CONFORMED

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

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

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000

OR

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

Commission File Number: 1-14852

GRUMA, S.A. de C.V.
(Exact name of Registrant as specified in its charter)

N/A	**United Mexican States**
(Translation of Registrant's name into English)	(Jurisdiction of incorporation or organization)

Calzada del Valle, Ote. 407
Colonia del Valle
San Pedro Garza García, Nuevo Léon
66220, México
(Address of principal executive offices)

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

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

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

None

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

7.625% Notes due 2007 (the "Notes")

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

436,462,336 Series B Common Shares, without par value

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

Yes X No __

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ___ Item 18 X

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

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PRESENTATION OF FINANCIAL INFORMATION

In this report on Form 20-F (the "Annual Report"), references to "pesos" or "Ps." are to Mexican pesos, and references to "U.S. dollars," "U.S.$," "dollars" or "$" are to United States dollars.

This report of Form 20-F (the "Annual Report") contains our audited consolidated financial statements as of December 31, 1999 and 2000 and for the years ended December 31, 1998, 1999 and 2000. The financial statements have been audited by PricewaterhouseCoopers, independent accountants.

We publish our financial statements in pesos and prepare our consolidated financial statements in accordance with accounting principles generally accepted in Mexico, commonly referred to as "Mexican GAAP." Mexican GAAP differs in certain significant respects from accounting principles generally accepted in the United States, commonly referred to as "U.S. GAAP." See Note 23 to our audited consolidated financial statements for a description of the principal differences between Mexican GAAP and U.S. GAAP applicable to these financial statements and for a quantitative reconciliation of our consolidated net income and stockholders' equity to U.S. GAAP.

As the Mexican economy has experienced significant levels of inflation in recent years, we are required under Mexican GAAP to recognize the effects of inflation in our financial statements. Under Bulletin B-10, issued by the Mexican Institute of Public Accountants, we are required to present our financial information in inflation-adjusted monetary units to allow for more accurate comparisons of financial line items over time and to mitigate the distortive effects of inflation on our financial statements. Unless otherwise indicated, all financial information in this Annual Report has been restated in pesos of constant purchasing power as of December 31, 2000.

We are required to determine our monetary position gain/loss to reflect the effect of inflation on our monetary assets and liabilities. We determine our net monetary position by subtracting our monetary liabilities from our monetary assets and then adjusting our net monetary position by the appropriate inflation rate for the period. In so doing, we can reflect the effects of inflation on our balance sheet.

Pursuant to Bulletin B-15, we apply the actual inflation rate in the relevant country of each non-Mexican subsidiary and then translate the inflation-adjusted financial statements into pesos.

For the purposes of the quantitative reconciliation to U.S. GAAP, we have restated the data as of December 31, 1999 and for years ended December 31, 1998 and 1999 in pesos of constant purchasing power as of December 31, 2000 using the Mexican National Consumer Price Index, rather than the international restatement factor in Bulletin B-15. For a more detailed discussion of Mexican GAAP inflation accounting methodologies, see "Item 5: Operating and Financial Review and Prospects — Management's Discussion and Analysis of Results of Operations — Overview of Accounting Presentation."

MARKET SHARE AND OTHER INFORMATION

The information contained in this Annual Report regarding market share and market position of corn flour and tortilla products in Mexico, the United States, Venezuela and Central America is presented for the twelve month period ended December 31, 2000. Some of this information is based on, or derived from, internal analysis and reports provided by A.C. Nielsen, a Stamford, Connecticut-based supplier of market information. A.C. Nielsen also provides market share and market position information for bread in Mexico and such information is presented for the twelve month period ended December 31, 2000. Other market share and market position information is based on our own estimates and internal analysis and relates to the twelve month period ended December 31, 2000.

Although we believe that the data taken from third parties and used in this Annual Report is reliable, we have not independently verified such data and take no responsibility for the accuracy of such data. Similarly, while we believe our internal research and estimates to be reliable, they have not been verified by any independent source and we cannot assure you as to their accuracy.

All references to "tons" in this Annual Report refer to metric tons. One metric ton equals 2,204 pounds. Estimates of production capacity contained herein assume operation of the relevant facilities on the basis of 24 hours a day, 360 days a year on three shifts and assume only regular intervals for required maintenance.

In this report on Form 20-F, "we," "our," "us," "our company," "GRUMA" and similar expressions refer to Gruma, S.A. de C.V. and its consolidated subsidiaries, except when the reference is specifically to Gruma, S.A. de C.V. (parent company only) or the context otherwise requires.

Gruma, S.A de C.V. is a *sociedad anónima de capital variable* (a corporation) registered in Monterrey Mexico under the *Ley General de Sociedades Mercantiles* (the "Mexican Companies Law") on December 24, 1971 with a corporate life of 99 years. Our full legal name is Gruma, S.A. de C.V., but we are also known by our commercial names: Gruma and Maseca. The address of our principal executive office is Calzada del Valle Ote. 407, Colonia del Valle, San Pedro Garza García, Nuevo León, 66220 México and our telephone number is (52) 83 99 33 00. Our legal domicile is Reforma No. 300, 6 Piso, Col. Juárez, México D.F., CP 06600.

FORWARD LOOKING STATEMENTS

This report on Form 20-F includes "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), including the statements about our plans, strategies and prospects under "Item 4: Information on the Company" and "Item 5: Operating and Financial Review and Prospects." Some of these statements contain words such as "believe," "expect," "intend," "anticipate," "estimate," "strategy," "plans" and other similar words. Although we believe that our plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that these plans, intentions or expectations will be achieved. Actual results could differ materially from the forward-looking statements as a result of factors discussed in "Item 3: Key Information — Risk Factors," "Item 4: Information on the Company," "Item 5: Operating and Financial Review and Prospects" and "Item 11: Quantitative and Qualitative Disclosures About Market Risk."

PART I

ITEM 1. Identity of Directors, Senior Management and Advisors.

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable.

Not applicable.

ITEM 3. Key Information.

SELECTED FINANCIAL DATA

The following tables present our selected consolidated financial data as of and for each of the years indicated. The data as of December 31, 1999 and 2000 and for the years ended December 31, 1998, 1999 and 2000 are derived from and should be read together with our financial statements and "Item 5: Operating and Financial Review and Prospects."

	1996	1997	1998	1999	2000
	(thousands of Mexican pesos of constant purchasing power as of December 31, 2000, except per share amounts, capital stock and operating data)				
Income Statement Data:					
***Mexican GAAP*:**					
Net sales[1]	17,743,914	14,756,734	15,346,787	16,608,614	18,199,045
Cost of sales	(12,099,134)	(9,716,253)	(9,744,255)	(10,940,182)	(11,602,428)
Gross profit	5,644,780	5,040,481	5,602,532	5,668,432	6,596,617
Selling, general and administrative expenses	(4,193,079)	(3,988,111)	(4,453,164)	(5,284,943)	(5,783,288)
Operating income	1,451,701	1,052,370	1,149,368	383,489	813,329
Net comprehensive financing (cost) income					
Interest expense	(804,495)	(410,107)	(420,357)	(655,666)	(789,555)
Interest income	415,976	293,052	216,102	151,108	146,904
Monetary position gain (loss), net	1,393,511	119,330	(14,028)	207,597	221,573
Foreign exchange (loss) gain, net	(54,250)	17,606	(66,660)	85,077	(57,662)
Total	950,742	19,881	(284,943)	(211,884)	(478,740)
Other income (expenses), net	46,131	(121,498)	(270,106)	(170,335)	30,687
Income before income tax and Other items	2,448,574	950,753	594,319	1,270	365,276
Income tax (current and deferred)[2]	(538,276)	(221,627)	66,944	(266,557)	(21,521)
Employees' statutory profit sharing (current and deferred)	(22,952)	(9,633)	(9,675)	(2,187)	446
Other items[3]	4,652	78,231	76,611	78,706	68,894
Minority interest	(377,724)	(303,123)	(263,262)	(111,308)	(180,223)
Net income (loss)	1,514,274	494,601	464,937	(300,076)	232,872
Per share data:					
Net income (loss) per share from continuing operations[4]	4.95	1.42	1.29	(0.79)	0.53
Loss per share from extraordinary item		(0.05)			
Net income (loss) per share[4]	4.95	1.37	1.29	(0.79)	0.53
U.S. GAAP:					
Net sales	19,705,840	15,752,415	16,847,850	17,015,554	18,199,045
Operating income (loss)	1,232,076	946,211	926,742	(108,297)	738,306
Net income (loss)	1,819,664	495,764	135,990	(522,367)	64,646
Per share data:					
Net income (loss) per share from continuing operations	5.95	1.43	0.38	(1.38)	0.15
Loss per share from extraordinary item[4]		(0.05)			
Net income (loss) per share[4]	5.95	1.37	0.38	(1.38)	0.15

	1996	1997	1998	1999	2000
	(thousands of Mexican pesos of constant purchasing power as of December 31, 2000, except per share amounts, capital stock and operating data)				
Balance Sheet Data (at period end):					
Mexican GAAP:					
Property, plant and equipment, net	9,077,527	9,512,626	10,419,920	12,166,189	12,542,690
Total assets	17,192,694	18,622,789	19,133,630	22,287,257	21,824,105
Short-term debt[5]	477,449	157,575	221,149	324,036	1,278,155
Long-term debt[5]	3,661,256	5,133,587	5,931,726	7,093,230	5,836,973
Total liabilities	6,050,963	7,085,185	7,888,810	9,667,432	10,055,326
Excess of book value over cost of subsidiaries acquired, net				303,821	364,530
Capital stock	10,379,643	10,760,769	10,815,094	12,254,345	12,203,309
Total stockholders' equity[6]	11,141,731	11,537,604	11,244,820	12,316,004	11,404,249
U.S. GAAP:					
Total assets	19,041,255	19,787,406	20,766,681	22,248,412	21,081,490
Long-term debt	4,382,503	4,288,688	6,784,555	7,491,346	6,042,528
Capital stock	10,379,643	10,760,769	10,815,094	12,254,345	12,203,309
Total stockholders' equity	9,325,122	9,212,208	8,843,349	9,196,027	8,367,140
Other Financial Information:					
Mexican GAAP:					
Capital expenditures	1,666,159	1,295,790	1,856,210	2,588,676	1,494,444
Depreciation and amortization	753,494	718,275	728,554	977,551	753,837
EBITDA[7]	2,251,326	1,649,147	1,607,816	1,190,705	1,597,853
Resources provided by (used in):					
Operating activities	2,308,501	923,031	231,282	359,937	1,588,275
Financing activities	1,020,634	1,225,022	823,180	2,703,236	(575,290)
Investing activities	(1,892,971)	(1,595,559)	(2,761,413)	(3,021,592)	1,302,054
U.S. GAAP:					
EBITDA[7]	2,052,837	1,700,715	1,708,906	950,232	1,683,917
Cash flows provided by (used in):					
Operating activities	—	—	28,013	258,499	1,318,993
Financing activities	—	—	1,298,541	3,176,879	(157,909)
Investing activities	—	—	(3,018,906)	(3,347,772)	(1,404,164)
Operating Data:					
Sales volume (thousands of tons):					
GIMSA (corn flour)	2,026	1,842	1,786	1,547	1,507
Gruma Corporation (corn flour and tortillas)	610	659	723	799	836
Gruma Centro América (corn flour)	80	85	90	97	107
Molinera de México (wheat flour)	25	127	245	318	480
Venezuelan Operations (corn, wheat flour and other products)	—	—	—	221	458
Production capacity (thousands of tons):					
GIMSA (corn flour)[8]	2,175	2,250	2,345	2,345	2,325
Gruma Corporation (corn flour and tortillas)	724	953	1,065	1,312	1,275
Gruma Centro América (corn flour)	99	117	217	126	126
Molinera de México (wheat flour)	157	285	495	734	752

	1996	1997	1998	1999	2000
	(thousands of Mexican pesos of constant purchasing power as of December 31, 2000, except per share amounts, capital stock and operating data)				
Venezuelan Operations (corn, wheat flour and other products)[9]	—	—	—	926	838
Number of employees	11,910	11,749	14,707	16,513	17,208

(1) Net sales include complementary revenues received from the Mexican government in connection with a government program relating to price supports for price-controlled tortillas. This program was eliminated on January 1, 1999. Complementary revenues amounted to Ps.4.856 billion, Ps.2.106 billion, and Ps.758.0 million for the periods ended December 31, 1996, 1997 and 1998. See "Item 5: Operating and Financial Review and Prospects — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Financial Condition and Results of Operations — Effects of Government Policies on the Mexican Tortilla and Corn Flour Industry."

(2) The consolidated provision for income taxes and profit sharing was a net benefit of Ps.57 million in 1998, primarily as a result of the deferred tax benefit recognized for the future tax benefits of the technological and other rights which Gruma Corporation, our principal U.S. Subsidiary ("Gruma Corporation") purchased from one of our Mexican subsidiaries. This benefit offset an increase in the current provision, which resulted from higher asset tax payments made by Mexican subsidiaries in 1998. See Note 16 to the audited consolidated financial statements and "Item 5: Operating and Financial Review and Prospects — New Accounting Pronouncements under Mexican GAAP," for a discussion of the changes in accounting for deferred income taxes effective January 1, 2000.

(3) Other items include extraordinary items, equity in earnings of associated companies and gain from sale of subsidiaries and associated companies' common stock.

(4) Based upon weighted average of outstanding shares of our common stock (in millions), giving retroactive effect to the stock dividend declared in April 1999, as follows: 305,951 shares for the year ended December 31, 1996; 360,623 shares for the year ended December 31, 1997; 359,910 shares for the year ended December 31, 1998; 377,456 shares for the year ended December 31, 1999; and 435,515 shares for the year ended December 31, 2000.

(5) Short-term debt consists of bank loans and the current portion of long-term debt. Long-term debt consists of debentures and bank loans.

(6) Total stockholders' equity includes minority interests as follows: Ps.2.399 billion at December 31, 1996, Ps.2.660 billion at December 31, 1997, Ps.2.662 billion at December 31, 1998, Ps.2.727 billion at December 31, 1999; and Ps.2.432 billion at December 31, 2000.

(7) EBITDA consists of operating income plus other income (expenses), plus depreciation and amortization. We have included EBITDA in the above table solely for information purposes, because some investors use this financial item to measure a company's ability to service debt. However, under either Mexican GAAP or U.S. GAAP, investors should consider the following factors in evaluating EBITDA:

- The items excluded in calculating EBITDA, such as depreciation and amortization, are significant components in understanding and assessing our financial performance;
- EBITDA is not a measure of performance or financial condition under either Mexican GAAP or U.S. GAAP and should not be considered as a substitute for those measures under either Mexican GAAP or U.S. GAAP;
- EBITDA is not an alternative to net income or net loss as a measure of operating performance or to cash flow as a measure of liquidity, in each case, as determined in accordance with either Mexican GAAP or U.S. GAAP;
- All companies do not calculate EBITDA in a uniform manner, so our EBITDA calculations may not be comparable to those of other companies.

(8) Includes 300,000 tons of temporarily idled production capacity.

(9) Includes 141,000 tons of temporarily idled production capacity.

DIVIDENDS

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

Pursuant to Mexican law and our bylaws the declaration, amount and payment of dividends are determined by a majority vote of the holders of the outstanding shares represented at a duly convened annual shareholders' meeting, generally based on, but not necessarily, the recommendation of the board of directors. The payment of dividends can only be paid from retained earnings after losses from prior fiscal years have been made up or absorbed. The amount of any dividend would depend on, among other things, operating results, financial condition, cash requirements, losses for prior fiscal years, future prospects, the extent to which debt obligations impose restrictions on dividends and other factors deemed relevant by the board of directors and the shareholders.

Under Mexican law, companies may only pay dividends:

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

Pursuant to one of our credit facilities, we are prohibited from paying dividends unless we have a ratio of total funded debt to consolidated EBITDA of less than 3.50 to 1.00 and maintain a ratio of total liabilities to consolidated tangible net worth of not more than 1.40 to 1.00 for the period ending on June 30, 2001 and 1.30 to 1.00 thereafter. See "Item 5: Operating and Financial Review and Prospects — Liquidity and Capital Resources — Indebtedness."

The payment of dividends is subject to withholding taxes as described in "Item 10: Additional Information — Taxation — Mexican Tax Considerations — Payment of Dividends."

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

The ability of our subsidiaries to make distributions to us is limited by the laws of each country in which they were incorporated and by their constituitive documents. In the particular case of Gruma Corporation, our principal U.S. subsidiary, its ability to pay dividends is subject to financial covenants contained in some of its debt and lease agreements, including covenants which limit the amount of dividend payments. Upon the occurrence of any default or event of default under these credit and lease agreements, Gruma Corporation generally is prohibited from making any dividend or other payments. See "Item 5: Operating and Financial Review and Prospects — Liquidity and Capital Resources — Indebtedness."

In April 1998 and 1999, we issued 5,809,656 and 5,882,717 series B shares in connection with the capitalization of retained earnings of approximately Ps.108.5 million and Ps.106.2 million, respectively. In each such year we issued one series B share for each 60 outstanding series B shares. We did not pay dividends in 2000 or 2001.

EXCHANGE RATE INFORMATION

Mexico has had a free market for foreign exchange since 1991. Prior to December 1994, the Mexican central bank, the Banco de México, kept the peso-U.S. dollar exchange rate within a range prescribed by the government through intervention in the foreign exchange market. In December 1994, the government suspended intervention by the Banco de México and allowed the peso to float freely against the U.S. dollar. The peso declined sharply in December 1994 and continued to fall under conditions of high volatility in 1995. In 1996 and most of 1997, the peso fell more slowly and was less volatile. In the last quarter of 1997 and for much of 1998, the foreign exchange markets were volatile as a result of financial crises in Asia and Russia and financial turmoil in countries including Brazil and Venezuela. The peso declined during this period, but has been relatively stable in 1999 and in 2000. There can be no assurance that the government will maintain its current policies with regard to the peso or that the peso will not further depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar. The rates have not been restated in constant currency units.

Year	Noon Buying Rate (Ps. Per U.S.$)			
	High [1]	Low[1]	Average [2]	Period End
1996	Ps. 8.0450	Ps. 7.3250	Ps. 7.6347	Ps. 7.8810
1997	8.4100	7.7172	7.9674	8.0700
1998	10.6300	8.0400	9.2425	9.9010
1999	10.6000	9.2430	9.5630	9.4800
2000	10.0870	9.1830	9.4716	9.6180
2001 (through June 19)	9.9720	9.0450	9.3954	9.0900
December 2000	9.6180	9.3700	9.4672	9.6180
January 2001	9.9720	9.6650	9.7688	9.6790
February 2001	9.7800	9.6570	9.7108	9.6925
March 2001	9.6710	9.4850	9.5990	9.4850
April 2001	9.4140	9.1870	9.3276	9.2610
May 2001	9.2920	8.9460	9.1475	9.1650
June 2001[3]	9.1800	9.0450	9.0992	9.0900

(1) Rates shown are the actual low and high, on a day-by-day basis for each period.
(2) Average of month-end rates.
(3) Through June 19, 2001.

On June 19, 2001, the noon buying rate for pesos was Ps.9.0900 to U.S.$1.00.

RISK FACTORS

Risks Relating to Mexico

Our Business Operations Could Be Affected by Economic Conditions in Mexico

We are a Mexican company with a significant portion of our consolidated assets located in Mexico and 34% of our consolidated net sales derived from our Mexican operations. As a result, Mexican economic conditions could impact our sales and profitability.

In December 1994, Mexico experienced an economic crisis characterized by exchange rate instability and significant devaluation of the peso, increased inflation, high domestic interest rates, a substantial outflow of capital, negative economic growth, reduced consumer purchasing power and high unemployment. In addition, the financial crises in 1998 and early 1999 in Asia, Russia and Latin America resulted in instability in the foreign exchange markets and international financial markets. These events resulted in limited liquidity for the Mexican government and for local corporations as well as an increase in interest rates in Mexico. Although, the Mexican economy grew by 6.9% in 2000, growth has slowed to just 1.9% in the first quarter of 2001 and in May 2001, the Mexican government lowered the official growth forecast for 2001 to between 2.0% and 2.5% from its initial prediction of 4.5%.

Our Business Operations Could Be Affected by Government Policies in Mexico

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy could have a significant effect on Mexican private sector entities, as well as on market conditions, prices and returns on securities of Mexican issuers, including our securities.

On December 1, 2000, Vicente Fox of the *Partido Acción Nacional* (National Action Party, or "PAN") was inaugurated as president of Mexico, ending more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (Institutional Revolutionary Party, or "PRI"). Neither the PRI nor the PAN succeeded in securing a majority in the Congress or Senate. This change in the control of the Mexican government may result in changes in Mexico's economic and other policies that may adversely affect our business and results of operations. Although members of the PAN have governed several states and municipalities, the PAN has not previously governed at a national level.

In the case of our sales of corn flour, governmental policies have affected us negatively and may continue to do so. The elimination of the tortilla subsidy for consumers and the price support program for corn producers, coupled with the government's decision to close *Compañía Nacional de Subsistencias Populares* ("CONASUPO"), which resulted in the sale of its corn reserves at below market prices, reduced sales and hurt profits in 1999. In the months leading up to the July 2000 presidential election, the government took other steps that further reduced corn prices, such as increasing the number of corn import permits issued to small tortilla millers. These actions drove down the domestic price of corn, which further reduced sales of corn flour. See "Item 5: Operating and Financial Review and Prospects — Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Financial Condition and Results of Operations — Effects of Governmental Policies on the Mexican Tortilla and Corn Flour Industry."

Devaluations of the Mexican Peso Affect our Financial Performance

The peso has depreciated substantially against the U.S. dollar in the past and may depreciate significantly in the future. While 100% of our debt obligations are denominated in U.S. dollars, we generate 34% of our revenues in pesos. While the dollar revenues we earn may act as a natural hedge for part of our dollar-denominated debt obligations, we have not entered into derivative contracts to hedge our foreign currency risk. Therefore, we remain exposed to foreign exchange risks that could affect our ability to meet our obligations and result in foreign exchange losses on our dollar denominated obligations.

The peso depreciation of 1994 to 1996 resulted in an aggregate net foreign exchange loss of Ps.267 million over this three-year period. While we posted net foreign exchange gains in 1999 of Ps.85 million and net foreign exchange losses of only Ps.58 million in 2000, any significant decrease in the value of the peso relative to the U.S. dollar in the near term may have an adverse effect on our liquidity and on our ability to meet our dollar denominated debt obligations.

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

Mexico has experienced high levels of inflation in recent years. The annual rate of inflation, as measured by changes in the National Consumer Price Index, was 18.6% for 1998, 12.3% for 1999, and 9.0% for 2000. On June 19, 2001, the 28-day Cetes rate was 8.91%. High interest rates in Mexico may adversely affect our costs and thus our financial condition and results of operations.

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

We are a Mexican corporation (*sociedad anónima de capital variable*). Most of our directors and executive officers are residents of Mexico, and a significant portion of the assets of our directors and executive officers, and a significant portion of our assets, are located in Mexico. You may experience difficulty in effecting service of process upon our company or our directors and executive officers in the United States, or, more generally, outside of Mexico and to enforce civil judgments of non-Mexican courts in Mexico, including judgments predicated on civil liability under U.S. federal securities laws, against us, or our directors and executive officers. We have been advised by Salvador Vargas Guajardo, Esq., our General Counsel, that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on the U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws.

Risks Relating to Our Controlling Shareholders and Capital Structure

Holders of ADSs May Not Be Able to Vote at our Shareholders' Meetings

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

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

Under Mexican law, a shareholder is required to deposit its shares with a Mexican custodian in order to attend a shareholders' meeting. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend shareholders' meetings. A holder of ADSs is entitled to instruct the depositary as to how to vote the shares represented by ADSs, in accordance with procedures provided for in the deposit agreement, but a holder of ADSs will not be able to vote its shares directly at a shareholders' meeting or to appoint a proxy to do so.

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

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

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

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

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors and controlling shareholders is not well developed, and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

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

We have obtained long term loans from a subsidiary of Grupo Financiero Banorte, S.A. de C.V., a financial institution in which we own over 11% of its capital stock. We purchase some of our inventory ingredients from our shareholder and associate the Archer-Daniels-Midland Company ("Archer-Daniels-Midland"). During 1998, 1999 and 2000, we purchased U.S.$44 million (Ps.480 million), U.S.$62 million (Ps.626 million) and U.S.$75 million (Ps.720 million), respectively. Transactions with affiliates may create the potential for conflicts of interest. See "Item 7: Related Party Transactions."

Adverse Developments in Other Emerging Market Countries May Affect the Price of Our Securities

We are a Mexican company with substantial operations in Mexico and elsewhere in Latin America. The prices of securities issued or guaranteed by Mexican companies have been, to varying degrees, influenced by economic and market conditions in other emerging market countries, particularly in Latin America. Although economic, political and other conditions are different in each country, investors' reactions to developments in one country may affect the securities of issuers or guarantors in other countries, including Mexico. In late October 1997, prices of Mexican equity securities dropped substantially, precipitated by a sharp drop in value of Asian markets. Similarly, in the second half of 1998, prices of Mexican securities were adversely affected by the economic crises in Russia and in Brazil. The market value of our shares and ADSs may be adversely affected by events in other countries.

Exchange Rate Fluctuations May Affect the Value of Our Shares

Fluctuations in the exchange rate between the Peso and the U.S. Dollar will affect the U.S. Dollar value of an investment in our shares and of dividend and other distribution payments on those shares. See "Item 3. Key Information—Exchange Rate Information."

Our Bylaws Restrict the Ability of Non-Mexican Shareholders to Invoke the Protection of Their Governments With Respect to Their Rights as Shareholders

As required by Mexican law, our bylaws provide that non-Mexican shareholders shall be considered as Mexican in respect of their ownership interests in Gruma, S.A. de C.V. and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the U.S. securities laws, with respect to its investment in Gruma, S.A. de C.V. If you invoke such governmental protection in violation of this agreement, your shares could be forfeited to the Mexican government.

Our Controlling Shareholder Exerts Substantial Control Over Our Company

As of April 24, 2001, Roberto González Barrera owned or controlled directly or indirectly approximately 52.9% of our outstanding shares. Consequently, Mr. González Barrera has the power to elect the majority of our directors and to determine the outcome of most actions requiring approval of our stockholders. The interests of Mr. González Barrera may differ from those of our other shareholders. Mr. González Barrera's holdings are described under "Item 7: Major Shareholders and Related Party Transactions."

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

Archer-Daniels-Midland Company, Our Strategic Partner, Has Influence Over Some Corporate Decisions

Archer-Daniels-Midland Company owns, directly or indirectly, approximately 30.2% of our outstanding shares. However, a portion of such interest is held through a Mexican corporation jointly owned with Mr. González Barrera, who has the sole authority to determine how those shares are voted. Thus, Archer-Daniels-Midland Company only has the right to vote 24.5% of our outstanding shares. In addition, Archer-Daniels-Midland has the right to nominate two members of our board of directors, which currently has 11 members. As a result, Archer-Daniels-Midland may influence the outcome of actions requiring the approval of our shareholders or our board of directors. Mr. González Barrera and Archer-Daniels-Midland have also granted each other rights of first refusal in respect of their shares in our company, subject to specified conditions.

Our Relationship With Archer-Daniels-Midland Could Sour and Hurt Our Performance

Archer-Daniels-Midland Company owns, directly or indirectly, approximately 30.2% of our outstanding shares and an interest of 5% in Molinos Nacionales, C.A. ("Monaca"), 40% in Molinera de México, S.A. de C.V. ("Molinera de México") and 20% in Azteca Milling, L.P. ("Azteca Milling"). These subsidiaries account for 29% of our revenue. Although we own a majority ownership interest in these subsidiaries, in each of Azteca Milling and Molinera de Mexico, we are required to obtain the consent and cooperation of Archer-Daniels-Midland with respect to certain matters in order to increase our capital expenditures and to implement and expand upon our business strategies.

We cannot assure you that our relationships with Archer-Daniels-Midland will be harmonious and successful. Disagreements with Archer-Daniels-Midland could impede the execution of our strategy and work in favor of some of our competitors.

We Are a Holding Company Which Depends Upon Dividends and Other Funds From Subsidiaries to Service Our Debt.

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

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

In addition, Gruma Corporation is subject to covenants in some of its debt and lease agreements which partially restrict the amount of dividends that can be paid, limit advances or loans to us, and require the maintenance of specified financial ratios and balances. For additional information concerning these restrictions on inter-company transfers, see "Item 3: Key Information—Dividends" and "Item 5: Operating and Financial Review and Prospects—Liquidity and Capital Resources."

We own approximately 83% of the outstanding shares of Grupo Industrial Maseca, S.A. de C.V. ("GIMSA"), 95% of Monaca, 50% of Derivados de Maíz Seleccionado, S.A. ("Demaseca"), 80% of Azteca Milling and 60% of Molinera de México. Accordingly, we are entitled to receive only our *pro rata* share of any of these subsidiaries' dividends.

Risks Relating to Our Company

The Presence of Genetically Altered Corn and Wheat in Our Products May Have a Negative Impact on Our Sales, Profits or Stock Price

As we do not grow our own corn or wheat, we are required to buy these items from various producers in the United States, Mexico and elsewhere. And although we now only buy corn and wheat from farmers and grain elevators who agree to supply us with approved varieties of grain and we test and monitor our grain for certain strains of bacteria and chemicals unapproved for human consumption, we may unwittingly buy genetically modified corn that is not approved for human consumption. This may result in costly recalls and subject us to lawsuits.

In recent years, various claims have been alleged, mostly in the United States and the European Union, that genetically modified foods are unsafe for human consumption, pose risks of damage to the environment and create legal, social and ethical dilemmas. Some countries, particularly in the European Union, have instituted a de facto moratorium on the import of grain produced from genetically modified seeds. Some countries have imposed labeling requirements on genetically modified agricultural and food products, which may affect the acceptance of these products. To the extent that we are perceived to be seller of genetically modified foods, this may have a significant negative impact on our sales, profits or stock price or may force us to pay a premium for non-genetically modified foods.

Claims Related to the Alleged Presence of Starlink Yellow Corn in Cornmeal Sold May Have a Significant Effect on Our Profitability

In October 2000, two of our U.S. subsidiaries initiated a voluntary recall of all yellow corn products, replacing them with products made from white corn because of the possibility that these products may have contained StarLink, a protein not approved for human consumption in the U.S. Because of this, we sell only white corn in the U.S., which is more expensive than yellow corn. Our cost of sales as a percentage of net sales increased from 53.9% to 55.4% in the fourth quarter due in part to these higher raw material costs.

Since that date we have been sued and threatened with suit by various parties alleging damages due to the alleged presence of this protein. These cases are still pending. We cannot assure you that these suits will not have a significant negative impact, nor can we assure you that we will not be sued regarding this matter in the future.

Further Downgrades of Our Debt May Increase Our Financing Costs

In May 2001, Standard & Poor's has lowered our corporate credit ratings to double-B from double-B-plus. Additionally, Standard & Poor's has lowered the rating on our U.S.$250 million unsecured notes due 2007. In September 2000, Moody's downgraded our debt as well. Standard & Poor's also said that a further downgrade will be considered if we do not improve our credit measures by reducing debt and increasing cash flow generation via cost-cutting measures and greater efficiency in the medium term. As a result, our debt costs could increase, and could ultimately affect our stock price.

Fluctuations in the Cost and Availability of Corn and, to a Lesser Extent, Wheat May Affect Our Financial Performance

Our financial performance depends upon the price and availability of corn and, to a lesser extent, wheat as each input represents 28% and 15% of our cost of sales, respectively. Mexican and world markets have experienced periods of over-supply and shortage of corn and wheat, some of which have caused adverse effects on our results of operations. Because of this volatility, we may not always be able to pass along our increased costs to our customers in the form of price increases. We cannot always predict whether or when shortages or over-supply of corn and wheat will occur. In addition, as described above, future Mexican or other governmental actions could affect the price and availability of corn and wheat. Any adverse developments in domestic and international corn and wheat markets could have a material adverse effect upon our business, financial condition, results of operations and prospects.

Energy Costs Have Increased and Could Continue To Increase in the Future

During 2000 and beginning of 2001 we continued to be affected by increased energy costs at both our Mexican and U.S. operations. Our cost of sales as a percentage of net sales increased from 53.9% to 55.4% in the fourth quarter due largely to these higher utility costs. While we expect that any possible future increases will eventually be shifted to our consumers, we cannot assure you that such costs will not continue to increase.

We Have Suffered Losses at Our Mexican Wheat and Bread Operations

We suffered operating losses at our Mexican wheat flour operations during 2000 amounting to Ps.40 million. We have also suffered operating losses at our packaged tortilla and bread operations amounting to Ps.103 million, Ps.262 million and Ps.273 million in 1998, 1999 and 2000 respectively. We cannot assure that these operations will report earnings gains in the near future.

Risks Related to Venezuela and the United States

The Venezuelan Government's Attempts to Maintain Economic Stability As Well As Public Speculation About Possible Future Policies May Contribute Significantly to Economic Uncertainty in Venezuela

Our operations in Venezuela now account for approximately 15% of our net sales. The current president, Hugo Chávez Frías, who led one of two 1992 coup attempts, was elected in December 1998. The new constitution, brought into force in December 1999, required new elections, which were held on July 20, 2000. Chávez Fríaz was

re-elected for a six-year term. His election, as a candidate of the *Movimiento Quinta Republica* or "MRV" represents a radical disenfranchisement of the Venezuelan population from traditional political parties. Subsequent congressional elections failed to result in the MRV gaining decisive control of the legislative body. Therefore, it is difficult and premature to determine the nature of new policies this administration will adopt towards the private sector and our business in particular. Our financial conditions and results of operation may be adversely affected by such policies.

Historically, the Venezuelan government has exercised significant influence over the Venezuelan economy. Although over the last five years, the government has intermittently undertaken reform programs to lessen its role in the economy, the government continues to exert influence over the economy. Such policies deal with controlling inflation and adjusting the value of the Venezuelan currency. Government actions are likely to continue to have a major effect on Venezuelan entities, market conditions, prices and returns on securities carrying Venezuelan risks.

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

Net sales in the U.S. constitute 45% of our total sales, and is therefore a significant market. As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers demand lower pricing and increased promotional programs.

ITEM 4. Information on the Company.

DESCRIPTION OF BUSINESS

We are the largest corn flour and tortilla producer and distributor in the world. Based on production and sales volumes, we are the leading producer and distributor of corn flour and tortillas in the United States, the leading producer of corn flour and wheat flour in Mexico and the second largest corn flour and wheat flour producer in Venezuela. We are also the largest producer of corn flour and tortillas in Central America.

