Grupo Maseca[1]
Risk Assessment and Risk Management

During the summer of 2008, Mr. Carlos Ramirez and Mr.Samuel Scott, financial advisors, were meeting to identify, define and asses the tools that Maseca's management had in place for dealing with the major risks associated with the operations of the company. The firm had become a major Mexican multinational that was now facing many different situations and realities that the ones they faced before their expansion. The task that they were assigned was to come with a list of the potential risks and identify and asses how the firm was managing those risks. Both analysts were trying to perform the assignment based on the public information that was available at the time. But, they also knew that when in doubt they would have another chance to find some answers. Therefore, they also had to come up with a list of questions to ask Maseca's management during the press conference that would take place after the release of the second quarter of 2008 earnings results.

The Firm[2]

"Founded in 1949, Gruma was the world's leading producer of tortillas, corn and wheat flour, and related products. The company had its headquarters in Monterrey, Mexico, with operations in Mexico, the UnitedStates, Central America, Venezuela, Europe, and most recently in Asia and Australia.

Gruma had 92 plants with about 19,000 employees which produced the goods it exports to approximately 70 countries. The company began its operations in Mexico with the objective to revolutionize traditional Mexican dough (*masa*) and tortilla preparation, which prior to modern machinery was an extremely labor- and time-intensive process. The introduction of corn flour and mixing machines enabled mass-production of tortillas, which saved a substantial amount of time, lowered production costs, and improved product quality and consistency.

In the early 1970s, Gruma launched its products abroad for the first time, starting in the Central American markets with a focus on the Costa Rican market. In 1976, Gruma brought its products north of the border to the United States and in 1977 the company opened its first US plant in Southern California. Since that time, Gruma's products experienced sustained sales volume growth in the US.

In 1990 the company went public with its IPO on the Mexican Stock Exchange (BMV). In 1993 the company continued its expansion, opening plants in El Salvador and Guatemala, and in 1994 Gruma began operations in Venezuela, by far Gruma's most important market outside of the US and Mexico. Gruma opened its first office in England in 1998.

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1 Relevant parts and sections of this case have been based on public information at the time of the event. The objective of the case is to use the public information available for the analysis of the situation.

2 This section of the case is based on the public investment report by ***James Harper, Director of Corporate Research and Alyssa Hitomi, Research Associate both from*** **BCP Securities, LLC**

As for 2008, the company was 52% owned by the Gonzalez Barrera Family, with Archer Daniels Midland, a largefood corporation headquartered in the United States, owning another 23%, and the remaining 25% in public float. Roberto Gonzalez Barrera of the Gonzalez Barrerra Family served as CEO and Chairman of the Board of Gruma. Its shares were traded on the New York Stock Exchange and Mexican Stock Exchange with a market value of about US$526 million. The company also owned an 8.8% stake in Grupo Financiero Banorte worth about US$429 million at current market rates, which accounts for about 13% of Gruma's total consolidated assets."

Markets, Products, and Strategy[3]

The following paragraphs describe the main components of the firm's strategy. Many experts in the field considered MASECA a model for internationalization of a developing country multinational

"Vision

To be the absolute worldwide leader in the production, sale and distribution of processed corn flour and tortillas, and an important player in wheat flour and its by-products, such as flatbreads, as well as one of the main grain and basic foodstuffs processors in Mexico, the United States, Central America, Venezuela, Europe, Asia and Oceania.

Mission

To generate long-term dynamic and profitable growth, as well as to create the maximum value for its stockholders, by focusing primarily on its key businesses: processed corn flour, tortillas and wheat flour. To give clients and consumers superior-quality products and services, using the most efficient manufacturing and marketing systems.

Strategic Dimensions

In Mexico, corn tortillas were always made the traditional way, with processed corn dough, until GRUMA invented the appropriate technology to make them from processed corn flour. This was a technological leap of almost 5,000 years, and it resulted in a revolutionary simplification of the process. Artisanal methods, that depended on crude grinders and pestles, were finally left behind. But of course, this did not happened overnight: 60 years of continuous research allowed GRUMA to position itself as the world leader in the production of processed corn flour and tortillas, as well as other products derived from corn and grains.

The company sold its products to a variety of clients, including tortilla producers, private consumers, tortilla shops (*tortillerías*), restaurants, and supermarkets. In the fresh tortilla business, Gruma made local deliveries to restaurants and markets, in some cases as often as two or three times a day. Gruma had high exposure to Mexico, with 54% of sales volume and 28% of its consolidated net sales coming from Mexican operations in 2008 and 38% of consolidated assets located in Mexico. The US and Europe (mostly in the US), however, were highly profitable markets for Gruma, representing only 30% of volume but 43% of sales.

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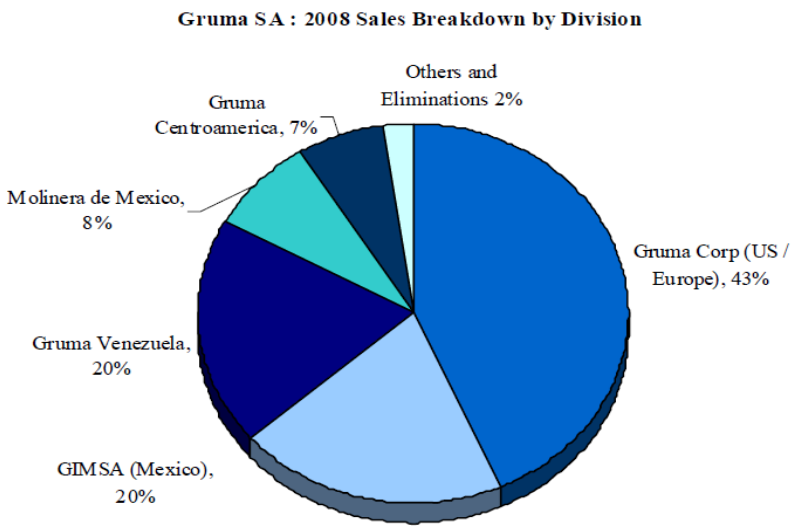
3 This section of the document is based on information found on the firm's website www.gruma.com, the firm's 2007 annual report and the BCP securities report.

Venezuela was also an important market, representing approximately 11% of sales volume and 20% of sales in 2008, of which about 85% came from corn and wheat flour. Venezuela was a significant political risk for the company as the government has implemented strict price controls on products like corn and wheat flour. Though it has been difficult to transfer profits from Venezuela, Gruma had been successful in extracting funds through dividends and inter-company loans. Of the company's consolidated sales, about 43% comes from its US and to a lesser extent European operations, most of which are tortillas sold in the US, while 20% comes from the sale of corn flour in Mexico, and other 8% comes from wheat flour sold in Mexico.



Additionally a summary of information by geographic segments is as follows:

	2007	%	2006	%
NET SALES:				
United States and Europe	Ps. 17,402,790	48	Ps. 16,167,983	50
Mexico	11,651,844	33	9,976,597	31
Venezuela	3,862,214	11	3,874,434	12
Central America	2,076,158	6	1,862,648	6
Asia and Oceania	823,040	2	308,293	1
	Ps. 35,816,046	**100**	**Ps. 32,189,955**	**100**

Product line

Corn Flour

Gruma refines and sells white and precooked corn flour as well as corn tortilla flour under the brands Mission, Maseca, Guerrero, Juana, Payara, Tia Berta, and Maseca. In Mexico, Gruma operates through its Gimsa subsidiary as the largest corn flour manufacturer with 17 corn flour plants manufacturing products under the Maseca brand.

Tortillas

Gruma produces corn and flour tortillas under the Mission and Guerrero brands in the United States, and sells them to the retail and foodservice channels. The company also produces and sells corn and flour tortillas under the Misión brand in Mexico and under the Tortiricas brand in Costa Rica.

Wheat Flour

Gruma produces all-purpose wheat flour for baked goods such as bread, cookies, and other consumer staples such as tortillas and pasta in Mexico under the Poderosa, Diluvio, Reposada, Selecta, and Monterrey brands, and in Venezuela under the Robin Hood brand.

Food Preparation Machines

Gruma sells a variety of small-scale machines, including tortilla and masa machines, as well as mixing
machines for third parties.

Other Products

In addition to Gruma's main staple corn and wheat flour and tortilla businesses, the company also produces an assortment of sauces and other grain products such as rice, *palmitos* (hearts of palm), and oatmeal in Costa Rica and Venezuela. In Central America, Gruma has 11 plants which manufacture corn flour, tortillas, rice, hearts of palm, and snack foods. In Venezuela, Gruma's subsidiaries, Monaca and Demaseca, have 14 plants which produce and distribute corn and wheat flour, rice, and oats.

International Expansion

A critical dimension of Maseca's strategy was its internationalization that started in 1973 and continued up to 2008. The following is a timeline of MASECA's international expansion.

1949	GRUMA began operation with one corn flour plant: Molinos Azteca S.A. de C.V. in Cerralvo, Nuevo Léon. This was the the solution to the problem of conservation of nixtamal mass for making tortillas, mexicans main food.

1957

A new corn flour plant in Acaponeta, Nayarit joins the team.

Decade of nationwide expansion with openings in different regions of Mexico.

1973

At the request of the Costa Rican government, GRUMA enters the corn flour market of that country.

1977

In the middle of the decade, GRUMA acquires the Mission Foods plant in Canoga Park, California, which is currently the No. 1 brand worldwide.

1978

TECNOMAIZ begins production of its TORTEC machinery for the tortilla industry.

1982 The first corn flour mill in the United States is installed in Edinburg, Texas.

1987 Operations initiated in Honduras.

1990 Initial public offering of Gimsa stock on the Mexican Stock Exchange.

1992 GRUMA acquires 10% of Banorte Financial Group.

1993

Operations in El Salvador, Guatemala and Venezuela begin.

1994

Initial public offering of GRUMA stock on the Mexican Stock Exchange.
The company begins corn and wheat tortilla production and distribution in Mexico.

1996

In association with ADM, GRUMA acquires two corn flour mills in the USA and two wheat mills in Mexico.

GRUMA opens the largest hearts of palm packaging plant in Latin America in Guápiles, Costa Rica.

1997
1998

GRUMA opens its first offices in London, England.
In 1998, Gruma action lists in the New York Stock Exchange with the GMK key.

1999

GRUMA acquires 2 wheat flour companies in Mexico: the Salcido Group and La Asunción. GRUMA expands its operations in Venezuela by acquiring Molinos Nacionales (MONACA), the second largest corn and flour producer in that country.

2000

GRUMA´s first tortilla plant in Europe begins operations in Coventry, England.

2004

Gruma acquires a corn flour mill in Italy and a tortilla plant in Holland.

2006	GRUMA International Foods SL is created, based in Madrid, Spain. in January 2006, GRUMA acquired the production company of tortillas "Rositas Investments PTY LTD" of Australia. In March 2006, the Mexican multinational completed the acquisition of Oz-Mex Foods PTY LTD, tortilla Production Company based in Melbourne, Australia. In September 2006, GRUMA opened its first plant in Asia, the number 89 in the world, which is located in Shanghai, China. In October 2006, GRUMA acquires Pride Valley Foods (PVF).
2007	GRUMA new plant in Australia begins operations. In July 2007 the plant of Gruma in Malaysia began operations, which produces mainly Tortilla Wrap, Pizza Base, and Foldover Bread Naan Bread.
2008	In 2008 oz-mex, producer of wheat flour and taco shells, the two new business units that were purchased at different times were merged into one, with very high production standards. In September 2008, there were already 135 units of "la casa del maíz", The projected number for 2010 is around 300 retail franchise spots.

For a map of the firm's markets in 2008, please refer to exhibit #1.

The internationalization of Gruma had given the firm a presence in many countries for a long time. As of lately, some changes in the political situation of some key countries where the firm operated had become relevant events. One of such situations was Venezuela.

Operations in Venezuela represented approximately 11% of net sales in 2007. In recent years, political and social instability has prevailed in Venezuela. This severe political and civil uncertainty represented a risk to the business in this country, which cannot be controlled or measured accurately. For instance, as a result of the nationwide general strike that took place from December 2002 to February 2003, the Company's operations in Venezuela temporarily ceased for approximately 14 days. In response to the general strike and in an effort to shore up

the economy and control inflation, since 2003 Venezuelan authorities imposed foreign exchange and price controls on certain products.

These foreign exchange controls may limit the Company's capacity to convert bolivars to other currencies and also transfer funds outside Venezuela. In February 2003, the Venezuelan government set a single fixed exchange rate for the bolivar against the U.S. dollar of 1,600 bolivars to U.S.$1.00. Later, in February 2004 the Venezuelan government set a new fixed exchange rate of 1,920 bolivars to U.S.$1.00. Additionally, in February 2003 the government of Venezuela established price controls for certain products such as corn flour and wheat flour, which could limit the Company's ability to increase prices in order to compensate for the higher costs of raw materials. In March 2005, the government established a new exchange rate of 2,150 bolivars per U.S. dollar.

The firm's annual report stated that it's operations in Venezuela were characterized by:

(i) a part of its sales is denominated in bolivars,
(ii) the subsidiaries in Venezuela make products that are subject to price controls, and
(iii) it might be difficult for Venezuelan subsidiaries to pay dividends, as well as to import some of their requirements of raw materials as a result of the foreign exchange control.

The current president in Venezuela was reelected for a second term in December 2006; thus, the civil and political uncertainty will continue during the next six-year term. Additionally, starting 2007 the current president was qualified by the legislative power of this country with extraordinary faculties to legislate by decree for a period of 18 months in several strategic areas, which could result in certain structural changes in the economical and social policies in Venezuela and thus, increasing the uncertainty in this country.

Despite that Venezuela was just one of the countries where the firm operated, President Chavez had expressed his intentions to expand its political model. So far, politicians from Ecuador, Bolivia, Peru, Nicaragua, Paraguay, Nicaragua and Honduras welcomed his message. "

Gruma's Competitive Advantage[4]

"Gruma was clearly the undisputed leader in its industry with about 75% market share of corn flour, the key ingredient for tortillas, in Mexico, and 35% and 85% of market share of tortillas and corn flour, respectively, in the United States, according to the company. In the US market, even the second largest players commanded only single-digit market share with the five largest producers below Gruma having only about 10% market share combined, according to company estimates.

