Net cash flows from operating activities</b> .....		<u>7,648,191</u>	<u>7,709,171</u>
Investing activities:			
Acquisitions of property, plant and equipment.....	5 and 10	(1,765,079)	(3,969,598)
Sale of property, plant and equipment.....		434,895	400,254
Acquisition of intangible assets.....	12	(44,399)	(302,765)
Interests collected.....		81,124	51,084
Other.....		(20,509)	(85,710)
<b>Net cash flows used in investing activities</b> .....		<u>(1,313,968)</u>	<u>(3,906,735)</u>
Cash to be used in financing activities.....			
		<u>6,334,223</u>	<u>3,802,436</u>
Financing activities:			
Proceeds from debt.....	14	55,746,208	30,376,283
Payment of debt.....	14	(55,026,523)	(28,911,854)
Payment of lease liability.....		(616,723)	-
Interests paid.....		(1,662,315)	(1,231,047)
Interests paid on lease liability.....		(274,937)	-
Derivative financial instruments collected.....		19,928	37,778
Purchase of own shares.....		(1,995,020)	(2,067,632)
Purchase of non-controlling interest share.....		(503)	-
Dividends paid.....		(1,872,020)	(1,839,392)
<b>Net cash flows used in financing activities</b> .....		<u>(5,681,905)</u>	<u>(3,635,864)</u>
Net increase in cash and cash equivalents.....		652,318	166,572
Exchange differences on cash.....		(144,539)	39,170
<b>Cash and cash equivalents at the beginning of the year</b> .....		<u>3,435,722</u>	<u>3,229,980</u>
<b>Cash and cash equivalents at the end of the year</b> .....		<u>Ps. 3,943,501</u>	<u>Ps. 3,435,722</u>

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

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2019 AND 2018**  
**(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 Río de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico. GRUMA is listed on the Mexican Stock Exchange.

The consolidated financial statements were authorized by the Chief Administrative Office of the Company on April 8th, 2020.

**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 adopted the new standards that were effective starting January 1, 2019, being the most relevant IFRS 16, Leases. The Company applied changes to its accounting policies starting the date of adoption of IFRS 16, which are explained in Note 31.

**A) BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared based on 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.

**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.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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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 10 and 12).
- The actuarial assumptions used for the determination of employee benefits obligations (Note 18).
- The key assumptions in impairment testing of the investment in Venezuela (Notes 27).

**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, 2019 and 2018, the main subsidiaries included in the consolidation are:

	<b>% of ownership</b>	
	<b>2019</b>	<b>2018</b>
Gruma Corporation and subsidiaries.....	100.00	100.00
Grupo Industrial Maseca, S.A. de C.V. and subsidiaries.....	99.93	99.92
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, 2019 and 2018, there were no significant restrictions for the investment in the subsidiaries mentioned above, except for those described in Note 27.

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**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**  
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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-K for the accounting of the net investment hedge.

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

	<b>As of December 31, 2019</b>	<b>As of December 31, 2018</b>
Pesos per U.S. dollar.....	18.8452	19.6829
Pesos per Euro.....	21.0595	22.5251
Pesos per Swiss franc.....	19.3344	19.9847
Pesos per Australian dollar.....	13.1545	13.8583
Pesos per Chinese yuan.....	2.6997	2.8679
Pesos per Pound sterling.....	24.6382	24.9835
Pesos per Malaysian ringgit.....	4.5661	4.7383
Pesos per Costa Rica colon.....	0.0327	0.0322
Pesos per Ukrainian hryvnia.....	0.7970	0.7103
Pesos per Russian ruble.....	0.3044	0.2833
Pesos per Turkish lira.....	3.1725	3.7414

**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.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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**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 expected future credit losses. The recognition of these losses is obliged since the moment the trade receivable is recognized.

**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 in accordance with the useful life of the improvement component or the remaining lease term. 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:

	<b>Years</b>
Buildings.....	25 – 50
Machinery and equipment.....	5 – 25

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

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

	<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.

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**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:

- 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.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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**J) FINANCIAL INSTRUMENTS**

**a. Financial assets**

(i) Classification

The Company classifies its financial assets in the following categories:

- Those to be measured at amortized cost, and
- Those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies a financial asset to be measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

The Company classifies a financial asset to be measured at fair through other comprehensive income if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

(ii) Recognition

Regular purchases and sales of financial assets are recognized in the balance sheet on the trade date, which is the date when the Company commits to purchase or sell the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognized as expense.

After initial recognition, the Company measures financial assets at amortized cost or at fair value with changes in other comprehensive income or in results of the year.

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(iv) Impairment

The Company applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the trade receivables and long-term notes and accounts receivable.

To measure the expected credit losses, the assets have been grouped based on shared credit risk characteristics and the days past since their initial recognition. The expected loss rates are based on the payment profiles of sales over a period of 12 months before December 31, 2019 and 2018, respectively, and the corresponding historical credit losses experienced within this period.

Accounts receivable and long-term receivables are canceled when there is no reasonable expectation of collection.

**b. Financial liabilities**

(i) Classification

The Company classifies its financial liabilities to be measured at amortized cost, except for the liabilities from derivative financial instruments that are measured at fair value through profit or loss.

**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.

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities for trading (derivative financial instruments).

(ii) Derecognition

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in income.

**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.



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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. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

**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, 2019 and 2018, 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, see Note 20-C.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in income as Other (expenses) income, net.

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. However, when the forecasted transaction recognizes a non-financial asset or non-financial liability, the cumulative gains or losses recognized in other comprehensive income are transferred from equity and included in the initial measurement of the non-financial asset or non-financial liability.

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**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 19-C.

**L) LEASES**

Starting January 1, 2019, the Company adopted the guidelines of IFRS 16, Leases, retrospectively with the cumulative effect of initially applying the new standard recognized on the date of adoption. Comparative information for 2018 was not restated. See Note 31 for further detail on the impact of the change in the accounting policy.

Contracts with counterparties celebrated by the Company, in which the transfer of the right to control the use of an identified asset for a certain term in exchange for a consideration, are classified as leases. There is control if the Company obtains the economic benefits from the use of the asset and has the right to direct and decide on the use of the asset during the term of the lease.

The Company applies the lease accounting model, which consists in the recognition of all leases within the balance sheet. Contracts celebrated by the Company for more than a 12-month term and whose underlying asset has a value greater than U.S.\$ 5,000 are recognized as leases.

For contracts that contain both lease and non-lease components, The Company, in its capacity as lessee, allocates the component value as follows:

- When there is an observable individual price for each component, it is separated and allocated according to the specific individual prices of the components, and applies for all assets of that class.
- When there is no individual price for some or all the components, the components will not be separated and are accounted for as a single lease component, and applies to all assets of that class.

The term of a lease is determined based on the non-cancellable period of the lease contract, in addition to the optional renewable periods agreed in such contract, if the Company is reasonably sure to extend it, must take into consideration factors such as: improvements made to the leased asset, penalties for not extending the contract, the adjustment of high costs incurred for the replacement of the leased asset, among others; and that the extension option can only be exercised by the Company.

Lease liabilities include the net present value of the following lease payments:

- Fixed lease payments, minus lease incentives receivable;
- Variable lease payments that are based on an index or a rate.
- Amounts expected to be payable by the group under residual value guarantees.
- The exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

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For leases, the Company recognizes, at the beginning of the contract, a liability equivalent to the present value of the lease payments agreed in the contract, discounted using the incremental interest rate. After the start date, the lease liability is measured by increasing its carrying value to reflect the accrued interest and decreasing its carrying value to reflect the lease payments made.

The incremental interest rate is determined using the interest rates of comparable bonds of companies with similar credit ratings as the Company, plus the Company's credit risk factor and the risk factor from the country where the asset is located. The above mentioned is considering a similar lease contract and similar security.

For property, plant and equipment leases containing terms of variable payments in which lease payments are modified during the term of the lease, possible future increases in variable lease payments are considered as part of the lease liability. Until effective, the lease liability is reassessed, and the right-of-use asset is adjusted.

The interest expense of a lease liability is recognized monthly by applying the incremental interest rate the term of the lease.

At the beginning of the lease contract, the right-of-use asset is recognized at cost. The cost of the asset includes the present value of the lease payments agreed in the contract and the initial direct costs incurred by the Company, such as restorations or dismantling; after that date, the carrying value of the right-of-use asset is measured decreasing the accumulated depreciation and the accumulated impairment losses.

The Company applies the straight-line method for the depreciation of the right-of-use assets, which begins on the start date of the lease.

The right-of-use assets are normally depreciated in a straight line during the shortest period between the useful life of the asset and the lease term. If the Company has reasonable certainty to exercise a purchase option, the right-of-use asset depreciates over the useful life of the underlying asset.

The Company recognizes in income the payments for short-term leases or those in which the underlying asset is of low value, applying the straight-line method during the lease period.

The Company applies impairment tests to the right-of-use assets when there are indications that the carrying value of the assets may not be recovered. See Note 3-H.

Accounting policies applied until December 31, 2018

**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.

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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 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 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.

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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**

The Company produces and sells corn flour, packaged tortilla and other related products such as flat bread, snacks and corn grits. The Company serves wholesale and retail markets, as well as institutional markets. Sales are recognized when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products, the risks of loss and obsolescence have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract.

Revenue from sales is recognized based on the price specified in the contract, net of discounts, volume rebates and returns. Volume rebates are estimated, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

A refund liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a short-term credit.

A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional.

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The payments made to customers, which represent a modification of the transaction price, are presented as a decrease of revenue.

**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, 2019 and 2018, 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

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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, 2019 and 2018. The tables show the currency exposure of the Company's financial instruments expressed in Mexican pesos.

At December 31, 2019:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 6,527,041	Ps. 380,590	Ps. 1,266,610	Ps. 2,453,454	Ps. 10,627,695
Non-current.....	20,786	-	5,948	20,549	47,283
Monetary liabilities:					
Current.....	(5,851,640)	(272,267)	(467,924)	(973,815)	(7,565,646)
Non-current.....	(19,605,658)	(1,842)	(1,116,689)	(135,009)	(20,859,198)
Net position.....	Ps. (18,909,471)	Ps. 106,481	Ps. (312,055)	Ps. 1,365,179	Ps. (17,749,866)

At December 31, 2018:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 5,336,963	Ps. 366,466	Ps. 961,994	Ps. 2,841,101	Ps. 9,506,524
Non-current.....	17,084	-	1,198	20,919	39,201
Monetary liabilities:					
Current.....	(5,908,519)	(264,256)	(645,557)	(979,512)	(7,797,844)
Non-current.....	(12,492,211)	-	(251,472)	(44,984)	(12,788,667)
Net position.....	Ps. (13,046,683)	Ps. 102,210	Ps. 66,163	Ps. 1,837,524	Ps. (11,040,786)

(1) Approximately 66% of this balance corresponds to accounts receivable.

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For the years ended December 31, 2019 and 2018, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	2019	2018
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 (Note 19-C).....	Ps. 490,984	Ps. 157,171
Exchange differences, net, arising from foreign currency transactions recognized in the income statement.....	153,527	(233,335)
	Ps. 644,511	Ps. (76,164)

Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. Sales generated in Mexican pesos were 27% in 2019 and 27% in 2018 of total net sales. Sales generated in U.S. dollars were 56% in 2019 and 55% in 2018 of total net sales. Additionally, at December 31, 2019 and 2018, 64% and 63%, 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, 2019 and 2018, net sales in currencies other than Mexican pesos amounted to Ps. 56,343,906 and Ps. 53,951,919, respectively.

An important currency risk for the debt denominated in U.S. dollars is present in subsidiaries that are not located in the United States, which represented 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 2019 and 2018, the Company entered into forward transactions to hedge the Mexican peso to U.S. dollar foreign exchange rate risk related to the price of corn purchases in Mexico. At December 31, 2019 and 2018, the Company has open positions of foreign exchange derivative instruments of Ps.(85,662) and Ps.(103,997), respectively. Exchange rate forwards and options are denominated in the same currency as the highly probable forecasted transactions of inventory purchases, therefore the hedge ratio is one to one.

The effect of foreign currency translation adjustments recognized in the consolidated statements of comprehensive income for the years ended December 31, 2019 and 2018, amounted Ps.(723,014) and Ps.(708,017), respectively. Considering the exposure at December 31, 2019 and 2018, 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.1,331,515 and Ps.1,397,435, respectively.

The effect of foreign exchange differences recognized in the consolidated income statements for the years ended December 31, 2019 and 2018, related with the assets and liabilities denominated in foreign currency, totaled a gain (loss) of Ps.153,531 and Ps.(233,337), respectively. Considering the exposure at December 31, 2019 and 2018, 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.360,310 and Ps.124,843, respectively.



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**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 TIE, and to a lesser extent, EUROLIBOR) that are used to determine the interest rates applicable to the borrowings.

The following table shows, at December 31, 2019 and 2018, the Company's debt at fixed and variable rates:

	Amounts in thousands of Mexican pesos			
		2019		2018
Debt at fixed interest rate.....	Ps.	16,322,436	Ps.	8,130,389
Debt at variable interest rate.....		5,303,414		13,364,291
Total.....	Ps.	21,625,850	Ps.	21,494,680

The Company uses derivative financial instruments such as interest rate swaps for the purposes of hedging a portion of its debt, to reduce the Company's exposure to increases in interest rates. As of December 31, 2019, the Company has an interest rate derivative financial instruments position open with a notional of \$ 3,000,000,000 with a valuation of \$ (159,651). The interest rate swap instrument is denominated in the same currency and with the same reference (in this case 28-day TIE rate) as the interest payments programmed in the stock certificate, therefore, the coverage ratio is one to one.

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, 2019 and 2018 will have an effect on the results of the Company of Ps. 53,034 and Ps.133,643, 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, swaps and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas, and soy oils which exist as part of ongoing business operations. The contracting hedges of purchases that exceed the maximum production requirements for a period longer than 18 months, requires the authorization of the Board of Directors in accordance with the Company's corporate policies.

During 2019 and 2018, the Company entered into short-term hedge transactions through commodity futures, swaps 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.

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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, 2019 and 2018, financial instruments that qualify as hedge accounting represented a gain of Ps.45,044 and Ps.36,582, respectively. These results were recognized as comprehensive income within equity.

From time to time, the Company hedges commodity price risks using futures, swaps and options strategies that do not qualify for hedge accounting. As a result, these derivative financial instruments are recognized at their fair values and the associated effect is recorded in applicable period. For the years ended December 31, 2019 and 2018, the Company recognized a loss of Ps. 43,831 and a gain of Ps.25,739, respectively. Additionally, as of December 31, 2019 and 2018, the Company realized net losses of Ps. 5,886 and net gains of Ps.29,598, respectively, on commodity price risk hedges that did not qualify for hedge accounting. See Note 20.

Based on the Company's overall commodity exposure at December 31, 2019 and 2018, a decrease or increase of 10% in market prices applied to the fair value of these instruments would result in a gain or loss in the income statement of Ps. 29,209 and Ps.47,064, respectively (for non-qualifying contracts).

In Mexico, to support the commercialization of corn for Mexican grains growers, Mexico's Secretary of Agriculture and Rural Development, through the Commercialization Services Agency (Servicios a la Comercialización y Desarrollo de Mercados Agropecuarios, or ASERCA) operates a program designed to promote the sale of grains 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.

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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, considering 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.

Default results when the counterparties do not make their contractual payments within the agreed period.

During 2019 and 2018, 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". 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 derivative financial instruments used. Substantially none of these financial instruments are 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 27 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

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- 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, 2019:

	<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. 587,076	Ps. 5,074,641	Ps. 10,988,638	Ps. 5,090,372	Ps. 21,740,727
Interest payable from short and long term debt.....	1,016,066	1,751,027	1,167,872	131,401	4,066,366
Trade accounts and other payables.....	10,331,121	-	-	-	10,331,121
Short and long term lease liability.....	848,620	1,350,816	1,020,539	4,922,831	8,142,806
Derivative financial instruments.....	172,153	-	159,651	-	331,804
	<u>Ps.12,955,036</u>	<u>Ps.8,176,484</u>	<u>Ps. 13,336,700</u>	<u>Ps. 10,144,604</u>	<u>Ps. 44,612,824</u>

At December 31, 2018:

	<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. 4,330,290	Ps.3,079,720	Ps. 6,277,618	Ps.7,911,283	Ps. 21,598,911
Interest payable from short and long term debt.....	998,722	1,872,896	1,255,682	355,634	4,482,934
Trade accounts and other payables.....	10,653,984	-	-	-	10,653,984
Derivative financial instruments.....	118,840	-	-	-	118,840
	<u>Ps.16,101,836</u>	<u>Ps.4,952,616</u>	<u>Ps. 7,533,300</u>	<u>Ps.8,266,917</u>	<u>Ps. 36,854,669</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 to provide sustainable returns for shareholders.

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The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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. 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):**  
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.

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Segment information as of and for the year ended December 31, 2019:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
Net sales to external customers.....	Ps. 42,367,788	Ps. 19,684,980	Ps. 5,690,770	Ps. 9,643,899	Ps. 221	Ps. 77,387,658
Inter-segment net sales.....	73,621	1,899,645	10,634	1,503,691	(3,487,591)	-
Operating income.....	5,908,247	2,528,469	246,366	604,400	(5,477)	9,282,005
Depreciation and amortization.....	2,014,156	1,002,672	262,295	514,704	(614,277)	3,179,550
Total assets.....	30,963,502	18,126,299	9,249,896	11,842,187	(3,299,014)	66,882,870
Total liabilities.....	9,772,442	4,482,064	2,605,829	6,290,441	17,754,560	40,905,336
Expenditures paid in the year for fixed assets....	745,595	292,022	211,113	499,345	17,004	1,765,079

Segment information as of and for the year ended December 31, 2018:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
Net sales to external customers.....	Ps. 40,194,641	Ps. 18,947,161	Ps. 5,380,886	Ps. 9,512,297	Ps. 2,593	Ps. 74,037,588
Inter-segment net sales.....	92,833	1,560,376	8,636	1,844,549	(3,506,394)	-
Operating income.....	5,689,804	2,403,777	186,800	726,994	418,107	9,425,482
Depreciation and amortization.....	1,470,322	893,574	252,779	409,881	(710,770)	2,315,786
Total assets.....	25,478,958	17,997,241	7,369,203	13,100,806	(2,113,505)	61,832,703
Total liabilities.....	5,719,105	4,275,964	1,932,792	7,181,065	16,622,322	35,731,248
Expenditures paid in the year for fixed assets....	1,334,774	510,352	673,093	948,338	503,041	3,969,598

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A summary of information by geographic segment for the years ended December 31, 2019 and 2018 is presented below:

	<u>2019</u>	<u>%</u>	<u>2018</u>	<u>%</u>
<u>Net sales to external customers:</u>				
United States.....	Ps. 42,367,788	55	Ps. 40,194,649	55
Mexico.....	21,045,693	27	20,085,669	27
Europe.....	5,690,770	7	5,380,886	7
Central America.....	4,602,871	6	4,596,318	6
Asia and Oceania.....	3,680,536	5	3,780,066	5
	<u>Ps. 77,387,658</u>	<u>100</u>	<u>Ps. 74,037,588</u>	<u>100</u>
<u>Expenditures paid in the year for fixed assets:</u>				
United States.....	Ps. 745,595	42	Ps. 1,334,774	34
Mexico.....	613,255	35	1,696,447	42
Europe.....	211,113	12	673,093	17
Central America.....	36,020	2	194,987	5
Asia and Oceania.....	159,096	9	70,297	2
	<u>Ps. 1,765,079</u>	<u>100</u>	<u>Ps. 3,969,598</u>	<u>100</u>
<u>Identifiable assets</u>				
United States.....	Ps. 30,963,502	46	Ps. 25,478,958	41
Mexico.....	18,850,746	28	21,059,650	34
Europe.....	9,249,896	14	7,369,203	12
Central America.....	2,867,559	4	2,936,796	5
Asia and Oceania.....	4,951,167	8	4,988,096	8
	<u>Ps. 66,882,870</u>	<u>100</u>	<u>Ps. 61,832,703</u>	<u>100</u>

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Cash at bank.....	Ps. 3,850,601	Ps. 3,256,874
Short-term investments (less than 3 months).....	92,900	178,848
	<u>Ps. 3,943,501</u>	<u>Ps. 3,435,722</u>

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**7. ACCOUNTS RECEIVABLE**

Accounts receivable comprised the following:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Trade accounts and notes receivable.....	Ps. 8,001,102	Ps. 7,800,844
Accounts receivable with Venezuelan companies.....	97,041	1,490,376
Recoverable value-added tax.....	2,302,309	1,597,755
Other debtors.....	489,096	275,799
Allowance for doubtful accounts.....	(183,495)	(198,095)
Impairment of accounts receivable with Venezuelan companies(1)	(97,041)	(1,490,376)
	<u>Ps. 10,609,012</u>	<u>Ps. 9,476,303</u>

(1) During the year, reserves of Ps. 1,393,335 were applied to reflect the amount that the Company expects to recover.

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. 8,490,198	Ps. 6,052,086	Ps. 2,079,592	Ps. 118,685	Ps. 239,835
Allowance for doubtful accounts..	(183,495)	(50,956)	(30,354)	(17,404)	(84,781)
Total at December 31, 2019.....	<u>Ps. 8,306,703</u>	<u>Ps. 6,001,130</u>	<u>Ps. 2,049,238</u>	<u>Ps. 101,281</u>	<u>Ps. 155,054</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. 8,076,643	Ps. 5,953,772	Ps. 1,847,139	Ps. 88,981	Ps. 186,751
Allowance for doubtful accounts..	(198,095)	(47,830)	(26,033)	(20,622)	(103,610)
Total at December 31, 2018.....	<u>Ps. 7,878,548</u>	<u>Ps. 5,905,942</u>	<u>Ps. 1,821,106</u>	<u>Ps. 68,359</u>	<u>Ps. 83,141</u>

(\*) Accounts receivable with Venezuelan companies refer to discontinued operations and were not included in the age analysis of accounts receivable for 2019 and 2018.

For the years ended December 31, 2019 and 2018, the movements on the current and non-current allowance for doubtful accounts are as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance .....	Ps. (212,106)	Ps. (217,235)
Allowance for doubtful accounts.....	(63,464)	(34,650)
Receivables written off during the year.....	68,376	37,519
Exchange differences.....	4,503	2,260
Ending balance.....	<u>Ps. (202,691)</u>	<u>Ps. (212,106)</u>



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**8. INVENTORIES**

Inventories consisted of the following:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Raw materials, mainly corn and wheat.....	Ps. 7,072,512	Ps. 7,293,331
Finished products.....	1,623,747	1,399,881
Materials and spare parts.....	2,140,818	2,035,338
Production in process.....	129,968	130,505
Advances to suppliers.....	103,043	106,661
Inventory in transit.....	168,286	150,251
	<u>Ps. 11,238,374</u>	<u>Ps. 11,115,967</u>

For the years ended December 31, 2019 and 2018, 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.27,935,125 and Ps.27,020,966, respectively.

For the years ended December 31, 2019 and 2018, the Company recognized Ps.168,465 and Ps.118,921, respectively, for inventory that was damaged, slow-moving and obsolete.

**9. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE**

Long-term notes and accounts receivable are as follows:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Long-term notes receivable.....	Ps. 216,744	Ps. 212,259
Guarantee deposits.....	55,705	46,808
Long-term recoverable value-added tax.....	13,822	11,585
Other.....	10,798	7,076
Allowance for long-term doubtful accounts.....	(19,196)	(14,011)
	<u>Ps. 277,873</u>	<u>Ps. 263,717</u>

At December 31, 2019 and 2018, long-term notes receivable are denominated in pesos, maturing from 2021 to 2028 and bearing monthly interests at an annual average fixed rate of 16% for 2019 and 2018.

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**10. PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant and equipment for the years ended December 31, 2019 and 2018 were as follows:

	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Leasehold improvements</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At December 31, 2017</b>					
Cost.....	Ps. 11,255,370	Ps. 37,469,766	Ps. 2,335,481	Ps. 5,016,329	Ps. 56,076,946
Accumulated depreciation.....	(3,737,976)	(21,912,644)	(1,099,422)	-	(26,750,042)
Net book value.....	<u>7,517,394</u>	<u>15,557,122</u>	<u>1,236,059</u>	<u>5,016,329</u>	<u>29,326,904</u>
<b>For the year ended December 31, 2018</b>					
Opening net book value...	Ps. 7,517,394	Ps. 15,557,122	Ps. 1,236,059	Ps. 5,016,329	Ps. 29,326,904
Exchange differences.....	(290,919)	(304,619)	(8,330)	(60,371)	(664,239)
Additions.....	73,521	1,264,444	1,669	2,629,964	3,969,598
Disposals.....	(172,148)	(235,165)	(11,955)	-	(419,268)
Depreciation charge of the year.....	(273,617)	(1,877,686)	(128,505)	-	(2,279,808)
Transfers.....	661,384	1,621,315	12,514	(2,295,213)	-
Other assets leased, net of depreciation.....	-	224,876	-	-	224,876
Impairment.....	(3,403)	-	-	-	(3,403)
Closing net book value...	<u>Ps. 7,512,212</u>	<u>Ps. 16,250,287</u>	<u>Ps. 1,101,452</u>	<u>Ps. 5,290,709</u>	<u>Ps. 30,154,660</u>
<b>At December 31, 2018</b>					
Cost.....	Ps. 11,397,878	Ps. 38,556,862	Ps. 2,321,995	Ps. 5,290,709	Ps. 57,567,444
Accumulated depreciation.....	(3,885,666)	(22,306,575)	(1,220,543)	-	(27,412,784)
Net book value.....	<u>Ps. 7,512,212</u>	<u>Ps. 16,250,287</u>	<u>Ps. 1,101,452</u>	<u>Ps. 5,290,709</u>	<u>Ps. 30,154,660</u>
<b>For the year ended December 31, 2019</b>					
Opening net book value...	Ps. 7,512,212	Ps. 16,250,287	Ps. 1,101,452	Ps. 5,290,709	Ps. 30,154,660
Exchange differences.....	(154,732)	(369,510)	(30,216)	(124,151)	(678,609)
Additions.....	89,678	682,293	16,063	977,045	1,765,079
Disposals/derecognition (Note 22).....	(32,697)	(307,145)	(4,272)	(36,092)	(380,206)
Depreciation charge of the year.....	(251,882)	(1,986,557)	(115,109)	(2,016)	(2,355,564)
Transfers.....	520,599	1,170,894	27,315	(1,718,808)	-
Other assets leased, net of depreciation.....	-	226,541	-	-	226,541
Impairment.....	-	(66,259)	-	-	(66,259)
Closing net book value...	<u>7,683,178</u>	<u>15,600,544</u>	<u>995,233</u>	<u>4,386,687</u>	<u>28,665,642</u>
<b>At December 31, 2019</b>					
Cost.....	Ps. 11,609,945	Ps. 38,332,621	Ps. 2,286,644	Ps. 4,386,687	Ps. 56,615,897
Accumulated depreciation.....	(3,926,767)	(22,732,077)	(1,291,411)	-	(27,950,255)
Net book value.....	<u>Ps. 7,683,178</u>	<u>Ps. 15,600,544</u>	<u>Ps. 995,233</u>	<u>Ps. 4,386,687</u>	<u>Ps. 28,665,642</u>

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For the years ended December 31, 2019 and 2018, depreciation expense was recognized as follows:

	<u>2019</u>	<u>2018</u>
Cost of sales.....	Ps. 1,829,880	Ps. 1,834,381
Selling and administrative expenses.....	525,684	445,427
	<u>Ps. 2,355,564</u>	<u>Ps. 2,279,808</u>

At December 31, 2019 and 2018, property, plant and equipment included idle assets with a carrying value of approximately Ps.65,405 and Ps.81,419, 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 year ended December 31, 2018, the Company recognized an impairment loss on fixed assets of Ps. (66,259) and Ps. (3,043), respectively within “Other expenses”. This impairment loss referred to the subsidiary Transporte Aéreo Técnico Ejecutivo, S.A. de C.V. in 2019 and Mex Urbanos, S.A. de C.V., which is part of “Eliminations and corporate expenses”.

## 11. LEASES

Starting January 1, 2019, the Company adopted the guidelines of IFRS 16, Leases, retrospectively, without restating the comparative information of 2018, as allowed by the transitory provisions of the new standard. Until 2018, leases were classified as finance or operating, see Note 3-L for more details. As of January 1, 2019, leases are recognized as a right-of-use asset and the corresponding liability on the date in which the leased asset is available for use by the Company.

Leases information where the Company acts as a lessee is as follows.

### A) AMOUNTS RECOGNIZED IN THE BALANCE SHEET

The following information related to leases is presented in the balance sheet:

	<u>At December 31, 2019</u>	<u>At January 1, 2019*</u>
<b>Right-of-use assets:</b>		
Land.....	Ps. 2,923	Ps. 2,478
Buildings.....	4,439,951	4,995,346
Machinery and equipment.....	286,922	386,056
	<u>Ps. 4,729,796</u>	<u>Ps. 5,383,880</u>
<b>Lease liabilities:</b>		
Short term.....	Ps. 612,596	Ps. 633,544
Long term.....	4,403,642	4,935,591
	<u>Ps. 5,016,238</u>	<u>Ps. 5,569,135</u>

\* Corresponds to the adoption date of IFRS 16.

Additions to right-of-use assets during 2019 amounted to Ps 311,006.

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The following table presents the changes in the Company's lease liabilities:

	<u>Leases</u>
Balance as of January 1, 2019.....	\$ 5,569,135
New Contracts.....	311,006
Lease payments.....	(891,660)
Foreing currency Exchange effect .....	(24,399)
Financial expenses.....	274,937
Exchange differences.....	(222,781)
Balance as of December 31,2019.....	<u>\$ 5,016,238</u>

**B) AMOUNTS RECOGNIZED IN THE INCOME STATEMENT**

The following information related to leases is presented in the income statement:

	<u>2019</u>
<b><u>Depreciation expense of the right-of-use assets:</u></b>	
Land.....	Ps. 1,460
Buildings.....	597,700
Machinery and equipment.....	184,385
	<u>Ps. 783,545</u>
Interest expense.....	Ps. 274,937
Short term lease expense.....	220,250
Lease expense of low value assets .....	145,838
Expenses related to variable lease payments not included in the lease liability.....	9,221

Total cash flow from leases for the year ended December 31, 2019 amounted to Ps. 1,266,969.

**C) DESCRIPTION OF LEASE ACTIVITIES**

The Company, as a lessee, enters into various lease contracts related to facilities and equipment. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Lease agreements do not impose compliance with any financial ratios. Leased assets cannot be sold or used as collateral to obtain debt.

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**D) VARIABLE LEASE PAYMENTS**

Certain lease agreements contain terms of variable payments that depend on a price index, so the rent payable is modified during the term of the lease. Possible future increases in variable lease payments are considered as part of the lease liability until effective; at that time, the lease liability is reassessed, and the right-of-use asset is adjusted.

**12. INTANGIBLE ASSETS**

Changes in intangible assets for the years ended December 31, 2019 and 2018 were as follows:

	Intangible assets acquired					Total
	Goodwill	Covenants not to compete	Patents and trade- marks	Customer lists	Software for internal use and other	
<b>At December 31, 2017</b>						
Cost.....	Ps. 3,707,696	Ps. 447,341	Ps. 167,063	Ps. 270,427	Ps. 618,079	Ps. 5,210,606
Accumulated amortization.....	-	(447,341)	(73,581)	(80,501)	(386,480)	(987,903)
Net book value.....	<u>Ps. 3,707,696</u>	<u>Ps. -</u>	<u>Ps. 93,482</u>	<u>Ps. 189,926</u>	<u>Ps. 231,599</u>	<u>Ps. 4,222,703</u>
<b>For the year ended December 31, 2018</b>						
Opening net book value...	Ps. 3,707,696	Ps. -	Ps. 93,482	Ps. 189,926	Ps. 231,599	Ps. 4,222,703
Exchange differences.....	(128,836)	-	(3,981)	(39,773)	(1,794)	(174,384)
Additions.....	91,855	20,628	-	315	189,967	302,765
Amortization charge.....	-	-	(3,962)	(22,113)	(6,500)	(32,575)
Closing net book value...	<u>Ps. 3,670,715</u>	<u>Ps. 20,628</u>	<u>Ps. 85,539</u>	<u>Ps. 128,355</u>	<u>Ps. 413,272</u>	<u>Ps. 4,318,509</u>
<b>At December 31, 2018</b>						
Cost.....	Ps. 3,670,715	Ps. 467,969	Ps. 163,318	Ps. 263,232	Ps. 794,681	Ps. 5,359,915
Accumulated amortization.....	-	(447,341)	(77,779)	(134,877)	(381,409)	(1,041,406)
Net book value.....	<u>Ps. 3,670,715</u>	<u>Ps. 20,628</u>	<u>Ps. 85,539</u>	<u>Ps. 128,355</u>	<u>Ps. 413,272</u>	<u>Ps. 4,318,509</u>
<b>For the year ended December 31, 2019</b>						
Opening net book value...	Ps. 3,670,715	Ps. 20,628	Ps. 85,539	Ps. 128,355	Ps. 413,272	Ps. 4,318,509
Exchange differences.....	(177,297)	(723)	(8,963)	(6,886)	(3,382)	(197,251)
Additions.....	-	-	-	-	44,399	44,399
Amortization charge.....	-	(6,732)	-	(21,917)	(11,792)	(40,441)
Closing net book value...	<u>Ps. 3,493,418</u>	<u>Ps. 13,173</u>	<u>Ps. 76,576</u>	<u>Ps. 99,552</u>	<u>Ps. 442,497</u>	<u>Ps. 4,125,216</u>
<b>At December 31, 2019</b>						
Cost.....	Ps. 3,493,418	Ps. 467,091	Ps. 154,857	Ps. 247,434	Ps. 835,099	Ps. 5,197,899
Accumulated amortization.....	-	(453,918)	(78,281)	(147,882)	(392,602)	(1,072,683)
Net book value.....	<u>Ps. 3,493,418</u>	<u>Ps. 13,173</u>	<u>Ps. 76,576</u>	<u>Ps. 99,552</u>	<u>Ps. 442,497</u>	<u>Ps. 4,125,216</u>

At December 31, 2019 and 2018, only trademarks and goodwill, are considered indefinite-lived intangible assets.

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For the years ended December 31, 2019 and 2018, amortization expense of intangible assets amounted to Ps.40,441 and Ps.32,575, respectively, which were recognized in the income statement as selling and administrative expenses.

Research and development costs of Ps.167,968 and Ps.168,979 that did not qualify for capitalization were recognized in the income statement for the years ended December 31, 2019 and 2018, 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, 2019</u>	<u>At December 31, 2018</u>
Mission Foods Division (1).....	Ps. 1,118,005	Ps. 1,178,868
Gruma Spain (2).....	738,283	789,663
Gruma UK (2).....	395,205	422,708
Azteca Milling, L.P (1).....	226,703	236,780
Gruma Corporation.....	212,765	212,765
Rositas Investments Pty, Ltd (2).....	194,024	204,403
NDF Azteca Milling Europe SRL (2).....	116,790	128,178
Grupo Industrial Maseca, S.A. de C.V.....	98,622	98,622
Semolina, A.S (2).....	79,273	93,496
Agroindustrias Integradas del Norte, S.A. de C.V (3).....	86,325	86,325
Gruma Centroamérica (2).....	51,207	51,207
Solntse Mexico (2).....	49,406	45,974
Altera LLC (2).....	46,710	41,626
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. 3,493,418</u>	<u>Ps. 3,670,715</u>

- (1) Subsidiary of Gruma Corporation  
(2) Subsidiary of Gruma International Foods, S.L.  
(3) Subsidiary of Grupo Industrial Maseca, S.A. de C.V.

