

Industrias Bachoco S.A.B. de C.V.
Form 20-F
April 27, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

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

OR

**..ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
^x OF 1934**

For the fiscal year ended December 31, 2017

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

OR

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission File Number: 333-7480

INDUSTRIAS BACHOCO, S.A.B. DE C.V.
(Exact name of Registrant as specified in its charter)

Bachoco Industries

(Translation of Registrant's name into English)

The United Mexican States
(Jurisdiction of incorporation
or organization)

Avenida Tecnologico 401

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing twelve Series B Shares.	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: None

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:

Series B Capital Stock: 600,000,000 Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statements item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 23 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

Yes No

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Introduction

Industrias Bachoco, S.A.B. de C.V. is a holding company with no operations other than holding the stock of its subsidiaries. Our two main subsidiaries are Bachoco, S.A. de C.V. (“BSACV”), located in Mexico, and Bachoco USA, LLC (“Bachoco USA”) located in the United States of America (“United States” or “U.S.”).

References herein to “Bachoco,” “we,” “us,” “our,” “its” or the “Company” are, unless the context requires otherwise, to Industrias Bachoco, S.A.B. de C.V. and its consolidated subsidiaries as a whole.

Additionally, references herein to “OK Industries” or “OK Foods” are, unless the context requires otherwise, to Bachoco USA and its consolidated subsidiaries as a whole.

We are incorporated under the laws of the United Mexican States (“Mexico”), but we have operations in both Mexico and the U.S. Our principal executive offices are located in Mexico at Avenida Tecnológico 401, Ciudad Industrial, zip code 38010, Celaya, State of Guanajuato, Mexico, and our main telephone number is +52 (461) 618 3500, or +52 (461) 618 3555.

Presentation of Information

Fiscal Year

The fiscal year for Bachoco and its subsidiaries in Mexico ends in December each year. The fiscal year for Bachoco USA and its subsidiaries in the U.S. ends in April each year. Notwithstanding the foregoing, for purposes of our consolidated financial statements, the accounting year period for all the Company’s subsidiaries ends on December 31.

Currency

Except as otherwise indicated, all data in the financial statements included below and in Item 18 (which together with the attached notes constitute our “Audited Consolidated Financial Statements”) and the selected financial information

included throughout this Form 20-F (this “Annual Report”) have been presented in millions of nominal pesos unless otherwise indicated. References herein to “pesos” or “\$” are to the lawful currency of Mexico.

References herein to “U.S. dollar” or “USD” are to the lawful currency of the United States of America.

This Annual Report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos at an exchange rate of \$19.66 to USD1.00 (one U.S. dollar), the exchange rate on December 31, 2017, according to the *Banco de Mexico* (the “Mexican Central Bank”).

Accounting Practices

In January 2009, the *Comision Nacional Bancaria y de Valores* (Mexican Banking and Securities Commission or “CNBV”) published certain amendments to the Rules for Public Companies and other participants in the Mexican Securities Market that require public companies to report financial information in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective as of January 1, 2012. Following these amendments, on January 1, 2012, we adopted IFRS, meeting the CNBV requirements.

Our Audited Consolidated Financial Statements included elsewhere in this Annual Report have been prepared in accordance with IFRS, as issued by the IASB.

The rules and regulations of the Securities and Exchange Commission (the “SEC”), do not require foreign private issuers that prepare their financial statements on the basis of IFRS (as published by the IASB) to reconcile such financial statements to accounting principles generally accepted in the United States of America (“U.S. GAAP”). As such, while Bachoco has in the past reconciled its consolidated financial statements prepared in accordance with Mexican Financial Reporting Standards (MFRS) to U.S. GAAP, those reconciliations are no longer presented in Bachoco’s filings with the SEC.

Other References

Bachoco’s production volume is measured in “tons”, which term refers to metric tons of 1,000 kilograms, equal to 2,204.6 pounds; the term “billion” refers to one thousand million (1,000,000,000).

Non-GAAP Financial Measures

The body of generally accepted accounting principles is commonly referred to as “GAAP.” For this purpose, a non-GAAP financial measure is generally defined by the SEC as a numerical measure of a company’s historical or financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of comprehensive income, statement of financial position or statement of cash flows (or equivalent statements) of the company; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

The Company discloses in this Annual Report the so-called non-GAAP financial measures of EBITDA result, EBITDA margin, and Net debt. EBITDA result is defined as profit before income tax expense (benefit), financial income (expense), net and depreciation. EBITDA margin is defined as EBITDA result divided by total net revenues. Net debt is defined as long-term debt (including the current portion) plus short term debt minus cash and cash equivalents, primary financial instruments and derivative financial instruments. The non-GAAP financial measures of EBITDA result and EBITDA margin are not substitutes for the GAAP measure of profit for the year. Rather, these measures are provided as additional information to complement the GAAP measure of profit for the year by providing further understanding of the Company’s results of operations from management’s perspective. Additionally, the non-GAAP financial measure of Net debt is not a substitute for the GAAP measure of Total debt. Rather, this measure is provided as additional information to contemplate the GAAP measure of Total debt by providing further understanding of the Company’s debt obligations. Accordingly, EBITDA result, EBITDA margin and Net debt should not be considered in isolation or as substitutes for an analysis of the Company’s financial performance, liquidity or debt obligations.

Company management believes that disclosure of these non-GAAP measures are an important supplemental measure of the Company's operating performance and debt obligations because investors, financial analysts and other interested parties frequently use EBITDA and Net debt in the evaluation of other companies in the same industry in which the Company operates.

Market Data

This Annual Report contains certain statistical information regarding the Mexican chicken, egg and balanced feed (or "feed") markets. We have obtained this information from a variety of sources, including but not limited to; *Union Nacional de Avicultores* (the National Poultry Union or "UNA"), the *Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutricion Animal, A.C.* (or "CONAFAB"), the U.S. Department of Agriculture (or "USDA"), and the Mexican Central Bank, among others.

Other sources of statistical information used by the Company include *Consejo Mexicano de Porcicultura* (the Mexican Pork Council or "CMP"), *Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion* (Ministry of Agriculture, Livestock, Rural Development, Fishing and Food or "SAGARPA"), among others.

The producers' associations rely principally on data provided by their members. Information for which no source is cited was prepared by us on the basis of our knowledge of the Mexican chicken, egg, feed, turkey and swine markets and the wide variety of information available regarding these markets. The methodology and terminology used by different sources are not always consistent, and data from different sources are not readily comparable.

Forward-looking Statements

We may from time to time make written or oral forward-looking statements in our periodic reports to the SEC on Forms 20-F and 6-K, in our Annual Report to stockholders, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by one of our officers, directors or employees to analysts, institutional investors, representatives of the media and others.

Examples of such forward-looking statements include, but are not limited to: (i) projections of revenues, income (or loss), earnings (or loss) per share, capital expenditures, dividends, capital structure or other financial items or ratios; (ii) statements of our plans, objectives or goals or those of our management, including those relating to new contracts; (iii) statements about future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guidel" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties, and a number of unexpected changes could cause actual results to deviate from our plans, objectives, expectations, estimates and intentions. We recognize that the accuracy of our predictions and our ability to follow through on our intentions depend on factors beyond our control. The potential risks are many and varied, but include unexpected changes in: economic, weather and political conditions; raw material prices; competitive conditions; and demand for chicken, eggs, turkey, balanced feed, beef and swine.

Part I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The financial information set forth below is derived from our Audited Consolidated Financial Statements, which are included in Item 18. We provide details on the figures and year-to-year changes in our Audited Consolidated Financial Statements.

The tables below present our key financial information for the fiscal years indicated. Except as otherwise indicated, the amounts are presented in millions of nominal pesos, except per share amounts, which are presented in pesos.

STATEMENT OF PROFIT OR LOSS DATA

In millions, for the year ended December 31,	2017	2017	2016	2015	2014	2013
	USD	\$	\$	\$	\$	\$
Net revenues	2,952.7	58,050.0	52,020.3	46,229.0	41,779.1	39,710.7
Cost of sales	2,416.2	47,503.0	42,635.1	36,847.5	32,495.0	33,176.6
Gross profit	536.5	10,547.1	9,385.2	9,381.5	9,284.1	6,534.1

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General, selling and administrative expenses	275.9	5,423.4	4,847.9	4,323.4	3,781.3	3,291.0
Other(expenses) income, net	8.5	167.6	260.2	(4.6)	(160.9)	30.7
Operating income	269.1	5,291.3	4,797.6	5,053.5	5,341.9	3,273.8
Net finance income	38.0	747.6	797.0	446.6	246.9	118.4
Income tax	55.2	1,084.4	1,643.4	1,680.6	1,656.1	1,350.4
Profit attributable to controlling interest	251.7	4,948.2	3,946.6	3,812.8	3,926.9	2,038.4
Profit attributable to non-controlling interest	0.3	6.2	4.5	6.7	5.7	3.4
Profit for the year	\$252.0	4,954.4	3,951.2	3,819.5	3,932.7	2,041.8
Basic and diluted earnings per share ⁽¹⁾	0.42	8.25	6.58	6.36	6.55	3.4
Basic and diluted earnings per ADR ⁽²⁾	5.03	98.97	78.90	76.3	78.66	40.84
Dividends per share ⁽³⁾	0.066	1.300	1.300	1.500	0.000	1.584
Weighted average shares outstanding ⁽⁴⁾	599,998	599,998	599,980	599,631	599,955	599,993

- (1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.
- (2) Each ADR represents twelve shares.
- (3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.
- (4) In thousands of shares.

STATEMENT OF FINANCIAL POSITION DATA

In millions as of December 31,	2017 USD	2017 \$	2016 \$	2015 \$	2014 \$	2013 \$
Total assets	2,571.6	50,557.4	45,090.5	40,446.6	34,843.1	28,889.7
Cash and cash equivalents	819.5	16,112.3	14,681.2	14,046.3	11,036.1	6,716.9
Total liabilities	756.8	14,879.5	13,374.3	12,667.2	10,481.1	8,738.5
Short-term debt ⁽¹⁾	187.9	3,695.1	3,097.5	1,631.9	798.0	557.6
Long-term debt	79.0	1,554.0	950.4	2,495.1	1,652.5	1,510.2
Total stockholders' equity	1,814.7	35,677.9	31,716.2	27,779.4	24,362.1	20,151.1
Capital stock	59.7	1,174.4	1,174.4	1,174.4	1,174.4	1,174.4

(1) Includes notes payable to banks and current installments of long term debt.

MARGINS

In percentage, for the years ended December 31,	2017	2016	2015	2014	2013
Gross margin	18.2%	18.0%	20.3%	22.2%	16.5%
Operating margin	9.1 %	9.2 %	10.9%	12.8%	8.2 %
Net margin for the year	8.5 %	7.6 %	8.4 %	9.4 %	5.1 %

Other Indicators

The tables set below present key indicators.

VOLUME SOLD BY OPERATING SEGMENT

In thousands of tons, as of December 31,	2017	2016	2015	2014	2013
Total sales volume:	2,201.4	2,122.8	2,034.3	1,841.4	1,771.1
Poultry	1,723.8	1,668.6	1,613.4	1,495.0	1,429.2
Others	477.6	454.2	420.9	346.4	341.9

Gross Domestic Product, Inflation Rate and CETES

The chart below includes Mexican gross domestic product (“GDP”) and inflation rate data from 2013 to 2017, and the average interest rates on 28-day Mexican treasury bills (“CETES”), as provided by the Mexican Central Bank.

Gross Domestic Product

Mexico has experienced economic growth in the last five years, but to varying degrees. In 2017, the Mexican GDP was 2.3%, the same as in 2016. In 2015, Mexican GDP was 2.5%, and in 2014 and 2013 was 2.1% and 1.1% respectively.

Interest Rates

Mexico historically has had, and may continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities averaged 6.7%, 4.2%, 2.9%, 2.7% and 3.8% for 2017, 2016, 2015, 2014 and 2013, respectively. High interest rates in Mexico could increase our financing costs and thereby impair our financial condition, results of operations and cash flow.

Inflation Rates

The annual rate of inflation, as measured by changes in the Mexican National Consumer Price Index, or NCPI, was 6.77% in 2017, 3.36% in 2016, 2.13% in 2015, 4.08% in 2014, and 3.97% in 2013, according to the Mexican Central Bank. An adverse change in the Mexican economy may have a negative impact on price stability and result in higher inflation than its main trading partners, including the United States.

GDP, INFLATION RATE AND CETES DATA

Year	GDP	Inflation Rate	CETES
2017	2.3%	6.77%	6.7%
2016	2.3%	3.36%	4.2%
2015	2.5%	2.13%	2.9%
2014	2.1%	4.08%	2.7%
2013	1.1%	3.97%	3.8%

On March 12, 2018, the 28 day CETES rate was 7.5%.

Exchange Rates

In 2013, the exchange rate of the peso against the U.S. dollar started the year strong with an upward trend, but ended the year with a slight depreciation of 1.0% compared with December 31, 2012.

During most of 2014, the Mexican peso-U.S. dollar exchange rate was stable. This stability changed drastically toward the end of the year, when we observed a higher Mexican peso-U.S. dollar exchange rate, leading the Mexican peso-U.S. dollar exchange rate to depreciate 11.2% in 2014 with respect to the exchange rate in effect on December 31, 2013.

During the first half of 2015, the exchange rate of the peso against the U.S. dollar was stable. This stability changed toward the end of the year, as we observed an average rate of \$16.59 per one U.S. dollar in the second half of the year, with a net depreciation of 14.3% by the end of the year with respect to year-end 2014.

During 2016, the exchange rate of the peso against the U.S. dollar had high levels of volatility for the whole year, but mainly at year end, leading the Mexican peso-U.S. dollar exchange rate depreciate 20.0% in 2016 with respect to year-end 2015.

During 2017, the exchange rate of the peso against the U.S. continued with high levels of volatility mainly during the first part of the year. At year-end 2017, the Mexican peso-U.S. dollar exchange rate appreciated 5.0% with respect to year-end 2016.

The following table sets forth the high, low, average and year-end exchange rates for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York, for periods indicated:

EXCHANGE RATE FOR THE LAST 5 YEARS

In pesos per one U.S. dollar	High \$	Low \$	Average \$	Close \$
2017	21.89	17.48	18.88	19.64 ⁽¹⁾
2016	20.84	17.19	18.67	20.64
2015	17.36	14.56	15.87	17.20
2014	14.79	12.85	13.30	14.75
2013	13.43	11.98	12.76	13.10

EXCHANGE RATE FOR THE LAST 6 MONTHS

March 2018	18.86	18.17	18.59	18.17
February 2018	18.90	18.36	18.65	18.84
January 2018	19.48	18.49	18.91	18.62
December 2017	19.73	18.62	19.18	19.64 ⁽¹⁾
November 2017	19.26	18.51	18.93	18.63
October 2017	19.18	18.21	18.22	19.13

Source: http://www.federalreserve.gov/releases/h10/Hist/dat00_mx.htm.

⁽¹⁾ As of December 31, 2017, the exchange rate for the year end published by the Mexican Central Bank was \$19.66 per one U.S. dollar.

On March 31, 2018, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was \$18.17 per one U.S. dollar.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

The Company is exposed to a wide range of risks. Note that the order in which the below risks are described does not necessarily reflect the effect that any of the below risks would have on the Company.

Risks Related to Economic, Political and Regulatory Conditions

Bachoco's core businesses are conducted in Mexico and in the United States and, therefore its performance depends, among other factors, on the economic conditions prevailing in those countries, and particularly in Mexico. The Company's risk exposure related to economic conditions includes risks related to economic performance, exchange rates, interest rates, as well as other political, economic and social events that may negatively affect the Company's performance and may result in lower demand for, and lower real pricing of, our products.

Additionally, the Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect the Mexican economy. Prolonged periods of weak economic conditions in Mexico may have, and in the past have had, a negative effect on our Company and a material adverse effect on our results and financial condition.

Unfavorable economic conditions in Mexico or the United States, such as a recession or increases in interest and inflation rates could have an adverse effect on our financial performance.

If the Mexican or U.S. economies experience a high inflation rate, recession or economic slowdown, consumers may not be able to purchase our products as usual, especially in Mexico, where these factors have a direct impact on the consumers, and as a consequence our earnings may be adversely affected.

High interest rates in Mexico or in the U.S. could adversely affect our costs and our earnings due to the impact those changes have on our variable-rate debt instruments; on the other hand, we may benefit from the interest we earn on our cash balance. Mexico historically has had, and may continue to have, high real and nominal interest rates.

A strong variation in the exchange rates between the peso and the U.S. dollar could negatively affect our financial results, as a greater percentage of our sales are made in pesos, and a large percentage of our raw material purchases are made in U.S. dollars.

Furthermore, the Company could be adversely affected by negative economic conditions prevalent in the U.S. or other countries, even when economic conditions in such countries may differ significantly from economic conditions in Mexico, as investors' reactions to developments in any of these other countries may have an adverse effect on our securities. Consequently, the market value of our securities may be adversely affected by events taking place outside of Mexico or the U.S.

Political events and regulatory changes in Mexico could affect Mexican economic conditions and, as a consequence, negatively affect our operations.

The Company has operations in both Mexico and the U.S. However, it is incorporated under the laws of Mexico, where a greater percentage of its sales are made. Accordingly we foresee an impact mainly from negative developments in the political, regulatory and economic conditions in Mexico.

In July 2012, Enrique Peña Nieto of the *Partido Revolucionario Institucional* was elected as President of Mexico. After taking office he started to implement significant changes in laws, public policy and regulations in areas such as the energy sector and fiscal affairs, all of which are still in process of becoming fully implemented, and it is still unclear what effects these and other possible reforms may have on the Mexican economy.

The Mexican presidential election will be held in July 2018. The uncertainty of whom will be elected may result in markets volatility. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results.

The direct correlation between economic conditions in Mexico and the U.S. has strengthened in recent years because of the North American Free Trade Agreement, (“NAFTA”), and increased economic activity between the two countries (including increased remittances of U.S. dollars from Mexican workers in the U.S. to their families in Mexico). On January 20, 2017, Donald Trump became president of the U.S. President Trump and the Trump administration have made comments suggesting that he intends to re-negotiate the free trade agreements that the U.S. is party to, including NAFTA, and to implement high import taxes. During 2017 the renegotiation process of NAFTA began between U.S., Canada and Mexico. This negotiation continues up to date, and its result remains unclear. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of NAFTA and/or other U.S. government policies that may be adopted by the new U.S. administration (which may result in regulatory gridlock or on the contrary, it could result in a major regulatory change) could have a material adverse effect on the Mexican economy, which, in turn, could affect our business, financial condition and results of operations.

Government regulations in Mexico and the U.S. could cause a material increase in the Company’s costs of operations and thus could have a negative impact on our results of operations.

Every region in which Bachoco operates is subject to extensive federal, state and foreign laws and regulations that govern the production, packaging, storage, moving and marketing in the food industry and the poultry industry in particular, including several provisions relating to the discharge of materials into the environment.

We may be subject to fines, closures of our facilities, asset seizures, injunctions or criminal sanctions if we are held by a court of competent jurisdiction to be non-compliant with any of the applicable laws and regulations.

The adoption of new regulations or changes in the prevailing regulatory environment governing the food industry may entail restrictions in the daily operation of our Company, or increases in our expenses or production costs, conditions that could negatively affect our financial results.

Additionally, changes in tax laws, the imposition of new taxes or changes in the existing tax rates in Mexico or the U.S. could have an adverse impact on our operations and, as a result, negatively affect our financial results.

Risks Related to Bachoco and the Poultry Industry

The poultry industry in Mexico and the U.S., as well as the chicken industry in other countries, has undergone cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability.

The market that we serve is subject to volatility with respect to supply and raw material prices, which affects our product prices. We cannot provide assurance that future cyclical, excess supply, increases in main raw materials prices, or downturns in real prices will not adversely affect our financial results.

The largest single component of our cost of sales is the cost of grains used to prepare balanced feed, including sorghum and corn, and some other ingredients such as: soybean meal and marigold extract, among others.

Increase or volatility in main raw materials prices may adversely affect our operating and financial results.

The price of most of these raw materials is subject to significant volatility resulting from weather conditions, the size of harvests, governmental agricultural policies, currency exchange rates, transportation, storage costs, and other factors.

Furthermore, the cost of corn in the U.S. may be affected by an increase in the demand both of ethanol and feed production, which can reduce the supply of corn in the U.S. market, adversely affecting our operations in the U.S.

High prices or volatility in main raw materials could adversely affect our production costs and as a result our financial results.

Supply, demand and the prices we are able to charge for our products may fluctuate due to competition from other food producers and the economic performance in the countries we are present may adversely affect our operating and financial results.

Excess in chicken or eggs supply caused by increases in production from our competitors coupled with a weak demand for our products in the markets we operate may result in a downturn in prices for these products, and as a result, our operating margins and financial results could be negatively affected.

We face competition from other chicken producers in all markets in which we sell our products. These chicken producers have the financial resources and operating strengths to directly compete with our Company. We expect to continue to face strong competition in every market, as our existing or new competitors are likely to broaden their product lines and extend their geographic markets. Accordingly, we can provide no assurance that our performance will not be adversely affected by increased competition.

Raising animals and meat processing involve animal health and disease control risks, which can have an adverse impact on our results of operations.

Our operations in Mexico and in the U.S. depend on raising animals and meat processing, which are subject to risks such as diseases (like different types of avian flu) and contamination during production, packaging, storage or distribution processes. Such diseases may cause bans from countries we export to. Any such ban could affect export prices, and therefore our financial results.

Live chickens and swine are susceptible to infections by a variety of microbiological agents that may result in higher mortality rates, affecting our earnings and financial results.

Our chicken, turkey, beef and eggs products are subject to contamination during processing, packaging, distribution or conservation. Potential contamination of our products during processing, however, could affect a larger number of our products, which may have a significant impact on our results.

Natural disasters such as hurricanes, tornadoes or earthquakes may result in additional losses of inventory and damage to our plants and equipment.

Natural disasters could significantly damage our facilities. Our facilities in Mexico are susceptible mainly to earthquakes and hurricanes. Our facilities near Mexico's coast are most vulnerable to the risk of severe weather. Our U.S. facilities are located in Georgia, Arkansas and Oklahoma, a region vulnerable to being hit by tornadoes. Extensive damage to these facilities could affect our ability to conduct our regular production and, as a result, reduce our operation results.

Our growth through mergers, acquisitions or joint ventures may be impacted by challenges in integrating significant acquisitions.

We have made in the past, and may make in the future, certain acquisitions in order to continue our growth. Acquisitions involve risks, including, among others, the following: failure of acquired businesses to achieve expected results; inability to retain or hire key personnel of acquired businesses; inability to retain the same client and supplier base; and inability to achieve expected synergies and/or economies of scale. If we are unable to successfully integrate or manage our acquired businesses, we may not realize anticipated cost savings and revenue growth, which may result in reduced profitability or losses.

Elimination of tariff barriers may adversely affect our performance.

U.S. producers may increase exports to Mexico because chicken, eggs and swine are free of import quotas to Mexico according to the NAFTA. Poultry producers in the United States have developed low cost production methods and have been successful in exporting primarily frozen and value-added poultry to other countries, especially in periods of overcapacity in the United States, a condition that could have a material adverse effect on our performance in Mexico.

Regulations on animal health and environmental changes in Mexico could affect Mexican poultry industry conditions and, as a consequence, negatively affect the Company.

Our processes are subject to several animal health and environmental regulations that include animal raising, transportation, packaging, storage and distribution regulations. Drastic changes in any of these regulations could negatively affect our daily operations and ability to supply our products, and, as a consequence, affect our financial results. Changes in regulations may also require the implementation of new processes or equipment to comply with the new regulations, a condition that may negatively affect our liquidity, as our capital investments could increase.

Our inability to maintain good relationships with our work force and its labor union may affect our processes and, as a consequence, our financial results.

If we are unable to maintain good relations with our employees and with our labor union we may be faced with significant work stoppages as a result of labor problems, a condition that may affect our processes and our operating results.

Risks relating to Bachoco's investors and its American Depositary Receipts (or ADRs)

The Robinson Bours family owns 73.25% of our total shares outstanding and their interests may differ from other security holders. With that percentage they hold the power to elect a majority of the members of our board of directors and have the power to determine the outcome of certain other actions requiring the approval of our stockholders, including whether or not dividends are to be paid and the amount of such dividends.

The Company trades its ADRs on the New York Stock Exchange ("NYSE") with each ADR representing twelve common shares.

The prevailing market prices for the ADRs and the shares could decline if the Robinson Bours family sold substantial amounts of their shares, whether directly, or indirectly, through two Mexican trusts through which they hold their shares, or if the perception arose that such a sale could occur. See Item 7 for more details about the Company's trusts.

The market value of our securities may be affected by economic and market conditions prevailing in any other country, although economic conditions in such countries may differ significantly from economic conditions in Mexico. Investors' reactions to developments in any of these other countries may have an adverse perception and, consequently, the market value of our securities may be adversely affected by events elsewhere.

Payment of cash dividends may be affected by the exchange rate of the peso versus the U.S. dollar.

Because we pay cash dividends in pesos, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADRs upon conversion of such cash dividends by the Bank of New York (BNY) Mellon, who acts as our Depositary Bank.

The protection afforded to non-controlling stockholders in Mexico is different from that in the United States.

Under Mexican law, the protection afforded to minority stockholders is different from that in the United States. In particular, the law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions or stockholder derivative actions, and there are different procedural requirements for bringing stockholder lawsuits. As a result, in practice it may be more difficult for the minority stockholders of Bachoco to enforce their rights against us or our directors or our controlling stockholder than it would be for stockholders of a U.S. company.

Our bylaws restrict the ability of non-Mexican stockholders to invoke the protection of their governments with respect to their rights as stockholders.

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

Our bylaws may only be enforced in Mexico.

Our bylaws provide that legal actions relating to the execution, interpretation or performance of the bylaws may be brought only in Mexican courts. As a result, it may be difficult for non-Mexican stockholders to enforce their stockholder rights pursuant to the bylaws.

It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. As a result, it may be difficult for investors to affect service of process within the United States on such persons or to enforce judgments against them. This pertains also to any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts of liabilities based solely on the U.S. federal securities laws.

Non-Mexican stockholders may not be entitled to participate in future preemptive rights offerings.

Under Mexican law and our bylaws, if we issue new shares for cash as part of a capital increase, we must grant our stockholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in the Company (“preemptive rights”). We can allow holders of ADRs in the United States to exercise preemptive rights in any future capital increase only in one of the following two circumstances: (i) we file a registration statement with 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 of 1933, as amended.

We make no promises that we will file a registration statement with the SEC to allow holders of ADRs in the United States to participate in a preemptive rights offering. As a result, the equity interests of such holders in the Company may be diluted proportionately. In addition, under current Mexican law, it is not practicable for the depositary to sell preemptive rights and distribute the proceeds from such sales to ADR holders.

Item 4. Information of the Company

A. History and Development of the Company

The Company was legally formed in Mexico as Industrias Bachoco, S.A.B. de C.V., on April 17, 1980, in Obregon, State of Sonora, Mexico, and is frequently referred to as Bachoco.

We are incorporated under the laws of Mexico, but we have operations in both Mexico and the U.S. Our principal executive offices are located in Mexico at Avenida Tecnológico 401, Ciudad Industrial, zip code 38010, Celaya, State of Guanajuato, Mexico, and our telephone number is +52 (461) 618 3500.

Our investor relations department is located at the address above, and can be reached at: email: Inversionistas@bachoco.net; telephone: +52 (461) 618 3555.

Our operating segments, which are comprised of our product lines, are identified on the basis of our core principles in accordance with IFRS 8.10. Accordingly, our operating segments are comprised of the following five components: chicken, eggs, pork, balanced feed and other meat products. The chicken and eggs segments meet, in an aggregate basis, the quantitative thresholds for separate reporting, while the pork, balanced feed and other meat products lines are immaterial, both on an individual and aggregate basis, and have therefore been reported on a combined basis in the “other operating segments” category. We have aggregated the chicken and eggs operating segments into one reportable segment. As a result, we end up with two reportable operating segments, “Poultry” and “Others”.

Important events in the development of the Company's business

We were founded in 1952 and have grown from a small commercial table egg operation in the state of Sonora into a vertically integrated Company and the leading poultry company in Mexico as well as, in our opinion, one of the most important poultry companies worldwide.

In 1963, we started operations in the cities of Navojoa, Los Mochis and Culiacan, producing just table eggs. In 1971, we commenced the production of chicken in an operating facility that we opened in the city of Culiacan.

In 1974, we established a new complex in Celaya, Guanajuato, Mexico and in 1980 we legally incorporated as Industrias Bachoco, S.A.B. de C.V., in Obregon, State of Sonora, Mexico. As our products were increasingly widely accepted, we opened offices and distribution centers in Mexico City. In 1993, we moved our headquarters from Obregon to Celaya city, and opened a new complex in the city of Tecamachalco, in the Southeast of Mexico.

In 1994, we continued expanding our coverage, this time with a new complex in Lagos de Moreno city, in the Western Mexico. By 1994, we had four productive complexes strategically located throughout Mexico and an important presence in the Mexican poultry market share.

In September 1997, we began trading on the Mexican Stock Exchange (or "BMV") and on the NYSE, through our ADR Level III Facility.

Furthermore, in December, 1999, we acquired Campi. With this acquisition we entered the chicken market in the South of Mexico, starting a new business line selling balanced feed to third parties. In 2001, we established our sixth productive complex in Gomez Palacio city, located in the Northeast of Mexico.

In December 2006, we acquired most of the assets and inventories of Del Mezquital to start a new complex in Hermosillo city, located in Northern Mexico, close to the border with the United States.

In 2007, through a business agreement with Grupo Libra and Grupo Agra we entered in a new business, the sales of turkey and beef value-added products, and increased our production capacity of table eggs. Both companies are located in Northeast Mexico.

In 2009, we made diverse business agreements with companies located at the Northeast of Mexico. Specifically, to improve capacity and efficiency in our Northeast production complex headquartered in Monterrey, we (i) acquired the assets of a balanced feed mill and a soybean processing plant from Productora de Alimentos Pecuarios de Nuevo Leon; (ii) acquired the assets of a chicken processing plant from Avi Carnes Monterrey; (iii) entered into agreements to rent breeder farms and egg incubation plants from Reproductoras Asociadas, and one-day-old breeder capacity farms and egg incubation plants from Produccion Avicola Especializada; and (iv) made arrangements with contract growers to acquire their inventories.

In August 20, 2011, we acquired Trosi de Carnes, S.A. de C.V. (or “Trosi”); this facility is located in Monterrey, Northern Mexico. Trosi produces and sells processed beef and chicken.

On November 1, 2011, the Company entered the U.S. market and increased its export business with the acquisition of the American poultry company, OK Foods. This company has operations across the River Valley area in Arkansas and Oklahoma. It supplies grocery retailers, food service distributors and commodity customers throughout the U.S. as well as foreign markets. Our U.S. subsidiary, Bachoco USA, is the holding company of OK Foods.

In December 2011, the Company carried out a transaction to buy certain property assets of Mercantil Agropecuaria Coromuel, S.A. de C.V. (or “MACSA”), whereby, the Company reinforced its presence in the State of Baja California in Mexico, with three distribution centers.

In July 2013, the Company reached an agreement to acquire the Arkansas breeding assets of Morris Hatchery Inc., a U.S. company. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs).

In July 2015, the Company reached an agreement to acquire the Georgia breeding assets of Morris Hatchery Inc. These assets comprise mainly equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately one million laying hens. See Notes 4 and 12 of our Audited Consolidated Financial Statements for more detail.

In December 2015, the Company reached an agreement to acquire the Oklahoma City Fully Cooked facility from American Foods Group, a U.S. Company. This acquisition comprises all the American Foods Group's Chicken assets located in Oklahoma City, with a capacity to produce over 700,000 pounds per week of fully cooked chicken products. The Company closed the transaction in February through its subsidiary, OK Foods.

In 2017, the Company made two acquisitions: a) Proveedora La Perla S.A. de C.V.(hereinafter "La Perla"), a pet food plant located in central Mexico. This acquisition includes all the La Perla's assets owned in the state of Queretaro, Mexico. These assets have the capacity to produce over 65,000 tons a year of dry pet food and comprise a facility for producing Pet Food Treats and b) Albertville Quality Foods Inc. (hereafter "AQF") a U.S. company located in the state of Alabama that produces and sells value-added further processed products. This acquisition comprises two value-added, further processing plants. We merged AQF with OK Foods, Inc. at the end of 2017, and thus it is not operating as a separate subsidiary.

Capital Expenditures

We finance most of our capital expenditures with resources generated by our operations.

The following is a summary of the capital expenditures incurred by the Company during the periods covered by this Annual Report with the amounts having been computed under IFRS.

In 2017, we made capital expenditures of \$3,513.4 which were mainly allocated towards our organic growth plans and the acquisitions made during the year as described above.

In 2016, we made capital expenditures of \$2,459.7 which were mainly allocated towards our organic growth plans by investing in projects that will make our processes more efficient, alleviating bottlenecks, as well as in the replacement of part of our transportation fleet and of other equipment in all of our facilities.

Our capital expenditures in 2015 totaled \$1,824.5 million, which was mainly allocated toward organic growth, by continued alleviating bottlenecks in some of our process and productivity projects across all of our facilities as well as our acquisition of the Georgia breeding assets of Morris Hatchery Inc.

In 2014, we made capital expenditures of \$1,241.1 million, which was mainly allocated to projects geared towards the alleviation of some bottleneck in our operating processes, thereby increasing production, productivity improvements and the replacement of the transportation fleet used in our operations in Mexico and the U.S.

At present, as part of its regular course of business, the Company continues with its replacement of equipment and productivity projects.

B. Business Overview

General

Bachoco owns and manages more than a thousand facilities, organized in 9 production complexes and more than 80 distribution centers in Mexico, and 1 production complex in the United States.

We participate in the food industry in Mexico and in the U.S., mainly in the poultry industry.

We are the leader in the Mexican poultry industry, and one of the largest poultry producers globally. In 2011, we entered the U.S. chicken market through our acquisition of OK Foods.

In Mexico, our core business is poultry (chicken and egg products), but we also produce and sell a wide range of other products which we refer to as “others” which include, among others, the production and selling of balanced feed, live swine, beef and turkey value-added products, as well as a laboratory that produces vaccines for the poultry industry as well as other similar industries.

Sales generated by these other product lines, except for balanced feed sales, each on an individual basis, do not represent more than 1.0% of our total sales.

In the United States, our sole product line is almost exclusively chicken products.

In the recent years, we have not experienced material changes in the development or production of our products.

Principal Markets

We operate mainly in Mexico and in the U.S. We estimate that we are the biggest producer of chicken products in Mexico. Based on our internal estimates, we currently account for approximately 35.0% of the Mexican chicken production market and are the second largest producer of eggs with an estimated market share of approximately 5.1%. We currently estimate that we have approximately 3.6% market share in the balanced feed products.

As noted previously, in the U.S. we produce and distribute chicken products only. Based on our internal estimates, we currently account for approximately 1.8% of this market.

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, as of December 31, 2017, 2016 and 2015:

NET REVENUES BY OPERATING SEGMENTS

In millions of pesos, for the year ended	2017	2016	2015
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December 31,

	\$	%	\$	%	\$	%
Net Revenues	58,050.0	100	52,020.3	100	46,229.0	100
Poultry	52,479.4	90.4	46,852.5	90.0	41,789.5	90.4
Others	5,570.6	9.6	5,167.8	10.0	4,439.5	9.6

Our poultry operating segment is our largest product line in terms of revenue. Within our poultry operating segment, our main product lines are chicken and eggs, which are described in more detail in the following paragraphs. Within our “Others” segment, our main product line is balanced feed, which is also described in more detail in the following paragraphs.

Overview of the Chicken Industry in Mexico

According to the UNA, chicken products are the main source of protein consumed in Mexico.

Mexico is among the ten main chicken producers worldwide, with an estimated production of 3,383.3 thousand tons of chicken meat in 2017, and a per capita consumption of 32.2 kilograms a year in 2017, an increase of 1.6% when compared to 31.7 kilograms a year in 2016.

Fresh chicken is the most popular meat consumed in Mexico. According to the UNA, more than 90% of chicken is sold fresh, and just a small percentage is sold frozen and with value added (marinated, breaded, partially cooked and fully cooked, among others). These products have found limited acceptance among Mexican consumers due to historical consumer preferences for fresh chicken.

We estimate that we are Mexico's largest chicken producer with around 35.0% share of the chicken production market, and when combined with our largest vertically integrated competitor in Mexico, we account for approximately 60.0% of total Mexican poultry production.

According to the USDA, Mexico is a main destination for U.S. chicken exports. Chicken imports from the U.S. have increased from 204.1 thousand tons in 2008 (when restrictions for leg quarters imports were phased out in January 2008) to approximately 380.0 thousand tons in 2017. In particular, in 2017, chicken imports increased 2.9% when compared to 2016. This increase was due to an increase in the volume of products coming from South America.

Chicken products in Mexico are classified into six main categories: live, public market, rotisserie, supermarket broiler, chicken parts and value-added products. Bachoco operates in all these categories. For a better understanding of the chicken market in Mexico following is a brief description of each category of chicken products:

Live chicken is sold alive to small independent slaughtering operations or to wholesalers that contract with independent slaughtering operations for processing.

Public market chicken is a whole broiler presented either un-eviscerated or eviscerated, generally sold within 48 hours after slaughter. This product is sold to consumers without any packaging or brand identification.

- **Rotisserie chicken** is a whole broiler presented eviscerated and ready to cook.

- **Supermarket chicken** is a fresh whole broiler presented with the edible viscera packed separately.

Chicken cuts refers to cut-up fresh chicken parts sold wrapped in trays or in bulk principally to supermarket chains, the fast-food industry and other institutional food service providers.

- **Value-added products** refer mainly to cut-up fresh chicken parts with value-added treatment like marinating, breading and individual quantity frozen.

We operate in all six of these chicken categories; our product mix varies from region to region, reflecting different consumption and distribution patterns.

SALES AND VOLUME OF CHICKEN BY CATEGORY

In 2017	Industry /volume⁽¹⁾	Bachoco /volume	Bachoco /sales
Live	n/a	41%	32%
Public market	n/a	11%	11%
Rotisserie	n/a	24%	26%
Supermarket	n/a	5%	5%
Chicken parts	n/a	12%	14%
Value-added products	n/a	8%	13%

In 2016	Industry /volume⁽¹⁾	Bachoco /volume	Bachoco /sales
Live	37%	39%	32%
Public market	11%	13%	13%
Rotisserie	32%	23%	24%
Supermarket	5%	5%	5%
Chicken parts	10%	11%	13%
Value-added products	5%	9%	14%

In 2015	Industry /volume ⁽²⁾	Bachoco /volume	Bachoco /sales
Live	38%	38%	30%
Public market	12%	13%	13%
Rotisserie	32%	23%	25%
Supermarket	6%	5%	5%
Chicken parts	8%	11%	13%
Value-added products	4%	10%	14%

(1) Industry information for 2017 is not available as of the date of this report.

(2) Source: UNA.

Overview of the Chicken Industry in the U.S.

According to the USDA and the UNA, chicken is the main protein consumed in the U.S., but unlike in Mexico, most of the chicken is sold to producers uncut, and the cuts are mainly sold frozen and with value-added (more than 85%). This is due to a large increase in demand for the three main components of chicken: the breast, wing, and leg quarters.

The U.S. is the world's largest producer of chicken. Its annual production is estimated at 18.9 million tons or 41.7 billion pounds in 2017 a 2.4% increase over the 18.5 million tons produced in 2016, and its per capita consumption is also one of the highest worldwide, per annum, estimated at 41.3 kilograms (around 91.0 pounds).

The U.S. chicken industry is substantially consolidated and vertically integrated. Most producers of chicken use state-of-the-art technology in their processes. It is estimated that the main three chicken producers account for 45.8% of the total chicken production in the U.S.

Another characteristic of the chicken industry in the U.S. is the use of contract growers, with more than 85% of chicken produced by contract growers. Such production consists of providing the growers with chickens, balanced feed, vaccines, medicines and training required for the growing of chickens. The grower supplies its facilities and labor required in order to bring the chickens to slaughter-ready weight. The contract grower is then paid based on the productivity and efficiency of its flock.

Brazil and the U.S. are the main exporters of chickens worldwide, and their main destinations are Mexico, China, Russia and the Middle East, among other countries. We estimate that our market share is around 1.8% in the U.S.

Overview of the Egg Industry in Mexico

According to the UNA, Mexico has the largest per capita consumption of eggs (or “table eggs”) in the world.

There is an estimated per capita consumption of around 22.8 kilograms for 2017, a 3.3% decrease when compared to 23.5 kilograms in 2016.

Mexico’s 2017 annual egg production is estimated at 2,718.5 million tons, a decrease of 1.7% as compared with 2,765.4 million tons produced in 2016.