Our focus has and continues to be the efficient and profitable expansion of our core business—corn flour and tortilla production. We pioneered the dry corn flour method of tortilla production, which offers several advantages over the centuries-old traditional wet dough method. These advantages include higher production yields, reduced production costs, more uniform quality and longer shelf life. The corn flour method of production offers significant opportunities for growth. Using our technology and know-how, we hope to encourage tortilla producers to convert to the corn flour method of tortilla production. In addition, we hope to increase market shares in other areas of our business, including packaged tortillas in the United States, Mexico, Central America and Europe, wheat flour in Mexico and Venezuela, and bread and snacks in Mexico and Central America.

The following table sets forth our revenues by geographic market for years ended December 31, 1998, 1999 and 2000. Figures are in millions of pesos.

	Year ended December 31,		
	1998	1999	2000
		(in Millions of Pesos)	
United States (includes European operations)	Ps. 7,461	Ps. 8,067	Ps. 8,137
Mexico	6,886	6,187	6,201
Venezuela	—	1,349	2,798
Central America	1,000	1,006	1,063
Total	Ps. 15,347	Ps. 16,609	Ps. 18,199

History and Developmental Highlights

We were founded in 1949, when Roberto González Barrera, the President and Chairman of our board of directors, started producing and selling corn flour in Northeastern Mexico as an alternative ingredient in producing tortillas. For more than 50 years, we have revolutionized the manner and the scale in which tortilla and other corn products are produced within Mexico and globally.

Prior to our founding, all corn tortillas were made using a primitive and ancient process barely changed since the Aztecs. The principal ingredient in tortillas is corn dough, which can be prepared in one of two ways: by the traditional method in which a batch of corn is boiled in a limestone solution, following which the wet cooked corn is milled into corn dough, or by a milling process that produces a dry corn flour that can be made into dough by adding water (the "corn flour method"). We believe that the preparation of tortillas using the corn flour method presents major advantages, including greater efficiency and higher quality.

For the manufacture of corn flour, we developed a method of utilizing sophisticated hammer mills that grinds corn into very fine flour named Maseca®. The Maseca corn flour is then carefully sifted through a series of selected screens, combined with water and other custom ingredients and then baked. This unique process makes our tortillas consistent and readily available. It has been a significant impetus for growth, resulting in expanding corn flour and tortilla production and sales throughout Mexico, the United States, Central America, Venezuela and Europe. In addition, we have diversified our product mix to include wheat flour in Mexico and Venezuela and bread in Central America and Mexico.

The following are some significant developmental highlights:

- **In 1949,** we founded GIMSA, which is engaged principally in the production, distribution and sale of corn flour in Mexico. GIMSA's corn flour is used mainly in the preparation of tortillas and other related products. GIMSA pioneered the dry corn flour method of producing tortillas, which results in greater efficiency and product consistency in contrast to the centuries-old wet corn dough method. We are the largest corn flour producer in Mexico, with a corn flour market share of approximately 68% in 2000.
- **In 1973,** we entered the Central American market with our first corn flour operation in Costa Rica. Today we produce and sell corn flour in Costa Rica, Guatemala, Honduras and El Salvador, and exports corn flour to Nicaragua. Today we produce to a lesser extent, tortillas, snacks and bread, and also cultivate and sell hearts of palm and rice.
- **In 1977,** we entered the U.S. market, producing packaged tortillas. Our operations have grown to other products such as corn flour and other tortilla related products. We are the largest U.S. producer and distributor of corn flour and packaged tortillas in the United States.
- **In 1993,** we entered the Venezuelan corn flour market through an investment in Demaseca, a Venezuelan corporation producing corn flour. We increased our beneficial ownership in 1998 to 50%. In August 1999, with the acquisition of Monaca, the second largest corn flour and wheat flour producer in Venezuela, we significantly strengthened our presence in the Venezuelan market, becoming the second largest corn flour and wheat flour producer.
- **In 1994,** we began our packaged tortilla operations in Mexico as part of our strategy to broaden our product lines in Mexico achieve vertical integration of our corn flour operations and capitalize upon our experience in producing and distributing packaged tortillas in the United States.
- **In 1996**, we strengthened our position in the U.S. corn flour market through an association with Archer-Daniels-Midland. Through this association we combined our existing U.S. corn flour operations and strengthened our position in the U.S. corn flour market. This association also allowed us to enter the Mexican wheat flour market by acquiring a 60% ownership interest in Archer-Daniels-Midland's Mexican wheat flour operations. We have expanded our presence in this market by acquiring all or part of several additional wheat mills.
- **From 1997 through 2000,** we initiated a significant plant expansion program. During this period, we acquired several wheat flour plants in Mexico. We also expanded two existing corn flour plants and built a bread plant in Mexico. We acquired two existing tortilla plants in the U.S. and built three tortilla plants in the United States. We also expanded a corn flour plant in Honduras, built a corn flour plant in El Salvador and built a frozen bread plant in Costa Rica. We also completed construction of a tortilla plant in Coventry, England.

Subsidiaries

We are a holding company and conduct our operations through subsidiaries. The table below sets forth our significant subsidiaries as of June 1, 2001.

Name of Company	Principal Markets	Jurisdiction of Incorporation	Percentage Owned[1]	Products/ Services
Mexican Operations				
Grupo Industrial Maseca, S.A. de C.V. ("GIMSA")	Mexico	Mexico	83%	Corn flour
Molinera de México, S.A. de C.V. ("Molinera de México")	Mexico	Mexico	60	Wheat flour, Wheat bran
Productos y Distribuidora Azteca, S.A. de C.V. ("Prodisa")	Mexico	Mexico	99.9	Packaged tortillas, Bread
U.S. Operations				
Gruma Corporation ("Mission Foods")...	United States	Nevada	100	Packaged tortilla, Other tortilla- related products
Azteca Milling	United States	Texas	80	Corn flour
Central American Operation				
Gruma Centro América, S.A.	Costa Rica, Honduras, Guatemala, El Salvador, Nicaragua	Costa Rica	100	Corn flour, Packaged tortillas, Snacks, Bread, Hearts of Palm, Rice
Venezuelan Operations[2]				
Molinos Nacionales, C.A. ("Monaca")	Venezuela	Venezuela	95	Corn flour, Wheat flour Other Products
Derivados de Maíz Seleccionado, C.A. ("Demaseca")	Venezuela	Venezuela	50	Corn flour
Other Subsidiaries				
Investigación de Tecnología Avanzada, S.A. de C.V ("INTASA")	Mexico	Mexico	99.9%	Construction, Technology and Equipment Operations

(1) Percentage of equity capital owned by us directly or indirectly through subsidiaries.
(2) Together these subsidiaries are referred to as "the Venezuelan Operations" or "Venezuela operations."

Our subsidiaries accounted for the following percentages and amount of our net sales in millions of Pesos for the years ended December 31, 1998, 1999 and 2000.

	Year ended December 31,					
	1998		1999		2000	
	In Millions of Pesos	Percentage of Net Sales	In Millions of Pesos	Percentage of Net Sales	In Millions of Pesos	Percentage of Net Sales
GIMSA	6,194	40%	5,341	32%	4,774	26%
Molinera de México	967	6%	1,083	7%	1,369	8%
Prodisa	153	1%	243	1%	369	2%
Gruma Corporation	6,876	45%	7,524	45%	7,841	43%
Gruma Centro América	1,000	7%	1,010	6%	1,064	6%
Venezuela operations	—	0%	1,349	8%	2,798	15%
Other subsidiaries	157	1%	63	1%	(15)	0%

Association with Archer-Daniels-Midland

We entered into an association with Archer-Daniels-Midland in September 1996. One of the world's largest corn refiners, oil seed processors and flour millers, Archer-Daniels-Midland produces, processes, transports and exports agricultural products worldwide. Through our partnership we expanded our U.S. operations, and gained access to Archer-Daniels-Midland's extensive and efficient U.S. corn purchasing, handling and transportation network. We believe that this association has improved our position in the U.S. corn flour market by combining our proprietary corn flour technology, our leading position in the corn flour industry and our operational expertise with Archer-Daniels-Midland's logistical resources and financial strength. In addition, our association, provided us with an immediate presence in, and a new avenue for growth through, the Mexican wheat flour market.

As a result of this association, we received 80% ownership of our combined U.S. corn flour operations and 60% of Archer-Daniels-Midland's Mexican wheat milling operations. We also gained exclusive rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets. In return, Archer-Daniels-Midland received approximately 22% of our total outstanding shares, and 20% ownership of our combined U.S. corn flour operations. Archer-Daniels-Midland also obtained the right to designate two of the 11 members of our board of directors. We and Archer-Daniels-Midland, exclusively through our jointly-owned enterprises, produce and distribute wheat flour in Mexico and corn flour in the United States.

Strategy

Our strategy for growth is to focus on our core business—the manufacturing of tortillas and corn flour — and to capitalize upon our leading positions in the corn flour and tortilla industries. Our strategy includes the following key elements:

- *Encourage Transition from Traditional Method to Corn Flour Method in Mexico*: We continue to view the transition from the traditional method to the corn flour method of making tortillas as the primary opportunity for increased corn flour sales. We will continue to encourage this transition through improving customer service, advertising and promoting our MASECA® brand corn flour, as well as leveraging off of its expanded manufacturing capacity and distribution networks in Mexico, the United States, Central America and Venezuela.

- *Expand in the Growing Retail and Food Service Tortilla Markets in the United States*: We believe that the size and growth of the U.S. retail and food service tortilla markets offer significant opportunities for expansion

- *Develop the First National Tortilla Brand in the United States*: We intend to develop Gruma Corporation's MISSION® tortilla brand as the first national tortilla brand by increasing our efforts at building brand name recognition and by further expanding and utilizing Gruma Corporation's distribution network, first in our existing markets, where we believe there is potential for further

growth, and second, in markets where Gruma Corporation currently does not have a significant presence but where we believe strong demand for tortillas already exists.

- *Develop our Complementary Packaged Tortilla Business:* We intend to continue to develop our complementary businesses in Mexico and Central America by growing our packaged tortilla operations, which benefits from our manufacturing and distribution expertise and capabilities. We intend to continue to develop this market, focusing our efforts mainly on the northeastern region of Mexico.
- *Improve Operating Efficiencies*: We have significant cost and expense reduction opportunities in our administrative areas that should allow us to improve margins and cash flow in the mid-term. We also intend to continue our research and development efforts in order to further improve the efficiency of our proprietary corn flour and tortilla production technology, which we believe provides us a significant advantage over our competitors.
- *Capitalize on Already-Built Infrastructure.* We will pursue a profitable growth strategy and capitalize on already built infrastructure and our drive to improve operational efficiencies. We anticipate that additional production capacity will be provided primarily by adding new production lines at some of our existing facilities. Assuming demand for our products continues to increase, this strategy should allow us to increase operating margins due to greater economies of scale.

Mexican Operations

Overview

Our largest business in Mexico is the manufacture and sale of corn flour, which we conduct through our subsidiary GIMSA. Through our association with Archer-Daniels-Midland, we have also entered the wheat milling business in Mexico. In addition, Prodisa engages in packaged tortilla and bread manufacturing and distribution. Our other subsidiaries conduct research and development regarding corn flour and tortilla manufacturing equipment, produce machinery for corn flour and tortilla production and construct our corn flour manufacturing facilities.

GIMSA—Corn Flour Operation

Principal Products. GIMSA produces, distributes and sells corn flour in Mexico, which is then used in the preparation of tortillas and other related products. In 2000, GIMSA had net sales of Ps.4.774 billion. GIMSA is the largest corn flour producer in Mexico, with a corn flour market share of approximately 68% in 2000. It sells corn flour in Mexico under the brand name MASECA®. MASECA® flour is a ready-mixed corn flour that becomes a dough when water is added. This corn dough can then be pressed to an appropriate thickness, cut to shape and cooked to produce tortillas and similar food products.

GIMSA produces over 40 varieties of corn flour for the manufacture of different food products. It sells corn flour to tortilla and tortilla chip manufacturers as well as on the retail market. GIMSA's principal corn flour product is a standard fine-textured, white flour used to manufacture tortillas.

Sales and Marketing. GIMSA sells packaged corn flour in bulk 20-kilogram sacks that are sold in the wholesale market, principally to tortilla manufacturers, and one-kilogram packages that are sold on the retail market.

The following table sets forth GIMSA's bulk and retail sales volumes of corn flour in Mexico for the periods indicated.

	Year Ended December 31,					
	1998		1999		2000	
	Tons	%	Tons	%	Tons	%
Bulk	1,502,490	84%	1,305,523	84%	1,265,489	84%
Retail	283,146	16	241,880	16	241,565	16
	1,785,636	100%	1,547,403	100%	1,507,054	100%

GIMSA's customer base is comprised primarily of small tortilla producers, or *tortillerías*, who purchase corn flour in bulk and produce tortillas on their premises, which are then sold locally. Retail sales, representing a

minor portion of revenues, are channeled to two distinct markets: urban centers and rural areas. Sales to urban consumers are made mostly through supermarket chains that use their own distribution networks to distribute MASECA® flour or through wholesalers who sell the product to smaller grocery stores throughout Mexico. Sales to rural consumers are made principally through the Mexican government's distribution program, which consists of a network of small government-owned stores. GIMSA's sales representatives are mainly concerned with promoting the dry corn flour method to tortilla manufacturers. Mexico's tortilla manufacturing industry is highly fragmented, consisting mostly of *tortillerías*, who predominantly continue to utilize, in our opinion, the relatively inefficient wet corn dough of tortilla production. We estimate that the traditional wet dough method accounts for approximately one-half of all tortillas produced in Mexico. Tortilla producers either continue to buy their own corn and produce tortillas themselves, while a minority buy the wet dough from dough producers.

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

We strongly believe in the superiority of our dry corn flour method and, thus also, believe that we have substantial opportunities for growth by encouraging a transition to our method. Corn flour is primarily used to produce corn tortillas, a principal staple of the Mexican diet. In fact, in 2000, corn flour for tortilla manufacturing accounted for approximately 97% of our total corn flour sales volume in Mexico, with the balance being used for the manufacture of tortilla chips. The tortilla industry is one of the largest industries in Mexico as tortillas constitute the single largest component of Mexico's food industry. Reluctance to abandon traditional practice, particularly in central and southern Mexico, and recent decreases in corn prices are major factors in preventing the widespread conversion to the corn flour method. We estimate that the traditional wet corn dough method accounts for approximately one-half of all tortillas produced in Mexico.

GIMSA has embarked on several programs to promote corn flour sales. These efforts include prime time advertising on television and radio advertising together with billboard advertising. In addition, GIMSA has developed the "in-store *tortillería*" concept, which involves the on-site manufacture and sale of tortillas in supermarkets using MASECA® brand corn flour and machinery supplied by our technology and equipment operations. Through this promotion, GIMSA seeks to increase consumer exposure to, and acceptance of, tortillas made with corn flour. As of May 31, 2001, 74% of supermarkets throughout Mexico hosted GIMSA's "in-store *tortillerías.*" In order to assist traditional tortilla producers in making the transition to corn flour, GIMSA also sells specially designed mixers made by Tecnomaíz, S.A. de C.V. ("Tecnomaíz"), one of our research and development subsidiaries. For more information about our research and development department, see "INTASA—Technology and Equipment Operations."

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

Competition and Market Share. We face competition on two levels—from other corn flour producers and sellers of wet corn dough. More importantly, many *tortillerías* do not use the corn flour method and produce their own wet corn dough on their premises. Our estimates indicate that 50% of tortilla producers continue to use the traditional wet corn dough method.

Our principal competitors in the Mexican corn flour market are Grupo Minsa, S.A. de C.V., previously known as Maíz Industrializado Conasupo, S.A. de C.V. ("MICONSA") and Agroindustrias Integradas del Norte S.A. de C.V., a regional corn flour producer. We estimate that our market share of corn flour sales in Mexico during

2000 was approximately 68%, and that the above two competitors accounted for the remaining 32% market share. We compete against other corn flour manufacturers on the basis of quality, brand recognition, technology, customer service and nationwide coverage. We believe that GIMSA has certain competitive advantages resulting from its proprietary technology, greater economies of scale and broad geographic coverage, which may afford it opportunities to more effectively source raw materials and reduce distribution costs.

Operations and Capital Expenditure. GIMSA currently owns 18 corn flour mills, two of which are temporarily closed. The Chalco plant has been inactive since October 1999 while the Zamora plant has been inactive since July 2000. Production shifted to other plants to achieve savings in transportation and logistics. All are located throughout Mexico, typically within corn growing regions and those of large corn consumption.

As a result of construction and expansion of our plants, we increased our installed corn flour manufacturing capacity from approximately 1.0 million tons per year as of January 1, 1990 to 2.4 million tons per year as of May 31, 2001. In 2000, our plants' extent of utilization, including the two closed facilities, averaged approximately 65%. In 1998 we expanded one of our corn flour plants in Veracruz, upgrading the corn flour processes, and modernizing information technology at a cost of Ps.330 million. In 1999 Ps.143 million was spent in upgrading corn flour processes, general maintenance and modernizing information technology. In 2000, GIMSA made capital expenditures of Ps.43 million, primarily to upgrade its corn flour production processes and acquire computer and transportation equipment. GIMSA's expects capital expenditures for 2001 of U.S.$6 million for general maintenance and technology upgrades.

We believe we have the most extensive nationwide corn purchasing and corn flour distribution capabilities of any corn flour producer in Mexico, providing us with a significant competitive advantage. To enhance its presence in particular geographic areas, we have transferred a minority interest in certain subsidiaries to local investors, unions and development agencies. Pursuant to an agreement between GIMSA and *Investigación de Tecnología Avanzada* ("INTASA"), our wholly-owned subsidiary, GIMSA's controlling shareholder, INTASA provides technical assistance to each of GIMSA's operating subsidiaries for which each pays to INTASA a fee equal to 0.5% of its consolidated net sales. Every GIMSA corn flour facility uses proprietary technology developed by our technology and equipment operations. For more information about our in-house technology and design initiatives, see "Miscellaneous—INTASA—Technology and Equipment Operations."*Raw Materials.* Corn is the principal raw material required for the production of corn flour, and constituted approximately 68% of GIMSA's cost of sales for 2000. We purchase corn primarily from Mexican growers and grain elevators, or if domestic supply proves insufficient, from world markets at international prices under import permits granted by the Mexican government. Our purchases are made on a spot basis pursuant to short-term contractual arrangements, which are generally in the form of oral agreements entered into at the beginning of the harvest. Compañía Nacional Almacenadora, S.A. de C.V., a subsidiary of GIMSA, contracts for and purchases the corn, and also monitors, selects, handles and ships the corn.

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

Traditionally, domestic corn prices in Mexico tend to be higher than those abroad, but do follow trends in the international market. During most periods, the price at which GIMSA purchases corn depends on the international corn market. As a result, corn prices are often unstable and are sometimes volatile. In recent years, however, these fluctuations have been significantly affected by government regulations and policies. The Mexican government's decision to discontinue the subsidy program for tortilla consumers in 1999 and to increase corn imports and support for corn growers in 2000, resulted in drastic decreases in corn prices. In 1998 average corn prices were stable at about Ps.1,788 per ton. In 1999, however, corn prices fell to an average of Ps.1,477 per ton. In 2000, the price of corn decreased dramatically to Ps.1,174 per ton. For more information of the government's effect on corn prices, see "Item 5: Operating and Financial Review and Prospects— Effect of Government Policies on the Mexican Tortilla and Corn Flour Industry."

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

Distribution. GIMSA's wholesale sales to tortilla manufacturers are made free-on-board at GIMSA's plants. GIMSA's products are distributed through independent transport firms hired by GIMSA and paid directly by GIMSA's customers.

Molinera de México¾Wheat Flour Operation

Principal Products. In 1996, we entered the wheat milling market in Mexico by acquiring a 60% ownership interest in Archer-Daniels-Midland's wheat flour operation, Molinera de Mexico. Molinera's main product is wheat flour, although it also produces and sells wheat bran. Our flour brands are REPOSADA®, PODEROSA®, SELECTA®, SELLO DE ORO®, DILUVIO® and MONTERREY®, among others.

Sales and Marketing. Approximately, 91% of Molinera's wheat flour production is sold in bulk presentation and 9% in 1 kilogram packages for the retail segment. Most of the sales volume of bulk presentation are sold to thousands of bakeries and, to a lesser extent, to cookie and pasta manufacturers. Molinera experiences seasonality since higher sales volumes are achieved in the fourth and first quarters during the winter, when, we believe, per capita consumption of wheat-based products, especially bread, increases.

We sell primarily to bakeries, small grocery stores and large supermarkets throughout Mexico. Our marketing strategy depends on the type of customer and region. Overall, we are looking to participate more in the manufacturing sector by offering products, through direct delivery, according to customers' specifications, as well as technical support. We are trying to increase our market share in bakeries by offering products with consistent quality. In the retail segment we target small grocery stores, through wholesalers, and supermarkets, through centralized and national level negotiations. Additionally, we are looking to capture significant market share nationwide. We are focusing on improving our customer service, package distribution nationwide as well as a price strategy. We are also seeking to eliminate unprofitable distribution routes.

Competition and Market Share. We are Mexico's largest wheat flour producer, with a market share of approximately 15% of a total estimated wheat flour market of U.S.$780 million. Molinera de Mexico competes with many small wheat flour producers. We believe the wheat flour industry is highly fragmented and estimate that there are more than a hundred participants. Our main competitors are Contri, S.A. de C.V, MUNSA, S.A.de C.V., and Tablex, S.A. de C.V.

Operations and Capital Expenditure. At the time we acquired our interest in Molinera, the operation consisted of two production facilities having an aggregate estimated annual production capacity of 157 thousand tons. From September 1997 through January 2001, we increased our production capacity by 379% from 157,000 to 752,000 tons, as May 31, 2001, through acquisitions of wheat flour mills and companies operating in the wheat flour and related products market. Today we own and operate nine wheat flour plants, one of which we hold only a 40% ownership interest. The facilities' average extent of utilization is estimated at 64% for 2000.

In September 1997, Molinera de México acquired three wheat mills in Mexico. Two of these mills were closed in 1999 after determining that it would be more efficient to increase capacity utilization elsewhere. In June 1998, Molinera de México acquired a 40% ownership of a wheat flour mill in Monterrey, Mexico with an aggregate annual capacity of 55,000 tons. In August 1998, Molinera de México acquired a wheat flour mill in Celaya, Guanajuato. In July 1999, we acquired three additional wheat flour mills in the states of Sonora, Chihuahua and Baja California Sur (all formerly part of the Salcido Group). In January 2000, we acquired La Asunción, a wheat flour mill in Puebla, which allowed us to strengthen its leadership position in the wheat flour industry and achieve nationwide coverage. We have also acquired the wheat flour brands REPOSADA®, PODEROSA®, SELECTA®, SELLO DE ORO®, DILUVIO® and MONTERREY®, among others. These acquisitions in addition to expansion and improvements projects amounted to capital expenditures totaling Ps.663 million for 1998 through 2000. Capital expenditure for 2001 will be mostly oriented to general maintenance and technology upgrades.

Raw Materials. Wheat is the principal raw material required for the production of wheat flour. Molinera purchases approximately 30% of its wheat from Mexican growers, and 70% from world markets. Molinera purchases from local farmers, farmers associations and trading companies. In some cases, purchases are pursuant to short-term contractual arrangements, which are generally in the form of oral agreements entered into at the beginning of the harvest. We import wheat from the United States and Canada through several trading companies. In most cases, purchases take place at the beginning of the harvest with no agreements in advance.

In recent years the price of wheat domestically and abroad has been volatile. Volatility is due to the availability of wheat, which depends on various factors including the size of the harvest.

Prodisa—Packaged Tortilla and Bread Operation

Principal Products. We began our packaged tortilla operations through Prodisa in Mexico in 1994 as part of our strategy to broaden our product lines in Mexico, achieve vertical integration of our corn flour operations, and capitalize upon our experience and investments in the United States in producing and distributing packaged tortillas. Our packaged tortillas are marketed under the MISION® and TORTI RICA® brand names. In 1998, we broadened our business to include the production and distribution of bread under the BREDDY® brand name. We anticipate that packaged products in Mexico may become an important part of our business.

Sales and Marketing. In 1994, we entered the packaged tortilla and bread business in Mexico because we perceived a great potential for growth in these markets. In late 1996 and early 1997, we decided to focus our efforts initially in the northeastern region of Mexico. Prodisa's sales volume during 2000 was 29 thousand tons, of which 34% was for supermarkets, 4% for convenience stores and 62% for small grocery stores.

Tortilla product sales vary little over the course of the year. Bread product sales, however, are more seasonal since higher volumes are achieved during the winter, when we believe per capita bread consumption increases. On the other hand, demand for bread products is lower in summer when most schools, which are large purchasers of bread products, are closed for vacation.

Competition and Market Share. In the tortilla industry, Prodisa competes against thousands of tortilla manufacturers. We believe Prodisa has a 1% market share of the total tortilla industry, inclusive of packaged and non-packaged tortillas, in Mexico, and approximately 28% of the packaged tortilla market in the Monterrey metropolitan area. In bread, Prodisa's largest competitor is the market leader Grupo Industrial Bimbo, S.A. de C.V. Prodisa commands 13% of the bread market in the Monterrey metropolitan area.

Operation and Capital Expenditure. With the decision to branch into bread production, we constructed a bread manufacturing facility that became operational in the fourth quarter of 1998. In addition to the bread plant, we currently operate two tortilla plants. Our three plants have a combined annual production capacity of 81,000 tons as of May 31, 2001, and average extent of utilization of 36% in 2000.

Capital expenditures for the past three years were Ps.364 million. We expect that our capital expenditure in 2001 will be focused on general maintenance and technology upgrades.

Raw Materials. The principal raw materials, corn flour and wheat flour, are supplied internally by GIMSA and Molinera de Mexico respectively. Their availability and volatility are thus subject to the same factors that affect GIMSA's and Molinera's operations.

Distribution. Prodisa's products are distributed to our 15 warehouses throughout northeastern Mexico and Baja California. The goods are then distributed with our delivery trucks to customers. Frequency of delivery depends upon the customer; supermarkets receive daily deliveries while smaller stores receive these products three times a week.

U.S. and English Operations

Overview

We conduct our U.S. operations principally through our subsidiary Gruma Corporation, which manufactures and distributes corn flour, packaged tortillas and related products. Gruma Corporation commenced operations in the United States in 1977, initially developing a presence in certain major tortilla consumption markets by acquiring small tortilla manufacturers and converting their production processes to corn flour. Gruma Corporation occupies 87% and 25% of the corn flour and tortillas markets, respectively. Including the traditional method, mostly used for other tortilla related products, we estimate Gruma Corporation occupies 35% of the raw materials used in the production of corn tortillas and other related products in the United States.

In September 1996, we combined our U.S. corn flour milling operations with Archer-Daniels-Midland's corn flour milling operations into a newly formed limited partnership, known as Azteca Milling, L.P., in which we hold an 80% interest. We vertically integrated our operations by (1) constructing corn flour manufacturing facilities in the United States, (2) establishing corn purchasing operations; (3) developing marketing and advertising campaigns to develop brand name recognition, (4) forming an extensive distribution network, and (5) working with our technology and equipment operations to design and build proprietary tortilla manufacturing machinery for use in our U.S. operations.

Gruma Corporation

Gruma Corporation is the largest producer of packaged tortilla and related products, which are sold under its trade name—Mission Foods. Also, Gruma Corporation is the leading miller of corn flour in the United States through Azteca Milling, a limited partnership between Gruma Corporation (80%) and Archer-Daniels-Midland (20%). Gruma Corporation's packaged tortilla and related products operations will be referred to below as "Mission Foods" or "Gruma Corporation."

Principal Products. Mission Foods manufactures and distributes packaged corn and wheat tortillas and related products (which includes tortilla chips) in the United States, under the MISSION® and GUERRERO® name brands. In 2000, wheat tortillas, corn tortillas and tortilla chips and other related products represented 46%, 30% and 24%, respectively of Mission Foods' total sales. Azteca Milling produces over 20 varieties of white corn flour that are used to produce different types of tortillas and tortilla products.

Sales and Marketing. While the largest individual tortilla markets in the United States remain in the West and Southwest, in recent years the U.S. tortilla market has evolved to become national in scope. Gruma Corporation currently distributes its products to more than 30,000 stores. Azteca Milling sells corn flour in various quantities, from bulk railcar loads to four-pound retail packages. Gruma Corporation increased its sales volumes of both corn flour and tortilla products from approximately 610 thousand tons in 1996 to approximately 836 thousand tons in 2000.

About 40% of all produced corn flour is consumed and used internally by Gruma Corporation to produce tortilla and other related products. Retail sales of corn flour accounted for approximately another 12% of Gruma Corporation's production in 2000. The remaining 48% is sold to third-party tortilla and snack food manufacturers. During 2000, 82% of Mission Foods' sales of packaged tortillas and related products were made on the retail market. The remaining 18% of sales were made to the food service market. The retail market refers to supermarkets, smaller independent stores and convenience stores, while food service customers include major chain restaurants, food service distributors, schools and hospitals. Gruma Corporation is a major supplier of tortillas to Taco Bell, the largest Mexican food restaurant chain in the United States. For discussion of pending litigation involving Taco Bell and other purchasers, see "Item 8: Financial Information—Legal Proceedings."

We anticipate continued growth in the U.S. market for corn flour, tortilla, and related products. Gruma Corporation's net sales in dollars have increased at an annual rate of 8% between 1996 and 2000. Of particular note is the expected increase in the U.S. Hispanic population of approximately 3.5% per year over the next five years. While not all U.S. Hispanics consume tortillas as part of their daily diet, we believe that this increase and the growing consumption of Mexican-style foods by non-Hispanics, has heightened and will continue to heighten demand for tortillas and related products. We also estimate that Gruma Corporation's corn flour is used in 35% of U.S. tortilla and tortilla chip production while the remaining 65% continues be produced through the wet corn dough method. As in the Mexican market, a significant opportunity for increased corn flour sales stems from encouraging the transition to our innovative and, what we believe, more efficient dry corn flour method. Growth in recent years in the corn flour market is attributable to an increase of corn tortilla and tortilla chip consumption in the U.S. market as well as the conversion of tortilla producers from the wet dough to the corn flour method.

In the tortilla market, our current marketing strategy is to enhance Gruma Corporation's market position in the major retail and food service tortilla markets. During the past six years, we have promoted our MISSION® and GUERRERO® brands with extensive marketing and advertising campaigns, primarily utilizing supermarket, radio and television advertising, targeting both Hispanic and non-Hispanic populations. We also target food service companies and work with restaurants, institutions and distributors to address their individual needs and provide them with a full line of products. We have identified new regional target markets for corn flour, tortillas and tortilla chips in the Central and Eastern states. Gruma Corporation also intends to increase its participation in the food service business, using the experience it has gained in servicing Taco Bell, by targeting Mexican food restaurant chains as well as independent restaurants.

As part of its sales and marketing strategy, we have combined tortilla production with recreation by opening an authentic tortilla factory attraction at Disneyland's newly-opened California Adventure park in Anaheim, California. The factory is a working facility that produces corn flour and wheat flour tortillas, where guests are able to watch the production process as well as taste the results.

Competition and Market Share. The increase in tortilla and tortilla chip consumption translates into a U.S. tortilla market of approximately U.S.$1.9 billion in total sales in 2000. Of this, Gruma Corporation sales constituted approximately 25% of all U.S. tortilla sales. We estimate during 2000, Gruma Corporation's corn flour sales

constituted approximately 87% of total corn flour sales in the United States with our corn flour constituting 35% of all raw material used in the production of corn tortillas and other tortilla related products.

In the United States, our competitors within the corn flour milling industry include both small milling operations and corn flour milling divisions of larger companies, such as Minsa, Cargill and Quaker Oats. Gruma Corporation competes with other corn flour manufacturers in the United States primarily on the basis of quality, technical support, customer service and brand recognition.

Competition in the tortilla market is highly fragmented and regional in nature. Gruma Corporation's main competitors are hundreds of small tortilla producers, who manufacture locally or regionally and tend to be sole proprietorships. We believe Gruma Corporation's largest competitor achieves approximately one-fifth of Gruma Corporation's sales.

Operation and Capital Expenditure. Annual production capacity for Azteca Milling and Mission Foods is estimated at 1.3 million tons, with an average utilization of 77% in 2000. Capital expenditures for the past three years were Ps.2,098 million. Gruma Corporation's capital expenditure for 2001 will be mostly oriented to general maintenance and technology upgrades.

Azteca Milling produces corn flour at five plants located in Edinburg and Plainview, Texas; Evansville, Indiana; Henderson, Kentucky; and Madera, California; all are located within important corn growing areas. The Texas and Indiana mills incorporate our latest production technology, which includes a continuous corn cooking process that provides for significant cost savings. Our Indiana mill, which commenced operations in April 1996 with an estimated annual production capacity of 59,000 tons, increased its capacity to 135,000 tons. In June 2000, Azteca Milling completed construction of a new production line at its Plainview, Texas, plant. Because of our state of the art processing equipment, we are the only corn milling company to achieve a ISO 9002 certification and the American Institute of Baking Certification. As of June 2001, we have three mills that are ISO 9002 certified while the remaining two mills are in the process of obtaining certification.

Gruma Corporation produces its packaged tortillas and other related products at 13 manufacturing facilities located primarily in large population centers in the eastern, western and southwestern United States. Two of these plants—Goldsboro, North Carolina and Coventry, England—were constructed in 2000.

Raw Materials. Corn is the principal raw material used in the production of corn flour, which is purchased from local producers, or, if market conditions require, from U.S. or international markets. Rising international concerns over genetically modified foods has led us to take some action in monitoring and testing our corn to ensure that it is safe for human consumption. We purchase only approved varieties of corn from numerous farmers and elevators. Because corn prices tend to be somewhat volatile, Azteca Milling engages in a variety of non-speculative hedging activities in connection with the purchase of its corn supplies, including the purchase of corn futures contracts. In so doing, Azteca Milling attempts to assure corn availability at least 12 months in advance of harvest time as well as guard against price volatility. The Texas Panhandle currently is the single largest source of food-grade corn. Gruma Corporation does not anticipate any difficulties in securing adequate corn supplies in the future. Azteca Milling is also involved in short-term contracts for corn procurement with many corn suppliers. Where suppliers fail to deliver, we can easily access the spot markets.

Azteca Milling buys corn and wheat only from farmers and grain elevators who agree to supply approved varieties of corn. Azteca Milling tests and monitors the raw materials for certain strains of bacteria and chemicals not approved for human consumption, we may unwittingly buy genetically modified corn and wheat flour that may pose health risk to humans.

Corn flour for Mission Foods' products is supplied almost entirely by Azteca Milling. Wheat flour for the production of wheat tortillas is purchased from third party producers at prices prevailing in the commodities markets. Because we do not hedge our purchases of wheat flour, prices tend to be volatile. Nevertheless, we believe the market for wheat flour in the United States is sufficiently large and competitive to ensure that wheat flour will be available at competitive prices to supply its needs.