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In 2019 and 2018, 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:

<b>Cash-generating unit</b>	<b>After-tax discount rates</b>		<b>Growth rates</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Mission Foods Division.....	5.3%	7.1%	1.5%	1.3%
Gruma Spain.....	7.2%	9.2%	2.5%	2.5%
Gruma UK.....	6.7%	8.7%	1.8%	2.5%
Azteca Milling, L.P.....	6.1%	8.1%	1.5%	1.3%
Gruma Corporation.....	5.3%	7.1%	2.5%	2.5%
Rositas Investment PTY, LTD.....	6.0%	7.9%	3.0%	3.0%
NDF Azteca Milling Europe SRL.....	7.5%	9.3%	1.0%	2.1%
Grupo Industrial Maseca, S.A. de C.V.....	5.9%	7.8%	2.5%	2.5%
Semolina A.S.....	8.6%	10.3%	2.5%	2.5%
Agroindustrias Integradas del Norte, S.A. de C.V.....	6.7%	8.7%	2.5%	2.5%
Gruma Centroamérica.....	8.9%	10.0%	2.5%	2.5%
Solntse Mexico.....	8.6%	10.8%	2.5%	2.5%
Altera LLC.....	11.2%	14.7%	2.5%	2.5%
Molinos Azteca de Chiapas, S.A. de C.V.....	6.7%	8.7%	2.5%	2.5%
Harinera de Yucatán, S.A. de C.V.....	6.7%	8.7%	2.5%	2.5%
Harinera de Maíz de Mexicali, S.A. de C.V.....	6.7%	8.7%	2.5%	2.5%
Molinos Azteca, S.A. de C.V.....	6.7%	8.7%	2.5%	2.5%
Harinera de Maíz de Jalisco, S.A. de C.V.....	6.7%	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.

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**13. DEFERRED TAX ASSETS AND LIABILITIES**

**A) COMPONENTS OF DEFERRED TAX**

The principal components of deferred tax assets and liabilities are summarized as follows:

	(Asset) Liability	
	At December 31, 2019	At December 31, 2018
Net operating loss carryforwards and other tax credits.....	Ps. (2,310,089)	Ps. (1,498,134)
Lease liability.....	(1,249,593)	-
Customer advances.....	(3,628)	(18,256)
Allowance for doubtful accounts.....	(5,230)	(7,282)
Provisions.....	(921,087)	(759,951)
Deferred income for trademarks license with subsidiary.....	(304,723)	(483,850)
Derivative financial instruments.....	(60,314)	-
Other.....	(144,938)	(199,119)
Deferred tax asset.....	<u>(4,999,602)</u>	<u>(2,966,592)</u>
Property, plant and equipment, net.....	1,523,694	1,618,393
Right-of-use asset, net.....	1,221,016	-
Prepaid expenses.....	17,375	19,148
Inventories.....	-	297
Intangible assets.....	188,955	203,054
Investment in subsidiaries.....	884,827	468,368
Derivative financial instruments.....	-	3,366
Other.....	29,026	15,114
Deferred tax liability.....	<u>3,864,893</u>	<u>2,327,740</u>
Net provision for deferred tax.....	<u>Ps. (1,134,709)</u>	<u>Ps. (638,852)</u>

At December 31, 2019 and 2018, the Company did not recognize a deferred income tax asset of Ps.333,884 and Ps.306,120, 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 2029.

At December 31, 2019 and 2018, undistributed taxable income of subsidiaries in México amounted to Ps.1,879,606 and Ps.2,220,454, 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 near 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.563,881 and Ps.666,136 as of December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Company recognized a deferred income tax liability of Ps.884,827 and Ps.468,368, respectively, from undistributed taxable income generated as of 2018 by the Company's subsidiaries in the United States (Gruma Corporation and Subsidiaries) at a reduced rate for the effects of tax credits generated by the distributed profits. The reversal of this tax amount is made at the moment in which the subsidiaries distribute such profits to the Company through dividends.



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The changes in the temporary differences during the year were as follows:

	<u>Balance at January 1, 2019</u>	<u>Recogni- zed in income</u>	<u>Recognized in other compre- hensive income</u>	<u>Reclassifi- cations</u>	<u>Foreign currency translation</u>	<u>Balance at December 31, 2019</u>
Net operating loss carryforwards and other tax credits.....	Ps.(1,498,134)	Ps. (456,183)	Ps. 84,238	Ps. (441,262)	Ps. 1,252	Ps. (2,310,089)
Lease liability.....	-	(1,247,752)	-	-	(1,841)	(1,249,593)
Customer advances.....	(18,256)	14,628	-	-	-	(3,628)
Allowance for doubtful accounts	(7,282)	2,327	-	-	(275)	(5,230)
Provisions.....	(759,951)	(132,288)	(26,310)	(12,189)	9,651	(921,087)
Prepaid expenses from trademark license with affiliates.....	(483,850)	179,127	-	-	-	(304,723)
Derivative financial instruments.	-	-	(51,517)	(8,654)	(143)	(60,314)
Others.....	(199,119)	44,955	-	13,421	(4,195)	(144,938)
Deferred tax asset.....	<u>(2,966,592)</u>	<u>(1,595,186)</u>	<u>6,411</u>	<u>(448,684)</u>	<u>4,449</u>	<u>(4,999,602)</u>
Property, plant and equipment...	1,618,393	(33,668)	-	(1,675)	(59,356)	1,523,694
Right-of-use asset.....	-	1,220,108	-	-	908	1,221,016
Prepaid expenses.....	19,148	(3,334)	-	-	1,561	17,375
Inventories.....	297	-	-	-	(297)	-
Intangible assets.....	203,054	(1,155)	-	-	(12,944)	188,955
Investment in subsidiaries.....	468,368	436,393	(19,934)	-	-	884,827
Derivative financial instruments.	3,366	-	(3,366)	-	-	-
Others.....	15,114	6,127	-	8,359	(574)	29,026
Deferred tax liability.....	<u>2,327,740</u>	<u>1,624,471</u>	<u>(23,300)</u>	<u>6,684</u>	<u>(70,702)</u>	<u>3,864,893</u>
Net provision for deferred taxes	<u>Ps. (638,852)</u>	<u>Ps. 29,285</u>	<u>Ps. (16,889)</u>	<u>Ps. (442,000)</u>	<u>Ps. (66,253)</u>	<u>Ps. (1,134,709)</u>

	<u>Balance at January 1, 2018</u>	<u>Recogni- zed in income</u>	<u>Recognized in other compre- hensive income</u>	<u>Effect of the adoption of IFRS 9</u>	<u>Reclassifi- cations</u>	<u>Foreign currency translation</u>	<u>Balance at December 31, 2018</u>
Net operating loss carryforwards and other tax credits.....	Ps.(1,211,398)	Ps. (261,760)	Ps. 47,150	Ps. -	Ps.(78,511)	Ps. 6,385	Ps.(1,498,134)
Customer advances.....	(8,305)	(5,564)	-	-	(4,387)	-	(18,256)
Allowance for doubtful accounts	(7,501)	(64)	-	(5,697)	5,569	411	(7,282)
Provisions.....	(770,907)	(5,235)	2,707	-	11,435	2,049	(759,951)
Deferred income from trademark license with subsidiary.....	(670,947)	178,267	-	-	8,830	-	(483,850)
Derivative financial instruments.	(8,388)	-	8,365	-	-	23	-
Others.....	(211,378)	40,206	(2,084)	3,579	(21,957)	(7,485)	(199,119)
Deferred tax asset.....	<u>(2,888,824)</u>	<u>(54,150)</u>	<u>56,138</u>	<u>(2,118)</u>	<u>(79,021)</u>	<u>1,383</u>	<u>(2,966,592)</u>
Property, plant and equipment...	1,683,124	(46,961)	-	-	(3,568)	(14,202)	1,618,393
Prepaid expenses.....	12,548	1,587	-	-	-	5,013	19,148
Inventories.....	773	537	-	-	(14)	(999)	297
Intangible assets.....	230,932	(27,679)	344	-	-	(543)	203,054
Investment in subsidiaries.....	-	468,368	-	-	-	-	468,368
Derivative financial instruments.	-	-	3,366	-	-	-	3,366
Others.....	1,568	105,790	(61,866)	-	(23,401)	(6,977)	15,114
Deferred tax liability.....	<u>1,928,945</u>	<u>501,642</u>	<u>(58,156)</u>	<u>-</u>	<u>(26,983)</u>	<u>(17,708)</u>	<u>2,327,740</u>
Net provision for deferred taxes	<u>Ps. (959,879)</u>	<u>Ps. 447,492</u>	<u>Ps. (2,018)</u>	<u>Ps. (2,118)</u>	<u>Ps.(106,004)</u>	<u>Ps. (16,325)</u>	<u>Ps. ( 638,852)</u>

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**B) TAX LOSS CARRYFORWARDS**

At December 31, 2019, the Company had tax loss carryforwards which amounted to approximately Ps.1,156,659. 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.43,711 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>
2020.....	Ps. 60,232
2021.....	98,315
2022 .....	83,996
2023 .....	259,500
2024 and thereafter.....	610,905
Total.....	Ps. 1,112,948

At December 31, 2019, the Company had tax credits of Ps.2,234,881, which, based on projections prepared by the Company's management, could be applied to future taxable income, with expiration of Ps. 1,486,858 and Ps. 748,023 in the years 2028 and 2029 respectively.

**C) UNCERTAIN TAX POSITIONS**

At December 31, 2019 and 2018, the Company recognized a liability for uncertain tax positions of Ps.6,822 and Ps.1,279, 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>2019</u>	<u>2018</u>
Uncertain tax positions at beginning of year.....	Ps. 1,279	Ps. 10,006
Translation adjustment of the beginning balance.....	(303)	(26)
Increase resulting from uncertain fiscal positions for the year .....	5,846	-
Settlements .....	-	(8,701)
Uncertain tax positions at end of year.....	Ps. 6,822	Ps. 1,279

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.1,074 and Ps.335 related to uncertain tax positions for 2019 and 2018, respectively.

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**D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME**

Deferred taxes related to other comprehensive income are comprised of:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Foreign currency translation adjustments.....	Ps. 64,304	Ps. 5,378
Remeasurement of employment benefit obligations.....	(26,310)	6,658
Cash flow hedges.....	(54,883)	(14,195)
Other.....	-	141
Total.....	<u>Ps. (16,889)</u>	<u>Ps. (2,018)</u>

**14. DEBT**

Debt is summarized as follows:

Short-term:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Bank loans.....	Ps. 94,385	Ps. 3,864,924
Current portion of long-term bank loans.....	492,691	465,364
	<u>Ps. 587,076</u>	<u>Ps. 4,330,288</u>

Long-term:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Bank loans.....	Ps. 21,531,465	Ps. 17,629,756
Current portion of long-term bank loans.....	(492,691)	(465,364)
	<u>Ps. 21,038,774</u>	<u>Ps. 17,164,392</u>

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, 2019</u>	<u>At December 31, 2018</u>
10-year Senior notes <sup>(b)</sup> .....	U.S.\$	4.875%	2024	Ps. 7,500,645	Ps. 7,829,289
Syndicated loan <sup>(a)</sup> .....	U.S.\$	2.789%	2025	4,676,578	-
Credits.....	Pesos	8.45% - 8.695%	2019	-	3,550,000
Debt securities.....	Pesos	TIE + 0.38%	2023	2,992,161	2,990,409
Syndicated loan <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2022	2,438,553	2,901,666
Credit.....	Pesos	TIE + 0.55%	2021	2,000,000	2,000,000
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 0.75%	2022	753,808	-
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2022	-	1,574,632
Credit.....	U.S.\$	LIBOR + 0.65%	2020	94,226	314,924
Credit <sup>(b)</sup> .....	Euros	0.95%	2026	947,668	-
Credit.....	Euros	1.53%	2024	178,224	228,752
Credit.....	Euros	1.19% - 3.95%	2020-2022	33,649	88,448
Credit.....	Euros	EURIBOR + 0.65%	2018-2021	10,338	16,560
Total.....				<u>Ps. 21,625,850</u>	<u>Ps. 21,494,680</u>

(a) Quarterly interest payments; (b) Semiannual interest payments;  
- The remaining debt pays interests on a monthly basis, or at maturity.

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At December 31, 2019 and 2018, short-term debt bore interest at an average rate of 2.56% and 8.16%, respectively. At December 31, 2019 and 2018, interest expense included interest related to debt amounting Ps. 1,621,547 and Ps.1,287,245, respectively.

At December 31, 2019, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2021.....	Ps. 2,538,216
2022.....	2,536,425
2023.....	3,190,498
2024.....	7,755,421
2025 and thereafter	5,018,214
Total.....	<u>Ps. 21,038,774</u>

On December 19, 2019, the Company obtained a loan of \$ 250 million dollars with Bank of Nova Scotia, for a term of 6 years, with the option of extension for another year, and accrue quarterly interest at a fixed rate of 2.789%. The resources from this loan were used by the Company to pay various short-term liabilities in pesos. The Company considered the extension of an additional year of this debt as a loan commitment and not as an option.

On October 16, 2019, the subsidiary Azteca Foods Iberia, SAU: obtained a loan of \$ 45 million euros with BBVA, SA, with five equal amortizations from the third to the seventh anniversary of the disposition, and accrue interest semi-annually at a fixed rate of 0.95 %. The resources from this loan will be used by the Company to finance investments in Europe.

As part of a Revolving Short-Term and Long-Term Debt Securities (*Certificados Bursátiles*) Program for an authorized total amount of Ps. 8,000,000, on September 26, 2018, the Company launched a public offering of long-term debt securities in the local debt market for Ps. 3,000,000, with a 5-year maturity and accruing interest at an annual rate of 28-day TIEE plus 38 basis points. The proceeds from this public offering were used by the Company to refinance short-term debt.

On September 27, 2018, the Company obtained a loan facility of Ps.2,000,000 with a 3-year maturity and accruing interest at an annual rate of 28-day TIEE plus 55 basis points. The credit facility was obtained from the following group of banks, in equal portions: Bank of America Mexico, S.A., BBVA Bancomer S.A., HSBC Mexico, S.A., y Scotiabank Inverlat S.A., with the last one as administrative agent. The proceeds from this credit facility were used to refinance the Company's short-term debt.

The Company has credit line agreements for Ps. 11,684,024 (U.S. \$620 million), of which Ps.10,930,216 (U.S.\$580 million) are available as of December 31, 2019. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.10% to 0.28% 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.

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Financial ratios are calculated according with the 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, net (determined as the sum of the outstanding principal balance of consolidated indebtedness and guarantees of the Company for obligations with third parties unrelated to the Company's core business less cash and cash equivalents), to consolidated EBITDA, should be no greater than 3.50 to 1.00.

At December 31, 2019 and 2018, the Company was in compliance with the financial covenants, as well as with the delivery of the required financial information.

Reconciliation of liabilities arising from financing activities

The table below details the changes in the Company's liabilities arising from financing activities:

	<b>Short-term bank loans</b>	<b>Long-term bank loans</b>	<b>Total</b>
Balance at January 1, 2019	Ps. 4,330,288	Ps.17,164,392	Ps. 21,494,680
Proceeds from debt.....	45,831,103	9,915,105	55,746,208
Payment of debt.....	(50,059,565)	(4,966,958)	(55,026,523)
Effect of changes in foreign exchange rates.....	(8,920)	(534,274)	(543,194)
Debt issuance costs.....		(34,721)	(34,721)
Other non-cash changes.....	494,170	(504,770)	(10,600)
Balance at December 31, 2019.....	<u>Ps. 587,076</u>	<u>Ps.21,038,774</u>	<u>Ps. 21,625,850</u>

	<b>Short-term bank loans</b>	<b>Long-term bank loans</b>	<b>Total</b>
Balance at January 1, 2018	Ps. 2,896,675	Ps.17,310,045	Ps. 20,206,720
Proceeds from debt.....	25,386,251	5,000,000	30,386,251
Payment of debt.....	(24,398,131)	(4,513,723)	(28,911,854)
Effect of changes in foreign exchange rates.....	4,920	(157,171)	(152,251)
Debt issuance costs.....	-	(9,968)	(9,968)
Other non-cash changes.....	440,573	(464,791)	(24,218)
Balance at December 31, 2018.....	<u>Ps. 4,330,288</u>	<u>Ps.17,164,392</u>	<u>Ps. 21,494,680</u>

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**15. TRADE ACCOUNTS PAYABLE**

The Company has financing programs to suppliers, through which they can discount their notes with different financial institutions (Citibanamex, BBVA Bancomer, Santander, Bank of America). The balance payable derived from these programs is recognized within trade accounts payable in the balance sheet. The financial cost of these operations is a charge to suppliers.

	At December 31, 2019	At December 31, 2018
Discounted balance payable by suppliers.....	Ps. 2,035,619	Ps. 2,053,237

**16. PROVISIONS**

The movements of provisions are as follows:

	Labor provisions	Restoration provision	Tax provision	Legal Provision	Total
<b>Balance at January 1, 2018.....</b>	Ps. 487,067	Ps. 158,339	Ps. 36,192	Ps. -	Ps. 681,598
Charge (credit) to income:					
Additional provisions.....	214,399	3,648	1,754	-	219,801
Used during the year.....	(236,231)	-	(21,324)	-	(257,555)
Exchange differences.....	(1,843)	(329)	(1,835)	-	(4,007)
<b>Balance at December 31, 2018.....</b>	463,392	161,658	14,787	-	639,837
Charge (credit) to income:					
Additional provisions.....	293,660	8,266	11,157	95,231	408,314
Used during the year.....	(237,799)	(14,143)	(23,211)	-	(275,153)
Exchange differences.....	(20,948)	(6,754)	245	-	(27,457)
<b>Balance at December 31, 2019.....</b>	Ps. 498,305	Ps. 149,027	Ps. 2,978	95,231	Ps. 745,541
Of which current.....	Ps. 198,421	Ps. -	Ps. -	Ps. -	Ps. 198,421
Of which non-current.....	299,884	149,027	2,978	95,231	547,120

**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 2019 was 3.69%. At December 31, 2019, the Company has Ps.21,558 (U.S.\$1,144 thousand) of expected insurance reimbursements that are included in consolidated balance sheet as a component of accounts receivable.

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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 2019 was 4.61%.

**Tax provision**

In Central America, for the periods from 2004, 2005 and 2009, tax authorities have lodged tax assessments against the Company for approximately Ps.14,787 (460 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.

**Legal provision**

The Company has recognized a provision of Ps. 95,231 (U.S.\$ 5 million) related to a claim associated to the operation in the United States and determined on the basis of an agreement signed with the counterparty.

**17. OTHER CURRENT LIABILITIES**

At December 31, 2019 and 2018, Other current liabilities include the following:

	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Employee benefits payable.....	Ps. 1,131,798	Ps. 1,115,637
Dividends payable.....	975,919	926,083
Promotion and advertising payable.....	376,441	296,203

The rest of the items that comprise Other current liabilities correspond to accrued expenses payable.

**18. EMPLOYEE BENEFITS OBLIGATIONS**

Employee benefits obligations recognized in the balance sheet, by country, were as follows:

<u>Country</u>	<u>At December 31, 2019</u>	<u>At December 31, 2018</u>
Mexico.....	Ps. 849,934	Ps. 702,403
United States and Europe.....	92,023	81,773
Central America.....	32,095	30,576
Total.....	<u>Ps. 974,052</u>	<u>Ps. 814,752</u>

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**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.
- 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:

	<b>2019</b>	<b>2018</b>
DBO at beginning of the year.....	Ps. 766,432	Ps. 797,391
Add (deduct):		
Current service cost.....	39,757	35,466
Financial cost.....	65,976	54,372
Remeasurement for the period.....	132,632	(51,624)
Benefits paid.....	(93,455)	(69,173)
DBO at end of the year.....	<u>Ps. 911,342</u>	<u>Ps. 766,432</u>



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The reconciliation between the beginning and ending balances of the employee benefit plan assets at fair value for the years 2019 and 2018 is shown below:

	<u>2019</u>	<u>2018</u>
Plan assets at fair value at beginning of the year..	Ps. 64,029	Ps. 64,654
Add (deduct):		
Return on plan assets.....	3,366	3,401
Return on plan assets recognized in other comprehensive income.....	(5,987)	(4,026)
Plan assets at fair value at end of the year.....	<u>Ps. 61,408</u>	<u>Ps. 64,029</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, 2019</u>	<u>At December 31, 2018</u>
Employee benefit (assets) liabilities:		
DBO.....	Ps. 911,342	Ps. 766,432
Plan assets.....	(61,408)	(64,029)
Employee benefits obligations.....	<u>Ps. 849,934</u>	<u>Ps. 702,403</u>

The value of the DBO related to the pension plan amounted to Ps. 791,684 and Ps. 672,216 at December 31, 2019 and 2018, respectively, while the value of the DBO related to seniority premiums amounted to Ps. 119,658 and Ps. 94,216, respectively.

At December 31, 2019 and 2018, the components of net cost comprised the following:

	<u>2019</u>	<u>2018</u>
Current service cost.....	Ps. 39,757	Ps. 35,466
Financial cost.....	65,976	54,372
Return on plan assets.....	(3,366)	(3,401)
Net cost for the year.....	<u>Ps. 102,367</u>	<u>Ps. 86,437</u>

The net cost for the year related to the pension plan amounted to Ps.89,651 and Ps.80,558 at December 31, 2019 and 2018, respectively, while the net cost related to seniority premiums amounted to Ps. 12,716 and Ps. 5,879, respectively.

The net cost for the year 2019 of Ps. 102,367 (Ps.86,437 in 2018) was recognized in income as cost of sales for Ps. 4,705 (Ps.9,344 in 2018), selling and administrative expenses for Ps.35,052 (Ps.26,122 in 2018) and interest expense for Ps. 62,610 (Ps.50,971 in 2018).

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Remeasurements of the defined benefit obligation recognized in other comprehensive income are comprised of:

	<u>2019</u>	<u>2018</u>
Return on plan assets (excluding amounts included in net cost of the year).....	Ps. 5,987	Ps. 4,026
Actuarial gains and losses arising from changes in demographic assumptions.....	-	-
Actuarial gains and losses arising from changes in financial assumptions.....	100,859	(97,390)
Actuarial gains and losses arising from experience adjustments.....	31,773	45,766
	<u>Ps. 138,619</u>	<u>Ps. (47,598)</u>

The total amount recognized in other comprehensive income is described below:

	<u>2019</u>	<u>2018</u>
Balance at the beginning of the year.....	Ps. 398,223	Ps. 445,821
Remeasurements that occurred during the year...	138,619	(47,598)
Balance at the end of the year.....	<u>Ps. 536,842</u>	<u>Ps. 398,223</u>

At December 31, 2019 and 2018, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	<u>At December 31, 2019</u>		<u>At December 31, 2018</u>	
Equity securities, classified by type of industry:	Ps. 29,943	49%	Ps. 32,442	51%
Consumer industry.....	7,088		7,862	
Financial institutions.....	22,855		24,580	
Fixed rate securities.....	31,465	51%	31,587	49%
Fair value of plan assets.....	<u>Ps. 61,408</u>	<u>100%</u>	<u>Ps. 64,029</u>	<u>100%</u>

As of December 31, 2019, 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, 2019</u>	<u>At December 31, 2018</u>
Discount rate.....	7.25%	9.25%
Future increase rate in compensation levels.....	4.50%	4.50%
Long-term inflation rate.....	3.50%	3.50%

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At December 31 2019 and 2018, the impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.14,421 and Ps.12,476, respectively. This sensitivity analysis 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, 2019 and 2018 is 11 and 11 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, 2019 and 2018, total expenses related to this plan amounted to Ps.150,606 and Ps.145,275, respectively (U.S. \$7,816 and U.S.\$7,566 thousand, respectively).

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, 2019 and 2018, total (income) expenses related to this plan were approximately Ps. 14,741 and Ps.(1,747), respectively (U.S. \$765 and U.S.\$(91) thousand, respectively).

At December 31, 2019 and 2018, the liability recognized for both plans amounted to Ps.78,829 and Ps.67,749, respectively (U.S. \$4,183 and U.S.\$3,442 thousand, respectively).

In Central America, the retirement and severance provisions are determined according to the current Labor Legislation of each country. At December 31, 2019 and 2018, the liability recognized for this item amounted to Ps.32,095 and Ps.30,576, respectively, and the total labor obligation cost amounted Ps. 11,133 and Ps.12,903, respectively.

## **19. EQUITY**

### **A) COMMON STOCK**

At December 31, 2019, the Company's outstanding common stock consisted of 413,143,708 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval and 7,813,785 treasury shares.

In Accordance to the agreements adopted by the Extraordinary General Shareholders' Meeting held on April 26, 2019, approved cancellation of 11,791,586 ordinary, nominative shares, without expression of nominal value, series "B", Class I, issued by Gruma S.A.B. de C.V. and that have been repurchased by the same.

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At December 31, 2018, the Company's outstanding common stock consisted of 423,430,920 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval and 9,318,159 treasury shares.

**B) RETAINED EARNINGS**

In the Income Tax Law, effective starting January 1, 2014. Among other, 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 2020. 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, 2019, CUFIN amounted to Ps.9,150,689.

**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.

Movements in the legal reserve for the years ended December 31, 2018 and 2017 are as follows:

	<u>Amount</u>
Balance at December 31, 2017.....	Ps. 988,484
Increases during the year.....	84,235
Balance at December 31, 2018.....	<u>1,072,719</u>
Increases during the year.....	-
Balance at December 31, 2019.....	<u>Ps. 1,072,719</u>

**Purchase of common stock**

The Shareholders' Meeting held on April 26, 2019 approved to increase the reserve to repurchase the Company's own shares up to Ps.3,500,000, which is included within retained earnings.

The Shareholders' Meeting held on April 27, 2018 approved to increase the reserve to repurchase the Company's own shares up to Ps.2,500,000, 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.

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When purchasing of the Company's own shares, the amount of the consideration paid, including the direct costs attributable to such acquisition, is recognized as a decrease in the Company's equity. When the shares are re-placed, the consideration received is recognized within the equity.

The difference between the acquisition cost of the repurchased shares and their stated value, composed of common stock and share premium paid, if applicable, 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 movements of the reserve for acquisition of Company's own shares for the years ended December 31, 2019 and 2018 is as follows:

	<b>Amount</b>
Balance at December 31, 2017.....	Ps. 650,000
Increase of the reserve to repurchase the Company's own shares approved in the Shareholders' Meeting held on April 27, 2018.....	1,850,000
Purchase of Company's own shares during the year.....	(2,067,632)
Balance at December 31, 2018.....	432,368
Cancellation of 11,791,586 shares, approved in the Shareholders' Meeting held on April 26, 2019.....	2,584,945
Increase in the reserve for repurchase of Company's own shares during the year approved in the Shareholders' Meeting held on April 26, 2019.....	1,000,000
Purchase of Company's own shares during the year ...	(1,995,020)
Balance at December 31, 2019.....	2,022,293

At December 31, 2019, the Company has purchased 7,813,785 of its own shares at a market value of Ps. 1,516,890 as of that date.

**C) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS**

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

	<b>2019</b>	<b>2018</b>
Balance at beginning of year.....	Ps. 1,187,475	Ps. 1,892,661
Effect of the year from translating net investment in foreign subsidiaries.....	(1,213,506)	(862,357)
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries.....	490,984	157,171
Balance at end of year.....	Ps. 464,953	Ps. 1,187,475

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The investment of the Company in its subsidiaries in the United States (Gruma Corporation and subsidiaries) generated a hedge for its U.S. dollar on the debt up to U.S. \$821 and U.S.\$630 million at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.(3,968) and Ps.(3,526), respectively.

During 2019, the Company received dividends from its United States subsidiary Gruma Corporation amounting to Ps. 1,562,816 (US \$80 million) and Ps. 3,540,828 (U.S.\$175 million) respectively.

**20. FINANCIAL INSTRUMENTS**

**A) FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying values of financial instruments by category are presented below:

	At December 31, 2019			
	Financial assets and liabilities at amortized cost	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value with changes in other comprehensive income	Total categories
<u>Financial assets:</u>				
Cash and cash equivalents.....	Ps. 3,818,181	Ps.	Ps.	Ps. 3,818,181
Derivative financial instruments.....			102,325	102,325
Accounts receivable.....	8,306,703			8,306,703
Long term notes receivable and other (Note 9).....	208,346			208,346
<u>Financial liabilities:</u>				
Current debt.....	587,076			587,076
Trade accounts payable.....	5,652,236			5,652,236
Short- term derivative financial instruments...		46,915	125,238	172,153
Long-term debt.....	21,038,774			21,038,774
Long-term derivative financial instruments...			159,651	159,651
Other liabilities (excludes non-financial liabilities)....	69,994			69,994

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	At December 31, 2018			
	Financial assets 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. 3,435,722	Ps.	Ps.	Ps. 3,435,722
Derivative financial instruments.....		184	65,865	66,049
Accounts receivable.....	7,878,548			7,878,548
Long term notes receivable and other (Note 9).....	205,323			205,323
<u>Financial liabilities:</u>				
Current debt.....	4,330,288			4,330,288
Trade accounts payable.....	5,968,044			5,968,044
Derivative financial instruments.....	-	12,854	105,987	118,841
Long-term debt.....	17,164,392			17,164,392
Other liabilities (excludes non-financial liabilities)....	101,668			101,668

**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:

	<b>At December 31, 2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets:</b>		
Derivative financial instruments – corn.....	Ps. 74,295	Ps. 74,295
Derivative financial instruments – wheat.....	28,030	28,030
Long-term notes receivable and other.....	264,051	292,626
<b>Liabilities:</b>		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	7,500,646	8,181,380
Short and long-term debt.....	14,125,204	14,413,230
Derivative financial instruments – natural gas .....	55,465	55,465
Derivative financial instruments – corn.....	5,828	5,828
Derivative financial instruments – wheat.....	25,198	25,198
Derivative financial instruments – exchange rate.....	85,662	85,662
Derivative financial instruments – interest rate.....	159,651	159,651
	<b>At December 31, 2018</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets:</b>		
Derivative financial instruments – corn.....	Ps. 34,221	Ps. 34,221
Derivative financial instruments – fuel.....	31,828	31,828
Long-term notes receivable and other.....	252,132	253,694
<b>Liabilities:</b>		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	7,829,289	7,920,320
Short and long-term debt.....	13,665,391	13,787,733
Derivative financial instruments – corn.....	7,154	7,154
Derivative financial instruments – wheat.....	7,690	7,690
Derivative financial instruments – exchange rate.....	103,997	103,997

The fair values at December 31, 2019 and 2018 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 2 in the fair value hierarchy. The average discount rate used was 3.86% in 2019 and 7.05% in 2018.
- 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 6.77% and 8.73% in 2019 and 2018, respectively.



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**C) DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31, 2019 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures .....	630,000 Bushels	Ps. 3,150	Ps.
Corn futures .....	(55,000) Bushels		1,154
Wheat futures .....	7,100,000 Bushels	28,030	
Wheat futures .....	1,460,000 Bushels		25,198
Corn swaps .....	14,153,529 Bushels	57,147	
Corn swaps .....	8,680,000 Bushels		4,674
Corn options.....	8,195,000 Bushels	13,999	
Natural gas futures and swaps.....	12,460,000 Mmbtu		55,465
Exchange rate forwards.....	316,900,000 USD		85,662
Interest rate swaps.....	3,000,000,000 MXN		159,651

At December 31, 2019, open positions of corn, gas natural and fuel derivatives were recorded at fair value. The result of the valuation at December 31, 2019 of financial instruments that qualified as cash flow hedge represented a gain of Ps. 45,044, which was recognized in comprehensive income within equity. At December 31, 2019, 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. 43,831, which was recognized in the income statement as Other income, net.

For the year ended December 31, 2019, the Company transferred the amount of Ps. 78,590 from cash flow hedges reserve and recognized it as part of inventory. This amount refers to the loss from the terminated operations for corn and wheat hedges, in which the grain, subject to these hedges, was received.

The corn and wheat hedges terminated during the period and for which no grain has been received, originated a gain of Ps. 39,683, which was recognized in comprehensive income and 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. The operations ended for the year ended December 31, 2019 of gas derivative instruments that qualified as cash flow hedging generated a loss of P. 16,898 which was applied within stockholders' equity in other comprehensive income. Operations terminated at December 31, 2019 on corn, natural gas and fuel derivatives that did not qualify as hedge accounting represented a loss of Ps. 5,886 which was recognized in the income statement as Other income, net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. Open positions of exchange rate derivative financial instruments that qualified as cash flow hedge represented a loss of Ps. 67,956, which was recognized in comprehensive income within equity. At December 31, 2019, valuation of the open positions of these instruments that did not qualify as hedge accounting resulted in a loss of approximately Ps. 5,159 recognized in income as comprehensive financing cost, net (Note 24). For the year ended December 31, 2019, terminated operations of these instruments that qualified as cash flow hedge represented a loss of Ps.7,426, which was recognized in comprehensive income within equity.

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Likewise, terminated operations of these instruments that did not qualify as hedge accounting represented a gain of Ps.25,087, which was recognized in income as comprehensive financing cost, net (Note 24). During the year ended December 31, 2019, Ps. 190,554 net loss were transferred from cash flow hedges reserve and recorded as part of the inventory.

As of December 31, 2019, the open positions of the interest rate swap financial instruments were valued at fair market value. The result of the valuation as of December 31, 2019 of the financial instruments that qualified as cash flow hedging was a loss of \$ 159,651, which was applied to comprehensive income within shareholders' equity.

At December 31, 2019, the Company had revolving funds denominated “margin calls” amounting Ps. 143.873, which are required to be applied against payments, due to price changes in the underlying asset.

At December 31, 2018 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures and swaps.....	18,990,000 Bushels	Ps. 34,221	Ps. -
Corn options.....	12,890,000 Bushels	-	7,154
Wheat futures and swaps.....	2,940,000 Bushels	-	7,690
Natural gas futures and swaps.....	15,480,000 Mmbtu	31,828	-
Exchange rate forwards.....	\$ 188,913,600 USD	-	103,997

At December 31, 2018, open positions of corn, gas natural and fuel derivatives were recorded at fair value. The result of the valuation at December 31, 2018 of financial instruments that qualified as cash flow hedge represented a gain of Ps.36,582, which was recognized in comprehensive income within equity. At December 31, 2018, 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.25,739, which was recognized in the income statement as Other income, net.

For the year ended December 31, 2018, the Company reclassified the amount of Ps.74,533 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.117,187, which was recognized in comprehensive income and 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. Operations terminated at December 31, 2018 on corn, natural gas and fuel derivatives that did not qualify as hedge accounting represented a gain of Ps.29,598 which was recognized in the income statement as Other income, net (Note 22).

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Exchange rate derivative financial instruments were recorded at fair value. Open positions of exchange rate derivative financial instruments that qualified as cash flow hedge represented a loss of Ps.91,450, which was recognized in comprehensive income within equity. At December 31, 2018, valuation of the open positions of these instruments that did not qualify as hedge accounting resulted in a loss of approximately Ps.104,339 recognized in income as comprehensive financing cost, net (Note 24). For the year ended December 31, 2018, terminated operations of these instruments that qualified as cash

flow hedge represented a loss of Ps.10,100, which was recognized in comprehensive income within equity. Likewise, terminated operations of these instruments that did not qualify as hedge accounting represented a gain of Ps.37,778, which was recognized in income as comprehensive financing cost, net (Note 24). During the year ended December 31, 2018, Ps.306,436 recorded in comprehensive income within equity were recycled and recorded as part of the inventory.

At December 31, 2018, the Company had revolving funds denominated “margin calls” amounting Ps.99,473, which are required to be applied against payments, due to price changes in the underlying asset.

**D) FAIR VALUE HIERARCHY**

A three-level hierarchy is used to measure and disclose fair values. An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

**a. Determination of fair value**

When available, the Company generally uses quoted market prices to determine fair value and classifies such items in Level 1. If quoted market prices are not available, fair value is valued using industry standard valuation models. When applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rates, currency rates, volatilities, etc. Items valued using such inputs are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some inputs that are readily observable. In addition, the Company considers assumptions for its own credit risk and the respective counterparty risk.

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**b. Measurement**

Assets and liabilities measured at fair value are summarized below:

<b>At December 31, 2019</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<i>Assets:</i>					
Plan assets – seniority premium fund....	Ps.	61,408	Ps. -	Ps.	61,408
Derivative financial instruments – corn..		8,259	66,036		74,295
Derivative financial instruments – wheat .....		28,030	-		28,030
	Ps.	97,697	Ps. 66,036	Ps.	163,733
<i>Liabilities:</i>					
Derivative financial instruments – exchange rate.....	Ps.	-	Ps. 85,662	Ps.	85,662
Derivative financial instruments – corn..		1,154	4,674		5,828
Derivative financial instruments – wheat .....		25,198	-		25,198
Derivative financial instruments – fuel...		26,256	29,209		55,465
Derivative financial instruments – interest rate .....		-	159,651		159,651
	Ps.	52,608	Ps. 279,196	Ps.	331,804

<b>At December 31, 2018</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<i>Assets:</i>					
Plan assets – seniority premium fund....	Ps.	64,029	Ps. -	Ps.	64,029
Derivative financial instruments – corn..		7,355	26,866		34,221
Derivative financial instruments – exchange rate.....		16,898	14,930		31,828
	Ps.	88,282	Ps. 41,796	Ps.	130,078
<i>Liabilities:</i>					
Derivative financial instruments – exchange rate.....	Ps.	-	Ps. 103,997	Ps.	103,997
Derivative financial instruments – corn..		-	7,154		7,154
Derivative financial instruments – wheat .....		7,383	307		7,690
	Ps.	7,383	Ps. 111,458	Ps.	118,841

There were no transfers between the three levels in the period.