While the company faced increased competition in the United States from other large producers entering the market and small producers specialty products (i.e. organic, low-carb, and gluten-free), the company was so large and established with its existing infrastructure and industry know-how, it was likely that the firm could bridge the gap between traditional Mexican-

4 This section of the document is based on information found in the report by ***James Harper, Director of Corporate Research and Alyssa Hitomi, Research Associate both from*** **BCP Securities, LLC**

American consumers and new American consumers by opting to introduce product lines tailored for these new customers. In response to these changing tastes, the company had introduce a variety of specialized tortillas targeted to non-Latino consumers, like flavored wraps and whole-grain tortillas. Furthermore, Gruma was likely to be the leader going forward in the market for traditional-style tortillas and tortilla products, as the Mexican-American population is expected to reach about 48 million, or 16% of the total population, by 2010 and 60 million, or 18% of the total population, by 2020. It was also important to note that while large American corporations like Cargill, Tyson and General Mills have entered the tortilla market, they had so far been largely unsuccessful in gaining any traction.

The company also maintained a constant dialogue with the Mexican government regarding where to set corn flour prices, as corn flour was an essential staple of the Mexican diet, maintaining low, affordable prices for consumers is a top priority of the government. From time to time, as the top supplier of corn flour in Mexico, Gruma has received subsidies in exchange for not raising its corn flour prices.

Gruma's Key Industry Risks[5]

"In the current economic downturn the company was facing increasing competition from private label brands that were undercutting the tortilla giant's products by slim margins and scoop up market share. As of May 2008, private label products represented about 9% of the fresh tortillas and wraps sold in the US. That figure was growing as consumers, who are already price sensitive to undifferentiated products like tortillas, became more indifferent to brands as their pocketbooks are squeezed. Though there was a rapidly growing tortilla market, the industry's attractive growth had drawn the attention of many companies and Gruma was at risk of home-grown American corporations which already have substantial infrastructure and resources, like General Mills, implementing aggressive campaigns.

Though the focus has been on the southwest portion of the United States, there were a growing number of non-traditional tortilla consumers as well as a growing Latino population in other parts of the US, particularly in the northeast where traditional Mexican tortilla producers' presence was weak. American corporations with established infrastructure and local knowledge in those areas may have had a competitive advantage.

The characteristics most favorable to the industry include:

1. Threat of substitutes (especially trading down) was very low as tortillas are among the cheapest bread products available to the market and was a unique product which is a staple of the Mexican diet

2. Suppliers of corn and wheat had low bargaining power as their product is undifferentiated and subject to prevailing market supply and demand.

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5 This section of the document is based on information found in the report by ***James Harper, Director of Corporate Researchand Alyssa Hitomi, Research Associateboth from*** **BCP Securities, LLC**

3. Customers have low-to-moderate bargaining power as traditional tortillas were a staple in Mexico and the industry is dominated by the largest producer, Gruma, mainly through the sale of corn flour to an estimated 60,000 tortilla shops (*tortillerías*) which serve local markets, as well as private consumers. While customers in the United States had more options (organic, low-carb, specialty tortillas) with differentiated products at various price points from an estimated 1,000 small tortilla and wrap producers, Gruma still commanded the top market share in tortillas (35%) and corn flour (85%) by a substantial margin.

4. Competition was very low as the industry is dominated by the leading producer, Gruma, with about75% market share of corn flour in Mexico, and about 35% and 85% market share of tortillas and corn flour, respectively, in the United States. Despite the more competitive nature of the United States market, the potential growth in the tortilla market was exceptionally attractive thanks to the rapidly growing Latino population and changing tastes among non-Latino consumers (e.g. the popularity of wraps)."

MASECAS FINANCIAL AND NON FINANCIAL OPERATIONS[6]

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

Supply Chain

"Corn was the principal raw material required for the production of corn flour, and constituted approximately 68% of the cost of sales for 2008. The firm had the most extensive nationwide corn purchasing capabilities of any corn flour producer in Mexico. The firm purchased corn primarily from Mexican growers and grain elevators, and from world markets at international prices under import permits granted by the Mexican government. All domestic corn purchases were made on a spot basis pursuant to short-term contractual arrangements, some of them in the form of oral agreements entered into at the beginning of the harvest. Compañía Nacional Almacenadora, S.A. de C.V., a subsidiary, contracted for and purchased the corn, and also monitored, selected, handled and shipped the corn.

Traditionally, domestic corn prices in Mexico tended to be higher than those abroad, and typically followed trends in the international market only when corn prices were increasing. During most periods, the price at which the firm purchased corn depended on the international corn market. Corn prices were sometimes unstable and volatile. In addition to corn, the other principal materials and resources used in the production of corn flour are packaging materials, water, lime and energy. The firm believed that the sources of supply for these materials and resources were adequate, although energy and packaging costs tended to be volatile."

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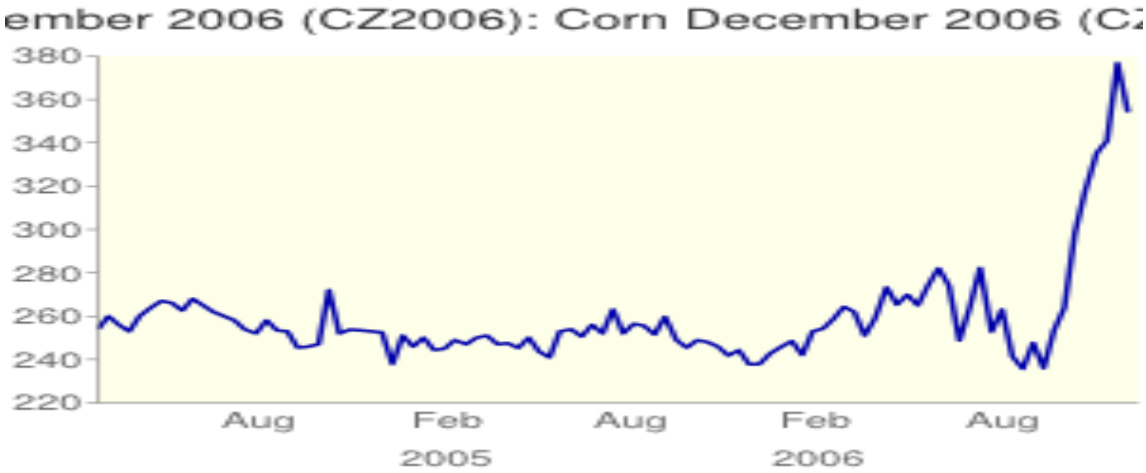
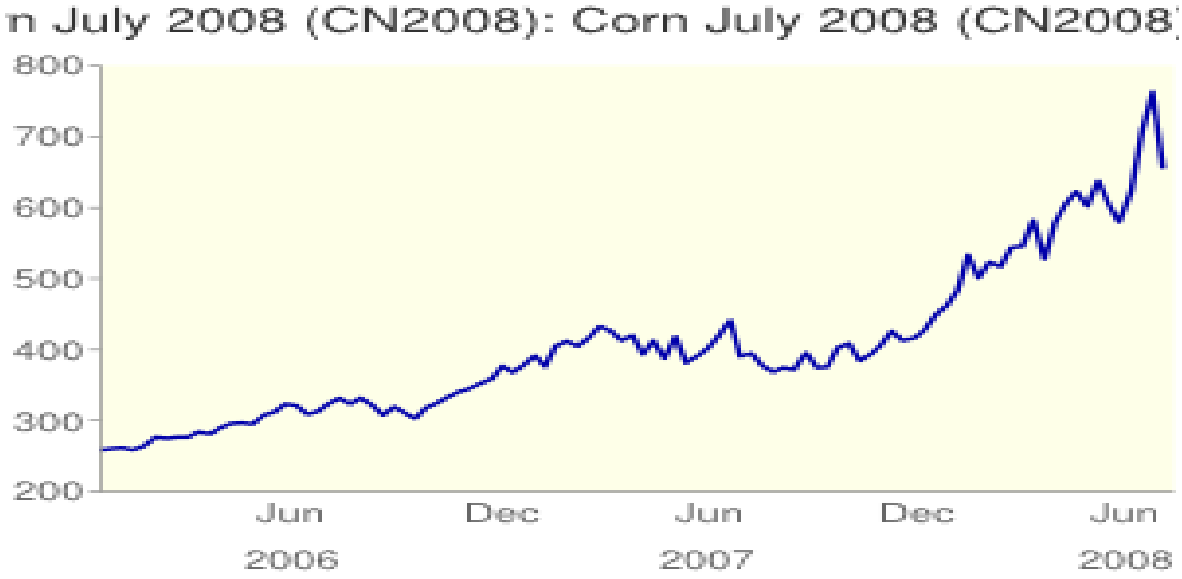
6 This section of the document is based on information found in the firm's 2007 annual report to shareholder's.

As a reference, the following graph shows the evolution of corn prices for the last two years.





The firm's headquarters were located in Mexico. Thus, the firm prepared its financial statements using the IFRS (International Financial Reporting Standards) in Mexican pesos. Despite that the tortilla was not sensitive to economic cycles or crises periods, other parts of the firm could be positively and negatively affected by the fluctuations in inflation rates and exchange rates.

The Mexican Economy

If one word can be used to summarize the Mexican economy that word would be volatility. For the last 30 years, Mexico's economy had been through two very deep crises (1982 and 1994) where the economy was very deeply impacted by internal and external factors. Due to this situation, the Mexican government had used several tools to reduce the volatility of its macro

figures, and particularly, its exchange rate. For the last 30 years, the Mexican peso had evolved in the following manner:

Multiple exchange rate regime (August 6, 1982 – August 31, 1982) [7]

At the end of 1981 and in 1982, the Mexican economy entered a phase of instability which was described in Banco de México‟s 1982 Annual Report:
"Higher domestic versus external inflation, the economy‟s dependence on oil revenues and the fall in the oil price adversely impacted exchange rate expectations. This encouraged the conversion of pesos into dollars, drained foreign reserves and ultimately triggered the February 1982 devaluation. At the same time, the devaluation and the March wage revision resulted in additional inflationary pressures that together with the difficulties accessing external funding further impacted expectations."In the months which followed, this vicious circle forced the financial authorities to take several measures to control foreign exchange market transactions."

General controlled exchange rate regime (September 1, 1982 – December 19, 1982)

In its 1982 Annual Report Banco de México wrote: "Despite the recently mentioned foreign exchange regulatory measures, at the end of August some speculative movements in the foreign exchange market further eroded Central Bank foreign reserves. Protecting international reserves thus became the focal point of foreign exchange policy."5 Thus on September 1, 1982, the "general controlled exchange rate regime" was introduced, which effectively abolished the exchange rates of the previous regime. Furthermore, Banco de México‟s Annual Report states that "In accordance with the corresponding decree, credit institutions may not enter into foreign currency and metal transactions of any kind, only authorized buy transactions on behalf or upon request of Banco de México."6 Two exchange rates were also introduced: a "preferential" one and an "ordinary" one determined by Banco de México.7

Controlled exchange rate regime (December 20, 1982 – August 4, 1985)

Following the presidential changeover in December 1982, on December 13 that year the Official Federal Gazette announced a controlled exchange rate system which would replace the generalized exchange rate.

Regulated floating rate regime (August 5, 1985 – November 10, 1991)

Towards the end of 1985, it was considered that foreign exchange policy at the time did not take account of the prevailing and expected trend in monetary aggregates or their impact on international reserves,10 as the exchange rate moved evenly in accordance with a daily slippage and not in accordance with prevailing conditions. Therefore it was announced that:

"…as of August 5, a regulated floating system will be introduced to replace the even slippage in effect since December 1982. Under the new system the controlled exchange rate will be modified on a daily basis by not necessarily even amounts and not abruptly. This system will

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7 This section of the document is based on the "Exchange Rate Regimes in Mexico since 1954" published by the Banco de Mexico in Septermber, 2009.

accommodate the controlled exchange rate to internal and external circumstances in a flexible and gradual way

Exchange rate band with managed slippage regime (November 11, 1991 – December 21, 1994)

In order to "provide exporters and assembly plants with a stimulus"13 as of November 11, 1991, exchange rates were no longer managed and the free and controlled exchange rates were unified. The new system consisted of letting the exchange rate float within a band which widened on a daily basis. The floor of the band was set at 3,051.20 pesos against the dollar while the ceiling was adjusted upwards by 20 cents daily (including Saturdays and Sundays) from 3,086.40 pesos. On October 21, 1992, the ceiling‟s slippage was increased to 40 cents daily.

Free floating regime (December 22, 1994 – present)

In 1994, several events occurred in Mexico which caused market instability and resulted in a speculative attack on Banco de Mexico‟s international reserves at the end of that year, making the exchange rate band regime unsustainable. Under the floating rate regime, which has remained in effect ever since, the exchange rate is determined by the free market without the intervention of the authorities.

These exchange rates regimes were the consequence of two very steep financial crises in 1982 and 1994. During the 1982 crisis, the peso was devaluated up to 40% and in 1994, up to 15% in very short term periods. The free float rate regime was supposed to alleviate those arbitrary devaluations set by the Mexican central bank."

Mexican Economy 2008

The following article describes the situation of the Mexican economy is May 2008. Despite that the world was falling into a financial crisis, the Mexican economy, according to the author Ericka Torres[8], was in better shape than the rest of the developing and developed countries economies:

"Of course, the news headlines in the media over the last month have focused on the economic crisis that has affected the markets and economies around the world. Mexico, like many other nations around the world, has been affected, however, the effect and Mexico's reaction has been different from some nations, and Mexico has been stronger than usual, historically, reacting to this new economic challenge.

All over the world, stock markets have plummeted in value and Mexico's "Bolsa de Valores" has not been the exception. The IPC, which is the indicator of the Mexican Stock Market (like the Dow Jones Index of Wall Street), had dropped over 40% at one point, which is similar to the Dow Jones in the same period and not too different from the rest of the world markets. In the Mexican stock market, values have dropped primarily due to more emotional reasons rather than basic fundamentals. This obviously indicates that market values can recover when the emotional reactions are calmed. The basic fundamentals will help the market recover.

8 Ericka Torres, El Financiero de Mexico, May 2008.

The primary factors of the market crisis that have affected the Mexican economy are the following…the price of oil has dropped, the balance of trade has changed, and inflation has increased:

- Over the last year, the price of oil has reached historically high prices. However, now the price has dropped to levels that have not been seen since early this year. Fortunately, many economic projections and planning have been based on levels lower than the historically high prices.
- The balance of trade has been affected in many ways, which is primarily due to changes in the U.S economy. However, over the last decade Mexico has connected with other global markets in Europe, Asia and Canada, which has reduced its dependence on the trade with the USA only.
- Inflation rates have increased due to domestic increases and imported increases from other trading nations.
- The peso has lost some value and the volatility continues due to capitals going out of the stock market and speculation.

Also like other markets in the world, with the prices decreasing, liquidity has become an issue as capital is drained from the market. This has put pressure on the interest rates increase as well.

But the bottom line after listing all the aforementioned problems is to ask, how is the Mexican economy going to get through this global economic crisis?