When compared to other protein sources, eggs are among the cheapest sources of protein in Mexico. The egg industry is more fragmented than the chicken industry.

Table eggs in Mexico are classified in three main categories: bulk, packaged and processed.

- **Bulk** is distributed in large 360 egg cases.

- **Packaged** in branded packages of mainly 12, 18, 24 or more eggs.

- **Processed** is liquid or powdery eggs used mainly by the bakery industry.

Bachoco participates in the bulk and packaged categories of eggs but does not participate in the processed market.

We estimate that we are the second largest producer of table eggs in Mexico. In each of 2017 and 2016, we produced 5.1% of the total eggs produced in Mexico in terms of tons. We sell both brown and white eggs. We estimate that we are the largest producer of brown eggs in Mexico, and the largest marketer of packaged eggs with brand identification.

In 2017, 2016 and 2015, the volume sold in the table eggs category in the Mexican industry and by the Company was:

SALES AND VOLUME OF EGG BY CATEGORY

In 2017	Industry / volume⁽¹⁾	Bachoco /volume	Bachoco /sales
Bulk	n/a	29%	25%
Packaged	n/a	71%	75%
Processed	n/a	0%	0%

In 2016	Industry / volume⁽²⁾	Bachoco /volume	Bachoco /sales
Bulk	80%	34%	28%
Packaged	14%	66%	72%
Processed	6%	0%	0%

In 2015	Industry / volume⁽²⁾	Bachoco /volume	Bachoco /sales
Bulk	81%	32%	27%
Packaged	14%	68%	73%
Processed	5%	0%	0%

(1) Industry information for 2017 is not available as of the date of this report.

(2) Source: UNA.

Overview of the Balanced Feed Market in Mexico

According to CONAFAB, Mexico is among the five biggest producers of balanced feed worldwide.

According to CONAFAB, it is estimated that 33,240 thousand tons of balanced feed were produced in Mexico in 2017, a 2.8% increase from 32,327 thousand tons of balanced feed produced in 2016.

Producers of balanced feed are classified as either commercial or integrated; commercial manufacturers produce for the market while integrated manufacturers mostly produce for themselves and occasionally for other producers.

Bachoco participates in both channels, integrated and commercial, as it produces balanced feed used for internal consumption as well as balanced feed it ultimately sells to third parties.

In 2017, CONAFAB estimated that the production mix between commercial and integrated was about 38.0% and 62.0%, respectively. This mix has not changed much over the past several years.

The following table sets forth, for each of the periods indicated, our net volume sold of balanced feed:

BALANCED FEED VOLUME SOLD

Thousands of tons	Production	Bachoco's Production	Estimated Market Share
2017 ⁽¹⁾	12,616	451	3.6%
2016 ⁽²⁾	12,438	429	3.4%
2015 ⁽²⁾	11,904	395	3.3%

(1) CONAFAB estimates

(2) According to CONAFAB, balanced feed produced by commercial producers in Mexico.

Seasonality Effects

The poultry industry worldwide is very susceptible to price changes in its main raw materials, such as corn, soybean meal and sorghum. As a result, the industry is characterized by cyclical periods of higher profitability leading to overproduction followed by periods of lower prices and lower profitability.

Our sales are moderately seasonal in Mexico. Generally, we experience the highest levels of sales in the second and fourth quarters due to higher chicken consumption during the holiday seasons.

As for our sales in the U.S., there is slightly less seasonality due to the mix of products offered in the market, but breast meat prices are typically higher in the second and third quarters and wings are more in demand in the fourth and first quarters.

Pricing for chicken and eggs products

Chicken and eggs are considered a commodity item. Changes to the supply or demand and changes in raw material prices can directly impact sale prices, and, as a result, affect the profitability of main producers. Another factor that impacts chicken pricing mainly in U.S. is the international demand.

Main Raw Materials and Sources of Supply

As a vertically integrated company our processes start in our main product lines with production of balanced feed, as well as with the buying of grandparent breeder flocks.

Our production of chicken processes start with the purchasing of one-day birds called “grandparent” birds. These birds are raised to maturity in our farms where fertile eggs are produced to continue through our production processes. Grandparent birds are bought mainly in the U.S. and also in some other countries from genetic bird firms.

The largest single component of our cost of sales is the cost of balanced feed raw materials, mainly grain (corn and sorghum), as well as soybean meal, used to prepare balanced feed. We operate our own feed mills to produce balanced feed for both our individual business consumption as well as to sell to third parties.

The prices of these ingredients are subject to significant volatility resulting from weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. The Company engages in hedging of its feed costs in order to assure a more stable cost of grains.

In Mexico, domestic crops are limited, therefore a large percentage of our raw materials are imported from the U.S. In 2017, in terms of volume, we bought approximately 33.1% of our total grain from the domestic market and the remaining 66.9% from the U.S.

Marketing Channels Used by the Company

Marketing and Distribution of Chicken Products in Mexico

We have developed an extensive distribution system to participate in all the existing distribution channels of chicken and eggs products. We consider our distribution system one of the Company's strengths, where we have developed extensive expertise and knowledge of the business.

We participate and operate in all the following marketing channels:

Live Chicken. Unlike most other countries, Mexico has a large marketing channel of live chicken which mainly operates in the central and southern regions of Mexico.

Wholesalers. Large percentages of our chicken sales operate via wholesalers. The main products marketed in this channel are live and public market chicken as well as rotisserie. We do not have exclusive supply agreements with our customers.

Institutional. We sell a large amount of product to institutional customers. We mainly sell chicken cuts and rotisserie chicken in the institutional channel. Success in supplying the institutional channel depends on consistency and good service, and only larger producers with more modern processing facilities and distribution capacity can compete in this market.

Supermarket. We sell cuts and value-added products as well as supermarket chicken types through supermarket channels or convenience stores. In this channel we emphasize our brand image as well as our superior service, reinforced by frequent delivery to ensure freshness, to build consumer's loyalty.

Retail. A wide range of products are sold under this marketing channel that goes from the live chicken to value-added or public market and supermarket chicken type. The Company supplies several points of sale that directly sell these products to the customers.

We use our own fleet to transport the majority of rotisserie chickens, supermarket broilers and other chicken products to our customers in Mexico. We try to cooperate with existing distribution channels and do not compete with wholesale distributors, except in areas where we supply our own distribution capacity where needed for market penetration.

We distribute products from our processing plants to our cold-storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. From our cold-storage facilities, we service wholesalers and retailers and transport certain products directly to supermarkets and food-service operations. Our distribution infrastructure includes more than 66 cold-storage warehouses and facilities and a large fleet of vehicles.

Marketing and Distribution of Chicken Products in the U.S.

Our U.S. operations, which lie across the River Valley area in Arkansas and Oklahoma, Alabama and Georgia, produce only chicken products. Those plants mainly supply grocery retailers, food service distributors, national accounts and commodity customers throughout the U.S. The U.S. complex also services the foreign market and exports to several countries including various Asian countries and Mexico. Our distribution line through our plants is handled mainly through third parties.

Marketing and Distribution of Eggs Products in Mexico

Eggs are mostly sold packaged with brand identification. We sell white and brown eggs; the branded carton of brown eggs is a premium product in the Mexican market, because consumers perceive them to be of higher quality.

Our marketing strategy in the eggs business is to gradually move from bulk to packaged white eggs. Packaged eggs are less vulnerable to price fluctuation and create brand loyalty.

We have designed our egg distribution system to transport eggs from our laying farms to customers in all sales regions.

Wholesalers. We sell eggs in bulk; these wholesalers operate mainly in central Mexico. This product is sold to consumers mainly by kilogram and not by unit.

-**Institutional**. We sell eggs in bulk in this institutional marketing channel.

-**Supermarket**. We sell eggs packaged with brand identification and a large number of presentation patterns in packages of 12, 18, 24 or more eggs.

-**Retail**. We distribute eggs directly to customers in packages with brand identification.

Marketing and Distribution of Balanced Feed in Mexico

Our production of balanced feed to third parties accounts for a wide range of products; we produce balanced feed products mainly in the poultry industry, but we also produce in other markets such as dogs, cattle, swine and fish, among other species.

We sell balanced feed products mainly to small livestock producers and through a network of small distributors located mainly in central and southern Mexico. Currently, we have 6 feed plants dedicated to producing balanced feed to third parties.

Patents, Licenses and Other Contracts

At the end of 2017, we owned a total of 583 industrial and intellectual intangible assets as described below:

a) 435 registered brands, from them, 293 are brands registered in Mexico and 46 outside of Mexico, we including, 96 commercial media communications brands.

b) 8 patents in Mexico.

c) 140 copyrights, from them 19 are software copyrights and 88 billboards copyrights.

The Company's operations are not dependent on the existence of patents or licenses or contracts signed with customers or suppliers.

We own the rights to a wide range of brands that we use to market our products. These rights are renewed every ten years.

Material Effects of Government Regulations on the Company's Business

Every region where Bachoco operates is subject to extensive federal, state and foreign laws and regulations, which can have a material effect on the Company. Such laws and regulations include among others, the following:

Import and Export Regulations

Effective January 1, 2008, there is a free chicken market between Mexico and the U.S. This allows U.S. producers to export any amount of chicken (mainly leg quarters) free of tariffs to Mexico.

The U.S. chicken exports to Mexico have substantially increased since applicable restrictions on such imports have recently phased out. However, this development does impact the Mexican market for chicken because neither we, nor any other Mexican chicken producer, are yet able to export similar products to the U.S. Our production complex in the U.S. exports chicken products to several countries such as China and Mexico, among others, and therefore it is subject to various laws and regulations that apply in each of these countries.

Antitrust Regulations

In Mexico, the *Ley Federal de Competencia Economica* (“Mexican Economic Competition Law” or “LFCE”), regulates monopolies and monopolistic practices.

Under this law, Mexican producers, including Bachoco are required to notify the *Comision Federal de Competencia Economica* (“Competition Federal Commission” or “COFECE”) of all proposed transactions exceeding specified threshold amounts as set forth in the Mexican Economic Competition Law. The COFECE can impose conditions on, and prevent or unwind, any such transactions by Mexican companies. We have complied with all requirements under this law. In December 2009, Mexico’s COFECE published a notice announcing an investigation of the Mexican poultry sector regarding possible monopolistic business practices. No specific companies were cited as conducting business in this manner. We, along with other Mexican producers and distributors, were required to provide information to the commission during the following years. As a result of this investigation, COFECE imposed several fines on us for supposedly having certain practices where the price of chicken was manipulated.

In all cases, the Company disagreed with the COFECE’s resolution and appealed all of the resolutions according to the provisions of Mexican law in order to assert our rights as a company that contributes to the development of the country and to a free market.

As of the date of this Annual Report, some of these judgments were concluded in favor of the Company, accordingly the provision recorded for this purpose was cancelled.

Antidumping Regulations

Since 2003, chicken (excluding leg quarters for which the Mexican government had imposed certain temporary restrictions), eggs and swine import quotas were eliminated by virtue of NAFTA. Poultry producers in the United States have developed extremely low-cost production methods and have been successful in exporting primarily frozen and value-added poultry to other countries, including Mexico, especially in periods of overcapacity in the United States.

On January 1, 2008, the restrictions previously imposed for leg quarters were phased out. As a result, there are no restrictions on exporting these products to Mexico at this time.

In February 2011, the *Secretaria de Economia* (or “Mexican Ministry of the Economy”) initiated an antidumping investigation focusing exclusively on imports of leg quarters to Mexico from the U.S. This investigation was requested by Bachoco and by two other Mexican poultry companies.

As a result of this investigation, in January 2012, the Ministry of Economy issued a preliminary ruling on anti-dumping procedures and confirmed dumping conditions on chicken leg quarters imported from the U.S., including margins ranging from 62.90% to 129.77%, stating that such practices damaged the Mexican poultry industry.

The Mexican Ministry of the Economy had the authority to impose anti-dumping duties, but did not proceed as the interested parties expressed the desire to reach an agreement. The companies involved provided new arguments.

Consequently, on August 7, 2012, after examining all final arguments, the authorities confirmed the existence of dumping conditions that caused harm to the domestic poultry industry. The Mexican Ministry of the Economy imposed anti-dumping duties on imports of chicken leg quarters from the U.S., but stated that such penalties would not be applied immediately, as the poultry industry was being affected by the presence of avian flu type H7N3 in the state of Jalisco. It is worth noting that, the Company’s facilities were not affected by this outbreak of influenza.

As of the date of this report, we do not have any further information from the Mexican Ministry of the Economy regarding the application of such duties to the chicken industry. We do not believe we will be subject to any antidumping fines and thus have not recorded any provisions in our consolidated financial information.

Environmental and Sanitary Regulation

The chicken industry is subject to government regulation in the health and environmental safety areas, including provisions relating to water and air pollution and noise control. Below is a description of the principal laws and administrative authorities in these areas in Mexico and the U.S.:

Mexico. The *Servicio Nacional de Sanidad Inocuidad y Calidad Alimentaria* (Mexican Sanitary Authority or “SENASICA”), the *Ley General de Equilibrio Ecológico y Protección Ambiental* (General Law of Ecological Balance and Environmental Protection) and the *Secretaría del Medio Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources or “SEMARNAT”).

The United States. The USDA, the Centers for Disease Control, the Environmental Protection Agency (or “EPA”), the U.S. Department of Homeland Security (or “DHS”) and the U.S. Department of Labor (or “DOL”).

All of these laws or regulations can bring administrative and criminal proceedings against companies that violate environmental and safety laws and regulations, and after certain administrative procedures, such violations can result in the closure of non-complying facilities.

The Company provides information to these authorities on a regular basis or whenever required to assure the Company’s compliance thereof. Our Mexican and U.S. subsidiaries are also in compliance with all current regulations and are constantly monitored to ensure compliance in case of any changes in the regulatory environment.

The *Comision Nacional del Agua* (CONAGUA, for its Spanish acronym) imposed fines on the Company for infractions the Company supposedly committed when extracting water from wells and other sources for livestock use. The Company is appealing the imposition of these fines and has registered a provision for the amount that it will probably pay.

C. Organizational Structure

The Company is a holding company with no operations other than holding the stock of its subsidiaries. Our main operating subsidiaries are BSACV and Bachoco USA (the holding company for OK Foods), which own our main operating assets.

In 2017, our subsidiary BSACV accounted for 53.5% of consolidated total assets and 62.9% of total consolidated sales and our subsidiary Bachoco USA, accounted for 19.5% of consolidated total assets and 28.6% of total consolidated sales.

All of our subsidiaries are directly owned by us in the percentages listed below. The following table shows our main subsidiaries as of December 31, 2017, 2016 and 2015:

PERCENTAGE EQUITY INTEREST

Subsidiary	Country	2017	2016	2015
Aviser, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	Mexico	99.99	99.99	99.99
Campi Alimentos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	Mexico	99.99	99.99	99.99
PEC LAB, S.A. de C.V., and subsidiary	Mexico	64.00	64.00	64.00
Secba, S.A. de C.V.	Mexico	99.99	99.99	99.99
Sepetec, S. A. de C.V.	Mexico	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	Mexico	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco USA, LLC. and subsidiary	U.S.	100.00	100.00	100.00
Wii kit RE LTD.	Bermuda	100.00	100.00	
Provedora La Perla S.A. de C.V.	Mexico	100.00		

Bachoco USA is a subsidiary incorporated on March 2, 2012 to serve as the holding company for O.K. Industries, Inc., the American poultry company we acquired in November 2011.

At the end of 2016 we set up Wii kit RE LTD, a captive reinsurance company to complement our risk management strategy, as a subsidiary of the Company, in which we own 100% of the shareholding. Wii kit RE LTD., is a Class I reinsurance company that provides insurance coverage to its affiliates.

In July 2017, we acquire La Perla, a Mexican corporation, as a fully owned subsidiary of the Company. This company is dedicated to the production and sale of pet food.

For more detail regarding the Company's subsidiaries, see Note 5 of our Audited Consolidated Financial Statements included herein.

D. Property, Plant and Equipment

We have more than a thousand production facilities in Mexico and in the U.S. (most of which are farms) and 80 distribution centers that are located throughout Mexico, to ensure freshness and minimize transportation time and costs.

We own most of our facilities, we own around 75% of our farms and lease a limited number of other farms and sales centers. We also employ a network of contract growers.

The following table indicates Bachoco's production facilities and the number of each type of facility both in Mexico and the U.S., as of December 31, 2017:

BACHOCO'S FACILITIES

Facilities	Number of Facilities:	
	In Mexico	In The U.S.
Chicken breeding farms	126	188
Broiler grow-out farms	510	311
Broiler processing plants	8	2
Hatchery	24	2
Egg production farms	127	0
Swine breeding farms	1	0
Swine grow-out farms	19	0
Feed mills	20	2
Further process plants	4	5

Bachoco's facilities in Mexico

In the past, our facilities in Mexico were grouped in several complexes with main offices in Merida, Coatzacoalcos, Tecamachalco, Celaya, Lagos de Moreno, Monterrey, Gomez Palacios, Culiacan and Hermosillo. In 2014, we implemented a new structure whereby our facilities are now grouped according to "business units" where each business unit is responsible not only for the production process but also customer service in an assigned region.

Our eight processing plants process around 11.5 million chickens per week and our laying farms produce around 11.6 thousand tons of commercial eggs each month.

Six of the twenty feed mill plants are dedicated to the production of balanced feed for sales to third parties and the remaining fourteen are dedicated mainly to internal consumption. We produce around 38 thousand tons of balanced feed per month for sale to third parties.

We own other facilities, including two poultry manure-processing plants. We also own a laboratory that produces vaccines for the poultry industry, which we mainly use for internal purposes but we also sell some vaccines to third

parties.

Expansion, Construction or Issues Related to Our Facilities in Mexico

In 2017, we continued with our projects to improve our efficiency and to alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we increased our hatchery capacity and processing plant capacity in the northern region of Mexico, where we also made improvements in our breeder farms. In addition, we completed an increase to our table egg production capacity in the southwest region, and we made several improvements in our processing plants. We also replaced part of our fleet in all of our business units.

In July 2017, we acquired La Perla, a pet food company with the capacity to produce over 65,000 tons a year of dry pet food and that has a facility for producing pet food treats.

In 2016, we continued several projects to improve our efficiency and alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we increased; our breeding and processing capacity in the peninsula de Yucatan region, our table egg production capacity in the southwest region and hatchery capacity in the northern region of Mexico.

During 2015, we continued several projects to alleviate bottlenecks, thereby increasing production, in some of our production centers. For example, we finished our live chicken production capacity in the state of Chiapas and in other southern states, and increased our processing capacity in our processing plants located in central Mexico.

Bachoco's facilities in the U.S.

We have facilities across the River Valley area in Arkansas, Oklahoma, Alabama and in Georgia. We process around 3.2 million chickens per week in those facilities. Our offices are in Fort Smith, Arkansas. Our slaughter and deboning plants and feed mills are located in Fort Smith and in Heavener, Oklahoma. We have further-processing plants to produce value-added chicken products in Fort Smith, Oklahoma city, Muldrow, Oklahoma and in Alabama; hatcheries in Fort Smith, Heavener and Stigler, Oklahoma; broiler research farms, in Greenwood, Arkansas and Hartford, Arkansas; and our cooler storage and distribution center, in Muldrow.

Expansion, Construction or Issues Related with Our Facilities in the U.S.

In July 2013, the Company reached an agreement to acquire the Arkansas breeding assets of Morris Hatchery Inc., a U.S. company. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately 350 thousand laying hens.

On July 2015, the Company reached an agreement to acquire the Georgia breeding assets of Morris Hatchery Inc. These assets comprise mainly of equipment and bird inventory (laying hens that produce hatching eggs), with a capacity of approximately - one million laying hens.

On December 2015, the Company reached an agreement to acquire the Oklahoma City Fully Cooked facility from American Foods Group, a U.S. Company. This acquisition comprises all the American Foods Group's chicken assets located in Oklahoma City, with a capacity to produce over 700,000 pounds per week of fully cooked chicken products. The Company closed the transaction in February 2016 through its subsidiary, OK Foods.

In July 2017, we acquired AQF a company that produces and sells value-added further processed products.

See Notes 4 of our Audited Consolidated Financial Statements for more detail.

The Company plans to continue with several projects, primarily in Mexico, gradually increasing our chicken and egg production in the next few years.

ITEM 4.A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

In January 2009, the CNBV published certain amendments to the Rules for Public Companies and other participants in the Mexican Securities Market that require public companies to report financial information in accordance with IFRS as issued by the IASB, effective as of January 1, 2012.

Following these amendments, for the year ended December 31, 2012, we adopted IFRS, with January 1, 2011 as our transition date. Thus, we timely issue our periodic reports under IFRS, meeting all of the CNBV requirements.

The rules and regulations of the SEC, do not require foreign private issuers that prepare their financial statements on the basis of IFRS (as issued by the IASB) to reconcile such financial statements to U.S. GAAP. As such, while the Company has in the past reconciled its consolidated financial statements prepared in accordance with MFRS to U.S. GAAP, those reconciliations are no longer presented in Bachoco's filings with the SEC.

Year 2017 Overview

In 2017, we posted improvements in our total sales and volume sold in our main product lines as compared to the previous year.

These results were driven by external and internal conditions that started in 2016 and continued during 2017. Externally, we benefitted from (i) a continued strong level of demand and consumption of poultry products in Mexico and in the U.S. and (ii) the stable cost of our main raw materials, and (iii) a normalized supply growth, mainly in Mexico.

Internally, we increased our volumes sold in our main product lines primarily due to (i) the implementation of several projects to alleviate bottlenecks, (ii) our ability to capture efficiencies to continue as a low cost producer company and (iii) the implementation of several projects to be closer to our customers and better understand and attend to their needs.

Macroeconomic Conditions in Mexico

In 2017 Mexican macroeconomic conditions continued to display volatility. The annual inflation rate was 6.77%, the highest in the last five years. However, annual GDP was 2.3%, the Mexican peso appreciating 5.0% against the U.S. dollar at year-end and depreciating only 1.3% on the average.

According to UNA estimates, in 2017, the volume of chicken in Mexico grew by approximately 3.3%, which means that the Mexican chicken industry continued growing at normalized levels. However, the production of eggs decreased by approximately 1.7%. We believe this reduction in supply was due to the poor results of part of the industry has posted in the last year.

Operating Performance

All figures discussed below are information for 2017, with comparative figures of 2016 and 2015 prepared in accordance with IFRS and are presented in millions of pesos unless otherwise indicated. This information should be read in conjunction with our Audited Consolidated Financial Statements.

The following table sets forth selected components of our results of operations for each of the periods indicated:

STATEMENT OF PROFIT OR LOSS DATA

In millions of pesos, for the years ended December 31,	2017	2016	2015
	\$	\$	\$
Net revenues	58,050.0	52,020.3	46,229.0
Cost of sales	47,503.0	42,635.1	36,847.5
Gross profit	10,547.1	9,385.2	9,381.5
General, selling and administrative expenses	5,423.4	4,847.9	4,323.4
Other income (expenses), net	167.6	260.2	(4.6)
Operating income	5,291.3	4,797.6	5,053.5
Net finance income	747.6	797.0	446.6
Income tax	1,084.4	1,643.4	1,680.6
Profit attributable to controlling interest	4,948.2	3,946.6	3,812.8
Profit attributable to non-controlling interest	6.2	4.5	6.7
Profit for the year	4,954.4	3,951.2	3,819.5
Basic and diluted earnings per share ⁽¹⁾	8.25	6.58	6.36
Basic and diluted earnings per ADR ⁽²⁾	98.97	78.90	76.30
Dividends per share ⁽³⁾	1.300	1.300	1.500
Weighted average shares outstanding ⁽⁴⁾	599,998	599,980	599,631

- (1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.
- (2) Each ADR represents twelve shares.
- (3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.
- (4) In thousands of shares.

Operating Results 2017 vs 2016

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, in each period:

NET REVENUES BY OPERATING SEGMENTS

In millions of pesos	2017		2016		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	58,050.0	100.0	52,020.3	100.0	6,029.7	11.6
Total Poultry	52,479.4	90.4	46,852.5	90.0	5,626.9	12.0
Others	5,570.6	9.6	5,167.8	10.0	402.8	7.8

NET REVENUES BY GEOGRAPHY

In millions of pesos	2017		2016		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	58,050.0	100.0	52,020.3	100.0	6,029.7	11.6
In Mexico	41,583.9	71.6	38,582.1	74.2	3,001.8	7.8
In the U.S.	16,466.1	28.4	13,438.2	25.8	3,027.9	22.5

Net Revenues

In 2017, net sales totaled \$58,050.0 million, \$6,029.7 million or 11.6% more than the \$52,020.3 million reported in the same period in 2016. The sales increase is mainly attributed to (i) higher volume sold and (ii) higher poultry prices.

In 2017, sales of our U.S. operations represented 28.4% of our total sales, compared with 25.8% in 2016.

The Company's sales of poultry products increased 12.0% in 2017, mainly as a result of an 8.7% increase in poultry prices and a 3.3% increase in volume sold. The increase in volume and price was due in part to an increase in our U.S. operations due to the acquisition of AQF in July 2017.

Sales of the "others" lines increased 7.8% due mainly to an increase of 5.2% in volume sold.

The following table sets forth a breakdown of our cost of sales for each of the periods indicated:

COST OF SALES

	2017		2016		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	47,503.0	81.8	42,635.1	82.0	4,867.9	11.4
Poultry	42,767.2	73.7	38,285.4	73.6	4,481.8	11.7
Others	4,735.8	8.2	4,349.7	8.4	386.1	8.9

Our total cost of sales increased \$4,867.9 million or 11.4% in 2017, when compared to the previous year.

This increase was mainly attributable to a higher volume sold, higher inflation rate in Mexico and a mix effect, due to higher percentage of further processed products in our US operation, which have a higher production cost.

The largest single component of our cost of sales is the cost related to our balanced feed raw materials, which has accounted for approximately 65% of our total cost of sales in the last three years. The main components of our balanced feed raw materials are corn, sorghum and soybean meal and all of the components of raw materials are subject to high volatility caused by supply, weather conditions and exchange rates, among others.

Besides balanced feed costs, the cost of sales includes other factors such as salaries and wages and energy costs. These two factors represented approximately 9% and 5% of our total cost of sales, respectively, in the last three years.

There are many other factors with much smaller contributions to the overall cost of sales. All of these secondary factors individually registered immaterial changes from 2017 to 2016.

GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

	2017		2016		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	5,423.4	9.3	4,847.9	9.3	575.5	11.9

In 2017, general, selling and administrative expenses totaled \$5,423.4 million, compared to the \$4,847.9 million reported in 2016, representing an increase of \$575.5 million or 11.9%. Approximately 31% of this increase was attributable to more volume sold, and 55% was due to our U.S. operations where we reinforced our structure, mainly after the acquisition of AQF in July 2017.

The rest of this increase was the result of additional expenses incurred in the implementation of projects to further improve our operating efficiency, the services we provide to our customers and our understanding of the needs of our customers.

We expect to experience additional benefits resulting from these projects in the upcoming years.

In 2017 and 2016, our general, selling and administrative expenses represented 9.3% and 9.3% of total sales respectively.

The main components that comprised our general, selling and administrative expenses in the past three years are the following: freight and transportation equipment expenses (about 38%), labor (about 32%) and publicity (about 4%), with no significant variation in these percentages.

OTHER INCOME (EXPENSE) NET

	2017		2016		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	167.6	0.3	260.2	0.5	(92.6)	NA

Other income (expense) includes mainly the gains and losses on sales of by-products, sales of hens, asset disposal, sales of unused fixed assets and others.

In 2017, we recognized other income of \$167.6 million and in 2016 we recorded other income of \$260.2 million. The decrease was due mainly to a lesser sale of unused fixed assets, partially offset by a bargain purchase gain of \$87.5 million from the La Perla acquisition.

OPERATING INCOME

	2017		2016		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating Income	5,291.30	9.1	4,797.60	9.2	493.7	10.3

Operating income in 2017 totaled \$5,291.3 million, an increase compared to the operating income of \$4,797.6 million reached in 2016. The increase in operating income is mainly due to an increase in our gross profit given the increase in our net revenue and decrease in general, selling and administrative expenses as a percentage of sales, each as described above.

The operating margin in 2017 and 2016 was 9.1% and 9.2% respectively. This decrease was mainly due to a decrease in other income as described above.

NET FINANCE INCOME

	For the year ended December 31,				Change	
	2017	% over sales	2016	% over sales	\$	%
Net Finance Income	\$ 747.6	1.3%	\$ 797.0	1.5%	(49.5)	(6.2)
Financial Income	1,087.6		969.2		118.4	12.2
Financial Expense	340.1		172.2		167.9	97.5

In 2017, we reported net financial income of \$747.6 million, compared to net financial income of \$797.0 million in 2016. This decrease was mainly due to an increase in our financial expenses driven by higher interest rates on our Mexican peso denominated debt.

Financial income of \$1,087.6 million in 2017 was mainly attributable to a \$848.1 million of interest income and a \$230.5 million in foreign currency exchange gain. This gain was partially offset by \$188.6 million in interest expense and a \$84.1 million decrease related to changes in valuation of our financial instruments.

For more details see Note 29 to our Audited Consolidated Financial Statements.

The following table sets forth our tax position for each of the periods indicated and is described in more detail in Note 21 to our Audited Consolidated Financial Statements included herein:

TOTAL INCOME TAX

	For the year ended			
	December 31,			
	2017	2016	Change	%
	\$	\$	\$	%
Total income taxes (benefit) expense	1,084.4	1,643.4	(559.0)	(34.0)
Current income tax	1,711.5	1,260.5	451.0	35.8
Deferred income tax	(627.1)	382.9	(1,010.0)	(263.8)

In 2017, total income tax expense was \$1,084.4 million, compared to income tax expense of \$1,643.4 million in 2016. This decrease is mainly attributable to a \$1,010.0 million decrease in deferred income taxes; partially offset by a \$451.0 increase in current income taxes.

The effective income tax rate was 18.0% in 2017 and 29.4% in 2016. The decrease was mainly due to;

- On December 22, 2017, the U.S. government enacted comprehensive tax legislation, which revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35.0% to 21.0%. As a result of the legislative change, our deferred tax liability decreased by 443.1 million;
- b) We had a favorable effect of \$329.5 million due to the net effect of inflation in Mexico; and
 - c) \$129.0 million related to the cancelation of loss, from the acquisition of La Perla.

The following table sets forth our profit for the year for each of the periods indicated:

PROFIT FOR THE YEAR

In millions of pesos	For the years ended December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Profit for the year attributable to:	4,954.4	3,951.1	1,003.3	25.4
Controlling interest	4,948.2	3,946.6	1,001.6	25.4
Non-controlling interest	6.2	4.5	1.7	37.6
Basic and diluted earnings per share ⁽¹⁾	8.25	6.58	1.67	25.3
Net income per ADR ⁽¹⁾	98.97	78.90	20.07	25.4

(1) In pesos.

As a result of the factors detailed above, our net income for 2017 totaled \$4,954.4 million, or \$8.25 per basic and diluted share (\$98.97 per ADR), which represents a \$1,003.2 million or 25.4% increase compared to the \$3,951.2 million in net income or \$6.58 per basic and diluted share (\$78.94 per ADR), reported in 2016.

Our consolidated net margin in 2017 was 8.5% compared to a consolidated net margin of 7.6% in 2016.

The following table shows reconciliation of EBITDA and EBITDA margin to consolidated net income for each of the periods indicated.

EBITDA RESULT

	For the years ended December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Net income	4,954.4	3,951.1	1,003.2	25.4
Income tax expense	1,084.4	1,643.4	(559.0)	(34.0)

Net finance income	(747.6)	(797.0)	49.5	6.2
Depreciation and amortization	1,132.7	979.5	153.2	15.6
EBITDA result	6,424.1	5,777.0	647.1	11.2
EBITDA margin (%)	11.1 %	11.1 %	-	-

EBITDA result in 2017 and 2016 reached \$6,424.1 and \$5,777.0 million respectively, representing an EBITDA margin of 11.1% and 11.1%.

Operating Results 2016 vs 2015

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, in each period:

NET REVENUES BY OPERATING SEGMENTS

In millions of pesos	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	52,020.3	100.0	46,229.0	100.0	5,791.3	12.5
Total Poultry	46,852.5	90.0	41,789.5	90.4	5,063.0	12.1
Others	5,167.8	10.0	4,439.5	9.6	728.2	16.4

NET REVENUES BY GEOGRAPHY

In millions of pesos	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	52,020.3	100.0	46,229.0	100.0	5,791.3	12.5
In Mexico	38,582.1	74.2	35,125.7	75.9	3,456.4	9.8
In the U.S.	13,438.2	25.8	11,103.3	24.1	2,334.9	21.0

Net Revenues

In 2016, net sales totaled \$52,020.3 million, \$5,791.3 million or 12.5% more than the \$46,229.0 million reported in the same period in 2015. The increase in sales is attributed mainly to (i) higher volumes sold as we had more product available and (ii) price increases mainly in chicken, swine and balanced feed.

In 2016, sales of our U.S. operations represented 25.8% of our total sales, compared with 24.1% in 2015.

The Company's sales of poultry products increased 12.1% in 2016, mainly as a result of an 8.5% increase in poultry prices and a 3.4% increase in volume sold. The increase in price was due in part to an increase in our U.S. operations in Mexican peso terms.

Sales of the "others" lines increased 16.4% due to an increase of 7.9% in volume sold and price increases in balanced feed and swine mainly.

The following table sets forth a breakdown of our operating results for each of the periods indicated:

COST OF SALES

	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	42,635.1	82.0	36,847.5	79.7	5,787.6	15.7

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Poultry	38,285.4	73.6	32,906.8	71.2	5,378.6	16.3
Others	4,349.7	8.4	3,940.7	8.5	409.0	10.4

Our total cost of sales increased \$5,787.6 million or 15.7% in 2016, when compared to the previous year.

This increase was mainly attributable to higher volume sold and higher raw material costs in Mexican peso terms due to the depreciation of the Mexican peso against the U.S. dollar. The increase in volumes sold represented a 4.4% increase with the remaining increase resulting from the increase in the cost of our main raw materials.

The largest single component of our cost of sales is the cost related to our balanced feed raw materials, which has accounted for approximately 66% of our total cost of sales in the last three years. The main components of our balanced feed raw materials are corn, sorghum and soybean meal and all of the components of raw materials are subject to high volatility caused by supply, weather conditions and exchange rates, among others.

Besides balanced feed costs, the cost of sales includes other factors such as salaries and wages and energy costs. These two factors represented approximately 9% and 5% of our total cost of sales, respectively, in the last three years.

There are many other factors with much smaller contributions to the overall cost of sales. All of these secondary factors individually registered immaterial changes from 2016 to 2015.

GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	4,847.9	9.3	4,323.4	9.4	524.5	12.1

In 2016, general, selling and administrative expenses totaled \$4,847.9 million, compared to the \$4,323.4 million reported in 2015, representing an increase of \$524.5 million or 12.1%. Approximately 37% of this increase was attributable to more volume sold, 32.0% was due to the sale of more value-added products in our U.S. operations and partially due to the consolidation of our US operation to Mexican pesos.

The rest of this increase was the result of additional expenses incurred in the implementation of projects to further improve our operating efficiency, the services we provide to our customers and our understanding of the needs of our customers.

We expect to experience additional benefits resulting from these projects in the upcoming years.

In 2016 and 2015, our general, selling and administrative expenses represented 9.3% and 9.4% of total sales respectively.

The main components that comprised our general, selling and administrative expenses in the past three years are the following: freight and transportation equipment expenses (about 38%), labor (about 32%) and publicity (about 4%), with no significant variation in these percentages.

OTHER INCOME (EXPENSE) NET

	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	260.2	0.5	(4.6)	(0.0)	264.8	NA

Other income (expense) includes mainly the gains and losses on sales of by-products, sales of hens, asset disposal, sales of unused fixed assets and others.

In 2016, we recognized other income of \$260.2 million and in 2015 we recorded other net expenses of \$4.6 million. The increase was due mainly to the sale of unused fixed assets.

OPERATING INCOME

	2016		2015		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating Income	4,797.6	9.2	5,053.5	10.9	(255.9)	(5.1)

Operating income in 2016 totaled \$4,797.6 million, this represented a decrease of \$255.9 million or 5.1%, when compared to the operating income of \$5,053.5 million reached in 2015. This decrease is mainly attributed to an increase in cost of sales and general, selling and administrative expenses as explained above.

The operating margin in 2016 and 2015 was 9.2% and 10.9% respectively.

NET FINANCE INCOME

	For the year ended December 31,				Change	
	2016	% over sales	2015	% over sales	\$	%
Net Finance Income	\$ 797.0	1.5 %	\$ 446.6	1.0 %	350.4	78.5
Financial Income	969.2		593.8		375.4	63.2
Financial Expense	172.2		147.2		25.0	16.9

In 2016, we reported net financial income of \$797.0 million, compared to net financial income of \$446.6 million in 2015. This increase was mainly due to an increase in our financial income driven by higher interest income on our investments and a higher level of foreign currency exchange gains.

Financial income of \$969.2 million in 2016 was mainly attributable to a \$638.0 million of interest income and a \$297.5 million in foreign currency exchange gain. This gain was partially offset by \$129.8 million in interest expense and a \$42.4 million in commissions and financial expenses.

In 2015, we reported net financial income of \$446.6 million, compared to net financial income of \$246.9 million in 2014. This increase was mainly due to an increase in our financial income driven by higher interest income on our investments and a higher level of foreign currency exchange gains.

Our foreign currency exchange gains are mainly the result of our ability to obtain U.S. dollars at a lower cost than the average cost in the market.

For more details see Note 29 to our Audited Consolidated Financial Statements.

The following table sets forth our tax position for each of the periods indicated and is described in more detail in Note 20 to our Audited Consolidated Financial Statements included herein:

TOTAL INCOME TAX

	For the year ended			
	December 31,		Change	
	2016	2015	\$	%
	\$	\$	\$	%
Total income taxes (benefit) expense,	1,643.4	1,680.6	(37.2)	(2.2)
Current income tax	1,260.5	1,488.5	(228.0)	(15.3)
Deferred income tax	382.9	192.1	190.8	99.4

In 2016, total income tax expense was \$1,643.4 million, compared to income tax expense of \$1,680.6 million in 2015. This decrease is mainly attributable to a \$228.0 million decrease of current income taxes; partially offset by a \$190.8 increase in deferred income tax.

The effective income tax rate was 29.4% in 2016 and 30.6% in 2015. The decrease was mainly due to the higher net effect of inflation.

Deferred income tax liability in 2016 increased \$543.5 million, as a result of the following movements in temporary differences during the year: (i) an increase of \$212.1 million for inventories, (ii) \$209.5 million for property plant and equipment and (iii) a decrease of \$128.5 million for accounts payable. This increase was partially offset by a decrease of \$50.2 million for prepaid expenses.

The following table sets forth our profit for the year for each of the periods indicated:

PROFIT FOR THE YEAR

In millions of pesos	For the years ended December 31,			
	2016	2015	Change	
	\$	\$	\$	%
Profit for the year attributable to:	3,951.1	3,819.5	131.6	3.4
Controlling interest	3,946.6	3,812.8	133.8	3.5
Non-controlling interest	4.5	6.7	(2.2)	(32.8)
Basic and diluted earnings per share ⁽¹⁾	6.58	6.36	0.22	3.5
Net income per ADR ⁽¹⁾	78.90	76.30	2.64	3.5

(1) In pesos.

As a result of the factors detailed above, our net income for 2016 totaled \$3,951.1 million, or \$6.58 per basic and diluted share (\$78.90 per ADR), which is a \$131.6 million or 3.4% increase when compared to \$3,819.5 million in net income or \$6.36 per basic and diluted share (\$76.30 per ADR) reported in 2015.

Our consolidated net margin in 2016 was 7.6% compared to a consolidated net margin of 8.3% in 2015.

The following table shows reconciliation of EBITDA and EBITDA margin to consolidated net income for each of the periods indicated.

EBITDA RESULT

	For the years ended			
	December 31,		Change	
	2016	2015	\$	%
	\$	\$	\$	%
Net income	3,951.1	3,819.5	131.6	3.4
Income tax expense	1,643.4	1,680.6	(37.2)	(2.2)
Net finance income	(797.0)	(446.6)	(350.4)	78.5
Depreciation and amortization	979.5	819.9	105.9	12.9
EBITDA result	5,777.0	5,873.4	(96.4)	(2.6)
EBITDA margin (%)	11.1 %	12.7 %	-	-

EBITDA result in 2016 and 2015 reached \$5,777.0 and \$5,873.4 million respectively, representing an EBITDA margin of 11.1% and 12.7%.

Critical Tax and Accounting Policies

The following information is a summary of the fiscal and accounting policies that could materially affect the Company's operations or investments.