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**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:

		<b>2019</b>		<b>2018</b>
Forward exchange rate .....	Ps.	18.85	Ps.	19.68
Discount rate.....		6.77%		8.59%

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.

Derivative financial instruments - corn

Corn derivative financial instruments that qualify as Level 2 were recorded at fair value. Valuation techniques used to value these financial instruments include market quotations or quotations for similar instruments and other, such as the cash flow discount analysis, which is used to determine the fair value of corn swaps.

During the period, there were no transfers between Levels 1 and 2.

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**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:

	<u>2019</u>	<u>2018</u>
Cost of raw materials consumed and changes in inventory (Note 8).....	Ps. 27,935,125	Ps. 27,020,966
Employee benefit expenses (Note 23).....	20,101,084	19,324,419
Depreciation.....	3,139,109	2,279,808
Amortization (Note 12).....	40,441	32,575
Lease expenses .....	375,309	1,270,466
Research and development expenses (Note 12).....	167,968	168,979
Allowance for doubtful accounts (Note 7).....	63,464	34,650

**22. OTHER (EXPENSES), NET**

Other expenses, net comprised the following:

	<u>2019</u>	<u>2018</u>
Current employees' statutory profit sharing.....	Ps. (62,044)	Ps. (62,611)
Net gain (loss) income from sale of fixed assets.....	20,497	(13,939)
Impairment loss on long-lived assets.....	(66,259)	(3,403)
Income (expense) from recovery of insurance claims for damaged assets, net <sup>(1)</sup> .....	34,192	(1,672)
Result from derivative financial instruments.....	(49,717)	55,337
Surcharges received from the authority in relation to the asset tax refund for the year 2007 .....	102,385	
Total.....	<u>Ps. (20,946)</u>	<u>Ps. (26,288)</u>

(1) Includes the effect of the fire that occurred during the year 2019 at the plant located in the Netherlands, for which fixed assets and damaged inventory were derecognized for the amount of Ps. 313,940 and Ps. 51,230, respectively, and an income from insurance recovery of Ps.390,885 was recognized, of which Ps.282,323 was collected in 2020.

**23. EMPLOYEE BENEFIT EXPENSES**

Employee benefit expenses are comprised of the following:

	<u>2019</u>	<u>2018</u>
Salaries, wages and benefits (including termination benefits).....	Ps. 18,720,273	Ps. 18,022,025
Social security contributions.....	1,099,234	1,058,380
Employment benefits (Note 18).....	281,577	244,014
Total.....	<u>Ps. 20,101,084</u>	<u>Ps. 19,324,419</u>

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**24. COMPREHENSIVE FINANCING COST**

Comprehensive financing cost, net is comprised by:

	<b>2019</b>	<b>2018</b>
Bank financial expenses and others (Note 14).....	Ps. (1,727,537)	Ps. (1,346,805)
Financial lease expenses (Note 11) .....	(274,937)	
Financial products .....	106,833	81,874
Result from derivative financial instruments (Note 20).....	19,928	(66,560)
Result from foreign exchange differences, net.....	153,527	(233,335)
Comprehensive financing cost, net.....	<u>Ps. (1,722,186)</u>	<u>Ps. (1,564,826)</u>

**25. INCOME TAX EXPENSE**

**A) INCOME BEFORE INCOME TAX**

The domestic and foreign components of income before income tax are the following:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Domestic.....	Ps. 968,738	Ps. 1,651,171
Foreign.....	6,591,081	6,209,485
	<u>Ps. 7,559,819</u>	<u>Ps. 7,860,656</u>

**B) COMPONENTS OF INCOME TAX EXPENSE**

The components of income tax expense are the following:

	<b>2019</b>	<b>2018</b>
Current tax:		
Current tax on profits for the year.....	Ps. (2,676,830)	Ps. (2,360,466)
Adjustments in respect of prior years.....	(4,954)	-
Total current tax.....	<u>(2,681,784)</u>	<u>(2,360,466)</u>
Deferred tax:		
Origin and reversal of temporary differences.....	(29,285)	(447,492)
Total deferred tax.....	<u>(29,285)</u>	<u>(447,492)</u>
Total income tax expense.....	<u>Ps. (2,711,069)</u>	<u>Ps. (2,807,958)</u>

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Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	<b>For the year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current:		
Domestic federal.....	Ps. (955,941)	Ps. (754,065)
Foreign federal.....	(1,477,947)	(1,359,379)
Foreign state.....	(247,896)	(247,022)
	<u>(2,681,784)</u>	<u>(2,360,466)</u>
Deferred:		
Domestic federal.....	(15,878)	(406,694)
Foreign federal.....	7,827	(19,638)
Foreign state.....	(21,234)	(21,160)
	<u>(29,285)</u>	<u>(447,492)</u>
Total income taxes.....	<u>Ps.(2,711,069)</u>	<u>Ps.(2,807,958)</u>

**C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME**

For the years ended December 31, 2019 and 2018, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	<b>2019</b>	<b>2018</b>
Statutory federal income tax (30% for 2019 and 2018).....	Ps. (2,267,946)	Ps. (2,358,197)
Benefit due to subsidiaries' tax losses.....	-	-
Inflation effects on tax values.....	(138,965)	(236,639)
Foreign income tax rate differences (*).....	(126,740)	(185,406)
Tax credit derived from foreign dividends.....	47,024	64,896
Unrecognized tax loss carryforwards of the year.....	(201,077)	(167,864)
Non deductible expenses and others.....	(23,365)	75,252
Effective income tax (35.86% and 35.72% for 2019 and 2018, respectively).....	<u>Ps. (2,711,069)</u>	<u>Ps. (2,807,958)</u>

**26. 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. Until December 31, 2018, these agreements were recognized as operating leases. Starting January 1, 2019, the Company recognized right-of-use assets for these leases, except for short-term lease contracts and low-value assets. See Notes 3-L, 11 and 31 for further detail.



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Future minimum lease payments under operating lease agreements are as follows:

	<u>2018</u>
No later than 1 year.....	Ps. 976,829
Later than 1 year and no later than 5 years.....	2,573,255
Later than 5 years.....	1,977,267
Total.....	<u>Ps. 5,527,351</u>

Rental expense was approximately Ps.1,270,466 for the year ended December 31, 2018.

**B) OTHER COMMITMENTS**

At December 31, 2019 and 2018, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps. 5,050,514 and Ps. 4,094,043, respectively (U.S. \$268 million and U.S. \$208 million, respectively), which will be delivered during 2020 and in Mexico for approximately Ps. 4,560,538 and Ps. 5,452,163, respectively (U.S. \$ 242 million and U.S. \$277 million, respectively), which will be delivered during 2020. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2019 and 2018, the Company had outstanding commitments to purchase machinery and equipment in the United States amounting to approximately Ps.141,339 and Ps.314,926, respectively (U.S.\$7,500 million and U.S.\$16 million, respectively).

**27. INVESTMENT IN VENEZUELA**

**Expropriation Proceedings and other measures by the Bolivarian Republic of Venezuela Government.-** On May 12, 2010, the Bolivarian Republic of Venezuela (the “Republic”) published the Decree number 7.394 in the Official Gazette of Venezuela (the “Expropriation Decree”), ordering the forced acquisition of all assets, property and real estate of the Company’s indirect subsidiary in Venezuela, Molinos Nacionales, C.A. (“MONACA”), through an expropriation proceeding to be initiated and processed with the participation of several agencies of the Republic. The Republic stated that the Expropriation Decree also extends to the Company’s indirect subsidiary, Derivados de Maíz Seleccionado, DEMASECA, C.A. (“DEMASECA”). The Republic took initial steps to carry out an administrative expropriation procedure in accordance with the Expropriation Decree, but then suspended said procedure indefinitely, which is still suspended to this date, therefore the expropriation has not been carried out.

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 (jointly, the “Investors” or the “Claimants”) commenced conversations with the Republic regarding the Expropriation Decree and other measures related to the same, affecting MONACA and DEMASECA. Through the Investors, GRUMA participated in these conversations, in order to resolve the controversy caused by the Expropriation Decree and other measures imposed by the Republic. These conversations ceased without resulting in an agreement with the Republic.

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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 formally notified the Republic about the dispute and their agreement to submit said dispute to ICSID arbitration if the parties were unable to reach an amicable agreement.

On January 22, 2013, as part of a criminal proceeding unrelated to MONACA and DEMASECA against a third party where precautionary measures were issued for the insurance of the assets of said third party which, in an extra-limited way, included MONACA and DEMASECA, the Republic published the Administrative Providence number 004-13 dated January 21 of the same year (the "Providence") appointing special administrators for MONACA and DEMASECA granting them the broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of company assets. See section B) of this Note 27.

Consequently, in accordance with the provisions set forth in IFRS, the Company determined that as of January 22, 2013, it had lost the power to affect the variable returns of its subsidiaries in Venezuela and concluded that the appointment of special administrators with broad powers under the Providence had the effect of taking away its control over MONACA and DEMASECA and as a result, the Company proceeded to deconsolidate both subsidiaries and recognize its investment in Venezuela as a financial asset. Following the provisions set forth in IFRS, GRUMA performed impairment tests on the financial asset related to MONACA and DEMASECA and as of December 31, 2015, recognized an impairment of \$4,362,108 corresponding to the total value of said asset.

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 was to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty. The tribunal that presided over this arbitration proceeding was constituted in January 2014.

On July 25, 2017, the tribunal decided the arbitration in favor of Valores Mundiales and Consorcio Andino, by dismissing the jurisdictional objections raised by the Republic and concluding that the Republic had violated provisions of the Investment Treaty. According to the Award issued by the arbitration tribunal, the Republic must pay US\$430.4 million to Valores Mundiales and Consorcio Andino as damages resulting from its violation of certain provisions of the Investment Treaty, plus compound interest at Libor +2% since January 22, 2013 and until the Award's effective payment date. As of December 31, 2019, the award plus interest amounts to approximately US\$537.5 million. The arbitration tribunal also ordered the Republic to pay US\$5.9 million for legal expenses incurred by the Claimants during the arbitration. Both, the amount of the award plus interest and the legal expenses incurred by the Claimants, were not recorded since they are considered a contingent asset under IAS 37.

In the Award, the arbitration tribunal granted most of the Claimants' claims and concluded that the Republic had violated the Investment Treaty by (i) not granting a fair and equitable treatment to the Claimants' investments; (ii) adopting arbitrary measures that hindered the management and evolution of the Claimants' investments; and (iii) preventing the free transfer of funds related to the Claimants' investments. The arbitration tribunal dismissed the indirect expropriation claim submitted by the Claimants, since the tribunal considered, amongst other reasons, that the administrative expropriation

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procedure ordered by the Expropriation Decree had not been concluded and the special administrators appointed by the Republic did not exercised control over the companies in a substantial way. The Claimants retain their right to commence a new claim against the Republic if the latter continues with the enforcement of the Expropriation Decree and materializes the transfer of the right of ownership of the assets subject to the Expropriation Decree.

On November 22, 2017, the Republic filed before the ICSID a request for annulment of the Award issued by the arbitration tribunal and the stay of enforcement of the same while said action is pending resolution. On December 7, 2017, ICSID registered the Republic's annulment request and provisionally stayed the enforcement of the Award. The Committee that will decide on the Award's annulment proceedings was finally constituted on May 23, 2018 ("Annulment Committee").

On June 4, 2018, the Republic formally requested that the Annulment Committee kept suspended the enforcement of the Award during the course of the annulment proceeding. After considering the arguments presented by the parties, on September 6, 2018, the Annulment Committee ordered the lifting of the provisional suspension of the enforcement of the Award, which allows the Investors to begin legal actions to recognize and enforce the Award in different jurisdictions.

In accordance with the procedural calendar governing the annulment proceeding, the Republic filed its Memorial on Annulment on August 23, 2018 and the Investors submitted their Counter Memorial on Annulment on November 16, 2018. The Republic submitted its Reply on January 15, 2019 and the Investors submitted their Rejoinder on March 15, 2019. The written phase of the annulment proceeding has concluded and only the Oral Hearing is pending, after which the Annulment Committee would be in a position to issue its decision months later.

The annulment proceeding Hearing was originally scheduled on May 20, 2019. However, on April 4, 2019, the Annulment Committee decided to suspend the Hearing due to a dispute between representatives of the Republic over who has the power to represent the interests of the Republic in the annulment procedure. On August 29, 2019, the Committee resolved the aforementioned dispute and invited the parties to propose a new date for the Hearing. Nevertheless, a new date for the Hearing was not established, since on October 29, 2019, the ICSID General Secretary formally proposed to the Annulment Committee to suspend the annulment procedure pursuant to ICSID rules for non-payment of the advance cost by the Republic. Consequently, on November 11, 2019, the Annulment Committee notified the parties its decision to suspend the procedure in accordance with ICSID rules, clarifying that, if the procedure was resumed, the Annulment Committee would set new dates for the Hearing in consultation with the parties. The Committee noted that, if the cancellation procedure is suspended for a period longer than six consecutive months, the Secretary General may, after notifying the parties and, if possible, consulting with them, propose that the Committee end the procedure. At this time, it is not possible to predict whether the annulment procedure filed by the Republic will eventually be terminated or if it will resume and, if resumed it is also not possible to predict the outcome of said procedure nor the period within which it will be solved.

On January 8, 2019, the Investors filed a complaint with the Federal District Court in Washington, D.C. requesting recognition of the Award. The complaint for recognition of the Award was notified to the Republic by consular means on July 26, 2019, granting a period to answer until September 24, 2019 without Venezuela responding. Consequently, on October 21, 2019, the Investors requested the Judge to issue a judgment recognizing the Award considering the Republic's contempt. As of this date, this request is still pending to be resolved.

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Nevertheless, even though future discussions with the Republic could 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 the violation to the Investment Treaty in the terms dictated in the Award or for the eventual enforcement of the Expropriation Decree by the Republic. Additionally, the Company cannot predict the results of the Award annulment proceeding, or the proceedings for the recognition and enforcement of the Award that the Investors commenced or may commence or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the Award.

On the other hand, the special administrators appointed through the Providence have been resigning their chargers, the last of them resigning at the end of 2018, without the Republic having appointed new special administrators, and since that moment there has been no direct or indirect participation by representatives of the Republic in the decision-making and management of the administration and operation of MONACA and DEMASECA. These administration activities are only carried out by MONACA and DEMASECA's management team, which is directed by its local Directive Committee in Venezuela. Although it could be concluded that some of the factual assumptions that were taken in account for the determination under IFRS regarding the loss of control no longer exist or have been mitigated, this does not change the previous conclusions following the IFRS guidelines. Likewise, the macroeconomic indicators used to determine the devaluation of the investment in Venezuela have continued deteriorating due to the economic and social situation in that country that has been negatively impacted by hyperinflation and significant currency devaluation.

Given that the enforcement of the Award may present material challenges, the impact of the Award in the Company cannot be reasonably assessed at this time. The Investors, jointly with its legal counsel, will adopt appropriate measures to preserve and defend their legal interests.

**Intervention Proceedings by the Republic.-** Due to a criminal proceeding, not related with MONACA and DEMASECA, initiated in Venezuela by the Republic against Mr. Ricardo Fernández Barruecos, on December 4, 2009, the Eleventh Investigations Court for Criminal Affairs of Caracas issued an order authorizing the precautionary seizure of Mr. Fernández Barrueco's assets, including assets in which he had any kind of interest. Based on the purported indirect minority interest that ROTCH ENERGY HOLDINGS, N.V., (company supposedly linked to Mr. Fernández Barrueco), previously had in MONACA and DEMASECA. MONACA and DEMASECA were included by the Republic amongst the assets of Mr. Fernández Barruecos to be seized and therefore were subject to the aforementioned precautionary measure. Between 2009 and 2012, the Ministry of Finance of Venezuela, pursuant to the precautionary measures ordered by the court and, for the purposes of enforcing them, appointed several special administrators regarding the assets of Mr. Fernandez Barrueco, including the indirect minority interest that Mr. Fernández Barrueco allegedly owned in MONACA and DEMASECA. On January 21, 2013, the Ministry of Justice and Internal Relations revoked the prior appointments made by the Ministry of Finance of Venezuela and made a new designation of special administrators in particular for MONACA and DEMASECA through the publication of the Providence, granting them the "broadest powers to execute actions for the continuity and non-interruption of the operation of companies and the broadest powers of administration to guarantee the safekeeping, custody, use and conservation of the companies' assets.

As a result of the foregoing, MONACA and DEMASECA, as well as Consorcio Andino and Valores Mundiales, as direct shareholders of said companies, filed a petition as aggrieved third-parties to the criminal proceeding the Republic carried against Mr. Fernández Barrueco and that was not related to MONACA and DEMASECA, in order to revert the precautionary measures and all related actions,

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given that MONACA and DEMASECA were not and are not property of Mr. Fernández Barruecos and therefore should not have been affected by the precautionary measures established in the criminal proceeding against said person. 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. However, the court kept the precautionary measures issued on December 4, 2009 in effect, without substantiating their decision. An appeal has been filed, which has not been admitted and is pending resolution as of this date despite the multiple requests for pronouncement.

On July 30, 2014, the Twenty-Eighth Court in Trial Functions ordered the dismissal of the criminal case initiated by the Republic against Mr. Fernández Barrueco and ordered the lifting of all securing measures regarding his assets. This decision became final on July 18, 2017 by decision of the Chamber 1 of the Court of Appeals and its clarification of August 4, 2017, which ratifies the lifting of the measures for securing his assets. This decree of dismissal and the lifting of the securing measures regarding the assets of Mr. Fernández Barruecos, by firm decision, led to the decaying of the securing measures that were established against MONACA and DEMASECA, including the Providence, without as of this date existing any legal basis for such measures to remain in force. Therefore, in addition and regardless of the incident that had been promoted in the aforementioned criminal proceeding as injured third parties, on August 13, 2018, MONACA and DEMASECA requested that the Twenty-Eighth Trial Judge terminate and lift all precautionary measures decreed in the aforementioned criminal proceeding that affect these companies, including the Providence in which special administrators were appointed. MONACA and DEMASECA, have orally ratified this request on several occasions before the Judge and in written on October 29, 2018 and October 3, 2019, however, the Court has not issued a ruling.

The Company and its subsidiaries intend to exhaust all legal remedies available in order to safeguard and protect their legitimate interests.

## **28. CONTINGENCIES**

Additionally to the situation mentioned in Note 27, the Company is subject to litigation arising during the normal course of business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's consolidated financial statements.

## **29. RELATED PARTIES**

### **A) TRANSACTIONS WITH RELATED PARTIES**

For the year ended December 31, 2019 and 2018, the Company did not perform transactions with related parties.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2019 AND 2018**  
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**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>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits.....	Ps. 186,395	Ps. 177,093
Termination benefits.....	-	39,674
Total.....	<u>Ps. 186,395</u>	<u>Ps. 216,767</u>

At December 31, 2019 and 2018, the reserve for deferred compensation amounted to Ps.46,570 and Ps.46,309, respectively.

**C) BALANCES WITH RELATED PARTIES**

At December 31, 2019 and 2018, the Company had no balances with related parties.

**30. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards have been issued by the IASB, which are not effective for reporting periods as of December 31, 2019, and the Company has not early adopted them. The Company has assessed the effects of these new standards and are described below:

Materiality definition – Amendments to IAS-1 and IAS-8

The IASB has proposed amendments to IAS-1, Presentation of Financial Statements and to IAS-8, Accounting Policies, Changes in Accounting Estimates and Errors, to use a consistent definition of materiality in all International Financial Reporting Standards, to clarify the moment in which the information is considered material and to incorporate certain guides in IAS-1 on intangible information. Particularly, the amendments clarify: (a) that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and (b) the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need. These amendments are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

Business Definition - amendments to IFRS-3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. These changes are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Conceptual framework for financial reporting

The IASB has issued a modified Conceptual Framework to be used in standard-setting decisions with immediate effect. The key changes are: (a) increasing the prominence of stewardship in the objective of financial reporting; (b) reinstating prudence as a component of neutrality; (c) defining a reporting entity, which may be a legal entity, or a portion of an entity; (d) revising the definitions of an asset and a liability; (e) removing the probability threshold for recognition and adding guidance on derecognition; (f) adding guidance on different measurement basis, and (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. These changes are effective starting January 1, 2020. The Company's management estimates that these modifications will not have significant effects on its financial statements.

### **31. CHANGES IN ACCOUNTING POLICIES**

The Company has initially applied the guidelines from IFRS 16, Leases, starting January 1, 2019. Comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, as allowed by the transitory provisions of the new standard, therefore reclassifications and adjustments derived from the new lease guidelines are recognized in the balance sheet at adoption date.

As part of the implementation of IFRS 16, liabilities were recognized for leases that, until December 31, 2018, had been classified as “operating leases” under IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental rate on the date of the initial application. The weighted average incremental interest rate of the lessee applied to lease liabilities as of January 1, 2019 was 5.19%.

*Practical expedients applied*

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts at January 1, 2019.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Exclusion in the lease liability from the lease contracts register with a term of less than one year and contracts relating to low-value assets.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2019 AND 2018**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

*Lease liability measurement*

At December 31, 2018, future minimum lease payments under operating leases of the Company was Ps.5,527,351. As of January 1, 2019, the lease liability recognized was Ps.5,569,135. The difference between the two amounts corresponds to lease contracts whose term is of less than 1 year, or refers to contracts related to low-value assets, which were not recognized as part of the liability. The Company considered the extension option for certain lease contracts and was recognized as part of the lease liability. Additionally, for contracts with variable lease payments, changes in indexes that affect the lease rent as of January 1, 2019 were also considered and were recognized as part of the lease liability.

*Adjustments recognized in the balance sheet on January 1, 2019*

The change in accounting policy affected the following items in the balance sheet on January 1, 2019: (a) increase in the right-of-use asset of Ps.5,383,880, and (b) increase in the lease liability of Ps. 5,569,135. The right-of-use asset was recognized for the same amount as the lease liability, however, at December 31, 2018, the Company recognized an accrued rents liability amounting to Ps.185,255, referring to contracts with variable payments that were recorded using the straight-line method in accordance with IAS-17. With the adoption of IFRS-16, this liability was recognized as a decrease in the right-of-use asset.

**32. Subsequent event**

The Company is monitoring the recent outbreak of COVID-19 originated in the Wuhan region of China, which has spread globally during the first quarter of 2020. In March 2020, the World Health Organization formally declared COVID -19 like a pandemic. As of the date of issuance of the financial statements, although no relevant impact on operations has been identified, the administration will continue to monitor this situation constantly.



[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]

Audit Committee  
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.

Monterrey, N.L., April 8, 2020

Dear Mr. Heather,

In compliance with the General Provisions Applicable to Entities and Issuers Supervised by the National Banking and Securities Commission (Commission) that hire External Auditing for Basic Financial Statements Services (Provisions) issued on April 26, 2018, as amended, I hereby declare in accordance with article 37 of said Provisions, 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, 2019:

- I. I am a certified public accountant with the valid registration number 18803 in the General Administration Federal Tax Audit (*Administración General de Auditoría Fiscal Federal*) (AGAFF), of the Tax Administration Service, issued on June 27, 2019. Additionally, the Firm I work in has the valid registration number 06839 in the AGAFF. Additionally, I comply with the other requirements indicated in articles 4 and 5 of the Provisions. To this date, both registrations are currently in force.
- II. From the date on which I provide my External Audit services, during the development of the same and until the issuance of the corresponding External Audit report, as well as the required communications and opinions in accordance with those indicated in Article 15 of the Provisions, as applicable, I comply with the requirements referred to in articles 4 and 5 of the Provisions. I also state that the Firm complies with the provisions of articles 6, 9 and 10, in relation to article 14 of the Provisions.
- III. That the Firm has documentary evidence of the implemented quality control system referred to in Article 9 of the Provisions and participates in a quality evaluation program that conforms to the requirements contemplated in Article 12 of the Provisions.
- IV. I grant my express consent to provide the Commission with the information it requires in order to verify compliance with the requirements described above.
- V. The Firm I work in, is obligated to keep physically or through digital images, or optical or electromagnetic means and for a period of not less than 5 years from the conclusion of the audit, all the documentation, information and other elements of judgment that cover the compliance of the previous requirements.
- VI. I have audited the basic financial statements of the Entity for 3 years; also, the Firm in which I work has provided the external audit service for approximately 30 years.

/S/  
C.P.A. Víctor Gabriel Vecchi  
Audit Partner

*[ENGLISH TRANSLATION FOR INFORMATION PURPOSES ONLY]*

Audit Committee

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 29, 2020

Dear Mr. Heather,

In relation to the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2019, 2018 and 2017 and in compliance with the General Provisions Applicable to Entities and Issuers Supervised by the National Banking and Securities Commission that Hire External Auditing for Basic Financial Statements Services (Provisions), issued on April 26, 2018, as amended, I hereby grant my consent for the Issuer to include in the annual information referred to in articles 33, section I, subparagraph b), number 1. of the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants, the audit report on the financial statements issued by me.

The above, in the understanding that I previously ensured that the information contained in the basic financial statements included in the corresponding annual report, as well as any other financial information contained in said document which derive from the referred financial statements or the audit report presented by me, corresponds to the audited information, in order for said information to become of public knowledge.

/S/

C.P.A. Víctor Gabriel Vecchi  
Audit Partner

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2018 AND 2017

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

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018 AND 2017

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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 (the Company), which comprise the consolidated statement of financial position as of December 31, 2018, 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, 2018, 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 Company 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 11 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 1) in view of the significance of the book value of goodwill (\$3,670 million at December 31, 2018), 2) 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 3) requires our attention given the possibility of changes in the economic context within which the CGUs involved in 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 for US, México and Spain, and assessed 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 assess 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, primarily in México and US. Derivative financial instrument assets total \$66 million and derivative instrument liabilities total \$118 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, not only because of the valuation that such financial instruments may have, but also due to the effect that these could have on the net income for the year.

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.

On a selective basis:

- We secured confirmations, from counterparties of the existence of instruments whose positions were open at December 31, 2018.
- 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 determined 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 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.

- We inspected 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) (but does not include the consolidated 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 consolidated 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 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company 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.

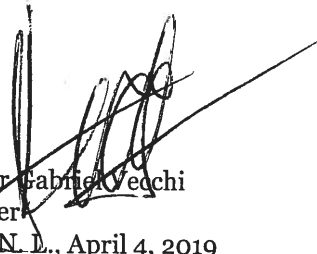
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 stated below.

PricewaterhouseCoopers, S.C.



C.P.C. Víctor Gabriel Vecchi  
Audit Partner  
Monterrey, N. L., April 4, 2019

A handwritten signature in black ink is written over the text. The signature is highly stylized and appears to be "V. Vecchi".

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2018 AND 2017**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

<b>A s s e t s</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Current:</b>			
Cash and cash equivalents.....	6	Ps. 3,435,722	Ps. 3,229,980
Derivative financial instruments.....	20	66,049	240,030
Accounts receivable, net.....	7	9,476,303	9,180,950
Inventories.....	8	11,115,967	10,789,674
Recoverable income tax.....		517,809	930,582
Prepaid expenses.....		449,544	336,614
Total current assets.....		25,061,394	24,707,830
<b>Non-current:</b>			
Long-term notes and accounts receivable.....	9	263,717	296,502
Property, plant and equipment, net.....	10	30,154,660	29,326,904
Intangible assets, net.....	11	4,318,509	4,222,703
Deferred tax assets.....	12	2,034,423	2,266,824
Total non-current assets.....		36,771,309	36,112,933
<b>Total Assets.....</b>		<b>Ps. 61,832,703</b>	<b>Ps. 60,820,763</b>
<b>L i a b i l i t i e s</b>			
<b>Current:</b>			
Short-term debt.....	13	Ps. 4,330,288	Ps. 2,896,675
Trade accounts payable.....	14	5,968,044	6,512,239
Derivative financial instruments.....	20	118,841	74,235
Provisions.....	15	148,271	105,466
Income tax payable.....		411,337	400,482
Other current liabilities.....	16	4,795,296	4,763,165
Total current liabilities.....		15,772,077	14,752,262
<b>Non-current:</b>			
Long-term debt.....	13	17,164,392	17,310,045
Provision for deferred taxes.....	12	1,395,571	1,306,945
Employee benefits obligations.....	17	814,752	885,143
Provisions.....	15	491,566	576,132
Other non-current liabilities.....		92,890	12,318
Total non-current liabilities.....		19,959,171	20,090,583
<b>Total Liabilities.....</b>		<b>35,731,248</b>	<b>34,842,845</b>
<b>E q u i t y</b>			
<b>Shareholders' equity:</b>			
Common stock.....	18	5,248,104	5,363,595
Reserves.....		1,224,803	2,113,128
Retained earnings.....	18	19,640,139	18,506,958
Total shareholders' equity.....		26,113,046	25,983,681
Non-controlling interest.....		(11,591)	(5,763)
<b>Total Equity.....</b>		<b>26,101,455</b>	<b>25,977,918</b>
<b>Total Liabilities and Equity.....</b>		<b>Ps. 61,832,703</b>	<b>Ps. 60,820,763</b>

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, 2018 AND 2017**  
(In thousands of Mexican pesos, except per-share data)  
(Notes 1, 2 and 3)

	Note	2018	2017
Net sales.....	5	Ps. 74,037,588	Ps. 70,580,518
Cost of sales.....	21	<u>(46,347,137)</u>	<u>(43,802,989)</u>
<b>Gross profit.....</b>		27,690,451	26,777,529
Selling and administrative expenses.....	21	(18,238,681)	(17,595,163)
Other (expenses) income, net.....	22	<u>(26,288)</u>	<u>136,878</u>
<b>Operating income.....</b>		9,425,482	9,319,244
Comprehensive financing cost, net.....	24	<u>(1,564,826)</u>	<u>(1,263,231)</u>
<b>Income before income tax.....</b>		7,860,656	8,056,013
Income tax expense.....	25	<u>(2,807,958)</u>	<u>(1,782,063)</u>
<b>Consolidated net income from continuing operations.....</b>		5,052,698	6,273,950
Loss from discontinued operations.....		<u>(81,756)</u>	<u>-</u>
<b>Consolidated net income.....</b>		<u>Ps. 4,970,942</u>	<u>Ps. 6,273,950</u>
Attributable to:			
Shareholders.....		Ps. 4,969,803	Ps. 6,218,074
Non-controlling interest.....		1,139	55,876
		<u>Ps. 4,970,942</u>	<u>Ps. 6,273,950</u>
<b>From continued operations:</b>			
Basic and diluted earnings per share (pesos).....		<u>Ps. 11.76</u>	<u>Ps. 14.37</u>
<b>From discontinued operations:</b>			
Basic and diluted losses per share (pesos).....		<u>Ps. (0.19)</u>	<u>Ps. -</u>
<b>From continued and discontinued operations:</b>			
Basic and diluted earnings per share (pesos).....		<u>Ps. 11.57</u>	<u>Ps. 14.37</u>
Weighted average shares outstanding (thousands).....		<u>429,490</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, 2018 AND 2017**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
<b>Consolidated net income</b> .....		Ps. 4,970,942	Ps. 6,273,950
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of employment benefit obligations.....	17	47,598	(118,509)
Income taxes.....	12	(6,658)	25,660
		40,940	(92,849)
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments.....		(708,017)	(305,070)
Cash flow hedges.....		(192,148)	140,197
Other.....		(80,505)	(72,966)
Income taxes.....	12	8,676	(26,321)
		<u>(971,994)</u>	<u>(264,160)</u>
Other comprehensive income, net of tax.....		<u>(931,054)</u>	<u>(357,009)</u>
<b>Total comprehensive income</b> .....		Ps. 4,039,888	Ps. 5,916,941
Total comprehensive income for the period is attributable to:			
Shareholders.....		Ps. 4,045,705	Ps. 5,874,463
Non-controlling interest.....		(5,817)	42,478
		<u>Ps. 4,039,888</u>	<u>Ps. 5,916,941</u>
Total comprehensive income for the period is attributable to shareholders arises from:			
Continuing operations.....		Ps. 4,127,461	Ps. 5,874,463
Discontinued operations.....		(81,756)	-
		<u>Ps. 4,045,705</u>	<u>Ps. 5,874,463</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, 2018 AND 2017**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Common stock (Note 18-A)		Reserves		Retained earnings and other reserves (Note 18-B)	Total shareholders' 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)				
<b>Balances at December 31, 2016</b> .....	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
Transactions with owners of the Company:								
Dividends paid (Ps.4.27 per share).....					(1,847,839)	(1,847,839)	-	(1,847,839)
Effect of acquisition of non-controlling interest net of taxes.....					(1,915,032)	(1,915,032)	(1,876,418)	(3,791,450)
	-	-	-	-	(3,762,871)	(3,762,871)	(1,876,418)	(5,639,289)
Comprehensive income:								
Net income of the year.....					6,218,074	6,218,074	55,876	6,273,950
Foreign currency translation adjustment (Net of taxes of Ps.(27,830)).....			(331,308)			(331,308)	(1,592)	(332,900)
Remeasurement of employment benefit obligations (Net of taxes of Ps.25,660).....					(92,813)	(92,813)	(36)	(92,849)
Cash flow hedges (Net of taxes of Ps.(19,795)).....				159,839		159,839	153	159,992
Other.....					(79,329)	(79,329)	(11,923)	(91,252)
Comprehensive income of the year.....	-	-	(331,308)	159,839	6,045,932	5,874,463	42,478	5,916,941
<b>Balances at December 31, 2017</b> .....	432,749	Ps. 5,363,595	Ps. 1,872,713	Ps. 240,415	Ps. 18,506,958	Ps. 25,983,681	Ps. (5,763)	Ps. 25,977,918
Initial effect for the adoption of IFRS 9 (Net of taxes of Ps.2,118).....	-	-	-	-	(7,152)	(7,152)	(11)	(7,163)
<b>Balances at January 1, 2018</b> .....	432,749	Ps. 5,363,595	Ps. 1,872,713	Ps. 240,415	Ps. 18,499,806	Ps. 25,976,529	Ps. (5,774)	Ps. 25,970,755
Transactions with owners of the Company:								
Dividends paid (Ps.4.28 per share).....					(1,852,166)	(1,852,166)	-	(1,852,166)
Purchase of own shares.....	(9,318)	(115,491)			(1,941,531)	(2,057,022)	-	(2,057,022)
	(9,318)	(115,491)	-	-	(3,793,697)	(3,909,188)	-	(3,909,188)
Comprehensive income:								
Net income of the year.....					4,969,803	4,969,803	1,139	4,970,942
Foreign currency translation adjustment (Net of taxes of Ps.14,195).....			(690,991)			(690,991)	(2,831)	(693,822)
Remeasurement of employment benefit obligations (Net of taxes of Ps.(6,658)).....					40,914	40,914	26	40,940
Cash flow hedges (Net of taxes of Ps.(5,378)).....				(197,334)		(197,334)	(192)	(197,526)
Other (Net of taxes of Ps.(141)).....					(76,687)	(76,687)	(3,959)	(80,646)
Comprehensive income of the year.....	-	-	(690,991)	(197,334)	4,934,030	4,045,705	(5,817)	4,039,888
<b>Balances at December 31, 2018</b> .....	423,431	Ps. 5,248,104	Ps. 1,181,722	Ps. 43,081	Ps. 19,640,139	Ps. 26,113,046	Ps. (11,591)	Ps. 26,101,455

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, 2018 AND 2017**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Note	2018	2017
Operating activities:			
<b>Income before taxes</b> .....		Ps. 7,860,656	Ps. 8,056,013
Derivative financial instruments.....	20 and 22	(55,337)	59,061
Foreign exchange loss (gain) from working capital.....		145,752	(153,980)
Net cost of the year for employee benefit obligations.....		244,014	233,354
Allowance for doubtful accounts.....		34,650	3,699
Damaged, slow-moving and obsolete inventory.....		118,921	132,976
Items related with investing activities:			
Depreciation and amortization.....		2,312,383	2,008,675
Impairment of long-lived assets.....		3,403	-
Cost of disposed fixed assets.....		-	16,039
Interest income.....		(51,084)	(23,974)
Loss (gain) in sale of fixed assets and damaged assets.....		15,611	(25,631)
Items related with financing activities:			
Derivative financial instruments.....	20 and 24	66,560	614,147
Foreign exchange loss from debt.....		87,585	68,219
Interest expense.....		1,287,245	795,089
		12,070,359	11,783,687
Accounts receivable.....		(1,099,576)	(1,730,221)
Inventories.....		(555,556)	(2,658,560)
Prepaid expenses.....		(131,443)	(41,032)
Trade accounts payable.....		(467,653)	1,301,409
Accrued liabilities and other accounts payables.....		239,221	(222,771)
Income taxes paid.....		(2,081,871)	(3,225,476)
Payments of employee benefits obligations.....		(264,310)	(209,143)
		(4,361,188)	(6,785,794)
<b>Net cash flows from operating activities</b> .....		7,709,171	4,997,893
Investing activities:			
Acquisitions of property, plant and equipment.....	5 and 10	(3,969,598)	(5,157,873)
Sale of property, plant and equipment.....		400,254	133,900
Acquisition of intangible assets.....	11	(302,765)	(158,942)
Interests collected.....		51,084	23,976
Other.....		(85,710)	(27,402)
<b>Net cash flows used in investing activities</b> .....		(3,906,735)	(5,186,341)
<b>Cash to be used in financing activities</b> .....		3,802,436	(188,448)
Financing activities:			
Proceeds from debt.....	13	30,376,283	32,836,276
Payment of debt.....	13	(28,911,854)	(28,576,320)
Interests paid.....		(1,231,047)	(736,876)
Derivative financial instruments collected.....		37,778	(571,576)
Purchase of own shares.....		(2,067,632)	-
Acquisition of non-controlling interest.....	19	-	(3,791,450)
Dividends paid.....		(1,839,392)	(1,356,670)
<b>Net cash flows used in financing activities</b> .....		(3,635,864)	(2,196,616)
Net increase (decrease) in cash and cash equivalents.....		166,572	(2,385,064)
Exchange differences on cash.....		39,170	148,514
<b>Cash and cash equivalents at the beginning of the year</b> .....		3,229,980	5,466,530
<b>Cash and cash equivalents at the end of the year</b> .....		Ps. 3,435,722	Ps. 3,229,980

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**  
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**(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 Río de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico. GRUMA is listed on the Mexican Stock Exchange.