As to financial liquidity, the lessons learned from previous economic crises has caused Mexico's Central Bank (BANXICO), to increase their reserves to over $80 billion dollars (USD). Like other central banks around the world, BANXICO has injected liquidity into the market to help balance the pressure on the exchange rate and the demand of liquidity in the markets. This pressure on the peso is not a weakness on the currency or the economy, but a result of low liquidity on the global markets and the selling spree in the stock markets, especially emerging markets like Mexico.

The fundamentals of the economy are strong and well organized: Financial markets are properly regulated, the public finances are healthy and the banks well capitalized; there is low fiscal deficit, no foreign debt pressures, oil revenues are still positive, remittances continue to come into the country and foreign direct investment flowing.

Therefore, Mexico stands in a better position to handle this global economic crisis, better than it has historically and better than some other economies in the world. The Mexican government has reacted and started actions to help deal with the different effects of this crisis.

Mexico is in the process of approving the structural reforms to help the economy meet its potential, avoid potential problems and benefit from the opportunities of the future. An example of these reforms affected energy policy and were approved during the last week of October 2008. The new energy reforms will help an industry, which was nationalized over 70 years ago. Some of the new reforms include the following:

- PEMEX, the national petroleum company will now be independent with autonomy to form its own budgets and long- term exploration plans, with corporate board and independent consultants.
- The creation of independent boards to ensure disclosure of information and better corporate transparency.

- The establishment of a National Energy Efficiency Commission, that will establish and enforce energy efficiency standards.
- Establishment of incentive programs for service contracts, designed to improve efficiency of the private companies and help reduce costs.

Mexico also continues to have other strong indicators that the country will be able to weather this global crisis better than many nations. The GDP (Gross Domestic Product) even though it is not growing as fast as it was, continues to increase. Employment rate is growing, but also the government keeps implementing programs to support small and new businesses to help create new job positions.

As we can see, Mexico is in much better position than previous crises and, fortunately, is making changes that improve Mexico's economy now and into the future."

Despite of these words of comfort, the recent evolution of the Mexican peso was showing some signs of increasing volatility. The potential for an international crisis was not felt by the Mexican economy so far. As a matter of fact, the Mexican peso had been gaining value against the U.S. dollar for the last months going from 11 pesos per dollar in January to a low of 10 pesos per dollar at the end of July.

For a detailed analysis of the Mexican in 2008 please refer to the following document:

http://books.google.com/books?id=yek2V7m3Pk8C&pg=PA26&lpg=PA26&dq=mexico+international+reserves+2007&source=bl&ots=fbmY8Rk3cw&sig=r-lAYFwNGtDbzsqke626IS2heOI&hl=en&sa=X&ei=KG-VULePBqis2gXL5YD4AQ&ved=0CCMQ6AEwATgK#v=onepage&q=mexico%20international%20reserves%202007&f=false

An Expert's Assessment on Maseca's Financial Situation[9]

9 The following sections of the case are opinions expressed by the case authors.

By the end of 2007 Gruma, like many businesses, had many things in which to rejoice as well as some items of concern. Management was happy with their continued growth in sales and earnings, but there was also pressure from rising raw material costs and particularly corn (Please refer to exhibit #4 for Q1 and Q2 results from 2008). Their operational improvements had translated to improvements in profit margin as well as asset utilization. Year over year sales growth has been strong with close to 10% growth in sales over the last couple year. Although profit margin had shown continuous improvements, there has been a slight weakening in operating margin and EBITDA margin.

Debt has stayed moderate with the total liability ratios maintained in the mid-40s percentile range. However, it should be noted as shown in this table, that most of the debt that is denominated in U.S. dollars.

	2007	2006
U.S. & Europe Sales in Pesos	17,402,790,000	16,167,983,000
U.S. Dollar LT Debt in Pesos	6,365,277,000	5,426,813,000

In the first quarter of 2008, debt rises to the equivalent of US $801,900,000, of which approximately $737,750,000 is U.S. dollar denominated. Gruma explains that the debt increase is the result of higher raw material costs and higher cash holdings, resulting in the increase in working capital. During the second quarter of 2008, proceeds from a rights offering was used to decrease debt. Debt went to US $620,400,000, of which 91% was denominated in U.S. dollars. The increase in shareholder's equity and decrease in debt helped put the Total Liabilities to Stockholders' Equity ratio back to within the historical range for the company.

According to management notes, almost half of Net Sales originates in U.S. dollar and Euro sales, and those being predominately in dollars. Given that a substantial portion of long-term debt is also in dollars (please refer to Exhibit #3) , it would appear that the dollar attributes of sales would complement the liabilities. Would a revaluing peso have a negative impact on Gruma's financials? If the peso continued to gain on the U.S. dollar, like it did from 11.2 to 10.32 pesos per dollar from 2003 to second quarter 2008, each dollar sale would have less impact on Net income. However, if the peso devalued then each dollar sale would positively impact the sales and earnings accounting data. Nevertheless, Maseca's financial strategy relied very heavily in the use of dollar denominated debt

Additional information about Maseca's Financial information can be observed in exhibit #2.

HEDGING ACTIVITIES FROM THE PAST

Hedging

Should Maseca hedge?

The purpose of hedging is theoretically to increase shareholder value. In order to do so a hedging program must either increase a firm's expected cash flows or decrease the required return demanded by investors. In perfect markets hedging does not add value to a firm. The decreases in risk are offset by the decreases in expected cash flows. As with traditional forms of insurance,

investors are not willing to write contracts without receiving adequate compensation. For example, in order to convince investors to guarantee delivery of corn at a fixed price, Maseca must compensate the investor for accepting price risk. **[Teaching note – simple example demonstrating the irrelevance of hedging]**

Benefits of hedging **[Teaching Note – table with 5 reasons for hedging and reasons they apply (or not) to Maseca**
In reality markets are not perfect so at times hedging may increase firm value. The potential benefits of hedging are typically broken into five categories: **(include citation Stulz, Risk Management)**

1. Taxes: For countries with progressive tax rates smoothing earnings may lead to a decrease in taxes paid. Hedging shifts income from high tax years to low tax years. For instance when corn prices are unusually high, Maseca would expect to report lower than average operational income. If it hedges this risk with a long position in corn futures, Maseca will realize gains on these contracts during such off years.

2. Bankruptcy costs and financial distress: If volatile cash flows make it possible that a firm will experience financial difficulties it may be beneficial to hedge. There are direct and indirect costs attached to financial distress. If the probability of distress is high, a firm might increase expected cash flows by implementing a hedging strategy.

3. Undiversified shareholders: If a firm has large investors who are not fully diversified they are concerned with both systematic and nonsystematic risk. Hedging may increase the value of these investors holding by reducing the volatility of the firm's cash flows.

4. Stakeholders: Maximizing shareholder value may not be the sole concern of a firm. Many firms are paying increased attention to other stakeholders: Employees, communities, suppliers, etc. Firms with low cash flow volatility are better able to commit resources to these constituencies.

5. Investment in down markets: Growing firms without substantial internal resources need to maintain access to capital markets to fund growth. Otherwise, positive net present value projects might not be able to be undertaken in down markets. Hedging helps insure financial strength remains sufficient to obtain outside funds when required.

Establishing a hedging plan
[Teaching note – show impact of price movements say 10% and 20% in each direction on operating income to ensure students understand the fundamentals of financial statements and hedging instruments)

In establishing a risk management strategy the firm needs to quantify the risk and potential benefits. Hedging, like all insurance, is costly. Before implementing hedges the firm must be able to demonstrate that the benefits outweigh the costs. The relevant questions to be addressed are:

1. What is the expected price distribution? It is important to project a distribution of possible price movements so that the firm understands how large a price movement should be planned for and the probability of an adverse movement.

2. If an adverse movement is experienced what is the impact on cash flows. In some instances increased commodity prices can be passed along to customers. The firm needs to establish what amount of cash flows are at risk because of price volatility.

3. Would such a decline in cash flows lead to financial distress, harm to undiversified shareholders or any of the other factors discussed in the prior section. A financially strong firm with relatively stable cash flows may have a low risk of financial distress even without hedging. In these cases it is unlikely to reap enough benefits from hedging to justify a significant risk management program.

4. How much risk should be hedged? Based on the answers to the prior three questions, if hedging is justified management needs to determine the appropriate amount.

Historical Volatility Peso and Corn [Teaching note – based on below walk through above 4 steps – how large a movement should we plan for? How large an impact on value would such moves have on Maseca?]

Masecas's risk factors

Maseca's exposure to risk comes mainly from changes in the peso/dollar exchange rate and the price of corn.

Mexican Peso

Compared to its historical experience the peso/$ exchange rate has been relatively stable over the last decade. The below chart shows the monthly exchange rate since 1998. During this time frame the value of the peso has fluctuated between $.09 and $.12.

During this time period the monthly standard deviation has been 1.88%. Most months have seen small changes in the rate; with the vast majority falling between -3% and 2%. Declines in the value of the peso in excess of 5% have only occurred in two months with the largest monthly decline of 8%.

Monthly Exchange Rate Movements (1998-2007)

% change	Number of Months
< -5%	2
-5% - -4%	0

-4% - -3%	7
-3% - -2%	13
-2% - -1%	11
-1% - 0 %	24
0% - 1%	34
1% - 2%	19
2% - 3%	6
3% - 4%	3
Monthly Standard Deviation	1.88%

Corn

Corn prices have been much more volatile. Since 2000 monthly standard deviation has been 5.11%. Price increases of 10% are not unusual with the largest monthly increase being 14%.

Monthly Corn Prices ($/bushel) (2000 -2007)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	1.91	1.98	2.03	2.03	2.11	1.91	1.64	1.52	1.61	1.74	1.86	1.97
2001	1.98	1.96	1.96	1.89	1.82	1.76	1.87	1.9	1.91	1.84	1.85	1.98
2002	1.97	1.93	1.94	1.91	1.93	1.97	2.13	2.38	2.47	2.34	2.28	2.32
2003	2.33	2.34	2.33	2.34	2.38	2.34	2.17	2.15	2.20	2.12	2.2	2.31
2004	2.39	2.61	2.75	2.89	2.87	2.79	2.51	2.34	2.20	2.15	2.05	2.04
2005	2.12	1.95	2.02	2.00	1.98	2.03	2.11	1.95	1.90	1.82	1.77	1.92
2006	2.00	2.02	2.06	2.11	2.17	2.14	2.14	2.09	2.20	2.54	2.87	3.01
2007	3.05	3.44	3.43	3.39	3.49	3.51	3.32	3.26	3.29	3.29	3.43	3.76
Standard Deviation (Monthly)	5.11%											
Maximum % Price Increase	14.37%											
Maximum % Pric	-15.24%											

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Maseca Derivative Position June 30, 2008[Need table with Derivative positions]

Concluding Remarks

The information about the operations, financial positions, supply chain and additional risks that Maseca faced in 2008 was in the desk of the analysts. At this moment they were assigned the task of generating a list of what they considered where the most relevant risks as well as the risk management techniques that the firm had in place to deal with those risks and based on the information that was available to the public. Also, they knew that they could ask some punctual specific questions during the earnings announcement conference press.

At the end, they wanted to come with a recommendation about the overall risk situation of the firm and how the firm was handling it. An additional situation they had to consider was the effects on Maseca that the potential and now very plausible international financial crisis that loomed in the horizon.

GRUPO MASECA
EXHIBIT #1
GEOGRAPHICAL LOCATIONS 2008
(from the firm's website)

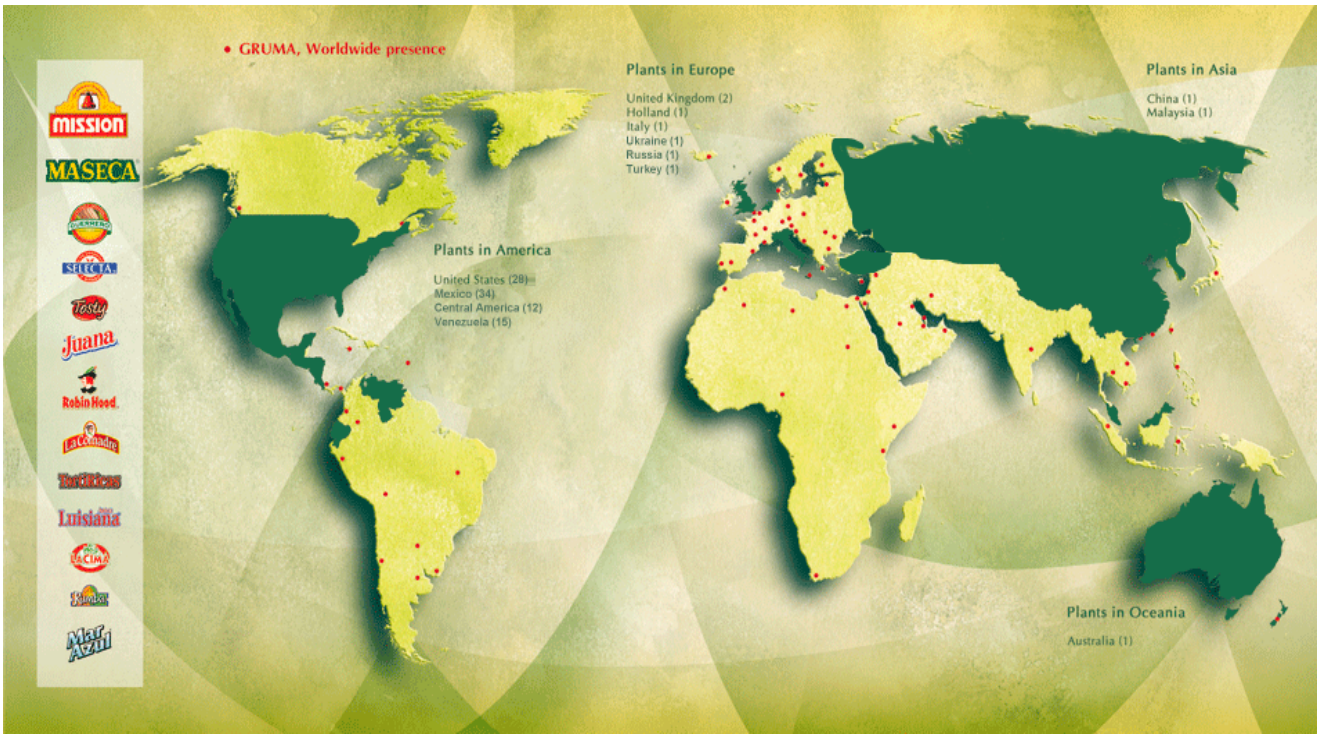


Exhibit # 2
Maseca's Financial Information
(From the firm's 2007 Annual Report)

CONSOLIDATED BALANCE SHEETS

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
AS OF DECEMBER 31, 2007 AND 2006
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2007)
(Notes 1 and 3)