Income Tax Year 2017

The Company and each of its subsidiaries file separate income tax returns. Through December 31, 2013, BSACV, the Company's main subsidiary, was subject to the simplified regime, with a tax rate of 21%. Beginning in January 1, 2014, BSACV is now subject to a new regime for agriculture, livestock, forestry and fisheries, which applies to companies exclusively dedicated to these activities and in our case it applies a 30% tax rate.

Our subsidiary Bachoco, US LLC, is located in the U.S. and it has the same fiscal period as the rest of the subsidiaries located in Mexico.

The income tax rate for Bachoco, USA LLC was 35.0%, (prior to change resulting from the U.S. tax reform described in the paragraph below).

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, which revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35.0% to 21.0%

For more information please see Note 21 of the Audited Consolidated Financial Statements.

Recent changes in tax laws

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, which revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35.0% to 21.0%, shifting the existing tax regime toward a territorial tax system and setting limitations on deductibility of certain costs, among other things. As a result of this legislation change, our deferred tax liability decreased by 443.1 million.

Use of Estimates and Judgments in Certain Accounting Policies

The following are the critical judgments, apart from those involving estimations, that the Company's management has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Business combinations or acquisition of assets

Management uses its professional judgment to determine whether the acquisition of a group of assets constitutes a business combination. This determination may have a significant impact in how the acquired assets and assumed liabilities are accounted for, both at the initial recognition and subsequently.

Fair value of biological assets

The Company estimates the fair value of biological assets as the price that would be received or paid in an orderly transaction between market participants at the measurement date. As part of the estimate, the Company considers the maturity periods of such assets, the necessary time span for the biological assets to reach a productive stage, as well as future economic benefits obtained.

The balance of current biological assets is integrated by hatching eggs, growing pigs and growing poultry, while the balance of non-current biological assets is integrated by poultry in its different production stages and breeder pigs.

Non-current biological assets are valued at their production cost less accumulated depreciation or accumulated impairment losses, because the Company believes that there is no observable or reliable market for such assets. Also, the Company believes that there is no reliable method for measuring the fair value of non-current biological assets. Current biological assets are valued at fair value when there is an observable market, less sale expenses.

Aggregation of operating segments

The Company's chicken and egg operating segments are aggregated to present one reportable segment (Poultry) as they have similar products and services, production processes, classes of customers, methods used for distribution, the nature of the regulatory environment in which they operate, and similar economic characteristics as evidenced by similar five-year trends in gross profit margins. These factors are evaluated at least annually.

Key sources of estimation uncertainty

Below are critical estimates and assumptions in the application of accounting policies with significant effects on the amounts recognized in the consolidated financial statements, as well as information on assumptions and uncertainty of estimates that have a significant risk of resulting in a material adjustment in future years.

Assessments to determine the recoverability of deferred tax assets

As part of the tax analysis carried out by the Company, on an annual basis the Company prepares projections of taxable income for purposes of determining if taxable income will be sufficient to recover the benefit of deferred tax assets recognized from deductible temporary differences, including tax losses and other tax credits.

Useful lives and residual values of property, plant and equipment

Useful lives and residual values of property, plant and equipment are used to determine depreciation expense of such assets and are defined according to the analysis by internal and external specialists. Useful lives and residual values are reviewed periodically at least once a year, based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits to the Company. If there are changes in the estimate, measurement of the net carrying amount of assets and the corresponding depreciation expense are prospectively affected.

Measurements and disclosures at fair value

Fair value is a measurement based on the price a market participant would be willing to receive to sell an asset or pay to transfer a liability, and is not a measure specific to the Company. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. However, the purpose of a measurement at fair value in both cases is to estimate the price at which an orderly transaction to sell the asset or to transfer the liabilities would be carried out among the market participants at the date of measurement under current market conditions.

When the price of an identical asset or liability is not observable, the Company determines the fair value using another valuation technique which maximizes the use of relevant observable information and minimizes the use of unobservable information. As the fair value is a measurement based on the market, it is measured using the assumptions that market participants would use when they fix a price to an asset or liability, including assumptions about risk.

Impairment of long-lived assets and goodwill

The carrying amount of long-lived assets is reviewed for impairment when situations or changes in circumstances indicate that it is not recoverable, except for goodwill which is reviewed on an annual basis, at a minimum. If there are indicators of impairment, a review is carried out to determine whether the carrying amount exceeds its recoverable value and whether it is impaired. The recoverable value is the highest of the asset's fair value, less selling costs, and its value in use which is the present value of the future estimated cash flows generated by the asset. The value in use calculation requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Employee retirement benefits

The Company uses various assumptions to determine the best estimate for its employee retirement benefits. Assumptions and estimates are established in conjunction with independent actuaries. These assumptions include demographic hypotheses, discount rates and expected increases in remunerations and future employee service periods, among others. Although the assumptions are deemed appropriate, a change in such assumptions could affect the value of employee benefit liabilities and the results of the period in which such a change occurs.

Contingencies

A contingent liability is defined as:

— a possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or

- a present obligation that arises from past events but is not recognized because:

- a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- b. the amount of the obligation cannot be measured with sufficient reliability.

The assessment of such contingencies requires the exercise of significant judgments and estimates on the possible outcomes of those future events. The Company assesses the probability of loss arising from lawsuits and other contingencies with the assistance of its legal advisors. These estimates are reconsidered periodically at each reporting period.

B. Liquidity and Capital Resources

We are a holding company with no significant operations of our own. Our principal sources of liquidity are:

- The sales of our products through our subsidiaries in the Mexican and U.S. markets;

Credit lines we use from time to time; as of December 31, 2017 and 2016, the unused credit lines of the Company - totaled \$7,031.8 and \$5,551.3 million, respectively. The Company did not pay any commission or charge for the unused credits.

The current Mexican bond issuance program available until August 2022. For more details, please refer to Item 12 (“Description of Securities Other than Equity Securities”) of this Annual Report.

Liquidity and Capital Resources 2017 vs 2016

TOTAL CASH, CASH EQUIVALENTS, INVESTMENT IN SECURITIES AND DERIVATIVES FINANCIAL INSTRUMENTS

In millions of pesos	As of December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Total cash, cash equivalents, and investment in securities and derivative financial instruments	17,240.1	15,659.8	1,580.3	10.1
Cash and cash equivalents	16,112.3	14,681.2	1,431.1	9.7
Investment in securities	1,127.8	970.3	157.5	16.2
Derivative financial instruments	0.0	8.3	(8.3)	(100.0)

In 2017, cash and cash equivalents, and investments in securities at fair value through profit or loss totaled \$17,240.1 million, \$1,580.3 million or 10.1%, more than the \$15,659.8 million recorded in 2016, mainly due to the net cash provided from our operating activities. Of this total amount, \$62.8 million corresponded to cash and cash equivalents in our U.S. operations.

ACCOUNTS RECEIVABLE

In millions of pesos	As of December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Total accounts receivable	3,626.9	3,629.1	(2.3)	(0.1)

In 2017 accounts receivable decreased \$2.3 million, or 0.1%, when compared to 2016. This decrease is mainly due to decreases of \$58.2 million on income tax receivable, \$18.3 million in recoverable value-added tax and \$117.9 in other

receivables, which was partially offset by an increase of \$191.6 million increase in trade receivables.

For more detail, please see Note 9 of the Audited Consolidated Financial Statements.

ACCOUNTS PAYABLE

In millions of pesos	As of December 31,		Change	
	2017	2016	\$	%
Total accounts payable	4,740.4	4,545.2	195.2	4.3

In 2017, accounts payable increased \$195.2 million or 4.3% when compared to 2016. This increase is mainly due to \$95.1 million increase in direct employee benefits, \$37.8 million increase in trade payables, \$30.5 million increase in sundry creditors and expenses payable, and \$27.2 million increase in retained payroll taxes and other local taxes.

For more detail, please see Note 19 of the Audited Consolidated Financial Statements.

TOTAL DEBT

In millions of pesos	As of December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Total debt	5,249.0	4,047.9	1,201.1	29.7
Short-term debt ⁽¹⁾	3,695.1	1,597.5	2,097.5	131.3
Long-term debt ⁽²⁾	54.0	950.4	(896.4)	(94.3)
Short-term debt (Local bond issue)	0.0	1,500.0	(1,500.0)	(100.0)
Long-term debt (Local bond issue)	1,500.0	0.0	1,500.0	

(1) Includes notes payable to banks and current portion of long-term debt.

(2) Does not include current installments of long-term debt.

As of December 31, 2017, total debt was \$5,249.0 million, an increase of \$1,201.1 million or 29.7% when compared to \$4,047.9 million of total debt as of December 31, 2016.

Most of our long-term debt consists of a Mexican bond issuance of \$1,500.0 million in the third quarter of 2017, due in 2022. This bond accrues interest at the reference rate of 28-day TIIE (“Equilibrium Interbank Interest Rate”), plus accruing interest at TIIE + 0.31%. The funds obtained were primarily used for liability management purposes as we used the proceeds to repay the bonds we issued in 2012, due in 2017

The increase in our short-term debt was mainly due to U.S. dollar denominated debt used to finance part of our acquisitions of La Perla and AQF.

For details of maturity of our debt and the prevailing interest rates, see Note 18 of our Audited Consolidated Financial Statements.

WORKING CAPITAL

In millions of pesos	2017			
	2017	2016	Change	
	\$	\$	\$	%
Working Capital	18,995.9	18,614.1	381.8	2.1

Total current assets	28,225.0	26,930.4	1,294.7	4.8
Total current liabilities	9,229.1	8,316.3	912.9	11.0

The working capital in the table above was calculated as current assets minus current liabilities.

In 2017, our working capital increased \$381.8 million or 2.1% when compared to year 2016, due primarily to increases in our level of cash, which in turn resulted from an increase in cash from operating activities and from financing activities, as well as an increase in inventories.

We believe our current level of working capital is sufficient for the regular course of our operations. Nevertheless, our working capital needs may be susceptible to change, as they depend mainly on the cost of our main raw materials which affect our inventory cost, and on the amount of accounts payable. Our working capital can also change from one quarter to another as the cost of buying domestic raw material depends of the given harvest season.

Liquidity and Capital Resources 2016 vs 2015

TOTAL CASH, CASH EQUIVALENTS, PRIMARY AND DERIVATIVES FINANCIAL INSTRUMENTS

In millions of pesos	As of December 31,			
	2016	2015	Change	
	\$	\$	\$	%
Total cash, cash equivalents, and investment in securities and derivative financial instruments	15,659.8	15,290.1	369.7	2.4
Cash and cash equivalents	14,681.2	14,046.3	634.9	4.5
Investment in securities	970.3	1,242.6	(272.3)	(21.9)
Derivative financial instruments	8.3	1.2	7.1	591.7

In 2016, cash and cash equivalents, and investments in securities at fair value through profit or loss totaled \$15,659.8 million, \$369.7 million or 2.4%, more than the \$15,290.1 million recorded in 2015. This increase is mainly due to our positive operating results in 2016.

As of December 31, 2016, we held cash and cash equivalents in our U.S. operations equivalent to \$37.3 million.

ACCOUNTS RECEIVABLE

In millions of pesos	As of December 31,			
	2016	2015	Change	
	\$	\$	\$	%
Total accounts receivable	3,629.1	2,533.4	1,095.7	43.3

Accounts receivable increased \$1,095.7 million, or 43.3%, when compared to 2015. This increase is mainly due to a \$615.0 million increase in trade receivables, \$461.2 million of recoverable value-added tax and other recoverable taxes, which was partially offset by a decrease of \$28.1 million on income tax receivable.

ACCOUNTS PAYABLE

In millions of pesos	As of December 31,			
	2016	2015	Change	
	\$	\$	\$	%
Total accounts payable	4,545.2	4,597.1	(51.9)	(1.1)

In 2016, accounts payable decreased \$51.9 million or 1.1% when compared to 2015. This decrease is mainly due to a \$154.0 million decrease in trade payables and \$96.9 million in provisions. This decrease was partially offset by an increase of \$160.1 million in Sundry creditors and expenses payable.

See Note 19 of our Audited Consolidated Financial Statements for more details.

TOTAL DEBT

In millions of pesos	As of December 31,		Change	
	2016	2015	\$	%
Total debt	4,047.9	4,127.0	(79.1)	(1.9)
Short-term debt ⁽¹⁾	1,597.5	1,631.9	(34.4)	(2.1)
Long-term debt ⁽²⁾	950.4	995.1	(44.7)	(4.5)
Short-term debt (Local bond issue)	1,500.0	0.0	1500.0	100.0
Long-term debt (Local bond issue)	0.0	1,500.0	(1,500.0)	(100.0)

(1) Includes notes payable to banks and current portion of long-term debt.

(2) Does not include current installments of long-term debt.

As of December 31, 2016, total debt was \$4,047.9 million, a decrease of \$79.1 million or 1.9% when compared to \$4,127.0 million of total debt as of December 31, 2015.

Most of our long-term debt consists of a Mexican bond issuance of \$1,500.0 million in the second quarter of 2012, due in 2017. This bond accrues interest at the reference rate of 28-day TIIE (“Equilibrium Interbank Interest Rate”), plus accruing interest at TIIE + 0.60%. The funds obtained were used primarily to pre-pay certain outstanding debt, some of which was previously incurred in our acquisition of OK Foods.

WORKING CAPITAL

In millions of pesos	As of December 31,			
	2016	2015	Change	
	\$	\$	\$	%
Working Capital	18,614.1	18,079.2	534.9	3.0
Total current assets	26,930.4	24,722.0	2,208.4	8.9
Total current liabilities	8,316.3	6,642.8	1,673.5	25.2

The working capital in the table above was calculated as current assets minus current liabilities.

In 2016, our working capital increased \$534.9 million or 3.0% when compared to year 2015, due primarily to increases in our level of cash, which in turn resulted from an increase in cash from operating activities and from financing activities, as well as an increase in current liabilities as part of our noncurrent debt came into current debt this year.

CAPITAL EXPENDITURES

In millions of pesos, for the years ended December 31,	2017	2016	2015
	\$	\$	\$
Capital Expenditures	3,513.4	2,459.7	1,824.5

Most of the capital investments in the past years were financed with cash flows generated from our own operations.

In 2017, we made capital expenditures of \$3,513.4 million, which were mainly allocated towards (i) our organic growth plans by investing in projects that will make our processes more efficient as well as alleviating bottlenecks and in the replacement of part of our transportation fleet and of other equipment in all of our facilities (ii) part of our acquisitions of La Perla and AQF.

In 2016, capital expenditures totaled \$2,459.7 million, an increase when compared to the \$1,824.5 million expended in 2015. In 2016, the Company implemented new projects for organic growth, aiming to alleviate certain bottlenecks in various processes, thereby increasing production, and to improve productivity in both of our U.S. and Mexican operations.

In 2015, capital expenditures totaled \$1,824.5 million, an increase when compared to the \$1,241.1 million expended in 2014. In 2015, the Company implemented new projects for organic growth, aiming to alleviate certain bottlenecks in various processes, thereby increasing production, and to improve productivity in both of our U.S. and Mexican operations.

The Company plans to carry out several projects, primarily in Mexico, to gradually increase our poultry production over the course of the next few years.

See Note 14 of our Audited Consolidated Financial Statements for more details.

OPERATING LEASES

In millions of pesos, for the years ended December 31,	2017	2016	2015
	\$	\$	\$
Operating Leases expense	416.4	403.1	359.7

We have entered into operating leases for certain offices, production sites, computer equipment and vehicles. These agreements have terms ranging between one and five years and some of them contain renewal options.

See Note 24 to our Audited Consolidated Financial Statements for more information.

Financial Instruments

In the normal course of our business, we use various financial instruments to hedge exposure to financial risks involving fluctuations in currency exchange rates and commodity price risk in connection with fluctuations in the prices for our feed ingredients.

The main risk that the Company faces is the volatility in the Mexican peso-U.S. dollar exchange rate.

A large variation in Mexican peso-U.S. dollar exchange rate could affect our financial results, as a greater percentage of our sales are made in pesos, and a large percentage of our purchases of raw material are made in U.S. dollars.

As part of our normal operations, we purchase financial derivative instruments in order to ensure greater certainty for our purchases in U.S. dollars. We plan based on a six month period into the future and, depending on the expected uncertainty for that period, decide if it is economically advisable to purchase or sell any hedging instrument.

We have followed different strategies with respect to derivatives which involved call and put options in U.S. dollars. Our risk committee approves any change in policies and reviews the application of current policies.

See Note 8 to our Audited Consolidated Financial Statements for more information.

DEBT IN FOREIGN CURRENCY 2017 vs 2016

	As of December 31,			
	2017	2016	Change	
	\$	\$	\$	%
Short-term financial debt liabilities in foreign currency⁽¹⁾	2,752.4	1,444.8	1,307.6	90.5

(1)The foreign currency is U.S. dollars.

In 2017, our bank debt denominated in U.S. dollars totaled \$2,752.4 million pesos (equivalent to \$140.0 million USD), \$1,307.6 million pesos, or 90.5% higher than the \$1,444.8 million pesos (equivalent to \$70.0 million USD) in 2016. The short-term bank debt in U.S. dollars had an annual average interest rate of 1.22% in 2017, and 1.04% in 2016.

The Company's risk committee approves any change in policies and reviews the application of current policies.

At the end of 2017, we had assets denominated in U.S. dollars of \$7,011.1 million pesos and liabilities of \$5,796.9 million pesos, resulting in a net position of \$1,214.2 million pesos (or \$61.8 million USD).

For more details see Note 8 and Note 18 to our Audited Consolidated Financial Statements.

DEBT IN FOREIGN CURRENCY 2016 vs 2015

	As of December 31,		Change	
	2016	2015	\$	%
Short-term liabilities in foreign currency⁽¹⁾	1,444.8	1,462.9	(18.1)	(1.2)

(1) The foreign currency is U.S. dollars.

In 2016, our bank debt denominated in U.S. dollars totaled \$1,444.8 million pesos (equivalent to \$70.0 million USD), \$18.1 million pesos or 1.2% lower than the \$1,462.9 million pesos (equivalent to \$85.0 million USD) in 2015. The short-term bank debt in U.S. dollars had an annual average interest rate of 1.04% in 2016 and 1.05% in 2015.

The Company's risk committee approves any change in policies and reviews the application of current policies.

At the end of 2016, we had assets denominated in U.S. dollars of \$3,235.2 million pesos and liabilities of \$3,588.3 million pesos, resulting in a net liability position of \$353.1 million pesos (or \$17.1 million USD). For more details see Note 8 and Note 18 to our Audited Consolidated Financial Statements.

C. Research and Development, Patents and Licenses, etc.

None.

D. Trend Information

The most significant trends that might have a negative impact on the Company's operating performance are the following:

- Mexico is facing a macroeconomic uncertainty due to presidential elections to be held in July 2018 and the pending resolution of the NAFTA negotiations.

- Despite the stability we have observed in the prices of our main raw material prices in U.S. dollar terms, we may see volatility in prices depending on the evolution of crops in Mexico and the U.S.

- We might be affected by more aggressive competition from our peers in the markets in which we operate.

- Finally, we may also be negatively affected by any poultry sanitary issues that may arise in regions where our production centers are located, which may affect our production volumes and production costs.

E. Off-Balance Sheet Arrangements

In 2017, except for our operating lease agreements, we do not have off-balance sheet arrangements that might have current or future effects on the Company's financial condition. Disclosure of operating leases is included in this Annual Report under Item 5-B.

F. Tabular Disclosure of Contractual Obligations

Our major categories of indebtedness included the following:

As of December 31, 2017 and 2016, we had \$842.7 and \$1,652.7 million in current portion of long-term debt respectively.

Long-term debt to banks, excluding the current installments of long-term debt, as of December 31, 2017 and 2016 was \$1,554.0 and \$950.4 million, respectively.

The weighted average interest rates on long-term debt, for years 2017 and 2016 were 7.72% and 4.04%, respectively.

See Note 18a and b of our Audited Consolidated Financial Statements for more detail.

The Company has certain leases related to operating assets, including farms and administrative offices. The following table summarizes the Company's contractual obligations as of December 31, 2017. The table does not include current installments of long-term debt, accounts payable or pension liabilities.

CONTRACTUAL OBLIGATIONS

In millions of pesos	Total	2018	2019	2020	2021	2022
		\$	\$	\$	\$	\$
Long-term debt ⁽¹⁾	1,554.0	0.0	54.0	0.0	-	1,500.0
Operating leases ⁽²⁾	668.4	184.3	140.4	120.4	103.3	120.0

(1) See Note 18-c of the Audited Consolidated Financial Statements for more detail.

(2) See Note 24 of the Audited Consolidated Financial Statements for more detail.

Operating lease expense for 2017 was \$416.4 and, the Company did not make early payments of its long-term debt.

The following table sets forth the maturity amounts of interest to be paid in connection with the long-term debt described above.

INTEREST

In millions of pesos	Total	Less than 1 year	From 1 To 3 years	From 3 to 5 years
Interest	\$611.1	\$ 162.8	\$ 244.5	\$ 203.8

G. Safe Harbor

Not applicable.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

We produce and sell our products throughout Mexico and in parts of the United States. As described further below, our operations are closely controlled by our majority shareholder, which directs our business strategy and operations through various committees that are made up of members of our Board of Directors (“BOD”). The principal BOD committees include the Executive Committee (“EC”), the Investments Committee (“IC”) and the Audit and Corporate Practices Committee (“ACPC”) (collectively, the “BOD Committees”). The BOD Committees, in turn, rely on the Chief Executive Officer (“CEO”) who oversees a group of managers, comprised of regional operating managers and executive managers, to execute the Company’s operating plan.

The Chief Operating Decision Maker (CODM) role is carried out by our BOD. The BOD is integrated by eight Proprietary Shareholders Directors, four Independent Directors and four Alternate Directors.

We are controlled by the Robinson Bours family, who collectively own 73.25% of our outstanding voting shares. The Robinson Bours family plays an active role in managing the Company through its participation in our BOD, where it holds a majority vote thereby granting it control over all of the BOD's committees, activities and decisions.

In addition to carrying out the traditional roles of a typical board of directors, such as authorizing annual budgets, major investments and the hiring and compensation of executive management, the activities of our BOD also encompass managing certain key aspects of the Company's operations, such as assuring the production of the Company's products, exploiting growth opportunities and maximizing profitability. The BOD relies on its committees to carry out such management functions.

The EC is an intermediate management body, comprised entirely by Robinson Bours family members, that meets at least 10 times a year with the Company's CEO. During such meetings, the following matters, among others, are addressed:

- General business strategy for the Company, including growth strategy and initiatives.
- Analysis and approval of the Company's organizational structure.
- Discussion of relevant matters of the Company's operations, including, among others, the identification and follow up on both opportunities as well as significant adverse events.
- Analysis and follow up on the financial performance of the Company.

Approval and appointment of management.

The IC is comprised of the same members as the EC and is responsible for analyzing all investment and capital expenditure proposals and meets at least six times a year with the CEO. Based on their analysis, the IC and the CEO identify which investment and capital expenditure proposals to submit to the BOD for approval.

The ACPC is comprised mainly by independent directors. The mandate of the ACPC is to establish and monitor controls and procedures in order to ensure that the financial information we distribute is useful, appropriate and reliable and accurately reflects our financial position. On November 3, 2015, during our shareholders' ordinary meeting, Mr. Guillermo Ochoa Maciel was elected president of the ACPC. Mr. Ochoa Maciel possesses all the characteristics included in the definition of an "audit committee financial expert" within the meaning of Item 16A. He was appointed as an independent member of the BOD and as an independent director financial expert.

Our CEO is the only management team member that reports directly to the BOD, and is responsible for executing the operating plans for all product lines that are developed jointly between the BOD's committees and the CEO, and approved by the BOD. Given the CEO's responsibilities in overseeing the Company's operating managers, which are discussed in more detail below, we have considered whether the CEO plays the role of CODM for the Company. However, in our judgment, the BOD is the CODM, by virtue of the BOD's close involvement in the CEO's activities, the resulting overlap in the respective functions of the CEO and the BOD and the BOD's ability to override decisions taken by the CEO.

The individual responsible for reporting to the BOD and executing the Company's operating plan is our CEO.

The BOD, through the EC, meets with the CEO generally on a monthly basis.

The financial information that is reviewed by the CODM in preparation for the meetings and the financial information that is discussed during those meetings is comprised as follows:

- A discrete monthly statement of profit and loss for our operating segments, up to gross profit level.
- Updates regarding raw materials price conditions.
- Certain key performance measures such as volume, prices and estimated cost on a discrete basis for our operating segments.
- Consolidated entity-wide earnings before interest, income taxes, depreciation and amortization (EBITDA).
- A consolidated entity-wide statement of profit and loss.

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A consolidated entity-wide statement of financial position.

A consolidated entity-wide statement of cash flow.

The CODM normally makes additional requests for supplemental financial information, which vary depending on the circumstances. Examples of such supplemental financial information, which is disaggregated by product, include:

- Enhanced discussion and analysis of significant period to period changes in operating results,
 - Further detail regarding gross profit and cost, and
- Sales analysis explaining differences from prior period sales and deviations from our budget.

The CEO formally meets with the full BOD four times a year, usually in January, April, August and October of each year.

The financial information that is reviewed by the CODM in preparation for the meetings and the financial information that is discussed during those meetings is comprised as follows:

- A discrete monthly statement of profit and loss for our operating segments, up to gross profit level.
- A consolidated entity-wide statement of profit and loss.
- A consolidated entity-wide statement of financial position.
- A consolidated entity-wide statement of cash flow.

Directors

The Board of Directors is responsible for the management of our business. The Board of Directors consists of an odd number of directors, never fewer than five, and corresponding alternate directors, each of whom is elected for a term of one year.

Alternate directors are authorized to serve on the Board of Directors in place of directors who are unable to attend meetings or otherwise participate in the activities of the Board of Directors.

At our annual stockholders' meeting held on April 26, 2017, we ratified the membership of our Board of Directors.

Currently our board of directors is composed of the following members:

MEMBERS OF THE BOARD	Year of Birth	Member since
Chairman of the Board and Proprietary Shareholder Director:		
Javier R. Bours Castelo	1953	1982
Proprietary Shareholder Directors:		
Jose Gerardo Robinson Bours Castelo	1958	2008
Jesus Enrique Robinson Bours Muñoz	1951	1994
Jesus Rodolfo Robinson Bours Muñoz	1957	2002
Arturo Bours Griffith	1955	1994
Octavio Robinson Bours	1952	1997
Ricardo Aguirre Borboa	1954	1994
Juan Salvador Robinson Bours Martinez	1965	1994
Alternate Directors:		
Jose Eduardo Robinson Bours Castelo	1956	1994

Jose Francisco Bours Griffith	1950	1994
Guillermo Pineda Cruz	1948	1994
Gustavo Luders Becerril	1953	2011
Independent Directors:		
Avelino Fernandez Salido	1938	2003
Humberto Schwarzbeck Noriega	1954	2003
Guillermo Ochoa Maciel	1955	2015
David Gastelum Cazares	1951	2016
Secretary of the Board:		
Eduardo Rojas Crespo	1969	2008

Honorary Members of the Board

Enrique Robinson Bours Almada, Mario Javier Robinson Bours Almada, and Juan Bautista Salvador Robinson Bours (deceased in June 2017) are co-founders of the Company and Honorary members of the board.

The following table identifies the relationships among members of each of the four Bours families:

Cousins	in law-related
<u>Brothers:</u>	
Arturo Bours Griffith	
Octavio Robinson Bours	
Jose Francisco Bours Griffith	
<u>Brothers:</u>	
Jesus Enrique Robinson Bours Muñoz	Guillermo Pineda Cruz
Jesus Rodolfo Robinson Bours Muñoz	
<u>Brothers:</u>	
Francisco Javier R. Bours Castelo	
Jose Gerardo Robinson Bours Castelo	
Jose Eduardo Robinson Bours Castelo	Ricardo Aguirre Borboa
Juan Salvador Robinson Bours Martinez	Gustavo Luders Becerril

Our bylaws provide for the creation of an executive committee of the Board of Directors, which may exercise certain of the Board's powers in full, subject to certain limitations.

Javier R. Bours Castelo, Chairman of the Board of Directors since 2002. Before his election as Chairman, he was Vice-Chairman for several years. Mr. Bours holds a degree in Civil Engineering from the Instituto Tecnológico y de Estudios Superiores Monterrey ("ITESM"). He currently serves as Chairman of the Boards of Directors of the following companies: Megacable Holdings, S.A.B. de C.V., Inmobiliaria Trento S.A. de C.V., Agriexport S.A. de C.V., Acuicola Boca, S.A. de C.V., and Centro de Servicios Empresariales del Noroeste, S.A. de C.V.

Jose Gerardo Robinson Bours Castelo, Proprietary Shareholder Director since 2008. He previously served as Director of Planning and Projects. Mr. Bours holds a degree in Computer Systems Engineering from the ITESM. He currently serves as member of the Board of the following companies: Megacable Holdings, S.A.B. de C.V., Congeladora Horticola, S.A. de C.V., Ocean Garden S.A., Industrias Boca, S.A. de C.V. and Fertilizantes Tepeyac S.A. de C.V, Centro de Servicios Empresariales del Noroeste, S.A. de CV., and member of the regional board of Citi Banamex and Banorte. He is also Chairman of Fundacion Mexicana para el Desarrollo Rural del Valle del Yaqui and the ITESM in Obregon.

Jesus Enrique Robinson Bours Muñoz, Proprietary Shareholder Director since 1994. He has previously worked in Bachoco as Production Director and Divisional Manager. Mr. Robinson Bours holds a degree in Engineering from the University of Arizona. He is also a member of the Board of Directors of San Luis Corporacion S.A. de C.V. and Megacable Holdings, S.A.B. de C.V.

Jesus Rodolfo Robinson Bours Muñoz, Proprietary Shareholder Director since 2002. Mr. Robinson Bours previously served in the Company as Production Manager in the Northwest and Bajío divisions, Commercial Manager in Northwest Division and Purchasing Manager at the Bajío Division. Mr. Robinson Bours holds a degree in Agricultural Engineering from the University of Arizona. He has business experience in agriculture and raising livestock with Agrícola Rio Yaqui S.P.R. de R.L., Agrícola Nacapul S.P.R. de R.L., Ganadera Cocoreña S.P.R. de R.L., and Chairman of the Board of the Cultural Center of Cocorit, A.C. He is currently Director of Productos Orgánicos la Cocoreña S.P.R. de R.L.

Arturo Bours Griffith, Proprietary Shareholder Director since 1994. He is also Chairman of the board of Qualyplast, S.A. de C.V., and a member of the board of Megacable Holdings, S.A.B. de C.V., Centro de Servicios Empresariales del Noreste, S.A. de C.V., and Taxis Aereos del Noroeste, S.A. de C.V.

Octavio Robinson Bours, Proprietary Shareholder Director since 1997. Mr. Robinson Bours holds a degree in Agricultural Engineering from the ITESM. He has experience in swine production, agriculture and aquaculture. He is a board member of several companies such as Productos Agropecuarios La Choya, S.A. de C.V., Agropecuaria Bomanz S.A. de C.V., Gasbo S.A. de C.V., Kowi S.A. de C.V., INDEPROM, S.A. de C.V., SOFOM ENR.

Ricardo Aguirre Borboa, Proprietary Shareholder Director since 1994. He is also a member of the Audit Committee and Corporate Practices of Bachoco. Mr. Aguirre holds a degree in Agricultural Engineering from the ITESM. He is member of the Board of Directors of: the newspaper El Debate, Tepeyac Produce, Inc., Servicios del Valle del Fuerte, S.A. de C.V., Agrobo, S.A. de C.V., Agrícola Santa Veneranda, S.P.R. de R.L., Colegio Mochis, Grupo Financiero Banamex, in Sinaloa, and Director of Granja Rab, S.A. de C.V.

Juan Salvador Robinson Bours Martinez, Proprietary Shareholder Director since 1994. He has served Bachoco as Purchasing Manager. Mr. Robinson Bours holds a degree in Industrial Engineering from the ITESM. His other appointments include Chairman of the board of Llantas y Accesorios, S.A. de C.V. and member of the Board of Megacable Holdings, S.A.B. de C.V.

Jose Eduardo Robinson Bours Castelo, member of the Board since 1994. Mr. Robinson is an alternate Director for Mr. Francisco Javier R. Bours Castelo and Mr. Jose Gerardo Robinson Bours Castelo. Mr. Robinson Bours holds a degree in Industrial Engineering from the ITESM. He was previously Commercial Director of Industrias Bachoco, a Senator of the Mexican Congress and was governor of the state of Sonora. In addition, Mr. Robinson was Chairman of the Board of National Agribusiness Council (*Consejo Nacional Agropecuario*), Chairman of the Board of Umbrella Organization of the Private Sector Mexico (*Consejo Coordinador Empresarial*), and Member of the Board of Nafinsa, Bancomext and Focir, and was Chairman of the board and Chief Executive Officer of Del Monte Foods.

Jose Francisco Bours Griffith, Alternate Director of Mr. Octavio Robinson Bours and Mr. Arturo Bours Griffith, since 1994. Mr. Bours Griffith holds a degree in Civil Engineering from the Universidad Autonoma de Guadalajara. Mr. Bours Griffith has worked at Bachoco as Engineering Manager. He is currently dedicated to agricultural operations and has run two aquaculture farms for 17 years.

Guillermo Pineda Cruz, Alternate Director of Jesus Enrique Robinson Bours and Mr. Arturo Bours Griffith since 1994. Mr. Pineda holds a degree in Civil Engineering from the ITESM and a master's degree in Business Administration from the Instituto Tecnológico de Sonora. He is also a member of the Board of Directors of Citibanamex and was a regional member of the Board of Directors of Grupo Financiero Serfin, Inverlat and InverMexico. He co-founded Edificadora PiBo, S.A. de C.V. since 1983 and is currently the Chairman of its Board of Directors.

Gustavo Luders Becerril, Alternate Director of Juan Salvador Robinson Bours Martinez and Mr. Ricardo Aguirre Borboa, was named Alternate Director during the annual general meeting held in April 2011. Mr. Luders holds an Accounting degree from ITESM. He is a vegetable and fruit grower.

Avelino Fernandez Salido, Independent Director, has been a member of the board since 2003. He is also a member of the board of Banamex and BBVA Bancomer. He is also Chairman of the Board of the following companies: Grupo Cajeme Motors, S.A. de C.V., Navojoa Motors, S.A. de C.V., Turymayo S.A. de C.V. and Gasolineras Turymayo S.A. de C.V. His business experience is in the marketing of grains.

Guillermo Ochoa Maciel, Independent Director and has been a member of the board since November 2015. Mr. Ochoa Maciel holds a degree in public accounting from the Universidad de Guadalajara, México. Mr. Ochoa Maciel was employed at KPMG Cardenas Dosal, S.C., for over 36 years (the last 26 as firm partner). Since 2015, he has been the president of the board and director of his own consulting and real estate development firm. Mr. Ochoa Maciel has significant experience in financial audits, corporate governance matters (including Sarbanes-Oxley compliance) and equity and debt transactions both locally in Mexico as well as internationally (both private and SEC-registered) as well as IFRS and U.S. GAAP accounting matters. Mr. Ochoa Maciel was elected president of the Audit and Corporate Practices Committee during the ordinary stockholders' meeting that took place on November 3, 2015.

David Gastelum Cazares, Independent Director and has been a member of the board since the annual general meeting held on April 27, 2016. Mr. Gastelum holds a degree in Veterinary Medicine from the school of Veterinary Medicine of the Universidad Nacional Autonoma de Mexico (“UNAM”) and is also a graduate of the Instituto Panamericano de Alta Dirección de Empresas (“IPADE”). He joined our company in 1979 and served as a pullet sales manager in the states of Sonora and Sinaloa, national sales manager of live animals and eggs, manager of the Northwest Division, manager of the Mexico City Division and National Sales Manager. He assumed the Director of Sales position from 1992 to 2013. For several years, he was the vice-president of poultry meat at the Mexican Poultry Association and a member of the Latin American Poultry Association (ALA). From 2014 to 2016 he was the General Director of Monteblanco, a company that produces and sells mushrooms. In 2016, he took the course of Directors in Action in IPADE in Mexico City. Mr. Gastelum is also member of the board of directors of the Unión Nacional de Avicultores (UNA). In 2017, he was recognized at the Annual convention of the National Association of Poultry Science Specialists (ANECA). In 2017, he was named as an Independent Director and Chairman of the Administration and Planning Committee of the Group “Frío” in Guadalajara, Mexico.

Humberto Schwarzbeck Noriega, Independent Director, has been a member of the board since 2003. He holds a degree in economics from ITESM. He is currently CEO of Yeso Industrial de Navojoa S.A. de C.V.

Eduardo Rojas Crespo was named Secretary of the Board of Directors in 2008. He holds a Law Degree from UNAM. He holds a post-graduate diploma on Environmental Law and Due Diligence, and a Specialty as well as a Master’s Degree, both in Corporate Law; these three from the Anahuac University. He also holds a diploma on economic competition from the Centro de Investigación y Docencia Económicas (“CIDE”) and has completed studies on Business Management at the IPADE. Mr. Rojas has worked for Bachoco since 2004 as our Chief Legal Officer. Before joining Bachoco, Mr. Rojas worked for 10 years as the Chief Legal Officer of Grupo Fimex.

Honorary members

Mr. Enrique Robinson Bours Almada, Chairman of the Board and co-founder of the Company, he retired in April 2002. Mr. Bours led the Company for 50 years. The Board named Mr. Javier Robinson Bours Castelo, Mr. Enrique Robinson Bours’s nephew, as his successor.

Mr. Mario Javier Robinson Bours Almada, member of the Board of Directors, retired in April 2008, and was named as a Life Honorary Propriety Shareholder Director. On the same date, the Board named Mr. Jose Gerardo Robinson Bours Castelo as a Proprietary Shareholder Director in the place of Mr. Mario Javier Robinson Bours Almada.

Juan Bautista S. Robinson Bours Almada, Mr. Bours was co-founder of Industrias Bachoco, S.A.B. de C.V. and a Proprietary Shareholder Director for 57 years. Mr. Bours retired in April 2011 and was named as a Life Honorary Propriety Shareholders Director. Mr. Bours passed away in June 2017.

Executive Officers

EXECUTIVE OFFICERS

Name	Position	Year of Birth
Rodolfo Ramos Arvizu	Chief Executive Officer	1957
Trent Goins	Chief Executive Officer, U.S. Operations	1978
Ernesto Salmon Castelo	Director of Operations	1962
Andres Morales Astiazaran	Director of Sales	1968
Daniel Salazar Ferrer	Chief Financial Officer	1964
Ismael Sanchez Moreno	Director of Human Resources	1965
Augusto Franco Gomez	Marketing, Research & Development Director	1974
Alejandro Elias Calles Gutierrez	Director of Purchasing	1956

EXECUTIVE OFFICERS THAT HAVE LEFT THE COMPANY, OR CHANGED POSITIONS IN THE LAST 12-MONTHS

None.

A biography of the Executive Officers is set forth below:

Rodolfo Ramos Arvizu, Chief Executive Officer. Mr. Ramos joined us in 1980 and he was named as Chief Executive Officer in November 2010. Previously, Mr. Ramos had served Bachoco as its Technical Director since 1992 and also held positions in the Egg Quality Control Training Program and in Poultry Management as well as serving as Supervisor of the Commercial Egg Production Training Program, Manager of Raw Material Purchasing and as a Director of Production. Mr. Ramos holds a degree in Agricultural Engineering from ITESM.

Trent Goins joined OK Foods in January 2003 as a management trainee. He was made Regional Sales Manager in 2005 with responsibility for retail sales. In 2008, Goins became Senior Vice President of Sales and Marketing, a position he held until his appointment as CEO/President of OK Foods in February 2014. Mr. Goins has served as past president and current board member of The Poultry Federation and is a present member of the National Chicken Council where he serves on the Executive Committee.

Daniel Salazar Ferrer, Chief Financial Officer. He joined us in 2000 and assumed his current position in January 2003. Previously, Mr. Salazar worked for four years as Chief Financial Officer at Grupo Covarrubias and as Comptroller at Negromex, a company of Grupo Desc. Mr. Salazar holds an accounting degree from Universidad Tecnologica de Mexico, a master's degree in Business Administration from ITESM, and a Diploma from the IPADE (D1).

Ernesto Salmon Castelo, Director of Operations, joined us in 1991 and assumed his current position in 2000. Previously, Mr. Salmon worked for Gamesa, S.A. de C.V. and for us as Sales Manager in Sonora, Northwestern Distribution Manager, Manager of the Processing Plant in Celaya, Southeastern Division Manager and Bajio Division Manager. Mr. Salmon holds a degree in Chemical Engineering from the Instituto Tecnologico de Sonora and a master's degree in Business Administration from ITESM.