Distribution. An important element of Mission Foods' sales growth has been the expansion and improvement of its tortilla distribution network, including a direct-store-delivery system to distribute most of its products. Tortillas and other freshly made products are generally delivered daily to customers. In keeping with industry practice, Gruma Corporation generally does not have written sales agreements with its customers. Gruma

Corporation has also developed a food service distribution network on the West and East coasts, and in certain areas of the Midwest.

Central American Operations

Overview

In 1973, we entered the Costa Rican corn flour market. Our operations since then have expanded into Guatemala, Honduras, El Salvador, and Nicaragua. We believe that the Central American market affords opportunities to enhance our overall financial performance, and that our operations in Central America have enabled us to gain experience in activities that we do not engage in elsewhere.

Gruma Centro América

Principal Products. Gruma Centro América produces corn flour, and to a lesser extent tortillas, snacks and bread. We also cultivate and sell hearts of palm and rice. We sell corn flour in Costa Rica under the MASECA® and MASARICA® labels and in Honduras under the TORTI MASA® label. We operate a Costa Rican snack operation which manufactures tortilla chips, potato chips and similar products under the TOSTY® label. In 1999, we entered the non-packaged bread market, in which we manufacture and sell frozen bread to grocery stores. The stores then bake the frozen bread on the premises in ovens we provide through bailment arrangements. Additionally, we cultivate and sell hearts of palm and rice in Costa Rica, which are then exported to numerous European countries as well as the United States and Canada.

Sales and Marketing. The largest portion of Gruma Centro América's net sales derives from the production and distribution of corn flour at 44%. Tortillas account for 13%, snacks for 11%, bread for 12%, hearts of palm for 12%, and rice for 8%. In 2000, Gruma Centro América sold an aggregate of 107,000 tons of corn flour in Central America, making us the largest producer of corn flour in the region. During 2000, sales volumes for tortillas were 13,000 tons, snacks 3,000 tons, bread 6,000 tons, frozen bread 3,000 tons, rice 14,000 tons and hearts of palm 7,000 tons.

Gruma Centro América sells bulk and retail corn flour. Bulk corn flour is sold predominantly to small tortilla manufacturers through direct delivery and wholesalers. Supermarkets make up the customer base for retail corn flour. Bulk sales volume were 58% and retail sales 42% of Gruma Centro América sales volumes during 2000. Typically, corn flour sales volume is lower during the second quarter of the year due to higher availability and lower prices of corn.

The total potential corn flour market in Central America is estimated at U.S.$460 million. We believe that there is significant potential for growth in Central America as our corn flour is used in only 11% of all tortilla production; the majority of tortilla manufacturers use the wet dough method. In other product areas we are conducting ongoing surveys and research of current and potential customers to determine market demand and needs.

Competition and Market Share. We estimate that Gruma Centro América's corn flour sales constitute approximately 80% of total corn flour sales in Central America. In Costa Rica we estimate we have 92% of the packaged tortilla market, 32% in snacks, 50% in packaged bread, 9% in frozen bread and 9% in rice.

Our main competitors within the corn flour industry are Del Comal and Minsa.

Operations and Capital Expenditures. We have in corn flour production an installed capacity of 126,000 tons, with an average utilization of 85% during 2000. Total annual production capacity, including other products, represents 208 thousand tons of corn four as of May 31, 2001 and total average extent of utilizaiton was approximatley 74% during 2000. Throughout the region we operate four corn flour plants in Costa Rica, Honduras, Guatemala and El Salvador. We also have plants producing packaged tortillas and other products.

In 1999 we expanded our corn flour plant in Honduras, doubling its installed capacity from 18,000 tons to 36,000 tons at a cost of Ps.60 million. We also completed constructing the corn flour plant in El Salvador. In 2000, we completed construction of our frozen bread plant in Costa Rica at a cost of Ps.331 million**.** It has a capacity of 200,000 units per day. Total capital expenditures for the past three years was approximately Ps.666 million.

Capital expenditures for 2001 will be mostly oriented to general maintenance and technical upgrades.

Raw Materials. Corn is the most important raw material needed in our operations and is obtained primarily from local growers. However, when domestic supply is insufficient, we turn to the international markets. Price

fluctuation and volatility are subject to domestic conditions, such as annual crop results, and to a lesser extent, international conditions.

Venezuelan Operations

Overview

In 1998, we increased to 50% our beneficial ownership in Demaseca, our corn flour operation. A local family oversees the daily operations and owns the remaining 50% interest. In August 1999, we acquired DAMCA International Corporation, a Delaware corporation which owned 100% of Monaca, Venezuela's second largest corn and wheat flour producer. Thereafter, we sold 5% of Monaca to Archer-Daniels-Midland. This acquisition represents a significant step in furthering our long-term growth strategy into the South American market. We believe it is also a strategic addition that enhances our existing grain-based products business in Venezuela. This strategy has significantly strengthened our presence in the Venezuelan market and positions us to better serve the South American market. We expect to achieve important synergies in storage, transportation, marketing and distribution, as well as a reduction of operating costs, by the integration of some Monaca's and Demaseca's operations. Demaseca and Monaca are collectively referred to as our "Venezuelan operations."

Demaseca and Monaca

Principal Products. Our Venezuelan operations produce and distribute corn flour as well as wheat flour, rice and other products. We sell corn flour under the brand names JUANA®, AMIRYA® and PAYARA®. We sell wheat flour under the ROBIN HOOD® brand and rice under the MONICA® name.

Sales and Marketing. In 2000, combined consumption of corn flour and other grain-based products, such as rice and oats, in Venezuela totaled 1.6 million tons, representing an estimated U.S.$1.0 billion per year. We sold in 2000 253,000 tons of corn flour, 176,000 tons of wheat flour and 29,000 tons of other products. Venezuelans use corn flour to produce and consume arepas, which are made in the home or in restaurants for personal consumption rather than manufactured by specialty shops or other large manufacturers for sale and profit. In 2000 we sold corn flour only on the retail market in 1 kilogram bags to independent distributors, supermarkets and wholesalers. We sell wheat flour to both industrial customers and retailers, distributing in bulk and in 1 kilogram bags. Sales to industrial customers like bakeries, make up 76% of our total wheat flour sales volume. The remaining 24% of sales derives from the retail market, which refers to independent distributors, supermarkets and wholesalers. Sales fluctuate seasonally as demand for flour-based products is lower during those months when most schools are closed for vacation.

Our strategy for improving sales continues to be research and development.

Competition and Market Share. With the Monaca acquisition, we have increased our share of the corn flour market to 34% and entered the wheat market with a 25% share. We are the second largest corn flour and wheat flour producer and the third largest food producer in Venezuela. During 2000, sales volumes for the Venezuelan operations were 253 thousand tons of corn flour, 176 thousand tons of wheat flour and approximately 29 thousand tons of other products.

In corn flour, our main competitor is Grupo Polar, C.A., occupying 62% of the market. In wheat flour, our principal competitor is Cargill, which we believe holds approximately 45% of the market.

Operation and Capital Expenditures. We operate six corn flour, four wheat flour and three other products plants in Venezuela with an annual production capacity of 1.02 million tons as of May 31, 2001 and an average extent of utilization of approximately 45% during 2000. However, an aggregate of 141,000 tons at these plants are temporarily idle.

We expended U.S.$99 million towards the Monaca acquisition and U.S.$2 million used for increasing our ownership in Demaseca. Capital expenditures for 2001 are expected to be focused on general maintenance and technology upgrades, which are expected to be financed with cash flow from the Venezuelan operations.

Raw Materials. Corn, and to a lesser extent, wheat are our most important raw materials. Corn is purchased in Venezuela and is subject to the corn market's volatility. All wheat is purchased from the U.S. and Canada with its availability and price volatility dependent upon those markets.

Miscellaneous

INTASA ¾Technology and Equipment Operations

Since 1976 our technology and equipment operations are conducted principally through INTASA, which has two subsidiaries: Tecnomaíz, S.A. ("Tecnomaíz") and Constructora Industrial Agropecuaria, S.A. de C.V. ("CIASA"). The principal activity of these subsidiaries is to provide research and development, equipment, and construction services to us and equipment to third parties. Through Tecnomaíz, we engage in the design, manufacture and sale of machines for the production of tortillas and tortilla chips. The machinery for the tortilla industry includes a range of capacities, from 50 to 300 corn tortillas per minute as well as dough mixers. The equipment is sold under the TORTEC® and BATITEC® trademarks in Mexico. Tecnomaíz also manufacturer high volume energy efficient corn and wheat tortilla systems that can produce up to 1,200 corn tortillas and 400 wheat tortillas per minute.

We carry out proprietary technological research and development for corn milling and tortilla production as well as all engineering, plant design and construction through INTASA and CIASA. These companies administer and supervise the design and construction of our new plants and also provide advisory services and training to employees of our corn flour and tortilla manufacturing facilities. We manufacture corn tortilla-making machines for sale to tortilla manufacturers and for use in "in-store *tortillerías*," as well as high-capacity corn and wheat tortilla-makers that are supplied only to us. We have invested approximately Ps.378 million in research and development during the period from January 1, 1996 through December 31, 2000, including Ps.139 million during 2000.

Banorte Investment

In June 1992, we made an investment in Banco Mercantil del Norte, S.A. ("Banorte"), a Mexican bank privatized by the Mexican government in 1992. We purchased 10.1% of Banorte's share capital by bidding in conjunction with a group of investors, led by our President and Chairman of our board of directors, Mr. González Barrera. In September 1993, these shares were exchanged for an interest in Grupo Financiero Banorte, S.A. de C.V. ("GFBanorte"), a Mexican financial services holding company and Banorte's parent. In addition, we acquired Ps.98.5 million of GFBanorte debentures, which were converted into shares of GFBanorte in December 2000. As of December 31, 2000, we owned 11% of the outstanding shares of GFBanorte. Approximately 5% or Ps.997 million of our total assets are invested in Banorte. In accordance with Mexican GAAP, GFBanorte's results of operations are accounted for in our consolidated results of operations using the equity method of accounting.

CAPITAL EXPENDITURES AND DIVESTITURES

Our capital expenditures for 1998, 1999 and 2000 were Ps.1.856 billion, Ps.2.589 billion and Ps.1.494 billion, respectively. Our capital expenditures include investments in property, plants and equipment, acquisitions of new plants and investment in common stock. In 2000, we completed our four-year expansion program that required a capital expenditure of approximately U.S.$800 million. This large expansion program was financed primarily through borrowed funds and capital contributions. Since these expenditures have allowed us to expand our production capacity, we now are focusing on more moderate growth, thereby lowering our capital expenditures. Our capital expenditures for 2001 are expected to be U.S. $50 million, applied to general maintenance and technology upgrades. We anticipate financing these expenditures through our own cash flows. For more information on capital expenditures please refer to the specific subsidiary.

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

	Year ended December 31,		
	1998	1999	2000
	(millions of pesos of constant purchasing power as of December 31, 2000)		
GIMSA	Ps. 330	Ps. 143	Ps. 43
Gruma Corporation	705	788	605
Venezuelan Operations	—	571	13
Gruma Centro América	188	276	203
Molinera de México	199	138	326
Prodisa	205	161	(3)
Others	229	512	307[1]
Total consolidated	Ps. 1,856	Ps. 2,589	Ps. 1,494

(1) Includes Ps.383 million in connection with a higher net replacement cost from Monaca based on an appraisal performed by independent appraisers.

For more information on capital expenditures for each subsidiary, please seen the sections entitled "Operation and Capital Expenditures" under the relevant sections above.

REGULATION

Mexican Regulation

Corn and Tortilla Subsidies and Import Policies. Due in part to the importance of tortillas in the Mexican diet, the Mexican government has enacted various policies that have distorted the corn and tortilla markets. Prior to January 1, 1999, the government subsidized corn purchases made by tortilla producers and set retail tortilla prices. Although the subsidizes and price controls were dismantled, the government took other measures that affected the price of corn and tortillas. These included the closing of CONASUPO, which resulted in the sale of its significant corn reserves, the increased distribution of corn import permits and increased funding for support programs for corn growers. For more information on these policies and their effect on our costs and sales, see "Item 5: Operating and Financial Review and Prospects—Effect of Government Policies on the Mexican Tortilla and Corn Flour Industry."

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

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

Competition Regulations. The *Ley Federal de Competencia Económica* (the Federal Economic Competition Law or the "Mexican Competition Law"), was approved by the Mexican Congress and published in the *Diario Oficial de la Federación* on December 24, 1992 and became effective on June 22, 1993. The Mexican Competition Law and

the *Reglamento de la Ley Federal de Competencia Económica* (the "Regulations of the Mexican Competition Law"), effective as of March 5, 1998, regulate monopolies and monopolistic practices and require Mexican government approval of certain mergers and acquisitions. The Mexican Competition Law grants government the authority to establish price controls for products and services of national interest qualified as such by Presidential decree, and established the *Comisión Federal de Competencia* ("Federal Competition Commission") to enforce the law. Mergers and acquisitions and other transactions that may restrain trade or that may result in monopolistic or anti-competitive practices or combinations must be approved by the Federal Competition Commission. The Mexican Competition Law may potentially limit our business combinations, mergers and acquisitions and may subject us to greater scrutiny in the future in light of our market presence, although it has had little effect on our operations, and we do not believe that this legislation will have a material adverse effect on our existing or developing business operations.

U.S. Federal and State Regulations

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

Central America and Venezuela

Gruma Centro América and our Venezuelan Operations are subject to regulation in each country in which they operate. We believe that Gruma Centro América and our Venezuelan Operations are currently in compliance with all applicable legal requirements in all material respects.

ITEM 5. Operating And Financial Review And Prospects.

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

You should read the following discussion in conjunction with our financial statements. Our financial statements have been prepared in accordance with Mexican GAAP, which differ in some significant respects from U.S. GAAP. See Note 23 to our financial statements for a description of the principal differences between Mexican GAAP and U.S. GAAP applicable to our financial statements and a quantitative reconciliation to U.S. GAAP of our consolidated net income and stockholders' equity. For more information about our financial statements in general see "Presentation of Financial Information."

Overview of Accounting Presentation

Effects of Inflation

Mexican GAAP requires that financial statements recognize the effects of inflation in accordance with Bulletins B-10 and B-15 issued by the Mexican Institute of Public Accountants. The purpose of this methodology is to present all information in comparable monetary units and thereby mitigate the distortive effect of inflation in the financial statements. Unless otherwise stated herein, the financial statements and other financial data in this Annual Report have been restated in pesos of constant purchasing power as of December 31, 2000.

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

In August 1997, the Mexican Institute of Public Accountants issued Bulletin B-15, which prescribes a new methodology for restating and translating the financial statements of a Mexican company's non-Mexican subsidiaries into Mexican GAAP for purposes of recognizing the effects of inflation in such financial statements.

Bulletin B-15 requires, among other things, that local currency-based financial statements of a non-Mexican subsidiary of a Mexican company for a particular period be (1) restated by using the relevant inflation rate in the relevant foreign country and (2) then translated into pesos.

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

For comparison purposes, the following table sets forth, for each of the three years ended December 31, 2000:

- the international restatement factor used to restate the financial statements data for each of these periods to pesos of constant purchasing power as of December 31, 2000;
- the cumulative Mexican National Consumer Price Index for each period which, in the absence of Bulletin B-15, would have been used to restate the financial statements to pesos of constant purchasing power as of December 31, 2000; and
- the comparison factor for each period which represents the index that must be applied to the financial statements for each period (which have been restated using the international restatement factor) in order to restate the financial statements and financial data in December 31, 2000 pesos of constant purchasing power using the cumulative Mexican National Consumer Price Index.

Financial data in Mexican pesos as of December 31:	**Cumulative International Restatement Factor**	**Cumulative Mexican National Consumer Price Index**	**Comparison Factor**
1998	11.42	22.32	1.0978
1999	6.30	8.91	1.0246
2000	—	—	1.000

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

Effects of Devaluation

Because over 40% of our net sales are generated in U.S. dollars, changes in the peso/dollar exchange rate can have a significant effect upon our results of operations as reported in pesos. When the peso depreciates against the U.S. dollar, Gruma Corporation's net sales in U.S. dollars represent a larger portion of our net sales in peso terms than when the peso appreciates against the U.S. dollar. And when the peso appreciates against the dollar, Gruma Corporation's net sales in U.S. dollars represent a smaller portion of our net sales in peso terms than when the peso depreciates against the dollar. For a description of the peso/US dollar exchange rate see "Item 3: Key Information — Exchange Rates Information."

In addition to the above, our net income may be affected by changes in our foreign exchange gain or loss, which may be affected by significant variations in the peso/dollar exchange rate. We recorded a net foreign exchange loss of Ps.67 million during 1998. In 1999, we recorded a net foreign exchange gain of Ps.85 million. During 2000 our net foreign exchange loss was Ps.58 million.

Factors Affecting Financial Condition and Results of Operations

General

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

- demand for tortillas and the cost of tortillas to the consumer,
- effects of government polices on the Mexican tortilla and corn flour industry,
- costs of labor and energy,
- cost of corn and wheat, and
- our acquisitions and plant expansions.

Effect of Government Policies on the Mexican Tortilla and Corn Flour Industry

Because of the importance of tortillas as a principal staple in the Mexican diet, the Mexican government has regulated the domestic corn, corn flour and tortilla industry, in one form or another, for approximately thirty years. As discussed below, we had expected to benefit greatly from the significant liberalization of the tortilla and corn flour industry in 1999. Instead the Mexican government has pursued policies that have distorted the corn flour and tortilla markets and negatively affected our results.

Complementary Revenues for Corn Flour Used to Make Tortillas

Until December 31, 1998, the Mexican government, in recognition of the importance of tortillas as a principal staple in the Mexican diet, established below market tortilla prices and consequently regulated corn flour prices and paid complementary revenues to corn flour producers, subject to specified volume ceilings. The Mexican government established corn flour prices below market pricing levels, and at times, below the cost of production, allowing corn flour producers to sell corn flour to tortilla manufacturers at prices lower than actual production cost. Under this program, the Mexican government:

- paid corn flour producers, including GIMSA, complementary revenues equal to the difference between the market price for corn flour and the government's fixed price, based on an established formula; and
- set monthly ceilings for each corn flour producer on the volume of corn flour for which it would pay complementary revenues.

At times, the Mexican government's prices and/or ceilings were too low to reflect demand, so that GIMSA had to choose whether to sell its corn flour at a price below its actual production cost or not to sell corn flour at all. During the first six months of 1997, for example, the Mexican government did not raise the volume ceilings to accommodate seasonal demand, and GIMSA was unwilling to sell corn flour in excess of the volume for which it would be reimbursed at prices less than its production cost.

Complementary revenues accounted for the following percentages of our consolidated net sales and GIMSA's net sales for the years indicated:

Year	GRUMA	GIMSA
1996	26.9%	47.0%
1997	14.0	31.8
1998	4.8%	12.2%
1999	—	—
2000	—	—

Effective as of December 31, 1998, the Mexican government deregulated the corn flour and tortilla industry and, in particular, terminated the complementary revenue program and allowed the prices of corn flour and tortillas to be determined by competition and other market conditions. The termination of this program, combined with the other market-distortive effects described below, has negatively affected the transition to competitive corn and corn flour markets.

Commercialization Program

Since December 1996, Aserca, a Mexican government agency, has maintained a separate program designed to promote the purchase of corn in certain regions of Mexico. Under this program, called the commercialization program, the Mexican government provides payments to corn purchasers based partly on international corn prices. The net effect is that these purchasers receive corn below the domestic market price of corn. The reimbursements vary depending upon the size of the corn harvest in Mexico's various growing regions. With the exception of the winter harvest of 1999, the amount of corn available under this program has been small.

During the two years that both the complementary revenue and the commercialization program were in place, corn flour and corn dough producers could count on two distinct payments from the government. Since the end of the complementary revenues program, corn buyers are only reimbursed under the commercialization program.

Events Since January 1, 1999

With the deregulation of the corn flour and tortilla markets on January 1, 1999, we felt that GIMSA was well positioned to enjoy double-digit growth rates. As tortilla prices were no longer to be set by the government, we anticipated a price war among tortilla producers that would accelerate the switch to the more efficient dry corn flour method in an effort to reduce costs. In addition, tortilla producers were expected to look for ways to cut costs as corn flour and corn dough prices were expected to increase with the closing of CONASUPO. In anticipation of the this closing and a possible shortage of corn, we built large corn inventories in the end of 1998 and the beginning of 1999. With these large purchases, we had far in excess of our normal reverses for that time of year.

In connection with the deregulation, the Mexican government accelerated the sale of its remaining corn inventories, creating a surplus of corn in the Mexican market. In addition, in order to ensure adequate corn supply for tortilla manufacturing during the transition to a competitive market, the Mexican government issued import permits for over 473,000 tons of corn for traditional tortilla production mostly in the first half of 1999. Due to the resulting over-supply of corn, domestic corn prices were depressed in most of 1999. The large corn inventories that GIMSA had at the end of 1998 and the beginning of 1999 were purchased at prices that turned out to be higher than those prevailing in the market during most of 1999. During most of 1999, GIMSA was unable to increase its corn flour prices because many of its current and potential customers substituted raw corn for corn flour in making tortillas due to the low price of raw corn.

In 2000, the government's decision to increase corn imports and support for corn growers resulted in drastic decreases in corn prices, which fell approximately 21% in 2000. This in turn drove down corn flour prices. As a result of this reduction in the price of raw corn, tortilla producers continued to switch from corn flour to raw corn.

Despite the drop in corn prices, tortilla prices increased after January 1, 1999 and remained high through the end of 2000. This caused an estimated decrease in demand for tortillas and negatively affected our sales volume.

RESULTS OF OPERATIONS

The following table sets forth our consolidated income statement data on a Mexican GAAP basis for the years ended December 1998, 1999 and 2000, expressed as a percentage of net sales. Net sales for 1998 include complementary revenues through September. All financial information has been prepared under the Bulletin B-15 methodology. For a description of the method, see "Presentation of Financial Information" and "–Overview of Accounting Presentation."

	Year Ended December 31,		
	1998	1999	2000
Income Statement Data			
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.5	65.9	63.8
Gross profit	36.5	34.1	36.2
Selling, general and administrative expenses	29.0	31.8	31.8
Operating income	7.5	2.3	4.5
Net comprehensive financing (cost) income	(1.9)	(1.3)	(2.6)
Other income (expenses), net	1.8	1.0	(0.2)
Income taxes (current and deferred)	(0.4)	1.6	0.1
Employee's statutory profit sharing (current and deferred)	0.1	0.0	(0.0)
Other items	0.5	0.5	0.4
Minority interest	1.7	0.7	1.0
Net income (loss)	3.0%	(1.8)%	1.3%

The following table sets forth our net sales and operating income as represented by our principal subsidiaries for 1998, 1999 and 2000. Financial information with respect to GIMSA includes sales of Ps.35 million in corn flour to Prodisa. In the process of consolidation, all intra-company transactions are eliminated from the financial statements. Financial information included with respect to Gruma Corporation has been adjusted to eliminate substantial intra-company sales by Gruma Corporation's corn flour milling unit, Azteca Milling, to its tortilla and related products division, Mission Foods.

	Year Ended December 31,					
	1998		1999		2000	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
	(millions of pesos of constant purchasing power as of December 31, 2000)					
GIMSA	6,193.9	970.9	5,340.7	399.9	4,774.0	524.7
Gruma Corporation	6,876.2	447.3	7,524.4	488.8	7,841.3	408.3
Venezuelan Operations	0.0	0.0	1,349.0	25.0	2,797.9	272.7
Gruma Centro América	1,000.1	(22.5)	1,005.9	12.1	1,063.5	28.5
Molinera de México	967.4	15.4	1,083.4	7.4	1,367.7	(39.3)
Prodisa	152.5	(102.6)	242.5	(262.4)	369.0	(273.7)
Others Subsidiaries	156.7	(159.1)	62.7	(287.3)	(14.4)	(107.9)
Total	15,346.8	1,149.4	16,608.6	383.5	18,199.0	813.3

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Net Sales

Overview: Net sales reached Ps.18.199 billion, 10% higher than in 1999 on 13% volume growth. Volume growth outpaced revenue growth mainly because of lower corn and wheat prices, which drove down the price of corn flour and wheat flour. Most of the increase in net sales was driven because of the effect of a full year of operation of Monaca in 2000 as opposed to only five months of operations in 1999.

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

Subsidiary	Percentage of consolidated net Sales
Gruma Corporation	43%
GIMSA	26
Venezuelan Operations	15
Gruma Centro América	6
Molinera de México	8
Prodisa	2%

Gruma Corporation achieved net sales of Ps.7.841 billion in 2000, compared with Ps.7.524 billion in 1999, an increase of 4%. Gruma Corporation attained combined corn flour and tortilla sales volume of 836 thousand tons for 2000, a 6% increase over 1999. Sales volume growth results from the following:

- corn flour volume grew mainly due to higher retail sales and sales to third-party packaged tortilla and tortilla chip producers,
- tortilla growth was strong across both the retail and food-service channels, with most of the contribution coming from the larger retail sector, especially in wheat tortillas, and includes a 100% increase in our sales in Europe.

GIMSA's net sales decreased by 11% to Ps.4.774 billion in 2000 compared with Ps.5.341billion in 1999. Most of the decline in revenues resulted from lower corn flour prices (resulting from lower corn prices) and, to a lesser extent, from lower sales volume, which totaled 1,507 thousand tons in 2000 and were 3% lower than in 1999. During 2000, corn flour prices, although lower than in 1999, were not as competitive as to attract tortilla producers to use the corn flour method. In addition, with high availability of corn, lower corn costs and higher tortilla prices, tortilla manufacturers continued to enjoy wide margins and thus were not motivated to adopt the corn flour method.

Our Venezuelan operations sales volume increased by 107% and reached 458 thousand tons, representing Ps.2.798 billion in net sales reflecting a full year of operation of Monaca in 2000 versus Ps.1.349 billion of net sales in 1999 reflecting a full year of operation of Demaseca but only 5 months of operations of Monaca.

Molinera de México sales volume totaled 480 tons, 51% more than in 1999 due mostly to the acquisition of La Asunción in January 2000. Net sales were Ps.1.368 billion, 26% higher than the previous year's total of Ps.1.083 billion, resulting from sales volume increases. Net sales grew at a much lower rate than did sales volumes, due to lower wheat prices, which drove down wheat flour prices.

Gruma Centro América's net sales increased by 6% to Ps.1.063 billion in 2000 compared with Ps.1.006 billion in 1999. Most of the increase was derived from higher corn flour sales volume, which increased 11% to 107 thousand tons, due to the continued promotion of corn flour and more attractive corn flour prices as opposed to corn prices derived from Gruma Centro América's lower cost of corn as compared to corn prices in the local markets. Net sales grew at a lower rate than did sales volume due to lower corn flour prices combined with lower sales at other Gruma Centro América business segments.

Prodisa, our packaged tortilla and bread business, reported net sales of Ps.369 million, which represents a 52% increase from sales in 1999 resulting mostly from the fact that Prodisa's 1999 bread operations were in a start-up phase and 1999 figures did not reflect a full year's results. To a lesser extent, the increase in net sales derived from geographic expansion within the Northeast region of Mexico.

Cost of Sales

Overview: Our total cost of sales increased 6% to Ps 11.602 billion from Ps 10.940 billion in 1999, due mostly to a full year of operations of Monaca as opposed to 5 months in 1999. As a percentage of net sales,

however, cost of sales improved to 63.8% from 65.9% in 1999, primarily due to better performance of the Venezuelan operations and Gruma Corporation and, to a lesser extent, Prodisa and GIMSA.

Cost of Sales by Subsidiary: Gruma Corporation's cost of sales amounted to Ps 4.271 billion, 1% higher than in 1999, mostly due to higher sales volumes and higher utility costs, particularly for natural gas used to power the plants (especially tortilla plants located in California). However, as a percentage of net sales, Gruma Corporation improved its cost of sales to 54.5% from 56.4%. The increase in utility cost was offset by lower raw material costs (especially corn) and higher capacity utilization, due to higher sales volumes and the opening a new production line in our corn flour plant located in Plainview, Texas.

GIMSA's cost of sales amounted to Ps.3,400 million, 16% lower than in 1999, mainly reflecting lower corn costs and lower sales volume. Cost of sales as a percentage of net sales improved to 71.2% from 75.6% in 1999. This improvement is primarily due to better corn inventory management and to a lesser extent, lower fixed costs associated with the closing of the Chalco plant in October 1999 and the Zamora plant in July 2000 and the optimization of GIMSA's production processes.

Cost of sales of our Venezuelan operations was Ps.2,021 million, an increase of 86% compared to 1999 due mainly to a full year of operations of Monaca as opposed to 5 months in 1999. Gruma Venezuela lowered its cost of sales as a percentage of net sales, from 80.6% in 1999 to 72.2% in 2000, mainly because of better pricing and, more importantly, the implementation of a rigorous cost-reduction program oriented to increasing raw materials yields and labor efficiencies, as well as reducing overhead costs. In addition, the Venezuelan operations have, through better control and monitoring, supported by information technology systems, improved efficiencies in returns, grain procurement (purchasing, handling and warehousing) and management of finished products.

Molinera de México's cost of sales was Ps.1.137 billion, 27% higher than in 1999, mainly reflecting higher sales volume from a full year's operation of our wheat flour acquisitions in mid 1999 and January 2000. Cost of sales as a percentage of net sales increased to 83.1% from 82.9% compared to 1999 due mainly to higher cost of wheat in comparison to prevailing wheat market prices at the time of consumption.

Gruma Centro América's cost of sales as a percentage of net sales improved to 63.8% from 64.7% in 1999. This improvement resulted mostly from a better cost of corn to corn flour selling price ratios. Cost of sales was Ps.679 million, an increase of 4% compared to 1999, resulting mostly from higher sales volumes.

Prodisa's cost of sales was Ps.257 million, 26% higher than in 1999, mainly due to the fact that Prodisa's 1999 bread operations were in a start-up phase and 1999 figures did not reflect a full year's results since seven months of 1999 were capitalized versus a full year (twelve months) in 2000. Cost of sales as a percentage of net sales improved to 69.5% from 84.2% in 1999, primarily from important efficiencies in terms of waste, returns, higher net sales and higher capacity utilization in the bread operations as new regions within Northeast Mexico were covered.

Gross Profit

As a result of the above factors, our gross profit increased by 16% to Ps.6.597 billion in 2000 compared with Ps.5.668 billion in 1999, reflecting a higher gross profit margin of 36.2% from 34.1% in 1999.

Selling, General and Administrative Expenses

Overview: Our selling, general and administrative or SG&A expenses; in 2000 were 9% higher than in 1999. Principal reasons for the increase were that we held Monaca for a full year in 2000 as opposed to five months in 1999 and higher utility costs at Gruma Corporation.

SG&A by Subsidiary: SG&A expenses for Gruma Corporation were Ps.3.162 billion, a 13% increase over 1999. Higher operating expenses resulted principally from higher fuel costs for transportation, higher plant-to-plant shipments and increased spending on advertising and in-store promotions. Plant-to-plant shipment costs increased as Gruma Corporation shipped products from one plant to another to meet higher-than-expected local demand for recently introduced products. Expressed as a percentage of net sales, SG&A expenses increased to 40.3% from 37.1%.

SG&A expenses were Ps.849 million for GIMSA, 6% lower than in 1999. The improvement was a result of lower administrative expenses as our information technology system began to yield savings. Additionally, GIMSA implemented several initiatives oriented to consolidate and redesign functions and responsibilities, which

contributed to personnel reductions. As a percentage of net sales, SG&A expenses increased to 17.8% from 16.9% in 1999 as a result of lower net sales.

Expenses for the Venezuelan operations were Ps.504 million, 112% more than in 1999, due mostly to a full year of operations of Monaca as opposed to 5 months in 1999. As a percentage of net sales, SG&A expenses increased to 18.0% from 17.6% in 1999 primarily due to higher promotion and advertising expenses and an expanded organizational structure, specifically for the sales, administrative and marketing areas.

SG&A expenses for Molinera de México were Ps.271 million, 52% higher than in 1999. The increase mostly reflects the incorporation of La Asunción, which was completed in January 2000. As a percentage of net sales, Molinera de México's SG&A expenses increased to 19.8% from 16.5% in 1999 due largely to lower absorption of fixed expenses as average wheat flour prices declined.

SG&A expenses for Gruma Centro América were Ps.356 million and, as a percentage of net sales, decreased to 33.5% from 34.1% in 1999, as Gruma Centro América optimized customer visit frequency and selectively employed external brokers in certain regions.

SG&A expenses for Prodisa were Ps.386 million, 24% higher than in 1999, mainly due to the fact that Prodisa's 1999 bread operations were in a start-up phase and 1999 figures did not reflect a full year's results since seven months of 1999 were capitalized versus a full year in 2000. SG&A as a percentage of net sales improved to 104.6% from 128.5% in 1999. This improvement derived from both lower administrative and selling expenses as Prodisa implemented several initiatives to reduce its distribution and administrative operations. Selling expenses declined mostly by optimizing distribution routes (eliminating inefficient routes and combining them with other routes), marketing and promotion expenses and the number of customers per visit combined with tighter supervision systems. Administrative expenses declined in connection with layoffs, changes in organizational structure, lower office rental expenses and other initiatives.

Operating Income

Overview: Operating income was Ps.813 million, 112% higher than Ps.383 million in 1999 due mainly to the August 1999 acquisition of Monaca and its accompanying operating margin increase and, to a lesser extent, GIMSA's increase in operating margin in 2000. Conditions also improved for Other Subsidiaries, which include corporate services, technology operations and accounting eliminations. Consolidated operating margin increased to 4.5% compared to 2.3% in 1999.

Operating Income by Subsidiary: Gruma Corporation's operating income decreased by 16% to Ps.408 million in 2000 and its operating margin was 5.2% compared to 6.5% in 1999.

GIMSA's operating income increased by 31% to Ps.525 million in 2000 compared with Ps. 400 million in 1999 and its operating margin increased to 11.0% from 7.5%.

Operating income for the Venezuelan operations was Ps.273 million, an increase of Ps.248 million, achieving a 9.7% operating margin from a margin of just 1.9% the year before.

Gruma Centro América experienced an operating income of Ps.28 million in 2000, reflecting an operating margin of 2.7% versus 1.2% in 1999.

Molinera de México reported operating loss of Ps.39 million in 2000, compared to operating income of Ps.7 million in 1999.

Prodisa reported a Ps.274 million operating loss in 2000, versus a Ps.262 million loss in 1999.

Gruma's Other Subsidiaries achieved a 62% reduction in operating losses due to administrative efficiencies in the corporate services areas. Other Subsidiaries reported an operating loss of Ps.108 million.