	2007	2006
ASSETS		
Current:		
Cash	Ps. 383,469	Ps. 394,195
Temporary investments (Note 3-G)	97,459	205,191
Accounts receivable, net (Note 4)	4,776,378	4,767,147
Refundable taxes (Note 4)	764,514	602,430
Inventories (Note 5)	5,549,290	4,012,754
Prepaid expenses	294,810	348,862
Total current assets	11,865,920	10,330,579
Investment in common stock of associated companies (Note 6)	2,849,978	2,859,151
Property, plant and equipment, net (Note 7)	16,274,447	15,563,733
Intangible assets, net (Note 8)	844,489	983,843
Excess of cost over book value of subsidiaries acquired, net	1,908,798	1,881,903
Other assets (Note 9)	167,070	133,192
TOTAL ASSETS	**Ps. 33,910,702**	**Ps. 31,752,401**
LIABILITIES		
Current:		
Bank loans (Note 10)	Ps. 666,232	Ps. 180,789
Current portion of long-term debt (Note 10)	274,841	746,131
Trade accounts payable	2,696,288	2,426,951
Accrued liabilities and other accounts payable	2,415,650	2,115,933
Employees' statutory profit sharing payable	21,964	49,213
Total current liabilities	6,074,975	5,519,017
Long-term debt (Note 10)	6,913,173	5,886,297
Deferred income taxes (Note 15-B)	2,005,814	1,799,305
Other liabilities	339,541	645,531
Total long-term liabilities	9,258,528	8,331,133
TOTAL LIABILITIES	**15,333,503**	**13,850,150**
Contingencies and commitments (Note 12)		
STOCKHOLDERS' EQUITY		
Majority interest (Note 13):		
Common stock	4,852,296	4,880,142
Restatement of common stock	8,437,310	8,437,293
	13,289,606	13,317,435
Additional paid-in capital	4,831,370	4,841,487
	18,120,976	18,158,922
Deficit from restatement	(16,196,178)	(15,091,290)
Derivative financial instruments	41,790	6,725
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing	(226,316)	(226,316)
Retained earnings (Note 13-B):		
Prior years	12,174,703	11,192,355
Net income for the year	2,233,321	1,601,125
Foreign currency translation adjustments (Note 13-D)	(453,086)	(808,026)
Total majority interest	15,695,210	14,833,495
Minority interest	2,881,989	3,068,756
Total stockholders' equity	18,577,199	17,902,251
	Ps. 33,910,702	**Ps. 31,752,401**

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

CONSOLIDATED STATEMENTS OF INCOME

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2007, except per share amounts)
(Notes 1 and 3)

	2007	2006
Net sales	Ps. 35,816,046	Ps. 32,189,955
Cost of sales	(24,192,290)	(20,975,201)
Gross profit	11,623,756	11,214,754
Selling, general and administrative expenses	(9,749,888)	(9,342,921)
Operating income	1,873,868	1,871,833
Other income (expenses), net (Notes 3-A and 14)	555,743	(49,112)
Comprehensive financing cost, net:		
Interest expense	(683,578)	(602,315)
Gain (loss) on derivative financial instruments	155,456	(146,693)
Interest income	64,357	82,012
Monetary position gain, net	558,509	336,552
Foreign exchange gain (loss), net (Note 16-A)	72,129	(19,363)
	166,873	(349,807)
Equity in earnings of associated companies	707,835	643,318
Income before income taxes and minority interest	3,304,319	2,116,232
Income taxes (Note 15):		
Current	(627,675)	(355,849)
Deferred	(298,035)	(76,321)
	(925,710)	(432,170)
Income before minority interest	Ps. 2,378,609	Ps. 1,684,062
Minority interest	(145,288)	(82,937)
Majority net income for the year	**Ps. 2,233,321**	**Ps. 1,601,125**
Earnings per share (in pesos)	**Ps. 4.63**	**Ps. 3.34**
Weighted average shares outstanding (thousand)	**482,506**	**480,007**

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

GRUMA, S.A.B. DE C.V. AND SUBSIDIARIES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2007)
(Notes 1 and 3)

	2007	2006
Operating activities:		
Majority net income for the year	Ps. 2,233,321	Ps. 1,601,125
Minority interest	145,288	82,937
Consolidated net income	2,378,609	1,684,062
Adjustments to reconcile consolidated net income to net resources provided by operating activities:		
Depreciation and amortization	1,178,797	1,262,299
Impairment of long-lived assets	140,049	488,935
Equity in earnings of associated companies, net of dividends received	(628,635)	(561,467)
Deferred income taxes and employees' statutory profit sharing	280,776	59,498
Net gain from sale of subsidiaries' shares	(75,718)	(144,883)
Net gain from sale of associated companies' shares	(847,175)	(399,639)
Loss in sale of fixed assets	49,847	-
Labor obligations and other long-term accrued liabilities	21,263	9,467
	2,497,813	2,398,272
Changes in working capital:		
Accounts receivable, net	(294,768)	(1,148,184)
Inventories	(2,166,018)	139,532
Prepaid expenses	45,984	(57,811)
Trade accounts payable	193,450	205,271
Accrued liabilities and other accounts payable	17,653	441,170
Income taxes and employees' statutory profit sharing payable	(26,767)	(10,646)
	(2,230,466)	(430,668)
Net resources provided by operating activities	267,347	1,967,604
Financing activities:		
Proceeds from bank loans and long-term debt	4,133,286	2,452,888
Repayment of bank loans and long-term debt	(3,151,536)	(3,214,893)
Proceeds from long-term notes payable	(50,666)	(50,628)
Proceeds from stock issuance	-	1,191,295
(Decrease) contributions by minority interest	(21,191)	98,735
Net purchases and sales of Company's common stock and derivative financial instruments	(365)	19,884
Dividends paid	(627,264)	(687,199)
Other	(74,261)	21,729
Net resources provided by (applied to) of financing activities	208,003	(168,189)
Investing activities:		
Acquisition of property, plant and equipment	(2,221,326)	(1,921,881)
Acquisition of subsidiaries, net of cash acquired	-	(599,173)
Sales of property, plant and equipment	192,972	375,300
Intangible assets	(16,487)	(16,480)
Resources received from sale of subsidiaries' shares	167,420	144,883
Resources received from sale of associated company's shares	1,267,353	618,356
Other	16,260	(159,745)
Net resources used in investing activities	(593,808)	(1,558,740)
Net (decrease) increase in cash and temporary investments	(118,458)	240,675
Cash and temporary investments at beginning of year	599,386	358,711
Cash and temporary investments at end of year	**Ps. 480,928**	**Ps. 599,386**

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

Exhibit # 3
Notes to Financial Statements- Debt Structure
Relevant notes to the Financial Statements

(Extracted from the firm's 2007 Annual Reports)

N) FINANCIAL INSTRUMENTS

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

For cash-flow hedge transactions, changes in the fair value of the derivative financial instrument are included as other comprehensive income in stockholders' equity, based on the evaluation of the hedge effectiveness, and are reclassified to income in the periods when the hedged commitment or projected transaction is realized. Hedge contracts other than cash flow are recognized at fair value, and their valuation gain or loss is recognized in income.

10. BANK LOANS AND LONG-TERM DEBT

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

	2007	2006
Perpetual notes in U.S. dollars bearing interest at an annual rate of 7.75%, payable quarterly, can be redeemable starting 2009	Ps. 3,276,000	Ps. 3,405,474
Syndicated loan in U.S. dollars maturing in July 2010, bearing interest at an annual rate of LIBOR plus 0.38% to 0.45% (5.6% in 2007), payable monthly and quarterly	2,238,600	1,702,737
Senior unsecured notes in U.S. dollars, maturing in October 2007 and bearing interest at an annual rate of 7.625%, payable semiannually	-	573,732
Credit line in U.S. dollars, maturing in October 2011, bearing interest at an annual rate of LIBOR plus 0.35% to 0.45% (5.5% in 2007), payable in 30, 60, 90 and 180 days	764,400	124,867
Loans in U.S. dollars and euros, payable between 2008 and 2010 and bearing interest at variable annual rates from 2.5% to 8.0% in 2007, payable in different installments	348,987	375,893
Loans in Venezuelan bolivars payable between 2008 and 2009 and bearing interest at variable annual rates from 9.0% to 10% in 2007, payable monthly	413,863	362,971
Loans in U.S. dollars due between 2008 and 2010, bearing interest at variable annual rates from 5.2% to 6.5%, payable monthly	563,703	171,030
Loans in Mexican pesos due in 2008 and 2012, bearing interest at fixed annual rates from 9.6% to 9.8%, payable monthly	134,033	96,513
Loans in U.S. dollars due in 2008, bearing interest at a fixed annual rate of 5.4%	114,660	-
	7,854,246	6,813,217
Short-term bank loans	(666,232)	(180,789)
Current portion of long-term debt	(274,841)	(746,131)
Long-term debt	**Ps. 6,913,173**	**Ps. 5,886,297**

Short-term bank loans of Ps.456.5 million denominated in U.S. dollars (U.S.$41.8 million) bear interest at an average rate of 5.8% as of December 31, 2007. Short-term bank loans of Ps.166.4 million denominated in Venezuelan bolivars (32,761 million of Venezuelan bolivars) bear interest at an average rate of 9.7% as of December 31, 2007. Likewise, as of December 31, 2007, the Company has short-term loans of Ps.43.4 million denominated in euros (2.7 million of euros) bearing interest at an average rate of 5.3%.

The Company has credit line agreements of Ps.3,822 million (U.S.$350 million), from which, as of December 31, 2007, Ps.819 million (U.S.$75 million) are available. These credit line agreements require the payment of an annual commitment fee from 0.1% to 0.2% on the unused amounts.

Various credit agreements contain covenants mainly related to compliance with certain financial ratios, which if not maintained for a certain period of time, may be considered as a cause for early maturity of the debt. At December 31, 2007, the Company is in compliance with these financial ratios.

At December 31, 2007, the annual maturities of long-term debt outstanding were as follows:

Year		Amount
2009	Ps.	506,015
2010		2,352,892
2011		774,645
2012		3,621
2013 and thereafter		3,276,000
	Ps.	**6,913,173**

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

16. FOREIGN CURRENCY

A) EXCHANGE DIFFERENCES

For the years ended December 31, 2007 and 2006, the effects of exchange rate fluctuations on the Company's monetary assets and liabilities were recognized as follows:

		2007		2006
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investment in foreign subsidiaries recorded directly to stockholders' equity as an effect of foreign currency translation adjustments	Ps.	(56,526)	Ps.	(79,424)
Exchange differences arising from foreign currency transactions credited (charged) to income		72,129		(19,363)
	Ps.	**15,603**	**Ps.**	**(98,787)**

B) FOREIGN CURRENCY POSITION

As of December 31, 2007 and 2006, monetary assets and liabilities held or payable in U.S. dollars are summarized below:

	Thousands of U.S. dollars			
In companies located in Mexico:		2007		2006
Assets:				
Current	U.S.$	1,477	U.S.$	12,142
Non-current		-		71
Liabilities:				
Current		(52,798)		(69,488)
Long-term		(505,041)		(481,826)
	U.S.$	**(556,362)**	**U.S.$**	**(539,101)**

	Thousands of U.S. dollars			
In foreign companies:		2007		2006
Assets:				
Current	U.S.$	289,361	U.S.$	285,321
Non-current		7,178		4,279
Liabilities				
Current		(403,057)		(314,436)
Long-term		(258,683)		(184,612)
	U.S.$	**(365,201)**	**U.S.$**	**(209,448)**

At December 31, 2007 and 2006, the exchange rates used to translate U.S. dollar assets and liabilities were Ps.10.92 and Ps.10.81, respectively. On March 28, 2008, date of issuance of these financial statements, the exchange rate for the U.S. dollar was Ps.10.70.

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

	Thousands of U.S. dollars			
		2007		2006
Sales of flour and others	U.S.$	(9,641)	U.S.$	-
Corn purchases and other inventories		184,446		144,453
Interest expense		40,028		38,222
Purchases of plant and equipment		1,232		300
Services		5,891		6,771
	U.S.$	**221,956**	**U.S.$**	**189,746**

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	Carrying amount	Fair value
At December 31, 2007:		
Liabilities: Perpetual bonds in U.S. dollars bearing fixed interest at an annual rate of 7.75%	Ps. 3,276,000	Ps. 3,213,789
Liabilities: Exchange rate forward contracts	16,825	16,825
Liabilities: Interest rate swap contracts	8,731	8,731
Asset: Interest rate swap contracts	15,022	15,022
Asset: Commodity contracts	4,510	4,510
Asset: Interest and capital (TICC) bonds	44,389	44,389

	Carrying amount	Fair value
At December 31, 2006:		
Liabilities: Perpetual bonds in U.S. dollars bearing fixed interest at an annual rate of 7.75%	Ps. 3,405,473	Ps. 3,591,413
Liabilities: Senior unsecured notes in U.S. dollars bearing fixed interest at an annual rate of 7.625%	573,732	580,733
Liabilities: Exchange rate forward contracts	15,695	15,695
Liabilities: Interest rate swap contracts	10,480	10,480
Asset: Exchange rate forward contracts	2,356	2,356
Asset: Interest rate swap contracts	34,424	34,424
Asset: Commodity contracts	212,706	212,706

Exhibit #4
Financial Results from Q2 2008
(Extracted from the firm's Q2 Earnings Reports Press Release)

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

(Millions of pesos)

FINANCIAL HIGHLIGHTS

	QUARTERS					YTD JUNE		
INCOME STATEMENT SUMMARY	**2Q08**	2Q07	VAR (%)	1Q08	VAR (%)	**2008**	2007	VAR (%)
NET SALES	**10,059**	8,918	13	9,466	6	**19,526**	17,020	15
GROSS PROFIT	**3,390**	2,880	18	3,134	8	**6,523**	5,388	21
GROSS MARGIN (%)	**33.7%**	32.3%		33.1%		**33.4%**	31.7%	
OPERATING INCOME	**777**	387	101	576	35	**1,354**	617	120
OPERATING MARGIN (%)	**7.7%**	4.3%		6.1%		**6.9%**	3.6%	
OTHER (INCOME) EXPENSE, NET	**10**	(29)		28		**38**	(95)	
COMPREHENSIVE FINANCING COST (INCOME)	**(263)**	(112)		680		**417**	(67)	
INTEREST EXPENSE	**137**	144		162		**299**	298	
INTEREST INCOME	**(357)**	(18)		650		**292**	(37)	
FOREIGN EXCHANGE LOSS (GAIN)	**41**	22		(50)		**(9)**	(16)	
MONETARY POSITION (GAIN) LOSS	**(83)**	(251)		(82)		**(166)**	(311)	
EQUITY EARNINGS, ASSOCIATED COMPANIES	**(156)**	(162)		(167)		**(323)**	(293)	
TAXES	**337**	173		20		**357**	293	
NET INCOME	**849**	517	64	15	5,502	**864**	779	11
MAJORITY NET INCOME	**689**	442	56	(91)	855	**597**	693	(14)
EARNINGS PER SHARE[1]	**1.22**	0.92	33	(0.19)	745	**1.06**	1.44	(26)
EARNINGS PER ADR (US$)[2]	**0.47**	0.36	33	(0.07)	745	**0.41**	0.56	(26)
DEPRECIATION AND AMORTIZATION AFFECTING OPERATING INCOME	**316**	281		287		**603**	554	
EBITDA[3]	**1,093**	668	64	863	27	**1,957**	1,171	67
CAPITAL EXPENDITURES (MILLIONS US$)	**78**	42		37		**114**	87	