Andres Morales Astiazaran, Director of Sales and Marketing, assumed this position in January 2014. Previously, Mr. Morales was Director of Marketing and Modern Channels since July 2006. Before joining us, Mr. Morales worked for 4 years as Sales and Marketing Vice President in Smithfield Foods, a U.S. Company with offices in Sonora, Mexico. Previously Mr. Morales worked for Bachoco as Marketing Manager, Manager of the Northeast division and then as National Manager of Bachoco. Mr. Morales holds an accounting degree from ITESM and attended marketing courses at Northwestern University, the University of Chicago, ITESM and the IPADE (D1).

Alejandro Elias Calles Gutierrez, was named purchasing Director in 2010. Mr. Calles joined Bachoco in January 2010 as Manager of Purchasing. Previously, Mr. Calles worked as the CEO of "Agroinsumos Cajeme," Chairman of the Board of the "Distrito de Riego" in the Yaqui River, Secretary of the SAGARPA in the state of Sonora, and Leader of the Secretaries of SAGARPA in Mexico and Manager of the leasing department of Inverlat. Mr. Calles holds a degree in Agronomy from the ITESM.

Ismael Sanchez Moreno, Director of Human Resources, joined us and assumed his current position in 2013. Prior to his affiliation with Bachoco, Mr. Sanchez held several senior human resources positions, including Change-Management Director and Planning and Development Human Resources Director at Grupo Modelo. He previously worked for Cemex as Organization and Compensation Director, General Manager for Commercial Innovation Processes, and Development and Training Senior Manager. Mr. Sanchez graduated with a degree in Politics Sciences and Sociology from the Complutense University of Madrid and holds an MBA from the IE Business

School and a MS in Human Resources from CEF.

Augusto Franco Gómez, Marketing, Research & Development Director, joined us and assumed his current position in September 2014. Mr. Franco has 17 years of work experience, with strong experience in Latin America, and has worked in foods, food service, HPC products and advertising. He has lived in different countries such as Mexico, Colombia, Bolivia and the U.S. He has worked for companies such as Unilever, Team Foods, Glaxo, General Mills and Leo Burnett and his last position was Marketing Director for Food Solutions in Unilever for the North Latin American region. Mr. Franco has a bachelor's degree in Business Administration from the Colegio de Estudios Superiores de Administración in Colombia, an International MBA from St. Tomas University in the U.S., and took courses such as New Products Development at the University of Chicago.

B. Compensation

The table below sets forth the aggregate compensation paid to our directors and executive officers, for services they rendered in their respective capacities, for the years ended December 31, 2017, 2016 and 2015.

TOTAL COMPENSATION

	As of December 31,		
	2017	2016	2015
	\$	\$	\$
Compensation, net (in million pesos)	56.2	53.5	42.3

C. Board Practices

We do not have any special agreements or contracts with any member of our board. All of our board members are subject to the specific expiration dates of their current terms of office.

Audit and Corporate Practices Committee

The mandate of the Audit and Corporate Practices Committee is to establish and monitor procedures and controls in order to ensure that the financial information we distribute is useful, appropriate and reliable and accurately reflects our financial position. In particular, pursuant to our bylaws and Mexican law, among others, the Audit and Corporate Practices Committee must do the following:

- Submit an annual report to the Board of Directors;

- Inform the Board of Directors of the current condition of the internal controls and internal auditing system of the Company or of the entities it controls, including any irregularities detected;

- Require the relevant directors and other employees of the Company, or of the entities it controls, to provide reports relative to the preparation of the financial information or any other kind of reports or information it deems

appropriate to perform its duties;

Receive observations formulated by shareholders, Board members, relevant officers, employees and, in general, any third party with regard to the matters under the Audit Committee duties, as well as carry out the actions that, in its judgment, may be appropriate in connection with such observations;

Inform the Board of Directors of any material irregularities detected as a result of the performance of its duties and, as applicable, inform the Board of Directors of the corrective actions taken, or otherwise propose the actions that should be taken;

Call Shareholders' Meetings and cause the items it deems pertinent to be inserted into the agendas of such Shareholders' Meetings; and

Assist the Board of Directors in selecting candidates for audit and reviewing the scope and terms of the auditor's engagement, as well as evaluate the performance of the entity that provides the external auditing services and analyze the report, opinions, statements and other information prepared and signed by the external auditor.

On November 3, 2015, during the shareholders ordinary meeting, Mr. Guillermo Ochoa Maciel was elected President of the Audit and Corporate Practices Committee, which is composed of the following members:

AUDIT AND CORPORATE PRACTICES COMMITTEE

Name	Position	Member since
Guillermo Ochoa Maciel	President	2015
Humberto Schwarzbeck Noriega	Member	2003
Ricardo Aguirre Borboa	Member	2003
Avelino Fernandez Salido	Member	2003

Currently, Guillermo Ochoa Maciel, member of our audit committee, possesses all the characteristics included in the definition of an “audit committee financial expert” within the meaning of Item 16A.

Mr. Ricardo Aguirre Borboa represents the controlling shareholders and has no voting rights in the audit committee.

D. Employees

The Company has employees in Mexico and the United States.

In 2017, around 50.0% of our employees in Mexico were members of labor unions in our operations. As of March 2018 and the date of this Annual Report, labor relations with our employees in Mexico are governed by 56 separate collective labor agreements, each relating to a different group of employees and negotiated on behalf of each such group by a different labor union.

In general, we believe that we have good relations with our employees. We have not experienced significant work stoppages as a result of labor problems.

As is typical in Mexico, wages are renegotiated every year while other terms and conditions of employment are renegotiated every two years. We seek to attract dependable and responsible employees to train at each of our plants and facilities. We offer our employees attractive salary and benefit packages, including, in some cases, a pension and savings plan.

In our U.S. operations the only employees represented by a labor union are the bargaining unit employees at our Oklahoma City facility and as of the date of this Annual Report, there is a collective bargaining agreement governing the terms and conditions of their employment.

As is typical in the U.S., wages and other terms and conditions of employment are renegotiated periodically. We seek to attract dependable and responsible employees to train at each of our plants and facilities. We offer our employees attractive salary and benefit packages, including a health insurance and a retirement savings plan.

WORKFORCE

	2017	2016	2015	2014	2013
Total employees:	27,397	25,725	25,231	24,736	24,486
in Mexico	23,305	22,340	21,964	21,706	21,404
In the U.S.	4,092	3,385	3,267	3,030	3,082

E. Share Ownership

To the best of our knowledge, no individual director or manager holds shares of the Company. At this time, we have not developed a share options plan for our employees.

Item 7. Major Stockholders and Related Party Transactions

Before September 2006, our common stocks consisted of 450,000,000 Series B shares and 150,000,000 Series L shares. Holders of Series B shares were entitled to one vote at any general meeting of our stockholders for each Series B Share held. Holders of Series L shares were entitled to one vote for each Series L Share held, but only with respect to certain matters. We had UBL Units consisting of one Series B Share and one Series L Share and B Units consisting in two Series B shares.

During the extraordinary meeting held on April 26, 2006, Shareholders approved the Company's plan to convert the Series L shares into Series B Shares, with full voting rights, as well as the dissolution of UBL and UBB Units into their components shares.

This process was completed in September 2006, and included two steps: separating the UBL and UBB Units trading on the Mexican Exchange into their component Shares and converting the Series L Shares into Series B Shares, thereby creating a single share class, the Series B Shares. These Shares are trading on the Mexican stock market. The ADRs which trade on the NYSE still consist of twelve underlying Shares, but they are all Series B Shares, with full voting rights.

Currently, the Company's common stock consists of 600,000,000 Shares with full voting rights.

A. Major Shareholders

The Robinson Bours family owned 82.75% of the total shares outstanding of the Company. Their position was established through two Mexican trusts; the Control Trust and the Underwriting Trust (or "Family Trust") that together held 496,500,000 Shares outstanding. The remaining 17.25% of shares were the free float of the Company.

On December 9, 2013, the Company announced that the Underwriting Trust had sold 9.5% of its shares. This transaction was carried out through the Mexican Stock Exchange at the market price. As a result of this transaction, the Company's free float increased from 17.25% to 26.75% over the total shares outstanding.

As a result of this transaction, our Capital Stock is currently distributed as follows:

	Before the transaction		After the transaction	
	Shares ⁽¹⁾	Position	Shares ⁽¹⁾	Position
Family Trusts	496,500,000	82.75%	439,500,000	73.25%
Control Trust	312,000,000	52.00%	312,000,000	52.00%
Underwriting Trust	184,500,000	30.75%	127,500,000	21.25%
Float⁽²⁾	103,500,000	17.25%	160,500,000	26.75%

(1) All shares B Class with full voting rights.

(2) Trading on the BMV and at the NYSE.

According to our Depository Bank, as of February 28, 2018, we had 3,680,688 ADRs outstanding on the NYSE, which represent 7.4% over the total shares and 27.5% over the free float.

ADRs Outstanding

As of December 31,	2017	2016	2015
Total ADRs Outstanding	3,673,943	3,482,595	3,362,229
Percentage Over Total Shares	7.3	7.0	6.7%

We estimate that the difference between total shares outstanding at the NYSE and the total free float represents the shares trading at the Mexican Stock Exchange.

According to information providing by BNY Mellon, as of December 31, 2017 and February 28, 2018, from the 100.0% of the total Shares of the Company, there were approximately 93 and 52 shareholders in the NYSE, respectively.

According to the most recent information provided by broker dealers at the date of our 2017 Bachoco's stockholders Annual meeting, we estimated that there are 1,235 Shareholders on the BMV.

The following table sets forth the Company's main shareholders, which held 1.0% or more of the total shares of the Company, as of December 31, 2017.

	Shares⁽¹⁾	Position	Country
Control Trust	312,000,000	52.00%	Mexico
Underwriting Trust	127,500,000	21.25%	Mexico
Renaissance Technologies LLC	6,562,800	1.09%	EEUU

(1) All shares B Class with full voting rights.

As of March 31, 2018 there have been no significant changes in the composition of the Company's main shareholders.

B. Related Party Transactions

It is our policy not to engage in any transaction with or for the benefit of any stockholder or member of the Board of Directors, or any entity controlled by such a person or in which such a person has a substantial economic interest, unless (i) the transaction is related to our business and (ii) the price and other terms are at least as favorable to us as those that could be obtained on an arm's-length basis from a third party.

We have engaged in a variety of transactions with entities owned by members of the Robinson Bours family, all of which we believe were consistent with this policy and not material to our business and results of operations.

We expect to engage in similar transactions in the future. All of these transactions are described below:

We regularly purchase vehicles and related equipment from distributors owned by various members of the Robinson Bours family. The distribution of vehicles and related equipment is a highly competitive aspect of business in the areas in which we operate. We are not dependent on affiliated distributors and are able to ensure that the pricing and service we obtain from affiliated distributors are competitive with those available from other suppliers.

The Robinson Bours Stockholders also own Taxis Aereos del Noroeste, S.A. de C.V., an air transport company that provides transportation for members of the Board of Directors to and from meetings at our headquarters in Celaya, Guanajuato in Mexico.

We purchased feed and packaging materials from enterprises owned by Robinson Bours Stockholders, the family of Enrique Robinson Bours and the family of Juan Bautista Robinson Bours.

We also have accounts payable to related parties. These transactions took place among companies owned by the same set of stockholders.

In addition, during 2016, we granted a short-term loan that bears interest to a related party, Taxis Aereos del Noroeste, S.A. de C.V., for \$189.1 million. This loan is recorded in our balance sheet as a current assets under the "Due for

related parties” line item. This non-recurring loan was made on terms and conditions substantially similar as those prevailing at the time for comparable transactions with unrelated third parties. As of December 31, 2017 the amount due from Taxis Aereos del Noroeste is \$0.0 million pesos.

Aside from the loan described in the paragraph immediately above, neither we nor our subsidiaries have loaned any money to any of our directors or officers, controlling shareholders or entities controlled by these parties.

REVENUES FROM RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2017	2016	2015
	\$	\$	\$
Feed and packaging materials	47.3	30.8	32.8
Vehicles and related equipment	0.0	0.0	0.4
Air Transportation Services	1.0	1.9	0.1

EXPENSES INCURRED IN RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2017	2016	2015
	\$	\$	\$
Feed and packaging materials	598.4	733.3	702.2
Vehicles and related equipment	160.6	306.2	232.5
Air Transportation Services	7.9	7.7	7.9

BALANCES WITH RELATED PARTIES**Balance of Revenues with Related Parties**

In millions of Pesos	As of December 31,		
	2017	2016	2015
	\$	\$	\$
Feed and packaging materials	0.3	4.3	5.4
Vehicles and related equipment	0.0	0.0	0.0
Air Transportation Services ⁽¹⁾	0.0	144.6	189.1

(1) As of December 31, 2016, the balance due from Air Transportation Services is comprised of the short-term loan in an amount of \$144.6 million we granted to Taxis Aereos del Noroeste, S.A. de C.V., as further described above.

Balance of Accounts Payable with Related Parties

In millions of Pesos	As of December 31,		
	2017	2016	2015
	\$	\$	\$
Feed and packaging materials	50.5	169.9	146.1
Vehicles and related equipment	4.7	19.6	19.2
Air Transportation Services	0.1	0.5	0.3

As of December 31, 2017 and 2016, the balances due to related parties are the balances owed denominated in pesos, which do not accrue interest, payable in cash in the short-term, for which there are no guarantees.

See Note 20 to our Audited Consolidated Financial Statements for more detail regarding income and expenses incurred in connection with related parties transactions.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Our Audited Consolidated Financial Statements are included in Item 18 of this Annual Report. The Audited Consolidated Financial Statements were audited by independent registered public accounting firms and are accompanied by their audit reports.

The Auditors

On September 3, 2013, we announced that the Company's Board of Directors, as per the Audit Committee's recommendation, approved the selection of Galaz, Yamazaki, Ruiz Urquiza, S.C., Member of Deloitte Touche Tohmatsu Limited ("Deloitte") as the Company's independent registered public accounting firm, effective as of September 30, 2013. Deloitte was ratified as the Company's external auditor for the 2017, 2016 and 2015 fiscal years and remains our external auditor as of the date of this Annual Report.

Legal Proceedings

We are a party to certain legal proceedings in the ordinary course of our business.

We believe that none of these proceedings, individually or in the aggregate, is likely to have a material adverse effect on the Company's Audited Consolidated Financial positions and consolidated results of operations.

Dividends Policy

Pursuant to Mexican law and our bylaws, the declaration, amount and payment of annual dividends are determined by a majority vote of the shareholders, generally but not necessarily on the recommendation of the Board of Directors.

DIVIDENDS

	As of December 31,		
	2017	2016	2015
Total dividends declared (in million pesos)	780.0	780.0	900.0
Dividend declared per share (in pesos)	1.30	1.300	1.500
Dividends declared per ADR (in pesos)	15.600	15.600	18.000

Although there can be no assurance as to the amount or timing of future dividends, we expect to pay an annual dividend pro rata to holders of outstanding shares in an amount of approximately 20.0% of the prior year's net income. The declaration and payment of dividends will depend on our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors and the shareholders, including debt instruments which may limit our ability to pay dividends.

Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries, principally BSACV. Accordingly, there can be no assurance that we will pay dividends or of the amount of any such dividends. BSACV, our principal operating subsidiary, could, in the future, enter into loan agreements containing covenants whose terms limit its ability to pay dividends under certain circumstances.

Mexican law requires that 5.0% of our net income each year be allocated to a legal reserve fund until such fund reaches an amount equal to at least 20.0% of our capital stock. Mexican corporations may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after such allocation to the legal reserve fund. The Company complies with this requirement and it is able to distribute dividends.

B. Significant Changes

None

Item 9. The Offer and Listing**A. Offer and Listing Details**

We have traded with fully registered shares since 1997. The Company trades on the NYSE and the BMV with one single class of shares, with full rights.

On the NYSE, we trade through ADRs, with full registration, level 3, and each of our ADRs represents twelve shares. Our Depository Bank is BNY Mellon.

The following tables set forth the high, low, average, and close prices and total trading volume of the Shares and ADRs on the BMV and NYSE, reported by these companies, for each of the periods indicated.

Mexican Stock Exchange						The New York Stock Exchange				
Ticker Symbol: Bachoco						Ticker Symbol: IBA				
In nominal pesos per Share						In U.S. Dollar per ADR				
Year	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
2017	102.00	79.53	88.51	93.62	62,704,308	67.61	46.20	56.39	57.30	2,924,520
2016	85.65	62.51	77.34	84.75	92,422,713	55.65	41.17	49.68	49.02	5,380,291
2015	89.73	59.23	71.74	70.05	100,682,602	63.49	45.64	54.09	49.23	4,257,623
2014	68.50	44.71	56.62	61.94	91,033,100	61.24	40.37	50.84	49.88	4,937,600
2013	45.25	28.80	38.27	44.16	99,113,100	43.08	27.02	35.92	40.27	4,332,600
Quarter	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
4Q-2017	102.00	88.07	93.90	93.62	16,398,570	67.61	56.64	59.39	57.30	636,608
3Q-2017	101.53	85.13	92.38	101.53	12,602,330	67.29	55.76	62.20	66.50	386,428
2Q-2017	86.98	82.53	84.99	86.74	14,707,251	57.98	52.06	55.02	57.98	961,603
1Q-2017	87.48	79.53	82.80	84.97	18,996,157	54.55	46.20	48.98	54.24	939,881
4Q-2016	85.65	77.88	81.71	84.75	20,990,139	53.23	45.76	49.49	49.02	1,911,952
3Q-2016	84.65	76.92	81.59	81.04	20,964,855	55.65	47.29	52.21	50.16	1,214,779
2Q-2016	77.31	70.42	74.62	75.28	26,096,399	52.68	46.04	49.51	48.98	1,114,304

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1Q-2016 77.40 62.51 71.21 73.91 24,371,320 53.52 48.67 47.41 51.28 1,139,256

Month	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
Mar-18	96.47	92.37	94.75	95.30	4,583,452	62.67	58.83	61.04	61.95	111,719
Feb-18	94.06	89.88	91.86	91.66	5,615,313	61.46	57.41	58.97	58.01	241,413
Jan-18	98.16	93.03	95.28	95.65	6,389,520	63.83	57.88	60.56	61.94	210,839
Dec-17	95.56	89.31	92.63	93.62	2,912,822	60.06	56.87	58.02	57.30	164,801
Nov-17	94.10	88.07	91.81	90.75	4,660,846	59.15	56.64	58.11	58.02	234,374
Oct-17	102.00	93.52	97.14	94.15	8,824,902	67.61	58.70	61.93	58.89	237,433

Source: Yahoo

Market Maker

Currently the Company does not have any market maker program.

B. Plan of Distribution

Not applicable.

C. Markets

On September 19, 1997, Bachoco commenced trading on the BMV and on the NYSE.

As of February 28, 2018, there were 3,680,688 ADRs outstanding at the NYSE. They represented 7.4% of the total shares of the Company or 27.5% of the free float.

Based on these figures, we can assume that the remaining 72.5% of the free float is trading at the Mexican Stock Exchange.

Exchange	Country	Ticker Symbol	Securities
BMV	Mexico	Bachoco	Shares
BMV	Mexico	Bachoco17	Bonds
NYSE	U.S.	IBA	ADR

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Information regarding the memorandum and articles of association are included in our F-1 Form and, an English translation of our bylaws is attached in this Annual Report, and is incorporated by reference herein and is also available on our web page www.bachoco.com.mx

The discussion set forth below contains information concerning our capital stock and a brief summary of the material provisions of the bylaws and applicable Mexican law. This summary does not purport to be complete and is qualified in its entirety by reference to the bylaws and the applicable provisions of Mexican law.

General

The Company was incorporated on April 17, 1980 as a variable capital corporation under the laws of Mexico. To fully comply with Mexican laws, the Company modified its name to Industrias Bachoco, S.A.B. de C.V. in April 2007.

In 1995, our stockholders authorized the issuance of up to 15,525,000 additional Series B Shares and 15,525,000 additional Series L Shares, all constituting fixed capital, to be issued in connection with the global offering of Shares that took place on September 19, 1997 (the “Global Offering”).

On April 21, 1997, we restructured our capital by (i) declaring a four-to-one stock split of the 106,678,125 Series B Shares and 35,559,375 Series L Shares outstanding, (ii) converting 7,762,500 Series L Shares (on a post-split basis) into Series B Shares and (iii) combining all of the 434,475,000 Series B Shares and 134,475,000 Series L Shares outstanding (in each case, on a post-split basis) into 134,475,000 Units and 150,000,000 B Units. Holders of Units were entitled to exercise all the rights of holders of the Series B Shares and Series L Shares underlying their Units. Each B Unit consisted of two Series B Shares. B Units entitle the holders thereof to exercise all the rights of holders of the Series B Shares underlying such B Units. Immediately prior to the Global Offering, our outstanding capital stock consisted of 434,475,000 Series B Shares and 134,475,000 Series L Shares, all of which were duly authorized, validly issued and are fully paid and non-assessable.

During the annual shareholders meeting held on April 26, 2006, shareholders approved to proceed with the anticipated conversion of the Series L Shares into Series B Shares, which have full voting rights. This conversion was effective in September 2006 and included two steps: separating the UBL and UBB Units currently trading on the Mexican Stock Exchange into their component Shares, and converting the Series L Shares into Series B Shares (on a one-to-one basis), thereby created a single share class, the Series B Shares, which represents all of our Common Stock.

The Robinson Bours Stockholders have advised us that they intend to ensure that the Control Trust will hold at least 51.0% of the Series B Shares at any time outstanding. See “—Foreign Investment Legislation” in this Item.

On April 27, 2011 during the extraordinary Stockholders meeting the Article Two - XII of our bylaws were modified as follows:

Prior language	Current language
Produce, transform, adapt, import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind	“Produce, transform, adapt or manufacturing of processed food in package and/or canned and/or in flask, as well as import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind”

Note: An English translation of our complete bylaws is attached in this Annual Report.

Registration and Transfer

Shares are evidenced by certificates in registered form, which may have dividend coupons attached. We maintain a registry and, in accordance with Mexican law, we recognize as stockholders only those holders listed in the stock

registry. Stockholders may hold their Shares in the form of physical certificates (which, together with notations made in our stock registry, evidence ownership of the Shares) or through book entries with institutions that have accounts with *S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.* (“Indeval”).

Indeval is the holder of record in respect of Shares held through it. Accounts may be maintained at Indeval by brokerage houses, banks and other entities approved by the CNBV. Ownership of Shares maintained at Indeval is evidenced through Indeval’s records and through lists kept by Indeval participants.

In accordance with Article 130 of the *Ley General de Sociedades Mercantiles* (“Mexican Corporations Law”), the Board of Directors must authorize any transfer of stock, or any securities based on such stock, when the number of Shares sought to be transferred in one act or a succession of acts, without limit of time or from one group of interrelated stockholders or stockholders who act in concert, constitutes 10.0% or more of the voting stock issued by the Company. If the Board of Directors refuses to authorize such a transfer, the Board must designate one or more purchasers of the stock, who must pay the interested party the prevailing price on the Mexican Stock Exchange. The Board must issue its resolution within three months of the date on which it receives the relevant request for authorization and, in any case, must consider: (i) the criteria that are in the best interests of the Company, the Company’s operations and the long-term vision of the activities of the Company and its Subsidiaries; (ii) that no shareholder of the Company is excluded, other than the person that intends to acquire control of the financial benefits that may result from the application of the terms of this clause; (iii) that the taking of the Control of the Company is not restricted in an absolute manner; (iv) that the provisions of the Securities Market Law, with respect to acquisition public offerings, are not contravened; and (v) that the exercise of the patrimonial rights of the acquirer are not rendered without effect.

If any person participates in a transaction that would have resulted in the acquisition of 10.0% or more voting stock of the Company without having obtained the board's prior approval, they must pay the Company a fine equal to the market value of the Shares.

Any person who participates in an act that violates the terms of Article 130 discussed in the preceding paragraph will be obligated to pay the Company a fine in an amount equal to the value of the Shares owned directly or indirectly by the stockholder, or the value of the Shares involved in the prohibited transaction, if such person does not own Shares issued by the Company. In the case of a prohibited transaction that would have resulted in the acquisition of 10.0% or more of the voting stock of the Company, the fine will be equal to the market value of those Shares, provided that board authorization was not obtained in advance.

According to our bylaws, a majority of the members of the Board of Directors must authorize in writing, by a resolution made at a Board of Directors' meeting, any change in the control of the Company. Our Board of Directors has the right to decide if a person or a group of persons is acting for the purpose of acquiring control of the Company.

"Control" or "Controlled" means (i) to directly or indirectly impose decisions at the general meetings of shareholders, stockholders or equivalent bodies or to appoint or remove the majority of the directors, managers or equivalent officers; (ii) to hold title to the rights that directly or indirectly allow the exercise of votes with respect to more than fifty percent of the capital stock; or (iii) to directly or indirectly direct the management, the strategy or the principal policies of the Company, whether through the ownership of securities, by contract or otherwise.

Voting Rights and Stockholders' Meetings

Each share entitles the holder thereof to one vote at any general meeting of the stockholders. Holders are currently entitled to elect all members of the Board of Directors.

Our bylaws provide that the Board of Directors shall consist of at least five members and no more than twenty one. The stockholders also appointed four alternate Shareholder Directors to the Board of Directors.

General stockholders' meetings may be ordinary or extraordinary meetings. Extraordinary general meetings are meetings called to consider the matters specified in Article 182 of the Mexican Corporations Law and the bylaws, including changes in the fixed portion of the capital stock and other amendments to the bylaws, liquidation, merger, transformation from one type of corporate form to another, change in nationality and changes of corporate purposes.

General meetings called to consider all other matters, including election of the directors, are ordinary meetings. An ordinary general meeting of the Company must be held at least annually during the four months following the end of the preceding fiscal year to consider certain matters specified in Article 181 and 182 of the Mexican Corporations Law, including, principally, the election of directors, the approval of the report of the Board of Directors regarding their company's performance, the Company's financial statements for the preceding fiscal year and the allocation of the profits and losses of the preceding year, and to approve the transactions that the Company or the entities that the Company controls intend to carry out, in terms of Article 47 of the Securities Market Law, in one fiscal year, when such transactions represent 20.0% (twenty percent) or more of the consolidated assets of the Company, based on the figures corresponding to the closing of the immediately preceding quarter, independently of the manner in which such transactions are carried out, whether simultaneously or successively, but which due to their characteristics, may be considered as a single transaction. Holders of Shares may vote at such meetings.

Under our bylaws, the quorum on first call for a general ordinary meeting is at least 50%. If a quorum is not available on first call, a second meeting may be called at which action may be taken by a majority of those present, regardless of the number of Shares represented at the meeting. On a second call, Ordinary General Shareholders' Meetings will be considered validly held regardless of the number of common or ordinary Shares represented therein and the resolutions of such meetings will be valid when passed by majority vote of the Common Stock therein.

The quorum on first call for a general extraordinary meeting or a special meeting is 75% of the outstanding Shares with voting rights on the matters to be addressed in that meeting. If a quorum is not available on first call, a second meeting may be called, provided that at least 50% of the outstanding Shares with voting rights on the matters to be addressed in that meeting are represented.

Our bylaws require the approval of holders of at least 95% of the outstanding Shares and the approval of the CNBV for the amendment of the controlling stockholders' obligation under the bylaws to repurchase Shares and certain other provisions in the event of delisting. See “—Other Provisions—Repurchase in the Event of Delisting.” For more detail, see our bylaws on our webpage at www.bachoco.com.mx. Holders of ADRs are entitled to instruct the Depositary as to the exercise of the voting rights.

According to our bylaws, stockholders with a right to vote may ask to postpone a vote on any matters on which they believe they do not have enough information as defined by Article 199 of the Mexican Corporation Law. Stockholders with a right to vote, including a limited right to vote, and who hold at least 20% of the capital stock, may legally object to the decisions of a general stockholders' meeting, with respect to matters in which they have rights, without the percentage established under article 201 of the General Law of Business Entities being applicable in such case.

Moreover, holders of shares having voting rights, including limited or restricted voting rights or holders of Shares without voting rights that jointly or individually represent 5% or more of the capital stock, may directly exercise the action of liability against the members and secretary of the Board of Directors, as well as against the relevant directors or executive officers. The exercise of such action will not be subject to the compliance with the requirements set forth under articles 161 and 163 of the General Law of Business Entities.

The Board of Directors, or its President or Secretary or the judicial authority, as applicable, must issue notices of calls of Shareholders' Meetings. In addition, shareholders that jointly or separately represent at least 10% of the capital of the Company may request the President of the Board of Directors or the President of the Audit Committee to call a General Shareholder's Meeting, without the percentage indicated under article 184 of the General Law of Business Entities being applicable for such purpose. If the notice of meeting is not issued within fifteen days after the date of the corresponding request, a Civil or District Judge of the Company's domicile will issue such notice at the request of the interested parties that represent the requesting 10% of the capital, who must present their stock certificates for such purpose.

At least 15 days prior to the meeting, notice of the meeting must be published in the *Diario Oficial de la Federacion* (“Official Gazette”) or in a newspaper of general circulation in Mexico City. Stockholders' meetings may be held without such publication provided that 100% of the outstanding Shares with voting rights on the matters to be addressed by such meeting are represented.

From the moment that a call for a stockholders' meeting is made public, all the information related to the meeting must be available to the stockholders. In order to attend a stockholders' meeting, a stockholder must request and obtain an admission card by furnishing, at least 24 hours before the time set for holding the stockholders' meeting, appropriate evidence of ownership of Shares in us and depositing such Shares with our corporate secretary or with an institution authorized to accept such deposit. If so entitled to attend the meeting, a stockholder may be represented by proxy signed before two witnesses. Additionally, the stockholder may be represented at the stockholders' meetings by a person named by proxy, on a printed form that we issue, which, under Mexican law, must identify our Company and indicate clearly the matters to be addressed in the meeting, with enough space for the instructions that the stockholder specifies. We are obliged to make information on the upcoming meeting available to the intermediaries in the stock market, for the time specified in Article 173 of the Mexican Law, in order to give the intermediaries time to send it to the stockholders they represent. The Secretary of the Board of Directors must verify that this requirement is met and report on this matter at the stockholders' meeting. See "—Registration and Transfer."

Members of the Board

Under the Mexican Corporations Law, a Board of Directors must conform to the following requirements:

-The Board of Directors will be integrated by a minimum of five and a maximum of twenty-one principal members.

- At least twenty-five percent of the members of the Board of Directors must be independent, in accordance with the terms of Article 24 of the Securities Market Law.

- For each principal member, a substitute will be appointed, in the understanding that the substitutes of independent Board members must also be independent.

Besides satisfying all of the requirements mentioned above, failure to meet these standards for any reason will not constitute grounds for judicial action challenging any act, contract, or agreement undertaken by the board, an intermediate committee or other delegated authority. Furthermore, such standards will not be mandatory for the validity or existence of such acts.

The Board of Directors must meet at least every three months at our address or any other place in Mexico and on the dates that the board determines. Meetings previously scheduled in accordance with a schedule pre-approved by the board do not need to be called. Meetings must be called by at least 25% of the members of the Board of Directors, the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors, the Secretary or the Alternate Secretary of the Board or the President of the Audit Committee. Members of the board must be notified via e-mail or in writing at least five calendar days in advance of a meeting.

Dividends and Distributions

At the annual ordinary general stockholders' meeting, the Board of Directors submits our financial statements for the previous fiscal year, together with a report thereon by the board, to the holders of Shares for their consideration. The holders of Shares, once they have approved the financial statements, determine the allocation of our net profits, if any, for the preceding year. As of December 31, 2017, our legal reserve fund was equal to at least 20% of our paid-in capital stock. Amounts in excess of those allocated to the legal reserve fund may be allocated to other reserve funds as the stockholders determine, including a reserve for the repurchase of our Shares. The remaining balance of net profits, if any, is available for distribution as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been paid or absorbed.

Holders of shares and, accordingly, holders of ADRs will have equal rights, on a per Share basis, to dividends and other distributions, including any distributions we make upon liquidation. Partially paid Shares participate in any distribution to the extent that such Shares have been paid at the time of the distribution or, if not paid, only with respect to the proportion paid.

Changes in Capital Stock

An increase of capital stock may generally be affected through the issuance of new shares for payment in cash or in kind, by capitalization of indebtedness or by capitalization of certain items of stockholders' equity. An increase of capital stock generally may not be realized until all previously issued and subscribed Shares of capital stock have been fully paid. Generally, a reduction of capital stock may be effected to absorb losses, to redeem Shares, or to release stockholders from payments not made. A reduction of capital stock to redeem Shares is effected by reimbursing holders of Shares pro rata or by lot. Stockholders may also approve the redemption of fully paid Shares with retained earnings. Such redemption would be affected by a repurchase of Shares on the Mexican Stock Exchange (in the case of Shares listed thereon).

Except under limited circumstances, the bylaws require that any capital increase affected pursuant to a capital contribution be represented Shares.

The fixed portion of our capital stock may only be increased or decreased by resolution of a general extraordinary meeting and an amendment to the bylaws, whereas the variable portion of our capital stock may be increased or decreased by resolution of a general ordinary meeting. See “Other Provisions—Fixed and Variable Capital.”

No resolution by the stockholders is required for decreases in capital stock resulting from exercise of our right to withdraw variable Shares or from our repurchase of our own Shares or for increases in capital stock resulting from our sale of Shares we previously purchased. See “Other Provisions— Repurchase of our own Shares” and “Other Provisions—Appraisal Rights.”

Preemptive Rights

Except in certain limited circumstances, in the event of a capital increase through the issuance of new 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 or, in the event of a capital increase through the issuance of limited-voting or non-voting stock only, to subscribe for a sufficient number of the Shares to be issued to maintain the holder’s existing proportionate holdings of our capital stock. Preemptive rights must be exercised within 15 days following the publication of notice of the capital increase in the *Diario Oficial de la Federacion* (Official Gazette) or following the date of the stockholders’ meeting at which the capital increase was approved if all stockholders were represented at such meeting; otherwise, such rights will lapse. Under Mexican law, preemptive rights cannot be waived in advance by a stockholder, except under limited circumstances, and cannot be represented by an instrument that is negotiable separately from the corresponding share. The Robinson Bours Stockholders, including the Selling Stockholders, have waived all preemptive rights with respect to the Shares and the ADRs being offered in the Global Offering. Holders of ADRs that are U.S. citizens or are located in the United States may be restricted in their ability to participate in the exercise of preemptive rights.

Foreign Investment Legislation

Ownership by foreigners of Shares of Mexican companies is regulated by the *Ley de Inversion Extranjera* (“Foreign Investment Law”) and by the *Reglamento de la Ley para Promover la Inversion Mexicana y Regular la Inversion Extranjera* (“Foreign Investment Regulations”). The Ministry of Commerce and Industrial Development and the Foreign Investment Commission are responsible for the administration of the Foreign Investment Law.

The Foreign Investment Law reserves certain economic activities exclusively for the Mexican state and certain other activities exclusively for Mexican individuals or Mexican corporations, and limits the participation of foreign

investors to certain percentages in regard to enterprises engaged in activities specified therein. Foreign investors may own up to 100.0% of the capital stock of Mexican companies or entities, except for companies (i) engaged in reserved activities as referred to above or (ii) with assets exceeding an amount to be established annually by the Foreign Investment Commission, in which case an approval from the Foreign Investment Commission will be necessary in order for foreign investment to exceed 49.0% of the capital stock. Mexican and non-Mexican nationals will be entitled to hold and to exercise the rights of holders. The Robinson Bours Stockholders have advised us that they intend to maintain a control position. Pursuant to our bylaws, foreigners may only own Shares up to 49.0%.

Other Provisions

Fixed and variable capital

As a “sociedad anonima de capital variable”, we are permitted to issue Shares constituting fixed capital and Shares constituting variable capital. 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 a general ordinary stockholders’ meeting. In no case may the capital of the Company be decreased to less than the minimum required by law and any decrease in the shareholders’ equity must be registered in the Equity Variations Book that the Company will keep for such purpose.

Repurchase in the event of delisting

In the event of cancellation of the registration of the Company's Shares in such Registry, whether at the request of the Company or by a resolution of the National Securities and Banking Commission under applicable law, the Company agrees to make a public offering for the acquisition of the total number of the Shares registered prior to the cancellation. The Company must contribute to a trust for at least six months, the necessary resources to purchase at the same price of the public offering, the Shares of the investors that did not attend or did not accept such offer, in case that after the public offering for purchase has been made and prior to the cancellation of the registration of the Shares that represent the capital stock of the Company or of other securities issued based on such Shares in the National Securities Registry, the Company had been unable to acquire 100.0% of the paid in capital stock.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that our current and future foreign stockholders are formally bound to the Mexican *Secretaria de Relaciones Exteriores* ("Ministry of Foreign Relations") to consider themselves as Mexican nationals with respect to our Shares that they may acquire or of which they may be owners, 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 party with the Mexican authorities, and not to invoke the protection of their government under penalty, should they do so, of forfeiting to the Mexican State the corporate participation that they may have acquired. In the opinion of Galicia & Robles, S.C., our special Mexican counsel, under this provision a non-Mexican stockholder (including a non-Mexican holder of ADRs) is deemed to have agreed not to invoke the protection of his own government by requesting such government to interpose a diplomatic claim against the Mexican government with respect to the stockholder's rights as a stockholder, 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 the stockholder should invoke such governmental protection in violation of this agreement, its Shares could be forfeited to the Mexican State. Mexican law requires that such a provision be included in the bylaws of all Mexican corporations unless such bylaws prohibit ownership of capital stock by foreign investors.

Exclusive Jurisdiction

Our bylaws provide that legal actions relating to any conflict between our stockholders and us, or among the stockholders in connection with matters related to us, may be brought only in courts in Mexico City. Therefore, our stockholders are restricted to the courts of Mexico City.

Duration

The duration of our existence under our bylaws is indefinite.

Repurchase of our own Shares

We may repurchase our Shares on the Mexican Stock Exchange at any time at the then prevailing market price. Any repurchases will be charged to the Stockholders' Equity as long as these Shares belong to the same Company or to the Capital Stock in the event that we convert these Shares to treasury stock, and in this last case no resolution of the stockholders' meeting is required. At each annual ordinary Stockholder's Meeting, the maximum amount of resources that may be used to repurchase Shares will be expressly defined. The Board of Directors will name the persons responsible for the operation of the repurchase process. The Shares that belong to the Treasury Stock or us can be resold among the public stockholders; in the latter case, no resolution of a stockholders' meeting is necessary for an increase in capital. The economic and voting rights corresponding to such repurchased Shares may not be exercised during the period in which such Shares are owned by us, and such Shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any stockholders' meeting during such period.

Non-Subscribed Shares

With prior authorization of the CNBV, we may issue non-subscribed Shares provided that such Shares will be held by a depositary institution and that there is compliance with the conditions of Article 53 of the *Ley del Mercado de Valores* (“Mexican Securities Law”). In any extraordinary stockholders’ meeting at which this issuance of non-subscribed Shares is approved, the preference rights established by Article 132 of the Mexican Corporations Law must be respected. With a quorum at the meeting, the approval of the issuance will take effect, even with respect to stockholders that were not present at the meeting, such that we will be free to issue these Shares with no prior publication. When a minority of stockholders representing at least 25.0% of the voting capital stock vote against the issuance of these Shares, such issuance cannot be made. Any stockholder that votes against this issuance at the stockholders’ meeting will have the right to request that we sell its Shares before issuing the new non-subscribed Shares. In such event, we will have the obligation to sell first the Shares belonging to such stockholders, at the same price that the non-subscribed Shares are to be offered to the public.

Stockholder Conflicts of Interest

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

Board Member Conflicts of Interest

Under Mexican law, any member of the Board of Directors who has a conflict of interest with us in any transaction must disclose such fact to the other members of the Board of Directors and abstain from voting. Any member of the Board of Directors who violates such provision may be liable for damages caused to us. Additionally, members of the Board of Directors and statutory auditors may not represent other stockholders at any stockholders’ meeting.

Appraisal Rights

Whenever the stockholders approve a change of corporate purpose, a change in our nationality or transformation from one type of corporation form to another, any stockholder entitled to vote on such change or transformation who has voted against it has the right to withdraw from us and receive the amount calculated as specified under Mexican law

attributable to its Shares, provided such stockholder 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 that a withdrawing stockholder is entitled to receive is equal to its proportionate interest in our capital stock according to the most recent balance sheet that has been approved by an ordinary general meeting of stockholders.

Actions against Directors

Under Mexican law, holders of Shares having voting rights, including limited or restricted voting rights or holders of Shares without voting rights that jointly or individually represent 5.0% (five percent) or more of the capital stock, may directly exercise the action of liability against the members and secretary of the Board of Directors, as well as against the relevant directors or executive officers. The exercise of such action, among others, will be subject to the compliance with the requirements set forth under the Mexican Law.