The consolidated financial statements were authorized by the Chief Administrative Office of the Company on April 4, 2019.

**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 adopted the new standards that were effective starting January 1, 2018, being the most relevant: IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers. The Company applied changes to its accounting policies starting the date of adoption of IFRS 9 and IFRS 15, which are explained in Note 31.

**A) BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared based on 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.

**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.

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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 12 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 10 and 11).
- 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, 2018 and 2017, the main subsidiaries included in the consolidation are:

	<b>% of ownership</b>	
	<b>2018</b>	<b>2017</b>
Gruma Corporation and subsidiaries.....	100.00	100.00
Grupo Industrial Maseca, S.A. de C.V. and subsidiaries <sup>(*)</sup> .....	99.92	99.92
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

<sup>(\*)</sup> Formerly Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries.

At December 31, 2018 and 2017, there were no significant restrictions for the investment in the subsidiaries mentioned above, except for those described in Note 26.

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On June 26, 2017, the Company was granted authorization by the Mexican Stock Exchange to conduct a public offer (“the Offer”) to acquire the outstanding capital stock of Grupo Industrial Maseca, S.A. de C.V. (“GIMSA”). Through the Offer, which took place from June 26, 2017 to July 21, 2017, the Company acquired 131,225,968 of GIMSA's shares for a total amount of Ps.3,280,649, representing 14.29% of GIMSA’s capital stock. Subsequently, the Company acquired 914,921 of GIMSA's shares for an amount of Ps.22,873. At December 31, 2017, the Company owns 917,369,764 of GIMSA’s shares, representing 99.92% of GIMSA’s capital stock.

The total amount of GIMSA’s shares acquired was Ps.3,303,522, which represents 132,140,889 shares at a price of Ps.25.00 pesos per share.

As of December 31, 2017, the Company recognized an effect in equity of Ps.1,621,215 for the excess in the price of the shares acquired.

During 2017, GIMSA acquired shares held by non-controlling interest amounting to Ps.480,713; additionally, GIMSA made an acquisition of its own shares of Ps.7,215. GIMSA recognized an effect in equity for the excess in the price of the shares acquired from non-controlling interest and the acquisition of its own shares of Ps.193,751.

**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.

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

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-K 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, 2018</u>	<u>As of December 31, 2017</u>
Pesos per U.S. dollar.....	19.6829	19.7354
Pesos per Euro.....	22.5251	23.5956
Pesos per Swiss franc.....	19.9847	20.1711
Pesos per Australian dollar.....	13.8583	15.3738
Pesos per Chinese yuan.....	2.8679	3.0171
Pesos per Pound sterling.....	24.9835	26.5441
Pesos per Malaysian ringgit.....	4.7383	4.8529
Pesos per Costa Rica colon.....	0.0322	0.0343
Pesos per Ukrainian hryvnia.....	0.7103	0.7044
Pesos per Russian ruble.....	0.2833	0.3426
Pesos per Turkish lira.....	3.7414	5.2322

**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 expected future credit losses. The recognition of these losses is obliged since the moment the trade receivable is recognized. Until December 31, 2017 these estimates were 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.

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**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:

	Years
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.

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**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.

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.

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

**a. Financial assets**

(i) Classification

Starting January 1, 2018, the Company classifies its financial assets in the following categories:

- Those to be measured at amortized cost, and
- Those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies a financial asset to be measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.



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The Company classifies a financial asset to be measured at fair through other comprehensive income if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

(ii) Recognition

Regular purchases and sales of financial assets are recognized in the balance sheet on the trade date, which is the date when the Company commits to purchase or sell the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognized as expense.

After initial recognition, the Company measures financial assets at amortized cost or at fair value with changes in other comprehensive income or in results of the year.

(iv) Impairment

The Company applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the trade receivables and long-term notes and accounts receivable.

To measure the expected credit losses, the assets have been grouped based on shared credit risk characteristics and the days past since their initial recognition. The expected loss rates are based on the payment profiles of sales over a period of 12 months before December 31, 2018 or January 1, 2018, respectively, and the corresponding historical credit losses experienced within this period.

Accounts receivable and long-term receivables are canceled when there is no reasonable expectation of collection.

(v) Accounting policies applied until December 31, 2017

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.

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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.

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.

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.

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. 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.

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**b. Financial liabilities**

(i) Classification

The Company classifies its financial liabilities to be measured at amortized cost, except for the liabilities from derivative financial instruments that are measured at fair value through profit or loss.

**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.

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities for trading (derivative financial instruments).

(ii) Derecognition

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in income.

**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).

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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. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

**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, 2018 and 2017, 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, see Note 20-C.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in income as Other income, net. Until December 31, 2017 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. However, when the forecasted transaction recognizes a non-financial asset or non-financial liability, the cumulative gains or losses recognized in other comprehensive income are transferred from equity and included in the initial measurement of the non-financial asset or non-financial liability.

**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.

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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 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 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 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**

Starting January 1, 2018, the Company adopted IFRS 15, Revenue from contracts with customers, using the modified retrospective method; accordingly, the comparative information has not been restated and is being presented under IAS 18. The accounting policies under IAS 18 are disclosed separately when its application is different from IFRS 15 and the effect of the changes is presented in Note 31.

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The Company produces and sells corn flour, packaged tortilla and other related products such as flat bread, snacks and corn grits. The Company serves wholesale and retail markets, as well as institutional markets. Sales are recognized when control of the products has transferred, being when the products are delivered to the customers, and there is no unfulfilled obligation that could affect the customer's acceptance of the products, the risks of loss and obsolescence have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract.

Revenue from sales is recognized based on the price specified in the contract, net of discounts, volume rebates and returns. Volume rebates are estimated, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

A refund liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a short-term credit.

A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional.

The payments made to customers, which represent a modification of the transaction price, are presented as a decrease of revenue.

Until December 31, 2017, sales were recognized upon shipment of products to, and acceptance by, the Company's customers or when the risk of ownership had passed to the customers. Revenue was 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 were recognized in the same period that the related sales were recorded and were 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.

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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, 2018 and 2017, 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.



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The following tables detail the exposure of the Company to currency risks at December 31, 2018 and 2017. The tables show the carrying amount of the Company's financial instruments denominated in currencies other than Mexican pesos.

At December 31, 2018:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 5,336,963	Ps. 366,466	Ps. 961,994	Ps. 2,841,101	Ps. 9,506,524
Non-current.....	17,084	-	1,198	20,919	39,201
Monetary liabilities:					
Current.....	(5,908,519)	(264,256)	(645,557)	(979,512)	(7,797,844)
Non-current.....	(12,492,211)	-	(251,472)	(44,984)	(12,788,667)
Net position.....	<u>Ps. (13,046,683)</u>	<u>Ps. 102,210</u>	<u>Ps. 66,163</u>	<u>Ps. 1,837,524</u>	<u>Ps. (11,040,786)</u>

At December 31, 2017:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 5,535,663	Ps. 402,800	Ps. 878,847	Ps. 2,292,559	Ps. 9,109,869
Non-current.....	17,893	-	925	55,903	74,721
Monetary liabilities:					
Current.....	(5,853,974)	(286,047)	(647,395)	(1,114,152)	(7,901,568)
Non-current.....	(17,626,534)	(319)	(364,220)	(59,828)	(18,050,901)
Net position.....	<u>Ps. (17,926,952)</u>	<u>Ps. 116,434</u>	<u>Ps. (131,843)</u>	<u>Ps. 1,174,482</u>	<u>Ps. (16,767,879)</u>

(1) Approximately 65% of this balance corresponds to accounts receivable.

For the years ended December 31, 2018 and 2017, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	2018	2017
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 (Note 18-C).....	Ps. 157,171	Ps. 92,768
Exchange differences, net, arising from foreign currency transactions recognized in the income statement.....	(233,335)	85,761
	<u>Ps. (76,164)</u>	<u>Ps. 178,529</u>

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Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. Sales generated in Mexican pesos were 27% in 2018 and 27% in 2017 of total net sales. Sales generated in U.S. dollars were 55% in 2018 and 56% in 2017 of total net sales. Additionally, at December 31, 2018 and 2017, 63% and 64%, 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, 2018 and 2017, net sales in currencies other than Mexican pesos amounted to Ps.53,951,919 and Ps. 51,564,798, 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 2018 and 2017, the Company entered into forward transactions 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, 2018 and 2017, the Company has open positions of foreign exchange derivative instruments of Ps.(103,997) and Ps.240,030, respectively. Exchange rate forwards and options are denominated in the same currency as the highly probable forecasted transactions of inventory purchases, therefore the hedge ratio is one to one.

The effect of foreign currency translation adjustments recognized in the consolidated statements of comprehensive income for the years ended December 31, 2018 and 2017, amounted Ps.(708,017) and Ps.(305,070), respectively. Considering the exposure at December 31, 2018 and 2017, 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.1,397,435 and Ps.867,434, respectively.

The effect of foreign exchange differences recognized in the consolidated income statements for the years ended December 31, 2018 and 2017, related with the assets and liabilities denominated in foreign currency, totaled a (loss) gain of Ps.(233,337) and a loss Ps.85,761, respectively. Considering the exposure at December 31, 2018 and 2017, 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.124,843 and Ps.25,752, 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 TIIE, and to a lesser extent, EUROLIBOR) that are used to determine the interest rates applicable to the borrowings.

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The following table shows, at December 31, 2018 and 2017, the Company's debt at fixed and variable rates:

	Amounts in thousands of Mexican pesos	
	2018	2017
Debt at fixed interest rate.....	Ps. 8,130,389	Ps. 8,245,334
Debt at variable interest rate.....	13,364,291	11,961,386
Total.....	Ps. 21,494,680	Ps. 20,206,720

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, 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, 2018 and 2017 will have an effect on the results of the Company of Ps.133,643 and Ps.119,614, 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, swaps and options contracts in order to reduce the risk created by price fluctuations and supply of corn, wheat, natural gas, and soy oils which exist as part of ongoing business operations. The open positions for hedges of purchases do not exceed the maximum production requirements for a period no longer than 18 months, based on the Company's corporate policies.

During 2018 and 2017, the Company entered into short-term hedge transactions through commodity futures, swaps 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, 2018, financial instruments that qualify as hedge accounting represented a gain of Ps.36,582, and at December 31, 2017, financial instruments that qualify as hedge accounting represented a loss of Ps. 56,471. These results were recognized as comprehensive income within equity.

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From time to time, the Company hedges commodity price risks using futures, swaps 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, 2018 and 2017, the Company recognized a gain of Ps.25,739 and a loss of Ps. 151,280, respectively. Additionally, as of December 31, 2018 and 2017, the Company realized a net gain of Ps.29,598 and Ps. 92,219, respectively, on commodity price risk hedges that did not qualify for hedge accounting. See Note 20.

Based on the Company's overall commodity exposure at December 31, 2018 and 2017, a decrease or increase of 10% in market prices applied to the fair value of these instruments would result in a gain or loss in the income statement of Ps.47,064 and Ps.37,016, 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.

### **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.

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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, considering 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.

Default results when the counterparties do not make their contractual payments within the agreed period.

During 2018 and 2017, 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". 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 derivative financial instruments used. Substantially none of these financial instruments are 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:

- 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.

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The following tables show the remaining contractual maturities of financial liabilities of the Company:

At December 31, 2018:

	<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. 4,330,290	Ps.3,079,720	Ps. 6,277,618	Ps.7,911,283	Ps. 21,598,911
Interest payable from short and long term debt.....	998,722	1,872,896	1,255,682	355,634	4,482,934
Trade accounts and other payables.....	10,653,984	-	-	-	10,653,984
Derivative financial instruments.....	118,840	-	-	-	118,840
	<u>Ps.16,101,836</u>	<u>Ps.4,952,616</u>	<u>Ps. 7,533,300</u>	<u>Ps.8,266,917</u>	<u>Ps. 36,854,669</u>

At December 31, 2017:

	<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. 2,896,675	Ps.2,053,026	Ps. 7,393,879	Ps.7,974,035	Ps. 20,317,615
Interest payable from short and long term debt.....	696,452	1,245,462	1,016,774	741,247	3,699,935
Trade accounts and other payables.....	11,306,066	-	-	-	11,306,066
Derivative financial instruments.....	74,235	-	-	-	74,235
	<u>Ps.14,973,428</u>	<u>Ps.3,298,488</u>	<u>Ps. 8,410,653</u>	<u>Ps.8,715,282</u>	<u>Ps. 35,397,851</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 to provide sustainable returns for shareholders.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 13.

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**5. 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):**  
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.

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Segment information as of and for the year ended December 31, 2018:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
Net sales to external customers.....	Ps. 40,194,649	Ps. 18,947,163	Ps. 5,380,886	Ps. 9,512,297	Ps. 2,593	Ps. 74,037,588
Inter-segment net sales.....	92,833	1,560,376	8,636	1,844,549	(3,506,394)	-
Operating income.....	5,689,804	2,403,777	186,800	726,994	418,107	9,425,482
Depreciation and amortization.....	1,470,322	893,574	252,779	409,881	(710,770)	2,315,786
Total assets.....	25,478,958	17,997,241	7,369,203	13,100,806	(2,113,505)	61,832,703
Total liabilities.....	5,719,105	4,275,964	1,932,792	7,181,065	16,622,322	35,731,248
Expenditures paid in the year for fixed assets....	1,334,774	510,352	673,093	948,338	503,041	3,969,598

Segment information as of and for the year ended December 31, 2017:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
Net sales to external customers.....	Ps. 38,552,157	Ps. 17,971,607	Ps. 5,114,844	Ps. 8,942,155	Ps. (245)	Ps. 70,580,518
Inter-segment net sales.....	64,921	1,536,422	8,229	1,856,735	(3,466,307)	-
Operating income.....	5,359,471	2,292,776	179,970	607,425	879,602	9,319,244
Depreciation and amortization.....	1,251,929	791,515	211,307	367,590	(597,627)	2,024,714
Total assets.....	24,287,162	17,061,335	7,630,603	12,156,994	(315,331)	60,820,763
Total liabilities.....	5,363,075	4,836,047	1,901,214	6,509,133	16,233,376	34,842,845
Expenditures paid in the year for fixed assets....	2,369,801	603,533	877,495	808,901	498,143	5,157,873



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A summary of information by geographic segment for the years ended December 31, 2018 and 2017 is presented below:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
<u>Net sales to external customers:</u>				
United States.....	Ps. 40,194,649	55	Ps. 38,552,157	55
Mexico.....	20,085,669	27	19,015,720	27
Europe.....	5,380,886	7	5,114,844	7
Central America.....	4,596,318	6	4,532,878	6
Asia and Oceania.....	3,780,066	5	3,364,919	5
	<u>Ps. 74,037,588</u>	<u>100</u>	<u>Ps. 70,580,518</u>	<u>100</u>
<u>Expenditures paid in the year for fixed assets:</u>				
United States.....	Ps. 1,334,774	34	Ps. 2,369,801	46
Mexico.....	1,696,447	42	1,526,842	29
Europe.....	673,093	17	877,495	17
Central America.....	194,987	5	184,112	4
Asia and Oceania.....	70,297	2	199,623	4
	<u>Ps. 3,969,598</u>	<u>100</u>	<u>Ps. 5,157,873</u>	<u>100</u>
<u>Identifiable assets</u>				
United States.....	Ps. 25,478,958	41	Ps. 24,287,162	40
Mexico.....	21,059,650	34	20,984,946	35
Europe.....	7,369,203	12	7,630,603	12
Central America.....	2,936,796	5	2,932,452	5
Asia and Oceania.....	4,988,096	8	4,985,600	8
	<u>Ps. 61,832,703</u>	<u>100</u>	<u>Ps. 60,820,763</u>	<u>100</u>

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Cash at bank.....	Ps. 3,256,874	Ps. 3,130,860
Short-term investments (less than 3 months).....	178,848	99,120
	<u>Ps. 3,435,722</u>	<u>Ps. 3,229,980</u>

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**7. ACCOUNTS RECEIVABLE**

Accounts receivable comprised the following:

	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Trade accounts and notes receivable.....	Ps. 7,800,844	Ps. 7,367,947
Accounts receivable with Venezuelan companies.....	1,490,376	1,494,352
Recoverable value-added tax.....	1,597,755	1,320,816
Other debtors.....	275,799	688,213
Allowance for doubtful accounts.....	(198,095)	(196,026)
Impairment of accounts receivable with Venezuelan companies.....	(1,490,376)	(1,494,352)
	<u>Ps. 9,476,303</u>	<u>Ps. 9,180,950</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. 8,076,643	Ps. 5,953,772	Ps. 1,847,139	Ps. 88,981	Ps. 186,751
Allowance for doubtful accounts..	(198,095)	(47,830)	(26,033)	(20,622)	(103,610)
Total at December 31, 2018.....	<u>Ps. 7,878,548</u>	<u>Ps. 5,905,942</u>	<u>Ps. 1,821,106</u>	<u>Ps. 68,359</u>	<u>Ps. 83,141</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. 8,056,160	Ps. 6,110,664	Ps. 1,721,448	Ps. 82,577	Ps. 141,471
Allowance for doubtful accounts..	(196,026)	-	(53,989)	(21,398)	(120,639)
Total at December 31, 2017.....	<u>Ps. 7,860,134</u>	<u>Ps. 6,110,664</u>	<u>Ps. 1,667,459</u>	<u>Ps. 61,179</u>	<u>Ps. 20,832</u>

(\*) Accounts receivable with Venezuelan companies refer to discontinued operations and were not included in the age analysis of accounts receivable for 2018 and 2017.

For the years ended December 31, 2018 and 2017, the movements on the current and non-current allowance for doubtful accounts are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance calculated under IAS 39.....	Ps. (196,026)	Ps. (288,672)
Cumulative effect due to the adoption of IFRS 9.....	(21,209)	-
Beginning balance calculated under IFRS 9.....	(217,235)	(288,672)
Allowance for doubtful accounts.....	(34,650)	(3,699)
Receivables written off during the year.....	37,519	91,009
Exchange differences.....	2,260	5,336
Ending balance.....	<u>Ps. (212,106)</u>	<u>Ps. (196,026)</u>

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**8. INVENTORIES**

Inventories consisted of the following:

	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Raw materials, mainly corn and wheat.....	Ps. 7,293,331	Ps. 7,248,115
Finished products.....	1,399,881	1,229,293
Materials and spare parts.....	2,035,338	1,932,925
Production in process.....	130,505	209,981
Advances to suppliers.....	106,661	85,200
Inventory in transit.....	150,251	84,160
	<u>Ps. 11,115,967</u>	<u>Ps. 10,789,674</u>

For the years ended December 31, 2018 and 2017, 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.27,020,966 and Ps.26,326,418, respectively.

For the years ended December 31, 2018 and 2017, the Company recognized Ps.118,921 and Ps.132,976, respectively, for inventory that was damaged, slow-moving and obsolete.

**9. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE**

Long-term notes and accounts receivable are as follows:

	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Long-term notes receivable.....	Ps. 212,259	Ps. 198,559
Guarantee deposits.....	46,808	52,928
Long-term recoverable value-added tax.....	11,585	35,616
Other.....	7,076	9,399
Allowance for long-term doubtful accounts.....	(14,011)	-
	<u>Ps. 263,717</u>	<u>Ps. 296,502</u>

At December 31, 2018 and 2017, long-term notes receivable are denominated in pesos, maturing from 2020 to 2027 and bearing monthly interests at an annual average fixed rate of 16% for 2018 and 2017.

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**10. PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 were as follows:

	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Leasehold improvements</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At December 31, 2016</b>					
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>
<b>For the year ended December 31, 2017</b>					
Opening net book value...	Ps. 6,611,957	Ps. 14,332,072	Ps. 1,061,478	Ps. 4,307,878	Ps. 26,313,385
Exchange differences.....	(57,381)	(182,984)	(38,848)	(76,465)	(355,678)
Additions.....	463,161	589,026	26,822	4,078,864	5,157,873
Disposals.....	(11,225)	(96,674)	(14,002)	(2,407)	(124,308)
Depreciation charge of the year.....	(250,410)	(1,570,463)	(119,182)	-	(1,940,055)
Transfers.....	761,292	2,210,458	319,791	(3,291,541)	-
Other assets leased, net of depreciation.....	-	275,687	-	-	275,687
Closing net book value...	<u>Ps. 7,517,394</u>	<u>Ps. 15,557,122</u>	<u>Ps. 1,236,059</u>	<u>Ps. 5,016,329</u>	<u>Ps. 29,326,904</u>
<b>At December 31, 2017</b>					
Cost.....	Ps. 11,255,370	Ps. 37,469,766	Ps. 2,335,481	Ps. 5,016,329	Ps. 56,076,946
Accumulated depreciation.....	(3,737,976)	(21,912,644)	(1,099,422)	-	(26,750,042)
Net book value.....	<u>Ps. 7,517,394</u>	<u>Ps. 15,557,122</u>	<u>Ps. 1,236,059</u>	<u>Ps. 5,016,329</u>	<u>Ps. 29,326,904</u>
<b>For the year ended December 31, 2018</b>					
Opening net book value...	Ps. 7,517,394	Ps. 15,557,122	Ps. 1,236,059	Ps. 5,016,329	Ps. 29,326,904
Exchange differences.....	(290,919)	(304,619)	(8,330)	(60,371)	(664,239)
Additions.....	73,521	1,264,444	1,669	2,629,964	3,969,598
Disposals.....	(172,148)	(235,165)	(11,955)	-	(419,268)
Depreciation charge of the year.....	(273,617)	(1,877,686)	(128,505)	-	(2,279,808)
Transfers.....	661,384	1,621,315	12,514	(2,295,213)	-
Other assets leased, net of depreciation.....	-	224,876	-	-	224,876
Impairment.....	(3,403)	-	-	-	(3,403)
Closing net book value...	<u>Ps. 7,512,212</u>	<u>Ps. 16,250,287</u>	<u>Ps. 1,101,452</u>	<u>Ps. 5,290,709</u>	<u>Ps. 30,154,660</u>
<b>At December 31, 2018</b>					
Cost.....	Ps. 11,397,878	Ps. 38,556,862	Ps. 2,321,995	Ps. 5,290,709	Ps. 57,567,444
Accumulated depreciation.....	(3,885,666)	(22,306,575)	(1,220,543)	-	(27,412,784)
Net book value.....	<u>Ps. 7,512,212</u>	<u>Ps. 16,250,287</u>	<u>Ps. 1,101,452</u>	<u>Ps. 5,290,709</u>	<u>Ps. 30,154,660</u>

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For the years ended December 31, 2018 and 2017, depreciation expense was recognized as follows:

	<b>2018</b>	<b>2017</b>
Cost of sales.....	Ps. 1,834,381	Ps. 1,550,143
Selling and administrative expenses.....	445,427	389,912
	Ps. 2,279,808	Ps. 1,940,055

At December 31, 2018 and 2017, property, plant and equipment included idle assets with a carrying value of approximately Ps.81,419 and Ps.110,857, 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 year ended December 31, 2018, the Company recognized an impairment loss on fixed assets of Ps.3,403 within “Other expenses”. This impairment loss referred to the subsidiary Mex Urbanos, S.A. de C.V., which is part of “Other segments”.

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**11. INTANGIBLE ASSETS**

Changes in intangible assets for the years ended December 31, 2018 and 2017 were as follows:

	Intangible assets acquired					Total
	Goodwill	Covenants not to compete	Patents and trade- marks	Customer lists	Software for internal use and other	
<b>At December 31, 2016</b>						
Cost.....	Ps. 3,665,126	Ps. 463,459	Ps. 181,108	Ps. 271,443	Ps. 474,711	Ps. 5,055,847
Accumulated amortization.....	-	(463,459)	(87,298)	(81,931)	(397,505)	(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. 4,025,654</u>
<b>For the year ended December 31, 2017</b>						
Opening net book value...	Ps. 3,665,126	Ps. -	Ps. 93,810	Ps. 189,512	Ps. 77,206	Ps. 4,025,654
Exchange differences.....	42,570	-	2,156	10,178	2,747	57,651
Additions.....	-	-	-	-	158,942	158,942
Amortization charge.....	-	-	(2,484)	(9,764)	(7,296)	(19,544)
Closing net book value...	<u>Ps. 3,707,696</u>	<u>Ps. -</u>	<u>Ps. 93,482</u>	<u>Ps. 189,926</u>	<u>Ps. 231,599</u>	<u>Ps. 4,222,703</u>
<b>At December 31, 2017</b>						
Cost.....	Ps. 3,707,696	Ps. 447,341	Ps. 167,063	Ps. 270,427	Ps. 618,079	Ps. 5,210,606
Accumulated amortization.....	-	(447,341)	(73,581)	(80,501)	(386,480)	(987,903)
Net book value.....	<u>Ps. 3,707,696</u>	<u>Ps. -</u>	<u>Ps. 93,482</u>	<u>Ps. 189,926</u>	<u>Ps. 231,599</u>	<u>Ps. 4,222,703</u>
<b>For the year ended December 31, 2018</b>						
Opening net book value...	Ps. 3,707,696	Ps. -	Ps. 93,482	Ps. 189,926	Ps. 231,599	Ps. 4,222,703
Exchange differences.....	(128,836)	-	(3,981)	(39,773)	(1,794)	(174,384)
Additions.....	91,855	20,628	-	315	189,967	302,765
Amortization charge.....	-	-	(3,962)	(22,113)	(6,500)	(32,575)
Closing net book value...	<u>Ps. 3,670,715</u>	<u>Ps. 20,628</u>	<u>Ps. 85,539</u>	<u>Ps. 128,355</u>	<u>Ps. 413,272</u>	<u>Ps. 4,318,509</u>
<b>At December 31, 2018</b>						
Cost.....	Ps. 3,670,715	Ps. 467,969	Ps. 163,318	Ps. 263,232	Ps. 794,681	Ps. 5,359,915
Accumulated amortization.....	-	(447,341)	(77,779)	(134,877)	(381,409)	(1,041,406)
Net book value.....	<u>Ps. 3,670,715</u>	<u>Ps. 20,628</u>	<u>Ps. 85,539</u>	<u>Ps. 128,355</u>	<u>Ps. 413,272</u>	<u>Ps. 4,318,509</u>

At December 31, 2018 and 2017, only trademarks and goodwill, are considered indefinite-lived intangible assets.

For the years ended December 31, 2018 and 2017, amortization expense of intangible assets amounted to Ps.32,575 and Ps. 19,544, respectively, which were recognized in the income statement as selling and administrative expenses.

Research and development costs of Ps.168,979 and Ps.156,977 that did not qualify for capitalization were recognized in the income statement for the years ended December 31, 2018 and 2017, respectively.

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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, 2018</u>	<u>At December 31, 2017</u>
Mission Foods Division (1).....	Ps. 1,178,868	Ps. 1,173,862
Gruma Spain (2).....	789,663	827,193
Gruma UK (2).....	422,708	442,798
Azteca Milling, L.P (1).....	236,780	145,312
Gruma Corporation.....	212,765	212,765
Rositas Investments Pty, Ltd (2).....	204,403	226,757
NDF Azteca Milling Europe SRL (2).....	128,178	136,496
Grupo Industrial Maseca, S.A. de C.V.....	98,622	98,622
Semolina, A.S (2).....	93,496	129,422
Agroindustrias Integradas del Norte, S.A. de C.V (3).....	86,325	86,325
Gruma Centroamérica (2).....	51,207	51,207
Solntse Mexico (2).....	45,974	55,568
Altera LLC (2).....	41,626	41,269
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. 3,670,715</u>	<u>Ps. 3,707,696</u>

- (1) Subsidiary of Gruma Corporation  
(2) Subsidiary of Gruma International Foods, S.L.  
(3) Subsidiary of Grupo Industrial Maseca, S.A. de C.V.

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In 2018 and 2017, 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:

<b>Cash-generating unit</b>	<b>After-tax discount rates</b>		<b>Growth rates</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Mission Foods Division.....	7.1%	6.8%	1.3%	1.3%
Gruma Spain.....	9.2%	9.9%	2.5%	2.5%
Gruma UK.....	8.7%	8.8%	2.5%	2.5%
Azteca Milling, L.P.....	8.1%	8.0%	1.3%	1.3%
Gruma Corporation.....	7.1%	6.8%	2.5%	2.5%
Rositas Investment PTY, LTD.....	7.9%	8.2%	3.0%	3.0%
NDF Azteca Milling Europe SRL.....	9.3%	9.9%	2.1%	2.1%
Grupo Industrial Maseca, S.A. de C.V.....	7.8%	9.2%	2.5%	2.5%
Semolina A.S.....	10.3%	10.6%	2.5%	2.5%
Agroindustrias Integradas del Norte, S.A. de C.V.....	8.7%	9.2%	2.5%	2.5%
Gruma Centroamérica.....	10.0%	10.3%	2.5%	2.5%
Solntse Mexico.....	10.8%	11.1%	2.5%	2.5%
Altera LLC.....	14.7%	17.2%	2.5%	2.5%
Molinos Azteca de Chiapas, S.A. de C.V.....	8.7%	9.2%	2.5%	2.5%
Harinera de Yucatán, S.A. de C.V.....	8.7%	9.2%	2.5%	2.5%
Harinera de Maíz de Mexicali, S.A. de C.V.....	8.7%	9.2%	2.5%	2.5%
Molinos Azteca, S.A. de C.V.....	8.7%	9.2%	2.5%	2.5%
Harinera de Maíz de Jalisco, S.A. de C.V.....	8.7%	9.2%	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.



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**12. DEFERRED TAX ASSETS AND LIABILITIES**

**A) COMPONENTS OF DEFERRED TAX**

The principal components of deferred tax assets and liabilities are summarized as follows:

	(Asset) Liability	
	At December 31, 2018	At December 31, 2017
Net operating loss carryforwards and other tax credits.....	Ps. (1,498,134)	Ps. (1,211,398)
Customer advances.....	(18,256)	(8,305)
Allowance for doubtful accounts.....	(7,282)	(7,501)
Provisions.....	(759,951)	(770,907)
Deferred income for trademarks license with subsidiary.....	(483,850)	(670,947)
Derivative financial instruments.....	-	(8,388)
Other.....	(199,119)	(211,378)
Deferred tax asset.....	<u>(2,966,592)</u>	<u>(2,888,824)</u>
Property, plant and equipment, net.....	1,618,393	1,683,124
Prepaid expenses.....	19,148	12,548
Inventories.....	297	773
Intangible assets.....	203,054	230,932
Investment in subsidiaries.....	468,368	-
Derivative financial instruments.....	3,366	-
Other.....	15,114	1,568
Deferred tax liability.....	<u>2,327,740</u>	<u>1,928,945</u>
Net provision for deferred tax.....	<u>Ps. (638,852)</u>	<u>Ps. (959,879)</u>

At December 31, 2018 and 2017, the Company did not recognize a deferred income tax asset of Ps.306,120 and Ps.263,357, 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 2027.

At December 31, 2018 and 2017, undistributed taxable income of subsidiaries amounted to Ps.2,220,454 and Ps.1,310,220, 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 near 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.666,136 and Ps.393,066 as of December 31, 2018 and 2017, respectively.

At December 31, 2018, the Company recognized a deferred income tax liability of Ps.468,368 from undistributed taxable income generated during 2018 by the Company's subsidiaries in the United States (Gruma Corporation and Subsidiaries) at a reduced rate for the effects of tax credits generated by the distributed profits. The reversal of this tax amount is made at the moment in which the subsidiaries distribute such profits to the Company through dividends.

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At December 31, 2017, the Company re-measured the deferred tax assets and liabilities of its United States subsidiaries (Gruma Corporation and subsidiaries) to reflect the reduction in the federal corporate tax rate from 35% to 21% effective January 1, 2018. The federal corporate tax rate of 21% is expected to apply when the Company's related deferred tax assets and liabilities are realized or settled, respectively. For the year ended December 31, 2017, the net effect of the change in income tax rate in Gruma Corporation was U.S.\$29 million. The Company does not anticipate other tax effects to apply from the recently enacted tax reform legislation.