BALANCE SHEET SUMMARY	**Jun-08**	Jun-07	VAR (%)	Mar-08	VAR (%)
CASH AND CASH EQUIVALENTS	**996**	542	84	870	14
TRADE ACCOUNTS RECEIVABLE	**4,296**	3,933	9	4,111	5
OTHER ACCOUNTS RECEIVABLE	**2,249**	1,369	64	1,924	17
INVENTORIES	**7,798**	5,924	32	6,172	26
CURRENT ASSETS	**16,002**	12,456	28	13,533	18
PROPERTY, PLANT, AND EQUIPMENT, NET	**16,316**	15,637	4	16,214	1
TOTAL ASSETS	**38,716**	34,183	13	35,712	8
SHORT-TERM DEBT	**961**	1,130	(15)	1,370	(30)
CURRENT LIABILITIES	**9,348**	7,628	23	7,884	19
LONG-TERM DEBT	**5,436**	6,515	(17)	7,115	(24)
TOTAL LIABILITIES	**17,853**	16,463	8	17,881	(0)
MAJORITY STOCKHOLDERS' EQUITY	**17,849**	14,729	21	15,012	19
STOCKHOLDERS' EQUITY	**20,863**	17,720	18	17,830	17
CURRENT ASSETS/CURRENT LIABILITIES	**1.71**	1.63		1.72	
TOTAL LIABILITIES/STOCKHOLDERS' EQUITY	**0.86**	0.93		1.00	
DEBT/(DEBT + STOCKHOLDERS' EQUITY)	**0.23**	0.30		0.32	
BOOK VALUE PER SHARE[1]	**31.68**	30.52		31.23	

[1] On the basis of 563,356,209 shares as of June 30, 2008, 482,549,952 shares as of June 30, 2007, and 480,731,552 shares as of March 31, 2008.

[2] Each ADR represents four ordinary shares; the exchange rate used was Ps 10.31 per dollar as of June 30, 2008.

[3] EBITDA = operating income + depreciation and amortization affecting operating income.

RESULTS OF OPERATIONS

2Q08 vs. 2Q07

Sales volume decreased 1% to 1,060 thousand metric tons as a result of lower volumes in Gruma Venezuela and Molinera de México.

Net sales increased 13% to Ps.10,059 million due primarily to higher prices in all subsidiaries—in particular Gruma Venezuela, Gruma Corporation, and Molinera de México—which were implemented to offset higher raw-material costs. Sales from non-Mexican operations constituted 69% of consolidated net sales.

Cost of sales as a percentage of net sales improved to 66.3% from 67.7%, driven mainly by all subsidiaries other than Gruma Corporation. In absolute terms, cost of sales rose 11%, to Ps.6,670 million, due mainly to higher raw-material costs in Gruma Venezuela, Gruma Corporation, and Molinera de México.

Selling, general, and administrative expenses (SG&A) as a percentage of net sales improved to 26.0% from 28.0%, driven mainly by better absorption due to higher prices in Gruma Venezuela, Gruma Corporation, and Molinera de México. In absolute terms, SG&A rose by 5%, to Ps.2,612 million, driven mainly by Gruma Corporation and, to a lesser extent, Gruma Venezuela.

Operating income rose 101%, to Ps.777 million, and operating margin improved to 7.7% from 4.3%, both results driven by GIMSA, Gruma Venezuela, and Molinera de México.

Other expense, net, was Ps.10 million, compared with income of Ps.29 million in the same period of 2007. This change was due mainly to the sale of nonproductive assets in 2Q07.

Comprehensive financing income, net, was Ps.263 million versus Ps.112 million in second quarter 2007. The increase resulted mainly from gains on currency derivative instruments.

Exhibit # 5

Hedging Activities

(Extracted from the firm's 2007 Annual Report)

As of December 31, 2007, the favorable effect due to changes in the fair value of cash flow hedges was approximately Ps.42,335 net of taxes, which was recognized as comprehensive income within stockholders' equity. As of December 31, 2006, the unfavorable effect due to changes in the fair value of cash flow hedges was approximately Ps.3,213 net of taxes, which was recognized as comprehensive income within stockholders' equity. The Company expects to recognize these effects in income within the following 12 months. The Company did not determine ineffectiveness for these hedges.

As of December 31, 2007 and 2006, the Company had outstanding fair value contracts of Ps.63,921 and Ps.212,706, respectively.

The Company from time to time hedges commodity price risks utilizing futures and options strategies that do not qualify for hedge accounting. As a result of non-qualification, these derivative financial instruments are recognized at their estimated fair values and are marked to market with the associated effect recorded in current period earnings. During 2007 and 2006, the Company had an unfavorable effect of approximately Ps.98,749 and Ps.139,693, respectively, from due contracts. Additionally, as of December 31, 2007 and 2006, the Company recognized an unfavorable effect of approximately Ps.4,914 (U.S.$450 thousand) and a favorable effect of Ps.1,135 (U.S.$100 thousand), respectively, for the valuation of outstanding contracts that did not qualify for hedge accounting, which were recognized at fair value in current period earnings.

The Company uses derivative financial instruments such as interest rate swaps with the purpose of managing the interest rate risk related to its long-term debt. The Company has also entered into interest rate swap contracts to hedge its syndicated loan that matures in 2010 under which the loan's variable rate of LIBOR 6M is converted to a fixed rate of 3.2775% through March 2008 and 4.5050% through March 2009; these contracts also include a provision limiting the amounts to be exchanged should the LIBOR 6M reach 6% through March 2008 and 7% through March 2009. As of December 31, 2007, the favorable effect of the changes in the fair value of these contracts amounted to Ps.6,966, from which an unfavorable effect of Ps.545 was recognized as comprehensive income within stockholders' equity and a favorable effect of Ps.7,511 was registered in income for the year. The favorable effect of the contracts due in 2007 was Ps.23,668, which was recognized in income.

During 2006, the Company entered into interest rate swap contracts for a nominal amount of U.S.$37.5 million maturing in March 2008. Through these contracts, the Company pays a fixed rate of 0.34% and receives a LIBOR 6M rate less 3.2775% if the LIBOR 6M rate is greater than or equal to 6% and less than 6.75%. These contracts were not recognized as hedge accounting, and the unfavorable changes in their fair values as of December 31, 2007, for Ps.675 was recognized in income.

During 2004 and 2005, the Company entered into forward contracts and exchange rate option contracts (Mexican peso – U.S. dollar) for a nominal amount of U.S.$55.8 million, with different maturity dates until November 2007. The purpose of these contracts is to hedge the financial risks due to exchange rate fluctuations over the quarterly interest payments related to the Company's perpetual notes. The unfavorable effect of the contracts due during 2007 of Ps.15,248 was recognized in income of the year.

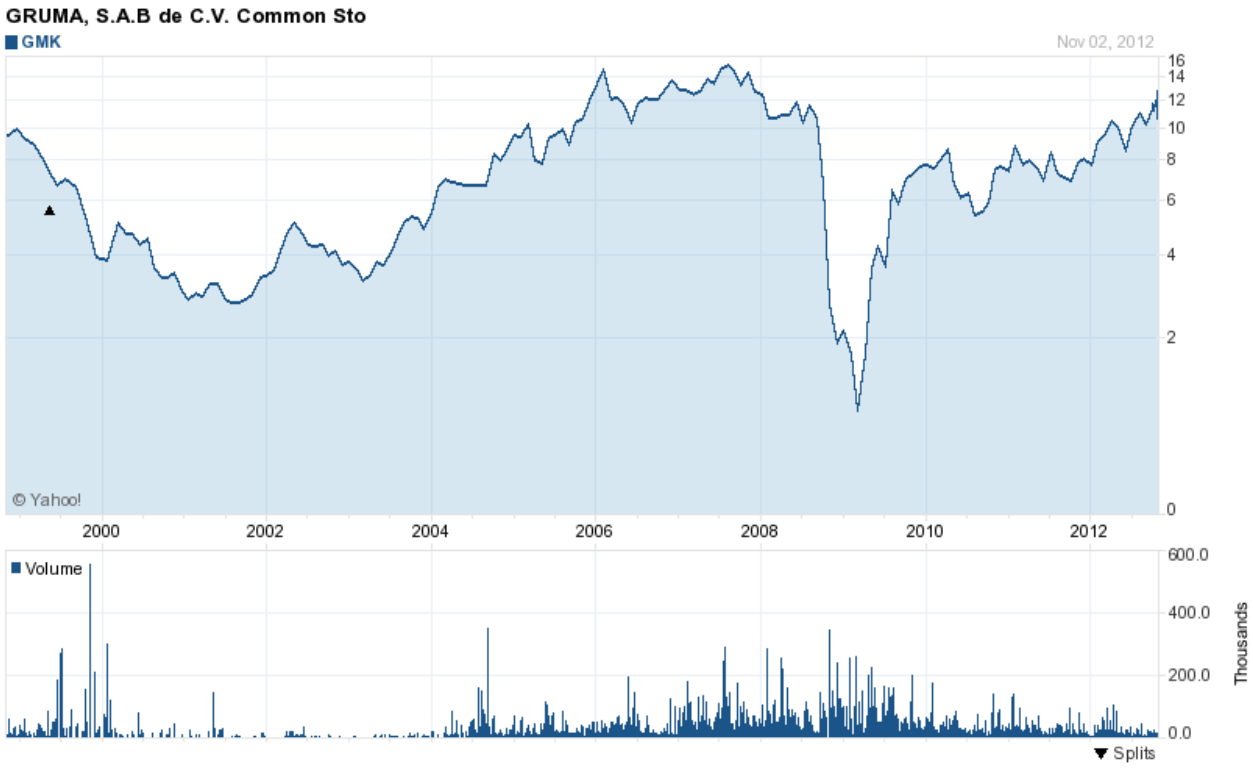
During 2007, the Company entered into forward contracts and exchange rate option contracts (Mexican peso – U.S. dollar) related to the 7.75% perpetual notes. These contracts served four coupon dates for 2007, as well as six additional dates (eighteen months). Accordingly, the maturity dates for these contracts ranged from March 2007 to June 2009. On an average basis, by maturity date, the purchase trades were U.S.$370.5 million against U.S.$420 million of sale trades. For the maturity dates in 2008 and for the remaining two dates in 2009, the Company entered into pivot contracts for an average notional amount of U.S.$115 million for each date. Additionally, at the end of 2007, twelve call contracts maturing on February 28, 2008, were sold with an exchange rate of Ps.12.00 per U.S. dollar. These contracts were not recognized as hedge accounting. The favorable effect of the contracts due in 2007 was Ps.290,720 and was recognized in income. As of December 31, 2007, the unfavorable effect for changes in the fair value of outstanding contracts was Ps.16,825, which was also recognized in income.

Grupo Maseca Teaching Notes
Cases A, B and C

Motivation

Warren Buffet once called derivatives the weapons of mass destruction for the financial world. Despite his words where from a financial markets perspective, firm's usually use derivatives to hedge against potential risks. The big question then is when the hedging practices of a firm can turn into the WMD that Buffet mentioned in his famous quote. For that purpose we will use the case of Maseca.

During the year 2008, Grupo Maseca, a Mexican tortilla manufacturer and a multinational firm, suffered heavy losses due to their risk management tools. The following graph shows the evolution of Maseca's stock price for the relevant period of time:



The question that becomes relevant from a financial analysis perspective is how a firm such as Maseca suffered such an significant loss in value during 2008? The answer goes back to how the firm was dealing with the risk they faced in 2008.

Case Objectives

a. Students can identify the different types of risks that a multinational firms, such as MASECA, faces.
b. Students can analyze a country's macroeconomic numbers, multinational environment and assess the inflation and devaluation risks.
c. Students can assess the financial and non financial strategies that Maseca had in place on how the firm was dealing with risks in 2007-2008
d. Students can asses if the hedging strategies of the firm in 2008 were aligned with the risk the firm faced in that specific year.
e. Student can assess the potential effect on the firm's financial statements of key risk variables

This case is the first of a sequence of 3 cases.

Case A. Understanding risk management at Maseca
Case B. The effects on Maseca of their Risk Management Techniques: Derivatives (work in progress)
Case C. Financial Engineering and Avoiding Bankruptcy at Maseca (work in progress)

Case A. (This case can be used in a 80 minute class)
Use in class

Maseca's case A can be used to introduce students on identifying the risk related with the operations and the financial management of a firm. Also, it can be use to assess how the hedging strategies of a firm can have an impact on the value of a company.

Suggested Questions for Students

1. As Maseca has become a multinational firm, which additional risks is the firm facing when compared with a firm that only operates in one country? Do you think the firm is more risky or less risky?
2. List the most relevant risks the firm was facing in Q2 of 2008?
3. Categorize the risk that you identified on question # 2 in:
    a. Market risks vs. firm specific risks
    b. Operating Risks vs. Financial risks
    c. Continuous risks vs, event specific risks
    d. Catastrophic risks vs. smaller risks.
4. Can you measure the exposure for risk for each risk you detected?
5. Did the firm hedge some of the risks? How?
6. Please identify hedging techniques that Maseca has in place during the summer of 2008? What do you think about the instruments the firm used?
7. Which are the costs associated with the hedging tools the firm is using?
8. Identify alternative techniques that the firm could use to hedge? Are they aligned with the dimension of the risk they try to cover?
9. Is there a specific risk exposure that the firm should re-evaluate as the financial crisis was becoming more evident?
10. With respect of currency risk, what is the exposure the firm is facing? Is this "risky"?