Audit Committee and Corporate Practices

Under our bylaws, the Board of Directors is required to create an Audit Committee and Corporate Practices under the terms and conditions outlined below:

- The Audit Committee and Corporate Practices will consist of members of the Board of Directors. The President of the Audit Committee and Corporate Practices and a majority of the committee members must be independent, as independence is defined under the Mexican Securities Market Law.

The mandate of the audit committee and corporate practices is to establish and monitor procedures and controls in order to ensure that the financial information we distribute is useful, appropriate and reliable, and accurately reflects our financial position.

For more detail or to read more about the Committee's activities please refer to "Audit Committee and Corporate Practices" section in Item 6 to this Annual Report. For additional information, also see Article 35 of the Mexican Securities Market Law.

Related Party Transactions

See "Related Party Transactions" included in Item 7 to this Annual Report.

C. Material Contracts

None.

D. Exchange Controls

Ownership by foreigners of Mexican companies is regulated by the Foreign Investment Law and by the Foreign Investment Regulations. The Ministry of Commerce and Industrial Development and the Foreign Investment Commission are responsible for the administration of the Foreign Investment Law.

The Foreign Investment Law reserves certain economic activities exclusively for the Mexican Government and certain other activities exclusively for Mexican individuals or Mexican corporations and limits the participation of foreign investors to certain percentages in regard to enterprises engaged in activities specified therein. Foreign investors may own 100% of the capital stock of Mexican companies or entities, except for companies (i) engaged in reserved activities as referred to above or (ii) with assets exceeding an amount to be established annually by the Foreign Investment Commission in which case an approval from the Foreign Investment Commission shall be necessary in order for foreign investment to exceed 49.0% of the capital stock. Mexican and non-Mexican nationals will be entitled to hold and to exercise the rights of holders. The Robinson Bours Stockholders have advised us that they intend to maintain a control position of his shares. Pursuant to our bylaws, foreigners may only own Shares up to 49% of shares.

E. Taxation

The following discussion is a general summary of the principal U.S. federal income tax consequences and the principal Mexican federal tax consequences of the acquisition, ownership and disposition of Shares or ADRs. This summary does not purport to address all material tax consequences that may be relevant to holders of Shares or ADRs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities or arrangements, investors liable for the U.S. alternative minimum tax, investors that own or are treated as owning 10% or more of our stock (by vote value), investors that hold Shares or ADRs as part of a straddle, hedge, conversion transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. In addition, this summary is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed in accordance with its terms.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of Shares or ADRs that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;

- a corporation organized in or under the laws of the United States, any state thereof, or the District of Columbia;

-an estate, the income of which is subject to U.S. federal income tax without regard to its source; or

a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Shares or ADRs, the tax treatment of a partner generally will depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership considering the purchase of Shares or ADRs should consult its own independent tax advisor regarding the U.S. federal income tax consequences of investing in Shares or ADRs through a partnership.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. See “U.S. Federal Income Taxation—Passive Foreign Investment Company Rules” below. This discussion is based on the federal income tax laws and regulations of the United States (including the U.S. Internal Revenue Code of 1986, as amended or the “Code”) and Mexico, judicial decisions, published rulings and administrative pronouncements, all as of the date hereof, and all of which are subject to change (possibly with retroactive effect) and different interpretations. Further, this discussion does not address U.S. federal estate and gift tax, U.S. Medicare tax on net investment income or the alternative minimum tax consequences of holding Shares or ADRs or the indirect consequences to holders or equity interests in partnerships (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) that own Shares or ADRs. In addition, this discussion does not address the non-U.S., non-Mexican, state or local tax consequences of holding Shares or ADRs. Prospective purchasers of Shares or ADRs should consult their own tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of Shares or ADRs, including, in particular, the effect of any non-U.S., non-Mexican, state or local tax laws.

A Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and a Protocol thereto, between the United States and Mexico (the “Tax Treaty”) took effect on January 1, 1994. The Tax Treaty was amended by a second Protocol signed September 8, 1994. The second Protocol entered into force on October 2, 2005. The Tax Treaty was amended by a third Protocol signed November 26, 2002, the provisions of which took effect in part on September 1, 2003, and in part on January 1, 2004. The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

In general, for U.S. federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the beneficial owners of the Shares represented by those ADRs. However, see the discussion below under “Taxation of Dividends” regarding certain statements made by the U.S. Treasury concerning depository arrangements.

U.S. Federal Income Taxation

U.S. Holders

The following discussion is a summary of the material U.S. federal income tax consequences to holders of Shares or ADRs that are U.S. Holders and that hold those Shares or ADRs as capital assets (generally, for investment purposes).

Taxation of Dividends

Cash distributions paid with respect to the Shares or ADRs to the extent paid out of our earnings and profits (as determined under U.S. federal income tax principles) will be included 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 the Depositary, in the case of ADRs. We do not currently maintain calculations of our earnings and profits under U.S. federal income tax principles. Because these calculations are not made, distributions should be presumed to be taxable dividends for U.S. federal income tax purposes.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), to claim a U.S. foreign tax credit in respect of any Mexican income taxes withheld on dividends received on Shares or ADRs. U.S. Holders who do not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such Mexican income taxes, provided the U.S. Holder elects to deduct (rather than credit) all foreign income taxes for that year. Dividends received with respect to Shares or ADRs will be treated as foreign source income, subject to various classifications and other limitations. For purposes of the U.S. foreign tax credit limitation dividends paid with respect to Shares or ADRs generally will constitute “passive category income” for most of U.S. Holders. The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADRs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of such ADRs. Accordingly, the analysis of the creditability of Mexican income taxes described above could be affected by future actions that may be taken by the U.S. Treasury Department. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own independent tax advisors regarding the availability of foreign tax credits with respect to any Mexican income taxes withheld.

Dividends paid in pesos will be included in the gross income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. Holder, in the case of Shares, or by the Depositary, in the case of ADRs (regardless of whether such pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt by the U.S. Holder or the Depositary, as the case may be, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received which are converted into U.S. dollars on a date subsequent to receipt.

Cash dividends paid to corporate U.S. Holders will not be eligible for the dividends-received deduction allowed to corporations under the Code. Subject to certain exceptions for short term and hedged positions, and provided that we are not a PFIC (as discussed below), dividends received by certain non-corporate U.S. Holders (including individuals) with respect to the Shares or ADRs will be subject to U.S. federal income taxation at preferential rates if such dividends represent “qualified dividend income.” Dividends paid on the Shares or ADRs will be treated as qualified dividend income if (i) we are eligible for the benefits of the Tax Treaty or the Shares or ADRs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. We expect to be eligible for the benefits of the Tax Treaty. In addition, under current guidance issued by the Internal Revenue Service (“IRS”), the ADRs should qualify as readily tradable on an established securities market in the United States so long as they are listed on the New York Stock Exchange, but no assurances can be given that the ADRs will be or remain readily tradable under future guidance.

The U.S. Treasury Department has announced its intention to promulgate rules pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of Shares or ADRs should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

Distributions to U.S. Holders of additional Shares with respect to their Shares or ADRs that are made as part of a pro rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax. If holders of the ADRs are restricted in their ability to participate in the exercise of preemptive rights, the preemptive rights may give rise to a deemed distribution to holders of the Shares under Section 305 of the Code. Any deemed distributions will be taxable as a dividend in accordance with the general rules of the income tax treatment of dividends discussed above.

Taxation of Capital Gains

Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Shares or ADRs generally will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S. Holder's adjusted tax basis in the Shares or ADRs and the amount realized on the disposition. A U.S. Holder generally will have an adjusted tax basis in its Shares or ADRs equal to its U.S. dollar cost for such Shares or ADRs. If the Shares or ADRs are treated as traded on an "established securities market," a cash basis U.S. Holder, and, if it elects, an accrual basis U.S. Holder, will determine the dollar cost of such Shares or ADRs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. If dollars are converted to pesos and immediately used to purchase Shares or ADRs, such conversion generally will not result in taxable gain or loss.

If the consideration that a U.S. Holder receives for the Shares or ADRs is paid in a currency other than the dollar, the amount realized generally will be the dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the Shares or ADRs are treated as traded on an "established securities market," a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Gain or loss recognized by a U.S. Holder on the sale or other disposition of Shares or ADRs generally will be long-term gain or loss if, at the time of disposition, the U.S. Holder has held the Shares or ADRs for more than one year.

Certain non-corporate U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deduction of a capital loss is subject to limitations under the Code.

Gain realized by a U.S. Holder on a sale or other disposition of Shares or ADRs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if any Mexican withholding tax is imposed on the sale or disposition of the Shares, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. Alternatively, a U.S. Holder may deduct the Mexican tax withheld from its gross income, provided such U.S. Holder does not claim a foreign tax credit for any foreign income taxes paid or accrued during the taxable year. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Shares or ADRs.

In some cases, gain may be treated as foreign source income by holders eligible for the benefits of the Tax Treaty. U.S. Holders should consult their own tax advisors regarding the application of the Tax Treaty to gain or loss recognized on the sale or other taxable disposition of Shares or ADRs.

Deposits and withdrawals of Shares by U.S. Holders in exchange for ADRs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Passive Foreign Investment Company Rules

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75.0% of its gross income is passive income, or (2) on average at least 50.0% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions. The determination as to whether a non-U.S. corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to different interpretations. In addition, the PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and composition of its income. In determining whether we are a PFIC, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least a 25.0% interest by value is taken into account.

Based on current estimates of our income and assets, we do not believe that we were classified for our most recently-ended taxable year, or will be classified for our current taxable year, as a PFIC for U.S. federal income tax purposes, and we intend to continue our operations in such a manner that we will not become a PFIC in the future, although no assurances can be made regarding determination of our PFIC status in the current or any future taxable year. If we are treated as a PFIC for any taxable year, a U.S. Holder would be subject to special rules (and may be subject to increased tax liability and form filing requirements) with respect to (a) any gain realized on the sale or other disposition of Shares or ADRs, and (b) any “excess distribution” made by us to the U.S. Holder (generally, any distribution during a taxable year in which distributions to the U.S. Holder on the Shares or ADRs exceed 125.0% of the average annual distributions the U.S. Holder received on the Shares or ADRs during the preceding three taxable years or, if shorter, the U.S. Holder’s holding period for the Shares or ADRs). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the Shares or ADRs, (b) the amount allocated to the taxable year in which the gain or excess distribution is realized and to taxable years before the first day on which we became a PFIC would be taxable as ordinary income, (c) the amount allocated to each prior year in which the Issuer was a PFIC would be subject to U.S. federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of U.S. federal income tax would be imposed in respect of the tax attributable to each prior year in which we were treated as a PFIC.

In addition, a U.S. Holder generally must file IRS Form 8621 periodically to disclose ownership of an equity interest in a PFIC during any taxable year.

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to Shares or ADRs and the application of recently enacted legislation to their particular situation.

Non-U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of Shares or ADRs that are neither U.S. Holders nor partnerships for U.S. federal income tax purposes (“Non-U.S. Holders”).

Subject to the discussion below under “U.S. Backup Withholding and Information Reporting,” a Non-U.S. Holder of Shares or ADRs will not be subject to U.S. federal income or withholding tax on a dividend paid by us or gain realized on the sale of Shares or ADRs, unless (i) such dividend or gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder) or (ii) in the case of gain realized by an individual Non-U.S. Holder, such Non-U.S. 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.

U.S. Backup Withholding and Information Reporting

In general, dividends on Shares or ADRs, and payments of the proceeds of a sale or other taxable disposition of Shares or ADRs, paid within the United States, by the U.S. payor or through certain U.S.-related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding at a current rate of 24%, unless the U.S. Holder (i) establishes that it is an exempt recipient or (ii) with respect to backup withholding, provides an accurate taxpayer identification number and certifies that it is a U.S. person and that no loss of exemption from backup withholding has occurred. Payments made within the United States, by a U.S. payor or through certain U.S.-related financial intermediaries to a Non-U.S. Holder will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the Non-U.S. Holder to the payor or intermediary and the payor or intermediary does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax. The amount of any backup withholding withheld from a payment will be allowed as a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. A holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed its U.S. federal income tax liability by filing a timely refund claim with the IRS.

In addition, U.S. Holders should be aware of annual reporting requirements with respect to the holding of foreign financial assets, including stock of foreign issuers that are not held in an account maintained by certain types of financial institutions, if the aggregate value of all of such assets exceeds \$50,000, subject to certain exceptions. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our common Shares and the application of these reporting requirements to their particular situation.

Mexican Taxation

Taxation of Dividends

Through December 31, 2013, dividends, either in cash or in any other form, paid with respect to the Shares constituting the Shares or the ADRs were not subject to Mexican withholding tax. However, as a result of changes to the income tax law described in note 20(a) of our Audited Consolidated Financial Statements, beginning on January 1, 2014, a new withholding tax of 10% was established for Mexican individuals resident in Mexico and for all residents in foreign countries who receive dividends from entities. Such tax is considered a withholding tax by the entity that pays the dividends.

Taxation of Capital Gains

Gain on the sale or other disposition of ADRs by holders who are not Mexican Residents (as defined below) will not be subject to Mexican income tax. Deposits of Shares in exchange for ADRs and withdrawals of Shares in exchange for ADRs will not give rise to Mexican income tax.

Gain on the sale of Shares by a holder who is not a Mexican Resident (as defined below) will not be subject to Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other securities markets approved by the Mexican Ministry of Finance, and provided certain requirements set forth by the Mexican Income Tax Law are complied with. Sales or other dispositions of Shares made in other circumstances generally would be subject to Mexican tax, except to the extent that a holder is eligible for benefits under an income tax treaty to which Mexico is a party of. Under the Tax Treaty, gain on the sale or other disposition of Shares by a U.S. resident (if eligible for benefits under the Tax Treaty) who is a holder of less than 25% of our capital stock during the twelve-month period preceding such sale or disposition will not be subject to Mexican tax, unless (i) 50% or more of the fair market value of our assets consist of “immovable property” (as defined in the Tax Treaty) situated in Mexico, or (ii) such gains are attributable to a permanent establishment or fixed base of such U.S. resident in Mexico.

For a holder that is not a Mexican Resident and that does not meet the requirements referred to above, gross income realized on the sale of Shares will be subject to a 5% Mexican withholding tax if the transaction is carried out through the Mexican Stock Exchange. Alternatively, a holder that is not a Mexican Resident can choose to be subject to a 20% withholding rate on the net gain obtained, as calculated pursuant to Mexican Income Tax Law provisions.

The Mexican tax rules governing the taxation of gains of holders who are not Mexican Residents on dispositions of their Shares or ADRs were amended during 2002. Holders who are not Mexican Residents who disposed of their Shares or ADRs during 2003 should consult their own Mexican tax advisors on the Mexican tax treatment of such dispositions.

For purposes of Mexican taxation (*Ley del Impuesto sobre la Renta*), an individual is a resident of Mexico (a “Mexican Resident”) if he or she has established his or her home in Mexico, unless he or she has resided in another country for more than 183 days, whether consecutive or not, during a calendar year and can demonstrate that he or she has become a resident of that country for tax purposes. A legal entity is a Mexican Resident if it has been incorporated under Mexican law. A company is also considered to be a Mexican Resident if its headquarters are located in Mexico. A Mexican citizen is presumed to be a resident of Mexico for tax purposes unless such person can demonstrate otherwise. If a person is deemed to have a permanent establishment or fixed base in Mexico for tax purposes, such permanent person shall be required to pay taxes in Mexico on income attributable to such permanent establishment or fixed base, in accordance with applicable tax laws.

Other Mexican Taxes

There are no Mexican inheritance, succession or similar taxes applicable to the ownership, transfer or disposition of ADRs or Shares by holders that are not Mexican Residents; provided, however, that gratuitous transfers of Shares may in certain circumstances cause a Mexican federal tax to be imposed on the recipient. There is no Mexican stamp, issue, registration or similar taxes or duties payable by holders of ADRs or Shares. Brokerage fees on securities transactions carried out through the Mexican Stock Exchange are subject to a 16%, valued added tax.

F.Dividends and Paying Agents

Not applicable.

G.Statement by Experts

Not applicable.

H.Documents on Display

The documents concerning us which are referred to in this document are available in our company headquarters, located at Avenida Tecnológico No. 401, Ciudad Industrial, Celaya, Guanajuato, zip code 38010, Mexico, for any inspection required. Part of this information is available on our website, at <https://corporativo.bachoco.com.mx/inversionistas/>

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I.Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of our business, we hold or issue various financial instruments that expose us to financial risks involving fluctuations in currency exchange rates and interest rates. Also, we are exposed to commodity price risk in connection with fluctuations in the prices for our feed ingredients.

The Company is exposed to several risks related to the use of financial instruments to which risk management is applied, including credit risk, liquidity risk, market risk, and operational risk.

Note 8 of our Audited Consolidated Financial Statements presents information on the Company's exposure to each of the aforementioned risks, and the Company's objectives, policies and procedures for risk measurement and

management. Further quantitative disclosures are included in various sections of these Audited Consolidated Financial Statements included in this Annual Report.

Risk management framework

The risk philosophy adopted by the Company seeks to minimize the risk and, therefore, to enhance its business stability, by opting for a sound relationship between the levels of risk assumed and its operating capabilities, for ensuring better decision-making.

Risk Management means the “Set of objectives, policies, procedures and actions implemented to identify measure, monitor, limit, control, report and disclose the various types of risks to which the entity is exposed.”

Currency Fluctuation

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to cost and expenses which are denominated in U.S. dollars. See Risk Factors under Item 3.

In 2017, 2016 and 2015 we recognized net foreign exchange gains of \$230.5, \$297.5 and \$95.4 million, respectively.

As of December 31, 2017, a hypothetical increase of 10% in the exchange rate, would have resulted in an increase in the foreign currency position of \$121.4 million, which represents a gain from foreign currency exchange rates. On the other hand, a decrease of 10% in the exchange rate would have resulted in a decrease in our foreign currency position of \$121.4 million, which represents a loss from foreign currency exchange rates.

We manage our exchange rate exposure primarily through management of our financial structure. As part of our normal operations, we plan over a six-month period into the future and, depending on the expected uncertainty for that period, decide if it is economically advisable to purchase or sell any hedging instrument. We purchase financial derivative instruments in order to ensure greater certainty in our purchases of U.S. dollars.

The main risk that the Company faces with the use of these derivative instruments is the volatility in the exchange rate of the peso against the U.S. dollar. Our risk committee approves any change in policies and reviews the application of current policies.

No assurance can be given as to the future valuation of the Mexican peso and how further movements in the peso could affect our future earnings. In order to mitigate our foreign exchange risk, we have established a Risk Committee which meets at least once a quarter and approves the guidelines and policies for entering into these operations. We also work with independent consultants who make evaluations of our positions and provide us with consulting services. Said companies do not sell any financial instruments to us.

Interest Rates

Our earnings may also be affected by changes in interest rates due to the impact those changes have on our variable rate debt instruments.

As of December 31, 2017, we had borrowings of approximately \$5,249.0 million pursuant to variable rate debt instruments, representing approximately 10.4% of our total assets.

Based on our debt position on December 31, 2017, we estimate that a hypothetical increase in the interest rate of 50 basis points would increase our interest expense by \$43.5 million, negatively impacting our net income by the same. Whereas, we estimate that a hypothetical decrease in the interest rate of 50 basis points, would decrease our interest expense by \$43.5 million, positively impacting our net income by the same.

Any such increase would likely be partially offset by an increase in interest income due to our strong cash and cash equivalent position.

Feed Ingredients

The price of sorghum, soy meal, and corn is subject to significant volatility resulting from many external factors like weather conditions, the size of harvests, transportation and storage costs, among others. In order to reduce the potential adverse effect of grain price fluctuations, we vary the composition of our feed to take advantage of current market prices for the various types of ingredients used.

Based on our results for 2017, we estimate that a hypothetical increase in the price of corn bushel and short-ton of soybean meal of 15% would decrease the loss in our overall derivative position instruments to \$16.1 million, positively affecting our results. Whereas, we estimate that a hypothetical decrease in the price of corn bushel and short-ton soybean meal of 15%, would increase the loss in our overall derivative position instruments to \$21.1 million, negatively affecting our results.

Item 12. Description of Securities Other Than Equity Securities

A. Debt Securities

On August 29, 2012, we issued bonds for \$1,500 million through a public issuance of local bonds (“Certificados Bursátiles” or “CBs”) in the local debt capital markets for a tenor of 5 years, maturing in 2017.

The bonds issued had a 28-day THIE interest rate plus + 0.60%. The principal of the bonds will be amortized at face value, in one payment, on the date of maturity.

This represented our first bond offering, which was distributed among a wide range of local investors. The funds obtained were utilized in accordance with the Company's financial requirements.

This first \$1,500 million bonds issuance is part of a bond issuance program for up to \$5,000 million that the Company has available for issuance within the next five years, in accordance with its financial needs. These bond were repaid in their entirety at maturity in 2017

The CBs do not provide restrictions of payment of cash dividends.

On August 2017, we issued a second series of bonds for \$1,500 million through the same program in the local debt capital markets for a tenor of 5 years, maturing in 2022.

The new bonds issued had a 28-day TIIE interest rate plus + 0.31%. The principal of the bonds will be amortized at face value in one payment on the date of maturity.

For more detail, see Note 18 of our Audited Consolidated Financial Statements

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Receipts

BNY Mellon has been our Depository Bank since the day of our initial public offering of shares and continues to act in that capacity as of the date of this document. BNY Mellon is located at Church Street Station, in New York, N.Y. 10286. Below is their contact information for shareholder and proxy services:

Shareholder Services

P.O. Box 30170
College Station, TX 77842-3170
US: 888 BNY ADRS
T.: 201 680 6825
E: shrrelations@cpushareownerservices.com

Proxy Services

P.O. Box 43102
Providence RI 02940-5068
Toll free: 888 269 2377
T. 212 815 3700
E: shareowner@bankofny.com

Fees and charges that a Holder of our ADRs may have to pay, either directly or indirectly

Our Depository may charge each person to whom ADRs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADRs or deposited securities, and each person surrendering ADRs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADRs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, the case may be. The Depository may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The Depository collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The Depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADRs), whichever is applicable:

Persons depositing or withdrawing shares must pay:

\$5.00 (or less) per 100 ADRs (or portion of 100 ADRs)

\$.02 (or less) per ADR

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADRs

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

Issuance of ADRs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADRs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADR registered holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR registered holders

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

As necessary

As necessary

We will pay all other charges and expenses of the Depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the Depositary. The fees described above may be amended from time to time.

Fees and other direct and indirect payments made by the Depositary and us

The Depositary has agreed to reimburse us for expenses we incur that are related to establishment and maintenance expenses of the ADR program. The Depositary has agreed to reimburse us for our continuing annual stock exchange listing fees. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and

distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the Depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

Pursuant to our letter agreement with our Depositary, in 2014 we did not receive any such payment because we renegotiated our contract with BNY Mellon in August 2014 and were not be able to request this benefit until one year from the contract renewal date. In 2017 and 2016, we received a payment of US \$70,000.00 (less fees) and US\$69,852.64 (less fees) respectively, as payment for expenses we incurred related to the maintenance of our ADR program, including investor relations expenses and exchange application and listing fees.

Part II

Item 13. Default, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, as of December 31, 2017, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance, that information required to be disclosed in the reports we file and submit under the Securities Exchange Act are recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Before 2016, in making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its original 1992 Internal Control—Integrated Framework. Beginning in 2016, in making this assessment, the Company adopted the criteria set forth by the COSO in its 2013 Internal Control—Integrated Framework.

Based on this assessment, management concluded that, as of December 31, 2017, the Company's internal control over financial reporting is effective based on such criteria.

However, our management's assessment and conclusion on the effectiveness of our internal control over financial reporting as of December 31, 2017 excludes, in accordance with applicable guidance provided by the SEC, an assessment on the internal control over financial reporting of AQF, Inc. and La Perla which we acquired in July, 2017, and whose financial statements constitute approximately 4% and 1%, respectively, of our total assets as set forth in our consolidated financial statements as of December 31, 2017. We do not expect any material changes in our internal control over financial reporting as a result of these transactions.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting in the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm to the Board of Directors and Stockholders of Industrias Bachoco, S.A.B. de C.V. and subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated April 27, 2018, expressed an unqualified opinion on those financial statements.

As described in Management’s Annual Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Albertville Quality Foods, Inc. and Proveedora La Perla S.A. de C.V. (collectively, the “Acquired Businesses”), which were acquired during July, 2017, and whose financial statements constitute approximately 4% and 1%, respectively, of total assets of the consolidated financial statement amounts as of December 31, 2017. Accordingly, our audit did not include the internal control over financial reporting at the Acquired Businesses.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting" appearing in Item 15. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Standards as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

/s/ Miguel Angel Andrade Leven
C.P.C. Miguel Angel Andrade Leven
México City, México
April 27, 2018

Item 16. [Reserved]

ITEM 16.A. Audit Committee Financial Expert

During our ordinary stockholders' meeting that took place on November 3, 2015, Guillermo Ochoa Maciel was elected as President of the Audit and Corporate Practices Committee. Mr. Ochoa Maciel possesses all the characteristics included in the definition of an "audit committee financial expert" within the meaning of this Item 16A.

ITEM 16.B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, as well as to other officers and employees. Our code of ethics is available free of charge upon request through our investor relations website www.bachoco.com.mx. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver upon request on our website at the same address.

ITEM 16.C. Principal Accountant Fees and Services

On September 3, 2013, we announced that the Company's Board of Directors, as per the Audit Committee's recommendation, approved the selection of Deloitte as the Company's independent registered public accountant, effective as of September 30, 2013.

Audit and Non-Audit Fees

The following table sets forth the fees billed by Deloitte our independent registered public accounting firm, and paid by us. All amounts are in nominal thousands of pesos, no taxes are included.

AUDIT FEES OF DELOITTE

	As of December 31,	
In thousands of pesos,	2017	2016
Total Fees:	\$ 13,242	\$ 9,383
Audit fees	12,984	9,015
Audit related fees	258	368
Other	-	-

Deloitte's audit related fees in the table above are fees related to the review of transfer price studies.

In addition to the fees for professional services paid listed in the table above, we reimbursed Deloitte for out-of-pocket expenses they incurred in connection with the performance of their audit, such as lodging and other travel related expenses of \$733 and \$991 in 2017 and 2016, respectively.

Total 2017 audit fees and statutory audit fees agreed to be paid to Deloitte is \$7.7 million.

Audit Committee Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

ITEM 16.D. Exemptions from the Listing Standards for Audit Committees

According to the New York Stock Exchange's Listing Standards for Audit Committees of a Foreign Private Issuer, Ricardo Aguirre, a member of our audit committee, currently does not meet the independence standards set forth in Rule 10A-3b(1)(ii)(B) of the Exchange Act. Therefore, with respect to Mr. Aguirre, we rely on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act because Mr. Aguirre (i) represents the Company's controlling shareholders, (ii) only has observer status on, and is not a voting member or the chair of, the Company's audit committee and (iii) is not an executive officer of the Company. Our reliance on such exemption does not materially adversely affect the ability of our audit committee to act independently and to satisfy the other requirements of Rule 10A-3(b).

ITEM 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Every year during the annual ordinary stockholder meeting, the Board proposes the approval of an amount to be used in a repurchase plan of our shares. The repurchase plan is approved for a period of one year. All the shares set in the table below were repurchased pursuant to the repurchase plan in force at the date of the purchase.

The table set below sets forth the information regarding the purchase plan approved by the Board of Directors in the three recent fiscal years.

REPURCHASE PLAN APPROVED

Year	Announced date	Expiration date	Amount	Estimate number of shares that may be purchase under the plan	
2017	April 26,2017	April 24,2018	\$494,940,000	12,000,000	
2016	April 27, 2016	April 25, 2017	\$449,640,000	12,000,000	(1)
2015	April 22, 2015	April 26, 2016	\$778,320,000	12,000,000	

(1) The amount includes current shares in the repurchase plan.

The table below sets forth information about the repurchase of our shares on the BMV:

REPURCHASE OF SHARES IN 2017

Monthly operation of the repurchase plan in 2017	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchase as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	0	\$ 0	0	12,000,000
January	0	0	0	12,000,000
February	0	0	0	12,000,000
March	0	0.00	0	12,000,000
April	0	0.00	0	12,000,000
May	0	0.00	0	12,000,000
June	0	0.00	0	12,000,000
July	0	0.00	0	12,000,000
August	0	0.00	0	12,000,000
September	0	0.00	0	12,000,000
October	0	0.00	0	12,000,000
November	20,000	90.00	20,000	11,980,000
December	0	0.00	0	11,980,000
Total 2017	20,000	90.00	20,000	11,980,000

REPURCHASED OF SHARES IN 2018

Monthly operation of the repurchase plan in 2018	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchased as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	20,000	\$ 90.00	20,000	11,980,000
January 2018	0	0.00	0	11,980,000
February 2018	0	0.00	0	11,980,000
March 2018	0	0.00	0	11,980,000
Total as of March 31, 2018:	20,000	90.00	0	11,980,000

REPURCHASE PLAN BALANCE

	Number of Shares
Total shares in the repurchase plan as of December 31, 2016	0
(+) Total shares purchased in 2017	20,000
(-) Total shares sold in 2017	0
Total shares in the repurchase plan as of December 31, 2017	20,000
(+) Total shares purchased as of April 15, 2018	0
(-) Total shares sold as of April 15, 2018	20,000
Total shares in the repurchase plan as of April 15, 2018	0

ITEM 16.F. Changes in Registrant's Certifying Accountant

Not applicable.

ITEM 16.G. Corporate Governance

Comparison of our Corporate Governance Rules and the Rules of the NYSE Applicable to U.S. Registered Companies

On November 4, 2003, the SEC approved final corporate governance standards for companies listed on the NYSE (“NYSE Corporate Governance Standards”). According to such standards, foreign private issuers are subject to a more limited set of requirements regarding corporate governance than those imposed on U.S. domestic issuers. As a foreign private issuer, we must comply with four NYSE Corporate Governance Standards:

-prior to July 31, 2005, we must comply with the requirements set forth by the SEC concerning audit committees;

we must submit an annual Written Affirmation to the NYSE and an Interim Written Annual Affirmation each time a change occurs in the Board of Directors or the Audit Committee;

our CEO must promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any of the applicable NYSE corporate governance rules; and

we must provide a brief description disclosing any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE listing standards.

Pursuant to Section 303A.11 of the NYSE Corporate Governance Standards, we are required to disclose any significant ways in which our corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standards. A brief description disclosing the significant ways in which our corporate governance practices differ from those followed by U.S. companies under the NYSE listing standards is set forth below:

NYSE Corporate Governance Rules for Domestic Issuers

Director Independence. Majority of board of directors must be independent.” Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from this requirement.

A director is not independent if such director is:

Our Corporate Governance Practices

Pursuant to the Mexican Securities Market Law and our bylaws, our stockholders are required to appoint a board of directors of between five and 20 members, 25% of whom must be independent. Our board of directors is not required to make a determination as to the independence of our directors.

Under Article 14 Bis of the Mexican Securities Market Law, a director is not independent if such director is:

(i) a person who the board determines has a material direct or indirect relationship with the company, its parent or a consolidated subsidiary;

(i) an employee or officer of the company (one-year cooling off period);

(ii) an employee, or an immediate family member of an executive officer, of the company, its parent or a consolidated subsidiary, other than employment as interim chairman or CEO;

(ii) a stockholder that, without being an employee or officer of the company, has influence or authority over the company's officers;

NYSE Corporate Governance Rules for Domestic Issuers

- (iii) a person who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the company, its parent or a consolidated subsidiary, other than director and committee fees or deferred compensation for prior services only (and other than compensation for service as interim chairman or CEO or received by an immediate family member for service as a non-executive employee);

- (iv) a person who is affiliated with or employed, or whose immediate family member is affiliated with or employed in a professional capacity, by a present or former internal or external auditor of the company, its parent or a consolidated subsidiary;

- (v) an executive officer, or an immediate family member of an executive officer, of another company whose compensation committee's membership includes an executive officer of the listed company, its parent or a consolidated subsidiary; or

- (vi) an executive officer or employee of a company, or an immediate family member of an executive officer of a company, that makes payments to, or receives payments from, the listed company, its parent or a consolidated subsidiary for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues (charities are not included, but any such payments must be disclosed in the company's proxy (or, if no proxy is prepared, its Form 10-K / Annual Report)).

Our Corporate Governance Practices

- (iii) a consultant, or partner or employee of a consultant, to the company or its affiliates, where the income from the company represents 10% or more of the overall income of such consultant;

- (iv) an important client, supplier, debtor or creditor (or a partner, director or employee thereof). A client and supplier is considered important where its sales to or purchases from the company represent more than 10% of the client's or supplier's total sales or purchases. A debtor or creditor is considered important whenever its sales to or purchases from to the company represent more than 15% of the debtor's or creditor's total sales or purchases;

- (v) an employee of a non-profit entity that receives contributions from the company that represent more than 15% of the total contributions received;

- (vi) a CEO or other high ranking officer of another company in which the issuer's CEO or other high ranking officer is a member of the board of directors; or

NYSE Corporate Governance Rules for Domestic Issuers

(vii) "Immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law and anyone (other than domestic employees) who shares the person's home. Individuals who are no longer immediate family members due to legal separation, divorce or death (or incapacity) are excluded. §303A.02(b)

Executive Sessions. Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03

Audit committee. Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07

Our Corporate Governance Practices

(vii) a "family member" related to any of the persons mentioned above in (i) through (vi). "Family member" includes a person's spouse, concubine or other relative of up to three degrees of consanguinity and affinity, in the case of (i) and (ii) above, and a spouse, concubine or other relative of up to one degree of consanguinity or affinity in the case of (iii) through (vi) above.

There is no similar requirement under our bylaws or applicable Mexican law.

The members of our audit committee are independent as independence is defined by Rule 10A-3.

Our audit committee complies with the requirements of the Mexican Securities Market Law and has the following attributes:

We have a three-member audit committee, which is composed of one proprietary director and two proprietary independent directors.

The president of the audit committee and one additional member are independent. Under the Mexican Securities Market Law, the president and the majority of the members of the audit committee must be independent.

Our audit committee operates pursuant to a written charter adopted by our board of directors. See Item 6 for a detailed description of the duties of our audit committee.

Pursuant to our bylaws and Mexican law, our audit committee submits an annual report regarding its activities to our board of directors.

NYSE Corporate Governance Rules for Domestic Issuers

Nominating/corporate governance

committee. Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. “Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04

Compensation committee. Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. “Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05

Equity compensation plans. Equity compensation plans require stockholder approval, subject to limited exemptions. §303A.08

Code of Ethics. Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10

Our Corporate Governance Practices

We are not required to have a nominating/corporate governance committee, and it is not expressly recommended by the Mexican Code of Best Corporate Practices.

We are not required to have a compensation committee. As recommended by the Mexican Code of Best Corporate Practices, we have an evaluation mechanism for assisting the board of directors in approving executive officer compensation.

Stockholder approval is not expressly required under Mexican law or our bylaws for the adoption and amendment of an equity-compensation plan. However, regulations of the Mexican Banking and Securities Commission require stockholder approval under certain circumstances. We currently do not have any equity-compensation plans in place.

We have adopted a code of ethics, which has been accepted by to our chief executive officer, chief financial officer, controller and persons performing similar functions, as well as to other officers and employees. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. We have no such waivers in place.

ITEM 16.H. Mine Safety Disclosure

Not applicable.

Part III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

See the Audited Consolidated Financial Statements including Notes, incorporated herein by reference.

Item 19. Exhibits

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Index of Exhibits

Documents filed as exhibits to this Annual Report:

Exhibit No.	Description
1.1	<u>An English translation of the Bylaws (<i>estatutos sociales</i>) of Industrias Bachoco, S.A. de C.V. dated June 29, 2007 (incorporated by reference to Exhibit 1.1 on Form 20-F filed with the U.S. Securities and Exchange Commission on June 29, 2007 (File No. 333-07950)).</u>
2.1	<u>Form of Amended and Restated Deposit Agreement, among Industrias Bachoco, S.A. de C.V., the Depositary and each Owner and Beneficial Owner from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit 1.1 on Form F-6 filed with the U.S. Securities and Exchange Commission on August 18, 2006 (File No. 333-07480)).</u>
2.2	Trust Agreement, dated April 1, 1995, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Prime Internacional, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).
2.3	Trust Agreement, dated August 20, 1997, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Bital, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).
8.1*	<u>Subsidiaries of Industrias Bachoco S.A. de C.V.</u>
12.1	<u>*Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2	<u>*Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1	<u>*Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

101 *INS XBRL Instance Document

101 *SCH XBRL Taxonomy Extension Schema Document

101 *DEF XBRL Taxonomy Extension Definition Linkbase Document

101 *CAL XBRL Taxonomy Extension Calculation Linkbase Document

101 *LAB XBRL Taxonomy Extension Labels Linkbase Document

101 *PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

INDUSTRIAS BACHOCO, S.A.B de
C.V.

By: /s/ DANIEL SALAZAR FERRER
Daniel Salazar Ferrer
Chief Financial Officer

Date: April 27, 2018

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements

Years ended December 31, 2017, 2016 and 2015

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Report of Independent Registered Public Accounting Firm to the Board of Directors and Stockholders of Industrias Bachoco, S.A.B. de C.V. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2017, 2016 and 2015, the related consolidated statements of profit and loss and other comprehensive income, changes in stockholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 27, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

/s/ Miguel Angel Andrade Leven
C.P.C. Miguel Angel Andrade Leven
We have served as the Company's auditor since 2013.

México City, México
April 27, 2018

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INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2017, 2016 and 2015

(Thousands of pesos)

Assets	Note	2017	2016	2015
Current assets:				
Cash and cash equivalents	7	\$16,112,268	14,681,204	14,046,262
Investment in securities at fair value through profit or loss	8	1,127,841	970,292	1,242,614
Derivative financial instruments	8	-	8,308	1,244
Accounts receivable, net	9	3,626,878	3,629,144	2,533,427
Due from related parties	20	326	148,855	194,522
Inventories	10	4,727,333	3,970,688	3,404,269
Current biological assets	11	1,942,193	1,961,191	1,651,794
Prepaid expenses and other current assets	12	638,671	1,503,945	1,587,808
Assets held for sale	13	49,523	56,728	60,048
Total currents assets		28,225,033	26,930,355	24,721,988
Non-current assets:				
Property, plant and equipment, net	14	17,320,041	15,081,105	13,188,131
Non-current biological assets	11	1,617,503	1,668,543	1,434,131
Deferred income tax	21	80,670	60,132	54,127
Goodwill	15	1,631,094	484,877	454,295
Intangible assets	16	1,040,042	-	-
Other non-current assets	17	643,006	865,454	593,906
Total non-currents assets		22,332,356	18,160,111	15,724,590
Total assets		\$50,557,389	45,090,466	40,446,578
Liabilities and equity	Note	2017	2016	2015
Current liabilities:				
Short-term debt	18	\$2,852,400	1,444,800	1,622,850
Current portion of long-term debt	18	842,651	1,652,725	9,033

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Derivative financial instruments	8	6,821	-	-
Trade payable and other accounts payable	19	4,740,366	4,545,177	4,597,103
Income tax payable	21	731,654	483,618	248,205
Due to related parties	20	55,252	189,966	165,628
Total current liabilities		9,229,144	8,316,286	6,642,819
Long term liabilities:				
Long-term debt, excluding current installments	18	1,553,973	950,412	2,495,127
Deferred income tax	21	3,843,379	3,912,575	3,369,036
Employee benefits	22	252,965	195,019	160,218
Total long term liabilities		5,650,317	5,058,006	6,024,381
Total liabilities		14,879,461	13,374,292	12,667,200
Equity:				
Capital stock	25	1,174,432	1,174,432	1,174,432
Share premium		414,385	414,385	414,017
Reserve for repurchase of shares		493,141	449,641	777,622
Retained earnings		32,367,912	28,244,970	24,749,616
Foreign currency translation reserve		1,268,021	1,465,657	710,439
Actuarial remeasurements, net	22	(98,938)	(86,774)	(97,196)
Equity attributable to controlling interest		35,618,953	31,662,311	27,728,930
Non-controlling interest		58,975	53,863	50,448
Total equity		35,677,928	31,716,174	27,779,378
Commitments	27			
Contingencies	28			
Total liabilities and equity		\$50,557,389	45,090,466	40,446,578

See accompanying notes to consolidated financial statements.