The changes in the temporary differences during the year were as follows:

	<u>Balance at January 1, 2018</u>	<u>Recogni- zed in income</u>	<u>Recognized in other compre- hensive income</u>	<u>Effect of the adoption of IFRS 9</u>	<u>Reclassifi- -cations</u>	<u>Foreign currency translation</u>	<u>Balance at December 31, 2018</u>
Net operating loss carryforwards and other tax credits.....	Ps.(1,211,398)	Ps. (261,760)	Ps. 47,150	Ps. -	Ps.(78,511)	Ps. 6,385	Ps.(1,498,134)
Customer advances.....	(8,305)	(5,564)	-	-	(4,387)	-	(18,256)
Allowance for doubtful accounts	(7,501)	(64)	-	(5,697)	5,569	411	(7,282)
Provisions.....	(770,907)	(5,235)	2,707	-	11,435	2,049	(759,951)
Deferred income from trademark license with subsidiary.....	(670,947)	178,267	-	-	8,830	-	(483,850)
Derivative financial instruments.	(8,388)	-	8,365	-	-	23	-
Others.....	(211,378)	40,206	(2,084)	3,579	(21,957)	(7,485)	(199,119)
Deferred tax asset.....	<u>(2,888,824)</u>	<u>(54,150)</u>	<u>56,138</u>	<u>(2,118)</u>	<u>(79,021)</u>	<u>1,383</u>	<u>(2,966,592)</u>
Property, plant and equipment...	1,683,124	(46,961)	-	-	(3,568)	(14,202)	1,618,393
Prepaid expenses.....	12,548	1,587	-	-	-	5,013	19,148
Inventories.....	773	537	-	-	(14)	(999)	297
Intangible assets.....	230,932	(27,679)	344	-	-	(543)	203,054
Investment in subsidiaries.....	-	468,368	-	-	-	-	468,368
Derivative financial instruments.	-	-	3,366	-	-	-	3,366
Others.....	<u>1,568</u>	<u>105,790</u>	<u>(61,866)</u>	<u>-</u>	<u>(23,401)</u>	<u>(6,977)</u>	<u>15,114</u>
Deferred tax liability.....	<u>1,928,945</u>	<u>501,642</u>	<u>(58,156)</u>	<u>-</u>	<u>(26,983)</u>	<u>(17,708)</u>	<u>2,327,740</u>
Net provision for deferred taxes	<u>Ps. (959,879)</u>	<u>Ps. 447,492</u>	<u>Ps. (2,018)</u>	<u>Ps. (2,118)</u>	<u>Ps.(106,004)</u>	<u>Ps. (16,325)</u>	<u>Ps. ( 638,852)</u>

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	<u>Balance at January 1, 2017</u>	<u>Recognized in income</u>	<u>Recognized in other compre- hensive income</u>	<u>Reclassifi- cations</u>	<u>Foreign currency translation</u>	<u>Balance at December 31, 2017</u>
Net operating loss carryforwards and other tax credits.....	Ps.(1,543,99)	Ps. 309,315	Ps. 41,626	Ps. -	Ps. (18,430)	Ps.(1,211,398)
Customer advances.....	(10,777)	(18,826)	4,577	16,721	-	(8,305)
Allowance for doubtful accounts	(4,401)	(3,161)	-	15	46	(7,501)
Provisions.....	(892,208)	42,573	(24,932)	81,483	22,177	(770,907)
Deferred income from trademark license with subsidiary.....	(351,819)	(307,697)	-	(11,431)	-	(670,947)
Derivative financial instruments.	11,964	-	(19,795)	-	(557)	(8,388)
Others.....	(125,970)	(20,160)	-	(66,837)	1,589	(211,378)
Deferred tax asset.....	(2,917,120)	2,044	1,476	19,951	4,825	(2,888,824)
Property, plant and equipment...	2,532,274	(770,480)	(815)	(2,507)	(75,348)	1,683,124
Prepaid expenses.....	19,840	(8,359)	-	-	1,067	12,548
Inventories.....	19,145	142	-	(18,468)	(46)	773
Intangible assets.....	363,871	(120,326)	-	423	(13,036)	230,932
Others.....	445	(3,759)	-	(200)	5,082	1,568
	<u>2,935,575</u>	<u>(902,782)</u>	<u>(815)</u>	<u>(20,752)</u>	<u>(82,281)</u>	<u>1,928,945</u>
Tax consolidation effect.....	63,326	(63,326)	-	-	-	-
Deferred tax liability.....	<u>2,998,901</u>	<u>(966,108)</u>	<u>(815)</u>	<u>(20,752)</u>	<u>(82,281)</u>	<u>1,928,945</u>
Net provision for deferred taxes	<u>Ps. 81,781</u>	<u>Ps.(964,064)</u>	<u>Ps. 661</u>	<u>Ps. (801)</u>	<u>Ps. (77,456)</u>	<u>Ps. (959,879)</u>

**B) TAX LOSS CARRYFORWARDS**

At December 31, 2018, the Company had tax loss carryforwards which amounted to approximately Ps.1,041,456. 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.21,055 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>
2019.....	Ps. 10,122
2020.....	5,348
2021.....	5,549
Total.....	<u>Ps. 21,055</u>

At December 31, 2018, the Company had tax credits of Ps.1,418,708, which, based on projections prepared by the Company's management, could be applied to future taxable income, and expired in 2028.

**C) UNCERTAIN TAX POSITIONS**

At December 31, 2018 and 2017, the Company recognized a liability for uncertain tax positions of Ps.1,279 and Ps.10,006, 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:

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	<u>2018</u>	<u>2017</u>
Uncertain tax positions at beginning of year.....	Ps. 10,006	Ps. 18,308
Translation adjustment of the beginning balance.....	(26)	(822)
Reductions due to settlements.....	(8,701)	-
Reductions due to a lapse of the statute of limitations.....	-	(7,480)
Uncertain tax positions at end of year.....	<u>Ps. 1,279</u>	<u>Ps. 10,006</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.335 and Ps.1,539 related to uncertain tax positions for 2018 and 2017, respectively.

**D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME**

Deferred taxes related to other comprehensive income are comprised of:

	<u>At December 31, 2018</u>	<u>At December 31, 2017</u>
Foreign currency translation adjustments.....	Ps. 5,378	Ps. 27,830
Remeasurement of employment benefit obligations.....	6,658	(25,660)
Cash flow hedges.....	(14,195)	(19,795)
Other.....	141	18,286
Total.....	<u>Ps. (2,018)</u>	<u>Ps. 661</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 100% of the income tax resulting from the deconsolidation was paid in 2018 and 2017 (15% in each year), 2016 (20%) and 2015 and 2014 (25% in each year).

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, 2017, the liability arising from tax consolidation regime effective December 31, 2013 amounted to Ps.75,482, which was paid in 2018. This income tax was classified in the statement of financial position as short-term income tax payable.

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**13. DEBT**

Debt is summarized as follows:

Short-term:

	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Bank loans.....	Ps. 3,864,924	Ps. 2,795,899
Current portion of long-term bank loans.....	465,364	100,776
	<u>Ps. 4,330,288</u>	<u>Ps. 2,896,675</u>

Long-term:

	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Bank loans.....	Ps. 17,629,756	Ps. 17,410,821
Current portion of long-term bank loans.....	(465,364)	(100,776)
	<u>Ps. 17,164,392</u>	<u>Ps. 17,310,045</u>

The terms, conditions and carrying values of debt are as follows:

	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity date</b>	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
10-year Senior notes <sup>(b)</sup> .....	U.S.\$	4.875%	2024	Ps. 7,829,289	Ps. 7,844,166
Credits.....	Pesos	8.45% - 8.695%	2019	3,550,000	-
Debt securities.....	Pesos	TIIE + 0.38%	2023	2,990,409	-
Syndicated loan <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2019-2022	2,901,666	2,905,669
Credit.....	Pesos	TIIE + 0.55%	2021	2,000,000	-
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2022	1,574,632	4,933,850
Credits.....	U.S.\$	3.47% - 3.59%	2019	314,924	-
Credit.....	Euros	1.19% - 3.95%	2017-2022	301,100	401,167
Credit.....	Euros	EURIBOR + 0.65%	2018-2021	16,560	23,096
Credit.....	Euros	1.29%	2018-2020	16,100	26,332
Credits.....	Pesos	7.38% - 7.79%	2018	-	2,490,000
Revolving credit <sup>(a) (c)</sup> .....	U.S.\$	LIBOR + 0.75%	2020	-	1,276,541
Credits.....	U.S.\$	1.83% - 2.09%	2018	-	305,899
Total.....				<u>Ps. 21,494,680</u>	<u>Ps. 20,206,720</u>

(a) Quarterly interest payments; (b) Semiannual interest payments; (c) credit paid in advance  
- The remaining debt pays interests on a monthly basis, or at maturity.

At December 31, 2018 and 2017, short-term debt bore interest at an average rate of 8.16% and 7.00%, respectively. At December 31, 2018 and 2017, interest expense included interest related to debt amounting Ps.1,287,245 and Ps.795,089, respectively.

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At December 31, 2018, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2020.....	Ps. 516,485
2021.....	2,563,235
2022.....	3,188,724
2023.....	3,028,534
2024 and thereafter	7,867,414
Total.....	Ps. 17,164,392

As part of a Revolving Short-Term and Long-Term Debt Securities (*Certificados Bursátiles*) Program for an authorized total amount of Ps. 8,000,000, on September 26, 2018, the Company launched a public offering of long-term debt securities in the local debt market for Ps. 3,000,000, with a 5-year maturity and accruing interest at an annual rate of 28-day TIIE plus 38 basis points. The proceeds from this public offering were used by the Company to refinance short-term debt.

On September 27, 2018, the Company obtained a loan facility of Ps.2,000,000 with a 3-year maturity and accruing interest at an annual rate of 28-day TIIE plus 55 basis points. The credit facility was obtained from the following group of banks, in equal portions: Bank of America Mexico, S.A., BBVA Bancomer S.A., HSBC Mexico, S.A., y Scotiabank Inverlat S.A., with the last one as administrative agent. The proceeds from this credit facility were used to refinance the Company's short-term debt.

On September 27, 2017, the Company obtained a 3-year credit line of U.S.\$120 million with The Bank of Nova Scotia and Banco Nacional de México, S.A., part of Grupo Financiero Banamex, in equal portions, with The Bank of Nova Scotia as administrative agent. The agreed interest rate for the credit line is LIBOR plus 75 basis points. At December 31, 2018, the credit line was available.

On April 21, 2017, in order to refinance the short-term bank debt, the Company obtained a long-term syndicated loan facility of U.S.\$400 million. The credit facility was obtained from the following group of banks, in equal portions: Banco Nacional de México, S.A., member of Grupo Financiero Banamex, Bank Of America, N.A., The Bank of Tokyo-Mitsubishi Ufj, Ltd., Coöperatieve Rabobank U.A., New York Branch, ("Rabobank"), JPMorgan Chase Bank, N.A. and The Bank of Nova Scotia, with Rabobank as administrative agent. The credit facility is composed as follows:

- a) 5-year credit facility for U.S.\$150 million, with an average life of 4.2 years, at a rate of LIBOR plus a spread of 100 basis points. The amortizations for this credit facility start in April 2019.
- b) 5-year committed revolving credit facility for U.S.\$250 million, at a rate of LIBOR plus a spread of 100 basis points.

The Company has credit line agreements for Ps.12,203,398 (U.S.\$620 million), of which Ps.10,628,766 (U.S.\$540 million) are available as of December 31, 2018. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.15% to 0.28% 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.

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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, net (determined as the sum of the outstanding principal balance of consolidated indebtedness and guarantees of the Company for obligations with third parties unrelated to the Company's core business less cash and cash equivalents), to consolidated EBITDA, should be no greater than 3.50 to 1.00.

At December 31, 2018 and 2017, the Company was in compliance with the financial covenants, as well as with the delivery of the required financial information.

Reconciliation of liabilities arising from financing activities

The table below details the changes in the Company's liabilities arising from financing activities:

	<b>Short-term bank loans</b>	<b>Long-term bank loans</b>	<b>Short-term financing lease liabilities</b>	<b>Long-term financing lease liabilities</b>	<b>Total</b>
Balance at January 1, 2018	Ps. 2,896,675	Ps. 17,310,045	Ps. -	Ps. -	Ps. 20,206,720
Proceeds from debt.....	25,386,251	5,000,000	-	-	30,386,251
Payment of debt.....	(24,398,131)	(4,513,723)	-	-	(28,911,854)
Effect of changes in foreign exchange rates.....	4,920	(157,171)	-	-	(152,251)
Debt issuance costs.....	-	(9,968)	-	-	(9,968)
Other non-cash changes.....	440,573	(464,791)	-	-	(24,218)
Balance at December 31, 2018.....	<u>Ps. 4,330,288</u>	<u>Ps. 17,164,392</u>	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. 21,494,680</u>
	<b>Short-term bank loans</b>	<b>Long-term bank loans</b>	<b>Short-term financing lease liabilities</b>	<b>Long-term financing lease liabilities</b>	<b>Total</b>
Balance at January 1, 2017	Ps. 3,721,423	\$12,229,868	Ps. 3,295	Ps. -	Ps. 15,954,586
Proceeds from debt.....	23,173,939	9,723,288	-	-	32,897,227
Payment of debt.....	(23,934,439)	(4,638,627)	(3,254)	-	(28,576,320)
Effect of changes in foreign exchange rates.....	(66,181)	61,921	-	-	(4,260)
Debt issuance costs.....	-	(60,951)	-	-	(60,951)
Other non-cash changes.....	1,933	(5,454)	(41)	-	(3,562)
Balance at December 31, 2017.....	<u>Ps. 2,896,675</u>	<u>\$17,310,045</u>	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. 20,206,720</u>

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**14. TRADE ACCOUNTS PAYABLE**

The Company has financing programs to suppliers, through which they can discount their notes with different financial institutions (Citibanamex, BBVA Bancomer, Santander, Bank of America). The balance payable derived from these programs is recognized within trade accounts payable in the balance sheet. The financial cost of these operations is a charge to suppliers.

	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Discounted balance payable by suppliers.....	Ps. 2,053,237	Ps. 2,834,761

**15. PROVISIONS**

The movements of provisions are as follows:

	<b>Labor provisions</b>	<b>Restoration provision</b>	<b>Tax and custom dispute provision</b>	<b>Total</b>
<b>Balance at January 1, 2017</b> .....	Ps. 557,359	Ps. 183,251	Ps. 37,410	Ps. 778,020
Charge (credit) to income:				
Additional provisions.....	168,817	8,205	1,507	178,529
Adjustments to provisions.....	-	(24,144)	-	(24,144)
Unused amounts reversed.....	(619)	-	-	(619)
Used during the year.....	(211,496)	-	(139)	(211,635)
Exchange differences.....	(26,994)	(8,973)	(2,586)	(38,553)
<b>Balance at December 31, 2017</b> .....	487,067	158,339	36,192	681,598
Charge (credit) to income:				
Additional provisions.....	214,399	3,648	1,754	219,801
Adjustments to provisions.....	-	-	-	-
Unused amounts reversed.....	-	-	-	-
Used during the year.....	(236,231)	-	(21,324)	(257,555)
Exchange differences.....	(1,843)	(329)	(1,835)	(4,007)
<b>Balance at December 31, 2018</b> .....	Ps. 463,392	Ps. 161,658	Ps. 14,787	Ps. 639,837
Of which current.....	Ps. 123,884	Ps. 24,387	Ps. -	Ps. 148,271
Of which non-current.....	339,508	137,271	14,787	491,566

**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 2018 was 5.02%. At December 31, 2018, the Company has Ps.23,108 (U.S.\$1,174 thousand) of expected insurance reimbursements that are included in consolidated balance sheet as a component of accounts receivable.



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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 2018 was 4.87%.

**Tax provision**

In Central America, for the periods from 2004, 2005 and 2009, tax authorities have lodged tax assessments against the Company for approximately Ps.14,787 (460 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.

**16. OTHER CURRENT LIABILITIES**

At December 31, 2018 and 2017, Other current liabilities include the following:

	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Employee benefits payable.....	Ps. 1,115,637	Ps. 1,069,023
Dividends payable.....	926,083	923,919
Promotion and advertising payable.....	296,203	332,204

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:

<b>Country</b>	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Mexico.....	Ps. 702,403	Ps. 732,737
United States and Europe.....	81,773	128,770
Central America.....	30,576	23,636
Total.....	<u>Ps. 814,752</u>	<u>Ps. 885,143</u>

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**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.
- 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>2018</u>	<u>2017</u>
DBO at beginning of the year.....	Ps. 797,391	Ps. 640,665
Add (deduct):		
Current service cost.....	35,466	35,493
Financial cost.....	54,372	45,824
Remeasurement for the period.....	(51,624)	116,705
Benefits paid.....	(69,173)	(41,296)
DBO at end of the year.....	<u>Ps. 766,432</u>	<u>Ps. 797,391</u>

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The reconciliation between the beginning and ending balances of the employee benefit plan assets at fair value for the years 2018 and 2017 is shown below:

	<b>2018</b>	<b>2017</b>
Plan assets at fair value at beginning of the year..	Ps. 64,654	Ps. 63,143
Add (deduct):		
Return on plan assets.....	3,401	3,315
Return on plan assets recognized in other comprehensive income.....	(4,026)	(1,804)
Plan assets at fair value at end of the year.....	<u>Ps. 64,029</u>	<u>Ps. 64,654</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:

	<b>At December 31, 2018</b>	<b>At December 31, 2017</b>
Employee benefit (assets) liabilities:		
DBO.....	Ps. 766,432	Ps. 797,391
Plan assets.....	(64,029)	(64,654)
Employee benefits obligations.....	<u>Ps. 702,403</u>	<u>Ps. 732,737</u>

The value of the DBO related to the pension plan amounted to Ps.672,216 and Ps.692,302 at December 31, 2018 and 2017, respectively, while the value of the DBO related to seniority premiums amounted to Ps.94,216 and Ps. 105,089, respectively.

At December 31, 2018 and 2017, the components of net cost comprised the following:

	<b>2018</b>	<b>2017</b>
Current service cost.....	Ps. 35,466	Ps. 35,493
Financial cost.....	54,372	45,824
Return on plan assets.....	(3,401)	(3,315)
Net cost for the year.....	<u>Ps. 86,437</u>	<u>Ps. 78,002</u>

The net cost for the year related to the pension plan amounted to Ps.80,558 and Ps.71,044 at December 31, 2018 and 2017, respectively, while the net cost related to seniority premiums amounted to Ps.5,879 and Ps.6,958, respectively.

The net cost for the year 2018 of Ps.86,437 (Ps.78,002 in 2017) was recognized in income as cost of sales for Ps.9,344, selling and administrative expenses for Ps.26,122 and interest expense for Ps.50,971.

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Remeasurements of the defined benefit obligation recognized in other comprehensive income are comprised of:

	<u>2018</u>	<u>2017</u>
Return on plan assets (excluding amounts included in net cost of the year).....	Ps. 4,026	Ps. 1,804
Actuarial gains and losses arising from changes in demographic assumptions.....	-	-
Actuarial gains and losses arising from changes in financial assumptions.....	(97,390)	40,975
Actuarial gains and losses arising from experience adjustments.....	45,766	75,730
	<u>Ps. (47,598)</u>	<u>Ps. 118,509</u>

The total amount recognized in other comprehensive income is described below:

	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year.....	Ps. 445,821	Ps. 327,312
Remeasurements that occurred during the year...	(47,598)	118,509
Balance at the end of the year.....	<u>Ps. 398,223</u>	<u>Ps. 445,821</u>

At December 31, 2018 and 2017, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	<u>At December 31, 2018</u>		<u>At December 31, 2017</u>	
Equity securities, classified by type of industry:	Ps. 32,442	51%	Ps. 32,606	50%
Consumer industry.....	7,862		11,361	
Financial institutions.....	24,580		21,245	
Fixed rate securities.....	31,587	49%	32,048	50%
Fair value of plan assets.....	<u>Ps. 64,029</u>	<u>100%</u>	<u>Ps. 64,654</u>	<u>100%</u>

As of December 31, 2018, 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, 2018</u>	<u>At December 31, 2017</u>
Discount rate.....	9.25%	7.25%
Future increase rate in compensation levels.....	4.50%	4.50%
Long-term inflation rate.....	3.50%	3.50%

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At December 31 2018 and 2017, the impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.12,476 and Ps.15,097, respectively. This sensitivity analysis 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, 2018 and 2017 is 11 years, for both years.

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, 2018 and 2017, total expenses related to this plan amounted to Ps.145,275 and Ps.135,412, respectively (U.S.\$7,566 and U.S.\$7,179 thousand, respectively).

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, 2018 and 2017, total (income) expenses related to this plan were approximately Ps.(1,747) and Ps.11,280, respectively (U.S.\$(91) and U.S.\$598 thousand, respectively).

At December 31, 2018 and 2017, the liability recognized for both plans amounted to Ps.67,749 and Ps.114,367, respectively (U.S.\$3,442 and U.S.\$5,795 thousand, respectively).

In Central America, the retirement and severance provisions are determined according to the current Labor Legislation of each country. At December 31, 2018 and 2017, the liability recognized for this item amounted to Ps.30,576 and Ps.23,636, respectively, and the total labor obligation cost amounted Ps.12,903 and Ps.7,932, respectively.

**18. EQUITY**

**A) COMMON STOCK**

At December 31, 2018, the Company's outstanding common stock consisted of 423,430,920 Series "B" shares, with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval and 9,318,159 treasury shares.

At December 31, 2017 and 2016, 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.

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**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 2019. 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, 2018, CUFIN amounted to Ps.9,785,951.

**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.

Movements in the legal reserve for the years ended December 31, 2018 and 2017 are as follows:

	<b>Amount</b>
Balance at December 31, 2016.....	Ps. 692,382
Increases during the year.....	296,102
Balance at December 31, 2017.....	988,484
Increases during the year.....	84,235
Balance at December 31, 2018.....	Ps. 1,072,719

**Purchase of common stock**

The Shareholders' Meeting held on April 27, 2018 approved to increase the reserve to repurchase the Company's own shares up to Ps.2,500,000, which is included within retained earnings.

The Shareholders' Meeting held on April 28, 2017 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.

When purchasing of the Company's own shares, the amount of the consideration paid, including the direct costs attributable to such acquisition, is recognized as a decrease in the Company's equity. When the shares are re-placed, the consideration received is recognized within the equity.

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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 movements of the reserve for acquisition of Company's own shares for the years ended December 31, 2018 and 2017 is as follows:

	<b>Importe</b>
Balance at December 31, 2016 and 2017.....	Ps. 650,000
Increase of the reserve to repurchase the Company's own shares approved in the Shareholders' Meeting held on April 27, 2018.....	1,850,000
Purchase of Company's own shares during the year.....	(2,067,632)
Balance at December 31, 2018.....	Ps. 432,368

At December 31, 2018, the Company has purchased 9,318,159 of its own shares at a market value of Ps.2,075,154 as of that date.

**C) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS**

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

	<b>2018</b>	<b>2017</b>
Balance at beginning of year.....	Ps. 1,892,661	Ps. 2,196,139
Effect of the year from translating net investment in foreign subsidiaries.....	(862,357)	(396,246)
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries.....	157,171	92,768
Balance at end of year.....	Ps. 1,187,475	Ps. 1,892,661

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.\$630 and U.S.\$865 million at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.(3,526) and Ps.(695), respectively.

During 2018, the Company received dividends from its United States subsidiary Gruma Corporation amounting to Ps.3,540,828 (U.S.\$175 million).

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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**19. SUBSIDIARIES**

Financial information of the Company's subsidiaries that have non-controlling interest is not presented for the year 2018, since it is considered to be non-material. See Note 3-A.

The table below shows details of non-wholly subsidiaries of the Company that have material non-controlling interests for the year 2017:

<u>Name of subsidiary</u>	<u>Country of incorporation and business</u>	<u>% of non-controlling interest at December 31, 2017</u>	<u>Income allocated to non-controlling interest for the years ended at December 31, 2017</u>	<u>Accumulated non-controlling interest at December 31, 2017</u>
Grupo Industrial Maseca, S.A. de C.V.	Mexico	0.08%	\$ 59,355	\$ 109,148

During 2017, GIMSA acquired 100% of the shares held by non-controlling shareholders of Harinera de Yucatán, S.A. de C.V., Harinera de Maíz de Mexicali, S.A. de C.V. and Molinos Azteca de Chiapas, S.A. de C.V., therefore, owning 100% of the capital stock of these companies. GIMSA also acquired 27.19% of the shares of Molinos Azteca de Chalco, S.A. de C.V. held by non-controlling shareholders, therefore owning 90.62% of the capital stock of this company.

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. de C.V.

	<u>At December 31, 2017</u>
Current assets.....	Ps. 10,050,579
Non-current assets.....	7,010,756
Current liabilities.....	4,323,936
Non-current liabilities.....	512,111
Equity attributable to owners of the Company.....	12,116,140
Non-controlling interests.....	109,148
Dividends paid to non-controlling interests.....	-
	<u>For the year ended December 31, 2017</u>
Net sales.....	Ps. 19,508,029
Net income.....	1,157,576
Comprehensive income.....	1,310,960
Cash flows:	
Operating activities.....	Ps. (972,235)
Investment activities.....	(546,820)
Financing activities.....	(1,071,062)



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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, 2018			
	Financial assets 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. 3,435,722	Ps. -	Ps. -	Ps. 3,435,722
Derivative financial instruments.....		184	65,865	66,049
Accounts receivable.....	7,878,548	-	-	7,878,548
Long term notes receivable and other (Note 9).....	205,323	-	-	205,323
<u>Financial liabilities:</u>				
Current debt.....	4,330,288	-	-	4,330,288
Trade accounts payable.....	5,968,044	-	-	5,968,044
Derivative financial instruments.....	-	12,854	105,987	118,841
Long-term debt.....	17,164,392	-	-	17,164,392
Other liabilities (excludes non- financial liabilities)....	101,668	-	-	101,668

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Until December 31, 2017, the carrying values of financial instruments by category are presented below:

	At December 31, 2017			
	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. 3,229,980	Ps. -	Ps. -	Ps. 3,229,980
Derivative financial instruments.....	-	91,792	148,238	240,030
Accounts receivable.....	7,859,905	-	-	7,859,905
Long term notes receivable and other (Note 9).....	207,958	-	-	207,958
<u>Financial liabilities:</u>				
Current debt.....	2,896,675	-	-	2,896,675
Trade accounts payable.....	6,512,329	-	-	6,512,329
Derivative financial instruments.....	-	15,309	58,926	74,235
Long-term debt.....	17,310,045	-	-	17,310,045
Other liabilities (excludes non-financial liabilities)....	81,034	-	-	81,034

**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:

	<b>At December 31, 2018</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets:</b>		
Derivative financial instruments – corn.....	Ps. 34,221	Ps. 34,221
Derivative financial instruments – fuel.....	31,828	31,828
Long-term notes receivable and other.....	252,132	253,694
<b>Liabilities:</b>		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	7,829,289	7,920,320
Short and long-term debt.....	13,665,391	13,787,733
Derivative financial instruments – corn.....	7,154	7,154
Derivative financial instruments – wheat.....	7,690	7,690
Derivative financial instruments – exchange rate.....	103,997	103,997
	<b>At December 31, 2017</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets:</b>		
Derivative financial instruments – exchange rate.....	Ps. 240,030	Ps. 240,030
Long-term notes receivable and other.....	229,886	229,886
<b>Liabilities:</b>		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	7,844,166	8,470,749
Short and long-term debt.....	12,362,554	12,597,079
Derivative financial instruments – natural gas.....	15,309	15,309
Derivative financial instruments – corn.....	58,925	58,925

The fair values at December 31, 2018 and 2017 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 7.05% in 2018 and 2.26% in 2017.
- 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 8.73% in 2018 and 9.18% in 2017.

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**C) DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31, 2018 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures and swaps.....	18,990,000 Bushels	Ps. 34,221	Ps. -
Corn options.....	12,890,000 Bushels	-	7,154
Wheat futures and swaps.....	2,940,000 Bushels	-	7,690
Natural gas futures and swaps.....	15,480,000 Mmbtu	31,828	-
Exchange rate forwards.....	\$ 188,913,600 USD	-	103,997

At December 31, 2018, open positions of corn, gas natural and fuel derivatives were recorded at fair value. The result of the valuation at December 31, 2018 of financial instruments that qualified as cash flow hedge represented a gain of Ps.36,582, which was recognized in comprehensive income within equity. At December 31, 2018, 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.25,739, which was recognized in the income statement as Other income, net.

For the year ended December 31, 2018, the Company reclassified the amount of Ps.74,533 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.117,187, which was recognized in comprehensive income and 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. Operations terminated at December 31, 2018 on corn, natural gas and fuel derivatives that did not qualify as hedge accounting represented a gain of Ps.29,598 which was recognized in the income statement as Other income, net (Note 22).

Exchange rate derivative financial instruments were recorded at fair value. Open positions of exchange rate derivative financial instruments that qualified as cash flow hedge represented a loss of Ps.91,450, which was recognized in comprehensive income within equity. At December 31, 2018, valuation of the open positions of these instruments that did not qualify as hedge accounting resulted in a loss of approximately Ps.104,339 recognized in income as comprehensive financing cost, net (Note 24). For the year ended December 31, 2018, terminated operations of these instruments that qualified as cash flow hedge represented a loss of Ps.10,100, which was recognized in comprehensive income within equity. Likewise, terminated operations of these instruments that did not qualify as hedge accounting represented a gain of Ps.37,778, which was recognized in income as comprehensive financing cost, net (Note 24). During the year ended December 31, 2018, Ps.306,436 recorded in comprehensive income within equity were recycled and recorded as part of the inventory.

At December 31, 2018, the Company had revolving funds denominated "margin calls" amounting Ps.99,473, which are required to be applied against payments, due to price changes in the underlying asset.

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At December 31, 2017 derivative financial instruments comprised the following:

<u>Type of contract</u>	<u>Notional amount</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>
Corn futures.....	760,000 Bushels	Ps. -	Ps 8,585
Corn swaps.....	22,510,000 Bushels	-	50,340
Natural gas swaps.....	6,630,000 Mmbtu	-	15,309
Exchange rate forwards.....	\$170,900,000 USD	240,030	-

At December 31, 2017, open positions of corn derivatives were recorded at fair value. The result of the valuation at December 31, 2017 of financial instruments that qualified as cash flow hedge represented a loss of Ps.56,471, which was recognized in comprehensive income within equity. At December 31, 2017, 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.17,763, which was recognized in income as other income, net.

Operations terminated at December 31, 2017 on corn, natural gas and fuel derivatives represented a loss of Ps.41,298 which was recognized in income as other income, net (Note 21).

Exchange rate derivative financial instruments were recorded at fair value. Open positions of exchange rate derivative financial instruments that qualified as cash flow hedge represented a gain of Ps.148,238, which was recognized in comprehensive income within equity. At December 31, 2017, valuation of the open positions of these instruments that did not qualify as hedge accounting resulted in a gain of approximately Ps.91,792 recognized in income as comprehensive financing cost, net (Note 23). For the year ended December 31, 2017, terminated operations of these instruments that qualified as cash flow hedge represented a gain of Ps.91,648, which was recognized in comprehensive income within equity. Likewise, terminated operations of these instruments that did not qualify as hedge accounting represented a loss of Ps.705,939, which was recognized in income as comprehensive financing cost, net (Note 23).

At December 31, 2017, the Company had revolving funds denominated “margin calls” amounting Ps.81,158, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2017, the Company reclassified the amount of Ps.17,364 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.58,054, 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.

**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:

<b>At December 31, 2018</b>					
		<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<i>Assets:</i>					
Plan assets – seniority premium fund....	Ps.	64,029	Ps. -	Ps.	64,029
Derivative financial instruments – corn..		7,355	26,866		34,221
Derivative financial instruments – exchange rate.....		16,898	14,930		31,828
	Ps.	88,282	Ps. 41,796	Ps.	130,078
<i>Liabilities:</i>					
Derivative financial instruments – exchange rate.....	Ps.	-	Ps. 103,997	Ps.	103,997
Derivative financial instruments – corn..		-	7,154		7,154
Derivative financial instruments – wheat.....		7,383	307		7,690
	Ps.	7,383	Ps. 111,458	Ps.	118,841

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	<b>At December 31, 2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<i>Assets:</i>			
Plan assets – seniority premium fund....	Ps. 64,654	Ps. -	Ps. 64,654
Derivative financial instruments – exchange rate.....	-	240,030	240,030
	Ps. 64,654	Ps. 240,030	Ps. 304,684
<i>Liabilities:</i>			
Derivative financial instruments – corn..	Ps. 12,435	Ps. 46,490	Ps. 58,925
Derivative financial instruments – fuel...	9,078	6,231	15,309
	Ps. 21,513	Ps. 52,721	Ps. 74,234

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:

	<b>2018</b>	<b>2017</b>
Forward exchange rate .....	Ps. 19.68	Ps. 19.74
Discount rate.....	8.59%	7.68%

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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Derivative financial instruments - corn

Corn derivative financial instruments that qualify as Level 2 were recorded at fair value. Valuation techniques used to value these financial instruments include market quotations or quotations for similar instruments and other, such as the cash flow discount analysis, which is used to determine the fair value of corn swaps.

During the period, there were no transfers between Levels 1 and 2.

**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:

	<u>2018</u>	<u>2017</u>
Cost of raw materials consumed and changes in inventory (Note 8).....	Ps. 27,020,966	Ps. 26,326,418
Employee benefit expenses (Note 23).....	19,324,419	17,957,436
Depreciation.....	2,279,808	1,989,131
Amortization (Note 11).....	32,575	19,544
Rental expense of operating leases (Note 27).....	1,270,466	1,091,049
Research and development expenses (Note 11).....	168,979	156,977
Allowance for doubtful accounts (Note 7).....	34,650	3,699

**22. OTHER (EXPENSES) INCOME, NET**

Other income, net comprised the following:

	<u>2018</u>	<u>2017</u>
Current employees' statutory profit sharing.....	Ps. (62,611)	Ps. (62,657)
Net (loss) income from sale of fixed assets.....	(13,939)	10,242
Impairment loss on long-lived assets.....	(3,403)	-
(Cost) income from recovery of insurance claims for damaged assets.....	(1,672)	15,389
Result from derivative financial instruments.....	55,337	(59,061)
Payment of surcharges on refund of 2007 Asset tax.....	-	249,004
Cost of disposed fixed assets.....	-	(16,039)
Total.....	<u>Ps. (26,288)</u>	<u>Ps. 136,878</u>



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**23. EMPLOYEE BENEFIT EXPENSES**

Employee benefit expenses are comprised of the following:

	<u>2018</u>	<u>2017</u>
Salaries, wages and benefits (including termination benefits).....	Ps. 18,022,025	Ps. 16,739,975
Social security contributions.....	1,058,380	984,107
Employment benefits (Note 17).....	244,014	233,354
Total.....	<u>Ps. 19,324,419</u>	<u>Ps. 17,957,436</u>

**24. COMPREHENSIVE FINANCING COST**

Comprehensive financing cost, net is comprised by:

	<u>2018</u>	<u>2017</u>
Interest expense (Note 13).....	Ps. (1,346,805)	Ps. (792,816)
Interest income.....	81,874	57,971
Result from derivative financial instruments (Note 20).....	(66,560)	(614,147)
Result from foreign exchange differences, net.....	(233,335)	85,761
Comprehensive financing cost, net.....	<u>Ps. (1,564,826)</u>	<u>Ps. (1,263,231)</u>

**25. INCOME TAX EXPENSE**

**A) INCOME BEFORE INCOME TAX**

The domestic and foreign components of income before income tax are the following:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Domestic.....	Ps. 1,651,171	Ps. 1,606,188
Foreign.....	6,209,485	6,449,825
	<u>Ps. 7,860,656</u>	<u>Ps. 8,056,013</u>

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**B) COMPONENTS OF INCOME TAX EXPENSE**

The components of income tax expense are the following:

	<u>2018</u>	<u>2017</u>
Current tax:		
Current tax on profits for the year.....	Ps. (2,360,466)	Ps. (2,736,754)
Adjustments in respect of prior years.....	-	(9,372)
Total current tax.....	<u>(2,360,466)</u>	<u>(2,746,126)</u>
Deferred tax:		
Origin and reversal of temporary differences.....	(447,492)	(305,140)
Tax rate differences of foreign subsidiaries.....	-	577,596
Use of tax loss carryforwards not previously recognized.....	-	691,607
Total deferred tax.....	<u>(447,492)</u>	<u>964,063</u>
Total income tax expense.....	<u>Ps. (2,807,958)</u>	<u>Ps. (1,782,063)</u>

Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	<u>For the year ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Current:		
Domestic federal.....	Ps. (754,065)	Ps. (600,886)
Foreign federal.....	(1,359,379)	(1,902,578)
Foreign state.....	(247,022)	(242,663)
	<u>(2,360,466)</u>	<u>(2,746,127)</u>
Deferred:		
Domestic federal.....	(406,694)	340,509
Foreign federal.....	(19,638)	644,341
Foreign state.....	(21,160)	(20,787)
	<u>(447,492)</u>	<u>964,063</u>
Total income taxes.....	<u>Ps.(2,807,958)</u>	<u>Ps.(1,782,064)</u>

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**C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME**

For the years ended December 31, 2018 and 2017, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	<b>2018</b>	<b>2017</b>
Statutory federal income tax (30% for 2018 and 2017).....	Ps. (2,358,197)	Ps. (2,416,804)
Benefit due to subsidiaries' tax losses.....	-	7,673
Inflation effects on tax values.....	(236,639)	(257,649)
Foreign income tax rate differences (*).....	(185,406)	449,032
Tax credit derived from foreign dividends.....	64,896	47,185
Unrecognized tax loss carryforwards of the year.....	(167,864)	473,907
Nondeductible expenses and others.....	75,252	(85,408)
Effective income tax (35.72% and 22.12% for 2018 and 2017, respectively).....	<u>Ps. (2,807,958)</u>	<u>Ps. (1,782,064)</u>

(\*) For the year ended December 31, 2017, includes the net effect of the income tax rate in the United States subsidiary Gruma Corporation for U.S.\$29 million.

**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 powers of administration over Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA"). As a result of this measure, among others, the Company determined that it had lost control of the subsidiaries in Venezuela. Refer to Note 27 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.
- 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-

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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 Republic's Expropriation Decree (See Note 28). Additionally, the Company cannot predict the results of the annulment proceeding mentioned in Note 28, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the award. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated or affected assets and investments under applicable law, including investment treaties and customary international law.

**B) IMPAIRMENT OF THE INVESTMENT IN VENEZUELA**

As of February 12, 2015, the SICAD I and SICAD II exchange rates were merged (onwards SICAD) by the Venezuelan government and a new exchange rate denominated Foreign Exchange Marginal System (SIMADI) was created, which means that there were 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 this date, 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 were impaired, which is 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. As of December 31, 2017, the circumstances for which the investment in these subsidiaries was impaired have not changed.