Net Comprehensive Financing Cost

Net comprehensive financing cost increased 126% to Ps.479 million due mostly to foreign exchange losses and higher interest expense. The components of comprehensive financing cost, together with an explanation of the significant changes, is set forth in the following chart:

Items	1999	2000	% Change	Comments
	(in millions of pesos, except for percentages and comments)			
Interest Expense............	656	790	134	• Higher average debt levels • Slightly higher weighted-average interest rate • Write-off of deferred bank fees in connection with loan repayment
Interest Income	(151)	(147)	4	
Foreign Exchange Loss (Gain)............................	(85)	58	143	• Peso depreciation in 2000 versus peso appreciation in 1999
Monetary Position Loss (Gain)............................	(222)	(208)	(14)	• Higher net monetary liability position
Total..............................	212	479	267	

Other Expenses, Net

Other expenses, net, amounted to income of Ps.31 million net, Ps.201 million higher than a net expense of Ps.170 million in 1999, resulting primarily from the amortization of the negative goodwill derived from the Monaca acquisition and lower expenses associated with our information technology modernization program.

Taxes and Employees' Profit Sharing

Provisions for income taxes and employee profit sharing were Ps.21 million, Ps.248 million less than Ps.269 million in 1999. In 1999, deferred taxes were determined through a partial liability method of accounting. Deferred taxes were only provided for identifiable, nonrecurring temporary differences, (*i.e.*, those that are expected to reverse over a definite period of time, at the tax rate expected to be in effect when the temporary difference reverses).

Effective January 1, 2000, we adopted the provisions of revised Bulletin D-4, "Accounting Treatment of Income Tax, Asset Tax and Employees Profit Sharing." The new Bulletin D-4 changes the accounting treatment from the partial liability method to the full asset and liability method and thus requires the recognition of the deferred tax effects for the temporary differences between the accounting and tax basis of assets and liabilities. The effective tax rate for 2000 was lower than 1999 due to the increase in permanent differences and tax indexation of net operating loss carryforwards. Nevertheless, there can be no assurance that we will be able to maintain our current effective rate in the future.

Net Income

As a result of the above factors, in 2000, we reported net income of Ps.413 million, recording a net majority income of Ps.233 million compared with a net majority loss of Ps.300 million in 1999.

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Net Sales

Overview: Our consolidated net sales increased by 8% to Ps.16.609 billion in 1999 compared with Ps.15.347 billion in 1998. This increase was due primarily to higher net sales in Gruma Corporation, the acquisition of Monaca in August 1999 and the consolidation of Demaseca.

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

Subsidiary	**Percentage of Consolidated Net Sales**
GIMSA	32%
Gruma Corporation	45
Venezuelan Operations	8
Gruma Centro América	6
Molinera de México	7
Prodisa	1
Other Subsidiaries	1

GIMSA's net sales decreased by 14% to Ps.5,341 in 1999 compared with Ps.6,194 in 1998. This decrease in revenues was primarily due to lower sales and lower corn flour prices resulting from lower corn prices. GIMSA's sales volume in 1999 totaled 1,547 thousand tons, which was 13% lower than in 1998. The decrease in sales volume is primarily attributable to a combination of the following factors, which produced a significant corn surplus, weak corn prices and decreased demand for corn flour, adversely affecting GIMSA's 1999 operating results:

- In order to close its operations, CONASUPO sold its corn inventories, which resulted in an over-supply of corn in the market.
- In anticipation of CONASUPO's closing, large traditional millers built corn inventories especially during the first quarter of 1999.
- The Mexican government issued corn import permits to guarantee corn supply to traditional tortilla millers in order to ensure the supply of tortillas.
- GIMSA built large corn inventories at the end of 1998 and the first quarter of 1999 at prices that turned out to be higher than those prevailing in most of 1999.

These factors affected GIMSA's ability to price its products profitably as well as the demand for and sales volumes of its products.

Gruma Corporation achieved net sales of Ps.7,524 in 1999, compared with Ps.6.876 billion in 1998. In dollar terms, Gruma Corporation's net sales increased by 11% to U.S.$756 million compared with net sales of U.S.$682 million reported in 1998. Gruma Corporation attained combined corn flour and tortilla sales volume of 1.727 billion pounds for 1999, a 10% increase over 1998. Revenue growth out-paced volume growth due to real price increases across key product lines in the tortilla business. The retail sector, especially in the Central United States, was primarily responsible for the rise in tortilla sales. A significant portion of the increase is attributable to Gruma Corporation's acquisitions of several tortilla plants in Texas and North Carolina in early 1999. In addition, the Houston facility became fully operational in the beginning of September.

Gruma Centro América net sales increased by 1% to Ps.1.006 billion in 1999 compared with Ps.1.000 billion in 1998. Gruma Centro América's corn flour sales volume of 96,655 tons represented a 7% increase over 1998. The increase in revenues also resulted from higher sales of bread and tortillas.

Molinera de México sales volume totaled 317 thousand tons, 30% more than in 1998. Approximately one-half of the increase resulted from acquisitions of two wheat flour plants in Puebla and Hermosillo completed in July and December 1999, respectively. Net sales were Ps.1,083 million, 12% higher than Ps.967 million in the previous year, resulting from sales volume increases. Net sales grew at a much lower rate than did sales volumes, due to lower wheat flour and wheat bran prices. The wheat flour industry is in the process of consolidating, and, therefore, pricing remains very competitive.

Venezuelan Operations sales volume reached 221,296 tons, representing Ps.1,349 million in net sales and reflecting five months of operation of Monaca and a full year of operation of Demaseca.

Prodisa, our packaged tortilla and bread business, reported net sales of Ps.243 million, which represents a 59% increase from sales of Ps.153 million in 1998. This increase is due to the launching of the bread business in the Northeast region of Mexico.

Cost of Sales

Overview: Our cost of sales increased by 12% to Ps.10.940 billion in 1999 compared with Ps.9.744 billion in 1998. Cost of sales as a percentage of net sales increased to 65.9% in 1999 from 63.5% in 1998. This was due primarily to the acquisition of Monaca, whose proportion of cost of sales to sales is higher than that of our other operations, and to the increase in GIMSA's cost of sales to 75.6% from 70.9%. To a lesser extent, Prodisa also contributed to the increase of our cost of sales as a percentage of net sales.

Cost of Sales by Subsidiary: Cost of sales for our Venezuelan Operations was Ps.1.087 billion or 80.6% of net sales.

The increase in GIMSA was due primarily to higher cost corn inventories not fully reflected in the sales price of corn flour. To ensure availability of corn supply, GIMSA had built large corn inventories during the winter harvest from November 1998 to January 1999. As a result of the over-supply of corn, domestic corn prices were depressed during most of 1999, and GIMSA's corn flour prices couldn't fully reflect its corn costs. Additionally, lower sales volume resulted in lower absorption of fixed costs.

Prodisa's cost of sales increased 90% to Ps.204 million. In 1999, cost of sales as a percentage of net sales increased to 84.2% from 70.4% in 1998. This increase was primarily due to start-up costs in connection with the packaged bread plant, which experienced waste and returns of products.

Gross Profit

As a result of the above factors, our gross profit increased by 1% to Ps.5.668 billion in 1999 compared with Ps.5.603 billion in 1998, reflecting a lower gross profit margin of 34.1% from 36.5% in 1998.

Selling, General and Administrative Expenses

Overview: SG&A expenses, increased 19% to Ps.5.285 billion in 1999 compared with Ps.4.453 billion in 1998. This increase was primarily driven by increased expenses for Gruma Corporation, Prodisa, the Monaca acquisition and, to a lesser extent, Molinera de México. Expressed as a percentage of net sales, SG&A expenses increased to 31.8% from 29.0%.

SG&A by Subsidiary: Gruma Corporation reported higher selling expenses mainly related to the conversion of independent distributors' routes to company-owned routes.

Prodisa, our packaged tortilla and bread business, reported higher expenses associated with the launching of the bread business and additional promotional activities resulting from geographic expansion in the Northeast region of Mexico.

SG&A expenses at our Venezuelan Operations were Ps.237 million.

SG&A expenses for Molinera de México were higher due to sales team reinforcement, expenses associated with new warehouses and the information technology improvement program. Higher expenses in Molinera de México also resulted from acquisitions completed during 1999.

Operating Income

Overview: Operating income was Ps.384 million, 67% lower than Ps.1,149 million in 1998. The reduction was due primarily to lower operating profits in GIMSA and higher operating losses in other subsidiaries. Our operating margin was 2.3% in 1999, compared to 7.5% in 1998.

Operating Income by Subsidiary: GIMSA's operating income decreased by 59% to Ps.400 million in 1999 compared with Ps.971 million in 1998 and its operating margin declined to 7.5% from 15.7%.

Gruma Corporation's operating income increased by 9% to Ps.489 million in 1999 and its operating margin was 6.5% compared to 6.5% in 1998.

Operating income for the Venezuelan Operations was Ps.25 million, achieving a 1.9% operating margin.

Gruma Centro América experienced an operating income of Ps.12 million in 1999, reflecting an operating margin of 1.2%. Molinera de México reported operating income of Ps.7 million in 1999, 52% lower than in 1998, resulting in a 0.7% operating margin.

Prodisa reported a Ps.262 million operating loss, 155% higher than Ps.103 million in 1998.

Our other subsidiaries reported an operating loss of Ps.287 million.

Net Comprehensive Financing Cost

Our net comprehensive financing cost was Ps.212 million in 1999, compared with Ps.285 million in 1998. This decline was primarily due to a higher gain on our monetary position and foreign exchange gains reported in 1999. Interest expense was Ps.656 million compared to Ps.420 million in 1998, an increase of Ps.236 million, primarily due to higher debt levels. Interest income was Ps.151 million, a decrease of Ps.65 million compared to the Ps.216 million reported in 1998, due to lower cash balances. Net foreign exchange gain was Ps.85 million, an improvement of Ps.152 million over the net foreign exchange loss of Ps.67 million in 1998. Our net foreign exchange gain was due to the effects of appreciation of the peso against the dollar and our higher level of dollar denominated debt in 1999. We had a net monetary position gain of Ps.208 million in 1999, a Ps.222 million increase over the net monetary position loss of Ps.14 million in 1998, due to a higher net monetary liability position.

Other Expenses, Net

Other expenses, net, were Ps.170 million, Ps.100 million lower than expenses of Ps. 270 million in 1998, as a result of lower expenses related to the information technology improvement program and because 1998 expenses included a one-time expense associated with the relocation of Gruma Corporation's headquarters from Los Angeles to Dallas, Texas.

Taxes and Employees' Profit Sharing

Provision for income taxes and employee's profit sharing was Ps.269 million, Ps.326 million more than in 1998. In 1998, our provision for income taxes and employee's profit sharing was a benefit of Ps.57 million. Our deferred income taxes for 1998 reflected a benefit of Ps.270 million, which resulted primarily from the recognition of the deferred tax asset for the future tax benefits of the technological and other rights Gruma Corporation purchased from a Mexican subsidiary.

Net Income

As a result of the above factors, in 1999, we reported a net loss of Ps.189 million, recording a net majority loss of Ps.300 million compared with a net majority income of Ps.465 million in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resource requirements in recent years have reflected a high level of capital expenditures in connection with the construction and acquisition of additional facilities in Mexico, the United States, Central America and Venezuela, as well as significant working capital requirements.

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

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

Working Capital

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

December 31, 1999............	Ps.4,134 million
December 31, 2000............	Ps.3,096 million

Indebtedness

Our indebtedness bears interest at fixed and floating rates. At December 31, 2000, approximately 37% of our outstanding indebtedness bore interest at fixed rates and approximately 63% bore interest at floating rates, with almost all floating-rate indebtedness bearing interest based on LIBOR. We do not hedge either our interest rate or foreign exchange exposures. For more information about our interest rate and foreign exchange exposures, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

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

- a ratio of current assets to current liabilities of not less than 1.5:1;
- a ratio of total liabilities to equity of not more than 1.4:1; and
- a ratio of cash flow available for debt service to interest expense net of not less than 1.50:1.

In addition, we may not incur additional indebtedness and may not pay dividends if doing so would violate the terms of these covenants. We are currently in compliance with all of these covenants.

As of December 31, 2000, we had uncommitted short-term lines of credit totaling Ps.2.487 billion available from 13 banks, of which we had drawn Ps.690 million. As of that date, we also had committed U.S. dollar-denominated long-term lines of credit totaling Ps.1.632 billion (or approximately U.S.$170 million) from banks in the United States and Mexico, available to Gruma Corporation, of which we had drawn Ps.367 million and long-term uncommitted lines of credit of Ps.2.39 billion (equivalent to U.S.$249 million) from Mexican banks, available to Gruma S.A., of which we had drawn Ps.589 million.

At December 31, 2000, we had total outstanding long-term debt aggregating approximately Ps.5.837 million. All of our long-term debt at such dates was dollar-denominated. Our long-term debt includes U.S.$250 million, or Ps.2.400 million, of principal amount of the 7.625% Notes due 2007, which we issued in October 1997.

As of December 31, 2000, we had a total of Ps.1.278 million of short-term debt, including the current portion of long-term debt. We eliminated our short-term debt and, on February 15, 2001, announced that we had obtained a three-year term syndicated loan for U.S.$400 million at LIBOR plus a spread ranging from 1.25% to 2.875%, based on our debt-to-cash-flow ratio. One hundred percent of the proceeds were used to refinance our short- and medium-term debt – specifically, two existing syndicated loans and a number of bilateral loans. The new syndicated loan allows us to substantially improve our debt profile and extend our debt maturities. In addition, we expect to achieve interest expense reductions, as interest rates on the syndicated loan are more competitive than were prior loan rates.

As of December 31, 2000, we had total cash and cash equivalents of Ps.123 million, including Ps.6 million in restricted cash. Restricted cash is comprised primarily of undistributed proceeds from tax-exempt industrial development bonds issued by Gruma Corporation held by a trustee available for future purchases of certain plants and equipment.

Gruma Corporation is subject to financial covenants contained in some of its debt and lease agreements, including covenants which limit the amount of dividends that can be paid and the amounts that may be advanced to, loaned to, or invested in, us under certain circumstances. In addition, Gruma Corporation is required to maintain certain financial ratios and balances. Upon the occurrence of any default or event of default under these credit and lease agreements, Gruma Corporation generally is prohibited from making any dividend or other payments to us or our other subsidiaries or affiliates. These and other covenants could limit Gruma Corporation's ability to help support our liquidity and capital resource requirements. Gruma Corporation currently is in compliance with all of the covenants contained in its debt and lease agreements.

During 1996, Gruma Corporation entered into sale-leaseback agreements for various pieces of equipment located in its U.S. plants. These agreements are, under Mexican GAAP, accounted for as operating leases. Average rental payments under these leases through 2011 will be approximately U.S.$170 million, in the aggregate, based upon the financial statements for the year ended December 31, 2000. Gruma Corporation has a purchase option to acquire the equipment at fair market value at the expiration of the leases and an early purchase option, which permits Gruma Corporation to acquire the equipment at fair market value upon completion of approximately three-quarters of the lease term.

The following table presents our amortization requirements with respect to our total indebtedness as of June 29, 2001.

Year	In Millions of U.S. dollars
2001	16.2
2002	8.3
2003	125.6
2004	323.7
2005 and thereafter	278.2
Total	752.0

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

Date	Ratio of Consolidated Debt to Total Capitalization	Ratio of Consolidated Liabilities to Total Stockholders' Equity
December 31, 1999	0.38	0.78
December 31, 2000	0.38	0.88

We believe that cash from operations and other available sources of liquidity and capital resources will be sufficient to finance our planned capital expenditures and other funding requirements at least through the end of 2001.

Capital Expenditures

After years of significant growth, we are pursuing a more moderate growth strategy, which includes capital expenditures in property, plant and equipment primarily in connection with our expansion and maintenance of manufacturing facilities for corn flour, tortillas and wheat flour. We have budgeted approximately U.S.$50 million capital expenditures for 2001. This includes approximately U.S.$6 million spent in the first quarter of this year.

We expect to be able to fund our capital expenditures from funds from operations. We believe that funds from operations and our current bank lines of credit will be sufficient to meet our anticipated capital expenditures through the end of this year.

U.S. GAAP RECONCILIATION

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

Net income (loss) under U.S. GAAP amounted to Ps.136 million in 1998, Ps.(522) million in 1999 and Ps.65 million in 2000, compared with net income (loss) under Mexican GAAP of Ps.465 million in 1998, Ps.(300) million in 1999 and Ps.233 million in 2000.

Stockholders' equity under U.S. GAAP amounted to Ps.9.196 billion in 1999 and Ps.8.367 million in 2000, compared with stockholders' equity under Mexican GAAP of Ps.12.316 billion in 1999 and Ps.11,404 in 2000. See Note 23 to our audited consolidated financial statements for a further discussion of the adjustments under U.S. GAAP.

New Accounting Standards

New Accounting Pronouncements under Mexican GAAP. In February 2000, the Mexican Institute of Public Accountants issued Bulletin C-2, "Financial Instruments", which is effective as of January 1, 2001. Bulletin C-2 provides guidance for recognizing, measuring and disclosing information about financial assets and liabilities, including accounting for certain hedging transactions. Bulletin C-2 requires that all financial instruments be recorded in the balance sheet at their fair value and changes in the fair value be recorded in each period in the income statement. The management of the Company has evaluated the effect of the adoption of Bulletin C-2 on its financial statements and does not expect that the impact will be significant.

In August 2000, the Mexican Institute of Public Accountants issued Bulletin B-4, "Comprehensive Income." Bulletin B-4 defines comprehensive income as the net income for the period presented in the income statement plus other results for the period reflected in the stockholders' equity in accordance with the Mexican GAAP, and requires the disclosure of the components of comprehensive income in the presentation of financial statements. Bulletin B-4 is effective as of January 1, 2001, with earlier adoption allowed. The Company will adopt Bulletin B-4 in 2001.

Recently Issued U.S. Accounting Standards. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements" which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The financial statements have been presented on a basis that is consistent with the provisions of SAB 101 for all periods presented. The effect of adoption of SAB 101 was not significant.

In June 1998, the Federal Accounting Standards Board (the "FASB") issued SFAS N° 133, "Accounting for Derivative Instruments and Hedging Activities" which was subsequently amended by SFAS N° 137 and SFAS N° 138. SFAS N° 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Statement requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. The management of the Company has evaluated the effect of the adoption of this statement on its financial statements and does not expect that its impact will be significant.

In September 2000, the FASB issued SFAS N° 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", a replacement of SFAS N° 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management of the Company is evaluating the effect of the adoption of this statement on its financial statements.

ITEM 6. Directors, Senior Management and Employees.

MANAGEMENT STRUCTURE

As of 1999, the day to day management of our operations is handled by an Executive Committee comprised of the heads of each of our U.S. and Latin American operating regions and our Chief of Staff. We decided to adopt this structure, because we feel that it gives us the ability to respond effectively to local situations while taking advantage of our global resources.

Directors

Our bylaws require that our board of directors be composed of an uneven number of directors, which shall be more than three and fewer than twelve directors, as decided at our Ordinary General Shareholders' Meeting. Under our bylaws and the Archer-Daniels-Midland association, as long as Archer-Daniels-Midland owns at least 20% of our capital stock, it will have the right to designate two of our Directors. Archer-Daniels-Midland has designated Allen Andreas, its Chairman and Chief Executive Officer, and Craig Hamlin, its Vice President and Head of Milling Operations, as members of our board of directors. In addition, under Mexican law, any holder or group of holders representing 10% or more of our capital stock may elect one Director.

The board of directors, which was elected at the Ordinary General Shareholders' Meeting held on April 24, 2001, currently consists of 11 directors. The following table sets forth the current members of our board of directors, their ages, years of service, principal occupations, outside directorships, and other business activities and experience. The terms of their directorships are for one year or until their appointed successors take office.

Roberto González Barrera	Age:	70
	Years as Director:	20
	Principal occupation:	President and Chairman of the board of directors of GRUMA
	Outside directorships:	Shareholder and President of the board of directors of Grupo Financiero Banorte, S.A. de C.V., since 1992.
Allen Andreas	Age:	57
	Years as Director:	5
	Principal occupation:	Chairman and Chief Executive Officer of Archer-Daniels-Midland Company
	Outside directorships:	Member of the Supervisory Board of the A.C. Toepfer International Group, the Trilateral Commission, and the International Council on Agriculture, Food and Trade.
	Business Experience:	Chief Financial Officer of European Operations and Vice President and Counsel to the Executive Committee of ADM. Attorney for the United States Treasury Department, and member of the Bar of the Supreme Court of the State of Colorado.
Roberto González Moreno	Age:	48
	Years as Director:	15
	Principal occupation:	President and Chairman of the board of directors of Corporacion Noble, S.A. de C.V., and Noble Marketing International, Inc.
	Business Experience:	Several management positions within GRUMA, including Director of Operations and Director of GRUMA's Fast Food Division. President of RGM Inc., Exportaciones El Parian, S.A.
Craig Hamlin	Age:	55
	Years as Director:	5
	Principal occupation:	Vice President of Archer-Daniels-Midland Company
	Outside directorships:	Member of the board of directors of the United Grain Growers, ADM/Riceland Joint Venture and the American Institute of Baking.
	Business Experience:	Corporate Group Vice President of ADM and President of ADM Milling Company.
Carlos Hank Rhon	Age:	53
	Years as Director:	9
	Principal occupation:	Chairman of the Board of Hermes, S.A. de C.V., Laredo National Bank, and Interacciones Casa de Bolsa

	Outside directorships:	Member of the board of directors of Grupo Tribasa, S.A. de C.V., Grupo Financiero Banorte, S.A. de C.V., and Mercedes Benz Mexico, S.A. de C.V.
Roberto Hernández Ramírez	Age:	59
	Years as Director:	9
	Principal occupation:	President of Grupo Financiero Banamex Accival, S.A. de C.V. and Chairman of the Board of Acciones y Valores de México, S.A. de C.V. and Banco Nacional de México, S.A.
	Outside directorships:	Member of the board of directors of Grupo Televisa, S.A. de C.V., Ingenieros Civiles Asociados, S.A. (ICA), Grupo Modelo, S.A. de C.V., and Muenchener de Mexico, S.A. de C.V.
Juan Manuel Ley López	Age:	68
	Years as Director:	9
	Principal occupation:	Director and Chief Executive Officer of Casa Ley, S.A. de C.V.
	Outside directorships:	Chairman of the Sinaloa-Baja California Consultant Council and the National Association of Supermarket and Retail Stores, and member of the board of directors of Grupo Financiero Banamex Accival, S.A. de C.V.
Eduardo Livas Cantú	Age:	58
	Years as Director:	18
	Principal occupation:	Advisor to GRUMA
	Business Experience:	Member of the Board of Grupo Financiero Banorte, S.A. de C.V.
Bernardo Quintana Isaac	Age:	59
	Years as Director:	8
	Principal occupation:	President and Chairman of the Board of Ingenieros Civiles Asociados (ICA), S.A.
	Outside directorships:	Member of board of directors of Banco Nacional de Mexico, S.A.
	Business Experience:	Executive Vice President for the Industrial Sector and Vice President of the Tourist and Urban Development Division for Grupo ICA.
Alfonso Romo Garza	Age:	50
	Years as Director:	9
	Principal occupation:	President and Chairman of the Board of Pulsar International, S.A. de C.V., and SAVIA S.A. de C.V.
	Outside directorships:	Member of World Bank's External Advisory Board for Latin America and the Caribbean
	Business Experience:	Director of Strategic Planning and Corporate Development at Visa-Femsa. Founder of Pulsar International, S.A. de C.V.
Adrián Sada González	Age:	56
	Years as Director:	9
	Principal occupation:	President and Chairman of the Board of VITRO, S.A.
	Outside directorships:	Member of the board of directors of ALFA, Cydsa, and Regio Empresas, member of the Latin American Executive Board for the University of Pennsylvania's Wharton School of Finance.
	Business Experience:	President of the Administrative Board of Grupo Financiero Serfin, S.A. de C.V.

Mr. Roberto González Moreno is the son of Mr. Roberto González Barrera. Mr. Carlos Hank Rhon is the son-in-law of Mr. Roberto González Barrera.

Secretary and Alternate Directors

The secretary of the board of directors is Mr. Salvador Vargas Guajardo, and his alternate is Mr. Rogelio Sánchez García. Mr. Vargas Guajardo is not a member of the board of directors.

Our alternate directors are Mr. Jaime Costa Lavín, Mr. José María González Lorda, Mr. José Francisco Castelló Saenz, Mr. Juan Diez-Canedo Ruíz, Mr. Edgar Valverde Rubisewzky, Mr. Othón Ruiz Montemayor, Mr. Román Martínez Méndez, Javier Vélez Bautista and Mr. Juan Antonio Quiroga García.

Senior Management

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

Roberto González Barrera	Age:	70
	Years as Executive Officer:	51
	Current Position:	President and Chairman of the board of directors of GRUMA.
	Other Positions:	Chairman of the Board of GIMSA, S.A. de C.V., Shareholder and President of the board of directors of Grupo Financiero Banorte, S.A. de C.V.
Jaime Costa Lavín	Age:	47
	Years as Executive Officer:	Since July 2000
	Current Position:	President of GRUMA's Latin American Operations and Member of the GRUMA´s Executive Committee
	Other Positions:	Chief Executive Officer of GIMSA
	Previous Business Experience:	President of Coca Cola-Femsa, Industrias LALA and Allied Domecq.
José María González Lorda	Age:	47
	Years as Executive Officer:	Since May 2001
	Current Position:	Chief Financial Officer, Chief of Staff, and Member of GRUMA's Executive Committee
	Other Positions:	Chief Financial Officer of GIMSA
	Previous Business Experience:	Executive President of Unilever de Mexico, President of Black & Decker's Latin American Division, President of Mennen de Mexico.
Joaquín Rubio Lamas	Age:	41
	Years as Executive Officer:	4
	Current Position:	Chief Operating Officer of GIMSA
	Business Experience:	Several executive positions within the company, including Chief Executive Officer of Electra Foods Machinery. Chief Executive Officer of Azteca Milling Co.
Enrique Orjuela Rincón	Age:	51
	Years as Executive Officer:	2
	Current Position:	Chief Operating Officer of Monaca
	Previous Business Experience:	Several positions with Kellogg Company, including Vice President of the Andean Region, President of Kellogg Venezuela, President of Kellogg Colombia. Pepsi-Cola Panamericana, Warner-Lambert and Quaker Oats.

Rafael Angel Gárate Muñoz	Age:	44
	Years as Executive Officer:	2
	Current Position:	Chief Operating Officer of Molinera de México
	Previous Business Experience:	SECOFI, CONASUPO and Agroinsa
Roberto González Alcalá	Age:	37
	Years as Executive Officer:	2
	Current Position:	Chief Operating Officer of Central American Operations
	Previous Business Experience:	President of the Tortilla Division of GRUMA in Costa Rica. President of the Corn Flour Division in Central America.
Francisco Albisua Gorostizaga	Age:	49
	Years as Executive Officer:	2
	Current Position:	Chief Operating Officer of Prodisa
	Previous Business Experience:	President of Grupo Mezgo. Vice President of Pepsi-Cola (Singapore), Johnson & Johnson.
Salvador Vargas Guajardo	Age:	48
	Years as Executive Officer:	5
	Current Position:	General Counsel
	Other Positions:	General Counsel of GIMSA
	Previous Business Experience:	Senior partner, Rojas-González-Vargas-De la Garza y Asociados.
Juan Antonio Quiroga García	Age:	51
	Years as Executive Officer:	3
	Current Position:	Chief Administrative Officer
	Other Positions:	Chief Administrative Officer of GIMSA
	Previous Business Experience:	Vice President of Administration of Gruma Corporation.
Manuel J. Rubio Portilla	Age:	73
	Years as Executive Officer:	36
	Current Position:	Chief Technology Officer
	Previous Business Experience:	Frederick Snare, President of Nickel Processing Corporation, Manager of Special Processes Research at Dorr Oliver.
Leonel Garza Ramírez	Age:	51
	Years as Executive Officer:	2
	Current Position:	Chief Procurement Officer
	Previous Business Experience:	Manager of Quality and Corn Procurement. Vice President of Corn Procurement.

With the departure of our President of U.S. and Europe Operations in May 2001, there is a vacancy on the Executive Committee. We are attempting to fill this position as quickly as possible.

Mr. Roberto González Alcalá is the son of Mr. Roberto González Barrera.

Mr. Oscar Enrique Hurdaneta Finol is the Chief Operating Officer of Demaseca since he was appointed by our partners in Demaseca based upon a shareholder agreement with them.

Statutory Auditor

Under Mexican law, a statutory auditor (the "Statutory Auditor") must be elected by our shareholders at the annual ordinary general shareholders meeting for a term of one year. At the subsequent annual ordinary general

shareholders meeting, the Statutory Auditor is required to review our affairs and report as to the accuracy of the financial information as presented to shareholders by the board of directors. The Statutory Auditor is also authorized (i) to call ordinary general shareholders meetings or extraordinary general shareholders meetings; (ii) to place items on the agenda for general shareholders meetings and meetings of the board of directors; and (iii) to attend general shareholders meetings and meetings of the board of directors (without the right to vote). At the General Ordinary Shareholders' Meeting held on April 24, 2001, Mr. Hugo Lara Silva was elected to serve as our Statutory Auditor for one year. His alternate is Mr. Carlos Arreola Enríquez.

Compensation of Directors and Senior Management

Members of the board of directors are paid a fee of Ps.11,500.00 for each Board Meeting they attend.

For 2000, the aggregate amount of compensation paid to all directors, alternate directors, the statutory auditor and examiner and executive officers was approximately U.S.$10.31 million, and the total amount set aside to our directors and senior managers accrued by us to provide retirement plan benefits is Ps.23.6 million. The contingent or deferred compensation reserved as of December 31, 2000 was U.S.$14.5 million.

We offer an Executive Bonus Plan that is based on individual performance and on the results of our operations. This program applies to Vice Presidents and managers, and executive officers. This variable compensation can range from 15% to 32% of annual base compensation, depending upon the employee's level.

We offer eligible employees participation in our Executive Stock Purchase Plan (the "Executive Stock Purchase Plan") through a trust that acquires our stock for this purpose. We have established through an irrevocable grantor trust an Executive Stock Purchase Plan designating up to 5,422,519 common shares, representing approximately 1.24% of our capital stock, which are reserved for issuance pursuant to this plan. As of December 31, 2000, all of these shares have been subscribed to and paid for and we have granted 1,348,346 of the shares, representing 0.31% of our capital stock, under this plan. The number of shares allotted to each eligible employee is determined by the employee's position with us. These employees are eligible for the Executive Stock Purchase Plan after the first year of service with us.

Share Ownership

The following Directors and Senior Managers have GRUMA shares which in each case represent less than 1% of our capital stock: Mr. Roberto González Moreno, Mr. Adrián Sada González, Mr. Rogelio Sánchez García, Mr. Javier Vélez Bautista, Mr. Juan Diez-Canedo Ruíz, Mr. Roman Martinez Méndez and Mr. Juan Antonio Quiroga Garcia. In addition, Mr. Roberto González Barerra owns directly and indirectly shares representing approximately 47.2% of our capital stock and Mr. Carlos Hank Rhon owns shares representing approximately 2.8% of our capital stock.

EMPLOYEES

As of December 31, 2000, we had a total of approximately 17,208 employees, including unionized (9,658) and non-unionized (7,550), full and part-time employees. Of this total, we employed approximately 7,945 persons in Mexico, 5,030 in the United States, 2,245 in Central America and 1,831 in Venezuela and 157 in England. Total employees for 1999 and 1998 were 14,680 and 16,835, respectively. Of our total employees as of December 31, 2000, approximately 44% were white-collar and 56% were blue-collar.

In Mexico, workers at each of our plants are covered by a separate contract, under which salary revisions take place once each year, usually in January or February. Non-salary provisions of these contracts are revised bi-annually. In the United States, Gruma Corporation has entered into collective bargaining agreements with four unions that represent 642 workers at specific facilities. We renewed agreements with one union in 2000 and with two others in 2001. We believe our current labor relations are satisfactory.

ITEM 7. Major Shareholders And Related Party Transactions.

MAJOR SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our capital stock as of April 24, 2001 (which consists entirely of Series B Shares) with respect to Mr. González Barrera and Archer-Daniels-Midland and its affiliates, the only shareholders we know to own beneficially more than 5% of our capital stock, and all of our directors and executive officers as a group. See Item 9: "The Offer and Listing" for further discussion of our capital stock. With the exception of ADM's right to appoint 2 shareholders, the major shareholders do not have different or preferential voting rights with respect to those shares they own.

Name	Number of Series B Shares	Percentage of Outstanding Shares
Roberto González Barrera (1)	204,448,957	47.2%
Archer-Daniels-Midland (2)	130,901,630	30.2%
Directors and Officers as a Group	14,855,035	3.4%
Stock Purchase Plans	4,860,626	1.1%
Other shareholders	78,474,838	18.1%
Total	433,541,086	100.0%

[1] The shares beneficially owned by Mr. González Barrera include: 174,423,161 shares held directly by Mr. González Barrera; 30,025,796 shares held by him through a Mexican corporation jointly owned with Archer-Daniels-Midland and controlled by him.

[2] Of the shares beneficially owned by Archer-Daniels-Midland, a portion are held through its Mexican subsidiary, and 24,566,561 shares are held through a Mexican corporation jointly owned with Mr. González Barrera and controlled by Mr. González Barrera. Mr. González Barrera has sole authority to determine how these shares are voted, and the shares cannot be transferred without the consent of both Archer-Daniels-Midland and Mr. González Barrera.

Mr. González Barrera controls approximately 52.9% of our capital stock and therefore has the power to elect a majority of our 11 directors. In addition, under Mexican law, any holder or group of holders representing 10% or more of our capital stock may elect one Director. Under our Bylaws and the Archer-Daniels-Midland association, as long as Archer-Daniels-Midland owns at least 20% of our capital stock, it will have the right to designate two of our Directors.

Under the terms of our agreement, Archer-Daniels-Midland may not, without the consent of Mr. Roberto González Barrera, our President and Chairman of our board of directors, or our board of directors, acquire additional shares of us. On September 30, 1999, we completed a rights offering to shareholders in Mexico and ADS holders in the United States. With the authorization of Mr. González Barrera, Archer-Daniels-Midland directly and indirectly purchased a total of 51,408,337 new shares, increasing its beneficial ownership of our outstanding shares from approximately 22% to approximately 30% immediately after that purchase.

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

With the exception of the purchase of 51.4 million shares by Archer-Daniels Midland, there have been no significant changes in the percentage ownership held by any major shareholders (5% or more) during the past three years.

RELATED PARTY TRANSACTIONS

Transactions with Subsidiaries:

The transactions set forth below were made in the ordinary course of business since we operate as a central treasurer for our subsidiaries.