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Profit and Loss and Other Comprehensive Income

Years ended December 31, 2017, 2016 and 2015

(Thousands of pesos, except share and per share amount)

	Note	2017	2016	2015
Net revenues		\$58,050,025	52,020,303	46,229,049
Cost of sales	23	(47,502,959)	(42,635,071)	(36,847,508)
Gross profit		10,547,066	9,385,232	9,381,541
General, selling and administrative expenses	23	(5,423,379)	(4,847,858)	(4,323,374)
Other income (expenses), net	30	167,642	260,202	(4,640)
Operating income		5,291,329	4,797,576	5,053,527
Finance income	29	1,087,641	969,174	593,845
Finance costs	29	(340,091)	(172,154)	(147,292)
Net finance income		747,550	797,020	446,553
Profit before income taxes		6,038,879	5,594,596	5,500,080
Income taxes	21	1,084,444	1,643,433	1,680,560
Profit for the year		\$4,954,435	3,951,163	3,819,520
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		(197,636)	755,218	502,332
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	22	(17,377)	14,888	(25,944)
Income taxes related to actuarial remeasurements		5,213	(4,466)	7,783
Other comprehensive income		(209,800)	765,640	484,171
Comprehensive income for the year		\$4,744,635	4,716,803	4,303,691

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Profit attributable to:				
Controlling interest		\$4,948,242	3,946,634	3,812,840
Non-controlling interest		6,193	4,529	6,680
Profit for the year		\$4,954,435	3,951,163	3,819,520
Comprehensive income attributable to:				
Controlling interest		\$4,738,442	4,712,274	4,297,011
Non-controlling interest		6,193	4,529	6,680
Comprehensive income for the year		\$4,744,635	4,716,803	4,303,691
Weighted average outstanding shares		599,997,696	599,979,844	599,631,383
Basic and diluted earnings per share	26	\$8.25	6.58	6.36

See accompanying notes to consolidated financial statements.

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2017, 2016 and 2015

(Thousands of pesos)

	Attributable to controlling interest				Other comprehensive items			Non-controlling interest	Total equity	
	Capital stock		Reserve for repurchase of shares	Retained earnings	Foreign currency translation reserve	Actuarial remeasurements net				
	Note	Share premium				Total				
Balance at January 1, 2015		\$1,174,432	399,641	101,105	22,513,154	208,107	(79,035)	24,317,404	44,646	24,362,050
Dividends paid	25	-	-	-	(899,162)	-	-	(899,162)	-	(899,162)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(878)	(878)
Repurchase and sale of shares, net	25	-	-	677,216	(677,216)	-	-	-	-	-
Disposal of non-controlling interest from dissolution		-	14,376	(699)	-	-	-	13,677	-	13,677
Comprehensive income for the year:		-	-	-	3,812,840	-	-	3,812,840	6,680	3,819,520

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Profit for the year									
Other comprehensive income	-	-	-	-	502,332	(18,161)	484,171	-	484,171
Total comprehensive income for the year	-	-	-	3,812,840	502,332	(18,161)	4,297,011	6,680	4,303,691
Balance at December 31, 2015	1,174,432	414,017	777,622	24,749,616	710,439	(97,196)	27,728,930	50,448	27,779,374
Dividends paid	25	-	-	(779,960)	-	-	(779,960)	-	(779,960)
Dividends paid to non-controlling interest		-	-	-	-	-	-	(1,114)	(1,114)
Reserve for repurchase of shares		-	(328,680)	328,680	-	-	-	-	-
Repurchase and sale of shares	25	-	368	699	-	-	1,067	-	1,067
Comprehensive income for the year:									
Profit for the year		-	-	3,946,634	-	-	3,946,634	4,529	3,951,163
Other comprehensive income		-	-	-	755,218	10,422	765,640	-	765,640
Total comprehensive income for the year		-	-	3,946,634	755,218	10,422	4,712,274	4,529	4,711,421
Balance at December 31, 2016		1,174,432	414,385	449,641	28,244,970	1,465,657	(86,774)	31,662,311	53,863
Dividends paid	25	-	-	(780,000)	-	-	(780,000)	-	(780,000)
Dividends paid to non-controlling interest		-	-	-	-	-	-	(1,081)	(1,081)
Reserve for repurchase of		-	-	45,300	(45,300)	-	-	-	-

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shares										
Repurchase and sale of shares	25	-	-	(1,800)	-	-	(1,800)	-	(1,800)	
Comprehensive income for the year:										
Profit for the year		-	-	-	4,948,242	-	-	4,948,242	6,193	4,954,435
Other comprehensive income		-	-	-	-	(197,636)	(12,164)	(209,800)	-	(209,800)
Total comprehensive income for the year		-	-	-	4,948,242	(197,636)	(12,164)	4,738,442	6,193	4,744,631
Balance at December 31, 2017		\$1,174,432	414,385	493,141	32,367,912	1,268,021	(98,938)	35,618,953	58,975	35,677,928

See accompanying notes to consolidated financial statements.

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2017, 2016 and 2015

(Thousands of pesos)

	Note	2017	2016	2015
Cash flows from operating activities:				
Profit for the year		\$4,954,435	3,951,163	3,819,520
Adjustments for:				
Deferred income tax recognized in profit or loss	21	(627,090)	382,904	192,070
Current income tax recognized in profit or loss	21	1,711,534	1,260,529	1,488,490
Depreciation	14	1,075,788	925,748	769,270
Goodwill impairment loss	15	-	-	38,619
Loss (gain) on disposal of plant and equipment		41,890	(157,245)	90,279
Interest income	29	(857,109)	(646,334)	(489,934)
Interest expense	29	255,997	172,154	147,292
Unrealized foreign exchange loss on loans		82,600	270,850	33,300
Subtotal		6,638,045	6,159,769	6,088,906
Derivative financial instruments		15,129	(7,064)	5,425
Accounts receivable, net		162,906	(1,144,991)	521,603
Due from related parties		3,967	1,154	(3,518)
Inventories		(461,783)	(562,905)	(448,404)
Current and non-current biological assets		70,941	(539,395)	(256,969)
Prepaid expenses and other current assets		875,307	82,324	(401,711)
Assets held for sale		7,205	3,320	(1,465)
Trade payable and other accounts payable		(350,299)	(43,707)	629,631
Due to related parties		(134,714)	24,338	38,595
Income taxes paid		(1,405,256)	(997,028)	(2,087,286)
Employee benefits		57,946	34,801	43,375
Net cash provided by operating activities		5,479,394	3,010,616	4,128,182
Cash flows from investing activities:				

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Payments for acquisition of property, plant and equipment	(2,126,361)	(2,792,252)	(1,909,771)
Proceeds from sale of plant and equipment	35,175	278,340	71,427
Restricted cash	(24,058)	(19,236)	(25,771)
Investment in securities at fair value through profit or loss	(157,549)	272,322	(317,030)
Other assets	2,125	4,583	(55,698)
Interest collected	857,109	646,334	489,934
Business acquisition including advance payment	(2,494,862)	-	(190,595)
Loans granted to related parties	-	-	(189,075)
Collection of principal of loans granted to related parties	144,562	44,513	-
Net cash used in investing activities	(3,763,859)	(1,565,396)	(2,126,579)
Cash flows from financing activities:			
Payment for repurchase of shares	(1,800)	(4,157)	(40,612)
Proceeds from issuance of repurchased shares	-	5,224	54,289
Dividends paid	(780,000)	(779,960)	(899,162)
Dividends paid to non-controlling interest	(1,081)	(1,114)	(878)
Proceeds from borrowings	5,378,915	2,320,500	3,903,200
Principal payment on loans	(4,246,100)	(2,670,474)	(2,231,596)
Interest paid	(255,997)	(172,154)	(147,292)
Net cash provided by (used in) financing activities	93,937	(1,302,135)	637,949
Net increase in cash and cash equivalents	1,809,472	143,085	2,639,552
Cash and cash equivalents at January 1	14,661,968	14,020,491	11,028,054
Effect of exchange rate fluctuations on cash and cash equivalents	(383,230)	498,392	352,885
Cash and cash equivalents at December 31	\$ 16,088,210	14,661,968	14,020,491

See accompanying notes to consolidated financial statements.

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Years ended December 31, 2017, 2016 and 2015

(Thousands of Mexican pesos, except amounts per share)

(1) Reporting entity

Industrias Bachoco, S.A.B. de C.V. and subsidiaries (hereinafter, “Bachoco” or the “Company”) is a publicly traded company and was incorporated on April 17, 1980, as a legal entity. The Company’s registered address is Avenida Tecnológico 401, Ciudad Industrial, Celaya, Guanajuato, Mexico.

The Company is engaged in breeding, processing and marketing poultry (chicken and eggs), swine and other products (primarily balanced animal feed). Bachoco is a holding company that has control over a group of subsidiaries (see note 5).

The shares of the Company are listed on the Mexican Stock Exchange (BMV for its Spanish acronym) under the ticker symbol “Bachoco,” and in the New York Stock Exchange (NYSE), under the ticker symbol “IBA”.

(2) Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB).

On April 13, 2018, the accompanying consolidated financial statements and related notes were authorized for issuance by the Company's Chief Financial Officer, Mr. Daniel Salazar Ferrer, for review and approval by the Audit Committee, Board of Directors and stockholders. In accordance with Mexican General Corporate Law and the Company's bylaws, the stockholders are empowered to modify the consolidated financial statements after their issuance should they deem it necessary.

b) Basis of measurement

The accompanying consolidated financial statements were prepared on the historical cost basis (historical cost is generally based on the fair value of the consideration given in exchange for goods and services), except for the following items in the consolidated statement of financial position, which are measured at fair value:

- Derivative financial instruments for trading and hedging, and investment in securities at fair value through profit or loss

- Biological assets

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable either directly or indirectly.

Level 3 inputs are unobservable inputs.

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of Mexican pesos (pesos or \$), the official currency of Mexico, which is the currency in which the Company's accounting records are maintained and functional currency, except for the foreign subsidiaries for which the U.S. dollar is the functional currency as well as the currency in which accounting records are maintained.

For disclosure purposes, in the notes to the consolidated financial statements, "thousands of pesos" or "\$" means thousands of Mexican pesos, and "thousands of dollars" means thousands of U.S. dollars.

When deemed relevant, certain amounts are included between parentheses as a translation into thousands of dollars, into thousands of Mexican pesos, or both, as applicable. These translations are performed for the convenience of the reader at the closing exchange rate issued by Bank of Mexico, which is \$19.66, \$20.64 and \$17.21 pesos to one U.S. dollar as of December 31, 2017, 2016 and 2015 respectively.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and significant assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period in which they occur and in any future periods affected.

The following are the critical accounting estimates and assumptions used by management in the application of the Company's accounting policies, which are significant to the amounts recognized in the consolidated financial statements.

Critical accounting judgments

i. Fair value of biological assets

The Company estimates the fair value of biological assets as the price that would be received or paid in an orderly transaction between market participants at the measurement date. As part of the estimate, the Company considers the maturity periods of such assets, the necessary time span for the biological assets to reach a productive stage, as well as future economic benefits obtained.

The balance of current biological assets includes hatching eggs, growing pigs and growing poultry, while the balance of non-current biological assets includes poultry in its different production stages, and breeder pigs.

Non-current biological assets are valued at production cost less accumulated depreciation or accumulated impairment losses, as there is no observable or reliable market for such assets. Additionally, the Company believes that there is no reliable method for measuring the fair value of non-current biological assets. Current biological assets are valued at fair value when there is an observable market, less estimated selling expenses.

ii. Business combinations or acquisition of assets

Management uses its professional judgment to determine whether the acquisition of a group of assets constitutes a business combination. This determination may have a significant impact in how the acquired assets and assumed liabilities are accounted for, both on initial recognition and subsequent thereto.

iii. Aggregation of operating segments

The Company's chicken and egg operating segments are aggregated to present one reportable segment (Poultry) as they have similar products and services, production processes, classes of customers, methods used for distribution, the nature of the regulatory environment in which they operate, and similar economic characteristics as evidenced by similar five-year trends in gross profit margins. These factors are evaluated at least annually.

Key sources of estimation uncertainty

i. Assessments to determine the recoverability of deferred tax assets

On an annual basis the Company prepares projections to determine if it will generate sufficient taxable income to utilize its deferred tax assets associated with deductible temporary differences, including tax losses and other tax credits.

ii. Useful lives and residual values of property, plant and equipment

Useful lives and residual values of intangible assets and property, plant and equipment are used to determine amortization and depreciation expense of such assets and are determined with the assistance of internal and external specialists as deemed necessary.

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Useful lives and residual values are reviewed periodically at least once a year, based on the current conditions of the assets and the estimate of the period during which they will continue to generate economic benefits to the Company. If there are changes in the related estimate, measurement of the net carrying amount of assets and the corresponding depreciation expense are affected prospectively.

iii. Measurements and disclosures at fair value

Fair value is a measurement based on the price a market participant would be willing to receive to sell an asset or pay to transfer a liability, and is not a measure specific to the Company. For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. However, the purpose of a measurement at fair value in both cases is to estimate the price at which an orderly transaction to sell the asset or to transfer the liabilities would be carried out among the market participants at the date of measurement under current market conditions.

When the price of an identical asset or liability is not observable, the Company determines the fair value using another valuation technique which maximizes the use of relevant observable information and minimizes the use of unobservable information. As the fair value is a measurement based on the market, it is measured using the assumptions that market participants would use when they assign a price to an asset or liability, including assumptions about risk.

iv. Impairment of long-lived assets and goodwill

The carrying amount of long-lived assets is reviewed for impairment when situations or changes in circumstances indicate that it is not recoverable, except for goodwill which is reviewed on an annual basis. If there are indicators of impairment, a review is carried out to determine whether the carrying amount exceeds its recoverable value and whether it is impaired. The recoverable value is the highest of the asset's fair value, less selling costs, and its value in use which is the present value of the future estimated cash flows generated by the asset. The value in use calculation requires the Company's management to estimate the future cash flows expected to arise from the asset and/or from the cash-generating unit and an appropriate discount rate in order to calculate present value.

v. Employee retirement benefits

The Company uses assumptions to determine the best estimate for its employee retirement benefits. Assumptions and estimates are established in conjunction with independent actuaries. These assumptions include demographic hypotheses, discount rates and expected increases in remunerations and future employee service periods, among others. Although the assumptions are deemed appropriate, a change in such assumptions could affect the value of the

employee benefit liability and the results of the period in which it occurs.

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vi. Contingencies

A contingent liability is defined as:

A possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or

a present obligation that arises from past events but is not recognized because:

- a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- or
- b. the amount of the obligation cannot be measured with sufficient reliability.

The assessment of such contingencies requires the exercise of significant judgments and estimates on the possible outcome of those future events. The Company assesses the probability of loss arising from lawsuits and other contingencies with the assistance of its legal advisors. These estimates are reconsidered periodically at each reporting period.

e) Issue of new IFRS

i. New and amended IFRS that affect reported balances and/or disclosures in financial statements

In the current year, the Company adopted a series of new and amended IFRS issued by the IASB which went into effect on January 1, 2017 as it relates to its consolidated financial statements.

Amendments to IAS 12, Income Tax

IAS 12 provides requirements on the recognition and measurement of current and deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Company adopted these amendments which did not have any significant impacts in its consolidated financial statements because the sufficiency of future taxable profits is already evaluated in a manner consistent with these amendments.

Amendments to IAS 7, Statements of Cash Flows

The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

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The Company's liabilities arising from financing activities consist of borrowings (Note 18). A reconciliation between opening and closing balances is provided in Note 18e. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 18e, the application of these amendments has had no impact on the Company's consolidated financial statements.

Annual Improvements 2014-2016

The annual improvement cycle 2014-2016 makes amendments to the following standards:

- IFRS 12, *Disclosure of Interests in Other Entities*, clarifies the scope of the standard and establishes that the entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The amendments are effective for annual periods beginning on or after January 1, 2017, with retrospective application permitted. The application of these amendments has had no effect on the Company's consolidated financial statements as none of the Company's interests in other entities are classified as held for sale.

ii. New IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued, but are not yet effective for periods beginning on January 1, 2017.

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* issued in July 2014, is the replacement of IAS 39, *Financial Instruments: Recognition and Measurement*. This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. Another revised version of IFRS 9 was issued in July 2015 mainly to introduce a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this phase of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

All recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value.

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With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Company is in the process of determining the potential impacts on its consolidated financial statements derived from the adoption of this standard, although due to the nature of its operations, significant impacts are not expected. The main tasks included in the work plan for adopting this standard are as follows:

Stage 1 Classification and measurement:

Review and update of Company Policies

Elaboration of matrix documenting the business model, the payment of principal and interest (SPPI) criterion and the accounting classification of each financial instrument

Disclosures in the financial statements

Stage 2 Hedge accounting:

- Review and update of Company Policies

- Hedge accounting documentation

- Disclosures in the financial statements

Stage 3 Impairment:

- Review and update of Company Policies

- Evaluation of practical expedients and the simplified model for non-financial entities

- Disclosures in the financial statements

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Furthermore, extensive disclosures are required by IFRS 15, both in annual and interim financial statements.

Clarifications to IFRS 15, Revenue from Contracts with Customers

The amendments add clarification in the following areas:

- Identification of performance obligations;
- Principal versus agent considerations; and
- Application guidance for licensing.

The amendments introduce additional practical expedients for entities making the transition to IFRS 15 on (i) contract modifications that occurred before the beginning of the last period presented and (ii) contracts that were completed at the beginning of the first period presented.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Company conducted an analysis of revenues with customers and determined that the adoption of this standard will not have a potential impact on the Company's consolidated financial statements.

IFRS 16, Leases

IFRS 16, *Leases* was issued in January 2016 and supersedes IAS 17, *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed straight-line depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Company is in the process of determining the potential impacts on its consolidated financial statements derived from the adoption of this standard, although due to the nature of its operations, significant impacts are not being expected. The main tasks included in the work plan for adopting this standard are as follows:

- Evaluation of all contracts of the Company for leases
- Development of a process to identify and account for leases
- Review and update of Company Policies
- Disclosures in the financial statements

Amendments to IFRS 2, Share-based Payment

The amendments to IFRS 2, *Share-based Payment*, clarify the classification and measurement of share-based payment transactions. The amendments contains clarifications and amendments address to the accounting for cash-settled share-based payment transactions; classification of share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. These amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The amendments apply prospectively.

The Company does not expect significant impacts as a result of these amendments as it does not have share-based payment plans.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that when the entity pays or receives consideration in advance in a foreign currency, the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, is the date when the anticipated consideration has been paid or received in advance, i.e. when the advance payment or the income received in advance was recognized.

These amendments apply for annual periods beginning on or after January 1, 2018 and the entities may choose to apply either retrospectively or prospectively.

The Company does not expect significant impacts as a result of these amendments. This is because the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a manner consistent with these amendments.

IFRIC - 23 Uncertainty about treatment in the income tax

This interpretation deals with the determination of taxable income (loss), tax bases, unused fiscal losses, unused tax credits and tax rates, when there is uncertainty about their treatment in accordance with IAS 12. It specifically, considers:

- If tax treatments should be considered collectively
- Assumptions about tax authorities' examinations
- The determination of taxable income (loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effects of changes in the facts and circumstances

This interpretation will be effective on January 1, 2019. The Company's management considers that the application of this interpretation will not have a significant impact on its financial statements, since its current practices for determining the effects of income taxes on its financial statements incorporate considerations similar to those set forth in the interpretation.

Annual Improvements 2015-2017 Cycle

The annual improvements include amendments to IFRS 3 and IFRS 11, to IFRS 12 and to IAS 23, which are all effective for annual periods beginning on or after January 1, 2019.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity must remeasure previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IFRS 12 clarify that the effects on income taxes for dividends (or distributions of profit) should be recognized in results regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Company is in the process of determining the potential impacts on its consolidated financial statements derived from the adoption of these amendments.

Amendments IFRS 4- The application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Amendments to IFRS 4, *Insurance Contracts*, provide two options for entities that issue insurance contracts: i) an optional temporary exemption from applying IFRS 9 (referred to as the "deferral approach"); and ii) an option that allows entities presenting the changes in the fair value of the designated financial assets, in other comprehensive income (OCI), instead of in profit or loss (referred to as the "overlay approach"). The overlay approach will be applicable when IFRS 9 is applied for the first time. The deferral approach is effective for annual periods beginning on or after January 1, 2018 and will only be available for three years after that date.

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The Company does not expect significant impacts as a result of these modifications.

(3) Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost (see note 5).

Profits and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of profit and loss and other comprehensive income from the acquisition date to the disposal date.

Where necessary, subsidiaries' financial statements are adjusted to align their accounting policies with the Company's consolidated accounting policies.

ii. Transactions eliminated in consolidation

Significant intercompany balances and transactions, and any unrealized gains and losses arising from transactions between consolidated companies have been eliminated in preparing these consolidated financial statements.

iii. Business combinations

Business combinations are accounted for using the acquisition method. For each business combination, any non-controlling interest in the acquiree is valued either at fair value or according to the proportionate interest in the acquiree's identifiable net assets.

In a business combination, the Company evaluates the assets acquired and the liabilities assumed for proper classification and designation according to the contractual terms, economic circumstances and relevant conditions at the acquisition date.

Goodwill is originally valued at cost, and represents any excess of the transferred consideration over the net assets acquired and liabilities assumed. If the net amount of identifiable acquired assets and assumed liabilities as of the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the fair value of the prior shareholding of the acquirer in the acquired entity (if any), any excess is immediately recognized in the consolidated statement of profit and loss and other comprehensive income as a bargain purchase gain.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Company incurs related to a business combination are expensed as incurred.

Certain contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit and loss.

b) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain and loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for interest and principal payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii. Translation of foreign operations

Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, of foreign operations whose functional currency differs from the reporting currency, are translated into Mexican pesos at the exchange rates at the reporting date. Income and expenses are translated to pesos at the average exchange rate of the period of the transactions.

Foreign currency differences associated with translating foreign operations into the reporting currency (Mexican peso) are recognized in other comprehensive income, and presented in the foreign currency translation reserve in stockholders' equity.

Foreign exchange gains and losses arising from amounts receivable or payable to a foreign operation, whose settlement is neither planned nor likely in the foreseeable future, are considered part of a net investment in a foreign operation and are recognized under the "other comprehensive income" account, and presented within stockholders'

equity in the foreign currency translation reserve. For the years ended December 31, 2017, 2016 and 2015 the Company did not enter into such transactions.

c) Financial instruments

i. Non-derivative financial assets

Non-derivative financial assets of the Company include cash and cash equivalents, investment in securities (financial assets designated at fair value through profit or loss and financial assets held to maturity), trade receivable and other receivables.

The Company initially recognizes accounts receivable and cash equivalents on the date that they arise. All other financial assets (including assets measured at fair value through profit and loss) are initially recognized on the trading date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position solely if the Company has a legal right to offset the amounts and intends either to settle them on a net basis of financial assets and liabilities or otherwise realize the asset and settle the liability simultaneously.

Financial assets valued at fair value through profit and loss

A financial asset is presented at fair value through profit and loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment or risk management policy. Costs attributable to the acquisition or issue of such financial assets are recognized in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are debt instruments that the Company has the intention and ability to hold to maturity. Held-to-maturity financial assets are originally recognized at fair value plus any directly attributable transaction costs.

Subsequently to initial recognition, held-to-maturity financial assets are measured at their amortized cost by using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity financial assets would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two years.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income or cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where

appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

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Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost. Receivables comprise trade, due from related parties and other receivables.

ii. Non-derivative financial instrument liabilities

Debt and/or equity instruments are classified as financial liabilities or as equity according to the substance of the contractual agreement and the definitions of liability and equity.

All financial instrument liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial instrument liability when its contractual obligations are met, cancelled or expire.

The Company has the following non-derivative financial instrument liabilities: short-term and long-term debt, and trade and other payables and accounts payable to related parties.

The aforementioned financial liabilities are originally recognized at fair value, plus costs directly attributable to the transaction. Subsequently, these financial liabilities are measured at amortized cost during their contractual term.

iii. Derivative financial instruments

Derivative financial instruments entered into for fair value hedging or for trading purposes are initially recognized at fair value; any attributable transaction costs are recognized in profit and loss as incurred. Government grants are recognized initially as a liability, and subsequently recognized to profit and loss as the related obligation is settled.

Subsequent to the initial recognition, such derivative financial instruments are measured at fair value, and changes in such value are immediately recognized in profit and loss unless the derivative is designated and is effective as a hedging instrument, in which case, its recognition in profit and loss will depend on the nature of the hedging.

Fair value of derivative financial instruments that are traded in recognized financial markets is based on quotes issued by these markets; when a derivative financial instrument is traded in the “over the counter” market, the fair value is determined based on internal models and market inputs accepted in the financial environment.

The Company analyzes if there are embedded derivatives that should be segregated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as those of the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair value of the separable embedded derivatives are immediately recognized in profit and loss.

The Company enters into derivative financial instruments, which are designated as fair value hedges for its exposure to commodity price risks (*commodities*) resulting from its operating activities. Derivative financial instruments that do not meet the requirements for hedge accounting treatment are accounted for as trading derivative financial instruments.

On initial designation of the derivative as a hedging instrument, the Company formally documents the relationship between hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, and the methods that will be used to assess the prospective and retrospective effectiveness of the hedging. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80 – 125 percent.

If the hedging instrument no longer meets the criteria for the hedging accounting treatment, expires or is sold, terminated or exercised, or the designation is revoked, then hedging accounting treatment is discontinued prospectively. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

iv. Capital stock

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Stock repurchase

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for repurchase of shares. When treasury shares are sold or are re-issued subsequently, the amount received as well as the resulting surplus or deficit on the transaction is recognized in equity.

d) Property, plant and equipment

i. Recognition and measurement

Property, plant and equipment, except for land, are recorded at acquisition cost less accumulated depreciation and any accumulated impairment losses. Land is measured at the acquisition costs less any accumulated impairment losses.

Acquisition cost includes the purchase price, as well as any cost directly attributable to the acquisition of the asset, including all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

When components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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An item of property, plant and equipment is derecognized at the time of disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses on the sale of an item of property, plant and equipment are determined by comparing the proceeds from the sale with the carrying amount of property, plant and equipment, and are recognized net under “other income (expenses)” in profit and loss for the year.

ii. Subsequent costs

The replacement cost of an item of property, plant and equipment is capitalized if the future economic benefits associated with the cost are expected to flow to the Company and the related cost is reliably determined. The carrying amount of the replaced item is written off from the accounting records. Maintenance and repair expenses related to property, plant and equipment are expensed as incurred.

iii. Depreciation

Depreciation is calculated on the cost of the asset less its residual value, using the straight line method, based on the estimated useful life of the assets. Depreciation is recognized in profit and loss beginning from the time when the assets are available for use.

Below are the estimated useful lives for 2017, 2016 and 2015:

	Average
	useful Life
Buildings	46
Machinery and Equipment	19
Vehicles	11
Computers	8
Furniture	11

The Company has estimated the following residual values as of December 31, 2017, 2016 and 2015:

Residual Value

Buildings	9	%
Machinery and Equipment	8	%
Vehicles	5	%
Computers	0	%
Furniture	2	%

e) Goodwill

Goodwill arises as a result of the acquisition of a business over which control is obtained and is measured at cost less cumulative impairment losses; it is subject to annual tests for impairment.

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f) Intangible assets

They mainly integrated by brands and customer relationships derived from the acquisition of businesses in the United States of America. The cost of intangible assets acquired through a business combination represents their fair value at the acquisition date and they are recognized separately from goodwill. Subsequently, they are valued at cost minus amortization and accumulated impairment losses.

Intangible assets are classified as having a definite or indefinite life. Those with a defined life are amortized under the straight-line method during their estimated life and when there are indications, they are tested for impairment. The amortization methods and the useful life of the assets are reviewed and adjusted, if necessary, at the date of each statement of financial position. Amortization is charged to income in the general expenses category. Those with an indefinite life are not amortized, but are subject to impairment tests at least annually.

g) Biological assets

Biological assets whose fair value can be measured reliably are measured at fair value less costs of sale, with any change therein recognized in profit and loss. Costs of sale include all costs that would be necessary to sell the assets, excluding finance costs and income taxes.

The Company's biological assets consist of growing poultry, poultry in its different production stages, hatching eggs, breeder pigs, and growing pigs.

When fair value cannot be reliably, verifiably and objectively determined, assets are valued at production cost less accumulated depreciation, and any cumulative impairment loss. Depreciation related to biological assets forms part of the cost of inventories and current biological assets and is ultimately recognized within cost of sales in the statement of profit and loss and other comprehensive income.

Depreciation of poultry and breeder pigs is estimated based on the expected future life of such assets and is calculated on a straight-line basis.

Expected average

useful life

	(weeks)
Poultry in its different production stages	40-47
Breeder pigs	156

Biological assets are classified as current and non-current assets, based on the nature of such assets and their purpose, whether for commercialization or for reproduction and production.

h) Leased assets

Operating leases entered into by the Company are not recognized in the Company's statement of financial position. Operating lease rentals paid by the Company are recognized in profit and loss using the straight-line method over the lease term, even though payments may not be made on the same basis.

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Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease term, assets are depreciated over the shorter of the lease term or their useful lives. As of December 31, 2017, 2016 and 2015, the Company has not entered into any significant finance lease agreements.

i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on average cost, and includes expenditures incurred for acquiring inventories, production or transformation costs, and other costs incurred for bringing them to their present location and condition.

Agricultural products derived from biological asses are processed chickens and commercial eggs.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale.

Cost of sales represents cost of inventories at the time of sale, increased, if applicable, by reductions in inventory to its net realizable value, if lower than cost, during the year.

The Company records the necessary reductions in the value of its inventories for impairment, obsolescence, slow movement and other factors that may indicate that the use or performance of the items that are part of the inventory may be lower than the carrying value.

j) Impairment

i. Financial assets

A financial asset that is not recorded at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of a loss event after the initial recognition of the asset, and that such loss event had a negative impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company, evidence that a debtor may go bankrupt, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged reduction in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for financial assets valued at amortized cost (accounts receivables and held-to-maturity investment securities) both individually and collectively. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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In assessing collective impairment, the Company uses historical trends of probabilities of default, timeliness of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are greater or less than those suggested by historical trends.

An impairment loss related to a financial asset valued at amortized cost is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against receivables or held-to-maturity investment securities. Interest on impaired assets continues being recognized. When a subsequent event that occurs after impairment has been recognized, it results in the reduction of the loss amount; this reduction is reversed through profit and loss.

ii. Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, biological assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated or cash generating units, as the lowest between its value in use and the fair value less cost of sale. Goodwill and indefinite-lived intangible assets are tested annually for impairment on the same dates.

The Company defines the cash generating units and also estimates the periodicity and cash flows that they should generate. Subsequent changes in the group of cash-generating units, or changes in the assumptions that support the cash flow estimates or the discount rate could impact the carrying amounts of the respective asset.

The main assumptions for developing estimates of recoverable amounts requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate its present value. The Company estimates cash flow projections considering current market conditions, determination of future prices of goods and volumes of production and sales. In addition, for the purposes of the discount and perpetuity growth rates, the Company uses indicators of market and expectations of long-term growth in the markets in which it operates.

The Company estimates a discount rate before taxes for the purposes of the goodwill impairment test that reflects the risk of the corresponding cash-generating units and that enables the calculation of present value of expected future cash flows, as well as to reflect risks that were not included in the cash flow projection assumptions and premises. The discount rate that the Company estimates is based on the weighted average cost of capital. In addition, the discount rate estimated by the Company reflects the return that market participants would require if they had made a decision

about an equivalent asset, as well as the expected generation of cash flow, time, and risk-and-return profiles.

The Company annually reviews the circumstances which led to an impairment loss arising from cash-generating units to determine whether such circumstances have been changed and that may result in the reversal of previously recognized impairment losses. An impairment loss in respect of goodwill is not reversed. For other long-lived assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if the impairment loss had not been recognized.

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Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of CGUs), and subsequently to reduce the carrying amount of the other long-lived assets within the cash-generating unit (or group of CGUs) on a pro rata basis.

k) Held-for-sale assets

Available for sale assets mainly consist of foreclosed assets. Foreclosed assets are initially recorded at the lower of fair value less costs to sell or the net carrying amount of the related account receivable.

Immediately before being classified as held-for-sale, assets are valued according to the Company's accounting policies in accordance with the applicable IFRS. Subsequently, held-for-sale assets are recorded at the lower of the carrying amount and fair value less costs to sell. Impairment losses on initial classification of held-for-sale assets and subsequent remeasurement gains and losses are recognized in profit and loss. Recognized gains shall not exceed cumulative impairment losses previously recognized.

l) Other assets

Other long-term assets primarily include advances for the purchase of property, plant and equipment, investments in insurance policies and security deposits.

The Company owns life insurance policies of some of the former stockholders of Bachoco USA, LLC (foreign subsidiary). The Company records these policies at net cash surrender value which approximates its fair value (see note 17).

m) Employee benefits

The Company grants to its employees in Mexico and abroad, different types of benefits as described below and as detailed in note 22.

i. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit and loss in the periods during which the related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that the Company has the right to a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan due more than 12 months after the end of the period in which the employees render the service are discounted at present value.

ii. Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. It is funded by contributions made by the Company and is intended to meet the Company's labor obligations to its employees.

The Company's net obligations in respect of defined benefit plans is calculated separately for each plan, estimating the amount of the future benefit that the employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and is reduced by the fair value of the plan assets. The discount rate is the yield at the end of the reporting period on high quality corporate bonds (or governmental bonds in the instance that a deep market does not exist for high quality corporate bonds, which is the case in Mexico) that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income

The Company presents service cost as part of operating income in the consolidated statements of profit or loss and other comprehensive income (loss). Gains and losses for reduction of service are accounted for as past service costs.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. When the benefits of a plan are modified or improved, the portion of the improved benefits related to past services by employees is recognized in profit and loss on the earlier of the following dates: when there is a modification or curtailment to the plan, or when the Company recognizes the related restructuring costs or termination benefits.

Remeasurement adjustments, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are reflected immediately with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in equity and is not reclassified to profit or loss.

iii. Short-term benefits

Short-term employee benefits are valued on a non-discounted basis and are expensed as the respective services are rendered.

A liability is recognized for the amount expected to be paid under the short-term cash bonus plans or statutory employee profit sharing (PTU for its acronym in Spanish), if the Company has a legal or constructive obligation to pay such amounts as a result of prior services rendered by the employee, and the obligation may be reliably estimated.

iv. Termination benefits from constructive obligations

The Company recognizes, as a defined benefit plan, a constructive obligation from past practices. The liability accrues based on the services rendered by the employee. Payment of this benefit is made in one installment at the time that the employee voluntarily ceases working for the Company.

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n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When the effect of time value of money is significant, the amount of the provision is the present value of the disbursements expected to be necessary to settle the obligation. The discount rate applied is determined before taxes, and reflects market conditions at the reporting date and takes into account the specific risk of the relevant liability, if any. The unwinding of the present value discount is recognized as a financial cost.

o) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company as a joint operator recognizes, in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to such assets, liabilities, revenues and expenses.

The Company has joint operations derived from the agreements for the development of its biological assets. For such operations, the Company accounts for its biological assets, its obligations derived from technical support, as well as the expenses it incurs with respect to the joint operations. The live poultry produced by the joint operation is ultimately used internally by the Company and may be sold by the Company to third parties. As a result, the joint operation itself does not generate any revenues with third parties.

p) Revenues

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration relating to the transaction is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognized as a reduction of revenue.

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q) Financial income and costs and dividend income

Financial income comprises interest income from funds invested, fair value changes on financial assets at fair value through profit or loss and foreign currency exchange gains. Interest income is recognized in profit and loss, using the effective interest method. Dividend income is recognized in profit and loss on the date that the Company's right to receive the payment is established.

Financial costs comprise interest expense for borrowings, foreign currency exchange losses and fair value changes on financial assets at fair value through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit and loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Exchange gains and losses are reported on a net basis.

r) Income taxes

Income tax expenses comprise current and deferred tax. Current income taxes and deferred income taxes are recognized in profit and loss provided they do not relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the fiscal year, which can be applied to taxable income from previous years, using tax rates enacted or substantively enacted in each jurisdiction at the reporting date, plus any adjustment to taxes payable with respect to previous years. Current income tax payable also includes any tax liability arising from the payment of dividends.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for tax purposes. Deferred income tax is not recognized for:

the initial recognition of assets or liabilities in a transaction that is not a business combination and did not affect either accounting or taxable profit or loss;

differences related to investments in subsidiaries to the extent that it is probable that the Company is able to control the reversal date, and the reversion is not expected to take place in the near future.

· taxable temporary differences arising from the initial recognition of goodwill.

Deferred income tax is determined by applying the tax rates that are expected to apply in the period in which the temporary differences will reverse, based on the regulations enacted or substantively enacted at the reporting date.

The measurement of deferred income tax assets and liabilities reflect the tax consequences derived from the manner in which the Company expects to recover or settle the carrying amounts of its assets and liabilities.

In determining the amount of current and deferred income tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that the balance for its income tax liabilities are appropriate for all tax years subject to be reviewed by the tax authorities based on its assessment of several factors, including the interpretation of the tax laws and prior experience.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

s) Earnings per share

The Company presents information on basic and diluted earnings per share (EPS) related to its ordinary shares. Basic EPS is computed by dividing the profit and loss attributable to the holders of the Company's common shares by the weighted average number of outstanding ordinary shares during the period, adjusted for treasury shares held. Diluted EPS is determined by adjusting the profit and loss attributable to the holders of the ordinary shares and the outstanding weighted average number of ordinary shares, adjusted for treasury shares held, for the potential dilutive effects of all ordinary shares, including convertible instruments and options on shares granted to employees. At December 31, 2017, 2016 and 2015, the Company has no potentially dilutive shares, for which reason basic and diluted EPS are the same.

t) Segment information

An operating segment is a component of the Company: i) that is engaged in business activities from which revenues and expenses may be obtained and incurred, including revenues and expenses related to transactions with any of the other components of the Company, ii) whose results are reviewed periodically by the chief operating decision maker for the purpose of resource allocation and assessment of segment performance, and iii) for which discrete financial information exists.

The Company discloses reportable segments based on operating segments whose revenues exceed 10% of the combined revenues from all segments, whose absolute value of profit or loss exceeds 10% of the combined absolute value of profit or loss from all segments, whose assets exceed 10% of the combined assets from all segments, or that

result from the aggregation of two or more operating segments that share similar economic characteristics and meet the aggregation criteria under IFRS (note 2 d).

u) Costs and expenses by function

Costs and expenses in the consolidated statements of profit and loss and other comprehensive income were classified by their function. The nature of costs and expenses is presented in Note 23.

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v) Statement of cash flows

The Company presents cash flows from operating activities by using the indirect method, in which the income or loss is adjusted by the effects of items that do not require cash flows, including those related to investing or financing activities.

The Company classifies all interest received from its investments and accounts receivable as investment activities, and all interest paid as financing activities.

(4) Business and asset acquisitions

a) Acquisition of Albertville Quality Foods, Inc.

On July 14, 2017, the Company, through its subsidiary OK Foods, Inc., acquired 100% of the outstanding voting shares of Albertville Quality Foods, Inc. (Acquired Co. I). Acquired Co. I's operating results are included in the consolidated financial statements as of the date of acquisition. Acquired Co. I is dedicated to the production and sale of processed and value-added products based on animal protein, and is located in the state of Alabama, in the United States of America. The aggregate purchase price paid in cash amounted to \$2,449,862 (138.10 million dollars). Acquired Co. I was merged with OK Foods, Inc. at the end of 2017.

The purchase of Acquired Co. I benefits the Company's Poultry segment because it significantly increases OK Foods, Inc.'s product portfolio, significantly increases the client base in the United States of America and opens the opportunity for cross-sales between the clients of Acquired Co. I and OK Foods, Inc., significantly strengthening the presence of OK Foods, Inc. in the self-service channel. Regarding production activities, the acquisition increases the manual cutting process capacity, thereby reducing OK Foods, Inc.'s current cutting costs with external suppliers, and will optimize the production processes by adopting the best practices of both companies for the benefit of the operation as a whole. These benefits are not recognized separately from Goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The assets acquired and the assumed liabilities of Acquired Co. I were recognized based on the best estimate of their fair value at the acquisition date.

The Company used various valuation techniques to determine fair value. Cost and market approaches were used to determine the value of the property, plant and equipment. Customer relationships and trademarks are valued based on

discounted cash flow analysis, relief from royalty and multi-period excess earnings valuation approaches, which use significant unobservable inputs, or level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, management made estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.

Due to their liquidity or short-term maturities, as appropriate, the Company concluded that Acquired Co. I's pre-acquisition carrying amounts for cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair value at the acquisition date, while inventories are recorded at their net realizable value.

Identifiable assets acquired and liabilities assumed

The following is a summary of the recognized amounts of assets acquired and liabilities assumed at the acquisition date, compared to the consideration paid:

	Acquisition value
Current assets, other than inventories	\$202,873
Inventories	304,594
Property, plant and equipment	547,987
Other current assets	10,189
Intangible assets	969,942
Total assets	2,035,585
Current liabilities	(155,798)
Deferred income tax	(472,088)
Acquired net identifiable assets, net	1,407,699
Consideration paid	2,449,862
Goodwill at acquisition date	\$1,042,163

Goodwill arises because the transferred consideration exceeds the identifiable assets acquired net of liabilities assumed on the acquisition date.