Please refer to the technical note "Risk" for additional support

Class Plan (Blackboards)

1. Let's understand Maseca: A very relevant point that should be emphasized in this section is that Maseca's product is a very low risk operation. The risk of the firm goes up from several sources:

Multinational Firm Risks vs. Local Firm Risks

More	Less
Currency risks	Diversification of cash flows
Political Risks	All of geographical diversification benefits
Supply chain risks	
Market Risks	
Accounting Risks Transaction Translation	

2. List the most relevant risks the firm was facing in 2008?

Risks in 2008

Political Risks

Venezuela is a relevant market and Hugo Chavez is a threat.
Some other countries following Chavez

Supply chain risks

Corn
Other materials
Transportation risk from Mexico's factories

Accounting Risks (Currency Risks)

Peso revaluation vs. Peso Devaluation

Financial Risks

Interest rates

Peso Devaluation vs. Peso Revaluation

Firm has relevant revenues in US$

Most of the firm debt is in US$ (lower interest rates?)

Investment in many countries is in local currency?

How do this risk can have an effect on the firm's financial statements?

3. Measurement of risks?

a. Corn

Supply chain risk- Corn

What happens if the price of corn goes up by x %? Corn represents 68% of cost of goods Sold?

Corn Price	Effect on Costs	Effect on Earnings?
+10%		
+20%		
+30%		
-10%		
-20%		
-30%		

b. Political Risks assessment?

c. Foreign Exchange Fluctuation Risks

This is the most relevant risk the firm was facing in 2008. Remember that the peso has been revaluating and that has had a positive effect on the firm's earnings. This makes evident that the firm had a derivatives position that benefited from a peso revaluation such as the one observed for the last 6 months or so. In this state of the class, it could be important to review the concept of translation and transaction risks.

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

(Millions of pesos)

FINANCIAL HIGHLIGHTS

	QUARTERS					YTD JUNE		
INCOME STATEMENT SUMMARY	**2Q08**	2Q07	VAR (%)	1Q08	VAR (%)	**2008**	2007	VAR (%)
NET SALES	**10,059**	8,918	13	9,466	6	**19,526**	17,020	15
GROSS PROFIT	**3,390**	2,880	18	3,134	8	**6,523**	5,388	21
GROSS MARGIN (%)	**33.7%**	32.3%		33.1%		**33.4%**	31.7%	
OPERATING INCOME	**777**	387	101	576	35	**1,354**	617	120
OPERATING MARGIN (%)	**7.7%**	4.3%		6.1%		**6.9%**	3.6%	
OTHER (INCOME) EXPENSE, NET	**10**	(29)		28		**38**	(95)	
COMPREHENSIVE FINANCING COST (INCOME)	**(263)**	(112)		680		**417**	(67)	
INTEREST EXPENSE	**137**	144		162		**299**	298	
INTEREST INCOME	**(357)**	(18)		650		**292**	(37)	
FOREIGN EXCHANGE LOSS (GAIN)	**41**	22		(50)		**(9)**	(16)	
MONETARY POSITION (GAIN) LOSS	**(83)**	(261)		(82)		**(166)**	(311)	
EQUITY EARNINGS, ASSOCIATED COMPANIES	**(156)**	(162)		(167)		**(323)**	(293)	
TAXES	**337**	173		20		**357**	293	
NET INCOME	**849**	517	64	15	5,502	**864**	779	11
MAJORITY NET INCOME	**689**	442	56	(91)	855	**597**	693	(14)
EARNINGS PER SHARE[1]	**1.22**	0.92	33	(0.19)	745	**1.06**	1.44	(26)
EARNINGS PER ADR (US$)[2]	**0.47**	0.36	33	(0.07)	745	**0.41**	0.56	(26)
DEPRECIATION AND AMORTIZATION AFFECTING OPERATING INCOME	**316**	281		287		**603**	554	
EBITDA[3]	**1,093**	668	64	863	27	**1,957**	1,171	67
CAPITAL EXPENDITURES (MILLIONS US$)	**78**	42		37		**114**	87	

BALANCE SHEET SUMMARY	**Jun-08**	Jun-07	VAR (%)	Mar-08	VAR (%)
CASH AND CASH EQUIVALENTS	**996**	542	84	870	14
TRADE ACCOUNTS RECEIVABLE	**4,296**	3,933	9	4,111	5
OTHER ACCOUNTS RECEIVABLE	**2,249**	1,369	64	1,924	17
INVENTORIES	**7,798**	5,924	32	6,172	26
CURRENT ASSETS	**16,002**	12,456	28	13,533	18
PROPERTY, PLANT, AND EQUIPMENT, NET	**16,316**	15,637	4	16,214	1
TOTAL ASSETS	**38,716**	34,183	13	35,712	8
SHORT-TERM DEBT	**961**	1,130	(15)	1,370	(30)
CURRENT LIABILITIES	**9,348**	7,628	23	7,884	19
LONG-TERM DEBT	**5,436**	6,515	(17)	7,115	(24)
TOTAL LIABILITIES	**17,853**	16,463	8	17,881	(0)
MAJORITY STOCKHOLDERS' EQUITY	**17,849**	14,729	21	15,012	19
STOCKHOLDERS' EQUITY	**20,863**	17,720	18	17,830	17
CURRENT ASSETS/CURRENT LIABILITIES	**1.71**	1.63		1.72	
TOTAL LIABILITIES/STOCKHOLDERS' EQUITY	**0.86**	0.93		1.00	
DEBT/(DEBT + STOCKHOLDERS' EQUITY)	**0.23**	0.30		0.32	
BOOK VALUE PER SHARE[1]	**31.68**	30.52		31.23	

[1] On the basis of 563,356,209 shares as of June 30, 2008, 482,549,952 shares as of June 30, 2007, and 480,731,552 shares as of March 31, 2008.

[2] Each ADR represents four ordinary shares; the exchange rate used was Ps 10.31 per dollar as of June 30, 2008.

[3] EBITDA = operating income + depreciation and amortization affecting operating income.

RESULTS OF OPERATIONS

2Q08 vs. 2Q07

Sales volume decreased 1% to 1,060 thousand metric tons as a result of lower volumes in Gruma Venezuela and Molinera de México.

Net sales increased 13% to Ps.10,059 million due primarily to higher prices in all subsidiaries—in particular Gruma Venezuela, Gruma Corporation, and Molinera de México—which were implemented to offset higher raw-material costs. Sales from non-Mexican operations constituted 69% of consolidated net sales.

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Operating income rose 101%, to Ps.777 million, and operating margin improved to 7.7% from 4.3%, both results driven by GIMSA, Gruma Venezuela, and Molinera de México.

Other expense, net, was Ps.10 million, compared with income of Ps.29 million in the same period of 2007. This change was due mainly to the sale of nonproductive assets in 2Q07.

Comprehensive financing income, net, was Ps.263 million versus Ps.112 million in second quarter 2007. The increase resulted mainly from gains on currency derivative instruments.

From this analysis becomes evident that the firm thought that the translation risk (loosing income due to revaluation of peso) was more relevant than the risk associated with the risk of having such a huge debt in US$. That is the only way that an analyst can explain their hedging positions.

Interest rate Risks

What is the effect of changes in the interest rates of the financial instruments.

Interest Rates Risks

Corn Price	Effect on Costs	Effect on Earnings?
+1		
+2		
+3		
-1		
-2		
-3		

4. Hedge Activities

Identify the most relevant hedge activities? Do they correlate with the magnitude of the risk they try to manage?

Hedge Activities

Corn Risks

Mexican government subsidies

Mexican and local suppliers

International Markets

Financial Risk

Debt in different countries at different interest rates

Translation and Transaction risks

Forwards

Swaps

Debt is US$

5. A closer look at the currency hedged MASECA has in place

This has to be the more relevant part of the risk analysis. The firm is betting that the peso is going to revaluate. This makes sense if they are facing some translation risks associated with their US operations. Also, since more of their debt is in US$, peso revaluation works in their favor. But but, what would happen if the peso suddenly devalutes????

Exchange Risk Assesment

Peso	Effect on Costs	Effect on Earnings?
+1%		
+10%		
+20%		
-1%		
-20%		
-30%		

What will be the effect of a peso revaluation on the fair value of the firms derivatives given the accounting methods they have to follow?

The results will be obvious. The firm had a very risky situation under a scenario: A huge devaluation of the peso.

This will open the discussion for case B that focus on the effect of the devaluation from a financial and accounting perspective.

The following slides and press releases will help to prepare that assessment.

TEACHING NOTE

THIS IS Q3 WHEN THE DEBACLE STARTED HAPPENING

3Q RESULTS 2008

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

(Millions of pesos)

FINANCIAL HIGHLIGHTS

	QUARTERS					YTD SEPTEMBER		
INCOME STATEMENT SUMMARY	**3Q08**	3Q07	VAR (%)	2Q08	VAR (%)	**2008**	2007	VAR (%)
NET SALES	**10,553**	9,020	17	10,161	4	**30,256**	26,041	16
GROSS PROFIT	**3,219**	2,927	10	3,416	(6)	**9,786**	8,316	18
GROSS MARGIN (%)	**30.5%**	32.5%		33.6%		**32.3%**	31.9%	
OPERATING INCOME	**475**	517	(8)	788	(40)	**1,843**	1,133	63
OPERATING MARGIN (%)	**4.5%**	5.7%		7.8%		**6.1%**	4.4%	
OTHER (INCOME) EXPENSE, NET	**12**	(623)		11		**51**	(718)	
COMPREHENSIVE FINANCING COST (INCOME)	**2,916**	153		(265)		**3,325**	86	
INTEREST EXPENSE	**139**	228		139		**442**	525	
INTEREST INCOME	**2,813**	(29)		(358)		**3,103**	(66)	
FOREIGN EXCHANGE LOSS (GAIN)	**75**	(10)		41		**67**	(26)	
MONETARY POSITION (GAIN) LOSS	**(112)**	(36)		(87)		**(286)**	(348)	
EQUITY EARNINGS, ASSOCIATED COMPANIES	**(177)**	(201)		(156)		**(500)**	(494)	
TAXES	**(568)**	464		340		**(206)**	757	
NET INCOME	**(1,707)**	724	(336)	859	(299)	**(926)**	1,503	(155)
MAJORITY NET INCOME	**(1,765)**	799	(321)	689	(356)	**(1,168)**	1,492	(178)
EARNINGS PER SHARE[1]	**(3.13)**	1.66	(289)	1.22	(356)	**(2.07)**	3.09	(167)
EARNINGS PER ADR (US$)[2]	**(1.14)**	0.60	(289)	0.45	(356)	**(0.75)**	1.13	(167)
DEPRECIATION AND AMORTIZATION AFFECTING OPERATING INCOME	**315**	282		316		**918**	836	
EBITDA[3]	**789**	799	(1)	1,104	(28)	**2,761**	1,970	40
CAPITAL EXPENDITURES (MILLIONS US$)	**45**	44		78		**158**	132	

BALANCE SHEET SUMMARY	**Sep-08**	Sep-07	VAR (%)	Jun-08	VAR (%)
CASH AND CASH EQUIVALENTS	**679**	522	30	1,026	(34)
TRADE ACCOUNTS RECEIVABLE	**4,502**	3,997	13	4,333	4
OTHER ACCOUNTS RECEIVABLE	**2,973**	1,208	146	2,099	42
INVENTORIES	**7,487**	5,880	27	7,872	(5)
CURRENT ASSETS	**16,187**	12,149	33	16,160	0
PROPERTY, PLANT, AND EQUIPMENT, NET	**17,048**	15,752	8	16,406	4
TOTAL ASSETS	**39,859**	33,679	18	38,967	2
SHORT-TERM DEBT	**1,391**	1,551	(10)	983	42
CURRENT LIABILITIES	**11,202**	6,741	66	9,497	18
LONG-TERM DEBT	**7,085**	6,798	4	5,441	30
TOTAL LIABILITIES	**20,620**	15,578	32	18,010	14
MAJORITY STOCKHOLDERS' EQUITY	**16,060**	15,380	4	17,849	(10)
STOCKHOLDERS' EQUITY	**19,239**	18,101	6	20,958	(8)
CURRENT ASSETS/CURRENT LIABILITIES	**1.45**	1.80		1.70	
TOTAL LIABILITIES/STOCKHOLDERS' EQUITY	**1.07**	0.86		0.86	
DEBT/(DEBT + STOCKHOLDERS' EQUITY)	**0.31**	0.32		0.23	
BOOK VALUE PER SHARE[1]	**28.49**	31.87		31.68	

RESULTS OF OPERATIONS

3Q08 vs. 3Q07

Sales volume was flat at 1,079 thousand metric tons as higher sales volume in GIMSA was offset by lower volumes in the rest of the subsidiaries.

Net sales increased 17% to Ps.10,553 million due primarily to higher prices in all subsidiaries—in particular Gruma Venezuela, Gruma Corporation, and Molinera de México—which were implemented to compensate for higher raw-material costs. Sales from non-Mexican operations constituted 70% of consolidated net sales.

Cost of sales as a percentage of net sales increased to 69.5% from 67.5%, driven mainly by Gruma Corporation. In absolute terms, cost of sales rose 20%, to Ps.7,335 million, due mainly to higher raw-material costs in Gruma Venezuela, Gruma Corporation, and Molinera de México.

Selling, general, and administrative expenses (SG&A) as a percentage of net sales, improved to 26.0% from 26.7%, driven mainly by better absorption due to higher prices. In absolute terms, SG&A rose by 14%, to Ps.2,744 million, resulting primarily from Gruma Corporation, Gruma Venezuela, and, to a lesser extent, GIMSA.

Operating income decreased 8%, to Ps.475 million, and operating margin declined to 4.5% from 5.7%, both results driven by Gruma Corporation.

Other expense, net, was Ps.12 million, compared with income of Ps.623 million in the same period of 2007. This change was due mainly to the gain on the sale of Banorte shares during third-quarter 2007.

Comprehensive financing cost, net, was Ps.2,916 million versus Ps.153 million in third quarter 2007. The increase resulted mainly from non-cash losses on currency derivative instruments, which represented a negative mark-to-market value of approximately US$291 million.

GRUMA's share of net income in unconsolidated **associated companies** (primarily Banorte) totaled Ps.177 million, 12% lower than in third quarter 2007.

Taxes resulted in income of Ps.568 million, compared with an expense of Ps.464 million in third quarter 2007, due mainly to positive deferred taxes in connection with the aforementioned non-cash losses on currency derivative instruments.

GRUMA's total **net loss** was Ps.1,707 million versus net income of Ps.724 million in third quarter 2007; the change came from the losses on currency derivative instruments. GRUMA's **majority net loss** was Ps.1,765 million, compared to a majority net income of Ps.799 million in the same period of 2007.