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

In March 2000, GIMSA started to make loans to us which reached the amount of Ps.863 million. As of June 15, 2001, we owed GIMSA Ps.325 million. The average interest rate during this year has been 18.3%.

Monaca has made loans to us which have reached the amount of U.S.$28.6 million. As of June 2001, we owed Monaca U.S.$6.3 million. The average interest rate for this year has been 7.8%.

Transactions with Archer-Daniels-Midland:

We entered into an association with Archer-Daniels-Midland in September 1996. As a result of this association, we received U.S.$258.0 million in cash, 80% ownership of our combined U.S. corn flour operations and 60% of Archer-Daniels-Midland's Mexican wheat milling operations. We also gained exclusivity rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets. In return, Archer-Daniels-Midland received 74,696,314 of our newly issued shares, which represented approximately 22% of our total outstanding shares, and 20% ownership of our combined U.S. corn flour operations, and retained 40% of the Mexican wheat milling operations. Archer-Daniels-Midland also obtained the right to designate two of the 11 members of our board of directors. Archer-Daniels-Midland has designated Allen Andreas, its Chairman and Chief Executive Officer, and Craig Hamlin, its Vice President and Head of Milling Operations, as members of our board of directors.

In December 1999, we sold 5% of the shares of Monaca to Archer-Daniels-Midland.

Other Transactions:

We have loans outstanding to the controlling shareholder and related parties which, as of December 31, 2000, aggregated Ps.137.9 million. These loans were made for personal purposes. Said amount was the largest amount outstanding under these loans. One loan is bearing interest at market rates and the other loans bear interest at annual rates of 7.5% and LIBOR plus 4%. As of this date, the aggregate amount outstanding is Ps. 31.7 million.

We own approximately an 11% interest in GFNorte, a Mexican financial institution. In the normal course of business, we obtain long-term financing from GFNorte's subsidiaries at market rates and terms. The highest outstanding loan amount in dollars has been U.S.45.8 million with an average interest rate of 7%. The highest outstanding amount in pesos has been Ps.705,491 with an average interest rate of 16%. As of June 2001, we do not owe any amounts to GFNorte or its subsidiaries.

During 2000, we purchased U.S.$75 million of inventory ingredients from Archer-Daniels-Midland Corporation, a shareholder.

ITEM 8. Financial Information.

See "Item 18: Financial Statements." For information on our dividend policy, see "Item 3: Key Information — Dividends." For information on legal proceedings related to us, see "Item 10: Additional Information — Legal Proceedings."

LEGAL PROCEEDINGS

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

StarLink Litigation

Background

StarLink is a genetically modified variety of yellow corn created by Aventis CropScience USA Holding, Inc. ("Aventis") and sold primarily through its licensee, Advanta USA Corp. f/k/a Garst Seed Company ("Garst"). StarLink was designed to be resistant to the European Corn Borer. Aventis first obtained the EPA's approval to sell StarLink on May 12, 1998. This registration limited the use of StarLink corn to animal feed and other non-industrial uses. This limitation arose out of the EPA's concern over the possibility that the Cry9C protein contained in StarLink might be a human allergen. The EPA required Aventis to undertake a management program designed to

prevent the entry of StarLink corn into the human food supply. On September 18, 2000, a public interest organization called Friends of the Earth announced that it had detected traces of the DNA of the Cry9C protein in Kraft Foods, Inc.'s "Taco Bell Home Originals" sold at supermarkets. Following this announcement, Azteca Milling immediately ceased the milling of yellow corn in its Plainview, Texas mill because StarLink corn is a yellow corn and Plainview, Texas was suspected to be the involved location in the flour used in Kraft's taco shells. Azteca Milling thereafter conducted tests on its inventory for StarLink's presence. Because these tests did not rule out the possibility of StarLink being present in its yellow corn flour, Azteca initiated a voluntary recall of its yellow corn flour and Mission Foods likewise initiated a voluntary recall of all of its yellow corn products. Thereafter, both Azteca Milling and Mission Foods discontinued selling any yellow corn products.

Shortly after the September 18, 2000 media announcement, Azteca Milling, Mission Foods and other unaffiliated companies were named in certain consumer lawsuits enumerated below. In general, these lawsuits allege the purchase and consumption of yellow corn products possibly containing StarLink corn. Further, the lawsuits generally seek unspecified damages arising out of the consumers' purchase and consumption of such products including, but not limited to, a return of the purchase price for such products to the consumers. Each of these cases was filed as a putative class action. Certain of the cases involve allegations of personal injuries arising out of the alleged consumption of yellow corn products possibly containing StarLink corn.

The Lawsuits

On October 5, 2000, Toni H. Cox, acting individually and as the class representative, filed a complaint against Azteca Milling, L.P., Mission Foods Co., and us, among other defendants, in the 115th Judicial District of Marion County, Texas. The Plaintiffs' Third Amended Petition was served on March 12, 2001. The causes of action cited include negligence, breach of warranty of merchantability, medical monitoring, and breach of implied warranty of fitness for a particular purpose. We filed a Motion to Transfer and Answer on March 16, 2001. No date has been set for the hearing on Plaintiffs' Motion for Class Certification, which was filed on January 25, 2001. Discovery is in progress relating to class certification. Plaintiffs are seeking unspecified compensatory and exemplary damages. We intend to vigorously defend the case.

On March 6, 2001, Judy Johnson, acting individually and as a class representative, filed a complaint against us, Azteca Milling, L.P. and several other defendants in the U.S. District Court for the Northern District of Illinois, Eastern Division. Azteca filed a Motion to Dismiss on April 9, 2001. As of June 25, 2001, the plaintiffs have not filed a Motion for Class Certification. The causes of action cited in the plaintiffs' complaint include negligence, breach of warranty of merchantability, and breach of implied warranty of fitness for a particular purpose. Plaintiffs are seeking unspecified compensatory and exemplary damages. On May 10, 2001, the plaintiffs filed a Notice of Related Action in the MDL action. Discovery is in progress relating to class certification. We intend to vigorously defend the case.

On September 25, 2000, Elizabeth Moore, together with other plaintiffs, filed their complaint against Azteca Milling, L.P. and several other defendants, in the Circuit Court, Jefferson County, Alabama. The Plaintiff's Second Amended Complaint was served on March 14, 2001. Azteca filed its answer to this complaint on March 27, 2001. On May 31, 2001, the Court granted Plaintiff Elizabeth Moore's Motion to Withdraw as Class Representative and to Dismiss her claims, but other plaintiffs have been added in her place. The hearing on Plaintiffs' Motion for Class Certification is set for October 5, 2001. Causes of action cited in plaintiffs' Second Amended Complaint include negligence, unjust enrichment, money had and received, fraudulent deceit, suppression of material facts, fraudulent concealment, Alabama extended manufacturer's liability doctrine, breach of implied warranty of merchantability and failure to warn. Plaintiffs are seeking unspecified compensatory and punitive damages. Discovery is in progress relating to class certification. We intend to vigorously defend the case.

On October 5, 2000, Merri Place and other defendants filed individual complaints and a class action complaint against Azteca Milling, L.P. among several other defendants in the Northern District of Illinois, Eastern Division. The plaintiffs' Fourth Amended Class Action Complaint was filed on December 13, 2000. Azteca filed its answer on December 15, 2000. No hearing date has been set for the Plaintiffs' Motion for Class Certification, which was filed on October 3, 2000. Causes of action cited in Plaintiffs' Fourth Amended Class Action Complaint include Illinois Consumer Fraud Act, Uniform Deceptive Trade Practices Act, fraud, negligence, breach of warranty and breach of contract. Plaintiffs are seeking declaratory relief, injunctive relief and unspecified compensatory damages. Plaintiffs' Motion to Dismiss Count II of the Fourth Amended Complaint (common law fraud) was granted on May 23, 2001. Discovery is in progress relating to class certification. We intend to vigorously defend the case.

On October 20, 2000, Estaban Reyes, Jr. acting individually and on behalf of others, filed a class action complaint against Azteca Milling, L.P. and Mission Food Company, among several other defendants in the U.S. District Court, Southern District of Texas, McAllen Division. Azteca Milling and Mission Foods filed their answer to the petition on October 24, 2000. As of June 25, 2001, the plaintiffs have not filed a Motion for Class Certification. Causes of action cited in the petition include negligence, breach of implied warranty, breach of express warranty and nonconformity of goods. Plaintiffs are seeking damages in the amount of the purchase price of the taco shells and other food products in question, declaratory relief and injunctive relief. We intend to vigorously defend the case.

On September 28, 2000, Roger Stelk, acting individually and on behalf of others, filed individual and class action complaints against Azteca Milling, L.P., among several other defendants in the Circuit Court of Cook County, Illinois County Department, Chancery Division. Azteca filed a moved to dismiss on December 15, 2000. A hearing on that motion was held on May 2, 2001, but as of June 25, the Court has not issued its ruling. No hearing date has been set for Plaintiff's Motion for Class Certification, which was filed on October 3, 2000. Discovery is still in progress relating to class certification. On January 10, 2001, this case was consolidated with the *Thompson* case (below) for discovery purposes only. Causes of action cited in this complaint include breach of warranty of merchantability, medical monitoring, breach of implied warranty of merchantability under the Magnuson-Moss Warranty Act, and breach of implied warranty of fitness for particular purpose. Plaintiffs are seeking unspecified compensatory damages and funding for medical monitoring. We intend to vigorously defend the case.

On December 7, 2000, Heather Thompson, acting individually and on behalf of others, filed individual and class action complaints against Azteca Milling, L.P., among several other defendants in the Circuit Court of Cook County, Illinois County Department, Chancery Division. Azteca filed a Motion to Dismiss on February 8, 2001. No hearing has been set for Plaintiffs' Motion for Class Certification, which was filed on December 7, 2000. On January 10, 2001, this case was consolidated with the *Stelk* case (above) for discovery purposes only. Causes of action cited in this complaint include consumer fraud, Uniform Deceptive Trade Practices Act, breach of implied warranty of merchantability, and breach of express warranty. Plaintiffs are seeking declaratory relief, injunctive relief, unspecified compensatory damages, and punitive damages. Discovery is in progress relating to class certification. We intend to vigorously defend the case.

On October 26, 2000, Guadalupe C. Vargas, acting individually and on behalf of others, filed a complaint against Azteca Milling, L.P. and Mission Foods Company, among several other defendants. In the U.S. District Court, Eastern District of Texas, Beaumont Division. The plaintiffs' First Amended Complaint was filed on February 6, 2001. GRUMA defendants filed their answer on February 15, 2001. Causes of action cited in the complaint include negligence, breach of implied warranty, breach of express warranty, nonconformity of goods delivered, and breach of contract. Plaintiffs are seeking declaratory relief, injunctive relief, and damages. Discovery is in progress relating to class certification. We intend to vigorously defend the case.

On February 15, 2001, we, along with defendants Aventis, Kraft, Azteca and Garst filed a Motion to Transfer Venue to U.S. District Court for the Northern District of Illinois before the Multidistrict Litigation Panel. Cases covered by this Motion include *Place*, *Reyes*, and *Vargas.* Oral arguments on the Motion were held on May 31st, and the Panel has ordered pretrial consolidation of *Place, Reyes* and *Vargas* in the United States District Court for the Northern District of Illinois.

Taco Bell Claim

Recently, Tricon Global Restaurants, Inc. and certain franchisees of the Taco Bell Group have threatened litigation against Azteca Milling along with Aventis and Garst based upon alleged lost sales at Taco Bell restaurants following the publicity concerning Kraft's "Taco Bell Home Originals" sold in supermarkets.

In these cases, substantial unquantified amounts are sought. It is possible that any ultimate liability could be material to our financial position, results of operations and cash flows. If the threatened claim is filed, Azteca Milling intends to vigorously defend the case.

ITEM 9. The Offer And Listing.

TRADING HISTORY

In April 1994, we consummated a recapitalization pursuant to which the Series B Shares replaced the Class I Series A and B Shares and the Class II Series A and B Shares previously outstanding and completed a public offering of Series B Shares in Mexico. The Series B Shares have been traded on the *Bolsa Mexicana de Valores*, Mexican Stock Exchange since then. In September 1996, we issued 20,000,000 Series B treasury shares of which 9,000,000 were offered for subscription to current shareholders. The remaining 11,000,000 were held in treasury for future subscription by current or future shareholders and/or offerings to third parties. A total of 3,000,000 of such shares were reserved for subscription in connection with our Officer Stock Purchase Plan. In November 1996, a total of 3,818,126 of such treasury shares were offered for subscription to current shareholders, and in April 1997, 6,840,537 shares were subscribed as share dividends to current shareholders. In November 1997, a total of 900,000 shares were subscribed in connection with the Officer Stock Purchase Plan. In April 1998 and April 1999, the remaining 5,809,656, and 2,631,681 of such treasury shares, respectively, were subscribed as share dividends to current shareholders.

In October 1996, we offered 3,600,000 ADSs, each representing four Series B Shares, pursuant to Rule 144A under the Securities Act. In October 1998, we commenced an exchange offer pursuant to which Citibank, N.A., as the Depositary, issued the ADSs in exchange for the Rule 144A ADSs. The ADSs commenced trading on the New York Stock Exchange in November 1998.

Pursuant to a share increase approved at an Extraordinary Shareholders' Meeting on August 19, 1999, we issued 89,770,216 new Series B Shares amounting to Ps.1.409 billion under a rights offering to our existing shareholders in the United States and Mexico. Pursuant to Mexican law, this sale of securities was only offered to our shareholders, including holders of our ADSs, in proportion to their existing ownership. The public offering of these securities was made in the United States on August 30 through September 20 1999 and a public offering in Mexico between August 25 and September 23, 1999.

On December 31, 2000, there were 438,776,086 outstanding Series B Shares, of which 77,235,272 Series B Shares were represented by 19,308,818 ADSs.

PRICE HISTORY

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

	Mexican Stock Exchange		NYSE	
	Common Stock		ADS[2]	
	High	Low	High	Low
	(Ps.$ per share[1])		(US$ per ADS)	
Annual Price History				
1996	48.66	19.65	—	—
1997	47.24	29.50	—	—
1998	31.37	15.80	10.14	9.22
1999	25.60	8.66	10.33	3.86
2000	14.20	6.80	6.25	2.88
Quarterly Price History				
1999				
1st Quarter	25.60	20.70	10.33	8.61
2nd Quarter	21.30	15.70	8.73	6.61
3rd Quarter	16.50	13.70	7.00	7.63
4th Quarter	13.82	8.66	6.00	3.88
2000				
1st Quarter	14.20	9.20	6.25	3.88
2nd Quarter	12.30	11.00	5.13	4.19
3rd Quarter	11.50	8.00	4.75	3.13
4th Quarter	8.08	6.80	3.50	2.88
2001				
1st Quarter	8.50	6.62	3.40	2.70
2nd Quarter[3]	7.90	6.62	3.40	2.85
Monthly Price History				
January 2001	8.50	6.90	3.40	2.81
February 2001	8.50	6.62	3.40	2.70
March 2001	6.95	6.64	3.00	2.80
April 2001	7.90	6.96	3.35	2.97
May 2001	7.90	6.20	3.40	3.00
June 2001[3]	7.20	6.20	3.27	2.85

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(1) Pesos per share reflect nominal price at trade date.
(2) Price per ADS in U.S.$; one ADS represents 4 shares of Series B common stock.
(3) Through June 19, 2001.

On June 19, 2001, the reported last sale price of the ADSs on the New York Stock Exchange was U.S.$2.85 per ADS.

TRADING ON THE MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange, the *Bolsa Mexicana de Valores, S.A. de C. V.*, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a corporation whose shares are held by brokerage firms, which are exclusively authorized to trade on the exchange. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, through ADSs) quoted on a stock exchange (including for these purposes the New York Stock Exchange) outside Mexico.

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

ITEM 10. Additional Information.

BYLAWS

Set forth below is a brief summary of certain significant provisions of our bylaws and Mexican law. This description does not purport to be complete and is qualified by reference to our bylaws, which have been filed as an exhibit to this registration statement.

Organization and Register

We are a s*ociedad anónima de capital variable* (a corporation) organized in Mexico under the *Ley General de Sociedades Mercantiles* (the "Mexican Companies Law"). We were incorporated on December 24, 1971 and have a corporate life of 99 years. Our corporate purpose, as fully described in Clause Second of our bylaws, is to act as a holding company. As such, our bylaws grant us the power to engage in various activities, which allow us to function as a holding company. These powers include, but are not limited to, the ability to (1) acquire, sell, import, export, and manufacture all types of goods and products, (2) issue securities and take all actions with respect to securities of any kind, (3) create, organize and manage all types of companies, (4) act as an agent or representative, (5) acquire, sell and maintain real property, (6) perform or receive professional, technical or consulting services, (7) establish branches, agencies or representative offices, (8) acquire, license or use intellectual property, (9) grant and receive loans, (10) subscribe, issue and negotiate all types of credit instruments, and (11) perform any acts necessary to accomplish the foregoing.

Directors

Our bylaws provide that the management of the corporation shall be vested in the board of directors. Each director is elected by a simple majority of the shares and there are no provisions for cumulative voting. Under Mexican law and our bylaws, any holder or group of holders owning 10% or more of our capital stock may elect one director. The board of directors shall be comprised of an odd number of members, more than three and less than twelve, as determined by the shareholders at the annual ordinary general shareholders' meeting. Currently, our board of directors consists of 11 members. Under the terms of our association with Archer-Daniels-Midland, Archer-Daniels-Midland will have the right to appoint two of our directors as long as it owns at least 20% of our capital stock. The directors serve for a one year term, or until their successors have taken office. Directors receive compensation as determined by the shareholders at the annual ordinary general shareholders' meeting. A majority of directors is needed to constitute a quorum and board resolutions must be passed by a majority of the votes present at any validly constituted meeting or by unanimous consent if no meeting is convened.

Under Mexican law, any member of the board of directors who has a conflict of interest with the corporation in any transaction must disclose such fact to the other directors and abstain from voting on that transaction. Any member of the board of directors who violates this provision may be liable for the resulting damages incurred by the company. Members of the board of directors may not represent shareholders at any shareholders' meeting.

Under Mexican law, shareholders can initiate actions for civil liabilities against directors through resolutions passed by a majority of the shareholders at a general ordinary shareholders' meeting. In the event the majority of the shareholders decide to bring such action, the director against whom such action is brought will immediately cease to be a member of the board of directors. Additionally, shareholders representing not less than 33% of our outstanding shares may directly bring such action against directors, provided that (i) such shareholders have not voted to abstain from the action at the relevant shareholders' meeting, and (ii) the claim in question covers damage alleged to have been caused to us and not merely to the individual shareholder bringing the action. Any

recovery of damages with respect to such action will be for the benefit of us and not for the shareholders bringing the action.

Under out bylaws, the board of directors is empowered to form a Committee to approve policies with regard to director compensation and related party transactions. This Committee is comprised of at least five members appointed annually by the board of directors, with the board of directors determining the number of disinterested members that must be members of this Committee. This Committee holds office for one year with the option of reelection, and their compensation is set by the board of directors. In approving related party transactions, the Committee is to consider the prevailing market prices and conditions of the relevant goods or services to ensure that the transactions are conducted at arm's length. The Committee meets upon request of any two of its members or by request of the statutory auditors.

According to our bylaws, the board of directors is empowered to execute and negotiate any of our credit instruments and agreements. The board of directors may delegate such power to any individual.

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

Voting Rights and Shareholders' Meetings

Each share entitles the holder thereof to one vote at any general meeting of our shareholders. Shareholders may vote by proxy. At the ordinary general shareholders' meeting, any shareholder or group of shareholders representing 10% or more of the outstanding common stock has the right to appoint one regular and one alternate director, with the remaining directors being elected by majority vote. Holders of series B shares do not have cumulative voting rights.

General shareholders' meetings may be ordinary meetings or extraordinary meetings. Extraordinary general shareholders' meetings are called to consider matters specified in Article 182 of the Mexican Companies Law, including, principally, changes in the authorized fixed share capital and other amendments to the bylaws, the issuance of preferred stock, liquidation, mergers and spin-offs, and transformation from one corporate form to another. All other matters may be considered at ordinary general shareholders' meetings. Ordinary general shareholders' meetings must be called to consider and approve matters specified in Article 181 of the Mexican Companies Law, including, principally, the appointment of the members of the board of directors and the statutory auditor, the compensation paid to the directors and statutory auditor, the distribution of our profits for the previous year, and the annual reports presented by the board of directors and the statutory auditor.

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

Our shareholders establish the number of members that will serve on our board of directors at the ordinary general shareholders' meeting. Under the bylaws, the board of directors shall be comprised of an odd number of members, more than three and less than twelve. At the ordinary general shareholders' meeting, any shareholder or group of shareholders representing 10% or more of the outstanding common stock has the right to appoint one regular and one alternate director, with the remaining directors being elected by majority vote.

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

the outstanding shares. Action at an extraordinary general shareholders' meeting may only be taken by a vote of holders representing at least 50% of the outstanding shares.

Shareholders' meetings may be called by the board of directors, the statutory auditor or a court. The board of directors or the statutory auditor may be required to call a shareholders' meeting if holders of at least 33% of our outstanding share capital request a meeting in writing, at the written request of any shareholder if no shareholders' meeting has been held for two consecutive years, or if, during a period of two consecutive years, the board of directors' annual report for the previous year and the company's financial statements were not presented to the shareholders, or if the shareholders did not elect directors and the statutory auditor.

Notice of shareholders' meetings must be published in the Official Gazette of the Federation or in a newspaper of general circulation in Mexico City at least 15 days prior to the meeting. Shareholders' meetings may be held without such publication provided that 100% of the outstanding shares are represented. Shareholders' meetings must be held in Mexico City.

Under Mexican law, holders of 33% of our outstanding capital stock may have any shareholder action set aside by filing a complaint with a Mexican court of competent jurisdiction within 15 days after the close of the meeting at which such action was taken, by showing that the challenged action violates Mexican law or our bylaws. Relief under these provisions is only available to holders who were entitled to vote on the challenged shareholder action and whose shares were not represented when the action was taken or, if represented, were voted against it.

Dividend Rights and Distribution

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

Liquidation

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

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

Changes in Capital Stock

Our outstanding capital stock consists of Class I and Class II series B shares. Class I shares are the fixed portion of our capital stock and have no par value. The fixed portion of our capital stock cannot be redeemed. Class II shares are the variable portion of our capital stock and have no par value. The variable portion cannot be greater than seven times the minimum fixed portion of our company's capital stock specified in the bylaws. The issuance of

variable capital shares, unlike the issuance of fixed capital shares, does not require an amendment of the bylaws, although it does require approval at an ordinary general shareholders' meeting. The fixed portion of our capital stock may only be increased or decreased by resolution of an extraordinary general shareholders' meeting and an amendment to our bylaws, whereas the variable portion of our capital stock may be increased or decreased by resolution of an ordinary general shareholders' meetings. Currently, our outstanding capital stock consists only of fixed capital.

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

Preemptive Rights

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

Shareholders will not have preemptive rights to subscribe for common stock issued in connection with mergers, upon the conversion of convertible debentures, in a public offering (if the majority of shareholders at a general extraordinary meeting approve the issuance of shares and waive their preemptive rights in accordance with the Mexican securities market law and our bylaws) or in a resale of common stock held in our treasury as a result of repurchases on the Mexican Stock Exchange.

Under Mexican law, preemptive rights may not be waived in advance by a shareholder, except under limited circumstances, and cannot be represented by an instrument that is negotiable separately from the corresponding share. Holders of ADRs may be restricted in their ability to participate in the exercise of preemptive rights.

Restrictions Affecting Non-Mexican Shareholders

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

The Foreign Investment Law sets aside certain economic activities exclusively for the Mexican state and certain other activities exclusively for Mexican individuals or Mexican corporations. The bylaws of these corporations prohibit ownership by non-Mexicans of the corporation's voting securities and limit the participation of non-Mexican investors to certain percentages with respect to enterprises engaged in specific activities. The Foreign Investment Law also requires prior authorization from the Foreign Investment Commission to allow foreign investors to own more than 49% of the capital of certain Mexican enterprises that are not specifically excluded from this requirement, if their total assets exceed an amount fixed by the Foreign Investment Commission. Our bylaws state that shares representing at least 51% of the capital stock can only be acquired by Mexican individuals or by corporations considered to be Mexican investors under applicable law, and the remaining 49% of shares shall be of free subscription.

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

Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government with respect to his rights as a shareholder, but is not deemed to have waived any other rights it may have with respect to its investment in us, including any rights under U.S. securities laws. If a shareholder should invoke governmental protection in violation of this provision, its shares could be forfeited to the Mexican government. Mexican law requires that such a provision be included in the bylaws of all Mexican companies unless such bylaws prohibit ownership of shares by non-Mexicans.

Registration and Transfer

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

Other Provisions

Redemption Rights

Outstanding variable capital shares, if any, may be fully or partially redeemed by the holders thereof. The minimum fixed portion of our capital stock cannot be redeemed. A holder of variable capital stock that wishes to effect a total or partial redemption of such stock is required to notify us in an authenticated written notice to that effect. If notice of redemption is received prior to the last quarter of the fiscal year, the redemption becomes effective at the end of the fiscal year in which the shareholder gives notice. Otherwise, the redemption becomes effective at the end of the following fiscal year.

Redemption of our variable capital stock is made at the lower of (i) 95% of the average share price quoted on the Mexican Stock Exchange during the 30 business days prior to the date on which the redemption is to become effective or (ii) the book value per variable capital share as calculated from our financial statements (as approved at an ordinary general shareholders' meeting) for the fiscal year at the end of which the redemption is to become effective. Any such amount to be paid by us would become due on the day following the ordinary general shareholders' meeting referred to in clause (ii) above. Because the fixed portion of our capital cannot be redeemed, we will honor requests for redemption only to the extent that variable capital is available and in the order in which we receive the requests.

Appraisal Rights

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

Share Repurchases

We may repurchase our common stock on the Mexican Stock Exchange at any time at the then prevailing market price. Repurchases must be approved by the board of directors. In the event of any such repurchase, our

capital stock is reduced automatically in an amount equal to the theoretical value of each common share repurchased (determined by dividing our outstanding capital stock by the number of shares outstanding immediately prior to such repurchase). If the purchase price of such shares exceeds the theoretical value, the difference is charged against amounts allocated from net earnings to a special reserve created for the repurchase of units or shares. At the ordinary general shareholders' meeting, shareholders determine the amount of our capital stock and the amount of the allocations to the special reserve fund.

Repurchased common stock will be held by us as treasury stock, pending future sales thereof on the Mexican Stock Exchange. Our capital stock is automatically increased upon the resale of such shares in an amount equal to their theoretical value; any excess amount is allocated to the special reserve referred to above. We may not exercise the economic and voting rights corresponding to such repurchased shares during the period in which they are kept in our treasury, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting during such period. The decrease or increase of the capital stock as a consequence of the repurchase and sale by the company of its shares does not require the approval of a shareholders' meeting or of the board of directors.

Under Mexican securities regulation, our directors, officers, examiners, the secretary of the board of directors and holders of 10% or more of our outstanding common stock may not sell common stock to us, or purchase repurchased common stock from us, unless we repurchase shares from them through a tender offer. Mexican securities regulations under the Mexican Securities Market Law require that if we decide to repurchase common stock representing three percent or more of our share capital in any 20 trading-day period, these repurchases must be conducted by means of a public tender offer.

Repurchase in the Event of Delisting

If the registration of our common shares in the Securities Section of the *Registro Nacional de Valores* (National Registry of Securities or "RNV") is canceled, whether at our request or by the CNBV, under ourbylaws and CNBV regulations, our controlling shareholders must make a public offer to purchase the shares owned by minority shareholders before the cancellation takes effect. Unless a different price is approved by the CNBV, the common shares must be purchased by the controlling shareholders at the higher of the average closing sale price for the common shares during the 30 days before the offer or the book value of the common shares, as reflected in the company's last quarterly report filed with the CNBV and the Mexican Stock Exchange before the date of the offer.

Under the bylaws, holders of the majority of the common shares are not obligated to make a public offer to purchase the common shares owned by minority holders if the holders of all our outstanding common shares approve the cancellation of the registration of the common shares with the RNV. This provision in the bylaws may not be amended without the consent of holders of at least 95 percent of the outstanding common shares and the prior approval of the CNBV. The majority shareholders shall not be required to carry out the public offering if the totality of the shareholders consent to the registry cancellation.

Shareholder Conflicts of Interest

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

Rights of Shareholders

The protections afforded to minority shareholders under Mexican law are different from those in the United States and many other jurisdictions. The substantive law concerning duties of directors and controlling shareholders has not been the subject of extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions help to shape the rights of minority shareholders. Mexican civil procedure does not contemplate class actions or shareholder derivative actions, which permit

shareholders in U.S. courts to bring actions on behalf of other shareholders or to enforce rights of the corporation itself. Shareholders cannot challenge corporate action taken at a shareholders' meeting unless they meet certain procedural requirements.

As a result of these factors, in practice it may be more difficult for our minority shareholders to enforce rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

In addition, under the U.S. securities laws, as a foreign private issuer we are exempt from certain rules that apply to domestic U.S. issuers with equity securities registered under the U.S. Securities Exchange Act of 1934, including the proxy solicitation rules, the rules requiring disclosure of share ownership by directors, officers and certain shareholders. We are also exempt from certain of the corporate governance requirements of the New York Stock Exchange, including the requirements concerning audit committees and independent directors.

MATERIAL CONTRACTS

Archer-Daniels-Midland Company

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

As a result of this association, we received U.S.$258.0 million in cash, 80% ownership of our combined U.S. corn flour operations and 60% of Archer-Daniels-Midland's Mexican wheat milling operations. We also gained exclusivity rights from Archer-Daniels-Midland in specified corn flour and wheat flour markets. In return, Archer-Daniels-Midland received 74,696,314 of our newly issued shares, which represented approximately 22% of our total outstanding shares, and 20% ownership of our combined U.S. corn flour operations, and retained 40% of the Mexican wheat milling operations. Archer-Daniels-Midland also obtained the right to designate two of the 11 members of our board of directors. Archer-Daniels-Midland has designated Allen Andreas, its Chairman and Chief Executive Officer, and Craig Hamlin, its Vice President and Head of Milling Operations, as members of our board of directors.

Under the terms of this association, Archer-Daniels-Midland may not, without the consent of Mr. Roberto González Barrera, our President and Chairman of our board of directors, or our board of directors, acquire additional shares of us. In 1999, Mr. González Barrera authorized Archer-Daniels-Midland to acquire additional shares of us issued as a result of an increase in capital stock and subsequent rights offering to our shareholders. In connection with the rights offering on August 19, 1999, Archer-Daniels-Midland directly and indirectly purchased a total of 51,408,337 new shares, increasing its beneficial ownership of our outstanding shares to approximately 30%. A total of 24,566,561 of these new shares are held by Archer-Daniels Midland through a Mexican corporation jointly owned with Mr. González Barrera and controlled by him. Furthermore, Archer-Daniels-Midland must give Mr. González Barrera a right of first refusal on any sale of our shares. Mr. González Barrera must give Archer-Daniels-Midland a similar right on any sale of his shares in us if at the time of the sale, he owns, or as a result of the sale will own, less than 30% of our outstanding shares. See "Item 7. Major Stockholders and Related Party Transactions – Related Party Transactions."

The documents which detail the terms of the association include the Shareholders Agreement by and among us, Roberto González Barrera, Archer Daniels-Midland Company and ADM Bioproducts, S.A. de C.V., the Asset Contribution Agreement among Gruma Corporation, Gruma Holding, Inc., ADM Milling Co., Valley Holding, Inc., GRUMA-ADM, and Azteca Milling, L.P., and the Investment Agreement by and between us and Archer-Daniels-Midland Company, all dated as of August 21, 1996. See "Item 19. Exhibits"

Damca International Corporation/Molinos Nacionales C.A. (Monaca)

We purchased all the issued and outstanding shares of capital stock of Damca International Corporation ("Damca"), a Delaware corporation. Damca was wholly owned by the international Multifoods Corporation ("Multifoods") comprising the Venezuela Foods Business of Multifoods.

Inversiones Monaca, C.A. ("Inversiones Monaca") was a Venezuelan holding company wholly owned by Damca, and owned all the issued and outstanding shares of the capital stock of Molinos Nacionales C.A. ("Monaca") which owns all the operating assets used by Multifoods in its Venezuela Foods Business.

We acquired from Multifoods all of the issued and outstanding shares of Damca, excluding all the issued and outstanding shares of capital stock of Robin Hood and the assets of the Agro-Industrial Business of Monaca formerly held by Agromonaca pursuant to a definitive Stock Purchase Agreement dated August 6, 1999 for an amount of U.S.$18,957,000 determined at closing on August 18, 1999 and the capitalization assumption of indebtedness of Monaca in the amount of U.S.$55,000,000.

Bank of America Corporation

On February 15, 2001, we obtained a U.S.$400,000,000 syndicated loan from a group of 20 local and foreign banks, led by Bank of America Corporation, including Radobank, Standard Bank of London, ABN Amro, Bank One, Societe General, Citibank, BBCA Bancomer and Banamex. The three-year loan will allow us to restructure short-term debt obligations. The loan will pay a spread ranging from 1.25 to 2.875 percentage points above Libor. No single bank in the syndicate will finance more than 10 percent of the total loan.

EXCHANGE CONTROLS

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

TAXATION

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

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

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

Mexican Tax Considerations

The following is a general summary of the principal consequences under the *Ley del Impuesto sobre la Renta* (the "Mexican Income Tax Law") and rules and regulations thereunder, as currently in effect, of an investment in Shares or ADSs by a holder that is not a resident of Mexico and that will not hold shares or ADSs or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment or fixed base in Mexico.

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

to have a permanent establishment or fixed base in Mexico for tax purposes, all income attributable to such permanent establishment or fixed base will be subject to Mexican taxes, in accordance with applicable tax laws.

Tax Treaties **:**

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

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

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

Payment of Dividends:

Under the Mexican Income Tax Law, dividends, either in cash or in kind, paid with respect to Shares represented by ADSs will be subject to 5% Mexican withholding tax based on the amount of the distributed dividend, multiplied by a factor of 1.5385, which produces a net tax effect of approximately 7.7%. The applicable factor is 1.515 for profits resulting from the previous net tax profit account (*cuenta de utilidad fiscal neta* or "CUFIN") at December 31, 1998. A Mexican corporation will not be subject to any tax if the amount maintained in its previous net reinvested tax profit account (*cuenta de utilidad fiscal neta reinvertida* or "CUFINRE", required for corporations that have elected to defer a portion of their income taxes) and CUFIN exceeds the dividend payment to be made. However, corporations that have elected to defer their income taxes are required to pay such deferred taxes by applying the rate of 5% to the amount of the dividend multiplied by a factor of 1.5385. Mexican corporations must first exhaust the balance in their CUFINRE before they can utilize CUFIN balances.