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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:

	<u>At January 22, 2013*</u>
Current assets.....	Ps. 4,345,709
Non-current assets.....	2,558,444
Total assets.....	<u>6,904,153</u>
<i>Percentage of consolidated total assets.....</i>	<i>14.0%</i>
Current liabilities.....	2,641,540
Non-current liabilities.....	96,103
Total liabilities.....	<u>2,737,643</u>
<i>Percentage of consolidated total liabilities.....</i>	<i>7.8%</i>
Total net assets.....	<u>4,166,510</u>
<i>Percentage of consolidated total net assets.....</i>	<i>29.1%</i>
Non-controlling interest.....	1,057,497
Interest of Gruma in total net assets.....	<u>Ps. 3,109,013</u>

\* No material transactions between MONACA and DEMASECA and the Company need to be eliminated.

Additionally, at December 31, 2018 and 2017 certain subsidiaries of GRUMA have accounts receivable with the Venezuelan companies for a total amount of Ps.1,490,376 and Ps.1,494,352, respectively, which were fully impaired and are included as part of the impairment loss recognized in income.

## 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>2018</u>	<u>2017</u>
No later than 1 year.....	Ps. 976,829	Ps. 901,600
Later than 1 year and no later than 5 years.....	2,573,255	2,430,502
Later than 5 years.....	1,977,267	2,045,589
Total.....	<u>Ps. 5,527,351</u>	<u>Ps. 5,377,691</u>

Rental expense was approximately Ps.1,270,466 and Ps.1,091,049 for the years ended December 31, 2018 and 2017, respectively.

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**B) OTHER COMMITMENTS**

At December 31, 2018 and 2017, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps.4,094,043 and Ps. 4,045,757, respectively (U.S.\$208 million and U.S.\$205 million, respectively), which will be delivered during 2019 and in Mexico for approximately Ps.5,452,163 and Ps.6,611,359, respectively (U.S.\$277 million and U.S.\$335 million, respectively), which will be delivered during 2019. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2018 and 2017, the Company had outstanding commitments to purchase machinery and equipment in the United States amounting to approximately Ps.314,926 and Ps.183,539, respectively (U.S.\$16 million and U.S.\$9.3 million, respectively).

**28. CONTINGENCIES**

**VENEZUELA**

Expropriation Proceedings by the Venezuelan Government.- On May 12, 2010, the Venezuelan Government published decree number 7,394 in the Official Gazette of Venezuela (the “Expropriation Decree”), whereby it 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 stated that the Expropriation Decree also extends to our 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” or “Claimants”) commenced conversations with the Venezuelan Government regarding the Expropriation Decree and other measures related to the same, affecting MONACA and DEMASECA. Through the Investors, GRUMA participated in these conversations, which 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. These conversations ceased without resulting 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 validly provided formal notice to the Republic that an investment dispute had arisen as a consequence of the Expropriation Decree and other measures adopted by the Venezuelan Government. In that notification, the Investors, MONACA and DEMASECA also agreed to submit said 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*) of the Venezuelan Government, 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 was to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty. The tribunal that presided over this arbitration proceeding was constituted in January 2014.

On July 25, 2017, the tribunal decided the arbitration in favor of Valores Mundiales and Consorcio Andino, by dismissing the jurisdictional objections raised by the Republic and concluding that the Venezuelan Government had violated provisions of the Investment Treaty. According to the Award issued by the arbitration tribunal, the Republic must pay US\$430.4 million to Valores Mundiales and Consorcio Andino as damages resulting from its violation of certain provisions of the Investment Treaty, plus compound interest at Libor +2% since January 22, 2013 and until the Award's effective payment date. As of December 31, 2018, the award plus interest amounts to approximately US\$512 million. The arbitration tribunal also ordered the Republic to pay US\$5.9 million for legal expenses incurred by the Claimants during the arbitration. Both, the amount of the award plus interest and the legal expenses incurred by the Claimants, were not recorded since they are considered a contingent asset under IAS 37.

In the Award, the arbitration tribunal granted most of the Claimants' claims and concluded that the Republic had violated the Investment Treaty by (i) not granting a fair and equitable treatment to the Claimants' investments; (ii) adopting arbitrary measures that hindered the management and evolution of the Claimants' investments; and (iii) preventing the free transfer of funds related to the Claimants' investments. The arbitration tribunal dismissed the indirect expropriation claim submitted by the Claimants, since the tribunal deemed that said process has not been concluded as of this date, therefore, the Claimants retain their right to commence a new ICSID arbitration against the Republic if the latter continues with the enforcement of the Expropriation Decree.

On November 22, 2017, the Republic filed before the ICSID a request for annulment of the Award issued by the arbitration tribunal and requested the stay of enforcement of the same while said action is pending resolution. On December 7, 2017, ICSID registered the Republic's annulment request and provisionally stayed the enforcement of the Award. The Committee that will decide on the Award's annulment proceedings, was finally constituted on May 23, 2018 (the "Annulment Committee"). In accordance with the procedural calendar governing the annulment proceeding, the Republic filed its Memorial on Annulment on August 23, 2018 and the Investors submitted their Counter Memorial on Annulment on November 16, 2018. The Republic submitted its Reply on January 15, 2019 and the Investors submitted their Rejoinder on March 15, 2019. The hearing of the annulment proceeding will take place on May 20, 2019. The Annulment committee will issue its decision months after the hearing is finalized.

On June 4, 2018, the Republic formally requested that the Annulment Committee kept suspended the enforcement of the Award during the course of the annulment proceeding. After considering the arguments presented by the parties, on September 6, 2018, the Annulment Committee ordered the lifting of the provisional suspension of the enforcement of the Award, which allows the Investors to begin legal actions to recognize and enforce the Award in different jurisdictions. On January 8, 2019, the Investors filed a complaint with the Federal District Court in Washington, D.C. requesting recognition of the Award.

Given that the enforcement of the Award may present material challenges, the impact of the Award in the Company cannot be reasonably assessed at this time. The Investors, jointly with its legal counsel, will adopt appropriate measures to preserve and defend their legal interests.

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However, even though future discussions with the Venezuelan Government could 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 the violation to the Investment Treaty or for the enforcement of the Expropriation Decree by the Venezuelan Government. Additionally, the Company cannot predict the results of any annulment proceeding filed by the Republic, or the proceedings for the recognition and enforcement of the Award that the Investors commenced or may commence or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the Award.

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 25 above, 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 \$4,362,108 was acknowledged.

**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. Based on the purported indirect minority interest that ROTCH ENERGY HOLDINGS, N.V., (supposedly linked to Ricardo Fernández Barrueco), previously had 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 administrators of the indirect minority shareholding that Ricardo Fernández Barrueco allegedly owned in MONACA and DEMASECA and designated several special administrators 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 administrators 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 our Venezuelan subsidiaries, filed a petition as aggrieved third-parties to the legal proceeding against Mr. 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. However, the court kept the precautionary measures issued on December 4, 2009 in effect. An appeal has been filed, which has not been admitted and is pending resolution as of this date.

On July 30, 2014, the Twenty-Eighth Court in Trial Functions ordered the dismissal of the criminal case against Ricardo Fernández Barrueco and ordered the lifting of all securing measures. This decision became final on July 18, 2017 by decision of the Chamber 1 of the Court of Appeals and its clarification of August 4, 2017, which ratifies the lifting of the measures for securing assets.



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On August 13, 2018, MONACA and DEMASECA petitioned the Twenty-eighth Judge of Trial for the lifting of the measures taken against these companies by virtue of the dismissal of all real coercion measures. As of this date, the Court has not responded to this petition, so the administrative providence of January 22, 2013 of the Ministry of the Interior and Justice remains in force.

The Company and its subsidiaries intend to exhaust all legal remedies available in order to safeguard and protect their legitimate interests.

The Company is subject to litigation arising during the normal course of business. It is the Company's policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount is reasonably estimable. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's consolidated financial statements.

**29. RELATED PARTIES**

**A) TRANSACTIONS WITH RELATED PARTIES**

For the year ended December 31, 2018 and 2017, the Company did not perform transactions with related parties. Other transactions with related parties are identified in Note 28.

**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:

	<b>2018</b>	<b>2017</b>
Salaries and other short-term employee benefits.....	Ps. 177,093	Ps. 195,037
Termination benefits.....	39,674	-
Total.....	<u>Ps. 216,767</u>	<u>Ps. 195,037</u>

At December 31, 2018 and 2017, the reserve for deferred compensation amounted to Ps.46,309 and Ps.48,773, respectively.

**C) BALANCES WITH RELATED PARTIES**

At December 31, 2018 and 2017, the Company had no balances with related parties.

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**30. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards have been issued by the IASB, which are not effective for reporting periods as of December 31, 2018, and the Company has not early adopted them. The Company has assessed the effects of these new standards and are described below:

**A) IFRS 16, “LEASES”**

IFRS 16, “Leases” introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and are replaced by a model where a right-of-use asset and a financial liability must be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

Management reviewed all the lease agreements of the Company, considering the new guidelines from IFRS 16. The standard mainly affects the accounting of the operating leases of the Company. At the date of the report, the Company, as lessee, has operating lease commitments of Ps.5,553,313, see Note 27. The agreements related with short-term leases and low value assets will be recognized in income using the straight-line method.

For the lease contracts subject to the new standard, the Company expects to recognize right-of-use assets and lease liabilities for approximately Ps.4,671,924 as of January 1, 2019.

The Company expects that operating income, used to measure the results of its segments, will increase in approximately Ps.73,161 for 2019, because of the adoption of the new standard.

Cash flows from operating activities will increase and cash flows from financing activities will decrease in approximately Ps.882,360, as a result of the classification of the payment of principal from the lease liability as financing activity.

The Company’s activities as lessor are not relevant, therefore, no significant impact is expected in the financial statements. Additional disclosures will be required for the year 2019.

The Company will adopt IFRS 16 starting January 1, 2019. The Company has the intention to apply the simplified transition method, therefore comparative information will not be restated.

**31. CHANGES IN ACCOUNTING POLICIES**

The Company has initially applied the guidelines from IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers, starting January 1, 2018. Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

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A. IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This new standard supersedes IAS 18 for contracts of goods and services and IAS 11 for construction contracts. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when control of the goods or services is transferred to the customer.

The Company reviewed the contracts and agreements with its customers, based on the 5-step approach to revenue recognition. The Company's management concluded that the adoption of IFRS 15 did not have a significant impact in its financial position and operating results, except for some payments made to customers as part of the ordinary course of business, which are presented as a decrease of sales in the income statement. The following table presents a summary of the impacts from the adoption of IFRS 15 in the income statement for the year ended December 31, 2018.

*For the year ended December 31, 2018*  
*In thousand pesos*

	<u>As reported</u>	<u>Adjustments</u>	<u>Amounts without adoption of IFRS 15</u>
Net sales	Ps. 74,037,588	Ps. 763,126	Ps. 74,800,714
Selling and administrative expenses	(18,238,681)	(763,126)	(19,001,807)

For additional information about the Company's accounting policies relating to revenue recognition, see Note 3-P.

B. IFRS 9, Financial instruments

IFRS 9, "Financial Instruments", contains the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and presents a new impairment model for financial assets. This new standard supersedes IAS 39, Financial instruments – recognition and measurement.

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings.

<i>In thousand pesos</i>	<b>Impact of adopting IFRS 9 on opening balance</b>	
<b>Retained earnings:</b>		
Recognition of expected credit losses under IFRS 9.....	Ps.	(21,209)
Recognition for the restructure of Bank loan.....		11,928
Tax effect.....		2,118
<u>Impact at January 1, 2018.....</u>	<u>Ps.</u>	<u>(7,163)</u>

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Restructure of Bank Loans

In 2017, the Company restructured one of its bank loans to extend its maturity date to 4 more years. In return, commissions were paid for Ps.49,076 and the interest rate decreased from LIBOR + 1.5% to LIBOR + 1%. In accordance with paragraph AG62 of IAS 39, it was not considered that the refinancing of the terms of the credit would result in the extinction of the original credit. At the date of the restructuring, no effect was recognized in the results of the period. In contrast, the Company discounted the cash flows of the restructured loan at its effective interest rate, which means that the impact of changes in cash flows is being recognized during the remaining term of the restructured loan. Under IFRS 9, the cash flows of the refinanced credit must be discounted at the effective interest rate of the original credit. The foregoing would have resulted in the recognition of a gain in the results of the period of Ps.13,759. Since the Company choose not to restate the comparative amounts for the year prior to the adoption of IFRS 9, an adjustment of Ps.11,928 has been recognized, decreasing the long-term debt as of January 1, 2018 and a deferred tax liability increased by Ps.3,579. The net impact on for this adjustment is Ps.8,349 and was recognized in retained earnings.

Classification and measurement

IFRS 9 contains 3 principal classification categories for financial assets: measured at amortized cost, measured at fair value through profit or loss and measured at fair value through other comprehensive income. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 retains most of the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 did not have a significant effect in the accounting policies related to financial liabilities and derivative financial instruments. For more detail of the classification and measurement of financial instruments, see Note 20.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial assets and liabilities at January 1, 2018:

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

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<b>Financial Assets</b>	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying amount under IAS 39</b>	<b>New carrying amount under IFRS 9</b>
Cash and cash equivalents	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	3,229,980	3,229,980
Derivative financial instruments	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through profit or loss	91,792	91,792
Derivative financial instruments used as hedge	Hedge derivatives	Hedge derivatives	148,238	148,238
Accounts receivable	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	7,859,905	7,867,103
Long-term notes and accounts receivable	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	207,958	221,969
<b>Total Financial Assets</b>			<b>11,537,873</b>	<b>11,559,082</b>

<b>Financial Liabilities</b>	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying amount under IAS 39</b>	<b>New carrying amount under IFRS 9</b>
Current debt	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	2,896,675	2,896,675
Trade accounts payable	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	6,512,329	6,512,329
Derivative financial instruments	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through profit or loss	15,309	15,309
Derivative financial instruments used as hedge	Hedge derivatives	Hedge derivatives	58,926	58,926
Long-term debt	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	17,310,045	17,310,045
Other liabilities (excludes non-financial liabilities)	Loans, receivables and liabilities at amortized cost	Financial assets and liabilities at amortized cost	81,034	81,034
<b>Total Financial Liabilities</b>			<b>26,874,318</b>	<b>26,874,318</b>

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Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost.

The Company has determined that the application of the new impairment requirements of IFRS 9 at January 1, 2018 results in an additional allowance for impairment as follows.

Allowance for doubtful accounts at December 31, 2017 under IAS 39.....	Ps.196,026
Additional impairment recognized on:	
Accounts receivable.....	7,198
Long-term notes and accounts receivable.....	14,011
Allowance for doubtful accounts under IFRS 9.....	<u>Ps.217,235</u>

Additional information about how the Company measures the allowance for doubtful accounts is described in Note 3-J.

Hedge accounting

The Company has adopted the new general hedge accounting model in IFRS 9. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach for assessing hedge effectiveness. The Company concludes that the application of the new rules for hedge accounting did not have a significant impact in its financial position or results of operation.

[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 4, 2019

Dear Mr. Heather,

In compliance with the General Provisions Applicable to Entities and Issuers Supervised by the National Banking and Securities Commission (Commission) that Hire External Auditing for Basic Financial Statements Services (Provisions) issued on April 26, 2018, I hereby declare in accordance with article 37 of said Provisions, 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, 2018:

- I. I am a certified public accountant with certificate number 16175 issued by the college of professionals recognized by the Secretary of Public Education. Additionally, I comply with the other requirements indicated in articles 4 and 5 of the Provisions.
- II. From the date on which I provide my External Audit services, during the development of the same and until the issuance of the corresponding External Audit report, as well as the required communications and opinions in accordance with those indicated in Article 15 of the Provisions, as correspond, I comply with the requirements referred to in articles 4 and 5 of the Provisions. I also state that the Firm complies with the provisions of articles 6, 9 and 10, in relation to article 14 of the Provisions.
- III. That the Firm has documentary evidence of the implemented quality control system referred to in Article 9 of the Provisions and participates in a quality evaluation program that conforms to the requirements contemplated in Article 12 of the Provisions.
- IV. I grant my express consent to provide the Commission with the information it requires in order to verify compliance with the requirements described above.
- V. I hereby commit to keep physically or through electromagnetic means and for a period of not less than 5 years, counted from the conclusion of the audit, in my offices, all the documentation, information and other elements of judgment that cover the compliance of the previous requirements.
- VI. I have audited the basic financial statements of the Entity for 3 years; also the Firm in which I work has provided the external audit service for approximately 30 years-

/S/

C.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 30, 2019

Dear Mr. Heather,

In addition to the independence letter signed on April 4, 2019, regarding the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2018, 2017 y 2016 and in compliance with the General Provisions Applicable to Entities and Issuers Supervised by the National Banking and Securities Commission that Hire External Auditing for Basic Financial Statements Services (Provisions), issued on April 26, 2018, I hereby grant my consent for the Issuer to include in the annual information referred to in articles 33, section I, subparagraph b), number 1. of the General Provisions Applicable to Securities' Issuers and other Securities Market's Participants, the audit report on the financial statements issued by me.

The above, in the understanding that I previously ensured that the information contained in the basic financial statements included in the corresponding annual report, as well as any other financial information contained in said document which derive from the referred financial statements or the audit report presented by me, corresponds to the audited information, in order for said information to become of public knowledge.

/S/  
C.P.A. Víctor Gabriel Vecchi  
Audit Partner



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

CONSOLIDATED FINANCIAL STATEMENTS

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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, 2017, 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, 2017, 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 Company 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 (\$3,707 million at December 31, 2017) 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 involved in 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 for US, México and Spain, and assessed 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 assess 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 19 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, primarily in México and US. Derivative financial instrument assets total \$240 million and derivative instrument liabilities total \$74 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, not only because of the valuation that such financial instruments may have, but also due to the effect that these could have on the net income for the year.

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, 2017.
- We verified, on a selective basis, 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) (but does not include the consolidated 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 consolidated 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 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company 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.

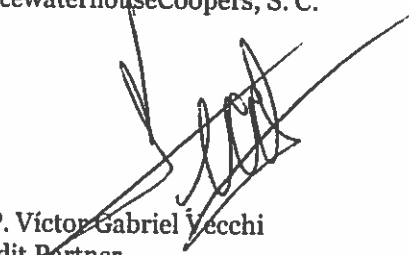
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 consolidated 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 stated below.

PricewaterhouseCoopers, S. C.



C.P. Víctor Gabriel Vecchi  
Audit Partner  
Monterrey, N. L., April 12, 2018



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2017 AND 2016**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

<b>A s s e t s</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Current:</b>			
Cash and cash equivalents.....	6	Ps. 3,229,980	Ps. 5,466,530
Derivative financial instruments.....	19	240,030	373,501
Accounts receivable, net.....	7	9,180,950	7,641,463
Inventories.....	8	10,789,674	8,682,347
Recoverable income tax.....		930,582	651,543
Prepaid expenses.....		336,614	294,052
Total current assets.....		24,707,830	23,109,436
<b>Non-current:</b>			
Long-term notes and accounts receivable.....	9	296,502	237,483
Property, plant and equipment, net.....	10	29,326,904	26,313,385
Intangible assets, net.....	11	4,222,703	4,025,654
Deferred tax assets.....	12	2,266,824	2,671,991
Total non-current assets.....		36,112,933	33,248,513
<b>Total Assets.....</b>		<b>Ps. 60,820,763</b>	<b>Ps. 56,357,949</b>
<b>L i a b i l i t i e s</b>			
<b>Current:</b>			
Short-term debt.....	13	Ps. 2,896,675	Ps. 3,724,718
Trade accounts payable.....		6,512,239	5,204,033
Derivative financial instruments.....	19	74,235	6,932
Provisions.....	14	105,466	123,075
Income tax payable.....		400,482	615,198
Other current liabilities.....	15	4,763,165	4,571,909
Total current liabilities.....		14,752,262	14,245,865
<b>Non-current:</b>			
Long-term debt.....	13	17,310,045	12,229,868
Provision for deferred taxes.....	12	1,306,945	2,753,772
Employee benefits obligations.....	16	885,143	736,173
Provisions.....	14	576,132	654,945
Other non-current liabilities.....		12,318	37,060
Total non-current liabilities.....		20,090,583	16,411,818
<b>Total Liabilities.....</b>		<b>34,842,845</b>	<b>30,657,683</b>
<b>E q u i t y</b>			
<b>Shareholders' equity:</b>			
Common stock.....	17	5,363,595	5,363,595
Reserves.....		2,113,128	2,284,597
Retained earnings.....	17	18,506,958	16,223,897
Total shareholders' equity.....		25,983,681	23,872,089
Non-controlling interest.....		(5,763)	1,828,177
<b>Total Equity.....</b>		<b>25,977,918</b>	<b>25,700,266</b>
<b>Total Liabilities and Equity.....</b>		<b>Ps. 60,820,763</b>	<b>Ps. 56,357,949</b>

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, 2017 AND 2016**  
(In thousands of Mexican pesos, except per-share data)  
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Net sales.....	5	Ps. 70,580,518	Ps. 68,206,284
Cost of sales.....	20	<u>(43,802,989)</u>	<u>(42,150,596)</u>
<b>Gross profit</b> .....		26,777,529	26,055,688
Selling and administrative expenses.....	20	(17,595,163)	(17,140,414)
Other income, net.....	21	<u>136,878</u>	<u>206,431</u>
<b>Operating income</b> .....		9,319,244	9,121,705
Comprehensive financing cost, net.....	23	<u>(1,263,231)</u>	<u>(438,429)</u>
<b>Income before income tax</b> .....		8,056,013	8,683,276
Income tax expense.....	24	<u>(1,782,063)</u>	<u>(2,449,338)</u>
<b>Consolidated net income</b> .....		<u>Ps. 6,273,950</u>	<u>Ps. 6,233,938</u>
Attributable to:			
Shareholders.....		Ps. 6,218,074	Ps. 5,922,042
Non-controlling interest.....		55,876	311,896
		<u>Ps. 6,273,950</u>	<u>Ps. 6,233,938</u>
Basic and diluted earnings per share (pesos).....		<u>Ps. 14.37</u>	<u>Ps. 13.68</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, 2017 AND 2016**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Consolidated net income</b> .....		Ps. 6,273,950	Ps. 6,233,938
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of employment benefit obligations.....	16	(118,509)	(27,350)
Income taxes.....	12	25,660	7,740
		<u>(92,849)</u>	<u>(19,610)</u>
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments.....		(305,070)	1,731,161
Cash flow hedges.....		140,197	88,286
Other.....		(72,966)	33,348
Income taxes.....	12	(26,321)	(48,636)
		<u>(264,160)</u>	<u>1,804,159</u>
Other comprehensive income, net of tax.....		<u>(357,009)</u>	<u>1,784,549</u>
<b>Total comprehensive income</b> .....		<u>Ps. 5,916,941</u>	<u>Ps. 8,018,487</u>
Total comprehensive income for the period is attributable to:			
Shareholders.....		Ps. 5,874,463	Ps. 7,703,417
Non-controlling interest.....		42,478	315,070
		<u>Ps. 5,916,941</u>	<u>Ps. 8,018,487</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, 2017 AND 2016**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Common stock (Note 18-A)		Reserves				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)	Retained earnings (Note 18-B)				
<b>Balances at December 31, 2015</b> .....	<u>432,749</u>	<u>Ps. 5,363,595</u>	<u>Ps. 492,985</u>	<u>Ps. 23,302</u>	<u>Ps. 11,154,288</u>	<u>Ps. 17,034,170</u>	<u>Ps. 1,559,716</u>	<u>Ps. 18,593,886</u>	
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	311,896	6,233,938	
Foreign currency translation adjustment (Net of taxes of Ps.13,048).....			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		57,274	832	58,106	
Other.....					33,348	33,348	-	33,348	
Comprehensive income of the year.....	-	-	1,711,036	57,274	5,935,107	7,703,417	315,070	8,018,487	
<b>Balances at December 31, 2016</b> .....	<u>432,749</u>	<u>Ps. 5,363,595</u>	<u>Ps. 2,204,021</u>	<u>Ps. 80,576</u>	<u>Ps. 16,223,897</u>	<u>Ps. 23,872,089</u>	<u>Ps. 1,828,177</u>	<u>Ps. 25,700,266</u>	
Transactions with owners of the Company:									
Dividends paid (Ps.4.27 per share).....					(1,847,839)	(1,847,839)	-	(1,847,839)	
Effect of acquisition of non-controlling interest, net of taxes.....					(1,915,032)	(1,915,032)	(1,876,418)	(3,791,450)	
	-	-	-	-	(3,762,871)	(3,762,871)	(1,876,418)	(5,639,289)	
Comprehensive income:									
Net income of the year.....					6,218,074	6,218,074	55,876	6,273,950	
Foreign currency translation adjustment (Net of taxes of Ps.(27,830)).....			(331,308)			(331,308)	(1,592)	(332,900)	
Remeasurement of employment benefit obligations (Net of taxes of Ps.25,660).....					(92,813)	(92,813)	(36)	(92,849)	
Cash flow hedges (Net of taxes of Ps.(19,795)).....				159,839		159,839	153	159,992	
Other.....					(79,329)	(79,329)	(11,923)	(91,252)	
Comprehensive income of the year.....	-	-	(331,308)	159,839	6,045,932	5,874,463	42,478	5,916,941	
<b>Balances at December 31, 2017</b> .....	<u>432,749</u>	<u>Ps. 5,363,595</u>	<u>Ps. 1,872,713</u>	<u>Ps. 240,415</u>	<u>Ps. 18,506,958</u>	<u>Ps. 25,983,681</u>	<u>Ps. (5,763)</u>	<u>Ps. 25,977,918</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 CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(In thousands of Mexican pesos)  
(Notes 1, 2 and 3)

	Note	2017	2016
Operating activities:			
<b>Income before taxes</b> .....		Ps. 8,056,013	Ps. 8,683,276
Derivative financial instruments.....	21 and 23	59,061	(221,596)
Foreign exchange (gain) loss from working capital.....		(153,980)	8,769
Net cost of the year for employee benefit obligations.....		233,354	211,501
Allowance for doubtful accounts.....		3,699	26,221
Items related with investing activities:			
Depreciation and amortization.....		2,008,675	1,898,544
Impairment of long-lived assets.....		-	(77,964)
Cost of disposed fixed assets.....		16,039	21,975
Interest income.....		(23,974)	(13,178)
(Gain) loss in sale of fixed assets and damaged assets.....		(25,631)	7,792
Items related with financing activities:			
Derivative financial instruments.....	21 and 23	614,147	(554,683)
Foreign exchange loss from debt.....		68,219	391,366
Interest expense.....		795,089	613,682
		<u>11,650,711</u>	<u>10,995,705</u>
Accounts receivable.....		(1,730,221)	133,703
Inventories.....		(2,525,584)	(25,026)
Prepaid expenses.....		(41,032)	(65,222)
Trade accounts payable.....		1,301,409	874,896
Accrued liabilities and other accounts payables.....		(222,771)	190,534
Income taxes paid.....		(3,225,476)	(2,952,561)
Payments of employee benefits obligations.....		(209,143)	(174,725)
		<u>(6,652,818)</u>	<u>(2,018,401)</u>
<b>Net cash flows from operating activities</b> .....		<u>4,997,893</u>	<u>8,977,304</u>
Investing activities:			
Acquisitions of property, plant and equipment.....	5	(5,157,873)	(5,598,795)
Sale of property, plant and equipment.....		133,900	161,707
Acquisition of intangible assets.....	11	(158,942)	(55,210)
Interests collected.....		23,976	13,178
Other.....		(27,402)	(5,657)
<b>Net cash flows used in investing activities</b> .....		<u>(5,186,341)</u>	<u>(5,484,777)</u>
<b>Cash to be used in financing activities</b> .....		<u>(188,448)</u>	<u>3,492,527</u>
Financing activities:			
Proceeds from debt.....	13	32,836,276	7,517,954
Payment of debt.....	13	(28,576,320)	(7,440,085)
Payment of contingent liability.....	28	-	(1,110,276)
Interests paid.....		(736,876)	(585,871)
Derivative financial instruments collected.....		(571,576)	460,618
Acquisition of non-controlling interest.....	18	(3,791,450)	-
Dividends paid.....		(1,356,670)	(479,359)
<b>Net cash flows used in financing activities</b> .....		<u>(2,196,616)</u>	<u>(1,637,019)</u>
Net (decrease) increase in cash and cash equivalents.....		(2,385,064)	1,855,508
Exchange differences on cash.....		148,514	691,968
<b>Cash and cash equivalents at the beginning of the year</b> .....		<u>5,466,530</u>	<u>2,919,054</u>
<b>Cash and cash equivalents at the end of the year</b> .....		<u>Ps. 3,229,980</u>	<u>Ps. 5,466,530</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, 2017 AND 2016**  
**(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 Río de la Plata 407 in San Pedro Garza García, Nuevo León, Mexico. GRUMA is listed on the Mexican Stock Exchange.

The consolidated financial statements were authorized by the Chief Administrative Office of the Company on February 21, 2018.

**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 adopted the new standards that were effective starting January 1, 2017, being the most relevant the “Disclosure Initiative – Amendments to IAS 7”, which requires an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities; this disclosure is included in Note 13.

**A) BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared based on 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.

**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.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017 AND 2016**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

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 19).
- 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 12 and 24).
- 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 10 and 11).
- The actuarial assumptions used for the determination of employee benefits obligations (Note 16).
- The key assumptions in impairment testing of the investment in Venezuela (Notes 25 and 27).

**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, 2017 and 2016, the main subsidiaries included in the consolidation are:

	<b>% of ownership</b>	
	<b>2017</b>	<b>2016</b>
Gruma Corporation and subsidiaries.....	100.00	100.00
Grupo Industrial Maseca, S.A. de C.V. and subsidiaries <sup>(*)</sup> .....	99.92	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

<sup>(\*)</sup> Formerly Grupo Industrial Maseca, S.A.B. de C.V. and subsidiaries.

At December 31, 2017 and 2016, there were no significant restrictions for the investment in the subsidiaries mentioned above, except for those described in Note 25.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017 AND 2016**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

On June 26, 2017, the Company was granted authorization by the Mexican Stock Exchange to conduct a public offer (“the Offer”) to acquire the outstanding capital stock of Grupo Industrial Maseca, S.A. de C.V. (“GIMSA”). Through the Offer, which took place from June 26, 2017 to July 21, 2017, the Company acquired 131,225,968 of GIMSA's shares for a total amount of Ps.3,280,649, representing 14.29% of GIMSA’s capital stock. Subsequently, the Company acquired 914,921 of GIMSA's shares for an amount of Ps.22,873. At December 31, 2017, the Company owns 917,369,764 of GIMSA’s shares, representing 99.92% of GIMSA’s capital stock.

The total amount of GIMSA’s shares acquired was Ps.3,303,522, which represents 132,140,889 shares at a price of Ps.25.00 pesos per share.

As of December 31, 2017, the Company recognized an effect in equity of Ps.1,621,215 for the excess in the price of the shares acquired.

During 2017, GIMSA acquired shares held by non-controlling interest amounting to Ps.480,713; additionally, GIMSA made an acquisition of its own shares of Ps.7,215. GIMSA recognized an effect in equity for the excess in the price of the shares acquired from non-controlling interest and the acquisition of its own shares of Ps.193,751.

**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.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2017 AND 2016**  
**(In thousands of Mexican pesos, except where otherwise indicated)**

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.

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-K 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, 2017</u>	<u>As of December 31, 2016</u>
Pesos per U.S. dollar.....	19.7354	20.6640
Pesos per Euro.....	23.5956	21.6745
Pesos per Swiss franc.....	20.1711	20.1876
Pesos per Venezuelan bolivar (Bs.).....	1.4619	1.5307
Pesos per Australian dollar.....	15.3738	14.9177
Pesos per Chinese yuan.....	3.0171	2.9734
Pesos per Pound sterling.....	26.5441	25.3506
Pesos per Malaysian ringgit.....	4.8529	4.6074
Pesos per Costa Rica colon.....	0.0343	0.0369
Pesos per Ukrainian hryvnia.....	0.7044	0.7626
Pesos per Russian ruble.....	0.3426	0.3407
Pesos per Turkish lira.....	5.2322	5.8718

**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.

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**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:

	<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.

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**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.

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, 2017 and 2016 are disclosed in Note 19-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

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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 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 25). 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, 2017 and 2016, 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 19-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 17-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, 2017 and 2016, 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, 2017 and 2016. 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, 2017:

	Amounts in thousands of Mexican pesos				
	U.S. Dollar	Pound sterling	Euros	Costa Rica colons and others	Total
Monetary assets:					
Current (1).....	Ps. 5,535,663	Ps. 402,800	Ps. 878,847	Ps. 2,292,559	Ps. 9,109,869
Non-current.....	17,893	-	925	55,903	74,721
Monetary liabilities:					
Current.....	(5,853,974)	(286,047)	(647,395)	(1,114,152)	(7,901,568)
Non-current.....	(17,626,534)	(319)	(364,220)	(59,828)	(18,050,901)
Net position.....	Ps. (17,926,952)	Ps. 116,434	Ps. (131,843)	Ps. 1,174,482	Ps. (16,767,879)

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)

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

For the years ended December 31, 2017 and 2016, the effects of exchange rate differences on the Company's monetary assets and liabilities were recognized as follows:

	2017	2016
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 (Note 17-C).....	Ps. 92,768	Ps. (2,165,941)
Exchange differences, net, arising from foreign currency transactions recognized in the income statement.....	85,761	(400,135)
	Ps. 178,529	Ps. (2,566,076)

Net sales are denominated in Mexican pesos, U.S. dollars, and other currencies. Sales generated in Mexican pesos were 27% in 2017 and 25% in 2016 of total net sales. Sales generated in U.S. dollars were 56% in 2017 and 55% in 2016 of total net sales. Additionally, at December 31, 2017 and 2016, 64% and 71%, 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, 2017 and 2016, net sales in currencies other than Mexican pesos amounted to Ps.51,564,798 and Ps. 50,848,202, 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 2017 and 2016, 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, 2017 and 2016, the Company has open positions of foreign exchange derivative instruments of Ps.240,030 and Ps. 134,363, respectively.

The effect of foreign currency translation adjustments recognized in the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016, amounted Ps.(305,070) and Ps.1,731,161, respectively. Considering the exposure at December 31, 2017 and 2016, 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.867,434 and Ps.1,240,813, respectively.

The effect of foreign exchange differences recognized in the consolidated income statements for the years ended December 31, 2017 and 2016, related with the assets and liabilities denominated in foreign currency, totaled a gain of Ps.85,761 and a loss Ps.(400,135), respectively. Considering the exposure at December 31, 2017 and 2016, 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.25,752 and Ps.2,991, 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, 2017 and 2016, the Company's debt at fixed and variable rates:

	<b>Amounts in thousands of Mexican pesos</b>	
	<b>2017</b>	<b>2016</b>
Debt at fixed interest rate.....	Ps. 8,245,334	Ps. 9,922,854
Debt at variable interest rate.....	11,961,386	6,031,732
Total.....	Ps. 20,206,720	Ps. 15,954,586

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, 2017 and 2016 will have an effect on the results of the Company of Ps.119,614 and Ps.60,317, 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, swaps 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 2017 and 2016, the Company entered into short-term hedge transactions through commodity futures, swaps 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, 2017, financial instruments that qualify as hedge accounting represented a loss of Ps.56,471, and at December 31, 2016, financial instruments that qualify as hedge accounting represented a gain of Ps.23,320. These results were recognized as comprehensive income within equity.

From time to time, the Company hedges commodity price risks using futures, swaps 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, 2017 and 2016, the Company recognized a loss of Ps.151,280 and a gain of Ps.198,628, respectively. Additionally, as of December 31, 2017 and 2016, the Company realized a net gain of Ps.92,219 and Ps.22,968, respectively, on commodity price risk hedges that did not qualify for hedge accounting.

Based on the Company's overall commodity exposure at December 31, 2017 and 2016, 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.37,016 and Ps.62,586, 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 2017 and 2016, 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". 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 none of these financial instruments are 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 25 and 27 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, 2017:

	<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. 2,896,675	Ps.2,053,026	Ps. 7,393,879	Ps.7,974,035	Ps. 20,317,615
Interest payable from short and long term debt.....	696,452	1,245,462	1,016,774	741,247	3,699,935
Trade accounts and other payables.....	11,306,066	-	-	-	11,306,066
Derivative financial instruments.....	74,235	-	-	-	74,235
	<u>Ps.14,973,428</u>	<u>Ps.3,298,488</u>	<u>Ps. 8,410,653</u>	<u>Ps.8,715,282</u>	<u>Ps. 35,397,851</u>



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At December 31, 2016:

	<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. 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>

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 13.