THIS IS Q4 WHEN THE DEBACLE REACHED ITS CLIMAX

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

(Millions of pesos)

FINANCIAL HIGHLIGHTS

	QUARTERS					YTD DECEMBER		
INCOME STATEMENT SUMMARY	**4Q08**	4Q07	VAR (%)	3Q08	VAR (%)	**2008**	2007	VAR (%)
NET SALES	**12,785**	9,775	31	11,244	14	**44,793**	35,816	25
GROSS PROFIT	**4,344**	3,308	31	3,385	28	**14,557**	11,624	25
GROSS MARGIN (%)	**34.0%**	33.8%		30.1%		**32.5%**	32.5%	
OPERATING INCOME	**1,314**	740	77	520	153	**3,270**	1,874	74
OPERATING MARGIN (%)	**10.3%**	7.6%		4.6%		**7.3%**	5.2%	
OTHER (INCOME) EXPENSE, NET	**124**	162	(38)	11		**177**	(556)	
COMPREHENSIVE FINANCING COST (INCOME)	**11,817**	(253)		2,897		**15,098**	(167)	
INTEREST EXPENSE	**366**	186		146		**832**	684	
INTEREST INCOME	**11,870**	(182)		2,813		**14,968**	(220)	
FOREIGN EXCHANGE LOSS (GAIN)	**(327)**	(46)		79		**(256)**	(72)	
MONETARY POSITION (GAIN) LOSS	**(93)**	(211)		(140)		**(447)**	(559)	
EQUITY EARNINGS, ASSOCIATED COMPANIES	**(118)**	(213)		(177)		**(619)**	(708)	
TAXES	**536**	169		(549)		**375**	926	
NET (LOSS) INCOME	**(11,045)**	876	(1,361)	(1,663)	(564)	**(11,761)**	2,379	(594)
MAJORITY NET (LOSS) INCOME	**(11,124)**	742	(1,600)	(1,765)	(530)	**(12,292)**	2,233	(650)
EARNINGS PER SHARE[1]	**(19.74)**	1.54	(1,381)	(3.13)	(530)	**(21.81)**	4.64	(570)
EARNINGS PER ADR (US$)[2]	**(5.71)**	0.45	(1,381)	(0.91)	(530)	**(6.31)**	1.34	(570)
DEPRECIATION AND AMORTIZATION AFFECTING OPERATING INCOME	**421**	268		315		**1,339**	1,104	
EBITDA[3]	**1,735**	1,008	72	835	108	**4,609**	2,978	55
CAPITAL EXPENDITURES (MILLIONS US$)	**68**	45		44		**224**	198	

BALANCE SHEET SUMMARY	**Dec-08**	Dec-07	VAR (%)	Sep-08	VAR (%)
CASH AND CASH EQUIVALENTS	**1,426**	481	196	896	59
TRADE ACCOUNTS RECEIVABLE	**4,705**	4,096	15	4,733	(1)
OTHER ACCOUNTS RECEIVABLE	**2,556**	1,381	85	2,934	(13)
INVENTORIES	**7,629**	5,549	37	7,881	(3)
CURRENT ASSETS	**16,704**	11,866	41	16,883	(1)
PROPERTY, PLANT, AND EQUIPMENT, NET	**20,324**	16,011	27	17,669	15
TOTAL ASSETS	**44,407**	33,911	31	41,208	8
SHORT-TERM DEBT	**2,419**	941	157	1,597	51
CURRENT LIABILITIES	**20,152**	6,075	232	11,813	71
LONG-TERM DEBT	**11,728**	6,913	70	7,126	65
TOTAL LIABILITIES	**35,227**	15,334	130	21,296	65
MAJORITY STOCKHOLDERS' EQUITY	**5,511**	15,695	(65)	16,060	(66)
STOCKHOLDERS' EQUITY	**9,180**	18,577	(51)	19,912	(54)
CURRENT ASSETS/CURRENT LIABILITIES	**0.83**	1.95		1.43	
TOTAL LIABILITIES/STOCKHOLDERS' EQUITY	**3.84**	0.83		1.07	
DEBT/(DEBT + STOCKHOLDERS' EQUITY)	**0.61**	0.30		0.30	
BOOK VALUE PER SHARE[1]	**9.78**	32.60		28.49	

RESULTS OF OPERATIONS

4Q08 vs. 4Q07

Sales volume increased 2%, to 1,100 thousand metric tons, due to higher sales volume in GIMSA and Molinera de México.

Net sales increased 31%, to Ps.12,785 million, due to higher prices in most subsidiaries, which offset higher raw-material costs. The effect of the devaluation of the Mexican peso in foreign subsidiaries and the effect of inflation upon the Gruma Venezuela and Gruma Centroamérica operations also contributed to the consolidated increase in net sales. Sales from non-Mexican operations constituted 74% of consolidated net sales during the quarter.

Cost of sales as a percentage of net sales was flat, at 66.0%. In absolute terms, cost of sales rose 31%, to Ps.8,441 million, due to higher raw-material costs, the effect of the devaluation of the Mexican peso in foreign subsidiaries and the effect of inflation upon the Gruma Venezuela and Gruma Centroamérica operations.

Selling, general, and administrative expenses (SG&A), as a percentage of net sales, improved to 23.7% from 26.3%, driven mainly by better absorption and optimization in selling and administrative expenses. In absolute terms, SG&A rose 18%, to Ps.3,030 million, resulting primarily from the effect of the devaluation of the Mexican peso in foreign subsidiaries and the effect of inflation upon the Gruma Venezuela and Gruma Centroamérica operations.

Operating income increased 77%, to Ps.1,314 million, and the operating margin improved to 10.3% from 7.6%; both results were driven by Gruma Venezuela, Gruma Corporation, and GIMSA.

Other expense, net, was Ps.124 million, Ps. 38 million lower than in the same period of 2007. This reduction was due mainly to donations of Ps.100 million in 4Q07 related to the floods in the Mexican states of Tabasco and Chiapas.

Comprehensive financing cost, net, was Ps.11,817 million versus income of Ps.253 million in 4Q07. The cost resulted mainly from losses on currency derivative instruments of Ps.11,536 million. Out of this amount, Ps.3,593 million was paid, and the balance remains as a noncash loss. As of December 31, 2008, GRUMA had a Ps.11,230 million noncash loss that relates to the mark-to-market valuation of positions that are still open and that mature in 2009, 2010, and 2011. As of this date, the company is in full compliance with the terms of its agreements. The company continues to engage in negotiations with its counterparties and expects to announce a resolution in the near future.

GRUMA's share of net income in unconsolidated **associated companies** (primarily Banorte) totaled Ps.118 million, 45% lower than in 4Q07.

Taxes amounted to Ps.536 million, Ps.367 million more, due mainly to higher pre-tax income in Gruma Corporation and Gruma Venezuela.

GRUMA's total **net loss** was Ps.11,045 million versus net income of Ps.876 million in 4Q07; the change came mostly from the losses on currency derivative instruments. GRUMA's **majority net loss** was Ps.11,124 million, compared to a majority net income of Ps.742 million in the same period of 2007.

EXPLANATION OF DERIVATIVES POSITIONS **SEPTEMBER 2008**

INFORMATION ON DERIVATIVE AND FINANCIAL INSTRUMENTS

I. Qualitative and quantitative information.

A. *Management's Discussion of the Policies for the use of Derivative Financial Instruments, and the Purposes of the Same.*

Gruma has entered into raw materials derivative financial instruments for products such as corn, wheat and natural gas and it has also entered into financial instruments such as interest rate swaps and foreign exchange financial instruments (F/X).

Gruma's policies regarding derivative financial instruments generally allow commodity swaps for hedging purposes. The foreign exchange derivative financial instruments described in Section V herein, do not qualify as hedges for accounting purposes under the requirements set forth in the Mexican Financial Information Rules (Normas de Informacion Financiera Mexicana).

As a means to manage counterparty risk, the Company enters into financial derivative instruments only with major national and international financial institutions using standard International Swaps and Derivatives Association, Inc. ("ISDA") forms and agreements.

B. *Generic Description of Valuation Techniques.*

Derivative financial instruments that are not reported as hedging instruments for accounting purposes are initially recorded at the value of consideration exchanged upfront, and at the end of each reporting period they are measured at a reasonable estimate of their market value. The result of this valuation is recognized in the income statement. All accounting records comply with applicable regulations and are based on the official financial statements of each entity.

For derivative financial instruments that qualify as cash flow hedges, the effects of changes in the fair market value of such derivative financial instrument are recognized in comprehensive income within stockholders equity, based on an evaluation of such instruments as effective hedges. Such changes in the fair market value are reclassified to income in the period when the firm commitment or forecasted transaction affects them. Hedging agreements other cash flow hedges are measured at a fair value and the effects of these valuation changes are recognized in the income statement.

The valuation of the foreign exchange derivative financial instruments is performed by the counterparty to such instruments, at their fair market value. Regarding corn, wheat and natural gas futures we take as reference the market values of the Chicago, Kansas and New York futures exchanges, via the specialized financial institutions engaged for such purposes. These valuations are made periodically.

A hedge is effective when the changes in fair market value or the cash flows of the underlying are offset by changes in fair market value or cash flows of the hedging instrument in a ratio that falls within a range of 80% to 125%.

When a hedge is no longer effective as well as when the hedge does not comply with the documentation requirements set forth in Bulletin C-10 "Derivative Financial Instruments" (Boletin C-10 "Instrumentos Financieros Derivados")[1] the results of measuring the financial instruments at a reasonable value are recognized in the results of operations, within net comprehensive financing income.

C. *Management Discussion about the Sources of Liquidity that Could be Used to Deal with Requirements Derived from Derivative Financial Instruments.*

There are potential significant liquidity requirements under our financial derivative instruments described in Section V below. Gruma plans to use its available cash flow and other available sources of liquidity to satisfy such liquidity requirements.

D. *Description of the Changes in the Exposure to Identified Risks.*

The availability and price of corn and other agricultural commodities are subject to important fluctuations due to factors that are beyond our control, such as weather, planting seasons, agricultural programs and government policies (national and foreign), global changes in the supply/demand created by population growth, competitors and global production of similar harvests. We hedge a part of our production requirements through futures contracts and options in order to reduce the risk generated by the fluctuations in price and supply of corn, wheat and natural gas, risks that exist as an ordinary part of the business. This instruments were valued at their fair market value. As of September, 30, 2008, the derivative financial instruments that were recorded for accounting purposes as hedges, resulted in losses in the amount of $81,018 thousand pesos and recognized in total earnings within shareholders equity. The financial instruments that did not qualify as hedges for accounting purposes resulted in a gain $30,170 thousand pesos, which was recognized in income. As of September 30, 2008, these instruments did not have an effect on cash flow for the company.

Certain foreign exchange derivative transactions in effect as of the end of September 2008, primarily referenced peso/U.S. dollar and euro/U.S. dollar exchange rates. The fair market value of these derivative instruments can increased or decrease in the future before their settlement date. Changes in the currency exchange rates can be the result of, among other things, changes in economic conditions, tax and foreign exchange and currency policies, volatility, liquidity in the global markets, local and international political events.

These derivative financial instruments were valued in accordance with their fair market value (mark–to-market). As of September 30, 2008, the open positions of these instruments reflected a total loss of approximately $3,287,646 thousand pesos. The total loss amount was recorded in GRUMA's financial statements as September 30, 2008. As of September 30, 2008, these instruments did not have an effect on cash flow for the company.

The company has complied with all obligations under its derivative financial instruments.

E. ***Quantitative Information.***

Summary of Financial Derivative Instrument
to September 30, 2008.
Amounts in thousands of Pesos

Exchange Rate Financial Derivative Instruments:

					Reasonable Value (Thousands of Ps)		Installments per year (thousands of Ps)				
Derivative	Purchase/ Sale	Purpose Hedging/ Negotiation	Currency	Notional Amount (Thousands of USD)*	Current Quarter	Previous Quarter	2008	2009	2010	2011	Collateral/ Lines of Credit/ Guarantees (thousands of Ps) **
Forwards	Sale	Negotiation	USD-MXN	1,784,650	(1,642,478)	(1,884)	(99,988)	(229,000)	(658,845)	(654,644)	
Options	Purchase	Negotiation	USD-MXN	55,000	2,931	610	3,777	(847)			
Options	Sale	Negotiation	USD-MXN	55,000	(6,588)	(5,968)	(4,589)	(1,998)	0	0	
Structures	Purchase	Negotiation	USD-MXN	199,000	36,599	(516,249)	40,918	(4,320)	0	0	
Structures	Sale	Negotiation	USD-MXN	216,500	(1,424,504)	(65,027)	(160,618)	(885,172)	(364,294)	(14,420)	
Forwards	Sale	Negotiation	EUR-USD	42,782	5,625	(2,303)	5,625	0	0	0	
Structures	Purchase	Negotiation	EUR-USD	16,636	(261,321)		(44,365)	(197,478)	(19,477)	0	
Forwards	Purchase	Negotiation	JPY-USD	27,207	1,248	(16,220)	1,248	0	0	0	
Forwards	Sale	Negotiation	JPY-USD	27,015	842	18,742	842	0	0	0	
				2,423,789	**(3,287,646)**	**(588,299)**	**(257,149)**	**(1,318,815)**	**(1,042,617)**	**(669,065)**	

(*)The notional value of USD$2,423,789 thousand dollars, is the nominal value used to calculate the payment of the weekly, monthly or quarterly fixings of the different structures in the future years.

(**) Among the exchange rate derivative financial instruments in effect as of September 30, 2008, only one required the posting of collateral and was subject to margin calls. The fair value of the derivative financial instruments entered into with such counterparty reflects a loss of $848,923 thousand pesos as of September 30, 2008. These financial instruments were cancelled in the fourth quarter through the application of a portion of a credit facility in the amount of P.S. 3,367 million that the Company obtained during such fourth quarter. None of the other derivative financial instruments require collateral, credit lines or guarantees.

For the third quarter of 2008, the foreign exchange derivative financial instruments resulted in a net loss of $23,079 thousand pesos. This amount is the result of losses in the amount of $57,104

thousand pesos related to aggregate terminations of positions during the quarter and gains of $34,025 thousand pesos for the same period.

Corn futures derivative financial instruments:

Derivative	Purpose Hedging/ Negotiation	Notional Amount/ Nominal/Value (Bu)	Reasonable Value (Thousand of Ps)		Installments per Year (thousands of Pesos)		Collateral/ Credit Lines/Guarantees (Thousands of Pesos)
			Current Quarter	Previous Quarter	2008	2009	
Futures (Bushels)	Hedging	5,000	6	(130)	6		
Futures (Bushels)	Hedging	5,705,000	(83,557)	(35,455)		(83,557)	86,660
Futures (Bushels)	Hedging	2,195,000	(14,885)		(14,885)		8,712
Futures (Bushels)	Hedging	9,870,000	103,701	396,644	103,701		
		17,774,999	5,265	361,059	88,822	(83,557)	95,372

During the third semester of 2008, no corn derivative instruments were terminated and additional hedges were enterered into covering 2,195,000 bushels.