If our company pays a dividend in an amount greater than its CUFINRE and CUFIN balance (which may occur in a year when net profits exceed the balance in such accounts), then we are required to pay a 35% income tax on an amount equal to the product of the portion of the grossed-up amount which exceeds such balance times 1.5385.

Taxation of Dispositions:

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

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

Under the Mexican Income Tax Law, gains realized by a nonresident holder of shares on the sale or disposition of shares not conducted through a recognized stock exchange generally are subject to a Mexican tax at a rate of 20% of the gross sale price. However, if the holder is a resident of a country which is not considered to be a low tax rate country (by reference to a list of low rate countries published by the Mexican Ministry of Finance and Public Credit), the holder may elect to designate a resident of Mexico as its representative, in which case taxes would be payable at a 40% rate on the gain on such disposition of shares.

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

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

Other Mexican Taxes:

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

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

U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences to U.S. holders (as defined below) of the acquisition, ownership and disposition of shares or ADSs. The summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership or disposition of shares or ADSs. The summary applies only to U.S. holders that will hold their Shares or ADSs as capital assets and does not apply to special classes of U.S. holders such as dealers in securities or currencies, holders with a functional currency other than the U.S. dollar, holders of 10% or more of our voting shares (whether held directly or through ADSs or both), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders electing to account for their investment in their shares or ADSs on a mark-to-market basis, and persons holding their shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

For purposes of this discussion, a "U.S. holder" is a holder of shares or ADSs that is:

- a citizen or resident of the United States of America,
- a corporation organized under the laws of the United States of America or any state thereof, or
- otherwise subject to U.S. federal income taxation on a net income basis with respect to the shares or ADSs.

Each U.S. holder should consult such holder's own tax advisor concerning the overall tax consequences to it of the ownership or disposition of shares or ADSs that may arise under foreign, state and local laws.

Treatment of ADSs:

In general, a U.S. holder of ADSs will be treated as the owner of the shares represented by those ADSs for U.S. federal income tax purposes. Deposits or withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes. U.S. holders that withdraw any shares should consult their own tax advisors regarding the treatment of any foreign currency gain or loss on any pesos received in respect of such shares.

Taxation of Distributions:

In this discussion, the term "dividends" is used to mean distributions (including any amounts withheld in respect of Mexican withholding tax) paid out of our current or accumulated earnings and profits with respect to Shares or ADSs. In general, the gross amount of any dividends will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder in the case of shares or by the depositary in the case of ADSs. Dividends will be paid in pesos and will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day that they are

received by the U.S. holder in the case of shares or by the depositary in the case of ADSs. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received by a U.S. holder or depositary that are converted into U.S. dollars on a date subsequent to receipt. Dividends paid by us will not be eligible for the dividends-received deduction allowed to corporations under the Code.

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

Dividends paid on shares or ADSs generally will be treated for U.S. foreign tax credit purposes as foreign source passive income, or, in the case of certain U.S. holders, as foreign source financial services income. The Mexican withholding tax that is imposed on such dividends will be treated as a foreign income tax eligible, subject to generally applicable limitations and conditions under U.S. federal income tax law, for credit against a U.S. holder's U.S. federal income tax liability or, at the U.S. holder's election, for deduction from gross income in computing the U.S. holder's taxable income.

The calculation and availability of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisors regarding the availability of foreign tax credits.

Under certain U.S. Treasury Department guidance, foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. U.S. holders should consult their own advisors concerning the implications of these rules in light of their particular circumstances.

Taxation of Dispositions:

A U.S. holder will recognize gain or loss on the sale or other disposition of the shares or ADSs in an amount equal to the difference between the U.S. holder's basis in such shares or ADSs (in U.S. dollars) and the amount realized on the disposition (in U.S. dollars, determined at the spot rate on the date of disposition if the amount realized is denominated in a foreign currency). Gain or loss realized by a U.S. holder on such sale or other disposition generally will be long-term capital gain or loss if, at the time of disposition, the shares or ADSs have been held for more than one year. Long-term capital gain realized by a U.S. holder that is an individual generally is subject to a maximum federal income tax rate of 20%. Such gain or loss generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

Information Reporting and Backup Withholding:

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

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

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

U.S. Tax Consequences for Non-U.S. holders:

Distributions:

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

dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the holder of a U.S. trade or business.

Dispositions:

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

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

Information Reporting and Backup Withholding:

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

DOCUMENTS ON DISPLAY

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, we are required to file reports and other information with the SEC. These materials, including this Form 20-F and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20459. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, materials filed by us can be inspected and copied at the regional offices of the SEC located at Seven World Trade Center, 13th Floor, New York, New York, 10048, and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661.

ITEM 11. Quantitative And Qualitative Disclosures About Market Risk.

The following information includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ from those presented. All information below is presented on a Mexican GAAP basis in pesos of constant purchasing power as of December 31, 2000.

We are exposed to market risks arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. We use derivative instruments, on a selective basis, to manage these risks. We do not use derivative instruments for trading or speculative purposes. We maintain and control our treasury operations and overall financial risk through policies approved by senior management.

INTEREST RATE RISKS

We depend upon debt financing transactions, including debt securities, bank and vendor credit facilities and leases, to finance our operations. These transactions expose us to interest rate risk, with the primary interest-rate risk exposure resulting from changes in the relevant base rates (CETES, TIIE, LIBOR and/or prime rate) which are used to determine the interest rates that are applicable to borrowings under our credit facilities. We are also exposed to interest rate risk in connection with refinancings of maturing debt. We had approximately U.S.$272 million (Ps.2.611 billion) of fixed rate debt and approximately U.S. $469 million (Ps.4.504 billion) in floating rate debt at December 31, 2000. For a description of our debt, see Note 10 to our financial statements.

The following table sets forth, as of December 31, 2000, the interest rate and maturity profile of our debt portfolio.

	Maturity Dates							
	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
	(in millions of pesos of constant purchasing power as of December 31, 2000, except percentages)							
Liabilities								
Debt								
Fixed Rate (Ps.)	9	10	10	11	12	2,556	2,608	2,499
Average Rate	7.660%	7.659%	7.658%	7.627%	7.592%	7.592%	—	—
Floating Rate (Ps.)	1,280	100	2,282	725	14	106	4,507	4,507
Average Rate	8.414%	8.336%	8.357%	7.488%	7.569%	7.572%	—	—

In the case of our cash and short-term investments, declines in interest rates decrease the interest return on floating rate cash deposits and short-term investments. A hypothetical 100 basis point (1.0%) decrease in interest rates would not have a significant effect on our results of operations. We have not used any derivative financial instruments to hedge our interest rate exposures.

FOREIGN EXCHANGE RATE RISKS

Our net sales are denominated in U.S. dollars, Mexican pesos and other currencies. In addition, as of December 31, 2000, 33.1% of our total assets were denominated in U.S. dollars, while a significant portion of our operations is financed through U.S. dollar-denominated debt.

We believe that we have natural foreign exchange hedges incorporated in our balance sheet, in significant part because we have subsidiaries outside Mexico, and the peso-denominated value of our equity in these subsidiaries is also exposed to fluctuations in exchange rates. Changes in the peso value of equity in our subsidiaries caused by movements in foreign exchange rate are recognized as a component of equity. See Note 13 to our financial statements.

Fluctuations in exchange rates relative to the Mexican peso expose us to foreign-currency exchange rate risk. In the near term, the foreign-currency exchange rate exposure associated without debt repayment obligations is primarily limited to our short-term debt. We have not established any hedge to our foreign-currency exchange rate exposure.

Our primary foreign exchange rate risk relates to our substantial U.S. dollar-denominated debt, consisting of senior unsecured bonds, private placements, debentures and bank loans. The following table sets forth information concerning our U.S. dollar-denominated debt as of December 31, 2000. The table does not address our U.S. dollar sales and our U.S. dollar-denominated assets.

	Expected Maturity or Transaction Date							
	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
U.S. dollar-denominated debt	(in millions of pesos of constant purchasing power as of December 31, 2000)							
Senior unsecured bonds	—	—	—	—	—	2,400	2,400	2,291
Private placements	9	10	10	11	12	144	196	—
Debentures	—	—	—	—	—	13	13	—
Bank loans	1,280	99	2,282	726	14	105	4,506	—
Peso-denominated bank loans	—	—	—	—	—	—	—	—

COMMODITY PRICE RISKS

The availability and price of corn and other agricultural commodities are subject to wide fluctuations due to factors outside our control, such as weather, plantings, government (domestic and foreign) farm programs and

policies, changes in global demand created by population growth and global production of similar and competitive crops. More recent fluctuations have been caused by the process of the deregulation of the tortilla market in 1999 and the fact that the product is subject to political tensions due to the key role it plays in the diet of the Mexican people. To reduce commodity price risk caused by market fluctuations, we generally hedge a portion of our purchases of inventories and related purchase contracts through Gruma Corporation. In addition, we hedge portions of our production requirements from time to time. The principal instruments that we use in such hedging activities are readily marketable exchange traded futures contracts, which are designated as hedges. The changes in market value of these contracts have a high correlation to the price changes of the hedged commodity. To obtain a proper matching of revenue and expense, gains or losses arising from open and closed hedging transactions are included in inventories as a cost of commodities and reflected in the statement of earnings when the product is sold. As of December 31, 2000, we had no corn commodities future contracts outstanding.

EQUITY PRICE RISKS

We classify our equity investments, consisting primarily of shares of Grupo Financiero Banorte, S.A. de C.V., a Mexican financial services holding company, as long-term assets. We believe we are not exposed to the effect of market variations in the short term. For additional information concerning our investment in Grupo Financiero Banorte, see "Item 4. Information on the Company — Description of Business—Miscellaneous—Banorte Investment." Our exposure to a hypothetical 10% decrease in the equity investments would not have a material effect on our results of operations.

In September 2000, we entered into a one-year period equity swap agreement relating to the sale of 4,500,000 of our Series B shares to BBVA Bancomer, S.A., a Mexican bank, for a total amount of approximately U.S.$3.89 million, at a unit price of U.S.$0.863773. We will pay the bank an annual rate of 10.25% of this amount. At maturity, we will receive (or pay) the difference between the market value at such date and the unit price of the shares should the latter be less (or greater) than such market value. Should we terminate the contract prior to the maturity date, these same settlement conditions will apply. We recognized this transaction as an equity instrument, with the annual rate payable to the Bank treated like dividends. The difference between the market value of the shares and their unit price will be charged to income as the contract is settled. At each of December 31, 2000 and June 20, 2001, the market value of the shares was U.S.$ approximately 3.5 million and U.S.$3.6 million, respectively.

COUNTERPARTY RISKS

We maintain centralized treasury operations in Mexico for our Mexican operations and in the United States for our U.S. operations. Liquid assets are invested primarily in government bonds and short-term debt instruments with a minimum "A1/P1" rating for our U.S. operations and "A" for our Mexican operations. We face credit risk from the potential non-performance by the counterparties in respect of the financial instruments that we utilize. Substantially all of these financial instruments are unsecured. We do not anticipate non-performance by the counterparties, which are principally licensed commercial banks and investment banks with long-term credit ratings.

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

ITEM 12. Description Of Securities Other Than Equity Securities.

Not applicable.

PART II

ITEM 13. Defaults, Dividend Arrearages And Delinquencies.

None.

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

None.

ITEM 15. [Reserved].

ITEM 16. [Reserved].

PART III

ITEM 17. Financial Statements.

Not applicable.

ITEM 18. Financial Statements.

See pages F-1 through F-42, incorporated herein by reference.

ITEM 19. Exhibits.

<u>Exhibit No.</u>

1	Our bylaws (*estatutos sociales*) as amended through April 28, 1998, together with an English translation.*
2(a)(1)	Deposit Agreement, dated as of September 18, 1998, by and among us, Citibank, N.A. as Depositary and the Holders and Beneficial Owners of American Depositary Shares Evidenced by American Depositary Receipts Issued Thereunder (including form of American Depositary Receipt).[+]
2(b)(1)	Indenture, dated as of October 9, 1997, between us and The Chase Manhattan Bank, as Indenture Trustee representing up to U.S. $ 250,000,000 of our 7.625% notes due 2007.**
2(b)(2)	Registration Rights Agreement by and among us, Lehman Brothers Inc., Bear Stearns International Limited, and AFIN Securities International Ltd., dated October 9, 1997.**
2(b)(3)	US $400 million Term Loan Agreement among us, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, and Banc of America Securities, LLC, as Lead Arrandger and Sole Book Manager, dated as of February 13, 2001.
4(a)(1)	Shareholders Agreement by and among us, Roberto González Barrera, Archer Daniels-Midland Company and ADM Bioproducts, S.A. de C.V., dated August 21, 1996. **
4(a)(2)	Asset Contribution Agreement among Gruma Corporation, Gruma Holding, Inc., ADM Milling Co., Valley Holding, Inc., GRUMA-ADM, and Azteca Milling, L.P., dated as of August 21, 1996.**
4(a)(3)	Investment Agreement by and between us and Archer-Daniels-Midland Company, dated as of August 21, 1996. **
4(a)(4)	Stock Purchase Agreement, by and between International Multifoods Corporation and us, including Note Purchase Agreement attached as Exhibit A thereto, dated as of August 6, 1999.[++]
7	Statement of Computation of Ratio of Earnings to Fixed Changes (Mexican GAAP and U.S. GAAP).

8 List of Significant Subsidiaries.

* Previously filed in Registration Statement on Form F-4 (File No. 333-9280), originally filed with the Commission on September 17, 1998. Incorporated herein by reference.
** Previously filed in Registration Statement on Form F-4 (File No. 333-8266), originally filed with the Commission on January 28, 1998. Incorporated herein by reference.
[+] Previously filed in Registration Statement on Form F-6 (File No. 333-9282), originally filed with the Commission on August 13, 1998. Incorporated herein by reference.
[++] Previously filed by International Multifoods Corporation in Form 8-K (File No. 1-06699), originally filed with the Commission on August 18, 1999. Incorporated herein by reference.
[+++] Previously filed in Registration Statement on Form F-1 (File No. 333-10656), originally filed with the Commission on August 3, 1999. Incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant, Gruma, S.A. de C.V., certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRUMA, S.A. de C.V.

/s/ Juan Antonio Quiroga García
Name: Juan Antonio Quiroga García
Title: Chief Administrative Officer

Dated: July 2, 2001

CONSOLIDATED BALANCE SHEETS
As of December 31, 1999 and 2000
(Expressed in constant currency in thousands of Mexican pesos of December 31, 2000)
(Notes 1 and 3)

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

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

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 1999 AND 2000
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2000)
(Notes 1 and 3)

REPORT OF INDEPENDENT ACCOUNTANTS
To the Stockholders of Gruma, S.A. de C.V.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and changes in financial position present fairly, in all material respects, the financial position of Gruma, S.A. de C.V. and subsidiaries at December 31, 1999 and 2000, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles in Mexico. These consolidated financial statements are the responsibility of management of Gruma, S.A. de C.V.; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards in the United States of America and in Mexico, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.
As discussed in Note 3-O to the financial statements, in 2000 the Company adopted the provisions established by revised Bulletin D-4 "Accounting Treatment of Income Tax, Asset Tax and Employees' Statutory Profit Sharing", issued by the Mexican Institute of Public Accountants, whose effects are described in such Note.
Generally accepted accounting principles in Mexico vary in certain respects from accounting principles generally accepted in the United States of America. The application of accounting principles generally accepted in the United States of America would have affected the determination of the consolidated net income and comprehensive income for each of the three years in the period ended December 31, 2000, and the determination of the total consolidated stockholders' equity as of December 31, 1999 and 2000, to the extent summarized in Note 23 to the consolidated financial statements.

PricewaterhouseCoopers

Carlos Arreola Enríquez

Monterrey, N.L., Mexico
March 16, 2001
except with respect to Note 23
as to which the date is
June 26, 2001

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

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 1999 AND 2000
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2000)
(Notes 1 and 3)

	1999	2000
ASSETS		
Current:		
Cash and cash equivalents	Ps. 405,399	Ps. 116,330
Restricted cash (Note 12)	6,783	6,337
Notes and accounts receivable, net (Note 4)	2,446,618	2,666,639
Refundable taxes (Note 4)	319,375	183,511
Inventories (Note 5)	2,803,553	2,438,800
Prepaid expenses	191,462	154,860
Total current assets	6,173,190	5,566,477
Investments in common stock of associated companies (Note 6)	1,193,539	1,123,179
Property, plant and equipment, net (Note 7)	12,166,189	12,542,690
Intangibles assets, net (Note 8)	1,307,011	1,240,431
Excess of cost over book value of subsidiaries acquired, net	1,093,027	1,005,185
Other assets (Note 9)	354,301	346,143
Total assets	Ps. 22,287,257	Ps. 21,824,105
LIABILITIES		
Current:		
Bank loans (Note 10)	Ps. 215,124	Ps. 650,154
Current portion of long-term debt (Note 10)	108,912	628,001
Trade accounts payable	813,093	1,163,073
Accrued liabilities and other payables	1,215,213	1,294,839
Employees' statutory profit sharing payable	3,644	6,533
Total current liabilities	2,355,986	3,742,600
Long-term debt (Note 10)	7,093,230	5,836,973
Deferred income taxes (Note 16)	146,040	377,554
Deferred employees' statutory profit sharing (Note 16)	13,989	50,064
Other liabilities	58,187	48,135
Total long-term liabilities	7,311,446	6,312,726
Total liabilities	9,667,432	10,055,326
Excess of book value over cost of subsidiaries acquired, net	303,821	364,530
Commitments and contingencies (Note 12)		
STOCKHOLDERS' EQUITY		
Majority interest (Note 13):		
Common stock	4,226,613	4,266,883
Restatement of common stock	5,115,003	5,115,802
	9,341,616	9,382,685
Additional paid-in capital	2,912,729	2,820,624
	12,254,345	12,203,309
Deficit from restatement	(9,217,545)	(9,859,511)
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing (Note 3-O)	-	(167,983)
Retained earnings (Note 13-C):		
Prior years	6,474,990	6,369,297
Net (loss) income for the year	(300,076)	232,872
Foreign currency translation adjustments (Note 13-E)	377,616	194,001
Total majority interest	9,589,330	8,971,985
Minority interest	2,726,674	2,432,264
Total stockholders' equity	12,316,004	11,404,249
	Ps. 22,287,257	Ps. 21,824,105

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

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1998, 1999 and 2000
(Expressed in constant currency in thousands of Mexican pesos of December 31, 2000, except per share amounts)
(Notes 1 and 3)

	1998	1999	2000
Net sales (Note 14)	Ps. 15,346,787	Ps. 16,608,614	Ps. 18,199,045
Cost of sales	(9,744,255)	(10,940,182)	(11,602,428)
Gross profit	5,602,532	5,668,432	6,596,617
Selling, general and administrative expenses	(4,453,164)	(5,284,943)	(5,783,288)
Operating income	1,149,368	383,489	813,329
Comprehensive financing cost, net:			
Interest expense	(420,357)	(655,666)	(789,555)
Interest income	216,102	151,108	146,904
Monetary position (loss) gain, net	(14,028)	207,597	221,573
Foreign exchange (loss) gain, net (Note 17-A)	(66,660)	85,077	(57,662)
	(284,943)	(211,884)	(478,740)
Other (expenses) income, net (Note 15)	(270,106)	(170,335)	30,687
Income before income taxes, employees' statutory profit sharing, equity in earnings of associated companies and minority interest.	594,319	1,270	365,276
Income taxes (Note 16):			
Current	(203,029)	(281,983)	(148,380)
Deferred	269,973	15,426	126,859
	66,944	(266,557)	(21,521)
Employees' statutory profit sharing (Note 16):			
Current	(5,981)	(1,627)	(5,392)
Deferred	(3,694)	(560)	5,838
	(9,675)	(2,187)	446
Income (loss) before equity in earnings of associated companies and minority interest	651,588	(267,474)	344,201
Equity in earnings of associated companies, net	76,611	78,706	68,894
Income (loss) before minority interest	728,199	(188,768)	413,095
Minority interest	(263,262)	(111,308)	(180,223)
Majority net income (loss) for the year	Ps. 464,937	Ps. (300,076)	Ps. 232,872
Earnings (loss) per share	Ps. 1.29	Ps. (0.79)	Ps. 0.53
Weighted average shares outstanding (thousands)	359,910	377,456	435,515

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 1998, 1999 and 2000
(Expressed in constant currency in thousands of Mexican pesos of December 31, 2000, except per share amounts)
(Notes 1 and 3)

	Common stock (Note 13-A)					Retained earnings (Note 13-C)					
	Number of Shares outstanding (thousands)	Amount	Additional paid-in capital	Deficit from restatement	Cumulative effect of deferred income taxes and employee's statutory profit sharing (Note 3-O)	Prior Years	Net income (loss) for the year	Foreign currency translation adjustments (Note 13-E)	Total majority interest	Minority interest	Total stockholder s' equity
Balances at December 31, 1997	349,271	Ps. 7,845,812	Ps. 2,914,956	Ps. (8,224,260)	Ps. -	Ps.5,454,755	Ps. 494,601	Ps. 391,454	Ps. 8,877,317	Ps. 2,660,286	Ps. 11,537,603
Appropriation of prior year net income						494,601	(494,601)				
Stock and minority interest dividends	5,810	147,130				(147,130)				(67,741)	(67,741)
Net sales of common stock	(1,884)	(88,069)	(4,735)			(4,282)			(97,086)	(24,005)	(121,091)
Issuance of subsidiaries' stock										184,990	184,990
Recognition of inflation effects for the year				(567,708)		(156,119)			(723,827)	(354,509)	(1,078,336)
Foreign currency translation adjustments								61,196	61,196		61,196
Net income for the year							464,937		464,937	263,262	728,199
Balances at December 31, 1998	353,197	7,904,872	2,910,221	(8,791,968)	-	5,641,825	464,937	452,650	8,582,537	2,662,283	11,244,820
Appropriation of prior year net income						464,937	(464,937)				
Issuance of new common stock	89,770	1,573,933	(4,284)						1,569,649		1,569,649
Stock and minority interest dividends (Note 13-A)	5,883	117,899				(117,899)				(56,479)	(56,479)
Net purchases of company's common stock	(12,388)	(255,088)	6,792			46,644			(201,652)	14,373	(187,279)
Issuance of subsidiaries' stock										146,359	146,359
Decrease of minority interest										(368,506)	(368,506)
Recognition of inflation effects for the year				(425,577)		439,483			13,906	217,336	231,242
Foreign currency translation adjustments								(75,034)	(75,034)		(75,034)
Net loss for the year							(300,076)		(300,076)	111,308	(188,768)
Balances at December 31, 1999	436,462	9,341,616	2,912,729	(9,217,545)	-	6,474,990	(300,076)	377,616	9,589,330	2,726,674	12,316,004
Appropriation of prior year net loss						(300,076)	300,076				
Minority interest dividends										(22,505)	(22,505)
Net purchases of company's common stock	2,314	41,069	(92,105)			43,085			(7,951)	1,494	(6,457)

GRUMA, S.A. DE C.V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
(Expressed in thousands of Mexican pesos of constant purchasing power as of December 31, 2000, except number of shares)
(Notes 1 and 3)

Issuance of subsidiaries' stock................										202,357	202,357
Decrease of minority interest										(433,666)	(433,666)
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing.					(167,983)				(167,983)	(218,905)	(386,888)
Recognition of inflation effects for the year..				(641,966)		151,298			(490,668)	(3,408)	(494,076)
Foreign currency translation adjustments...								(183,615)	(183,615)		(183,615)
Net income for the year							232,872		232,872	180,223	413,095
Balances at December 31, 2000..........	438,776	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1998, 1999 and 2000
(Expressed in constant currency in thousands of Mexican pesos of December 31, 2000, except per share amounts)
(Notes 1 and 3)

	1998	1999	2000
Operating activities:			
Net income (loss)	Ps. 464,937	Ps. (300,076)	Ps. 232,872
Minority interest	263,262	111,308	180,223
Consolidated income (loss)	728,199	(188,768)	413,095
Adjustments to reconcile net income (loss) to resources provided by operating activities:			
Depreciation and amortization	728,552	977,551	653,194
Write-off of idle assets and other intangible assets	-	-	100,643
Equity in earnings of associated companies, less dividends received	(76,611)	(78,706)	(68,894)
Deferred income taxes and employees' statutory profit sharing	(266,279)	(14,866)	(132,697)
Seniority premium	9,368	447	357
	1,123,229	695,658	965,698
Changes in working capital:			
Restricted cash	87,509	(1,391)	446
Notes and accounts receivable, net	(556,939)	(357,506)	(34,495)
Inventories	(634,989)	(476,034)	190,399
Prepaid expenses	3,091	(48,630)	21,571
Trade accounts payable	100,934	228,658	347,505
Accrued liabilities and other payable	160,871	281,865	76,043
Income taxes and employees' statutory profit sharing payable	(52,424)	37,317	21,108
	(891,947)	(335,721)	622,577
Net resources provided by operating activities	231,282	359,937	1,588,275
Financing activities:			
Proceeds from bank loans and long-term debt	2,762,927	4,258,503	2,370,064
Repayment of bank loans and long-term debt	(1,971,317)	(2,884,344)	(2,632,468)
Proceeds from issuance of common stock	-	1,569,649	-
Proceeds from issuance of subsidiaries' stock	184,990	146,359	202,357
Decrease of minority interest…	-	(368,506)	(433,666)
Net purchases of Company's common stock…	(121,091)	(187,279)	(6,457)
Dividends paid	(67,741)	(56,479)	(22,505)
Other	35,412	225,333	(52,615)
Net resources provided by (used in) financing activities	823,180	2,703,236	(575,290)
Investing activities:			
Purchases of property, plant and equipment	(1,716,868)	(1,877,999)	(1,371,856)
Acquisition of new plants	(139,342)	(710,677)	(122,588)
Excess of book value over cost of subsidiaries acquired	-	355,496	366,302
Deferred assets	(499,754)	(937,728)	(98,757)
Investment in common stock	(362,253)	218,570	(56,012)
Other	(44,124)	(69,254)	(19,143)
Net resources used in investing activities	(2,762,341)	(3,021,592)	(1,302,054)
Net (decrease) increase in cash and cash equivalents	(1,707,879)	41,581	(289,069)
Cash and cash equivalents at beginning of year	2,071,697	363,818	405,399
Cash and cash equivalents at end of year	Ps. 363,818	Ps. 405,399	Ps. 116,330

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

GRUMA, S.A. DE C.V. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
(Expressed in thousands of Mexican pesos of constant purchasing power of December 31, 2000, except where otherwise indicated)

1. ENTITY AND NATURE OF BUSINESS

Gruma, S.A. de C.V., a Mexican corporation, is a holding company whose subsidiaries are located in Mexico, the United States of America, Central and South America and recently in Europe. These subsidiaries are primarily engaged in manufacturing and distributing corn flour, wheat flour, tortillas, bread and other related products. Gruma, S.A de C.V. and its subsidiaries are herein collectively referred to as "the Company."

2. NEW OPERATIONS

In August 1999, the Company acquired the majority ownership of Molinos Nacionales, C.A. (Monaca) for Ps.200,495 (U.S.$18,957,000). Monaca's principal activity is the processing and commercialization of grain for industrial products and human consumption products in Venezuela. As a result of this acquisition, a preliminary negative goodwill of Ps.374,423 was recognized in 1999, pending the completion of a final valuation. During January 2000, the valuation of the assets and liabilities acquired was completed, resulting in an increase in the negative goodwill of Ps.410,744. The total amount of negative goodwill is amortized using the straight-line method over a 30-month period.

During 1999, the Company acquired all of the shares, assets and liabilities of certain tortilla-producing entities in the United States for Ps.430,462 (U.S.$40,757,000). The excess of the purchase price over the fair value of net assets acquired was allocated to the excess of cost over book value of the subsidiaries acquired, patents and trade names and non-compete agreements for Ps.364,555, Ps.8,844 and Ps.3,931, respectively (U.S.$37,098,000, U.S.$900,000 and U.S.$400,000 respectively).

In June 1999, the Company acquired the assets and trade names of three wheat flour mills in Mexico for a total amount of Ps.87,582 (U.S.$8,120,000). In addition, in December 1999, the Company acquired trade receivables and inventories of a wheat flour mill for Ps.124,493 (U.S.$12,242,000). In January 2000, the Company acquired the remaining assets and trade names of this mill for Ps.372,226 (U.S.$37,514,000).

The results of these new operations have been consolidated since the respective acquisition dates.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Mexico ("Mexican GAAP") as promulgated by the Mexican Institute of Public Accountants. A reconciliation from Mexican GAAP to United States generally accepted accounting principles ("US GAAP") is included in Note 23.

A) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Gruma, S.A. de C.V. and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

The principal subsidiaries included in the consolidation are the following:

	% of ownership
Grupo Industrial Maseca, S.A. de C.V. and subsidiaries…………………………..	83.18
Gruma Corporation and subsidiaries…………………………………………….	100.00
Gruma Centro América, S.A. and subsidiaries...	100.00
Molinos Nacionales, C.A..	95.00
Derivados de Maíz Seleccionado, C.A..	50.00
Productos y Distribuidora Azteca, S.A. de C.V. and subsidiaries...........................	100.00
Investigación de Tecnología Avanzada, S.A. de C.V. and subsidiaries..................	100.00
Molinera de México, S.A. de C.V. and subsidiaries..	60.00
Asesoría de Empresas, S.A. de C.V..	100.00
Transporte Aéreo Técnico Ejecutivo, S.A. de C.V..	100.00
Inmobiliaria Residencial San Pedro, S.A. de C.V. and subsidiaries........................	100.00

B) USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements, and reported amounts of revenues, costs and expenses during the reporting years. Actual results may differ from these estimates.

C) FOREIGN CURRENCY TRANSLATION

Financial statements of foreign subsidiaries have been restated to recognize the effects of inflation and translated to Mexican pesos of constant purchasing power as of December 31, 2000, as follows:

- Financial statements are restated to year-end constant local currencies following the provisions of Bulletin B-10, applying the General Consumer Price Index ("GCPI") of the foreign country, which reflects the change in purchasing power of the local currency in which the foreign subsidiary reports its operations.

- Assets, liabilities, income and expenses are translated to Mexican pesos applying the exchange rate in effect at each period end. The stockholders' equity balances are translated by applying the exchange rates in effect at the dates in which the contributions were made and the income was generated. The effects of translation are recognized as a component of equity entitled "Foreign Currency Translation Adjustments" (Note 13).

D) RECOGNITION OF THE EFFECTS OF INFLATION

The consolidated financial statements have been restated to recognize the effects of inflation and are expressed in thousands of Mexican pesos of constant currencies of purchasing power as of December 31, 2000, determined as follows:

- For comparability purposes, the financial statements as of and for the year ended December 31, 1998 and 1999 have been restated by utilizing a weighted average restatement factor, which considers the relative total sales contribution by country for the year ended December 31, 1998 and 1999 and the corresponding inflation and exchange rate fluctuations during that year.
- The consolidated statements of income and of stockholders' equity for the year ended December 31, 2000 were restated applying GCPI factors from the country in which the subsidiary operates and applied to periods in which the transactions occurred and year-end.
- The consolidated statements of changes in financial position present, in Mexican pesos of constant purchasing power, the resources provided by or used in operating, financing and investing activities.

- The factors used to recognize the effects of inflation were the following:

Year	Mexican national consumer price index	Weighted average restatement factor
1998…………………………………………..	18.61%	21.52%
1999…………………………………………..	12.32 %	4.55 %
2000…………………………………………..	8.90 %	6.30 %

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

- Restatement of non-monetary assets

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

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

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

- Deficit from restatement

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

- Monetary position (loss) gain

  Monetary position (loss) gain represents the inflationary effect, measured by NCPI and GCPI factors, on the net balance of monetary assets and liabilities at the beginning of each month as expressed in local currency. The monetary gain recognized on the net monetary position of foreign subsidiaries is based on the inflation rate of the respective country, as measured by the relevant GCPI factor, prior to the translation to Mexican pesos.

E) FOREIGN CURRENCY TRANSACTIONS

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

F) CASH EQUIVALENTS

All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents and are stated at cost, which approximates market value.

G) INVENTORIES AND COST OF SALES

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

H) INVESTMENT IN COMMON STOCK

Investments in common stock with ownership between 10% and 50% of the investees' voting stock, or where the Company exercises significant influence, are accounted for by the equity method. The excess of cost over book value of an investment in common stock is restated by NCPI factors. The restated amount is amortized using the straight-line method over a period not to exceed 20 years.

I) PROPERTY, PLANT AND EQUIPMENT, NET

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

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

	Years
Buildings…………………………………	30 - 53
Machinery and equipment………………..	3 - 27

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

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

J) INTANGIBLE ASSETS, NET

Intangible assets are restated using NCPI factors. Amortization expense is computed on the restated values using the straight-line method, over a period of 5 to 20 years.

Expenses incurred during stages dedicated to the beginning of industrial and commercial operations are capitalized as pre-operating expenses. This capitalization stage concludes when the Company begins its commercial activities. Pre-operating expenses are restated using the NCPI factor and amortized using the straight-line method over a period not to exceed 12 years.

The excess of cost over book value and the excess of book value over cost of subsidiaries acquired are restated using the NCPI factors. Amortization expense is computed based on the restated values using the straight-line method, over a period not to exceed 5 and 20 years for the excess of book value over cost and for the excess of cost over book value, respectively.

Debt issuance costs are capitalized and amortized over the term of the related debt.

K) LONG-LIVED ASSETS

The Company evaluates the carrying value of long-lived assets to be held and used, including property, plant and equipment, goodwill, pre-operating expenses and any assets to be disposed of, when events or circumstances suggest that the carrying value may not be recoverable. Any impairment of these assets is included in income for the year, for the difference between the carrying value and the fair market value of long-lived assets to be held and used, and the difference between

the carrying value and fair market value less costs to sell for long-lived assets to be disposed of. As of December 31, 2000, the Company's management believes there is no impairment in the carrying value of long-lived assets.

L) SENIORITY PREMIUM PLANS AND INDEMNITIES

Seniority premium to which Mexican personnel are entitled after 15 years of service are charged to income as determined by annual actuarial valuations. Indemnities to which Mexican workers may be entitled in the case of dismissal or death, under certain circumstances established by Mexican Labor Law, are expensed when they become payable.

M) HEDGING TRANSACTIONS

The Company hedges a portion of its production requirements in the United States through commodity futures contracts, in order to reduce the risk created by price fluctuations of corn, wheat, soybeans and soybean oil. The open positions for hedges of purchases do not exceed the maximum production requirements for a one-year period. Unrealized gains or losses on open futures contracts are not recognized in the financial statements until the futures contracts are settled. Realized gains or losses are deferred as a component of inventory, not to exceed the lower of cost or market, and recognized as a cost of production as the inventory is utilized.