## **5. 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):**  
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.
- **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, 2017:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
Net sales to external customers.....	Ps. 38,552,157	Ps. 17,971,607	Ps. 5,114,844	Ps. 8,942,155	Ps. (245)	Ps. 70,580,518
Inter-segment net sales.....	64,921	1,536,422	8,229	1,856,735	(3,466,307)	-
Operating income.....	5,359,471	2,292,776	179,970	607,425	879,602	9,319,244
Depreciation and amortization.....	1,251,929	791,515	211,307	367,590	(597,627)	2,024,714
Total assets.....	24,287,162	17,061,335	7,630,603	12,156,994	(315,331)	60,820,763
Total liabilities.....	5,363,075	4,836,047	1,901,214	6,509,133	16,233,376	34,842,845
Expenditures paid in the year for fixed assets....	2,369,801	603,533	877,495	808,901	498,143	5,157,873

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Segment information as of and for the year ended December 31, 2016:

	<b>Corn flour and packaged tortilla division (United States)</b>	<b>Corn flour division (Mexico)</b>	<b>Corn flour and packaged tortilla division (Europe)</b>	<b>Other segments</b>	<b>Eliminations and corporate expenses</b>	<b>Total</b>
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

A summary of information by geographic segment for the years ended December 31, 2017 and 2016 is presented below:

	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>
<u>Net sales to external customers:</u>				
United States.....	Ps. 38,552,157	55	Ps. 38,140,885	56
Mexico.....	19,015,720	27	17,358,082	25
Europe.....	5,114,844	7	4,978,823	7
Central America.....	4,532,878	6	4,638,775	7
Asia and Oceania.....	3,364,919	5	3,089,719	5
	<u>Ps. 70,580,518</u>	<u>100</u>	<u>Ps. 68,206,284</u>	<u>100</u>
<u>Expenditures paid in the year for fixed assets:</u>				
United States.....	Ps. 2,369,801	46	Ps. 2,329,740	42
Mexico.....	1,526,842	29	1,443,302	26
Europe.....	877,495	17	1,077,068	19
Central America.....	184,112	4	188,624	3
Asia and Oceania.....	199,623	4	560,061	10
	<u>Ps. 5,157,873</u>	<u>100</u>	<u>Ps. 5,598,795</u>	<u>100</u>
<u>Identifiable assets</u>				
United States.....	Ps. 24,287,162	40	Ps. 24,768,779	44
Mexico.....	20,984,946	35	17,025,660	30
Europe.....	7,630,603	12	6,523,845	12
Central America.....	2,932,452	5	3,216,550	6
Asia and Oceania.....	4,985,600	8	4,823,115	8
	<u>Ps. 60,820,763</u>	<u>100</u>	<u>Ps. 56,357,949</u>	<u>100</u>

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**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Cash at bank.....	Ps. 3,130,860	Ps. 5,420,607
Short-term investments (less than 3 months).....	99,120	45,923
	<u>Ps. 3,229,980</u>	<u>Ps. 5,466,530</u>

**7. ACCOUNTS RECEIVABLE**

Accounts receivable comprised the following:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Trade accounts and notes receivable.....	Ps. 7,367,947	Ps. 6,754,387
Accounts receivable with Venezuelan companies.....	1,494,352	1,564,665
Recoverable value-added tax.....	1,320,816	861,594
Other debtors.....	688,213	314,154
Allowance for doubtful accounts.....	(196,026)	(288,672)
Impairment of accounts receivable with Venezuelan companies.....	(1,494,352)	(1,564,665)
	<u>Ps. 9,180,950</u>	<u>Ps. 7,641,463</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. 9,376,976	Ps. 6,566,735	Ps. 2,525,696	Ps. 91,286	Ps. 193,259
Allowance for doubtful accounts..	(196,026)	-	(53,989)	(21,398)	(120,639)
Total at December 31, 2017.....	<u>Ps. 9,180,950</u>	<u>Ps. 6,566,735</u>	<u>Ps. 2,471,707</u>	<u>Ps. 69,888</u>	<u>Ps. 72,620</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. 7,930,135	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>

(\*) Accounts receivable with Venezuelan companies refer to discontinued operations and were not included in the age analysis of accounts receivable for 2017 and 2016.

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For the years ended December 31, 2017 and 2016, the movements on the allowance for doubtful accounts are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance.....	Ps. (288,672)	Ps. (287,186)
Allowance for doubtful accounts.....	(3,699)	(26,221)
Receivables written off during the year.....	91,009	41,422
Exchange differences.....	5,336	(16,687)
Ending balance.....	<u>Ps. (196,026)</u>	<u>Ps. (288,672)</u>

## 8. INVENTORIES

Inventories consisted of the following:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Raw materials, mainly corn and wheat.....	Ps. 7,248,115	Ps. 4,876,294
Finished products.....	1,229,293	1,304,677
Materials and spare parts.....	1,932,925	2,045,647
Production in process.....	209,981	219,526
Advances to suppliers.....	85,200	133,179
Inventory in transit.....	84,160	103,024
	<u>Ps. 10,789,674</u>	<u>Ps. 8,682,347</u>

For the years ended December 31, 2017 and 2016, the cost of raw materials consumed and the changes in the inventories of production in process and finished goods, recognized as cost of sales amounted to Ps.26,326,418 and Ps.25,692,882, respectively.

For the years ended December 31, 2017 and 2016, the Company recognized Ps.132,976 and Ps.102,607, respectively, for inventory that was damaged, slow-moving and obsolete.

## 9. LONG-TERM NOTES AND ACCOUNTS RECEIVABLE

Long-term notes and accounts receivable are as follows:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Long-term notes receivable.....	Ps. 198,559	Ps. 140,655
Guarantee deposits.....	52,928	45,549
Long-term recoverable value-added tax.....	35,616	38,508
Other.....	9,399	12,771
	<u>Ps. 296,502</u>	<u>Ps. 237,483</u>

At December 31, 2017 and 2016, long-term notes receivable are denominated in pesos, maturing from 2019 to 2026 and bearing monthly interests at an annual average rate of 16% for 2017 and 16.5% for 2016.

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**10. PROPERTY, PLANT AND EQUIPMENT**

Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

	<b>Land and buildings</b>	<b>Machinery and equipment</b>	<b>Leasehold improvements</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At December 31, 2015</b>					
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>
<b>For the year ended December 31, 2016</b>					
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>
<b>At December 31, 2016</b>					
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>
<b>For the year ended December 31, 2017</b>					
Opening net book value...	Ps. 6,611,957	Ps. 14,332,072	Ps. 1,061,478	Ps. 4,307,878	Ps. 26,313,385
Exchange differences.....	(57,381)	(182,984)	(38,848)	(76,465)	(355,678)
Additions.....	463,161	589,026	26,822	4,078,864	5,157,873
Disposals.....	(11,225)	(96,674)	(14,002)	(2,407)	(124,308)
Depreciation charge of the year.....	(250,410)	(1,570,463)	(119,182)	-	(1,940,055)
Transfers.....	761,292	2,210,458	319,791	(3,291,541)	-
Other assets leased, net of depreciation.....	-	275,687	-	-	275,687
Closing net book value...	<u>Ps. 7,517,394</u>	<u>Ps. 15,557,122</u>	<u>Ps. 1,236,059</u>	<u>Ps. 5,016,329</u>	<u>Ps. 29,326,904</u>
<b>At December 31, 2017</b>					
Cost.....	Ps. 11,255,370	Ps. 37,469,766	Ps. 2,335,481	Ps. 5,016,329	Ps. 56,076,946
Accumulated depreciation.....	(3,737,976)	(21,912,644)	(1,099,422)	-	(26,750,042)
Net book value.....	<u>Ps. 7,517,394</u>	<u>Ps. 15,557,122</u>	<u>Ps. 1,236,059</u>	<u>Ps. 5,016,329</u>	<u>Ps. 29,326,904</u>

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For the years ended December 31, 2017 and 2016, depreciation expense was recognized as follows:

	<b>2017</b>	<b>2016</b>
Cost of sales.....	Ps. 1,550,143	Ps. 1,450,094
Selling and administrative expenses.....	389,912	369,382
	Ps. 1,940,055	Ps. 1,819,476

At December 31, 2017 and 2016, property, plant and equipment included idle assets with a carrying value of approximately Ps.110,857 and Ps. 119,490, 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 year ended December 31, 2016, the Company recognized a reversal of impairment on fixed assets of Ps.77,964, respectively, within "Other income (expenses)".

The reversal of impairment in 2016 for Ps.77,964 was due to the opening of 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 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 Company recognized equipment under finance lease arrangements that are described in Note 26-B.

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**11. INTANGIBLE ASSETS**

Changes in intangible assets for the years ended December 31, 2017 and 2016 were as follows:

	Intangible assets acquired					Total
	Goodwill	Covenants not to compete	Patents and trade- marks	Customer lists	Software for internal use and other	
<b>At December 31, 2015</b>						
Cost.....	Ps. 3,203,947	Ps. 460,762	Ps. 213,095	Ps. 231,798	Ps. 426,113	Ps. 4,535,715
Accumulated amortization.....	-	(460,091)	(128,069)	(54,380)	(391,115)	(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. 34,998</u>	<u>Ps. 3,502,060</u>
<b>For the year ended December 31, 2016</b>						
Opening net book value...	Ps. 3,203,947	Ps. 671	Ps. 85,026	Ps. 177,418	Ps. 34,998	Ps. 3,502,060
Exchange differences.....	461,179	63	14,097	28,099	3,900	507,338
Additions.....	-	-	-	-	55,210	55,210
Disposals.....	-	-	(104)	-	(10,753)	(10,857)
Amortization charge.....	-	(734)	(5,209)	(16,005)	(6,149)	(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. 4,025,654</u>
<b>At December 31, 2016</b>						
Cost.....	Ps. 3,665,126	Ps. 463,459	Ps. 181,108	Ps. 271,443	Ps. 474,711	Ps. 5,055,847
Accumulated amortization.....	-	(463,459)	(87,298)	(81,931)	(397,505)	(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. 4,025,654</u>
<b>For the year ended December 31, 2017</b>						
Opening net book value...	Ps. 3,665,126	Ps. -	Ps. 93,810	Ps. 189,512	Ps. 77,206	Ps. 4,025,654
Exchange differences.....	42,570	-	2,156	10,178	2,747	57,651
Additions.....	-	-	-	-	158,942	158,942
Amortization charge.....	-	-	(2,484)	(9,764)	(7,296)	(19,544)
Closing net book value...	<u>Ps. 3,707,696</u>	<u>Ps. -</u>	<u>Ps. 93,482</u>	<u>Ps. 189,926</u>	<u>Ps. 231,599</u>	<u>Ps. 4,222,703</u>
<b>At December 31, 2017</b>						
Cost.....	Ps. 3,707,696	Ps. 447,341	Ps. 167,063	Ps. 270,427	Ps. 618,079	Ps. 5,210,606
Accumulated amortization.....	-	(447,341)	(73,581)	(80,501)	(386,480)	(987,903)
Net book value.....	<u>Ps. 3,707,696</u>	<u>Ps. -</u>	<u>Ps. 93,482</u>	<u>Ps. 189,926</u>	<u>Ps. 231,599</u>	<u>Ps. 4,222,703</u>

At December 31, 2017 and 2016, except for goodwill, the Company does not have indefinite-lived intangible assets.

For the years ended December 31, 2017 and 2016, amortization expense of intangible assets from continuing operations amounted to Ps.19,544 and Ps.28,097, respectively, which were recognized in the income statement as selling and administrative expenses.

Research and development costs of Ps.156,977 and Ps.159,106 that did not qualify for capitalization were recognized in the income statement for the years ended December 31, 2017 and 2016, respectively.



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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, 2017</u>	<u>At December 31, 2016</u>
Mission Foods Division (1).....	Ps. 1,173,862	Ps. 1,229,095
Gruma Spain (2).....	827,193	759,842
Gruma UK (2).....	442,798	406,745
Rositas Investments Pty, Ltd (2).....	226,757	220,031
Gruma Corporation.....	212,765	212,765
Azteca Milling, L.P (1).....	145,312	152,149
Semolina, A.S (2).....	129,422	146,716
NDF Azteca Milling Europe SRL (2).....	136,496	121,574
Grupo Industrial Maseca, S.A. de C.V.....	98,622	98,622
Agroindustrias Integradas del Norte, S.A. de C.V (3).....	86,325	86,325
Solntse Mexico (2).....	55,568	55,270
Gruma Centroamérica (2).....	51,207	51,207
Altera LLC (2).....	41,269	44,685
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. 3,707,696</u>	<u>Ps. 3,665,126</u>

- (1) Subsidiary of Gruma Corporation  
(2) Subsidiary of Gruma International Foods, S.L.  
(3) Subsidiary of Grupo Industrial Maseca, S.A. de C.V.

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In 2017 and 2016, 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:

<b>Cash-generating unit</b>	<b>After-tax discount rates</b>		<b>Growth rates</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Mission Foods Division.....	6.8%	6.0%	1.3%	1.7%
Gruma Spain.....	9.9%	9.0%	2.5%	2.5%
Gruma UK.....	8.8%	7.9%	2.5%	2.5%
Rositas Investment PTY, LTD.....	8.2%	8.7%	3.0%	3.0%
Gruma Corporation.....	6.8%	6.0%	2.5%	2.5%
Azteca Milling, L.P.....	8.0%	7.0%	1.3%	1.7%
Semolina A.S.....	10.6%	9.5%	2.5%	2.5%
NDF Azteca Milling Europe SRL.....	9.9%	8.8%	2.1%	2.1%
Grupo Industrial Maseca, S.A. de C.V.....	9.2%	8.3%	2.5%	2.5%
Agroindustrias Integradas del Norte, S.A. de C.V.	9.2%	8.3%	2.5%	2.5%
Solntse Mexico.....	11.1%	10.2%	2.5%	2.5%
Gruma Centroamérica.....	10.3%	9.4%	2.5%	2.5%
Altera LLC.....	17.2%	16.5%	2.5%	2.5%
Molinos Azteca de Chiapas, S.A. de C.V.....	9.2%	8.3%	2.5%	2.5%
Harinera de Yucatán, S.A. de C.V.....	9.2%	8.3%	2.5%	2.5%
Harinera de Maíz de Mexicali, S.A. de C.V.....	9.2%	8.3%	2.5%	2.5%
Molinos Azteca, S.A. de C.V.....	9.2%	8.3%	2.5%	2.5%
Harinera de Maíz de Jalisco, S.A. de C.V.....	9.2%	8.3%	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.

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**12. DEFERRED TAX ASSETS AND LIABILITIES**

**A) COMPONENTS OF DEFERRED TAX**

The principal components of deferred tax assets and liabilities are summarized as follows:

	(Asset) Liability	
	At December 31, 2017	At December 31, 2016
Net operating loss carryforwards and other tax credits.....	Ps. (1,211,398)	Ps. (1,543,909)
Customer advances.....	(8,305)	(10,777)
Allowance for doubtful accounts.....	(7,501)	(4,401)
Provisions.....	(770,907)	(892,208)
Deferred income for trademarks license with subsidiary.....	(670,947)	(351,819)
Derivative financial instruments.....	(8,388)	11,964
Other.....	(211,378)	(125,970)
Deferred tax asset.....	<u>(2,888,824)</u>	<u>(2,917,120)</u>
Property, plant and equipment, net.....	1,683,124	2,532,274
Prepaid expenses.....	12,548	19,840
Inventories.....	773	19,145
Intangible assets.....	230,932	363,871
Other.....	1,568	445
	<u>1,928,945</u>	<u>2,935,575</u>
Tax consolidation effect.....	-	63,326
Deferred tax liability.....	<u>1,928,945</u>	<u>2,998,901</u>
Net provision for deferred taxes.....	<u>Ps. (959,879)</u>	<u>Ps. 81,781</u>

At December 31, 2017 and 2016, the Company did not recognize a deferred income tax asset of Ps.263,357 and Ps.382,596, 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 2026.

At December 31, 2017 and 2016, undistributed taxable income of subsidiaries amounted to Ps.1,310,220 and Ps.1,713,594, 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 near 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.393,066 and Ps.514,078 as of December 31, 2017 and 2016, respectively.

At December 31, 2017, the Company re-measured the deferred tax assets and liabilities of its United States subsidiaries (Gruma Corporation and subsidiaries) to reflect the reduction in the federal corporate tax rate from 35% to 21% effective January 1, 2018. The federal corporate tax rate of 21% is expected to apply when the Company's related deferred tax assets and liabilities are realized or settled, respectively. For the year ended December 31, 2017, the net effect of the change in income tax rate in Gruma Corporation was U.S.\$29 million. The Company does not anticipate other tax effects to apply from the recently enacted tax reform legislation.

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The changes in the temporary differences during the year were as follows:

	<b>Balance at January 1, 2017</b>	<b>Recogni- zed in income</b>	<b>Recognized in other compre- hensive income</b>	<b>Reclassifi- -cations</b>	<b>Foreign currency translation</b>	<b>Balance at December 31, 2017</b>
Net operating loss carryforwards and other tax credits.....	Ps.(1,543,909)	Ps. 309,315	Ps. 41,626	Ps. -	Ps. (18,430)	Ps.(1,211,398)
Customer advances.....	(10,777)	(18,826)	4,577	16,721	-	(8,305)
Allowance for doubtful accounts	(4,401)	(3,161)	-	15	46	(7,501)
Provisions.....	(892,208)	42,573	(24,932)	81,483	22,177	(770,907)
Deferred income from trademark license with subsidiary.....	(351,819)	(307,697)	-	(11,431)	-	(670,947)
Derivative financial instruments.	11,964	-	(19,795)	-	(557)	(8,388)
Others.....	(125,970)	(20,160)	-	(66,837)	1,589	(211,378)
Deferred tax asset.....	(2,917,120)	2,044	1,476	19,951	4,825	(2,888,824)
Property, plant and equipment...	2,532,274	(770,480)	(815)	(2,507)	(75,348)	1,683,124
Prepaid expenses.....	19,840	(8,359)	-	-	1,067	12,548
Inventories.....	19,145	142	-	(18,468)	(46)	773
Intangible assets.....	363,871	(120,326)	-	423	(13,036)	230,932
Others.....	445	(3,759)	-	(200)	5,082	1,568
	<u>2,935,575</u>	<u>(902,782)</u>	<u>(815)</u>	<u>(20,752)</u>	<u>(82,281)</u>	<u>1,928,945</u>
Tax consolidation effect.....	63,326	(63,326)	-	-	-	-
Deferred tax liability.....	<u>2,998,901</u>	<u>(966,108)</u>	<u>(815)</u>	<u>(20,752)</u>	<u>(82,281)</u>	<u>1,928,945</u>
Net provision for deferred taxes	<u>Ps. 81,781</u>	<u>Ps.(964,064)</u>	<u>Ps. 661</u>	<u>Ps. (801)</u>	<u>Ps. (77,456)</u>	<u>Ps. (959,879)</u>

	<b>Balance at January 1, 2016</b>	<b>Recogni- zed in income</b>	<b>Recognized in other compre- hensive income</b>	<b>Reclassifi- -cations</b>	<b>Foreign currency translation</b>	<b>Balance at December 31, 2016</b>
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.....	(2,348,674)	(498,698)	22,621	(9,533)	(82,836)	(2,917,120)
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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**B) TAX LOSS CARRYFORWARDS**

At December 31, 2017, the Company had tax loss carryforwards which amounted to approximately Ps.987,954. 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.110,098 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>
2018.....	Ps. 6,099
2019.....	4,821
2020.....	817
2021.....	1,091
2022 to 2025.....	97,270
Total.....	<u>Ps. 110,098</u>

**C) UNCERTAIN TAX POSITIONS**

At December 31, 2017 and 2016, the Company recognized a liability for uncertain tax positions of Ps.10,006 and Ps.18,308, 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>2017</u>	<u>2016</u>
Uncertain tax positions at beginning of year.....	Ps. 18,308	Ps. 34,334
Translation adjustment of the beginning balance.....	(822)	25,344
Reductions due to settlements.....	-	(5,249)
Reductions due to a lapse of the statute of limitations.....	(7,480)	(36,121)
Uncertain tax positions at end of year.....	<u>Ps. 10,006</u>	<u>Ps. 18,308</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.1,539 and Ps.2,211 related to uncertain tax positions for 2017 and 2016, respectively.

**D) TAX EFFECTS FROM OTHER COMPREHENSIVE INCOME**

Deferred taxes related to other comprehensive income are comprised of:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Foreign currency translation adjustments.....	Ps. 27,830	Ps. 18,456
Remeasurement of employment benefit obligations.....	(25,660)	(7,740)
Cash flow hedges.....	(19,795)	30,180
Other.....	18,286	-
Total.....	<u>Ps. 661</u>	<u>Ps. 40,896</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 85% of the income tax resulting from the deconsolidation was paid in 2017 (15%), 2016 (20%), 2015 and 2014 (25% in each year) and the 15% remaining income tax (restated with inflation factors) must be paid to the tax authority 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, 2017, the liability arising from tax consolidation regime effective December 31, 2013 amounted to Ps.75,482 and will be paid in 2018. At December 31, 2017, this income tax was classified in the statement of financial position as short-term income tax payable.

**13. DEBT**

Debt is summarized as follows:

Short-term:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Bank loans.....	Ps. 2,795,899	Ps. 2,971,580
Current portion of long-term bank loans.....	100,776	749,843
Current portion of financing lease liabilities.....	-	3,295
	<u>Ps. 2,896,675</u>	<u>Ps. 3,724,718</u>

Long-term:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Bank loans.....	Ps. 17,410,821	Ps. 12,979,711
Financing lease liabilities.....	-	3,295
	<u>17,410,821</u>	<u>Ps. 12,983,006</u>
Current portion of long-term bank loans.....	(100,776)	(749,843)
Current portion of financing lease liabilities.....	-	(3,295)
	<u>Ps. 17,310,045</u>	<u>Ps. 12,229,868</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, 2017</u>	<u>At December 31, 2016</u>
10-year Senior notes <sup>(b)</sup> .....	U.S.\$	4.875%	2024	Ps. 7,844,166	Ps. 8,209,779
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2022	4,933,850	-
Syndicated loan <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.0%	2019-2022	2,905,669	-
Credits .....	Pesos	7.38% - 7.79%	2018	2,490,000	-
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 0.75%	2020	1,276,541	-
Credit .....	Euros	1.19% - 3.95%	2017-2022	401,167	209,780
Credits .....	U.S.\$	1.83% - 2.09%	2018	305,899	671,580
Credit .....	Euros	1.29%	2018-2020	26,332	-
Credit .....	Euros	EURIBOR + 0.65%	2018-2021	23,096	-
Syndicated loan <sup>(a)</sup> .....	U.S.\$	LIBOR + 1.5%	2015-2018	-	3,176,445
Credits .....	Pesos	5.53% - 6.43%	2017	-	1,500,000
Revolving credit <sup>(a)</sup> .....	U.S.\$	LIBOR + 0.95%	2018	-	1,368,484
Credits .....	Pesos	6.05% - 6.20%	2017	-	800,000
Credit .....	Pesos	5.98%	2021	-	15,223
Financing lease liability .....	Euros	3.99%	2014-2017	-	3,295
Total .....				Ps. 20,206,720	Ps. 15,954,586

(a) Quarterly interest payments; (b) Semiannual interest payments  
- The remaining debt pays interests on a monthly basis, or at maturity.

At December 31, 2017 and 2016, short-term debt bore interest at an average rate of 7.00% and 5.22%, respectively. At December 31, 2017 and 2016, interest expense included interest related to debt amounting Ps.795,089 and Ps.613,682, respectively.

At December 31, 2017, the annual maturities of long-term debt outstanding were as follows:

<u>Year</u>	<u>Amount</u>
2019.....	Ps. 248,993
2020.....	1,804,033
2021.....	486,596
2022.....	6,901,023
2023 and thereafter	7,869,400
Total.....	Ps. 17,310,045

On April 21, 2017, in order to refinance the short-term bank debt, the Company obtained a long-term syndicated loan facility of U.S.\$400 million. The credit facility was obtained from the following group of banks, in equal portions: Banco Nacional de México, S.A., member of Grupo Financiero Banamex, Bank Of America, N.A., The Bank of Tokyo-Mitsubishi Ufj, Ltd., Coöperatieve Rabobank U.A., New York Branch, (“Rabobank”), JPMorgan Chase Bank, N.A. and The Bank of Nova Scotia, with Rabobank as administrative agent. The credit facility is composed as follows:

- a) 5-year credit facility for U.S.\$150 million, with an average life of 4.2 years, at a rate of LIBOR plus a spread of 100 basis points. The amortizations for this credit facility start in April 2019.
- b) 5-year committed revolving credit facility for U.S.\$250 million, at a rate of LIBOR plus a spread of 100 basis points.

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The Company has credit line agreements for Ps.12,235,948 (U.S.\$620 million), of which Ps.6,019,297 (U.S.\$305 million) are available as of December 31, 2017. These credit line agreements require a quarterly payment of a commitment fee ranging from 0.15% to 0.28% 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, net (determined as the sum of the outstanding principal balance of consolidated indebtedness and guarantees of the Company for obligations with third parties unrelated to the Company's core business less cash and cash equivalents), to consolidated EBITDA, should be no greater than 3.50 to 1.00.

At December 31, 2017 and 2016, the Company was in compliance with the financial covenants, as well as with the delivery of the required financial information.

Reconciliation of liabilities arising from financing activities

The table below details the changes in the Company's liabilities arising from financing activities:

	<b>Short-term bank loans</b>	<b>Long-term bank loans</b>	<b>Short-term financing lease liabilities</b>	<b>Long-term financing lease liabilities</b>	<b>Total</b>
Balance at January 1, 2017	Ps. 3,721,423	\$12,229,868	Ps. 3,295	Ps. -	Ps. 15,954,586
Proceeds from debt.....	23,173,939	9,723,288	-	-	32,897,227
Payment of debt.....	(23,934,439)	(4,638,627)	(3,254)	-	(28,576,320)
Effect of changes in foreign exchange rates.....	(66,181)	61,921	-	-	(4,260)
Debt issuance costs.....	-	(60,951)	-	-	(60,951)
Other non-cash changes.....	1,933	(5,454)	(41)	-	(3,562)
Balance at December 31, 2017.....	<u>Ps. 2,896,675</u>	<u>\$17,310,045</u>	<u>Ps. -</u>	<u>Ps. -</u>	<u>Ps. 20,206,720</u>



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**14. PROVISIONS**

The movements of provisions are as follows:

	<b>Labor provisions</b>	<b>Restoration provision</b>	<b>Tax and custom dispute provision</b>	<b>Total</b>
<b>Balance at January 1, 2016</b> .....	Ps. 448,273	Ps. 180,723	Ps. 52,667	Ps. 681,663
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
<b>Balance at December 31, 2016</b> .....	<u>557,359</u>	<u>183,251</u>	<u>37,410</u>	<u>778,020</u>
Charge (credit) to income:				
Additional provisions.....	168,817	8,205	1,507	178,529
Adjustments to provisions.....	-	(24,144)	-	(24,144)
Unused amounts reversed.....	(619)	-	-	(619)
Used during the year.....	(211,496)	-	(139)	(211,635)
Exchange differences.....	(26,994)	(8,973)	(2,586)	(38,553)
<b>Balance at December 31, 2017</b> .....	<u>Ps. 487,067</u>	<u>Ps. 158,339</u>	<u>Ps. 36,192</u>	<u>Ps. 681,598</u>
Of which current.....	Ps. 105,466	Ps. -	Ps. -	Ps. 105,466
Of which non-current.....	381,601	158,339	36,192	576,132

**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 2017 was 4.10%. At December 31, 2017, the Company has Ps.21,354 (U.S.\$1,082 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. This provision was cancelled during 2017.

**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 2017 was 4.83%.

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**Tax and custom dispute provision**

In Central America, for the periods from 2004, 2005 and 2009, tax authorities have lodged tax assessments against the Company for approximately Ps.36,000 (1,056 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.

**15. OTHER CURRENT LIABILITIES**

At December 31, 2017 and 2016, Other current liabilities include the following:

	<u>At December 31, 2017</u>	<u>At December 31, 2016</u>
Employee benefits payable.....	Ps. 1,069,023	Ps. 1,055,232
Dividends payable.....	923,919	432,749
Promotion and advertising payable.....	332,204	426,753

The rest of the items that comprise Other current liabilities correspond to accrued expenses payable.

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**16. EMPLOYEE BENEFITS OBLIGATIONS**

Employee benefits obligations recognized in the balance sheet, by country, were as follows:

Country	At December 31, 2017	At December 31, 2016
Mexico.....	Ps. 732,737	Ps. 577,522
United States and Europe.....	128,770	137,817
Central America.....	23,636	20,834
Total.....	<u>Ps. 885,143</u>	<u>Ps. 736,173</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. 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.
- 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>2017</u>	<u>2016</u>
DBO at beginning of the year.....	Ps. 640,665	Ps. 571,219
Add (deduct):		
Current service cost.....	35,493	31,024
Financial cost.....	45,824	34,910
Remeasurement for the period.....	116,705	25,301
Benefits paid.....	(41,296)	(21,683)
Past service cost.....	-	(106)
DBO at end of the year.....	<u>Ps. 797,391</u>	<u>Ps. 640,665</u>

The reconciliation between the beginning and ending balances of the employee benefit plan assets at fair value for the years 2017 and 2016 is shown below:

	<u>2017</u>	<u>2016</u>
Plan assets at fair value at beginning of the year..	Ps. 63,143	Ps. 61,913
Add (deduct):		
Return on plan assets.....	3,315	3,279
Return on plan assets recognized in other comprehensive income.....	(1,804)	(2,049)
Plan assets at fair value at end of the year.....	<u>Ps. 64,654</u>	<u>Ps. 63,143</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, 2017</u>	<u>At December 31, 2016</u>
Employee benefit (assets) liabilities:		
DBO.....	Ps. 797,391	Ps. 640,665
Plan assets.....	(64,654)	(63,143)
Employee benefits obligations.....	<u>Ps. 732,737</u>	<u>Ps. 577,522</u>

The value of the DBO related to the pension plan amounted to Ps.692,302 and Ps.570,454 at December 31, 2017 and 2016, respectively, while the value of the DBO related to seniority premiums amounted to Ps.105,089 and Ps. 70,211, respectively.

At December 31, 2017 and 2016, the components of net cost comprised the following:

	<u>2017</u>	<u>2016</u>
Current service cost.....	Ps. 35,493	Ps. 31,024
Past service cost.....	-	(106)
Financial cost.....	45,824	34,910
Return on plan assets.....	(3,315)	(3,279)
Net cost for the year.....	<u>Ps. 78,002</u>	<u>Ps. 62,549</u>

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The net cost for the year related to the pension plan amounted to Ps.71,044 and Ps.56,321 at December 31, 2017 and 2016, respectively, while the net cost related to seniority premiums amounted to Ps.6,958 and Ps.6,228, respectively.

The net cost for the year 2017 and 2016 of Ps.78,002 and Ps.62,549, respectively, was recognized as follows:

	<u>2017</u>	<u>2016</u>
Cost of sales.....	Ps. 11,641	Ps. 20,438
Selling and administrative expenses.....	66,361	42,111
Net cost for the year.....	<u>Ps. 78,002</u>	<u>Ps. 62,549</u>

Remeasurements of the defined benefit obligation recognized in other comprehensive income are comprised of:

	<u>2017</u>	<u>2016</u>
Return on plan assets (excluding amounts included in net cost of the year).....	Ps. 1,804	Ps. 2,049
Actuarial gains and losses arising from changes in demographic assumptions.....	-	34,590
Actuarial gains and losses arising from changes in financial assumptions.....	40,975	(46,487)
Actuarial gains and losses arising from experience adjustments.....	75,730	37,198
	<u>Ps. 118,509</u>	<u>Ps. 27,350</u>

The total amount recognized in other comprehensive income is described below:

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the year.....	Ps. 327,312	Ps. 299,962
Remeasurements that occurred during the year...	118,509	27,350
Balance at the end of the year.....	<u>Ps. 445,821</u>	<u>Ps. 327,312</u>

At December 31, 2017 and 2016, plan assets stated at fair value and related percentages with respect to total plan assets were analyzed as follows:

	<u>At December 31,</u> <u>2017</u>		<u>At December 31,</u> <u>2016</u>	
Equity securities, classified by type of industry:	Ps. 32,606	50%	Ps. 53,400	85%
Consumer industry.....	11,361		15,759	
Financial institutions.....	21,245		37,641	
Fixed rate securities.....	32,048	50%	9,743	15%
Fair value of plan assets.....	<u>Ps. 64,654</u>	<u>100%</u>	<u>Ps. 63,143</u>	<u>100%</u>

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As of December 31, 2017, 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, 2017</u>	<u>At December 31, 2016</u>
Discount rate.....	7.25%	7.50%
Future increase rate in compensation levels.....	4.50%	4.50%
Long-term inflation rate.....	3.50%	3.50%

At December 31 2017 and 2016, the impact in DBO for a decrease of 25 basis points in the discount rate amounts to Ps.15,097 and Ps.11,796, 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, 2017 and 2016 is 11 years, for both years.

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, 2017 and 2016, total expenses related to this plan amounted to Ps.135,412 and Ps.132,892, respectively (U.S.\$7,179 and U.S.\$7,063 thousand, respectively).

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, 2017 and 2016, total expenses related to this plan were approximately Ps.11,280 and Ps.5,193, respectively (U.S.\$598 and U.S.\$ 276 thousand, respectively).

At December 31, 2017 and 2016, the liability recognized for both of these plans amounted to Ps.114,367 and Ps.124,046, respectively (U.S.\$5,795 and U.S.\$6,003 thousand, respectively).

In Central America, the retirement and severance provisions are determined according to the current Labor Legislation of each country. At December 31, 2017 and 2016, the liability recognized for this item amounted to Ps.23,636 and Ps.20,834, respectively, and the total labor obligation cost amounted Ps.7,932 and Ps. 9,436, respectively.

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**17. EQUITY**

**A) COMMON STOCK**

At December 31, 2017 and 2016, 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 2018. 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, 2017, CUFIN amounted to Ps.9,593,451.

**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.

Movements in the legal reserve for the years ended December 31, 2017 and 2016 are as follows:

	<u>Amount</u>
Balance at December 31, 2015.....	Ps. 654,291
Increases during the year.....	<u>38,091</u>
Balance at December 31, 2016.....	692,382
Increases during the year.....	<u>296,102</u>
Balance at December 31, 2017.....	<u><u>Ps. 988,484</u></u>

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**Purchase of common stock**

The Shareholders' Meeting held on April 28, 2017 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, 2017 and 2016 was Ps.650,000. During 2017 and 2016 no movements in this reserve occurred.

**C) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS**

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of year.....	Ps. 2,196,139	Ps. 466,646
Effect of the year from translating net investment in foreign subsidiaries.....	(396,246)	3,895,434
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries.....	92,768	(2,165,941)
Balance at end of year.....	<u>Ps. 1,892,661</u>	<u>Ps. 2,196,139</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.\$865 and U.S.\$621 million at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the accumulated effect of translating net investment in foreign subsidiaries impacted non-controlling interest in the amounts of Ps.(695) and Ps.897, 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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**19. FINANCIAL INSTRUMENTS**

**A) FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying values of financial instruments by category are presented below:

	<b>At December 31, 2017</b>			
	<b>Loans, receivables and liabilities at amortized cost</b>	<b>Financial assets and liabilities at fair value through profit or loss</b>	<b>Hedge derivatives</b>	<b>Total categories</b>
<u>Financial assets:</u>				
Cash and cash equivalents.....	Ps. 3,229,980	Ps. -	Ps. -	Ps. 3,229,980
Derivative financial instruments.....	-	91,792	148,238	240,030
Accounts receivable.....	7,859,905	-	-	7,859,905
Long term notes receivable and other (Note 9).....	207,958	-	-	207,958
<u>Financial liabilities:</u>				
Current debt.....	2,896,675	-	-	2,896,675
Trade accounts payable.....	6,512,329	-	-	6,512,329
Derivative financial instruments.....	-	15,309	58,926	74,235
Long-term debt.....	17,310,045	-	-	17,310,045
Other liabilities (excludes non-financial liabilities)....	81,034	-	-	81,034

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	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 9).....	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

**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.

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

	At December 31, 2017	
	Carrying amount	Fair value
<b>Assets:</b>		
Derivative financial instruments – exchange rate.....	Ps. 240,030	Ps. 240,030
Long-term notes receivable and other.....	229,886	229,886
<b>Liabilities:</b>		
10-year Bonds in U.S. dollars bearing fixed interest at an annual rate of 4.875%.....	7,844,166	8,470,749
Short and long-term debt.....	12,362,554	12,597,079
Derivative financial instruments – natural gas.....	15,309	15,309
Derivative financial instruments – corn.....	58,925	58,925

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	At December 31, 2016	
	Carrying amount	Fair value
<b>Assets:</b>		
Derivative financial instruments – corn <sup>(1)</sup> .....	Ps. 104,727	Ps. 104,727
Derivative financial instruments – exchange rate.....	134,363	134,363
Derivative financial instruments – fuel <sup>(1)</sup> .....	134,411	134,410
Long-term notes receivable.....	140,655	120,462
<b>Liabilities:</b>		
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.