The goodwill that arose from the acquisitions is not expected to be deductible for tax purposes.

Certain estimated values in the acquisition, including goodwill, intangible assets and deferred taxes, have not yet been definitively determined and are subject to revision as new information emerges and the analyses are completed. The purchase price was allocated based on the information available on the date of acquisition.

Had the acquisition occurred on January 1, 2017, management estimates that consolidated revenues and consolidated profits for the year ended December 31, 2017 would have totaled \$61,093,104 and \$5,202,397, respectively. In determining these amounts, management has assumed that the provisional adjustments to fair value recognized at the date of acquisition would have been similar if the acquisition had occurred on January 1, 2017.

Costs related to acquisition.

During 2017, the Company incurred costs related to the acquisition of Acquired Co. I of \$16,145 corresponding to external legal fees and due diligence costs, which are included in other expenses in the Company's consolidated statement of profit and loss and other comprehensive income for the year ended December 31, 2017 (note 30).

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b) Acquisition of Provedora La Perla, S.A. de C.V.

On July 11, 2017, the Company acquired 100% of voting stock of Provedora La Perla S.A. de C.V. (Acquired Co. II). Acquired Co. II's operating results are included in the consolidated financial statements as of that date. Acquired Co. II is dedicated to the production and sale of pet food and treats, and is located in the state of Queretaro, Mexico. The purchase price in cash amounted to \$45,000.

The purchase of Acquired Co. II benefits the Other segment due to the fact that it expands its current production capacity for dry pet food. In addition, Acquired Co. II has equipment for the production of wet pet food and pet treats, which will allow the Company to enter this market where it currently does not participate. The production facilities of Acquired Co. II will allow for a reduction of logistics cost since they are within close proximity of the Company's clients located in the central region of the country, and it will contribute improved customer service. This acquisition will allow for accelerated growth in the pet food business.

The assets acquired and the assumed liabilities of Acquired Co. II were recognized based on the best estimate of their fair value at the acquisition date.

The fair value of the assets was determined using cost and market approaches. The cost approach, which estimates the value based on the current replacement cost of an asset by another asset of equal usefulness, was used mainly for plant and equipment. The market approach, in which the value of an asset is based on available market prices for comparable assets, was used mainly for real estate.

Due to their liquidity or short-term maturities, as appropriate, the Company concluded that Acquired Co. II's pre-acquisition carrying amounts for cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair value at the acquisition date, while inventories are recorded at their net realizable value.

Identifiable assets acquired and liabilities assumed

The following is a summary of the recognized amounts of acquired assets and assumed liabilities at the date, compared to the consideration paid:

Acquisition value

Current assets, other than inventories	\$ 13,835	
Inventories	5,846	
Property, plant and equipment	584,884	
Total assets	604,565	
Current liabilities	(392,646)
Deferred income tax	(79,423)
Acquired net identifiable assets	132,496	
Consideration paid	45,000	
Bargain purchase gain (note 30)	\$ 87,496	

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The bargain purchase gain arises because the net of fair value of the assets at the acquisition date exceeds the amount of the consideration transferred. The business strategies followed by the acquiree in the past resulted in a high cost structure and limited opportunity for improving profitability, resulting in a fair value of the business below that of its component parts. For this reason, a gain was recognized in other income (expense) (see note 30) in the statement of profit and loss and other comprehensive income.

Had the acquisition occurred on January 1, 2017, management estimates that consolidated revenues and consolidated profits for the year ended December 31, 2017 would have totaled \$58,182,059 and \$5,086,470, respectively. In determining these amounts, management has assumed that the provisional adjustments to fair value recognized at the date of acquisition would have been similar if the acquisition had occurred on January 1, 2017.

Costs related to acquisition.

During 2017, the Company incurred costs related to the acquisition of Acquired Co. II of \$15,465 corresponding to external legal fees and due diligence costs, which are included in other expenses in the Company's consolidated statement of profit and loss and other comprehensive income.

c) Acquisition of assets from breeding farms from Morris Hatchery, Inc. 2015

On July 10, 2015, the Company reached agreement to acquire assets from the breeding farms of Morris Hatchery Inc., located in the state of Georgia, United States of America. This acquisition mainly consists of poultry equipment and biological assets comprised principally of breeding birds that produce hatching eggs. The acquisition benefits the Company given that it did not previously have the capacity of breeding birds that produce hatching eggs, which are used internally. The Company concluded that the transactions represented the acquisition of businesses in accordance with IFRS 3.

Below is a summary of the fair value of the net assets acquired as of the acquisition date in conformity with IFRS 3, as well as the purchase price paid. The amounts are final; accordingly, the Company did not utilize the use of the provisional measurement period permitted by IFRS 3.

Acquired assets and identifiable assumed liabilities

Acquisition value

Current and non-current biological assets	\$ 235,486	
Inventories	300	
Property, plant and equipment	11,581	
Acquired assets, net	247,367	
Cash consideration paid	371,300	
Goodwill	\$ (123,933)

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The acquisition costs paid by the Company were not material, given that it utilized mostly its own resources in the acquisition. Given that the acquisition was for the benefit of the Company's own internal operations, it is impracticable to determine the amount of revenues or income attributable to the acquired business. Management believes that pro forma revenues and profit for the year, giving effect to the acquisition as of the beginning of the period, do not differ materially from historical revenues and profit for the year reported in the statements of profit or loss and comprehensive income.

(5) Subsidiaries of the Company

A list of subsidiaries and the Company's shareholding percentage in such subsidiaries as of December 31, 2017, 2016 and 2015 are presented below:

Name	Shareholding percentage in subsidiaries			
		December 31,		
	Country	2017	2016	2015
Bachoco, S.A. de C.V.	México	99.99	99.99	99.99
Bachoco USA, LLC. & Subsidiary	U.S.	100.00	100.00	100.00
Campi Alimentos, S.A. de C.V.	México	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	México	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	México	99.99	99.99	99.99
PEC LAB, S.A. de C.V.	México	64.00	64.00	64.00
Aviser, S.A. de C.V.	México	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	México	99.99	99.99	99.99
Secba, S.A. de C.V.	México	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	México	99.99	99.99	99.99
SePETEC, S. A. de C.V.	México	99.99	99.99	99.99
Wii kit RE LTD.	Bermuda	100.00	100.00	-
Proveedora La Perla S.A. de C.V.	México	100.00	-	-

The main subsidiaries of the group and their activities are as follows:

- Bachoco, S.A. de C.V. (BSACV) (includes four subsidiaries which are 51% owned, and over which BSACV has control). BSACV is engaged in breeding, processing and marketing poultry goods (chicken and eggs).

- Bachoco USA, LLC. holds the shares of OK Foods, Inc. and, therefore, all operations controlled by the Company in the United States of America. Effective January 1, 2016, the Company merged O.K. Industries, Inc., O.K. Farms, Inc., O.K. Foods, Inc. and Ecology Management, Inc. into one surviving entity, O.K. Foods, Inc. The primary activities of

Bachoco USA, LLC and its subsidiary are comprised of the production of chicken products and hatching eggs, mostly marketed in the United States of America and, to a lesser extent, in other foreign markets.

- Campi Alimentos, S.A. de C.V., is engaged in producing and marketing balanced animal feed, mainly for sales to third parties.

- The main activity of Bachoco Comercial, S.A. de C.V. and Induba Pavos, S.A. de C.V. is the distribution of chicken, turkey and beef value-added products.

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- PEC LAB, S.A. de C.V. is the holding of the shares of Pecuaris Laboratorios, S.A. de C.V. Its main activity consists of the production and distribution of medicines and vaccines for animal consumption.

- Aviser, S.A. de C.V., Operadora de Servicios de Personal, S.A. de C.V., Secba, S.A. de C.V., Servicios de Personal Administrativo, S.A. de C.V. and Sepetec, S.A de C.V. are engaged in providing administrative and operating services rendered to their related parties.

- On December 2016 Wii kit RE LTD. was constituted in Bermuda as a subsidiary of the Company with 100% of the shareholding. It is a Class I reinsurance company that provides insurance coverage to its affiliates.

- In July 2017, the Company acquired Proveedora La Perla, S.A. of C.V., in Mexico, as a subsidiary of the Company with 100% participation, it is dedicated to the elaboration and commercialization of balanced animal feed and pet treats.

None of the Company's contracts or loan agreements restrict the net assets of its subsidiaries.

(6) Operating segments

Reportable segments have been determined based on a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of chicken and egg operations. The information included in the "Others" segment corresponds to operations of swine, balanced feed for animal consumption and other by-products that do not meet the quantitative thresholds to be considered as reportable segments.

Inter-segment pricing is determined on an arm's length basis comparable to those which would be used with or between independent parties in comparable transactions. The accounting policies of operating segments are as those described in note 3 t).

Below is the information related to each reportable segment. Performance is measured based on each segment's income before taxes, in the same manner as it is included in management reports that are regularly reviewed by the Company's Board of Directors.

a) Operating segment information

	Year ended December 31, 2017		
	Poultry	Other	Total
Net revenues	\$52,479,393	5,570,632	58,050,025
Cost of sales	42,767,202	4,735,757	47,502,959
Gross profit	9,712,191	834,875	10,547,066
Finance income	943,477	144,164	1,087,641
Finance costs	295,011	45,080	340,091
Income before taxes	5,522,187	516,692	6,038,879
Income taxes	958,201	126,243	1,084,444
Net income attributable to controlling interest	4,558,370	389,872	4,948,242
Property, plant and equipment, net	15,464,404	1,855,637	17,320,041
Goodwill	1,543,078	88,016	1,631,094
Intangible assets	1,040,042	-	1,040,042
Total assets	45,165,551	5,391,838	50,557,389
Total liabilities	13,525,194	1,354,267	14,879,461
Purchases of property, plant and equipment	3,154,390	358,988	3,513,378
Depreciation and amortization	982,019	93,769	1,075,788

	Poultry revenues	Other revenues
Total revenue	\$52,484,264	5,616,254
Intersegments	(4,871)	(45,622)
Net revenues	\$52,479,393	5,570,632

	Year ended December 31, 2016		
	Poultry	Other	Total
Net revenues	\$46,852,482	5,167,821	52,020,303
Cost of sales	38,285,367	4,349,704	42,635,071
Gross profit	8,567,116	818,116	9,385,232
Finance income	840,640	128,534	969,174
Finance costs	149,319	22,835	172,154
Income before taxes	5,077,042	517,554	5,594,596
Income taxes	1,494,918	148,515	1,643,433
Net income attributable to controlling interest	3,578,049	368,585	3,946,634
Property, plant and equipment, net	13,478,294	1,602,811	15,081,105
Goodwill	396,861	88,016	484,877
Total assets	40,035,990	5,054,476	45,090,466
Total liabilities	11,909,391	1,464,901	13,374,292
Purchases of property, plant and equipment	2,226,493	233,251	2,459,744
Depreciation and amortization	840,624	85,124	925,748

	Poultry revenues	Other revenues
Total revenue	\$46,856,888	5,214,481
Intersegments	(4,406)	(46,660)
Net revenues	\$46,852,482	5,167,821

	Year ended December 31, 2015		
	Poultry	Other	Total
Net revenues	\$41,789,451	4,439,598	46,229,049
Cost of sales	32,906,801	3,940,707	36,847,508
Gross profit	8,882,649	498,892	9,381,541
Income before taxes	5,196,883	303,197	5,500,080
Income taxes	1,590,892	89,668	1,680,560
Net income attributable to controlling interest	3,599,728	213,112	3,812,840
Property, plant and equipment, net	11,805,132	1,382,999	13,188,131
Goodwill	366,280	88,015	454,295
Total assets	36,085,954	4,360,624	40,446,578
Total liabilities	11,325,636	1,341,564	12,667,200
Purchases of property, plant and equipment	1,646,968	177,541	1,824,509
Depreciation and amortization	694,502	74,768	769,270

	Poultry revenues	Other revenues
Total revenue	\$41,796,064	4,484,348
Intersegments	(6,613)	(44,750)
Net revenues	\$41,789,451	4,439,598

b) Geographical information

When submitting information by geographic area, revenue is classified based on the geographic location where the Company's customers are located. Segment assets are classified in accordance with their geographic location. Geographical information for the "Others" segment is not included below because the operations are carried out entirely within Mexico.

Year ended December 31, 2017

	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$36,013,268	16,533,664	(67,539)	52,479,393
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	899,691	717,812	-	1,617,503
Property, plant and equipment, net	12,143,632	3,320,772	-	15,464,404
Goodwill	212,833	1,330,245	-	1,543,078
Intangible assets	-	1,040,042	-	1,040,042

Year ended December 31, 2016

	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$33,414,262	13,496,189	(57,969)	46,852,482
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	902,662	765,881	-	1,668,543
Property, plant and equipment, net	10,481,074	2,997,221	-	13,478,294
Goodwill	212,833	184,028	-	396,861

	Year ended December 31, 2015			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$30,686,151	11,159,936	(56,637)	41,789,451
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	795,157	638,974	-	1,434,131
Property, plant and equipment, net	9,682,701	2,122,431	-	11,805,132
Goodwill	212,833	153,447	-	366,280

c) Major Customers

In Mexico, the Company's products are traded among a large number of customers, without significant concentration with any specific customer. Therefore, in 2017, 2016 and 2015, no customer represented over 10% of the Company's total revenues.

As of December 31, 2017, the Company did not have operations with an individual customer that represented a significant concentration in the United States of America. As of December 31, 2016 the Company has transactions with The Sygma Network, Inc. representing 9% of total sales outside of Mexico. As of December 31, 2015, the Company has transactions with Ozark Mountain Poultry, Inc., representing 19% of total sales outside of Mexico.

(7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2017, 2016 and 2015 are as follows:

	December 31,		
	2017	2016	2015
Cash and banks	\$ 15,464,312	9,890,007	4,774,420
Investments with maturities less than three months	623,898	4,771,961	9,246,071
Cash and cash equivalents	16,088,210	14,661,968	14,020,491
Restricted cash	24,058	19,236	25,771
Total cash and cash equivalents and restricted cash	\$ 16,112,268	14,681,204	14,046,262

Restricted cash corresponds to the minimum margin required by the intermediary for the Company's derivative financial instruments on commodities in order to meet future commitments that may stem from adverse market movements affecting prices on the open positions as of December 31, 2017, 2016 and 2015.

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(8) Financial instruments and risk management

The Company is exposed to market risks, liquidity risks and credit risks for the use of financial instruments, for which reason it exercises its risk management.

This note presents information on the Company's exposure to each one of the aforementioned risks, as well as the Company's objectives, policies and processes for the measurement and management of financial risks.

Risk management framework

The philosophy adopted by the Company seeks to minimize risks and, therefore maximize business stability, focusing decisions on creating an optimum combination of products and assets that produce a risk – return ratio more in agreement with the risk profile of its stockholders.

In order to establish a clear and optimum organizational structure with respect to risk management, a Risk Committee has been established which is the specialized body in charge of defining, proposing, approving and implementing the objectives, policies, procedures, methodologies and strategies, as well as the determination of the maximum limits of exposure to risk and contingency plans.

At December 31, 2017, 2016 and 2015, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2017, 2016 and 2015, do not meet the requirements to be treated as hedges for accounting purposes.

Management by type or risk

a) Categories of financial assets and liabilities

The Company's financial assets and liabilities are shown below:

	December 31,		
	2017	2016	2015
Financial assets			
Cash and cash equivalents	\$ 16,112,268	14,681,204	14,046,262
Investment in securities at fair value through profit or loss	1,127,841	970,292	1,242,614
Investments held to maturity	64,629	65,509	52,572
Accounts receivable	2,599,208	2,524,942	1,862,250
Due from related parties	326	148,855	194,522
Long-term receivables	162,337	161,690	128,169
Derivative financial instruments	-	8,308	1,244
Financial liabilities			
Financial debt	\$(5,249,024)	(4,047,937)	(4,127,010)
Trade payables, sundry creditors and expenses payable	(4,163,443)	(4,095,089)	(4,088,989)
Due to related parties	(55,252)	(189,966)	(165,628)
Derivative financial instruments	(6,821)	-	-

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b) Credit risk

Credit risk is defined as the potential loss of a portfolio of an amount owed to the Company due to lack of payment from a debtor, or for breach by a counterparty with which derivative financial instruments and investment in securities transactions are conducted.

The risk management process contemplates the use of derivative financial instruments, which are exposed to a market risk, but are also to counterparty risk.

Measurement and monitoring of counterparty risk

In terms of valuation and monitoring of over the counter (OTC) derivative financial instruments and investments in securities, the Company currently measures its counterparty risk by identifying the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA).

For investments in securities denominated in Mexican pesos, the financial instruments valuation models used by price vendors incorporate market movements and credit quality of issuers, thereby implicitly including the counterparty risk of the transaction in the fair value measurement; therefore, the position in investment in securities includes the counterparty risk and no additional adjustment is carried out. The price of the instruments obtained from the price vendor is the mid-point between the bid price and the ask price (the “mid-price”). As of December 31, 2017, 2016 and 2015, the balance of held to maturity investments is \$64,629, \$65,509 and \$52,572, respectively.

Investments in securities denominated in a foreign currency, not listed in Mexico, are recorded at prices contained in the broker's statements of account. The Company validates these market prices using Bloomberg, which incorporate market movements and the credit quality of issuers; thereby implicitly including the counterparty risk of the transaction and no related adjustment is carried out. The prices obtained from Bloomberg are mid prices.

Trade accounts receivable and other accounts receivable measurement and monitoring

It is the policy of the Company to establish an allowance for doubtful accounts to cover the balances of accounts receivable that are not likely to be recovered. To set the required allowance, the Company considers historical losses, assesses current market conditions, as well as customers' financial conditions, accounts receivable in litigation, price

differences, portfolio aging and current payment patterns.

The impairment assessment of accounts receivable is performed on a collective basis, as there are no accounts with individually significant balances. The Company's products are marketed to a large number of customers without, except as described in note 6 c, any significant concentration with a specific customer. As part of the objective evidence that an account receivable portfolio is impaired, the Company considers past experiences with respect to collection, increases in the number of overdue payments in the portfolio exceeding the average loan period, as well as observable changes in national and local economic conditions that correlate to defaults.

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The Company has a credit policy under which each new customer is analyzed individually in terms of its creditworthiness before offering it payment terms and conditions. The Company's review includes internal and external assessments, and in some cases, bank references and a search in the Public Registry of Properties. For each customer, purchase limits are established, which represent the maximum credit amount. Customers that do not meet the Company's credit references can solely conduct transactions in cash or through advance payments.

The allowance for doubtful accounts includes trade accounts receivable that are impaired, which amount to \$141,636, \$130,290 and \$103,057 as of December 31, 2017, 2016 and 2015, respectively. The reconciliation of movements of the allowance for doubtful accounts, and the analysis of past-due accounts receivable but not impaired, are presented in note 9.

The Company receives credit enhancements on credit lines granted to its clients, which consist of real and personal property, such as land, buildings, houses, vehicles, letters of credit, cash deposits and others. As of December 31, 2017, 2016 and 2015, the fair value of such credit enhancements, determined by an appraisal at the time the credit lines were granted, is \$618,481, \$570,546 and \$563,012, respectively.

The fair value of trade accounts receivable is similar to the carrying amount, as the terms granted under credit lines are of a short term nature and do not include significant finance components.

Investments

The Company limits its exposure to credit risk investing solely with counterparties that have been rated on a well-recognized credit rating scale or are deemed to be investment grade. Management constantly monitors credit ratings, and as it invests solely in securities with high credit ratings, it is not expected that any counterparty will fail to fulfill its obligations.

Financial guarantees granted

It is the Company's policy to grant financial guarantees solely to 100% owned subsidiary companies.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure, which as of the reporting date is as follows:

	December 31,		
	2017	2016	2015
Cash and cash equivalents	\$ 16,112,268	14,681,204	14,046,262
Investments in securities at fair value through profit or loss	1,127,841	970,292	1,242,614
Investments held to maturity	64,629	65,509	52,572
Accounts receivable net of guarantees received	2,143,390	2,264,941	1,621,929
Derivative financial instruments	-	8,308	1,244
	\$ 19,448,128	17,990,254	16,964,621

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c) Liquidity risk

Liquidity risk is defined as the potential loss stemming from the impossibility to renew liabilities or enter into other liabilities under normal terms, the early or forced sale of assets or the need to grant unusual discounts in order to meet obligations, or by the fact that a position cannot be disposed of, acquired or covered promptly through the establishment of an equivalent contrary position.

Liquidity risk management process considers the management of the assets and liabilities included in the consolidated statements of financial position (Assets Liabilities Management - ALM) in order to anticipate funding difficulties because of extreme events.

Monitoring

The Company's areas of risk management and financial planning measure, monitor and report to the Risk Committee liquidity risks associated with the ALM and prepare limits for the authorization, implementation and operation thereof, as well as contingent action measures in case of liquidity requirements.

Liquidity risk caused by differences between current and projected cash flows at different dates are measured and monitored, considering all asset and liability positions of the Company denominated in local and foreign currency. Similarly, funding diversification and sources to which the Company has access are evaluated.

The Company quantifies the potential loss arising from early or forced sale of assets or sale at unusual discounts to meet its obligations in a timely manner, as well as by the fact that a position cannot be disposed of, acquired or covered timely through the establishment of a contrary equivalent position.

Liquidity risk monitoring considers a liquidity gap analysis, scenarios for lack of liquidity and use of alternative sources of financing.

Below are the contractual maturities of the financial liabilities, including estimated interest payments. As of the date of the consolidated financial statements, there are no financial instruments which have been offset or recognized positions that are subject to offsetting rights.

Maturity table

	December 31, 2017		
	Less than		
	1	1 to 3 years	3 to 5 years
	year		
Trade payables, sundry creditors and expenses payable	\$4,163,443	-	-
Due to related parties	55,252	-	-
Derivative financial instruments	6,821		
Variable-rate maturities			
In U.S. dollars	2,752,400		-
In pesos	942,651	53,973	1,500,000
Interest	162,785	244,484	203,840
Total financial liabilities	\$8,083,352	298,457	1,703,840

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	December 31, 2016		
	Less than 1	1 to 3 years	3 to 5 years
	year		
Trade payables, sundry creditors and expenses payable	\$4,095,089	-	-
Due to related parties	189,966	-	-
Variable-rate maturities			
In U.S. dollars	1,444,800	-	-
In pesos	1,652,725	950,412	-
Interest	142,100	136,859	-
Total financial liabilities	\$7,524,680	1,087,271	-

	December 31, 2015		
	Less than 1	1 to 3 years	3 to 5 years
	year		
Trade payables, sundry creditors and expenses payable	\$4,088,989	-	-
Variable-rate maturities			
In U.S. dollars	1,462,850	-	-
In pesos	169,033	2,495,127	-
Interest	113,840	98,840	-
Total financial liabilities	\$5,834,712	2,593,967	-

At least on a monthly basis, management evaluates and advises the Board of Directors on its liquidity. As of December 31, 2017, the Company has evaluated that it has sufficient resources to meet its obligations in the short and long term; therefore, it does not consider having liquidity gaps in the future and it will not be necessary to sell assets to pay its debts at unusual discounts or at out-of-market prices.

d)Market risk

Market risk is defined as the potential loss arising from the portfolio of derivative financial instruments and investment in securities for changes in risk factors that affect the valuation of short or long positions. In this sense, the uncertainty of future losses resulting from changes in market conditions (interest rates, foreign currency, prices of commodities, among others), which directly affects movements in the price of both assets and liabilities, is detected.

The Company measures, monitors and reports all financial instruments subject to market risk, using sensitivity measurement models to show the potential loss associated with movements in risk variables, according to different scenarios on rates, prices and types of change during the period.

Monitoring

Sensitivity analyses are prepared at least monthly and are compared with the limits established. Any excess identified is reported to the Risk Committee.

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Stress tests

At least monthly, the Company conducts stress tests calculating the value of the portfolios and considering changes in risk factors observed in historical dates of financial stress.

i. Commodities price risk

With respect to risks related to commodities designated in a formal hedging relationship, the Company seeks protection against downward variations in the agreed-upon price of corn and/or sorghum with the producer, which may represent an opportunity cost as there are lower prices in the current market upon receiving the inventory, and to hedge the risk of a decline in prices between the receipt date and that of inventory consumption.

Purchases of corn and/or sorghum are formalized through an agreement denominated "Forward buy-sell agreement", which has the following characteristics:

Transaction date
Number of agreed-upon tons
Harvest, state and agricultural cycle from which the harvest originates
Price of product per ton, plus quality award or penalty

Agricultural agreements that result in firm commitments are linked to two corn and/or sorghum agricultural cycles, and in contracting purchases, both contracting cycles and dates are itemized as follows:

Fall-winter Cycle - The registration window period is at the discretion of the Agency of Services for Distribution and Development of Agricultural Markets (ASERCA, for its Spanish acronym), which is usually between December and March, while the fall-winter cycle harvest period takes place during May, June and July. However, corn and/or sorghum harvest could lengthen up to one month or several months, depending on the weather conditions, such as drought and frost.

Spring-summer Cycle - The registration window period is at the discretion of ASERCA; the spring-summer cycle usually takes place during the July and August and the harvest depends on each state of the country and is highly variable.

As of December 31, 2017, the Company participates in the ASERCA program as buyer of the corn and / or sorghum crops, for which the Company must prove that a risk management instrument is maintained against market price fluctuations. Based on the foregoing, the Company entered into “put” options with maturities in March 2018, July, September and December 2017, with companies listed on the Chicago Mercantile Exchange. During 2017, there is no gain or loss from the valuation of these instruments.

As of December 31, 2016 and 2015, the Company has economic hedging positions comprised of corn long “puts” with ASERCA, maturing in March 2017, July, September and December 2017 and 2016. The gain on valuation of these instruments is \$3,189 and \$5,601, in 2016 and 2015, respectively, recorded within cost of sales.

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As of December 31, 2017, there is no subsidy by ASERCA for the purchase of hedging "puts" to the consumer; however, the Company participates in the "Agriculture by Contract" program with ASERCA, where contracts for the purchase of "put" options are registered with companies listed on the Chicago market exchange and the benefit of this program is the recovery of the breach of Call hedge purchased, in turn, by the producer with ASERCA. Accordingly, as of December 31, 2017, no benefits have been realized under this scheme.

As of December 31, 2016, and 2015 the Company maintains a contractual agreement with ASERCA in which the Company will pay 80% of the option premium and ASERCA will pay the remaining 20%. In case the option is In the Money (Strike>Forward), the Company will recover the 80% portion paid and an additional 10% which is equivalent to 50% of the portion paid by ASERCA. Due to its nature and in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, the portion paid by ASERCA must be recognized as income over the term of the instrument in order to match it against the costs it is intended to offset, on a systematic basis. The effect of such benefit as of December 31, 2016 and 2015 is \$67,080 (3,250 thousand dollars) and \$57,051 (3,315 thousand dollars), respectively.

With respect to the risk in commodities that are not designated in a formal hedging relationship and to which the Company is exposed, sensitivity tests on corn and sorghum futures agreements are performed, considering different (bullish and bearish) scenarios. The results of these sensitivity analyses are presented in paragraph g) of this note.

ii. Chicken price risk

The Company is exposed to financial risks mainly related to changes in the price of chicken. The Company presently does not anticipate that the price of chicken decreased to a level that represents a risk to the Company in the future; therefore, as of December 31, 2017, 2016 and 2015, it has not entered into any derivative financial instrument or other agreement for managing the risk related to a decrease in chicken price.

The Company reviews chicken prices frequently in order to evaluate the need of having a financial instrument to manage the risk.

iii. Exchange risk

The Company is exposed to the effects of exchange rate volatility, mainly in relation to Mexican pesos/dollars exchange rates on the Company's assets and liabilities, including: investments in securities and derivative financial

instruments hedging commodities, which are denominated in a currency other than the Company's functional currency. In this regard, the Company has implemented a sensitivity analysis to measure the effects that currency risk may have over the assets and liabilities described.

The Company protects itself from exchange rate risk through economic hedging with derivative financial instruments, which cover a percentage of its estimated exposure to exchange rate volatility in relation to projected sale and purchase transactions. All instruments entered into as economic hedges of foreign exchange risk have maturities of less than one year from the contract date.

As of December 31, 2017, 2016 and 2015, the Company entered into derivative financial instrument positions as economic hedges to cover exchange rate risks.

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iv. Foreign currency position

The Company has financial instrument assets and liabilities denominated in foreign currency on which there is an exposure to currency risk.

Below is the foreign currency position that the Company has as of December 31, 2017, 2016 and 2015.

	December 31, 2017		2016		2015	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos	Dollars	Mexican Pesos
	Assets					
Cash and cash equivalents	\$325,493	6,399,186	126,395	2,608,800	66,929	1,151,844
Investment in securities at fair value through profit or loss	29,212	574,312	27,863	575,085	28,549	491,325
Accounts receivable	1,915	37,640	2,488	51,350	245	4,210
Total assets	356,619	7,011,138	156,746	3,235,235	95,722	1,647,379
Liabilities						
Trade accounts payable	(154,858)	(3,044,515)	(103,854)	(2,143,547)	(141,819)	(2,440,708)
Financial debt	(140,000)	(2,752,400)	(70,000)	(1,444,800)	(85,000)	(1,462,850)
Total Liabilities	(294,858)	(5,796,915)	(173,854)	(3,588,347)	(226,819)	(3,903,558)
Net asset position	61,761	1,214,223	-	-	-	-
Net liability position	\$-	-	(17,108)	(353,112)	(131,097)	(2,256,179)

The Company carries out a sensitivity analysis related to the potential effects of changes in exchange rates on its financial information. These results are shown in paragraph g) of this note. These analyses represent the scenarios that management considers reasonably possible of occurring.

The following is a detail of exchange rates effective during the fiscal year:

	Average exchange rate			Spot exchange rate at December 31,		
	2017	2016	2015	2017	2016	2015
Dollars	\$18.91	18.68	15.87	19.66	20.64	17.21

The exchange rate at the date of issuance of the consolidated financial statements is \$18.19.

v. Interest rate risk

The Company is exposed to fluctuations in rates for certain financial instruments, such as investments, bank loans and debt securities. This risk is managed taking into account market conditions and the criteria of its Risk Committee and Board of Directors.

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Interest rate fluctuations impacted mainly bank loans by changing either their fair value (fixed rate debt) or the future cash flows (variable rate debt). Management does not have a formal policy to determine how much of the Company's exposure should be at fixed or variable rate. However, at the time of obtaining new loans, management uses its judgment considering technical analyses and market forecasts to decide whether fixed or variable rate instruments would be more favorable during the periods of such instruments.

To monitor this risk, the Company performs sensitivity tests at least monthly to measure the effect of the change in interest rates in the instruments described in the preceding paragraph, which are summarized in subsection g) of this note.

e) Financial instruments at fair value

The amounts of accounts payable and accounts receivable approximate their fair value because of their nature and short-term maturities.

The table below summarizes the presents the fair value of the financial instruments that are recognized at amortized cost, together with the carrying amount included in the consolidated statement of financial position:

Liabilities recorded at amortized cost	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	2017		2016		2015	
Financial debt	\$5,249,024	5,255,932	4,047,937	4,062,999	4,127,010	4,141,473

f) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

The fair value of the financial assets and liabilities that have standard terms and conditions and are traded in active liquid markets, which are determined by reference to quoted market prices (market approach), therefore, these instruments are considered Level 1 hierarchy according to the classification of fair value hierarchy described in note 2 b).

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The fair value of derivative financial instruments of the Company (Commodities) is determined based on the futures prices of the Chicago Stock Exchange, so these instruments are considered Level 2 hierarchy.

The following table summarizes financial instruments carried at fair value:

	Level 1	Level 2	Level 3	Total
As of December 31, 2017				
Investment in securities at fair value through profit or loss	\$969,309	158,532	-	1,127,841
Derivative financial instruments	-	(6,821)	-	(6,821)
	\$969,309	151,711	-	1,121,020

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	Level 1	Level 2	Level 3	Total
As of December 31, 2016				
Investment in securities at fair value through profit or loss	\$970,292	-	-	970,292
Derivative financial instruments	-	8,308	-	8,308
	\$970,292	8,308	-	978,600

	Level 1	Level 2	Level 3	Total
As of December 31, 2015				
Investment in securities at fair value through profit or loss	\$1,242,614	-	-	1,242,614
Interest rate derivative financial instruments	-	195	-	195
Derivative financial instruments	-	1,244	-	1,244
	\$1,242,614	1,439	-	1,244,053

Information regarding the hierarchy of fair value measurements related to financial liabilities that are not carried at fair value, but for which disclosures are required, is summarized below:

	Level 1	Level 2	Level 3	Total
As of December 31, 2017				
Financial debt - bank institutions	\$-	(3,749,024)	-	(3,749,024)
Financial debt – debt securities	(1,506,908)	-	-	(1,506,908)
	\$(1,506,908)	(3,749,024)	-	(5,255,932)

	Level 1	Level 2	Level 3	Total
As of December 31, 2016				
Financial debt - bank institutions	\$-	(2,550,469)	-	(2,550,469)
Financial debt – debt securities	(1,512,530)	-	-	(1,512,530)
	\$(1,512,530)	(2,550,469)	-	(4,062,999)

	Level 1	Level 2	Level 3	Total
As of December 31, 2015				
Financial debt - bank institutions	\$-	(2,626,327)	-	(2,626,327)
Financial debt – debt securities	(1,515,146)	-	-	(1,515,146)
	\$(1,515,146)	(2,626,327)	-	(4,141,473)

g) Quantitative sensitivity measurements

The following are sensitivity analyses for the most significant risks to which the Company is exposed as of December 31, 2017, 2016 and 2015. These analyses represent the scenarios that management believes are reasonably possible of occurring in future periods and were performed in accordance with the policies of Risk Committee.

i. Derivative Financial Instruments related to exchange rate and commodities risks

As of December 31, 2017, the Company has taken positions on derivative financial instruments to hedge exchange rate risks and commodities.

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A 15% increase in the Mexican peso with respect to the U.S. dollar as of the end of 2017, 2016 and 2015 would have resulted in a valuation gain of \$25,971, \$41,235 and \$0 on the fair value of the Company's exchange rate derivative financial instruments position. On the other hand, a decrease of 15% in the aforementioned rate would have resulted in an additional valuation loss during the respective periods of \$43,493, \$47,639 and \$10,575.

The following table shows the Company's sensitivity to an increase and decrease of 15% for 2017, 2016 and 2015 in the "bushell" price of corn and short ton price of soybeans.

	Effect of Increase			Effect of Decrease		
	2017	2016	2015	2017	2016	2015
Loss (profit) for the year	\$(16,094)	(9,085)	(44,589)	\$21,229	8,785	56,753

ii. Interest rate risk

As described in Note 18, the Company has financial debt denominated in pesos and dollars, which bear interest at variable rates based on THIE and LIBOR, respectively.

The following table shows the Company's sensitivity to an increase and decrease of 50 basis points for 2017, 2016 and 2015, in the variable rates to which the Company is exposed.

	Effect of Increase			Effect of Decrease		
	2017	2016	2015	2017	2016	2015
Loss (profit) for the year	\$43,485	15,385	17,375	\$(43,485)	(15,385)	(17,375)

iii. Exchange risk

As of December 31, 2017, the Company's net monetary liability position in foreign currency was \$1,214,223.

The following table shows the Company's sensitivity of an increase and decrease of 10% for 2017, 2016 and 2015, in exchange rate, which would have an effect in the result from foreign currency position.

	Effect of Increase			Effect of Decrease		
	2017	2016	2015	2017	2016	2015
Loss (profit) for the year	\$(121,422)	35,311	225,618	\$121,422	(35,311)	(225,618)

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(9) Accounts receivable, net

As of December 31, 2017, 2016 and 2015, accounts receivable are as follows:

	December 31,		
	2017	2016	2015
Trade receivables	\$2,673,705	2,482,077	1,867,104
Allowance for doubtful accounts	(96,900)	(97,400)	(81,641)
Other receivables	22,403	140,265	76,787
Government grant	-	-	40
Income tax receivable	57,186	115,428	143,517
Recoverable value-added tax and other recoverable taxes	970,484	988,774	527,620
	\$3,626,878	3,629,144	2,533,427

Past-due but not impaired portfolio

Below is a classification of trade accounts receivable according to their aging as of the reporting date, which has not been subject to impairment:

	December 31,		
	2017	2016	2015
Past due 0 to 60 days	200,413	164,458	129,315
Past due by more than 60 days	6,190	3,395	3,443
	\$206,603	167,853	132,758

The Company believes that non-impaired amounts that are past-due by more than 60 days can still be collected, based on the historical behavior of payments and analysis of credit ratings of customers.

Reconciliation of movements in allowance for doubtful accounts

	2017	2016	2015
Balance as of January 1	\$(97,400)	(81,641)	(76,793)
Increase in allowance	(14,800)	(18,405)	(17,179)
Amounts written off	15,287	2,818	12,454

Currency translation effect	13	(172)	(123)
Balance as of December 31,	\$(96,900)	(97,400)	(81,641)

As of December 31, 2017, 2016 and 2015 the Company has receivables in legal proceedings (receivables for which legal counsel is seeking recoverability) of \$141,636, \$130,290 and \$103,057, respectively.

To determine the recoverability of an account receivable, the Company considers any change in the credit quality of the account receivable from the date of authorization of the credit line to the end of the reference period. In addition, the Company estimates that the credit risk concentration is limited as the customer base is very large and there are no related party receivables or receivables from entities under common control.

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(10) Inventories

As of December 31, 2017, 2016 and 2015, inventories are as follows:

	December 31,		
	2017	2016	2015
Raw materials and by-products	\$1,861,092	1,515,824	1,155,841
Medicine, materials and spare parts	820,417	808,492	772,226
Balanced feed	296,538	275,845	241,473
Processed chicken	1,561,912	1,154,207	1,112,068
Commercial eggs	46,185	37,242	38,683
Processed beef	58,563	36,599	38,533
Processed turkey	64,918	122,722	34,251
Other processed products	17,708	19,757	11,194
Total	\$4,727,333	3,970,688	3,404,269

Inventory consumption for the years ended December 31, 2017, 2016 and 2015 was \$37,567,550, \$34,018,493 and \$28,877,468, respectively.

(11) Biological assets

For the years ended December 31, 2017, 2016 and 2015, biological assets are as follows:

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2017	\$1,961,191	1,668,543	3,629,734
Increase due to purchases	291,361	599,273	890,634
Sales	-	(87,230)	(87,230)
Net increase due to births	277,621	2,112,110	2,389,731
Production cost	30,892,045	1,532,189	32,424,234
Depreciation	-	(2,058,461)	(2,058,461)
Transfers to inventories	(31,435,017)	(2,112,110)	(33,547,127)
Other	(45,008)	(36,811)	(81,819)
Balance as at December 31, 2017	\$1,942,193	1,617,503	3,559,696

Total

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	Current biological assets	Non-current biological assets	
Balance as at January 1, 2016	\$1,651,794	1,434,131	3,085,925
Increase due to purchases	237,525	604,527	842,052
Sales	-	(109,776)	(109,776)
Net increase due to births	240,085	2,034,670	2,274,755
Production cost	29,620,380	1,515,440	31,135,820
Depreciation	-	(1,903,086)	(1,903,086)
Transfers to inventories	(29,886,985)	(2,034,670)	(31,921,655)
Other	98,392	127,307	225,699
Balance as at December 31, 2016	\$1,961,191	1,668,543	3,629,734

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	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2015	\$1,501,428	1,109,233	2,610,661
Increase due to purchases	337,632	603,081	940,713
Sales	-	3,032	3,032
Net increase due to births	225,000	1,422,535	1,647,535
Production cost	26,283,885	1,120,359	27,404,244
Depreciation	-	(1,475,470)	(1,475,470)
Transfers to inventories	(26,746,796)	(1,422,535)	(28,169,331)
Other	50,645	73,896	124,541
Balance as at December 31, 2015	\$1,651,794	1,434,131	3,085,925

The “Other” category includes the change in fair value of biological assets that resulted in an increase of \$22,598 in 2017, decrease of \$18,276 in 2016, and increase of \$13,020 in 2015.

The Company is exposed to different risks relating to its biological assets:

- Future excesses in the offer of poultry products and a decline in the demand growth of the chicken industry may negatively affect the Company’s results.

- Increases in raw material prices and price volatility may negatively affect the Company’s margins and results.

- In addition, in the case of the Company’s operations in the United States of America, the cost of corn and grain may be affected by an increase in the demand for ethanol, which may reduce the market’s available corn inventory.

- Operations in Mexico and the United States of America are based on animal breeding and meat processing, which are subject to sanitary risks and natural disasters.

- Hurricanes and other adverse climate conditions may result in additional inventory losses and damage to the Company’s facilities and equipment.