N) REVENUE RECOGNITION

Revenue on product sales is recognized upon shipment to, and acceptance by the Company's customers or when the risk of ownership has passed to the customers. Provisions for discounts and rebates to customers, returns and other adjustments are recognized in the same period the related sales are recorded and are based upon either historical estimates or actual terms.

O) INCOME TAXES AND EMPLOYEES' STATUTORY PROFIT SHARING

Effective January 1, 2000, the Company adopted the provisions established by the revised Bulletin D-4 "Accounting Treatment of Income Tax, Asset Tax and Statutory Employees' Profit Sharing", issued by the Mexican Institute of Public Accountants. Therefore, the Company changed its method of accounting for income tax from the partial liability method to the full liability method for all temporary differences arising between the carrying values for financial reporting and tax values of assets and liabilities. The cumulative effect as of January 1, 2000 of this accounting change required the recognition of a net liability for deferred income tax of Ps.386,888 which reduced the stockholders' equity for the same amount. As of and for the year ended December 31, 2000, the temporary differences arising after January 1, 2000 decreased the net liability for deferred income tax and increased the net income for the year by approximately Ps.132,697.

P) EARNINGS PER SHARE

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

4. NOTES AND ACCOUNTS RECEIVABLE, NET AND REFUNDABLE TAXES

Notes and accounts receivable, net are comprised of the following as of December 31:

	1999		2000	
Trade accounts receivable	Ps.	2,272,737	Ps.	2,281,968
Allowance for doubtful accounts		(110,154)		(141,385)
		2,162,583		2,140,583
Refundable expenses for product recall (Note 12)		-		208,646
Related parties (Note 20)		65,990		137,950
Employees		29,086		30,572
Notes receivable		24,583		23,657
Other debtors		164,376		125,231
	Ps.	2,446,618	Ps.	2,666,639

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

	1999	2000
Value-added tax	Ps. 101,322	Ps. 61,135
Income taxes	108,107	18,196
Production and services taxes	79,754	91,400
Other	30,192	12,780
	Ps. 319,375	Ps. 183,511

5. INVENTORIES

Inventories consist of the following as of December 31:

	1999	2000
Finished products	Ps. 238,539	Ps. 211,359
Production in process	51,064	53,119
Raw materials, mainly corn and wheat	2,189,110	1,923,692
Materials and spare parts	237,309	235,271
Inventory in transit	81,117	12,177
Advances to suppliers	6,414	3,182
	Ps. 2,803,553	Ps. 2,438,800

6. INVESTMENTS IN COMMON STOCK OF ASSOCIATED COMPANIES

Investments in common stock of associated companies primarily consist of the investment in common stock of Grupo Financiero Banorte, S.A. de C.V. and subsidiaries ("GFNorte"), which is a financial institution regulated by the policies and accounting practices of the Comisión Nacional Bancaria y de Valores (the "Mexican National Banking and Securities Commission" or "CNBV"), and Harinera de Monterrey, S.A. de C.V. which produces wheat flour and related products in Mexico.

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

	1999	2000	Ownership
GFNorte:			
Book value	Ps. 772,621	Ps. 851,011	11%
Excess of cost over book value, net	258,880	146,124	
	1,031,501	997,135	
Convertible debentures in common stock of GFNorte	45,178	-	
Harinera de Monterrey, S.A de C.V.	116,860	126,044	40%
	Ps. 1,193,539	Ps. 1,123,179	

During 2000, the Company evaluated the recovery of the carrying value of the excess of cost over book value related to the investment in GFNorte. Based on an analysis of the operating results and other recent economic events related to the financial environment in Mexico, the Company determined that the carrying value of the excess of cost over book value will be recovered over a period of 2.5 years instead of 6 years as originally was estimated. The impact of the change increased the amortization expense by Ps.56,825 for the year 2000.

The convertible debentures of GFNorte were convertible to shares at 2002 maturing date or before. On December 7, 2000, the debentures were converted to GFNorte outstanding Series "O" shares.

At December 31, 1999 and 2000, the excess of cost over book value is presented net of accumulated amortization of Ps.530,003 and Ps.595,369, respectively.

7. PROPERTY, PLANT AND EQUIPMENT, NET

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

	1999	2000
Land	Ps. 900,012	Ps. 901,706
Buildings	3,743,981	3,967,954
Machinery and equipment	12,377,997	13,378,506
Construction in progress	877,025	579,909
Software for internal use	569,679	560,135
Leasehold improvements	243,125	224,479
Advances to suppliers	61,419	-
Other	31,452	57,648
	18,804,690	19,670,337
Accumulated depreciation and amortization	(6,638,501)	(7,127,647)
	Ps. 12,166,189	Ps. 12,542,690

For the years ended December 31, 1998, 1999 and 2000, comprehensive financing costs of Ps.57,065, Ps.6,544 and Ps.5,779, respectively, were capitalized to property, plant and equipment; depreciation expense for those years amounted to Ps.603,774, Ps.700,884 and Ps.829,986, respectively.

As of December 31, 2000, property, plant and equipment includes assets temporarily idled with a carrying value of approximately Ps.752,398, resulting from the temporary shut down of the operation of various plants in Mexico, Central America and Venezuela. The Company's management has the intention to use these assets in the short-term. Additionally, for the year then ended, the Company recognized a write-off of machinery for Ps.43,575.

8. INTANGIBLES ASSETS, NET

Intangibles, net are comprised of the following as of December 31:

	1999	2000
Covenants not to compete	Ps. 683,321	Ps. 697,410
Pre-operating expenses	440,657	420,573
Debt issuance costs	158,322	124,176
Patents and trade names	125,384	175,639
Research of new projects	84,591	93,526
Other	57,528	59,597
	1,549,803	1,570,921
Accumulated amortization	(242,792)	(330,490)
	Ps. 1,307,011	Ps. 1,240,431

Expenditures for research and development are expensed as incurred and amounted to Ps.27,653, Ps.39,995 and Ps.37,044 for the years ended December 31, 1998, 1999 and 2000, respectively. The amortization of pre-operating expenses charged to income for the years ended December 31, 1998, 1999 and 2000 amounted to Ps.14,033, Ps.26,054 and Ps.32,983, respectively.

During 2000, the Company wrote-off certain capitalized pre-operating expenses for Ps.22,279 against other expenses, net. The Company determined that these deferred costs will not be recovered from the future profits of the related businesses.

9. OTHER ASSETS

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

	1999		2000	
Trust funds for research and development of technology	Ps.	193,791	Ps.	190,866
Long-term refundable asset tax (Note 16-A)		-		88,602
Long-term notes receivable		44,704		32,184
Related parties (Note 20)		81,917		-
Guarantee deposits..		15,683		13,810
Club memberships...		18,206		20,681
	Ps.	354,301	Ps.	346,143

10. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

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

	1999		2000	
Senior unsecured notes denominated in U.S. dollars, maturing in October 2007 and bearing interest at annual rate of 7.625% payable semiannual……..………………….	Ps.	2,524,625	Ps.	2,400,000
Loan in U.S. dollars maturing in 2002 and bearing interest at an annual rate of LIBOR plus 3.25% payable monthly or quarterly……………………………………………………		2,019,700		1,920,000
Loan in U.S. dollars, supported by revolving credit agreements due in 2003, bearing interest at an annual rate of LIBOR plus 1.35% to 1.75% payable monthly ……...….		-		645,120
Loan in U.S. dollars, supported by revolving credit agreements due in 2001, bearing annual interest at variable rates (6.94% and 7.56% at December 31, 1999 and 2000, respectively) payable monthly and quarterly...….…………		1,211,820		576,000
Short-term bank loans in U.S. dollars, bearing interest at variable rates payable monthly…………….….…………...		95,936		529,440
Loan in U.S. dollars, supported by revolving credit agreements due in 2003, bearing interest at the annual prime rate (9.5% at December 31, 2000) or annual rate of LIBOR plus 0.21% to 0.60% (6.64% at December 31, 2000) payable quarterly…………………………………….		686,698		345,600
Loans in U.S. dollars, bearing interest at annual rates from 4.90% to 7.96% payable quarterly, and due in annual payments from 2000 through 2009. Some of these loans are collateralized by fixed assets and inventories from subsidiaries totaling approximately Ps.208,166…………….		340,865		312,586
Long-term notes in U.S. dollars, bearing annual interest at a rate of 7.5% payable quarterly and maturing in annual payments from 2000 through 2004………………………..		191,438		172,888
Short-term bank loan in U.S. dollars bearing interest at an annual rate of LIBOR plus 4.5% to 5.5% for 1999 and 2000, respectively (payable monthly and quarterly)……….		97,899		120,718
Loans in U.S. dollars bearing interest at annual rates from 8.38% to 8.44% (payable quarterly) and maturing in 2001 through 2007…….……………………………...……		178,380		81,090

	1999	2000
Loan in Venezuelan bolivares payable in 2001 and bearing interest at variable annual rates (11.79% at December 31, 2000), payable monthly………………………………….…	9,528	4,985
Loans in U.S. dollars, due in 2006, bearing interest at variable rates (payable semiannually)………………………	7,585	6,701
Loans in U.S. dollar due in June 2002, bearing annual interest at the LIBOR rate plus 4.5%………………………..	31,558	-
Loan in Honduran lempiras, bearing interest at annual variable rates ranging from 21% to 25%……………………	21,234	-
	7,417,266	7,115,128
Short-term bank loans………………………………………	(215,124)	(650,154)
Current portion of long-term debt………………………….	(108,912)	(628,001)
Long-term debt.......................................……………………...	Ps. 7,093,230	Ps. 5,836,973

The Company has long-term credit line agreements, ranging from two to three years, for a maximum amount of U.S.$539 million (Ps.5,174,400), bearing interest at variable rates, of which U.S.$379 million (Ps.3,642,240) were available as of December 31, 2000. These agreements include a line of credit for U.S.$120 million (Ps.1,152,000) which requires the payment of an annual commitment fee of 0.5% over the unused amounts.

Various credit agreements contain covenants requiring the Company to maintain certain financial ratios. The Company's ability to pay dividends is restricted upon the failure to maintain such financial ratios. At December 31, 2000, the Company was in compliance with these covenants.

At December 31, 2000, the annual maturities of long-term debt outstanding are as follows:

Year	Amount
2002..	Ps. 2,029,473
2003..	378,935
2004..	736,517
2005..	26,494
2006 and thereafter..	2,665,554
	Ps. 5,836,973

11. SENIORITY PREMIUM AND SAVINGS PLAN

Seniority premium cost and other employee retirement benefits are determined by independent actuaries and are principally based on the employees' years of service, age, and salaries. The Company has established trust funds to meet these obligations.

The components of net seniority premium cost for the years ended December 31, consist of the following:

	1998	1999	2000
Service cost..	Ps. 1,011	Ps. 2,626	Ps. 2,386
Interest cost..	506	577	592
Expected return on plan assets	(686)	(749)	(1,583)
Net amortization of gain.......................................	(119)	(1,567)	1,174
Net cost...	Ps. 712	Ps. 887	Ps. 2,569

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

	1999		2000	
Actuarial present value of benefit obligations:				
Vested benefit obligation	Ps.	(4,980)	Ps.	(6,433)
Non-vested benefit obligation		(6,054)		(6,442)
Accumulated benefit obligation		(11,034)		(12,875)
Excess of projected benefit obligation over accumulated benefit obligation		(4,508)		(4,104)
Projected benefit obligation		(15,542)		(16,979)
Plan assets at fair value (trust funds)		15,125		14,109
Deficit of plan assets over projected benefit obligation		(417)		(2,870)
Unrecognized amounts to be amortized over 17 years:				
Cumulative net gain		(2,256)		(77)
Net transition asset		508		747
Prior service cost		(373)		(16)
Adjustment required to recognize minimum liability		-		(1,609)
Seniority premium liability	Ps.	(2,538)	Ps.	(3,825)

For the years ended December 31, 1999 and 2000, the changes in projected benefit obligation and plan assets (trust funds) are summarized as follows:

	1999		2000	
Projected benefit obligation at beginning of year	Ps.	12,462	Ps.	15,542
Effect of inflation on beginning balance		1,017		902
Service cost		2,626		2,386
Interest cost		577		592
Benefits paid		(446)		(3,293)
Actuarial loss		(694)		850
Projected benefit obligation at end of year	Ps.	15,542	Ps.	16,979

	1999		2000	
Fair value of plan assets at beginning of year	Ps.	13,812	Ps.	15,125
Effect of inflation on beginning balance		1,010		694
Return on plan assets		749		1,583
Benefits paid		(446)		(3,293)
Fair value of plan assets at end of year	Ps.	15,125	Ps.	14,109

Significant assumptions (weighted average rates, net of expected inflation) used in determining seniority premium cost were as follows:

	Year ended December 31,		
	1998	1999	2000
Discount rate	4.0%	4.0%	4.0%
Rate of increase in future compensation levels	2.0%	2.0%	2.0%
Expected long-term rate of return on plan assets	5.0%	5.0%	5.0%

In the United States, the Company has a saving and investment plan that incorporates voluntary employee 401(K) contributions with Company contributions. For the years ended December 31, 1998, 1999 and 2000, total expenses related to this plan were U.S.$2,000 (Ps.20,086), U.S.$1,918 (Ps.18,413) and U.S.$2,098 (Ps.20,141), respectively.

In Venezuela, the Company recognizes a liability for seniority premium and indemnities for dismissal established by the local labor law, which amounted Ps.14,254 and Ps.13,642 and as of December 31, 1999 and 2000, respectively.

In Central America the labor legislation of Costa Rica, Nicaragua, El Salvador, Honduras and Guatemala establishes that the accumulated payments to which workers may be entitled, based on the years of services, can be paid in the case of death, retirement or dismissal. The Company records a liability at 8.33% of salaries which amounted to Ps.13,043 and Ps.5,733 and as of December 31, 1999 and 2000, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Mexican tax authorities have disallowed certain deductions for income tax purposes, the effect of which on prior years' income tax amounted to Ps.6,937 plus the related surcharges and penalties. The Company is also involved in a number of claims arising in the ordinary course of business in the United States, which have not been finally adjudicated. The resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

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

Rental expense was approximately Ps. 374,202, Ps.377,703 and Ps.412,376 for the years ended December 31, 1998, 1999 and 2000, respectively.

As of December 31, 2000, the Company is leasing certain equipments under long-term operating lease agreements expiring through 2011. Future minimum lease payments under such leases amount to approximately U.S. $143,638 (Ps.1,378,924), as follows:

	U.S. dollars (thousands)					
Year	Facilities		Equipment		Total	
2001	U.S.$	7,663	U.S.$	28,369	U.S.$	36,032
2002		6,356		21,887		28,243
2003		4,920		16,650		21,570
2004		3,388		14,400		17,788
2005		2,213		14,949		17,162
2006 and thereafter		3,719		19,124		22,843
	U.S.$	28,259	U.S.$	115,379	U.S.$	143,638
	Ps.	271,286	Ps.	1,107,638	Ps.	1,378,924

At December 31, 2000, the Company has various outstanding commitments in the United States to purchase commodities and raw materials of approximately U.S.$62 million (Ps.595,306), which will be delivered during 2001.

As of December 31, 2000, the Company has outstanding commitments to purchase machinery and equipment amounting to U.S.$660,000 (Ps.6,336).

As of December 31, 1999 and 2000, restricted cash of Ps.6,783 and Ps.6,337, respectively, includes undisbursed proceeds from the issuance of tax-exempt industrial development revenue bonds in the United States amounting to Ps.1,632 (U.S.$170,000) which are available to pay interest expense on outstanding balances on these bonds. In 1999, it also included Ps.$1,773 ($53,897,000 of Costa Rican colons) that represent a fixed deposit as a fulfillment guarantee for the purchase of white corn in Central America.

The Company hedges a portion of its production requirements in the United States through commodity futures contracts, in order to minimize the risk created by price fluctuations of corn, wheat, soybeans and soybean oil. For the years ended December 31, 1998, 1999 and 2000, total amortization of deferred losses to cost sales was Ps.31,986, Ps.49,462 and Ps.21,869, respectively. As of December 31, 1999 and 2000, the deferred losses included as a component of inventory were Ps.23,004 and Ps.23,789, respectively. At December 31, 2000 the Company had no open futures and options contracts.

In September 2000, the Company learned that some products made with yellow corn flour manufactured by the Company were found to contain traces of Starlink DNA, indicating that the products may have contained Starlink. Starlink is a genetically modified organism approved by U.S. government agencies for animal feed, but not for human consumption. Shortly thereafter, the Company voluntarily recalled all of their yellow corn products and ceased manufacturing products made with yellow corn. During the voluntary product recall, the Company incurred significant costs primarily related to raw material and finished goods inventories on hand that will not be sold for human consumption, return of yellow corn products sold to customers for credit or replacement with white corn products, unusable packaging material, laboratory testing fees and other legal and consulting fees. The Company also has outstanding commitments to purchase yellow corn amounting to U.S.$13,154 (Ps.126,278) at December 31, 2000. The Company is in negotiations to either exit those contracts or to substitute white corn for the yellow corn variety contracted and may incur further costs associated with these contracts. Based upon discussions with the company that developed Starlink and analyses of the Company's insurance coverage, management believes the amounts included in accounts receivable of Ps.208,646 (U.S.$21,734) will be recovered.

As a result of possible Starlink contamination, a number of lawsuits against the Company and other defendants have been filed in which the plaintiffs allege some damage from buying yellow corn products that are suspected to have contained Starlink. These plaintiffs are seeking to have their claims certified as class actions. These claims have only recently been filed and no discovery has taken place; however, it is the Company's view that these claims are without merit and the Company intends to vigorously defend itself against such claims.

13. STOCKHOLDERS' EQUITY

A) COMMON STOCK

The Stockholders' Meeting held on April 28, 1999 approved the issuance of 5,882,717 common shares through the distribution of stock dividends, as a result, retained earnings were capitalized for an amount of Ps.117,899.

The Stockholders' Extraordinary Meeting held on August 19, 1999 approved the issuance of 97,139,425 common shares of which 89,770,216 shares were totally subscribed and paid. The remaining 7,369,209 shares were held in Treasury and expired in December 2000. At December 31, 2000 these shares were cancelled.

At December 31, 2000, the Company's outstanding common stock consisted of 438,776,086 shares of Series "B", with no par value, fully subscribed and paid, which can only be withdrawn with stockholders' approval, and 13,773,866 authorized shares held in Treasury. At December 31, 1999, the Company's outstanding common stock consisted of 436,462,336 shares and 23,456,825 shares held in Treasury.

B) EXECUTIVE STOCK PURCHASE PLAN

Gruma S.A. de C.V. has established, through an irrevocable grantor trust, an "Executive Stock Purchase Plan" designating up to 5,422,519 common shares which are reserved for issuance pursuant to this plan, all of which are subscribed and paid. The shares will be granted to executives, and such executives will have the right to receive dividends during the six-year term after joining the plan.

As of December 31, 2000, the Company had granted 1,348,346 Series "B" shares under this plan, of which 703,962, 414,384 and 230,000 shares will be fully vested by December 31, 2001, 2002 and 2003, respectively.

The Company recognizes an expense equal to the market value of the shares at grant date using the straight-line method over a six-year period. The amount recognized as expense for the years ended December 31, 1998, 1999 and 2000 was Ps.10,158, Ps.8,585 and Ps.3,208, respectively.

C) RETAINED EARNINGS

In accordance with Mexican Corporate Law, the legal reserve must be increased annually by 5 % of annual net profits until it reaches 20 % of the fully paid capital stock amount.

A 53.85% tax is payable by the Company if dividends are paid from earnings that have not been subject to Mexican income tax. Additionally, dividends paid to individuals and foreign residents will be subject to a maximum withholding tax of 7.69%.

D) PURCHASE OF COMMON STOCK

The Stockholders' Meeting approved a Ps.650,000 reserve to repurchase the Company's own shares. The total amount of repurchased shares cannot exceed either the reserve amount or 5% of total equity. As of December 31, 2000, the Company has repurchased 13,773,866 of its own shares with market value of Ps.103,855.

In September 2000, the Company entered into an equity swap agreement with a Mexican financial institution and sold 4,500,000 of its own shares for a total amount of U.S.$3,887. The Company is subject to the payment of a 10.25% over the contractual amount. The agreement requires a settlement on the maturity date under which the Company will receive or pay the difference between the value of the shares under the contract price and market value; however, an early termination of the contract is permitted with these same settlement conditions. The agreement matures in September 2001.

E) FOREIGN CURRENCY TRANSLATION ADJUSTMENTS

As of December 31, 1999 and 2000, "Foreign currency translation adjustments" consist of the following:

	1999	2000
Accumulated effect from translating the opening net investment in foreign subsidiaries……………………..…….	Ps. 485,037	Ps. 386,866
Effect from translating stockholders' equity items at year-end exchange rates……………………………………………	(239,885)	(146,698)
Exchange differences arising from foreign currency liabilities accounted for as a hedge of the Company's net investments in foreign subsidiaries………………………..….	132,464	(46,167)
	Ps. 377,616	Ps. 194,001

F) INFLATION EFFECTS

As of December 31, 2000, the majority stockholders' equity is comprised of the following:

	Nominal	Restatement	Total
Common stock……………………….…………	Ps. 4,266,883	Ps. 5,115,802	Ps. 9,382,685
Additional paid-in capital…………….………	1,193,708	1,626,916	2,820,624
Deficit from restatement…………….………..	-	(9,859,511)	(9,859,511)
Cumulative effect of a change in an accounting principle for deferred income taxes and employees' statutory profit sharing..	(156,322)	(11,661)	(167,983)
Retained earnings from prior years………….	2,040,687	4,328,610	6,369,297
Net income for the year…………….………..	229,479	3,393	232,872
Foreign currency translation adjustments….....	176,687	17,314	194,001
	Ps. 7,751,122	Ps. 1,220,863	Ps. 8,971,985

G) TAX VALUES OF COMMON STOCK AND RETAINED EARNINGS

As of December 31, 2000, tax amounts of common stock and the retained earnings were Ps.7,773,765 and Ps.40,834, respectively.

14. COMPLEMENTARY REVENUE

The Company, as a corn flour producer, received until 1998, complementary revenues from the Mexican government based on its related volume of corn flour sales. On December 31, 1998, the Mexican government eliminated complementary revenues for corn flour sales and price controls on tortillas and corn flour; as a result, effective January 1, 1999, regulation of the tortilla and corn flour market ceased in Mexico.

For the year ended December 31, 1998, net sales include complementary revenues of Ps 758,043.

15. OTHER (EXPENSES) INCOME, NET

Other (expenses) income, net is comprised of the following:

	Year ended December 31,		
	1998	1999	2000
Software implementation expenses	Ps. -	Ps. (87,843)	Ps. (33,417)
Reorganization expenses	(209,938)	(17,409)	(45,202)
Amortization of excess of cost over book value and excess of book value over cost, net	(30,666)	28,340	282,671
Amortization of other deferred costs	(28,580)	(124,727)	(73,179)
Write-off of machinery (Note 7)	-	-	(43,575)
Write-off of pre-operating expenses (Note 8)	-	-	(22,279)
Other	(922)	31,304	(34,332)
	Ps. (270,106)	Ps. (170,335)	Ps. 30,687

During 1999 and 2000, the Company recorded reorganization costs, which included employee severance costs, write-off of idle assets, other plant closure costs, and relocation expenses primarily related to the closure of certain tortilla manufacturing operations in the United States. Additionally, the Company has recognized external consulting fees related to a strategic corporate reorganization.

16. INCOME TAXES, ASSET TAX AND EMPLOYEES' STATUTORY PROFIT SHARING

A) INCOME TAX AND ASSET TAX

The Company files a consolidated income tax return for Mexican income tax purposes, consolidating taxable income and losses of the Company and its controlled Mexican subsidiaries. Filing a consolidated tax return had the effect of reducing current income tax expense for the years ended December 31, 1998, 1999 and 2000 by Ps.437,611, Ps.93,364 and Ps.109,304, respectively, as compared to filing a tax return on an unconsolidated-basis. Effective January 1, 1999, new tax regulations limit the income tax consolidation to 60% of the ownership interest of controlled Mexican subsidiaries.

In accordance with the applicable tax law, Mexican corporations must pay the higher of either income tax or asset tax (1.8%). Asset tax is determined on the average value of substantially all of the Company's Mexican assets less certain liabilities. Payments of asset tax are recoverable against the excess of income tax over asset tax of the three prior years and the ten subsequent years.

In accordance with the dispositions of revised Bulletin D-4 (see Note 3-O), the Company recognized in 2000 a tax asset at its estimated recovery value of Ps.88,602.

For the years ended December 31, 1998, 1999 and 2000, asset tax amounted to Ps.105,827, Ps.87,542 and Ps.82,603, respectively.

B) RECONCILIATION OF FINANCIAL AND TAXABLE INCOME

For the years 1998, 1999 and 2000, the reconciliation between statutory income tax amounts and the effective income tax amounts is summarized as follows:

	Year ended December 31,		
	1998	**1999**	**2000**
Statutory federal income tax (35%)	Ps. 202,069	Ps. 445	Ps. 127,846
Foreign income tax differences	22,620	(8,558)	(28,231)
Differences between tax and financial accounting for:			
Inventories purchases, labor and overhead versus cost of sales	(156,918)	35,899	(6,638)
Financing cost, net and other income statement effects related to inflation	(77,163)	135,133	53,617
Amortization not subject to income taxes	18,705	(10,746)	(66,563)
Capitalized costs deducted for tax purposes	(1,113)	(56,661)	-
Accrued expenses that will result in future tax deductible amounts	3,514	11,652	-
Tax deduction of contributions to research and development trust funds	(13,260)	(748)	-
Tax loss carryforwards amortization	(114,412)	-	-
Restatement of tax loss carryforwards	-	-	(66,372)
Asset tax	87,002	94,070	-
Losses of Mexican subsidiaries which cannot be utilized for income tax consolidation	-	153,379	73,388
Others	(37,988)	(87,308)	(65,526)
Effective income tax rate	Ps. (66,944)	Ps. 266,557	Ps. 21,521

The tax effects of main differences that give rise to significant portions of the deferred tax assets and liabilities as December 31, 2000, are as follows:

	Income	**Employees' Statutory Profit Sharing**
Deferred tax assets:		
Net operating loss carryforwards and other tax credits	Ps. 897,465	Ps. -
Customer advances and accrued liabilities	117,455	17,774
Asset tax	498,516	-
Intangible asset resulting from intercompany operation.	277,149	-
Other	68,474	-
	1,859,059	17,774
Deferred tax liabilities:		
Property, plant and equipment, net	1,544,714	24,092
Inventories	379,720	36,750
Intangible assets and other	126,477	6,996
Investment in partnership and equity method investee	185,702	-
	2,236,613	67,838
Net deferred tax liability	Ps. 377,554	Ps. 50,064

C) TAX LOSS CARRYFORWARDS AND RECOVERABLE ASSET TAX

At December 31, 2000, the Company has, in Mexico, tax loss carryforwards of approximately Ps.1,447,026 available to offset its taxable income in subsequent years, and asset tax of Ps.554,855 available to offset the excess of income tax over asset tax in future years, as shown below:

Expiration year	Tax loss carryforwards	Recoverable asset tax
2002	Ps. -	Ps. 32,418
2003	-	26,238
2004	675,618	32,418
2005	510,192	26,119
2006 until 2012	261,216	437,662
	Ps. 1,447,026	Ps. 554,855

At December 31, 2000, certain foreign subsidiaries have tax loss carryforwards of approximately Ps.138,182 (U.S.$14,394,000) available to offset future taxable income until 2014; Ps.91,122 (3.019 billion of Costa Rican colons) which will expire in 2001 to 2003; and Ps.378,012 ($27.572 billion bolivares) which will expire in 2001 and 2002.

D) EMPLOYEES' STATUTORY PROFIT SHARING

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

17. FOREIGN CURRENCY

A) EXCHANGE DIFFERENCES

For the years ended December 31, 1998, 1999 and 2000, the effects of exchange rate fluctuations on the Company's monetary assets and liabilities were recognized as follows:

	1998	1999	2000
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. (678,461)	Ps. 132,464	Ps. (46,167)
Exchange differences arising from foreign currency transactions credited (charged) to income	(66,660)	85,077	(57,662)
Exchange difference arising from foreign currency transactions capitalized to property, plant and equipment..	(64,610)	-	-
	Ps. (809,731)	Ps. 217,541	Ps. (103,829)

B) FOREIGN CURRENCY POSITION

As of December 31, 1999 and 2000, monetary assets and liabilities held or payable in U.S. dollars are summarized below:

	Thousands of U.S. dollars	
By companies located in Mexico:	1999	2000
Assets	U.S.$ 17,373	U.S.$ 11,538
Liabilities	(625,204)	(689,002)
	U.S.$ (607,831)	U.S.$ (677,464)
By foreign companies:		
Assets	U.S.$ 147,811	U.S.$ 179,986
Liabilities	(259,904)	(280,290)
	U.S.$ (112,093)	U.S.$ (100,304)

At December 31, 1999 and 2000, the exchange rates used to translate U.S. dollar assets and liabilities were Ps.9.50 and Ps.9.60, respectively. On March 16, 2001 (date of issuance of these financial statements), the exchange rate for the U.S. dollar was Ps.9.62.

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

	Thousands of U.S. dollars		
	1998	1999	2000
Corn purchases and other inventories	U.S.$ 66,120	U.S.$ 68,906	U.S.$ 103,714
Interest expense	17,171	2,900	58,621
Equipment purchases	4,916	215	76
Services	427	109	292
	U.S.$ 88,634	U.S.$ 72,130	U.S.$ 162,703

Fixed assets of foreign origin, which are restated on the basis of the GCPI from the foreign country of origin are as follows:

	1999		2000	
	Foreign currency (thousands)	Year-end exchange rate	Foreign currency (thousands)	Year-end exchange rate
U.S. dollars	415,530	9.50	441,788	9.60
Swiss francs	12,760	5.94	11,901	5.93
Deutsche marks	34,300	4.87	31,616	4.57
Italian liras	3,456,351	0.0049	3,194,287	0.0046
Spanish pesetas	685,554	0.0573	659,062	0.0537
Venezuelan bolivares	71,598,513	0.0146	98,436,666	0.0137
Costa Rican colons	26,894,190	0.0318	31,204,172	0.0302

18. SEGMENT INFORMATION

The Company's reportable segments are strategic business units that offer different products in different geographical regions. These business units are managed separately because each business segment requires different technology and marketing strategies.

The Company reportable segments are as follows:

- Corn flour division (Mexico) – engaged principally in the production, distribution and sale of corn flour in Mexico. Corn flour produced by this division is used mainly in the preparation of tortillas and other related products.
- Corn flour and packaged tortilla division (United States of America and Europe) – manufactures and distributes over 20 varieties of corn flour that are used mainly to produce and distribute different types of tortillas and tortilla chips products in the United States and Europe. The main brands are Mission and Guerrero.
- Corn flour and other grains division (Venezuela) – engaged mainly in producing and distributing corn and wheat flour, used principally for industrial and human consumption.
- Bread and packaged tortilla division (Mexico) – produces and distributes tortillas, bread and other related products in Mexico.
- Wheat flour division (Mexico) – engaged in the production and marketing of wheat flour in Mexico.
- Corn flour and related products (Central America) – manufactures corn flour, tortillas, snack, bread and rice and cultivates and sells hearts of palm.
- "Other" division – this segment represents the technology and equipment division located in Mexico, which conducts research and development regarding flour and tortilla manufacturing equipment, produces machinery for corn flour and tortilla production and is engaged in the construction of the Company's corn flour manufacturing facilities.
- The "Other reconciling items" row includes the corporate expenses and the elimination of inter-business unit transactions.