The fair values at December 31, 2017 and 2016 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 2.26% in 2017 and 1.39% in 2016.
- 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 9.18% in 2017 and 8.27% in 2016.

**C) DERIVATIVE FINANCIAL INSTRUMENTS**

At December 31, 2017 derivative financial instruments comprised the following:

Type of contract	Notional amount	Fair value	
		Asset	Liability
Corn futures.....	760,000 Bushels	Ps. -	Ps. 8,585
Corn swaps.....	22,510,000 Bushels	-	50,340
Natural gas swaps.....	6,630,000 Mmbtu	-	15,309
Exchange rate forwards.....	\$170,900,000 USD	240,030	-

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At December 31, 2017, open positions of corn derivatives were recorded at fair value. The result of the valuation at December 31, 2017 of financial instruments that qualified as cash flow hedge represented a loss of Ps.56,471, which was recognized in comprehensive income within equity. At December 31, 2017, 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.17,763, which was recognized in income as other income, net.

Operations terminated at December 31, 2017 on corn, natural gas and fuel derivatives represented a loss of Ps.41,298 which was recognized in income as other income, net (Note 21).

Exchange rate derivative financial instruments were recorded at fair value. Open positions of exchange rate derivative financial instruments that qualified as cash flow hedge represented a gain of Ps.148,238, which was recognized in comprehensive income within equity. At December 31, 2017, valuation of the open positions of these instruments that did not qualify as hedge accounting resulted in a gain of approximately Ps.91,792 recognized in income as comprehensive financing cost, net (Note 23). For the year ended December 31, 2017, terminated operations of these instruments that qualified as cash flow hedge represented a gain of Ps.91,648, which was recognized in comprehensive income within equity. Likewise, terminated operations of these instruments that did not qualify as hedge accounting represented a loss of Ps.705,939, which was recognized in income as comprehensive financing cost, net (Note 23).

At December 31, 2017, the Company had revolving funds denominated “margin calls” amounting Ps.81,158, which are required to be applied against payments, due to price changes in the underlying asset.

For the year ended December 31, 2017, the Company reclassified the amount of Ps.17,364 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.58,054, 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.

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	-

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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, 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, net (Note 21).

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 23). 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 23).

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.

**D) FAIR VALUE HIERARCHY**

A three-level hierarchy is used to measure and disclose fair values. An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

The following is a description of the three hierarchy levels:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

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**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, 2017					
		Level 1			Total
<i>Assets:</i>					
Plan assets – seniority premium fund....	Ps.	64,654	Ps.	-	Ps. 64,654
Derivative financial instruments – exchange rate.....		-		240,030	240,030
	Ps.	64,654	Ps.	240,030	Ps. 304,684
<i>Liabilities:</i>					
Derivative financial instruments – corn..	Ps.	12,435	Ps.	46,490	Ps. 58,925
Derivative financial instruments – fuel..		9,078		6,231	15,309
	Ps.	21,513	Ps.	52,721	Ps. 74,234

At December 31, 2016					
		Level 1			Total
<i>Assets:</i>					
Plan assets – seniority premium fund....	Ps.	63,143	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. 436,644
<i>Liabilities:</i>					
Derivative financial instruments – corn..	Ps.	-	Ps.	6,932	Ps. 6,932
	Ps.	-	Ps.	6,932	Ps. 6,932

There were no transfers between the three levels in the period.

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**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:

	<u>2017</u>		<u>2016</u>
Forward exchange rate .....	Ps. 19.74	Ps.	20.66
Discount rate.....	7.68%		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.

Derivative financial instruments - corn

Corn derivative financial instruments that qualify as Level 2 were recorded at fair value. Valuation techniques used to value these financial instruments include market quotations or quotations for similar instruments and other, such as the cash flow discount analysis, which is used to determine the fair value of corn swaps.

During the period, there were no transfers between Levels 1 and 2.



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**20. 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:

	<u>2017</u>	<u>2016</u>
Cost of raw materials consumed and changes in inventory (Note 8).....	Ps. 26,326,418	Ps. 25,692,882
Employee benefit expenses (Note 22).....	17,957,436	17,513,503
Depreciation.....	1,989,131	1,870,446
Amortization.....	19,544	28,098
Rental expense of operating leases (Note 26).....	1,091,049	979,765
Research and development expenses (Note 11).....	156,977	159,106

**21. OTHER INCOME, NET**

Other income, net comprised the following:

	<u>2017</u>	<u>2016</u>
Net income (loss) from sale of fixed assets.....	Ps. 8,650	Ps. (34,647)
Net gain from sale of scrap.....	1,592	3,029
(Loss on) reversal of impairment on long-lived assets.....	-	77,964
Payment of surcharges on refund of 2007 Asset tax.....	249,004	-
Cost of disposed fixed assets.....	(16,039)	(21,975)
Current employees' statutory profit sharing.....	(62,657)	(63,361)
Income from recovery of insurance claims for damaged assets...	15,389	23,825
Result from derivative financial instruments.....	(59,061)	221,596
Total.....	<u>Ps. 136,878</u>	<u>Ps. 206,431</u>

**22. EMPLOYEE BENEFIT EXPENSES**

Employee benefit expenses are comprised of the following:

	<u>2017</u>	<u>2016</u>
Salaries, wages and benefits (including termination benefits).....	Ps. 16,739,975	Ps. 16,361,228
Social security contributions.....	984,107	940,774
Employment benefits (Note 16).....	233,354	211,501
Total.....	<u>Ps. 17,957,436</u>	<u>Ps. 17,513,503</u>

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**23. COMPREHENSIVE FINANCING COST**

Comprehensive financing cost, net is comprised by:

	<u>2017</u>	<u>2016</u>
Interest expense (Note 13).....	Ps. (792,816)	Ps. (656,540)
Interest income.....	57,971	63,559
Result from derivative financial instruments (Note 19).....	(614,147)	554,687
Result from foreign exchange differences, net.....	85,761	(400,135)
Comprehensive financing cost, net.....	<u>Ps. (1,263,231)</u>	<u>Ps. (438,429)</u>

**24. INCOME TAX EXPENSE**

**A) INCOME BEFORE INCOME TAX**

The domestic and foreign components of income before income tax are the following:

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Domestic.....	Ps. 1,606,188	Ps. 3,181,926
Foreign.....	6,449,825	5,501,350
	<u>Ps. 8,056,013</u>	<u>Ps. 8,683,276</u>

**B) COMPONENTS OF INCOME TAX EXPENSE**

The components of income tax expense are the following:

	<u>2017</u>	<u>2016</u>
Current tax:		
Current tax on profits for the year.....	Ps. (2,736,754)	Ps. (3,065,830)
Adjustments in respect of prior years.....	(9,372)	(74,605)
Total current tax.....	<u>(2,746,126)</u>	<u>(3,140,435)</u>
Deferred tax:		
Origin and reversal of temporary differences.....	(305,140)	(76,110)
Tax rate differences of foreign subsidiaries.....	577,596	-
Use of tax loss carryforwards not previously recognized.....	691,607	767,207
Total deferred tax.....	<u>964,063</u>	<u>691,097</u>
Total income tax expense.....	<u>Ps. (1,782,063)</u>	<u>Ps. (2,449,338)</u>

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Domestic federal, foreign federal and state income taxes in the consolidated statements of income consisted of the following components:

	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Current:</b>		
Domestic federal.....	Ps. (600,886)	Ps. (921,838)
Foreign federal.....	(1,902,578)	(1,976,538)
Foreign state.....	(242,663)	(242,059)
	<u>(2,746,127)</u>	<u>(3,140,435)</u>
<b>Deferred:</b>		
Domestic federal.....	340,509	669,368
Foreign federal.....	644,341	42,464
Foreign state.....	(20,787)	(20,735)
	<u>964,063</u>	<u>691,097</u>
Total income taxes.....	<u>Ps.(1,782,064)</u>	<u>Ps.(2,449,338)</u>

**C) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME**

For the years ended December 31, 2017 and 2016, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	<b>2017</b>	<b>2016</b>
Statutory federal income tax (30% for 2017 and 2016).....	Ps. (2,416,804)	Ps. (2,604,983)
Benefit due to subsidiaries' tax losses.....	7,673	26,400
Inflation effects on tax values.....	(257,649)	(204,323)
Foreign income tax rate differences (*).....	449,032	(251,296)
Tax credit derived from foreign dividends.....	47,185	(81,098)
Unrecognized tax loss carryforwards of the year.....	473,907	821,495
Nondeductible expenses and others.....	(85,408)	(155,533)
Effective income tax (22.12% and 28.21% for 2017 and 2016, respectively).....	<u>Ps. (1,782,064)</u>	<u>Ps. (2,449,338)</u>

(\*) For the year ended December 31, 2017, includes the net effect of the income tax rate in the United States subsidiary Gruma Corporation for U.S.\$29 million.

**25. 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 powers of administration over Molinos Nacionales, C.A. ("MONACA") and Derivados de Maíz Seleccionado, DEMASECA, C.A. ("DEMASECA"). As a result of this measure, among others, the Company determined that it had lost control of the subsidiaries in Venezuela. Refer to Note 27 for additional detail on the processes in Venezuela.

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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.
- 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 the annulment proceeding mentioned in Note 27, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the award. The Company and its subsidiaries reserve and intend to continue to reserve the right to seek full compensation for any and all expropriated or affected assets and investments under applicable law, including investment treaties and customary international law.

**B) IMPAIRMENT OF THE INVESTMENT IN VENEZUELA**

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 were 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.

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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 this date, 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. As of December 31, 2017, the circumstances for which the investment in these subsidiaries was impaired have not changed.

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:

	<b>At January 22, 2013*</b>
Current assets.....	Ps. 4,345,709
Non-current assets.....	2,558,444
Total assets.....	6,904,153
<i>Percentage of consolidated total assets.....</i>	<i>14.0%</i>
Current liabilities.....	2,641,540
Non-current liabilities.....	96,103
Total liabilities.....	2,737,643
<i>Percentage of consolidated total liabilities.....</i>	<i>7.8%</i>
Total net assets.....	4,166,510
<i>Percentage of consolidated total net assets.....</i>	<i>29.1%</i>
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, 2017 and 2016 certain subsidiaries of GRUMA have accounts receivable with the Venezuelan companies for a total amount of Ps.1,494,352 and Ps.1,564,665, respectively, which were fully impaired and are included as part of the impairment loss recognized in income.

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**26. 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>2017</u>	<u>2016</u>
No later than 1 year.....	Ps. 901,600	Ps. 885,406
Later than 1 year and no later than 5 years.....	2,430,502	2,438,699
Later than 5 years.....	2,045,589	1,968,711
Total.....	<u>Ps. 5,377,691</u>	<u>Ps. 5,292,816</u>

Rental expense was approximately Ps.1,091,049 and Ps.979,765 for the years ended December 31, 2017 and 2016, respectively.

**B) FINANCE LEASES**

At December 31, 2017, the Company does not have assets recorded under finance lease. At December 31, 2016, the net carrying values of assets recorded under finance leases totaled Ps. 14,028, respectively, and corresponded to transportation and production equipment.

Future minimum lease payments under finance lease agreements are as follows:

	<u>2016</u>
No later than 1 year.....	Ps. 3,341
Later than 1 year and no later than 5 years.....	-
	<u>3,341</u>
Future finance charges on finance leases.....	(46)
Present value of finance lease liabilities.....	<u>Ps. 3,295</u>

The present value of finance lease liabilities is as follows:

	<u>2016</u>
No later than 1 year.....	Ps. 3,295
Later than 1 year and no later than 5 years.....	-
Total.....	<u>Ps. 3,295</u>

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**C) OTHER COMMITMENTS**

At December 31, 2017 and 2016, the Company had various outstanding commitments to purchase commodities and raw materials in the United States for approximately Ps.4,045,757 and Ps.4,897,368, respectively (U.S.\$205 million and U.S.\$237 million, respectively), which will be delivered during 2018 and in Mexico for approximately Ps.6,611,359 and Ps.3,512,880, respectively (U.S.\$335 million and U.S.\$170 million, respectively), which will be delivered during 2018 and 2019. The Company has concluded that there are not embedded derivatives resulting from these contracts.

At December 31, 2017 and 2016, the Company had outstanding commitments to purchase machinery and equipment in the United States amounting to approximately Ps.183,539 and Ps.950,544, respectively.

**27. CONTINGENCIES**

**VENEZUELA**

Expropriation Proceedings by the Venezuelan Government.- On May 12, 2010, the Venezuelan Government published decree number 7,394 in the Official Gazette of Venezuela (the “Expropriation Decree”), whereby it 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 stated that the Expropriation Decree also extends to our 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” or “Claimants”) commenced conversations with the Venezuelan Government regarding the Expropriation Decree and other measures related to the same, affecting MONACA and DEMASECA. Through the Investors, GRUMA has participated in these conversations, 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 conversations have ceased without resulting 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 validly provided formal notice to Venezuela that an investment dispute had arisen as a consequence of the Expropriation Decree and other measures adopted by the Venezuelan Government. In that notification, the Investors, MONACA and DEMASECA also agreed to submit said 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*) of the Venezuelan Government, 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 was to seek compensation for the damages caused by Venezuela's violation of the Investment Treaty. The tribunal that presided over this arbitration proceeding was constituted in January 2014.

On July 25, 2017, the tribunal decided the arbitration in favor of Valores Mundiales and Consorcio Andino, by dismissing the jurisdictional objections raised by Venezuela and concluding that the Venezuelan Government had violated provisions of the Investment Treaty. According to the Award issued by the arbitration tribunal, Venezuela must pay US\$430.4 million to Valores Mundiales and Consorcio Andino as damages resulting from its violation of certain provisions of the Investment Treaty, plus compound interest at Libor +2% since January 22, 2013 and until the Award's effective payment date. As of December 31, 2017, the award plus interest amounts to approximately US\$492 million. The arbitration tribunal also ordered Venezuela to pay US\$5.9 million for legal expenses incurred by the Claimants during the arbitration. Both, the amount of the award plus interest and the legal expenses incurred by the Claimants, were not recorded since they are considered a contingent asset under IAS 37.

In the Award, the arbitration tribunal granted most of the Claimants' claims and concluded that Venezuela had violated the Investment Treaty by (i) not granting a fair and equitable treatment to the Claimants' investments; (ii) adopting arbitrary measures that hindered the management and evolution of the Claimants' investments; and (iii) preventing the free transfer of funds related to the Claimants' investments. The arbitration tribunal dismissed the indirect expropriation claim submitted by the Claimants, since the tribunal deemed that said process has not been concluded as of this date, therefore, the Claimants retain their right to commence a new ICSID arbitration against Venezuela if the latter continues with the enforcement of the Expropriation Decree.

On November 22, 2017, Venezuela filed before the ICSID a request for annulment of the Award issued by the arbitration tribunal and requested the stay of enforcement of the same while said action is pending resolution. On December 7, 2017, ICSID registered Venezuela's annulment request and provisionally stayed the enforcement of the Award. On February 20, 2018, the ICSID confirmed the appointment of the members of the Committee that will decide on the Award's annulment proceedings, previously notified to the parties on January 23, 2018. Said proceeding is still ongoing and the Committee, in its first meeting to be held in the following months, will set the calendar for the annulment proceeding.

Given that the enforcement of the Award is provisionally stayed and that its further enforcement may present material challenges, the impact of the Award in the Company cannot be reasonably assessed at this time. The Investors, jointly with its legal counsel, will adopt appropriate measures to preserve and defend their legal interests.

However, even though discussions with the Venezuelan Government could 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 the violation to the Investment Treaty or for the enforcement of the Expropriation Decree by Venezuela. Additionally, the Company cannot predict the results of any annulment proceeding filed by Venezuela, or the ramifications that costly and prolonged legal disputes could have on its results of operations or financial position, or the likelihood of collecting the Award.



**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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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 25 above, 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 \$4,362,108 was acknowledged.

**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. Based on the purported indirect minority interest that Ricardo Fernández Barrueco previously had 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 administrators of the indirect minority shareholding that Ricardo Fernández Barrueco allegedly owned in MONACA and designated several special administrators 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 administrators 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 our Venezuelan subsidiaries, filed a petition as aggrieved third-parties to the legal proceeding against Mr. 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. However, the court kept the precautionary measures issued on December 4, 2009 in effect. An appeal has been filed, which has not been admitted and is pending resolution as of this date.

The Company and its subsidiaries intend to exhaust all legal remedies available in order to safeguard and protect their 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.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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**28. 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. 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. 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. 40% of the shares of Molinera de México; and
- d. 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).

Subsequent changes in the fair value of the contingent payment liability were recognized in the income statement. For the year ended December 31, 2016, the effect in income was Ps.100,526, and was recognized as "Comprehensive financing cost, net".

**29. RELATED PARTIES**

**A) TRANSACTIONS WITH RELATED PARTIES**

For the year ended December 31, 2017 and 2016, the Company did not perform transactions with related parties. Other transactions with related parties are identified in Note 28.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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**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>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits.....	Ps. 195,037	Ps. 200,367
Termination benefits.....	-	5,506
Total.....	<u>Ps. 195,037</u>	<u>Ps. 205,873</u>

At December 31, 2017 and 2016, the reserve for deferred compensation amounted to Ps.48,773 and Ps.48,905, respectively.

**C) BALANCES WITH RELATED PARTIES**

At December 31, 2017 and 2016, the Company had no balances with related parties.

**30. FINANCIAL STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards have been issued by the IASB, which are not effective for reporting periods as of December 31, 2017, and the Company has not early adopted them. The Company has assessed the effects of these new standards and are described below:

**A) IFRS 9, “FINANCIAL INSTRUMENTS”**

IFRS 9, “Financial Instruments”, contains the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and presents a new impairment model for financial assets. IFRS 9 is effective for annual periods beginning on January 1, 2018.

The Company reviewed its financial assets and financial liabilities and expects that the adoption of this new standard will not have an impact in the classification and measurement of such assets and liabilities. The new hedge rules will align hedge accounting with risk management practices. More hedge relationships will be eligible, since the standard introduces an approach based on principles. The Company’s management deems that the application of the new rules for hedge accounting will not have a significant impact in its financial statements. The new model of impairment requires estimates based on expected credit losses, rather than incurred credit losses as established by IAS 39. The new model will apply to the Company’s financial assets measured at amortized cost. In accordance with the assessments performed so far, the allowance for doubtful accounts will not be significantly affected. Additionally, the nature and extension of the disclosures for financial instruments will change, especially in the year of adoption.

The Company will apply the new rules with the modified retrospective application starting January 1, 2018.

**GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES**  
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**B) IFRS 15, “REVENUE FROM CONTRACTS WITH CUSTOMERS”**

IFRS 15, “Revenue from Contracts with Customers” establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This new standard will supersede the current revenue recognition guidance, including IAS 18 for contracts of goods and services, and IAS 11 for construction contracts. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when control of the goods or services is transferred to the customer. IFRS 15 is effective for annual periods beginning January 1, 2018.

The Company reviewed the contracts and agreements with its customers, based on the 5-step approach to revenue recognition. The Company’s management anticipates that the adoption of IFRS 15 will not have a significant impact in its financial position and operating results, except for enhanced disclosures for revenue transactions as required by the new standard and that some payments made to customers as part of the ordinary course of business are presented as a decrease of sales in the income statement.

The Company plans to adopt IFRS 15 retrospectively with the cumulative effect of initially adopting the standard recognized in retained earnings at January 1, 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

**C) IFRS 16, “LEASES”**

IFRS 16, “Leases” introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The new standard will mainly affect the accounting of the Company’s operating leases. As of December 31, 2017, the Company, as lessee, has operating lease commitments of Ps.5,377,691, see Note 26. The Company’s management estimates that approximately 17% are contracts related with short-term leases and low value assets, which will be recognized as expense. The Company is currently assessing the rest of the requirements established by the new standard, if applicable. Therefore, it is not yet possible to estimate the amount of right-of-use assets and liabilities that will be recognized and their effect in the financial position and operating results of the Company, upon the adoption of IFRS 16.

IFRS 16 is effective for annual periods beginning January 1, 2019. At this stage, the Company does not intend to early adopt 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 12, 2018

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 amended from time to time by the Commission, 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, 2017:

- 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 30, 2018

Dear Mr. Heather,

In addition to the independence letter signed on April 12, 2018, regarding the consolidated financial statements of Gruma, S.A.B. de C.V. (Issuer) for the year ended on December 31, 2017 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 amended from time to time by the Commission, 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 audit 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.

The above, in the understanding that I previously ensured that the information contained in the financial statements incorporated by reference in the corresponding annual report, as well as any other financial information contained in said document which derived from the referred financial statements or audit 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



## REPORT BY THE AUDIT COMMITTEE FOR THE 2019 YEAR

April 22, 2020

### To the Board of Directors of GRUMA, S.A.B. de C.V. (“GRUMA”)

In compliance with article 43 of the Mexican Securities Law (*Ley del Mercado de Valores*), article 34 of the General Provisions Applicable to the Entities and Issuers Supervised by the National Banking and Securities Commission that Hire External Auditing for Basic Financial Statement Services (*Disposiciones de Carácter General Aplicables a las Entidades y Emisoras Supervisadas por la Comisión Nacional Bancaria y de Valores que Contraten Servicios de Auditoría Externa de Estados Financieros Básicos*) 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, 2019. 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, including the revision and approval of the Policy for Evaluating the Internal Audit Area.

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.

The operation of the communication channel 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 expand.

#### 3. External Audit

We recommend to the Board of Directors the ratification of the appointment of PricewaterhouseCoopers S.C., as the external auditors of the Company for the 2019 fiscal year.

In connection with the aforementioned, we verified their independence and their compliance with the requirements established in the Law and the General Provisions Applicable to the Entities and Issuers Supervised by the National Banking and Securities Commission that Hire External Auditing for Basic Financial Statement Services. Jointly, we analyzed their scope and work program, as well as their coordination with the Corporate Internal Audit area.

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 2019 fiscal year work plan of the external auditors of the Company and its coordination with the internal audit area, we also followed up 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 the 2019 fiscal year. Our assessment is that the external audit services duly comply with what is required.

We approve the basic financial statement external audit service fee proposal for the 2019 fiscal year, as well as the rendering of services other than the basic financial statement external audit services by PricewaterhouseCoopers S.C. for the period from May 1, 2019 to April 30, 2020. We consider that the approved other services than those related with the external audit, do not affect the independence of the external audit firm with the Company.

We recommended to the Board of Directors authorize the amount of fees for the basic financial statement external audit services for the fiscal year 2019 to be rendered by the auditing firm PricewaterhouseCoopers S.C.

We recommended to the Board of Directors to authorize the contracting of services other than the basic financial statement external audit services for the period from May 1, 2019 to April 30, 2020, to be rendered by PricewaterhouseCoopers S.C., as well as the total payable amount for those services. These services mainly included the review of transfer price studies, general tax consults and the review of the G-PLUS project, among others. In our opinion, the services other than the external audit services received to this date, fully comply with the requirements.

It was validated that the firm PricewaterhouseCoopers S.C. and the responsible partner complied with all of the personal, professional and independency requirements.

The performance of the external audit firm was evaluated, as well as the performance of the person responsible of the same in accordance with the External Audit Performance Evaluation Policy. Additionally, it was determined that the content of its audit opinions, communications, opinions and reports are of good quality and therefore useful to this Committee. Furthermore, it is noted that the aforementioned do not differ with the Administration and there were no additional comments regarding the financial statements of the company nor any material internal control differences. Additionally, an adequate monitoring of the implantation plan of the preventive and corrective measures was performed in relation with the minor observations made by the audit firm PricewaterhouseCoopers S.C., regarding certain aspects of the Company's internal control.



No relevant observations were received by the shareholders, directors, officers, employees nor any third party, regarding the accounting, internal controls or internal and external auditing, during the past fiscal year.

#### **4. Financial Information**

We reviewed the quarterly financial information of the Company regarding the 2019 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 2018. Additionally, the annual report of the activities carried out by this Committee for financial year 2018 was prepared and presented before the Board of Directors and the Shareholders’ Meeting.

Each quarter we monitored the exchange rate, corn purchases and interest rate’s hedges reports, ensuring that the policies established by the Company for such purpose were complied with.

Follow-up to the proper implementation of the new accounting rule “IFRS-16 Leases”, which was implemented by the Company since January 1, 2019, was made.

We reviewed the Company’s audited financial statements as of December 31, 2019, the auditors’ report and the accounting policies used for its preparation, therefore we advise the Board of Directors its approval in order 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 the administration complies with the application of “IFRS 16- Leases as from the 2019 fiscal year.

#### **5. Internal Controls and Legal Issues**

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. Regarding information technologies, the progress, application systems and implementation of the G+ Project were reviewed, as well as the internal control material aspects related to the implementations made.

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.

## **6. In support of the Board of Directors**

The Auditing Committee granted its favorable opinion regarding the arrangement of interest rate and corn grain hedging instruments, with respect to the Company's corn procurement for its operations during the 2019 fiscal year. Additionally, the Committee overviewed the management's compliance of the authorizations granted by the Board of Directors. According to our observations, we concluded that the contracted hedges fully comply with the Company's intention to mitigate the business risks.

Furthermore, the Committee analyzed and granted its favorable opinion to the Board of Directors of GRUMA, S.A.B. de C.V., regarding the plan to refinance short-term unsecured credits for GRUMA, which resulted in the establishment of a long-term credit for U.S.\$250 millions with The Bank of Nova Scotia for a 6 year term and a fixed rate of 2.789%, payable in a single exhibition on the maturity date and extendable for an additional year upon agreement by the parties. This refinancing has allowed GRUMA to improve its cost of debt conditions, as well as its maturity profile.

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



## REPORT BY THE CORPORATE GOVERNANCE COMMITTEE FOR THE 2019 YEAR

April 22, 2020

**To the Board of Directors of GRUMA, S.A.B. de C.V. (“GRUMA”):**

In compliance with article 43 of the Mexican Securities 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 by the Corporate Governance Committee during the year ended December 31, 2019.

1. **Performance of the Senior Management.**- The performance was evaluated based on the financial results and compliance with the personal objectives set within their responsibilities with the Company. Based on the evaluations carried out by the Human Resources department, it was evidenced that the Senior Management’s performance was satisfactory. Consequently, they received a performance bonus (variable compensation) according to the Policies set forth by the own Company.
2. **Compensation of Senior Management.**- The aggregate compensation paid to the Chief Executive Officer and other Executive Officers during the year 2019 was reviewed and is within the market value, compared to similar companies, and is in line with the Compensation Policies set forth by the Company.
3. **Waivers.**- During the reporting term, the Board of Directors did not grant any waiver for any Director, Executive Officer or other person in a position of command to benefit from business opportunities which correspond to the Company or its subsidiaries for themselves or for third parties.
4. **Material Operations.**- The Committee has been informed by the management and independent auditors of the material operations with related parties, same which have been disclosed in the notes of the financial statements of the Company for the reporting term.

On behalf of the Corporate Governance Committee,

[Illegible Signature]

THOMAS S. HEATHER  
Chairman



## REPORT BY THE AUDIT COMMITTEE FOR THE 2018 YEAR

April 24, 2019

**To the Board of Directors of GRUMA, S.A.B. de C.V. (“GRUMA”)**

In compliance with article 43 of the Mexican Securities 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, 2018. 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, including the revision and approval of the policy for evaluating the internal audit area.

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.

The operation of the communication channel 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 expand.

### **3. External Audit**

We recommend to the Board of Directors the ratification of the appointment of PricewaterhouseCoopers S.C., as the external auditors of the Company for the 2018 fiscal year. In connection with the aforementioned, we verified their independence and their compliance with the requirements established in the Law and the general provisions applicable to the entities and issuers supervised by the National Banking and Securities Commission that hire external auditing for basic financial statement services, which came into force on August 01, 2018. Jointly, we

analyzed their scope and work program, as well as their coordination with the Corporate Internal Audit area.

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 2018 fiscal year work plan of the external auditors of the Company and its coordination with the internal audit area, we also followed up 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 the 2018 fiscal year. Our assessment is that the external audit services duly comply with what is required.

We approve the basic financial statement external audit service fee proposal for the 2018 fiscal year, as well as the rendering of services other than the basic financial statement external audit services by PricewaterhouseCoopers S.C. for the period from August 1, 2018 to April 30, 2019. We consider that the approved other services than those related with the external audit, do not affect the independence of the external audit firm with the Company.

We recommended to the Board of Directors authorize the amount of fees for the basic financial statement external audit services for the fiscal year 2018 to be rendered by the auditing firm PricewaterhouseCoopers S.C.

We recommended to the Board of Directors to authorize the contracting of services other than the Basic Financial Statement External Audit services for the period from August 1, 2018 to April 30, 2019, to be rendered by PricewaterhouseCoopers S.C., as well as the total payable amount for those services. These services included the certification work for the internal control system, intercompany transfer price studies, as well as other tax services.

The external audit performance evaluation policy and the guidelines for the preapproval policy of audit services and other services different from external auditing, were approved.

It was validated that the firm PricewaterhouseCoopers S.C. and the responsible partner complied with all of the personal, professional and independency requirements.

The performance of the external audit firm was evaluated, as well as the performance of the person responsible of the same.

The scope and respective implications of the “General Provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that hire external auditing for basic financial statement services” were reviewed jointly with the Company’s management, overseeing the Company’s compliance with such Provisions. The Bylaws of the Audit Committee were adjusted to reflect the aforementioned Provisions.

#### **4. Financial Information**

We reviewed the quarterly financial information of the Company regarding the 2018 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 2017. Additionally, the annual report of the activities carried out by this Committee for financial year 2017 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.

The new accounting rule “IFRS-16 Leases”, which is implemented by the Company since January 1, 2019, was analyzed. Furthermore, its effects on the financial information of the Company since the abovementioned period were analyzed.

We reviewed the Company’s audited financial statements as of December 31, 2018, the auditors’ report and the accounting policies used for its preparation, therefore we advise the Board of Directors its approval in order 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 the application in the Company of “IFRS 9, Financial Instruments” and “IFRS 15, Income from Client’s Contracts” from the 2018 fiscal year.

## **5. Internal Controls and Legal Issues**

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. Regarding information technologies, the progress, application systems and implementation of the G+ Project were reviewed, same which are developing within the planned timeframes.

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.

The presentation of the 2017 Tax Report was also noted.

## **6. In support of the Board of Directors**

The Auditing Committee granted its favorable opinion regarding the arrangement of interest rate and corn grain hedging instruments, with respect to the Company's corn procurement for its operations during the 2018 fiscal year, as well as the interest rate hedges for the CEBURES 2023 (as defined herein below). Additionally, the Committee overviewed the management's compliance of the authorizations granted by the Board of Directors.

Furthermore, the Committee analyzed and granted its favorable opinion to the Board of Directors of GRUMA, S.A.B. de C.V., regarding the refinancing of the short-term unsecured loans of GRUMA, through: (i) Revolving Short and Long term Debt Securities (*Certificados Bursátiles*) Program for a total authorized amount of \$ 8 billion pesos, through which a first issuance was made on September 27, 2018 for an amount of \$ 3 billion pesos for a 5-year term and with an interest rate of TIIE + 38bp (the "CEBURES 2023"); and (ii) a medium term credit facility with for banking institutions for a total amount of \$ 2 billion pesos for a 3-year term and an interest rate of TIIE + 55bp, which was wholly issued on September 27, 2018 in order to complete the short-term debt refinancing.

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



## REPORT BY THE CORPORATE GOVERNANCE COMMITTEE FOR THE 2018 YEAR

April 24, 2019

**To the Board of Directors of GRUMA, S.A.B. de C.V. (“GRUMA”):**

In compliance with article 43 of the Mexican Securities 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 by the Corporate Governance Committee during the year ended December 31, 2018.

1. **Performance of the Senior Management.**- The performance was evaluated based on the financial results and compliance with the personal objectives set within their responsibilities with the Company. Based on the evaluations carried out by the Human Resources department, it was evidenced that the Senior Management’s performance was satisfactory. Consequently, they received a performance bonus (variable compensation) according to the Policies set forth by the own Company.
2. **Compensation of Senior Management.**- The aggregate compensation paid to the Chief Executive Officer and other Executive Officers during the year 2018 was reviewed and is within the market value, compared to similar companies, and is in line with the Compensation Policies set forth by the Company.
3. **Waivers.**- During the reporting term, the Board of Directors did not grant any waiver for any Director, Executive Officer or other person in a position of command to benefit from business opportunities which correspond to the Company or its subsidiaries for themselves or for third parties.
4. **Material Operations.**- The Committee has been informed by the management and independent auditors of the material operations with related parties, same which have been disclosed in the notes of the financial statements of the Company for the reporting term.

On behalf of the Corporate Governance Committee,

[Illegible Signature]

THOMAS S. HEATHER  
Chairman





## REPORT BY THE AUDIT COMMITTEE FOR THE 2017 YEAR

April 25, 2018

### 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, 2017. 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.

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 2017 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 2017 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 2017 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 2016. Additionally, the annual report of the activities carried out by this Committee for financial year 2016 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, 2017, 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. Regarding information technologies, the progress, application systems and implementation of the G+ Project were reviewed, same which are developing within the planned timeframes, as well as their adjustments and budget, also, the cyber security policies of GRUMA and subsidiaries were reviewed with its IT department.

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 2016 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 2017. 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 to the Board of Directors of GRUMA, S.A.B. DE C.V., regarding:

- (i) The Refinancing Project of two dollar-denominated credit facilities obtained by the Company, which jointly amount US\$400 million, which was executed on April 2017; and;
- (ii) The Acquisition Public Offer for up to -133,176,125- shares representing the 14.50% of the capital stock of our subsidiary Grupo Industrial Maseca, S.A.B. de C.V. (now Grupo Industrial Maseca, S.A. de C.V.).

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



## REPORT BY THE CORPORATE GOVERNANCE COMMITTEE FOR THE 2017 YEAR

April 25, 2018

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 by the Corporate Governance Committee during the year ended December 31, 2017.

1. **Performance of the Senior Management.**- The performance was evaluated based on the financial results and compliance with the personal objectives set within their responsibilities with the company. Based on the evaluations carried out by the Human Resources department, it was evidenced that the Senior Management’s performance was satisfactory. Consequently, they received a performance bonus (variable compensation) according to the Policies set forth by the own company.
2. **Compensation of Senior Management.**- The aggregate compensation paid to the Chief Executive Officer and other Executive Officers during the 2017 year was reviewed and it is within the market value, against companies comparable to the Company, and is in line with the Compensation Policies set forth by the company.
3. **Policies:** The Committee reviewed the policies regarding performance evaluation, executives’ bonuses and compensation, career plan, succession plan in the top executive officers and diversity and inclusion policies in GRUMA, in all its divisions.
4. **Waivers.**- During the reporting term, the Board of Directors did not grant any waiver for any director, executive officer or other person in a position of command to benefit from business opportunities which correspond to the Company or its subsidiaries for themselves or for third parties.
5. **Material Operations.**- The Committee has been informed by the management and independent auditors of the material operations with related parties, same which have been disclosed in the notes of the financial statements of the Company for the reporting term.
6. **Acquisition Public Offer for the shares of GRUPO INDUSTRIAL MASECA (“GIMSA”).**- The Committee analyzed and discussed the basis and financial premises provided by GRUMA’s management, to reach a range of values which the Committee deemed reasonable, from a financial point of view, in connection with the Acquisition Public Offer for up to 133,176,125 shares representing the 14.50% of the capital stock of its subsidiary Grupo Industrial Maseca, S.A.B. de C.V, therefore the Committee timely submitted its favorable opinion to the Board of Directors in this sense.

On behalf of the Corporate Governance Committee,

*[Illegible Signature]*

THOMAS S. HEATHER  
Chairman