II. Sensitivity Analysis

Currency exchange financial derivative instruments:

As of September 30, 2008, we have entered into foreign exchange financial derivatives transactions, that mainly involved peso/dollar and dollar/euro currency rates. These transactions were recorded at their fair market value (mark-to-market). As of September 30, 2008, these instruments resulted in losses of $3,287,646 thousand pesos.

The unrealized losses represent mark-to-market values non-cash losses that were recorded in the financial statements of the company. The mark-to-market value of this derivative instruments can increase or decrease in the future before the settlement date of the instruments. Changes in the currency exchange rates can be the result of changes in economic conditions, tax and currency policies, volatility, liquidity in the global markets, local and international political events.

Based on our position as of September 20, 2008, an hypothetical change consisting in a 10% depreciation of the peso against the dollar and a 10% depreciation of the euro against the

dollar, will result in an additional unfavorable effect of $6,085,889 thousand pesos in the income statement of the company. This sensitivity analysis is determined based on the values of the underlying assets provided in an appraisal made by the counterparties as of September 30, 2008, which included the effects of currency exchange rates, time and volatility variables.

Sensitivity Analysis
Over positions in currency exchange derivative financial instruments to September 30 2008.
10% change in the Underlying Asset
Amounts in thousands of Pesos

				Until September 30, 2008	10% Scenario
Derivative	**Purchase / Sale**	**Purposes Hedging / Negotiation**	**Currency**	**Reasonable Value (Thousands of Ps)**	**Potential Losses (Thousands of Ps)**
Forwards	Sale	Negotiation	USD-MXN	(1,642,478)	(2,045,965)
Options	Purchase	Negotiation	USD-MXN	2,931	60,603
Options	Sale	Negotiation	USD-MXN	(6,588)	(60,656)
Structures	Purchase	Negotiation	USD-MXN	36,599	214,439
Structures	Sale	Negotiation	USD-MXN	(1,424,504)	(3,306,410)
Forwards	Sale	Negotiation	EUR-USD	5,625	46,412
Structures	Purchase	Negotiation	EUR-USD	(261,321)	(1,234,214)
Forwards	Purchase	Negotiation	JPY-USD	1,248	3,272,612
Forwards	Sale	Negotiation	JPY-USD	842	(3,032,710)
				(3,287,646)	**(6,085,889)**

Based on our position as of September 30, 2008, an hypothetical change of a 10% low in the bushel value, will result in an additional unfavorable effect of $100,793 thousand pesos. This sensitivity analysis is determined based on the values of the underlying assets given in an appraisal made as of September 30, 2008.

Sensibility Analysis
Raw Materials (Corn) Derivative Financial Instruments Position
as September 30, 2008

Derivative	**Purpose Hedging / Negotiation**	**Notional Amount (Bushels)**	**Potential Losses (thousands of Pesos)**
Futures (Bushels)	Hedging	5,000	(30)
Futures (Bushels)	Hedging	5,705,000	(36,182)
Futures (Bushels)	Hedging	2,195,000	(11,749)
Futures (Bushels)	Hedging	9,870,000	(52,832)
			(100,793)

EXPLANATION OF DERIVATIVES POSITIONS **DECEMBER 2008**

Derivatives Background

Since October 2008, when Gruma initially incurred substantial losses due to its exposure to its foreign exchange derivatives positions, the company has been striving to restructure these losses into secured term loans. To date, the company has been successful in closing out the vast majority (>90%) of its derivatives contracts and is currently trying to negotiate a critical agreement for a secured-term loan with three banks representing about 87% of the total derivatives debt by its July 21 standstill deadline.

Initial Derivatives Losses: October 2008

By October 8, 2008 Gruma's foreign-exchange derivative losses had more than doubled to US$684 million from US$291 million from only a week earlier. On the heels of the news, Gruma lost its investment-grade rating when S&P and Fitch downgraded the tortilla maker to 'BB' and 'BB+', respectively, from 'BBB-'. Only a few weeks later, as of October 28, 2008 the company's mark-to-market derivatives losses had further

increased to US$788 million, of which US$105 million was due in 2008, US$354 million was due in 2009, US$220 million was due in 2010, and US$109 million was due in 2011. None of the agreements were subject to margin calls.

Initial Closing Out of Derivatives Positions in Q4'09

Gruma also had an additional currency derivative instrument subject to margin calls, which was restructured and settled on November 25, 2008. The company was able to obtain an additional credit line for Ps.3.37 billion (US$264 million) from Bancomext to make the November 25 payment. By mid-November, S&P lowered Gruma to 'B+' from 'BB' on the concern the company was going to need to take out additional credit lines to cover its derivatives losses.

Closing Out of Derivatives Positions in Q1'09

During Q1'09 Gruma made significant progress in closing out its outstanding derivatives positions, which decreased dramatically from Ps.11.2 billion (US$768 million) as of December 31, 2008 to Ps.1.36 billion (US$100 million) as of March 31, 2009 due to the company's successful termination of its foreign exchange derivatives instruments with Credit Suisse, Deutsche Bank, and JP Morgan, representing 87% of the company's total derivatives. Within 120 days of March 23, 2009, the date of the agreement, the parties plan to negotiate a term loan which is proposed to be a seven-and-a-half-year secured loan with an initial interest rate of LIBOR plus 2.875% for the first three years. During this 120-day negotiation period, Gruma must pay LIBOR plus 1% on US$668.3 million (the aggregate termination amount) for the first 45 days and LIBOR plus 2.875% for the subsequent days until an agreement is reached between all parties. Gruma was also in negotiations with its other foreign-exchange derivative counterparties with claims totaling around US$100 million, a total which fluctuates depending on the exchange rate and has likely decreased since due to the recent strengthening of the Mexican peso. Additionally, the company was in talks with its banks to refinance certain other debt instruments, most of which are due in 2010, and extend the corresponding maturities.

Recent Progress

Gruma recently provided an update on their derivatives situation, indicating that the company expects to reach an agreement with its derivatives counterparties on time (by the July 21 deadline) and to successfully avoid bankruptcy. Lawyers for the two parties are reportedly wrapping up the final details of the agreement. On June 18, the company entered into a term sheet with BNP Paribas and currently the company is in negotiations to structure the debt into a secured term loan by September 8, 2009. On June 26, Gruma reached an agreement with Barclays to close a US$21.5 million derivatives position. In the Barclays agreement, the company is required to pay 1 month LIBOR plus 1% between June 26, 2009 and July 21, 2009 on the US$21.5 million. Beyond July 21, 2009 the company will pay Barclays 2% + LIBOR + 2.875% in default interest.

GRUMA TERMINATES AND AGREES TO FINANCE ALL OF ITS REMAINING CURRENCY DERIVATIVE INSTRUMENTS

Monterrey, N.L., Mexico, July 9, 2009. GRUMA, S.A.B. de C.V. ("GRUMA") (NYSE: GMK, BMV: GRUMAB) has terminated its foreign exchange derivative instruments with Standard Chartered Bank and The Royal Bank of Scotland pursuant to certain agreements entered into this week. With these arrangements, GRUMA has now terminated all of its foreign exchange derivative instruments that it had entered into with several financial institutions, except for BNP Paribas, where the foreign exchange derivative instruments entered into with such bank remain outstanding but the risk associated with such transactions have been eliminated as the amounts payable by GRUMA under the same have been fixed, as described below.

On its press release filed last March 23rd, 2009, GRUMA informed that it had terminated all of its foreign exchange derivative instruments with Credit Suisse, Deutsche Bank and JPMorgan Chase with a resulting aggregate termination amount payable to these banks of US$668.3 million, which represented approximately 87% of all of GRUMA's foreign exchange derivative obligations considering their mark-to-market value as of that date, and also informed that it intended to enter into similar arrangements with its remaining counterparties on this type of instruments. In such press release, GRUMA also informed that it had entered into a term sheet with the aforementioned three banks, which provides for certain indicative terms for the financing of the US$668.3 million.

In its annual report filed with the Securities and Exchange Commission, the Bolsa Mexicana de Valores and the Comision Nacional Bancaria y de Valores last June 30th, 2009, GRUMA informed that on June 18th, 2009 it entered into a term sheet with BNP Paribas (the "BNP Term Sheet") that provides for the financing of GRUMA's payment obligations that will result from the scheduled settlement on September 8th, 2009 of the foreign exchange derivative instruments entered into with such bank.

In such annual report, GRUMA also informed that on June 26th, 2009 it terminated all of its foreign exchange derivative instruments that it had entered into with Barclays, with a resulting termination amount payable to Barclays of US$21.5 million, and informed that it had entered into a term sheet with Barclays, which provides for certain indicative terms for the financing of the US$21.5 million.

On July 6th, 2009, GRUMA terminated all of its foreign exchange derivative instruments that it had entered into with The Royal Bank of Scotland, with a resulting termination amount payable to The Royal Bank of Scotland of US$13.9 million, and also entered into a term sheet with The Royal Bank of Scotland, which provides for certain indicative terms for the financing of the US$13.9 million. On July 8th, 2009, GRUMA terminated all of its foreign exchange derivative instruments that it had entered into with Standard Chartered Bank, with a resulting

termination amount payable to Standard Chartered Bank of US$22.9 million, and also entered into a term sheet with Standard Chartered Bank, which provides for certain indicative terms for the financing of the US$22.9 million.

Pursuant to the term sheet with Credit Suisse, Deutsche Bank, and JPMorgan Chase, GRUMA and these three banks agreed to negotiate in good faith to convert the US$668.3 million owing to such banks into a secured loan by July 21st, 2009, before such amount otherwise becomes payable. It is contemplated that this loan will be secured and will have a term of 7.5 years, including a one year grace period, with an initial interest rate of LIBOR plus 2.875% for the first three years.

Pursuant to the term sheets entered into with Barclays, The Royal Bank of Scotland, and Standard Chartered Bank, GRUMA and such banks have agreed to negotiate in good faith to convert the amounts owing to each of such banks, as described above, into unsecured loans by July 21st, 2009, before such amounts otherwise becomes payable. It is contemplated that these unsecured loans will have a term of 3 years, including a one year grace period, with an interest rate of LIBOR plus 2.875%.

Pursuant to the term sheet entered into with BNP Paribas, GRUMA and such bank agreed to eliminate the risk associated with their foreign exchange derivative instruments by fixing the amount payable by GRUMA to such bank at US$11.9 million, and agreed to negotiate in good faith to convert such amount into an unsecured loan on or before September 8th, 2009. It is contemplated that this unsecured loan will mature in May 2011, with an interest rate of LIBOR plus 2%.

D. Description of the Changes in the Exposure to Identified Risks.

The availability and price of corn and other agricultural commodities are subject to important fluctuations due to factors that are beyond our control, such as the weather, planting seasons, agricultural programs and government policies (both national and foreign), global changes in the supply/demand created by population growth, competitors and global production of similar harvests. We hedge a part of our production requirements through futures contracts and options in order to reduce the risk generated by the fluctuations in price and supply of corn, wheat, natural gas, and diesel, risks that exist as an ordinary part of our business. As of December, 31st, 2009, the open positions of these instruments were valued at their fair market value. The financial instruments that did not qualify as hedges for accounting purposes resulted in a loss of $155,249 thousand pesos, which was applied to the 2009 fiscal year results.

The company has complied with all obligations under its derivative financial instruments.

1 Bulletin C-10 is part of the Mexican General Accepted Accounting Principles.

E. Quantitative Information.

Exchange Rate Financial Derivative Instruments:

As of September 30, 2009 Gruma had terminated all of its foreign exchange derivative instruments that it had entered into with several financial institutions.

Furthermore, on October 21, 2009 Gruma announced that it had completed the refinancing of the majority of the Company's outstanding debt, including the conversion of the U.S.$738.3 million that it owed to several financial institutions under its terminated foreign exchange derivative instruments, into medium and long-term loans.

Corn and Wheat Derivative Financial Instruments:

Summary of Corn and Wheat Financial Derivative Instruments December 31st, 2009.
Amounts in thousands of Pesos

Gruma, S.A.B. (NYSE: GMK), the world's leading flour manufacturer, affirmed today that its MX$2.8 billion (US$168 million) loss during the third quarter of 2008 was linked to losses on exchange rate derivative instruments, according to a report in *El Economista*.

Gruma specified that the losses were caused by a 1,805% increase in the company's cost of financing, which was "the result of unrealized losses on exchange rate derivative instruments representing a virtual fair market value loss of US$291 million." This loss sharply contrasts to Gruma's profit of MX$799 million (US$76 million) for the third quarter of 2007.

At the close of September 2008, the report said that Gruma's total debt was US$772 million. The company's financial issues could have ripple effects world-wide: Gruma has 19,000 employees, 91 plants, and sells its products in 50 countries, including the U.S. Mexico, Venezuela, and Australia, as well as in Central America, Europe, and Asia.

Gruma reported losses of 13.4 billion pesos from the third quarter of 2008 through the first quarter of 2009 because of wrong-way currency derivative bets, according to data compiled by Bloomberg. The tortilla maker avoided bankruptcy by refinancing debt and getting new loans in 2009.

Gruma (GRUMAB.MX) said in a stock market filing on Monday that almost all the mark-to-market declines in its derivatives positions were from losing bets against the dollar.

The tortilla maker revealed losses of more than $700 million in the value of its foreign exchange bets in October, leading Fitch and Standard & Poor's to downgrade its credit ratings.

Gruma Says Mark-To-Market Derivative Losses Are US$684 Million; Obtains Credit Line to Close Out 2008 Positions

16 November 2008 Author: John Dorsey | Filed under: Consumer Goods, Finance, Food

Mexican tortilla and cornflour maker Gruma, S.A.B. (NYSE:GMK) said that the mark-to-market value of its exchange rate derivatives positions was a negative US$684 million as of Oct. 8, according to a Dow Jones report.

Responding to a request by the Mexican stock exchange for information on its financial position, Gruma said most of the maturities on its derivatives are in 2009, 2010 and 2011.

With respect to Gruma's exchange rate derivative liabilities in 2008, a November 13, 2008 *Sentido Comun* report said that the company had obtained a credit line from an undisclosed lender that it will use to close out its derivative positions requiring payments this year. It appears that the company's 2008 derivative liabilities are the result of margin calls made by the contracting counterparty following the sharp depreciation of the peso in recent months. Without the credit line, the report said Gruma would have been required to pay US$276 million on November 25, 2008 to the counterparty. Gruma did not reveal the name of the counterparty or the financial institution that had brokered its purchase of exchange rate derivative contracts; it may be speculated, however, that they are major Wall Street firms.

The peso's depreciation has caused a number of major Mexican companies to generate mark-to-market losses in their derivatives positions and engendered extraordinary demand for dollars that sent the peso to record lows and prompted Mexico's central bank to sell $8.9 billion in the exchange market.