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

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

Segment information as of and for the year ended December 31, 1998:

Segment	Net sales to external customers	Inter-segment net sales	Operating income	Depreciation and amortization
Corn flour division (Mexico)…	Ps. 6,159,130	Ps. 34,720	Ps. 970,879	Ps. 240,700
Corn flour and packaged tortilla division (United States).	6,821,392	54,764	447,305	232,293
Corn flour and other grains (Venezuela)…………………..	-	-	-	-
Bread and packaged tortilla (Mexico)……………………..	150,340	2,194	(102,592)	20,351
Wheat flour (Mexico)………...	967,258	141	15,427	36,095
Corn flour and related products (Central America)..…………...	1,000,051	-	(22,537)	70,013
Other…..……………………...	255,545	2,124,757	1,239,847	21,817
Other reconciling items……….	(6,929)	(2,216,576)	(1,398,961)	107,283
Total………………………	Ps. 15,346,787	Ps. -	Ps. 1,149,368	Ps. 728,552

Segment	Total assets	Total liabilities	Expenditures for long-lived assets
Corn flour division (Mexico)………………..	Ps. 7,546,476	Ps. 1,570,276	Ps. 330,302
Corn flour and packaged tortilla division (United States)……………………………..	5,846,749	2,613,140	705,440
Corn flour and other grains (Venezuela)…...	-	-	-
Bread and packaged tortilla (Mexico)……...	1,008,228	170,676	205,336
Wheat flour (Mexico)……………………...	1,669,793	482,991	199,053
Corn flour and related products (Central America)..…………………………...……...	1,427,079	370,706	187,579
Other………………………………………	1,710,461	576,296	72,214
Other reconciling items………………….....	(75,156)	2,104,725	156,286
Total……………………………………	Ps. 19,133,630	Ps. 7,888,810	Ps. 1,856,210

Segment information as of and for the year ended December 31, 1999:

Segment	Net sales to external customers	Inter-segment net sales	Operating income	Depreciation and amortization
Corn flour division (Mexico)……	Ps. 5,274,546	Ps. 66,162	Ps. 399,952	Ps. 252,682
Corn flour and packaged tortilla division (United States)…………	7,463,916	60,469	488,195	275,157
Corn flour and other grains (Venezuela)……………………...	1,349,013	-	25,015	103,897
Bread and packaged tortilla (Mexico)…………………………	240,823	1,715	(262,383)	54,038
Wheat flour (Mexico)……………	1,083,447	-	7,358	35,952
Corn flour and related products (Central America)………………..	1,005,902	-	12,065	166,609
Other……………………………	8,700	736,139	8,899	11,535
Other reconciling items…………	182,267	(864,485)	(295,612)	77,681
Total…………………………	Ps. 16,608,614	Ps. -	Ps. 383,489	Ps. 977,551

Segment	Total assets	Total liabilities	Expenditures for long-lived assets
Corn flour division (Mexico)………………	Ps. 6,709,842	Ps. 824,600	Ps. 143,128
Corn flour and packaged tortilla division (United States)………………………………	6,802,335	2,167,715	788,302
Corn flour and other grains (Venezuela)……	2,146,583	469,046	570,830
Bread and packaged tortilla (Mexico)………	1,309,850	157,413	161,324
Wheat flour (Mexico)………………………	1,683,867	427,917	138,142
Corn flour and related products (Central America)……………………………………	1,410,751	354,055	275,499
Other………………………………………	1,186,812	108,328	(18,742)
Other reconciling items……………………	1,037,217	5,158,358	530,193
Total……………………………………	Ps. 22,287,257	Ps. 9,667,432	Ps. 2,588,676

Segment information as of and for the year ended December 31, 2000:

Segment	Net sales to external customers	Inter-segment net sales	Operating income	Depreciation and amortization
Corn flour division (Mexico)…	Ps. 4,739,392	Ps. 34,655	Ps. 524,738	Ps. 251,253
Corn flour and packaged tortilla division (United States and Europe)…………………..	7,841,210	87	408,279	327,085
Corn flour and other grains (Venezuela). ………………….	2,797,923	-	272,718	64,219
Bread and packaged tortilla (Mexico)……………………..	345,143	23,878	(273,741)	125,133
Wheat flour (Mexico)………..	1,349,037	18,703	(39,279)	65,943
Corn flour and related products (Central America)……….…..	1,063,476	-	28,462	41,554
Other…………………………	30,788	503,817	(20,681)	9,831
Other reconciling items……….	32,076	(581,140)	(87,167)	(131,181)
Total………………………	Ps. 18,199,045	Ps. -	Ps. 813,329	Ps. 753,837

Segment	Total assets	Total liabilities	Expenditures for long-lived assets
Corn flour division (Mexico)………………..	Ps. 6,756,959	Ps. 1,464,872	Ps. 43,218
Corn flour and packaged tortilla division (United States and Europe)………………..	6,985,450	2,148,950	604,606
Corn flour and other grains (Venezuela)..….	2,828,052	673,861	12,609
Bread and packaged tortilla (Mexico)……...	1,168,756	387,032	(2,681)
Wheat flour (Mexico)…………………..…..	1,908,543	317,514	326,157
Corn flour and related products (Central America)…………………………………...	1,354,278	238,479	202,837
Other……………………………………….	507,051	102,678	(24,599)
Other reconciling items………………….....	315,016	4,721,940	332,297
Total…………………………………….	Ps. 21,824,105	Ps. 10,055,326	Ps. 1,494,444

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

Other reconciling items	1998	1999	2000
Corporate expenses	Ps. (192,286)	Ps. (327,848)	Ps. (116,162)
Elimination of inter-business unit transactions	(1,206,675)	32,236	28,995
	Ps.(1,398,961)	Ps. (295,612)	Ps. (87,167)

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

	1998	%	1999	%	2000	%
NET SALES TO EXTERNAL CUSTOMERS:						
Mexico	Ps. 6,886,235	45	Ps. 6,186,938	37	Ps. 6,201,275	34
United States..................	7,460,501	49	8,066,761	49	8,136,372	45
Venezuela	-	-	1,349,013	8	2,797,923	15
Central America	1,000,051	6	1,005,902	6	1,063,475	6
	Ps. 15,346,787	100	Ps. 16,608,614	100	Ps. 18,199,045	100

IDENTIFIABLE ASSETS:						
Mexico	Ps. 11,732,017	61	Ps. 11,892,126	53	Ps. 10,634,759	49
United States	5,974,534	31	6,837,797	31	7,007,016	32
Venezuela	-	-	2,146,583	9	2,828,052	13
Central America	1,427,079	8	1,410,751	7	1,354,278	6
	Ps. 19,133,630	100	Ps. 22,287,257	100	Ps. 21,824,105	100

CAPITAL EXPENDITURES:						
Mexico	Ps. 968,849	52	Ps. 980,065	38	Ps. 674,394	45
United States	699,783	38	762,282	29	604,604	41
Venezuela	-	-	570,830	22	12,609	1
Central America	187,578	10	275,499	11	202,837	13
	Ps. 1,856,210	100	Ps. 2,588,676	100	Ps. 1,494,444	100

19. FINANCIAL INSTRUMENTS

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, notes and 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 notes and accounts receivable and refundable taxes represent the expected cash flow.

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

	Carrying amount	Fair value
At December 31, 1999:		
Assets: Convertible debentures in GFNorte common shares	Ps. 45,178	Ps. 45,353
Liabilities: Senior unsecured notes in U.S. dollars bearing interest at annual rate of 7.625%	2,524,625	2,320,888
At December 31, 2000:		
Liabilities: Senior unsecured notes in U.S. dollars bearing interest at annual rate of 7.625%	Ps. 2,400,000	Ps. 2,291,040
Equity swap	36,181	35,833

Fair values were determined as follows:

- Convertible debentures are based upon on quoted market prices for these instruments.
- The fair value of debt is estimated based on quoted market prices for similar issues or on current rates available to the Company for debt of the same maturity and similar terms.
- The fair value of equity swap is estimated based on quoted market prices of the shares.
- The carrying value of the remainder of the long-term debt was similar to its fair value.

B) CONCENTRATION OF CREDIT RISK

The financial instruments which are potentially subject to a concentration of risk are principally cash and cash equivalents and trade accounts receivable. The Company deposits its cash and cash equivalents in recognized financial institutions. The concentration of the credit risk, with respect to trade receivables, is limited due to the Company sells its products to a large number of clients located in different parts of Mexico, United States, Central America and South America.

20. RELATED PARTY TRANSACTIONS

The Company owns an 11.1070% interest in GFNorte, a Mexican financial institution. In the normal course of business, the Company obtains long-term financing from GFNorte and other subsidiaries of this institution at market rates and terms. The interest paid to GFNorte's subsidiaries for the year ended December 31, 1998, 1999 and 2000 was Ps.1,097, Ps.23,002 and Ps.3,347, respectively.

As of December 31, 1999 and 2000, the Company made loans to its controlling shareholders, bearing interest at market rates, and are of a short-term nature without due dates. As of December 31, 1999 and 2000, short-term amounts receivable from these transactions totaled Ps.65,990 and Ps.137,950, respectively. At December 31, 1999, the Company has long-term notes receivable due from some of its shareholders totaling Ps.81,917, which bear interest at market rates and LIBOR rate plus 4% and which mature between 2002 and 2005.

During 1998, 1999 and 2000, the Company purchased inventory ingredients from a shareholder, amounting to U.S. $44 million (Ps. 479,728), U.S.$62 million (Ps.625,725) and U.S.$75 million (Ps.720,172), respectively.

21. SUBSEQUENT EVENT

During February 2001, the Company obtained a syndicated loan for U.S.$400 million (Ps.3.880 billion) due in February 2004. This loan has a mandatory repayment of U.S.$100 million (Ps.970 million) which has to be paid no more than 24 months after the disposition date. The Company used the proceeds to pay short and long-term liabilities. This loan bears interest at the annual LIBOR rate plus a margin ranging from 1.25% to 2.875%.

22. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2000, the Mexican Institute of Public Accountants issued Bulletin C-2, "Financial Instruments", which is effective as of January 1, 2001. Bulletin C-2 provides guidance for recognizing, measuring and disclosing information about financial assets and liabilities, including accounting for certain hedging transactions. Bulletin C-2 requires that all financial instruments be recorded in the balance sheet at their fair value and changes in the fair value be recorded in each period in the income statement. Management of the Company has evaluated the effect of the adoption of Bulletin C-2 on its financial statements and does not expect that the impact of adoption will be significant.

In August 2000, the Mexican Institute of Public Accountants issued Bulletin B-4, "Comprehensive Income." Bulletin B-4 defines comprehensive income as the net income for the period presented in the income statement plus other results for the period reflected in the stockholders' equity in accordance with the Mexican GAAP, and requires the disclosure of the components of comprehensive income in the presentation of financial statements. Bulletin B-4 is effective as of January 1, 2001, with earlier adoption allowed. The Company will adopt Bulletin B-4 in 2001.

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

The Company's consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from U.S. GAAP. The Mexican GAAP consolidated financial statements include the effects of inflation as provided for under Bulletin B-10 (see Note 3-D), including the Fifth Amendment to Bulletin B-10 and Bulletin B-15, whereas financial statements prepared under U.S. GAAP are presented on a historical cost basis. The reconciliation to U.S. GAAP includes a reconciling item for the effect of applying the Fifth Amendment to Bulletin B-10 and Bulletin B-15 restatement to Mexican pesos of constant purchasing power as of December 31, 2000 because, as described below, these provisions of inflation accounting under Mexican GAAP do not meet the consistent reporting currency requirements of Regulation S-X. The U.S. GAAP adjustments have been determined based on Mexican NCPI factors. The reconciliation does not include the reversal of other Mexican GAAP inflation accounting adjustments

as they represent a comprehensive measure of the effects of price-level changes in the inflationary Mexican economy and, as such, are considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

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

Reconciliation of net income:

	Year ended December 31,		
	1998	1999	2000
1. **Net income (loss) reported under Mexican GAAP**	Ps. 464,937	Ps. (300,076)	Ps. 232,872
U.S. GAAP adjustments:			
Depreciation expense (See C)	1,462	(26,612)	(48,011)
Pre-operating expenses and other deferred costs (See D)	(79,580)	(240,785)	99,627
Capitalized comprehensive financing costs (See E)	(22,625)	2,425	2,483
Sale-leaseback transaction (See F):			
Interest expense	(20,641)	(18,682)	(12,737)
Rental and depreciation expense, net	12,136	10,834	7,220
Amortization of excess of cost over book value (See G)	14,616	15,662	16,046
Deferred income taxes (See H)	(300,699)	149,846	10,105
Deferred employees' statutory profit sharing (See H)	(8,345)	(28,710)	(976)
Reorganization expenses (See I)	36,769	(39,399)	-
Effect of U.S. GAAP adjustments on equity method investee (See K)	(34,042)	(16,867)	(11,064)
Negative goodwill (See J):			
Amortization of excess of book value over cost	-	(60,574)	(295,378)
Depreciation expense	-	17,400	34,926
Monetary position gain resulting from U.S. GAAP adjustments	7,732	10,415	5,514
Effects of Bulletin B-15 restatement (See A)	7,017	(12,865)	-
Total U.S. GAAP adjustments	(386,200)	(237,912)	(192,245)
Minority interest (See B)	57,252	15,825	24,019
Net income (loss) under U.S. GAAP	Ps. 135,989	Ps. (522,163)	Ps. 64,646
Basic and diluted earnings (loss) per share (in pesos)	Ps. 0.38	Ps. (1.38)	Ps. 0.15
Weighted average shares outstanding (thousands)	359,910	377,456	435,515

Reconciliation of stockholders' equity:

	As of December 31,			
	1999		2000	
Stockholders' equity reported under Mexican GAAP	Ps.	12,316,004	Ps.	11,404,249
U.S. GAAP adjustments:				
Property, plant and equipment (See C)		375,653		437,811
Pre-operating expenses and other deferred costs (See D)		(471,602)		(371,647)
Capitalized comprehensive financing cost (See E)		(21,821)		(19,868)
Sale-leaseback transaction (See F)		(28,013)		(31,758)
Excess of cost over book value (See G)		(187,954)		(176,513)
Deferred income taxes (See H)		(294,974)		75,452
Deferred employees' statutory profit sharing (See H)		(48,697)		1,935
Effect of U.S. GAAP adjustments on equity method investee (See K)		(119,298)		(123,292)
Negative goodwill (See J)		(41,910)		(306,706)
U.S. GAAP adjustments attributable to minority interest		225,385		(90,259)
Minority interest under Mexican GAAP (See B)		(2,726,674)		(2,432,264)
Effects of Bulletin B-15 restatement (See A)		219,928		-
Total U.S. GAAP adjustments		(3,119,977)		(3,037,109)
Stockholders' equity under U.S. GAAP	Ps.	9,196,027	Ps.	8,367,140

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

Balance at December 31, 1999	Ps.	9,196,027
Net purchase of common stock		(7,951)
Recognition of inflation effects for the year		(700,912)
Foreign currency translation adjustments		(184,670)
Net income for the year		64,646
Balance at December 31, 2000	Ps.	8,367,140

A summary of the Company's stockholders' equity after the U.S. GAAP adjustments described above as of December 31, 1999 and 2000 is as follows:

	1999		2000	
Capital stock	Ps.	9,341,616	Ps.	9,382,685
Additional paid-in capital		2,912,729		2,820,624
Retained earnings		5,347,180		5,454,911
Accumulated other comprehensive loss		(8,405,498)		(9,291,080)
Total stockholders' equity under US GAAP	Ps.	9,196,027	Ps.	8,367,140

A) EFFECTS OF BULLETIN B-15 RESTATEMENT

As disclosed in Note 3-C, the Company adopted the provisions of Bulletin B-15 effective as of January 1, 1997. Bulletin B-15 allows the restatement of information for prior periods for comparison purposes to information of the most current period presented based on a weighted average restatement factor that reflects the relative inflation and currency exchange movements of the countries in which the Company operates. The restatement provisions of Bulletin B-15 do not meet the Regulation S-X requirement that the financial statements be stated in the same currency for all periods, because changes in foreign currency exchange rates are included in the restatement factor. The U.S. GAAP adjustments to net income and stockholders' equity reflect the difference between restating these prior periods, including the U.S. GAAP adjustments, to December 31, 2000 constant pesos utilizing the Mexican NCPI and the weighted average restatement factor. See Note 23-P for summarized financial

information prepared on a U.S. GAAP basis restated to December 31, 2000 constant pesos utilizing the Mexican NCPI.

B) MINORITY INTEREST

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

C) PROPERTY, PLANT AND EQUIPMENT

The Company adopted the Fifth Amendment to Bulletin B-10 effective as of January 1, 1997. The Fifth Amendment eliminates the use of replacement costs for purposes of restating property, plant and equipment and instead, allows companies the option of using a specific index, which contemplates inflation and currency exchange movements in the restatement of machinery and equipment and the related depreciation expense if such machinery and equipment is of foreign origin. The Company has elected to apply a specific index to fixed assets of foreign origin for the purposes of determining the restated balances under Mexican GAAP. For U.S. GAAP purposes, the use of a specific index, which contemplates currency exchange movements, is not in accordance with the historical cost concept nor does it present financial information in a constant reporting currency. The impact on the net carrying value of fixed assets of restating fixed assets of foreign origin utilizing the Mexican NCPI for US GAAP purposes increases stockholders' equity as of December 31, 1999 and 2000 by Ps. 391,298 and Ps. 476,107, respectively.

Under Mexican GAAP, depreciation on idle equipment is not required if the carrying value is expected to be recovered. Under US GAAP, those assets should continue be depreciated, and therefore the adjustment to property, plant and equipment decreases stockholder's equity as of December 31, 1999 and 2000 by Ps.15,645 and Ps.38,296, respectively.

D) PRE-OPERATING EXPENSES AND OTHER DEFERRED COSTS

Under Mexican GAAP, pre-operating expenses are permitted to be capitalized and amortized over a period of time estimated to generate the income necessary to recover such expenses. The Company defined 12 years as the maximum period of amortization, based on its prior experience. Under U.S. GAAP, such expenses are treated as period expenses.

Under Mexican GAAP, costs associated with research of new projects and brand development and promotion are also permitted to be capitalized and amortized over a period estimated to generate the income necessary to recover such expenses, which the Company has estimated to be 5 to 20 years depending on the nature of the project. Under U.S. GAAP, such costs are expensed as incurred.

The U.S. GAAP equity adjustments of Ps.471,602 and Ps.371,647 decrease intangible assets presented in the balance sheets as of December 31, 1999 and 2000, respectively. During 1998 and 1999, the Company capitalized certain pre-operating expenses under Mexican GAAP, which were written-off for U.S. GAAP. For the year 2000 the adjustment to other deferred costs includes the reversal of Ps. 44,365 that have been written off under Mexican GAAP but have been expensed under U.S. GAAP in previous years.

E) COMPREHENSIVE FINANCING COSTS

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

F) SALE-LEASEBACK TRANSACTION

Under Mexican GAAP, a sale-leaseback transaction that involves real estate is recognized with the use of the general criteria established for capital and operating lease transactions. Based upon these criteria, a sale-leaseback of real estate was recorded by the Company as an operating lease. Under U.S. GAAP, Statement of Financial Accounting Standards ("SFAS") No. 98, such a transaction would be recognized as a capital lease because a continuing involvement from the seller-lessee is present, and consequently, the risks and benefits of the property are not transferred to the buyer-lessor. The U.S. GAAP balance sheet as of December 31, 1999 and 2000 would reflect increases in fixed assets, net, of Ps.199,820 and Ps.182,130 (net of accumulated depreciation of Ps. 28,013 and Ps.31,758, respectively), respectively, and long-term debt increases of Ps.227,833 and Ps. 213,888, respectively.

The capital lease under U.S. GAAP has a 15-year term with an effective date of May 1, 1996. It requires minimum annual payments of approximately U.S.$2.7 million (Ps.25,478) for the next three years, approximately U.S.$3.3 million (Ps.31,152) for the year 2004 and 2005, and approximately U.S.$17.7 million (Ps.169,469) thereafter. The Company has six renewal options, each for a period of three additional years and options to purchase the facility at the end of 12 years, 15 years and any renewal term. The lease bears interest at 7.96% and is collaterized by a deed of trust on certain real property.

G) AMORTIZATION OF EXCESS OF COST OVER BOOK VALUE

Under Mexican GAAP, the excess of the purchase price over the proportionate book value of net assets acquired is recorded as "Excess of cost over book value" for all of the Company's acquisitions. Under U.S. GAAP, transfers and exchanges between enterprises under common control are accounted for on a carry-over basis, and therefore, no such assets would be recorded. The U.S. GAAP equity adjustments of Ps.187,954 and Ps.176,513 decrease the excess of cost over book value presented in the balance sheet as of December 31, 1999 and 2000, respectively.

H) DEFERRED INCOME TAXES AND EMPLOYEES' STATUTORY PROFIT SHARING

Under Mexican GAAP through December 31, 1999, deferred income taxes were determined by the partially liability method of accounting, under which deferred income taxes were provided for identifiable, non-recurring temporary differences (i.e. those that are expected to reverse over a defined period of time) at the tax rate expected to be in effect at the time those temporary differences reverse. The recognition of deferred tax assets under Mexican GAAP was subject to "practical absolute assurance" that they were realizable through future operations.

As discussed in Note 3-O, effective January 1, 2000, the Company adopted the provisions of revised Bulletin D-4, which is an asset and liability method for the recognition of deferred income taxes for existing temporary differences. The accounting treatment of the Bulletin D-4 is in accordance with the comprehensive asset and liability method of SFAS No. 109 "Accounting for Income Taxes" for the recognition of US GAAP deferred tax assets and liabilities. The US GAAP adjustments to net income and stockholders' equity reflect only the deferred income taxes and employees' statutory profit sharing generated by the other US GAAP adjustments discussed in this document.

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

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

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

Income tax expense:

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

	Year ended December 31,		
	1998	**1999**	**2000**
Domestic	Ps. 298,396	Ps. (237,904)	Ps. (206,676)
Foreign	295,923	239,174	571,952
	Ps. 594,319	Ps. 1,270	Ps. 365,276

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

	Year ended December 31,		
	1998	**1999**	**2000**
Current:			
Domestic federal	Ps. 133,868	Ps. 225,896	Ps. 137,126
Foreign federal	58,276	51,778	8,329
Foreign state	10,885	4,309	2,925
	Ps. 203,029	Ps. 281,983	Ps. 148,380

	Year ended December 31,		
	1998	**1999**	**2000**
Deferred:			
Domestic federal	Ps. (324,045)	Ps. (34,496)	Ps. (207,875)
Foreign federal	36,666	8,116	73,808
Foreign state	17,406	10,954	7,208
	Ps. (269,973)	Ps. (15,426)	Ps. (126,859)
Total income taxes	Ps. (66,944)	Ps. 266,557	Ps. 21,521

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1999 and 2000, are as follows:

	1999	2000
Deferred tax assets:		
Net operating loss carryforwards and other tax credits (a)......	Ps. 1,078,824	Ps. 1,412,893
Customer advances and accrued liabilities........................	87,817	117,455
Intangible assets (d)..	267,106	278,990
Other..	68,296	68,474
Total gross deferred tax assets..................................	1,502,043	1,877,812
Deferred tax liabilities:		
Property, plant and equipment, net (b).........................	1,319,806	1,690,994
Inventories (c)..	474,693	379,720
Investment in partnership and equity method investee.........	117,306	109,200
Other assets..	31,252	-
Total gross deferred tax liabilities.............................	1,943,057	2,179,914
Net deferred tax liability under US GAAP........................	441,014	302,102
Net deferred tax liability under Mexican GAAP..................	146,040	377,554
Adjustment for US GAAP..	Ps. 294,974	Ps. (75,452)

(a) Includes valuation allowance for Mexican subsidiaries of Ps. 41,086, as of December 31, 2000 and for U.S. subsidiaries of Ps.9,341 (U.S.$973,000), as of December 31, 2000. In management's opinion, the realization of these asset tax and tax loss carryforwards is less likely than not because of the dependency on the generation of sufficient taxable income at the subsidiary level.
(b) Principally due to the differences between restated book and tax basis, including depreciation and capitalized interest.
(c) Principally due to the expensing of purchases for Mexican tax purposes.
(d) Includes a prepaid asset of Ps. 277,149 resulting from an intercompany transaction.

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

	1999	2000
Current:		
Deferred tax asset..	Ps. (136,330)	Ps. (185,929)
Deferred tax liability..	474,693	379,720
	338,363	193,791
Non-current:		
Deferred tax asset..	(1,365,713)	(1,691,883)
Deferred tax liability..	1,468,364	1,800,194
	102,651	108,311
Total	Ps. 441,014	Ps. 302,102

The provision for income tax on a US GAAP basis is as follows:

	1998	1999	2000
Current..	Ps. (203,029)	Ps. (281,983)	Ps. (148,380)
Deferred..	(30,726)	165,272	136,964
	Ps. (233,755)	Ps. (116,711)	Ps. (11,416)

In addition, the Company has established a deferred liability for U.S. GAAP purposes of Ps.62,686 and Ps.48,129, at December 31, 1999 and 2000, respectively, relating to employees' statutory profit sharing.

Income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries as such earnings are deemed to be permanently invested.

I) REORGANIZATION EXPENSES

Under Mexican GAAP in 1998, the Company recorded a provision for future employee severance costs within reorganization expenses. The costs were incurred in 1999 and charged against the provision.

Under U.S. GAAP, the recognition of a provision for future employee severance costs is contingent upon specific criteria disclosed in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company did not comply with these criteria as of December 31, 1998, and therefore, the provision has been reversed for U.S. GAAP purposes. Since the costs were incurred in 1999, the U.S. GAAP adjustment for this year reflects the expense.

J) NEGATIVE GOODWILL

Under Mexican GAAP, the excess of the net book value of identifiable assets acquired over their purchase price, is recorded as "Excess of book value over cost of subsidiaries acquired, net" and is permitted to be amortized over a period of time not to exceed 5 years.

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

As of December 31, 1999 and 2000, the U.S. GAAP equity adjustment of Ps.41,910 and Ps.306,706, respectively, decrease the net fixed assets in Ps.345,731 and Ps.671,236, respectively, and eliminated the excess of book value over cost for Ps.303,821 and Ps.364,530, respectively.

K) SUPPLEMENTAL BALANCE SHEET INFORMATION

- Securities of related parties:

  The investment in common stock of GF Banorte is accounted for under the equity method, because the Company has significant influence over the investee due to its representation on the board of directors of GF Banorte and the equity interest of GRUMA's principal shareholder in GF Banorte. The effect of applying U.S. GAAP adjustments to the equity investment has been included in the Company's U.S. GAAP reconciliation, and principally result from differences in accounting for loan loss reserves, deferred start-up costs, and deferred income taxes.

- Other current liabilities:

  Included within accrued liabilities and other payables as of December 31, 1999 and 2000 are accrued interest (Ps.84,020 and Ps.109,551 in 1999 and 2000, respectively), accrued compensation costs (Ps.166,705 and Ps.266,177 in 1999 and 2000, respectively) and accrued advertising costs (Ps.65,808 and Ps.80,875 in 1999 and 2000, respectively).

- Short-term bank loans:

  The short-term borrowings disclosed in Note 10 bear weighted average interest rates of 6.96% and 8.01% as of December 31, 1999 and 2000, respectively.

- Other stockholders' equity:

  Included within retained earnings as of December 31, 1999 and 2000 are undistributed earnings of Grupo Financiero Banorte S.A. de C.V. amounting to approximately Ps.772,543 and Ps.959,389 respectively.

- Segment information:

  At December 31, 1998, the Company adopted SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes guidelines for the way that public companies report information about operating segments in financial statements and requires retroactive restatement for all prior periods. This statement also establishes guidelines for related disclosures about products and services, geographic areas and major customers. See Note 18 for the Company's segment disclosures in accordance with SFAS 131.

- Computer software:

  During fiscal year 1997, the Company commenced a worldwide software implementation whereby certain accounting, operational and other computing services will be upgraded or replaced. The Company has capitalized certain costs incurred in developing this computer software for internal use in accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." As these systems are ready for their intended use, depreciation expense is computed based on the straight-line method over seven years. Depreciation expense for the years ended December 31, 2000 and 1999 amounted to Ps 46,047 and Ps 25,667, respectively. In the fiscal year 1998 no capitalized amounts were depreciated, as the software was not ready for its intended use.

L) SUPPLEMENTAL INCOME STATEMENT INFORMATION AND OTHER

- Advertising costs:

  Advertising costs, included in selling, general and administrative expenses, are expensed when the advertising first takes place. Advertising expense was Ps.392,711, Ps.389,435 and Ps.488,921 for the years ended December 31, 1998, 1999 and 2000, respectively. The Company had Ps.33,540 and Ps.30,747 of prepaid advertising costs reported as prepaid expenses as of December 31, 1999 and 2000, respectively.

- Shipping and handling costs:

  During 2000, the Financial Accounting Standards Board's Emerging Issues Task Force issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." The shipping and handling costs included in selling, general and administrative expenses amounted to Ps. 776,263, Ps. 745,058 and Ps.1,014,555 for the years ended December 31, 1998, 1999 and 2000, respectively.

- Operating income:

  Under U.S. GAAP, certain other income and expense items included in the Mexican GAAP financial statements of the Company, such as software implementation expenses, ESPS, reorganization expenses, amortization of excess of cost over book value and amortization of other deferred costs would be included in the determination of operating income. For the years ended December 31, 1998, 1999 and 2000, these items amounted to Ps. 262,610, Ps. 258,645 and Ps. 136,282, respectively.

- Earnings per share data:

  For U.S. GAAP purposes, the equity swap transaction that took place in September 2000 is accounted under the Emerging Issue Task Force Issue No. 98-12 "Application of Issue No. 00-19 to Forward Equity Sales Transactions" which observes that any common shares actually issued and outstanding should be considered in the weighted-average shares calculation, and additionally, the payment of

10.25% over the contractual amount should be treated as a reduction of income available to shareholders. This operation had no effect on the fully diluted earnings per share.

- Contingency:

Recently, a major U.S. restaurant chain and certain franchisees have threatened litigation against the Company and other third parties, claiming lost sales as a result of the StarLink contamination issue which is discussed in Note 12. Currently, there are no amounts reasonably estimable of the potential outcome; however, substantial amounts may be sought which could materially affect the Company's financial position, results of operations and cash flows. Should the threatened litigation be filed, the Company intends to defend the case vigorously.

M) SUPPLEMENTAL CASH FLOW INFORMATION

Mexican GAAP Bulletin B-12 issued by the Mexican Institute of Public Accountants specifies the appropriate presentation of the statements of changes in financial position. Under Bulletin B-12, the sources and uses of resources are determined based upon the differences between beginning and ending financial statement balances in Mexican pesos of constant purchasing power. Under U.S. GAAP, a statement of cash flow is required, which presents only cash movements and excludes non-cash items.

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

	Year ended December 31,		
	1998	**1999**	**2000**
Operating activities:			
Net income (loss)	135,989	(522,163)	64,646
Minority interest	231,747	98,212	156,204
Consolidated income (loss)	367,736	(423,951)	220,850
Adjustments to reconcile net income to resources provided by operating activities:			
Monetary position loss (gain)	6,912	(223,358)	(227,087)
Depreciation and amortization	782,163	1,058,529	945,611
Allowance for doubtful accounts	15,291	48,323	35,907
Write-off of idle assets and other intangible assets	-	-	100,643
Equity in earnings of associated companies', less dividends received	(46,730)	(63,353)	(57,830)
Seniority premium	10,286	454	357
Deferred income taxes and employees' statutory profit sharing	46,952	(139,335)	(141,826)
	1,182,610	257,309	876,625
Changes in working capital:			
Restricted cash	96,069	(1,426)	446
Accounts receivable, net	(927,970)	(400,197)	(320,306)
Inventories	(652,459)	60,338	190,399
Prepaid expenses	3,391	(21,953)	21,571
Trade accounts payable	149,328	246,130	391,637
Accrued liabilities and other payables	196,649	88,521	186,078
Income taxes and employees' statutory profit sharing	(19,603)	29,777	(27,457)
	(1,154,595)	1,190	442,368
Net cash provided by operating activities	28,015	258,499	1,318,993
Investing activities:			
Purchases of property, plant and equipment	(1,859,953)	(1,571,520)	(1,008,037)
Acquisitions of new plants	(268,028)	(1,496,221)	(122,588)
Deferred assets	(445,893)	(306,596)	(198,384)
Investments in common stock	(397,685)	98,625	(56,012)
Other assets	(47,346)	(72,060)	(19,143)
Net cash used in investing activities	(3,018,905)	(3,347,772)	(1,404,164)

	Year ended December 31,		
	1998	1999	2000
Financing activities:			
Proceeds from bank loans and long-term debt	3,398,360	4,643,537	2,787,445
Repayment of bank loans and long-term debt	(2,143,047)	(2,955,028)	(2,632,468)
Proceeds from issuance of common stock	-	1,569,655	-
Proceeds from issuance of subsidiaries' stock	203,083	80,019	202,357
Acquisition of minority interest	-	-	(433,666)
Net purchases of Company's common stock	(123,441)	(186,928)	(6,457)
Dividends paid by subsidiary to minority stockholders	(74,367)	(57,863)	(22,505)
Other	37,953	83,487	(52,615)
Net cash provided by (used in) financing activities	1,298,541	3,176,879	(157,909)
Effect of inflation on cash and cash equivalents	(118,710)	(72,695)	(55,922)
Net (decrease) increase in cash and cash equivalents	(1,811,059)	14,911	(299,002)
Cash and cash equivalents at beginning of year	2,211,480	400,421	415,332
Cash and cash equivalents at end of year	400,421	415,332	116,330

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

	Year ended December 31,		
	1998	1999	2000
Interest paid	Ps. 428,159	Ps. 652,617	Ps. 769,804
Interest received	184,405	136,666	134,874
Income and asset taxes paid	271,737	323,463	146,864
Interest capitalized	32,856	6,544	5,779
Interest incurred	453,215	662,211	795,334

N) COMPREHENSIVE INCOME

Comprehensive income (loss) is as follows:

	Year ended December 31,		
	1998	1999	2000
Net income (loss) under U.S. GAAP	Ps. 135,989	Ps. (522,163)	Ps. 64,646
Other comprehensive loss, net of taxes:			
Deficit from restatement	(566,919)	(333,454)	(700,912)
Foreign currency translation adjustments	159,158	(159,701)	(184,670)
Comprehensive loss under U.S. GAAP	Ps. (271,772)	Ps.(1,015,318)	Ps. (820,936)

Foreign currency translation adjustments are presented net of tax benefits of Ps.80,101, Ps.(49,646) and Ps.8,195 for the years ended December 31, 1998, 1999 and 2000, respectively.

The components of accumulated other comprehensive loss are as follows as of December 31, 1999 and 2000:

	Foreign currency translation adjustments	Deficit from restatement	Accumulated other comprehensive loss
Balance at December 31, 1998	Ps. 1,639,545	Ps. (9,551,888)	Ps. (7,912,343)
Current period changes	(159,701)	(333,454)	(493,155)
Balance at December 31, 1999	1,479,844	(9,885,342)	(8,405,498)
Current period changes	(184,670)	(700,912)	(885,582)
Balance at December 31, 2000	Ps. 1,295,174	Ps. (10,586,254)	Ps. (9,291,080)

O) VALUATION AND QUALIFYING ACCOUNTS

The valuation and qualifying accounts are as follows:

Allowance for doubtful accounts:

For the year ended December 31,	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Balance at year-end
1998	Ps. 58,943	Ps. 15,291	—	Ps. 67,490
1999	67,490	48,323	(5,659)	110,154
2000	Ps. 110,154	Ps. 35,907	(4,676)	141,385

P) RESTATEMENT TO CONSTANT PESOS

The following presents condensed financial information prepared on a U.S. GAAP basis restated to December 31, 2000 constant pesos utilizing the Mexican NCPI. As disclosed in Note 3-D, under Bulletin B-15, the Company restated prior year balances utilizing weighted average restatement factors. The difference in the factors applied to restate prior year information to December 31, 2000 constant pesos utilizing the Mexican NCPI were:

Year	Factor
1998	1.0978
1999	1.0245

Condensed consolidated balance sheets as of December 31:

	Expressed in Thousands of Constant Mexican Pesos as of December 31, 2000	
	1999	2000
Total current assets	Ps. 6,324,446	Ps. 5,566,477
Property, plant and equipment	12,677,296	12,471,527

Total assets	22,248,412	21,081,490
Short-term debt	341,069	1,286,488
Long-term debt	7,491,347	6,042,528
Total liabilities	10,489,805	10,191,827
Minority interest	2,562,580	2,522,523
Total stockholders' equity	9,196,027	8,367,140

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

	Expressed in Thousands of Constant Mexican Pesos as of December 31, 2000		
	1998	**1999**	**2000**
Net sales	Ps. 16,847,850	Ps.17,015,55 4	Ps.18,199,04 5
Gross profit	6,165,442	5,811,466	6,593,235
Operating income	926,743	(108,297)	738,306
Majority net income (loss)	135,989	(522,163)	64,646

Q) RECENTLY ISSUED ACCOUNTING STANDARDS

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements" which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The financial statements have been presented on a basis that is consistent with the provisions of SAB 101 for all periods presented. The effect of adoption of SAB 101 was not significant.

In June 1998, the FASB issued SFAS N° 133, "Accounting for Derivative Instruments and Hedging Activities" which was subsequently amended by SFAS N° 137 and SFAS N° 138. SFAS N° 133, as amended is effective for fiscal years beginning after June 15, 2000. The Statement requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Management of the Company has evaluated the effect of the adoption of this statement on its financial statements and does not expect that the impact of adoption will be significant.

In September 2000, the FASB issued SFAS N° 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", a replacement of SFAS N° 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management of the Company is evaluating the effect of the adoption of this statement on its financial statements.