(12) Prepaid expenses and other current assets

As of December 31, 2017, 2016 and 2015, prepaid expenses and other current assets are as follows:

	December 31,		
	2017	2016	2015
Advances to suppliers of inventories	\$234,458	929,815	1,224,454
Prepaid expenses of services	235,652	217,244	130,086
Prepaid expenses of insurance and bonds	88,533	185,678	82,238
Other current assets	80,028	171,208	151,030
Total	\$638,671	1,503,945	1,587,808

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(13) Assets held for sale

As of December 31, 2017, 2016 and 2015, assets held for sale are as follows:

	December 31,		
	2017	2016	2015
Buildings	\$18,920	21,551	24,430
Land	27,765	32,338	32,779
Other	2,838	2,839	2,839
Total	\$49,523	56,728	60,048

The Company recognized gains (losses) on sales of these assets of \$2,437, \$0 and \$(24) during 2017, 2016 and 2015, respectively.

(14) Property, plant and equipment

As of December 31, 2017, 2016 and 2015, property, plant and equipment are comprised as follows:

Cost	Balance as at January 1, 2017	Additions	Disposals	Currency translation effect	Balance as at December 31, 2017
Land	\$ 1,210,052	156,000	(8,851)	(3,558)	1,353,643
Buildings and construction	10,603,293	896,020	(3,200)	(55,829)	11,440,284
Machinery and equipment	12,035,769	2,158,477	(106,310)	(66,055)	14,021,881
Transportation equipment	1,611,153	269,462	(105,982)	(1,480)	1,773,153
Computer equipment	118,759	13,210	(3,173)	(2,805)	125,991
Furniture	174,183	19,515	(23,505)	(441)	169,752
Leasehold improvements	5,186	-	(2,525)	-	2,661
Construction in progress	1,459,682	694	(33,419)	8,190	1,435,147
Total	\$ 27,218,077	3,513,378	(286,965)	(121,978)	30,322,512

Accumulated depreciation	Balance as at January 1 2017	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2017
Buildings and construction	\$(5,131,723)	(202,513)	2,074	8,848	(5,323,314)
Machinery and equipment	(6,064,744)	(735,461)	69,960	23,421	(6,706,824)
Transportation equipment	(741,253)	(111,073)	80,177	743	(771,406)

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Computer equipment	(70,293)	(15,069)	3,160	698	(81,504)
Furniture	(128,959)	(11,672)	20,779	429	(119,423)
Total	\$(12,136,972)	(1,075,788)	176,150	34,139	(13,002,471)

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Cost	Balance as at January 1, 2016	Additions	Disposals	Currency translation effect	Balance as at December 31, 2016
Land	\$ 1,160,809	40,398	(6,257)	15,102	1,210,052
Buildings and construction	10,017,180	423,357	(69,520)	232,276	10,603,293
Machinery and equipment	10,706,221	1,408,298	(355,957)	277,207	12,035,769
Transportation equipment	1,286,212	433,746	(114,222)	5,417	1,611,153
Computer equipment	85,842	29,702	(2,134)	5,349	118,759
Furniture	155,995	20,548	(5,183)	2,823	174,183
Leasehold improvements	8,742	-	(3,556)	-	5,186
Construction in progress	1,268,545	103,695	-	87,442	1,459,682
Total	\$ 24,689,546	2,459,744	(556,829)	625,616	27,218,077

Accumulated depreciation	Balance as at January 1 2016	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2016
Buildings and construction	\$(4,942,844)	(192,810)	38,726	(34,795)	(5,131,723)
Machinery and equipment	(5,627,281)	(630,370)	297,180	(104,273)	(6,064,744)
Transportation equipment	(751,539)	(81,783)	94,872	(2,803)	(741,253)
Computer equipment	(60,198)	(10,544)	2,918	(2,469)	(70,293)
Furniture	(119,553)	(10,241)	2,038	(1,203)	(128,959)
Total	\$(11,501,415)	(925,748)	435,734	(145,543)	(12,136,972)

Cost	Balance as at January 1, 2015	Additions	Disposals	Currency translation effect	Balance as at December 31, 2015
Land	\$ 1,094,182	57,901	(661)	9,387	1,160,809
Buildings and construction	9,669,990	204,254	(17,191)	160,127	10,017,180
Machinery and equipment	9,816,722	991,378	(262,222)	160,343	10,706,221
Transportation equipment	1,171,030	247,232	(135,257)	3,207	1,286,212
Computer equipment	67,780	22,081	(6,163)	2,144	85,842
Furniture	153,015	6,372	(5,351)	1,959	155,995
Leasehold improvements	21,442	-	(12,700)	-	8,742
Construction in progress	991,866	295,291	(18,612)	-	1,268,545
Total	\$ 22,986,027	1,824,509	(458,157)	337,167	24,689,546

Accumulated depreciation	Balance as at January 1 2015	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2015
Buildings and construction	\$(4,754,662)	(179,402)	9,199	(17,979)	(4,942,844)
Machinery and equipment	(5,210,886)	(512,786)	150,685	(54,294)	(5,627,281)
Transportation equipment	(795,625)	(59,655)	107,333	(3,592)	(751,539)
Computer equipment	(56,462)	(7,946)	6,411	(2,201)	(60,198)
Furniture	(113,638)	(9,481)	4,210	(644)	(119,553)

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Total \$(10,931,273) (769,270) 277,838 (78,710) (11,501,415)

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Carrying amounts, net	December 31,		
	2017	2016	2015
Land	\$1,353,643	1,210,052	1,160,809
Buildings and construction	6,116,970	5,471,570	5,074,336
Machinery and equipment	7,315,057	5,971,025	5,078,940
Transportation equipment	1,001,747	869,900	534,673
Computer equipment	44,487	48,466	25,644
Furniture	50,329	45,224	36,442
Leasehold improvements	2,661	5,186	8,742
Construction in progress	1,435,147	1,459,682	1,268,545
Total	\$17,320,041	15,081,105	13,188,131

Additions of property, plant and equipment in 2017 include assets acquired through business combinations of \$1,132,871 that consist of the following:

Land	\$133,347
Buildings and construction	500,608
Machinery and equipment	491,101
Transportation equipment	2,137
Furniture	5,679
Total	\$1,132,871

Additions of property, plant and equipment in 2015 include assets acquired through business combinations of \$11,581 that consist of machinery and equipment of \$126, furniture of \$16 and transportation equipment of \$11,439.

Depreciation expense during the years ended December 31, 2017, 2016 and 2015 was \$1,075,788, \$925,748 and \$769,270, respectively, which were charged to cost of sales and operating expenses.

(15) Goodwill

	2017	2016	2015
Balances at beginning of the year	\$484,877	454,295	349,764
Business combinations (Note 4)	1,042,163	-	123,933
Goodwill impairment loss	-	-	(38,619)
Foreign currency effects	104,054	30,582	19,217
Balances at end of year	\$1,631,094	484,877	454,295

Based on market conditions in which the reporting unit operates, the Company's estimates of fair value indicated an impairment in Ok Farms – Morris Hatchery, Inc. Georgia, resulting in the recognition of a goodwill impairment loss of \$38,619 (2,244 thousand dollars) for the year ended December 31, 2015.

The recoverable amount of the cash-generating unit is determined based on a calculation of its value in use, which uses projections of the estimated cash flows based on financial budgets approved by management for a determined projection period, which are discounted using an annual discount rate.

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Projections of the cash flows during the budgeted period are based on sales projections which include increases due to inflation, as well as the projection of expected gross margins and operating margins during the budgeted period. Cash flows that exceed such period are extrapolated using an annual stable growth rate, which is the long-term weighted average growth rate for the market in which the cash-generating unit operates.

The assumptions and balances of each cash-generating unit are as follows:

2017

Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)		
Bachoco - Istmo and Peninsula regions	\$212,833	5	12.52	%	3.00	%
Campi	88,015	5	12.52	%	3.00	%
Ok Farms - Morris Hatchery, Inc. Arkansas	65,200	5	6.14	%	0.00	%
Ok Farms - Morris Hatchery Inc. Georgia	110,091	5	6.14	%	0.00	%
Ok Foods- Albertville Quality Foods, Inc.	1,154,955	5	6.14	%	0.00	%
	\$1,631,094					

2016

Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)		
Bachoco - Istmo and Peninsula regions	\$212,833	5	12.91	%	2.70	%
Campi	88,015	5	12.91	%	2.10	%
Ok Farms - Morris Hatchery, Inc. Arkansas	68,449	5	8.62	%	0.00	%
Ok Farms- Morris Hatchery Inc. Georgia	115,580	5	8.62	%	0.00	%
	\$484,877					

2015

Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)		
Bachoco - Istmo and Peninsula regions	\$212,833	5	9.67	%	2.70	%
Campi	88,015	5	9.67	%	2.10	%
Ok Farms - Morris Hatchery, Inc. Arkansas	57,075	5	9.32	%	0.00	%
Ok Farms- Morris Hatchery Inc. Georgia	96,372	5	9.32	%	0.00	%
	\$454,295					

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(16) Intangible assets

The balances as of December 31, 2017 for \$1,040,042 are mainly comprised of brands and customer relationships and derived from the purchase transaction of the Acquired Co. I (note 4). Customer relationships are generally amortized over 15 years based on the pattern of revenue expected to be generated from the use of the asset.

Intangible assets consist of the following:

	2017	2016	2015
Amortizable intangible assets			
Customer relationships	\$ 1,028,747	-	-
Accumulated amortization	(34,876)	-	-
Total net amortizable intangible assets	993,871	-	-
Trade names not subject to amortization	46,171		
Total intangible assets	\$ 1,040,042	-	-

(17) Other non-current assets

Other non-current assets consist of the following:

	December 31,		
	2017	2016	2015
Advances for purchase of property, plant and equipment	\$ 331,691	552,417	277,277
Investments in life insurance (note 3 (1))	64,629	65,509	52,572
Security deposits	16,796	15,132	13,574
Other long-term receivable	162,337	161,690	128,169
Intangible assets in process	11,506	12,200	73,125
Other	56,047	58,506	49,189
Total non-current assets	\$ 643,006	865,454	593,906

(18) Financial debt**a) Short-term financial debt is as follows:**

	December 31,		
	2017	2016	2015
Loan in the amount of 70,000 thousand dollars, maturing in June 2017, at LIBOR (3) rate plus 0.44 percentage points.	\$1,376,200	-	-
Loan in the amount of 70,000 thousand dollars, maturing in July 2017, at LIBOR (3) rate plus 0.425 percentage points.	1,376,200	-	-
Denominated in pesos, maturing in January 2018, at TIIE (1) FIRA (2) rate plus 0.60 percentage points	100,000	-	-
Loan in the amount of 70,000 thousand dollars, maturing in June 2017, at LIBOR (3) rate plus 0.50 percentage points.	-	1,444,800	-
Loan of 85,000 thousand dollars, maturing in June 2016, at LIBOR (3) rate plus 0.48 percentage points	-	-	1,462,850
Denominated in pesos, maturing in January 2016, at TIIE (1) FIRA (2) rate plus 0.85 percentage points	-	-	160,000
Total short-term debt	\$2,852,400	1,444,800	1,622,850

The annual weighted average interest rate of short-term loans denominated in pesos for 2017 was 8.06% during 2016, no short-term debt denominated in pesos was contracted, and 2015 such rate was 3.13%. The average interest rate for loans outstanding as of December 31, 2017 and 2015 was 8.06% and 4.17%, respectively.

The annual weighted average interest rate of short-term loans denominated in dollars for the years 2017, 2016 and 2015 was 1.22%, 1.04% and 1.05%, respectively. The average interest rate for loans outstanding as of December 31, 2017, 2016 and 2015 was 1.57%, 1.05% and 0.83%, respectively.

(1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate

(2) FIRA (for its acronym in Spanish) = Agriculture Trust Funds

(3) LIBOR = London Interbank Offered Rate

b) Long-term debt consists of the following:

	December 31,		
	2017	2016	2015
Denominated in pesos, maturing in September 2017, at TIIE (1) rates plus 0.63 percentage points.	\$	98,000	100,000
Denominated in pesos, maturing in 2017 and 2018, at TIIE (1) FIRA (2) rates less 0.25 percentage points.	553,651	603,739	603,871
Denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.60 percentage points.	289,000	293,400	297,800
Denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.25 percentage points.	53,973	53,978	-
Denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.50 percentage points.		54,000	-
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 percentage points.		-	2,489
Debt securities (subsection (d))	-	1,500,000	1,500,000
Debt securities (subsection (d))	1,500,000	-	-
Total	2,396,624	2,603,137	2,504,160
Less current maturities	(842,651)	(1,652,725)	(9,033)
Long-term debt, excluding current maturities	\$ 1,553,973	950,412	2,495,127

The annual weighted average interest rate on long-term debt for 2017, 2016 and 2015 was 7.72%, 4.04% and 3.07%, respectively. The average rate for outstanding loans as of December 31, 2017, 2016 and 2015 was 7.48%, 5.63% and 3.56%, respectively.

(1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate

(2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture

During 2017 the Company made early payments on its long-term debt of \$53,900; during 2016 and 2015, the Company did not make early payments on its long-term debt.

As of December 31, 2017, 2016 and 2015, total unused lines of credit totaled \$7,031,813, \$5,551,263 and \$6,156,229, respectively. In all such years, the Company did not pay any fee for undrawn balances.

c) Maturities of long-term debt, excluding current maturities, as of December 31, 2017, are as follows:

Year	Amount
2019	53,973
2022	1,500,000
	1,553,973

Interest expense on total loans during the years ended December 31, 2017, 2016 and 2015, amounted to \$188,597, \$129,769 and \$93,964, respectively.

Certain bank loans establish certain affirmative and negative covenants, as well as the requirement to maintain certain financial ratios, which have been met as of December 31, 2017, among which are:

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- a) Provide financial information at the request of the bank.
- b) Not to contract liabilities with financial cost or grant loans that may affect payment obligations.
- c) Notify the bank regarding the existence of legal issues that could substantially affect the financial situation of the Company.
- d) Not to perform substantial changes to the nature of the business, or the administrative structure.

Not to merge, consolidate, separate, settle or dissolve except for those mergers in which the Company or surety are e) the merging company and do not constitute a change in control of the entities of the group to which the Company or the surety belong at the date of the agreement.

d) Issuance of debt securities

On August 28, 2012, the Company was authorized to issue debt securities in the total amount of the program of \$5,000,000 or the equivalent in UDIS (1), on a revolving basis, for a term of five years from the date of the authorization letter from the Mexican Banking and Securities Commission. The initial issuance dated August 31, 2012 was for \$1,500,000 pesos with ticker symbol: "BACHOCO 12" for a term of 1,820 days, equivalent to 65 periods of 28 days, approximately five years, with 15,000,000 debt securities and a par value of \$100 pesos per certificate.

On August 25, 2017, the debt securities issued with ticker "BACHOCO 12" expired, and were paid according to the contractual terms of the issuance.

On August 25, 2017, a second issuance of debt securities was carried out for a total amount of \$1,500,000 with ticker symbol: "BACHOCO 17" for a term of 1,820 days, equivalent to 65 periods of 28 days, approximately five years, with 15,000,000 debt securities and a par value of \$100 pesos per certificate.

From the date of issuance, and while the debt securities have not been paid, they will accrue annual gross interest on their face amount, at an annual interest rate, which is calculated by adding 0.31 percentage points at the 28-day TIIE, and in the event the 28-day TIIE is not published, at the nearest term published by the Bank of Mexico. The debt issue that expired in 2017 accrued a gross interest on its nominal value, at an annual interest rate, which was calculated by adding 0.60 percentage points to the 28-day TIIE.

The amortization of the debt securities is carried out at the expiration of the contractual term of each issuance. Direct costs arising from debt issuance or contract are deferred and amortized as part of financial expense using the effective interest rate through the expiration of each transaction. Such costs include commissions and professional fees.

(1)UDIS = Investment units

Derived from the issuance of the Debt securities, the Company is subject to certain requirements, affirmative and negative covenants, with which they comply as of December 31, 2017.

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e) Reconciliation of liabilities arising from financing activities

Balance as of January 1, 2017	\$4,047,937
Changes that represent cash flows	
Proceeds from borrowings	5,378,915
Principal payment on loans	(4,246,100)
Changes that do not represent cash flows	
Others	68,272
Balance as of December 31, 2017	\$5,249,024

(19) Trade accounts and other accounts payable

	December 31,		
	2017	2016	2015
Trade payables	\$3,684,220	3,646,410	3,800,407
Sundry creditors and expenses payable	479,223	448,679	288,582
Provisions	103,474	105,434	202,303
Statutory employee profit sharing	42,940	42,134	31,730
Retained payroll taxes and other local taxes	241,739	214,558	197,806
Direct employee benefits	171,784	76,721	72,898
Interest payable	16,904	11,160	3,306
Others	82	81	71
	\$4,740,366	4,545,177	4,597,103

Note 8 discloses the Company's exposure to the exchange and liquidity risks related to trade accounts payable and other accounts payable.

On December 2009, the Mexican Federal Competition Agency (CFC, for its Spanish acronym) released a news report in which it announced an investigation on the Mexican poultry industry in reference to possible monopolistic practices. As a result of this investigation, CFC imposed several fines to the Company for supposedly having certain practices where the price of chicken was manipulated. Although the Company and its legal advisors considered that the interposed legal processes were well sustained and attended, a provision that was considered adequate was recognized. During 2016 these judgments were concluded in favor of the Company's interests, for which reason the provision recorded for this purpose was canceled.

Additionally, the National Water Commission (CNA, for its Spanish acronym) imposed credits and fines to the Company for supposed infractions made by the Company in water administration for exploitation of livestock. The Company has recognized a provision for the amount that it expects to be probable to pay.

Bachoco USA, LLC. is involved in claims with the United States of America Department of Labor and the United States Immigration and Customs Enforcement, and various other matters related to its business, including workers' payment claims and environmental issues. As of December 31, 2017, 2016 and 2015, the Company has recorded provisions of \$39,320 (2,000 thousand dollars), \$41,280 (2,000 thousand dollars) and \$51,630 (3,000 thousand dollars) for estimated probable payments.

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(20) Transactions and balances with related parties**(a) Transactions with management****Compensation**

The following table shows the compensation paid to the directors and executives for services provided in their respective positions for the years ended December 31, 2017, 2016 and 2015:

	December 31,		
	2017	2016	2015
Compensation	\$56,201	53,531	42,295

(b) Transactions with other related parties

Below is a summary of the Company's transactions and balances with other related parties, which are comprised of affiliates that are under common control:

i. Revenues

	Transaction value			Balance as of		
	December 31,			December 31,		
	2017	2016	2015	2017	2016	2015
Sales of products to:						
Vimifos, S.A. de C.V.	\$47,344	41,715	32,827	\$326	4,261	5,447
Frescopack, S.A. de C.V.	10	66	-	-	32	-
Autos y Accesorios, S.A. de C.V.	-	-	419	-	-	-
Taxis Aéreos del Noroeste, S.A. de C.V.	1,013	1,927	135	-	144,562	189,075
	\$48,367	43,708	33,381	\$326	148,855	194,522

The balance of Taxis Aéreos del Noroeste, S.A. de C.V. as of December 31, 2016 and 2015 for \$144,562 and \$189,075 corresponds to a loan that bears interest and is due in the short term.

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ii. Expenses and balances payable to related parties

	Transaction value			Balance as of		
	December 31, 2017	2016	2015	December 31, 2017	2016	2015
Purchases of food, raw materials and packing supplies						
Vimifos, S.A. de C.V.	\$392,226	554,282	477,920	\$12,830	126,396	91,982
Frescopack, S.A. de C.V.	179,357	137,752	181,802	29,537	35,931	37,827
Pulmex 2000, S.A. de C.V.	26,700	41,122	42,263	8,138	7,528	16,181
Qualyplast, S.A. de C.V.	95	193	237	-	64	158
Purchases of vehicles, tires and spare parts						
Maquinaria Agrícola, S.A. de C.V.	\$793	34,446	41,947	64	1,898	4,074
Llantas y Accesorios, S.A. de C.V.	35,225	29,457	29,269	4,207	3,449	2,732
Autos y Accesorios, S.A. de C.V.	24,645	40,575	29,510	57	1,985	3,364
Autos y Tractores de Culiacán, S.A. de C.V.	14,037	39,504	54,853	79	5,298	3,100
Camiones y Tractocamiones de Sonora, S.A. de C.V.	85,448	153,802	69,779	172	6,137	5,815
Agencia MX-5, S.A de C.V.	15	25	1	4	2	-
Alfonso R. Bours, S.A. de C.V.	428	394	526	95	94	93
Cajeme Motors S.A. de C.V.	29	7,974	6,632	1	710	2
Airplane leasing expenses						
Taxis Aéreos del Noroeste, S.A. de C.V.	\$7,854	7,739	7,874	68	474	300
				\$55,252	189,966	165,628

As of December 31, 2017, 2016 and 2015, balances payable to related parties correspond to current accounts denominated in pesos that bear no interest and are payable on a short-term basis.

(21) Income Tax

Under the tax legislation in Mexico and the United States of America in effect through December 31, 2017, entities are subject to pay Income Tax (ISR, by its Spanish acronym).

a)ISR

The Company and each of its subsidiaries file separate income tax returns (including its foreign subsidiary, which files income tax returns in the United States of America, based on its fiscal year ending in April of every year). For the years ended December 31, 2017, 2016 and 2015, the applicable rate under the general tax regime in Mexico is 30%; this rate will be applicable in future years as well. The applicable rate for the Company's US subsidiary is 38.79%

(includes state and federal taxes). On December 22, 2017, the United States government enacted new tax legislation referred to as the Tax Cuts and Jobs Act (the Act). The Act significantly changes U.S. tax law with the most significant change being the reduction of the federal income tax rate for corporations from 35% to 21%, effective beginning January 1, 2018.

As of December 31, 2017, 2016 and 2015, BSACV, the Company's primary operating subsidiary is subject to the agriculture, cattle-raising, forestry and fishing regime of the ISR law, which is applicable to entities exclusively dedicated to such activities. The ISR Law establishes that such activities are exclusive when no more than 10% of an entity's total revenues are generated from something other than those activities or from industrialized products.

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b) Tax charged to profit and loss

For the years ended December 31, 2017, 2016 and 2015, the income tax (benefit) expense included in profit and loss is as follows:

	December 31		
	2017	2016	2015
Operation in Mexico:			
Current ISR	1,512,721	1,215,171	1,291,536
Deferred ISR	(157,646)	264,086	146,595
	1,355,075	1,479,257	1,438,131
Foreign operation:			
Current ISR	198,813	45,358	196,954
Deferred ISR	(469,444)	118,818	45,475
Total ISR expense	\$1,084,444	1,643,433	1,680,560

Total income tax expense

The income tax expense attributable to income before income taxes differed from the amount computed by applying the ISR rate of 30% in 2017, 2016 and 2015 due to the items listed below:

	December 31,		2016		2015	
	ISR	Percentage	ISR	Percentage	ISR	Percentage
Expected expense	\$1,811,667	30%	\$1,678,379	30%	\$1,650,025	30%
Increase (decrease) resulting from:						
Net effects of inflation	(329,516)	(5%)	(144,611)	(2%)	(87,322)	(2%)
(Non-taxable income) Non-deductible expenses	88,330	1%	14,550	0%	(4,882)	(0%)
Effect of rate difference of foreign subsidiary	702	0%	21,979	0%	57,103	1%
Effect from non-deductible employee benefits	83,953	1%	71,868	1%	74,173	1%
Effect of change of income tax rate in the United States of America	(443,104)	(7%)	-	-	-	-
Cancellation of loss by acquisition	(129,036)	(2%)				
Other	1,448	0%	1,268	0%	(8,537)	0%
Income tax expense	\$1,084,444	18%	\$1,643,433	29%	\$1,680,560	30%

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c) Deferred income tax

The Company and each one of its subsidiaries determine the deferred taxes that are reflected at a consolidated level on stand-alone basis. BSACV, the main operating subsidiary of the Company, is subject to tax payment under the agriculture, cattle-raising, forestry and fishing regime, in which the tax base for ISR is determined on collected revenues minus paid deductions.

The tax effects of temporary differences, tax losses and tax credits that give rise to significant portions of deferred tax assets and liabilities as at December 31, 2017, 2016 and 2015 are detailed below:

	December 31,		
	2017	2016	2015
Deferred tax assets			
Accounts payable	\$ 16,404	831	764
Employee benefits	45,519	42,221	32,572
PTU payable	12,917	12,700	9,516
Accounts receivable	-	-	404
Tax loss carryforwards	-	2,760	10,236
Property, plant and equipment	-	-	490
Other provisions	7,025	1,754	239
Total deferred tax assets	81,865	60,266	54,221
Deferred tax liabilities			
Property, plant and equipment	59	82	-
Prepaid expenses	1,136	52	94
Total deferred tax liabilities	1,195	134	94
Net deferred tax assets	80,670	60,132	54,127

	December 31,		
	2017	2016	2015
Deferred tax assets			
Accounts payable	\$ 1,170,771	964,676	1,093,145
Tax loss carryforwards	22,013	676	1,081
Goodwill	7,562	19,846	22,326
Other provisions	54,020	24,049	6,606
Derivative financial instruments	-	-	859
Total deferred tax assets	1,254,366	1,009,247	1,124,017
Deferred tax liabilities			
Inventories	1,601,498	1,612,890	1,400,793
Accounts receivable	421,191	438,146	382,585

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Property, plant and equipment	2,428,358	2,566,002	2,356,509
Prepaid expenses	392,800	302,958	353,166
Derivative financial instruments	253,898	1,826	-
Total deferred tax liabilities	5,097,745	4,921,822	4,493,053
Net deferred tax liability	\$3,843,379	3,912,575	3,369,036

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d) Unrecognized deferred tax assets

Deferred tax assets that have not been recognized in the Company's consolidated financial statements are as follows:

	December 31,		
	2017	2016	2015
Recoverable tax on assets	-	-	1,774
Total	\$-	-	1,774

e) Unrecognized deferred tax liabilities

Deferred taxes related to investments in subsidiaries have not been recognized as the Company is able to control the moment of the reversal of the temporary difference, and the reversal is not expected to take place in the foreseeable future. Deferred income tax on investments in subsidiaries not recognized as of December 31, 2017 and 2016 amounts to \$2,587,954 and \$1,962,545, respectively. The Company's policy has been to distribute accounting profits when the respective taxes have been paid and in the case of foreign profits, such tax may be duly credited in Mexico.

f) Movement in temporary differences during the fiscal year

	January 1, 2017	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2017
Accounts payable	\$(965,507)	(223,640)	1,972	(1,187,175)
Employee benefits	(42,221)	1,915	(5,213)	(45,519)
PTU payable	(12,700)	(217)	-	(12,917)
Tax loss carryforwards	(3,436)	(18,577)	-	(22,013)
Other provisions	(25,803)	(35,577)	335	(61,045)
Goodwill	(19,846)	10,895	1,389	(7,562)
Intangible assets	-	-	253,898	253,898
Inventories	1,612,890	(82,523)	71,131	1,601,498
Accounts receivable	438,146	(16,955)	-	421,191
Property, plant and equipment	2,566,084	(351,511)	213,844	2,428,417
Prepaid expenses	303,010	90,926	-	393,936
Derivative financial instruments	1,826	(1,826)	-	-
Net deferred tax liability	\$3,852,443	(627,090)	537,356	3,762,709

	January 1, 2016	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2016
Accounts payable	\$(1,093,909)	134,658	(6,256)	(965,507)
Employee benefits	(32,572)	(14,115)	4,466	(42,221)
PTU payable	(9,516)	(3,184)	-	(12,700)
Tax loss carryforwards	(11,317)	7,881	-	(3,436)
Other provisions	(6,846)	(18,200)	(757)	(25,803)
Goodwill	(22,326)	6,272	(3,792)	(19,846)
Inventories	1,400,793	167,441	44,656	1,612,890
Accounts receivable	382,182	55,964	-	438,146
Property, plant and equipment	2,356,019	93,752	116,313	2,566,084
Prepaid expenses	353,260	(50,250)	-	303,010
Derivative financial instruments	(859)	2,685	-	1,826
Net deferred tax liability	\$3,314,909	382,904	154,630	3,852,443

	January 1, 2015	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2015
Accounts payable	\$(1,125,260)	35,489	(4,138)	(1,093,909)
Employee benefits	(21,515)	(3,274)	(7,783)	(32,572)
PTU payable	(6,800)	(2,716)	-	(9,516)
Tax loss carryforwards	(25,455)	14,389	(251)	(11,317)
Other provisions	(16,101)	9,379	(124)	(6,846)
Goodwill	-	(20,588)	(1,738)	(22,326)
Inventories	1,188,259	187,852	24,682	1,400,793
Accounts receivable	410,870	(28,688)	-	382,182
Property, plant and equipment	2,365,620	(88,973)	79,372	2,356,019
Prepaid expenses	257,329	95,931	-	353,260
Derivative financial instruments	5,872	(6,731)	-	(859)
Net deferred tax liability	\$3,032,819	192,070	90,020	3,314,909

g) Tax on assets and tax loss carryforwards

As at December 31, 2017, tax loss carryforwards expire as shown below. Amounts are indexed for inflation as permitted by Mexican income tax law:

Amount as of December 31, 2017
Year **Tax loss** **Year of expiration /**

carryforwards	maturity
2017 \$ 73,538	2027

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(22) Employee benefits

a) Employee benefits in Mexico

Defined contribution plans

The Company has a defined contribution plan which receives contributions from both the employees and the Company. Employees can make contributions from 1% to 5% of their wage and from 2016, the Company is obligated to make contributions as follows: i) 20% of employee contributions for employees with 1 - 4.99 years of service, ii) 40% of employee contributions for employees with 5 – 9.99 years of service, and iii) 100% matching contributions for employees with 10 or more years of service or when the employee reaches 40 years of age, regardless of the years of service. During 2015 the Company has a defined contribution plan which receives contributions from both the employees and the Company. Employees can make contributions from 1% to 5% of their wage and the Company is obligated to make contributions as follows: i) from the first to the fifth year of service of 1% of the wage, ii) from the sixth year of services of the employee the contribution of the Company is increased by 1% until it reaches 5%, and iii) for the subsequent years the Company contribution will be the same as the employee's.

When an employee retires from the Company he/she has the right to receive the contribution he/she has made to the plan, and i) if the employee retires between the first and the 4.99 year of services (4 year of services during 2015), he/she does not have the right to receive the contribution made by the Company, ii) if he/she retires on the fifth year of services he/she has the right to receive 50% of the contributions made by the Company and, for each additional service year, the employee has the right to receive an additional 10% of the contributions made by the Company. The expenses for paid contributions to defined contribution plans, other than those mandated by Mexican law, were \$0, \$1,597 and \$1,481, in 2017, 2016 and 2015, respectively.

The Company makes payments equivalent to 2% of the integrated wage of its workers to the defined contribution plan for the retirement saving fund system established by Mexican law. The expense for this concept was \$56,063, \$50,047 and \$46,670, in 2017, 2016 and 2015, respectively.

Defined benefits plan

The Company has a defined benefit pension plan covering non-unionized personnel in Mexico. The benefits are based on the age, years of service and the employee's payment. The retirement age is 65 years, with a minimum of 10 years of services, and there is an option for an anticipated retirement option, in certain circumstances, at 55 years of age. The Company's policy to fund the pension plan is to make contributions up to the maximum amount that can be

deducted for ISR.

Additionally, according to the Mexican Federal Labor Law, the Company is obligated to pay a seniority premium as a retirement benefit if an employee retires and has at least 15 years of services, which consists of a sole payment of 12 days for each worked year based on the last wage, limited to the two minimal wages established by law.

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The Company recognizes constructive obligations from past practices. Such constructive obligations are associated with service time the employee has worked for the Company. The payment of this benefit is disbursed in a single installment at the time the employee voluntarily stops working for the Company.

The plans in Mexico expose the Company to actuarial risks such as interest rate risk, longevity risk and salary risk:

Interest risk A decrease in the interest rate for the governmental bonds will increase the plan's liability.

Longevity risk The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The projected net liability presented on the consolidated statements of financial position is as follows:

	December 31,		
	2017	2016	2015
Present value of unfunded obligations	\$252,965	195,019	160,218
Present value of funded obligations	259,245	267,535	286,881
Total present value of benefit obligations (PBO)	512,210	462,554	447,099
Plan assets at fair value	(259,245)	(267,535)	(286,881)
Projected liability, net	\$252,965	195,019	160,218

i. Composition and return of plan assets

	Actual return of the plan			Composition of the plan		
	assets			assets		
	2017	2016	2015	2017	2016	2015
Fixed income securities	7.18 %	7.16 %	1.25 %	61 %	64 %	60 %
Variable income securities	12.78 %	10.07 %	4.87 %	39 %	36 %	40 %
Total				100 %	100 %	100 %

ii. Movements in the present value of defined benefit obligations (PBO)

	2017	2016	2015
PBO as at January 1	\$462,554	447,099	405,703
Benefits paid by the plan	(32,940)	(26,031)	(25,244)
Service cost	28,968	29,604	26,836
Interest cost	40,170	34,857	31,603
Actuarial (gains) losses recognized in other comprehensive income	13,458	(24,827)	8,201
Past service cost – plan amendments	-	1,852	-
PBO as at December 31	\$512,210	462,554	447,099

iii. Movements in the fair value of plan assets

	2017	2016	2015
Plan assets at fair value as at January 1	\$267,535	286,881	314,804
Transfer of assets to fund defined contribution benefit plan	(10,664)	(25,600)	(24,187)
Benefits paid by the plan	(17,049)	(9,457)	(10,894)
Expected return on plan assets	23,342	25,650	24,901
Actuarial losses in other comprehensive income	(3,919)	(9,939)	(17,743)
Fair value of plan assets as at December 31	\$259,245	267,535	286,881

iv. Expense recognized in profit and loss

	2017	2016	2015
Current service cost	\$28,968	29,604	26,836
Interest cost, net	16,828	9,207	6,702
	\$45,796	38,811	33,538

v. Actuarial gains and (losses)

	2017	2016	2015
Amount accumulated as at January, 1	\$(123,240)	(138,128)	(112,184)
Recognized during the year	(17,377)	14,888	(25,944)
Amount accumulated as at December, 31	\$(140,617)	(123,240)	(138,128)

vi. Actuarial assumptions

Primary actuarial assumptions at the consolidated financial statements date (expressed as weighted averages) are as follows.

	2017	2016	2015
Discount rate as at December, 31	9.25 %	9.00 %	8.00 %
Rate for future salary increases	4.50 %	4.50 %	4.50 %
Social security wage increase rate	3.50 %	3.50 %	3.50 %

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The assumptions related to mortality are based on statistics and experiences over the Mexican population. The average expected life of an individual that retires at 65 years of age is 17.13 years for men and 10.92 years for women (Experience Chart of Demographic Mortality for Active EMSSA 1997).

vii. Historical information

	December 31,		
	2017	2016	2015
Present value of defined benefit obligation	\$512,210	462,554	447,099
Plan assets at fair value	(259,245)	(267,535)	(286,881)
Plan deficit	\$252,965	195,019	160,218
Experience adjustments arising from plan liabilities	\$13,458	(24,827)	8,201
Experience adjustments arising from plan assets	\$(3,919)	(9,939)	(17,743)

viii. Sensitivity analysis of the defined benefits obligations as of December 31, 2017, 2016 and 2015

2017	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 9.25%	(343,485)	(99,735)	(68,990)	(512,210)
Rate increase (+ 1%)	(314,460)	(94,308)	(65,113)	(473,881)
Rate decrease (- 1%)	(377,114)	(105,810)	(73,338)	(556,262)

2016	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 9.00%	(308,885)	(93,877)	(59,792)	(462,554)
Rate increase (+ 1%)	(280,316)	(88,657)	(56,237)	(425,210)
Rate decrease (- 1%)	(312,017)	(99,733)	(63,796)	(475,546)

2015	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 8.00%	(293,443)	(93,037)	(60,619)	(447,099)
Rate increase (+ 1%)	(248,925)	(87,540)	(56,784)	(393,249)
Rate decrease (- 1%)	(338,238)	(99,240)	(64,961)	(502,439)

ix. Expected cash flows

Total
2018-2028 \$522,581

x. Future contributions to the defined benefits plan

The Company does not expect to make contributions to the defined benefit plans in the following financial year.

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b) Foreign employee benefits**Defined contribution plans**

Bachoco USA, LLC. (foreign subsidiary) has a defined contribution retirement 401(k) plan, covering all employees who meet certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's contribution. The cumulative contribution expense for this plan was \$11,497, \$10,909 and \$8,014 for the year ended December 31, 2017, 2016 and 2015, respectively.

Equity-based compensation

Bachoco USA, LLC. has a deferred payment agreement with certain key employees. Amounts payable under this plan are vested after 10 years from the date of the agreement. The benefit value of each unit is equal to the increase in the initial book value from the date of the agreement to the conclusion of the vesting period. Under the agreement, 26,000, 26,000 and 38,000 units were outstanding as of December 31, 2017, 2016 and 2015, respectively, all of which were fully vested. The total liability under this plan totaled \$3,378, \$3,337 and \$4,195 as at December 31, 2017, 2016 and 2015, respectively. No expense was recognized for this plan for the year ended December 31, 2017, 2016, and 2015.

c) PTU

Industrias Bachoco, S.A.B de C.V. and BSACV has no employees. Each of the subsidiaries of the Company that has employees in Mexico is required under Mexican laws to pay employees, in addition to their payment and benefits, statutory employee profit sharing in an aggregate amount equal to 10% of each subsidiary's taxable income. The accrued liability as of December 31, 2017, 2016 and 2015 is shown in note 19, Trade payable and other accounts payable.

(23) Costs and expenses by nature

	2017	2016	2015
Cost of sales	\$47,502,959	42,635,071	36,847,508
General, selling and administrative expenses	5,423,379	4,847,858	4,323,374
Total costs and expenses	\$52,926,338	47,482,929	41,170,882
Inventory consumption	\$37,567,550	34,018,493	28,877,468

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Wages and salaries	6,605,584	5,971,382	5,127,750
Freight	4,176,508	3,712,349	3,394,780
Maintenance	1,471,392	1,292,763	1,166,326
Other utility expenses	1,334,339	1,005,570	1,020,610
Depreciation	1,075,788	925,748	769,270
Leases	416,437	403,116	359,749
Other	278,740	153,508	454,929
Total	\$52,926,338	47,482,929	41,170,882

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(24) Operating leases

Company as lessee

The Company has entered into operating leases for certain offices, production facilities, and automotive and computer equipment. Some leases contain renewal options. These agreements have terms between one and five years.

	2017	2016	2015
Lease expenses	\$416,437	403,116	359,749

The amount of annual rentals payable, arising from lease agreements for the following five years is as follows:

2018	\$184,253
2019	140,420
2020	120,365
2021	103,316
2022	120,031

(25) Stockholders' equity and reserves

a) Capital risk management

An adequate capital risk management allows ongoing business continuity and the maximization of the return towards the Company's investors, which is why management has taken actions that ensure the Company maintains an adequate balance of the funding sources that build its capital structure.

Within its activities in risk management, the Company ensures that the ratio between financial debt and EBITDA of the last 12 months doesn't exceed 2.75 times and that the interest coverage ratio is at least 3 to 1.

During 2017, 2016 and 2015 these ratios were below the thresholds established by the Company's Risk Committee.

b) Common stock and premiums

As of December 31, 2017, 2016 and 2015, the Company's capital stock is represented by 600,000,000 Series "B" registered shares with a par value of \$1 peso per share.

The Robinson Bours family owned 496,500,000 shares through two family trusts: the placement trust and the control trust, which collectively represented 82.75% of the Company's total shares.

On December 9, 2013, the members of the placement trust decided to sell 57,000,000 shares that represent 9.5% of the total shares of the Company. The transaction was conducted through the BMV at market price.

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After the sale of the shares, the Company's capital stock was as follows:

	Before the Transaction		After the Transaction	
	Shares ⁽¹⁾	Position	Shares ⁽¹⁾	Position
Familiar Trusts	496,500,000	82.75%	439,500,000	73.25%
- Control Trust	312,000,000	52.00%	312,000,000	52.00%
- Placement Trust	184,500,000	30.75%	127,500,000	21.25%
Floating Position ⁽²⁾	103,500,000	17.25%	160,500,000	26.75%

(1) All Series B shares with voting power.

(2) Operating at the BMV and the NYSE.

Based on the information provided to the Company, as of December 31, 2017, stockholders with 1% or more interest in the Company, in addition to the family trusts, are as follows:

	Shares	Position
Renaissance Technologies LLC	6,562,800	1.09%

c) Other comprehensive income items

i. Foreign currency translation reserve

This concept is related to the translation of the Company's U.S. operations from their functional currency (U.S. dollar) to the reporting currency, the Mexican peso.

ii. Actuarial remeasurements

Actuarial remeasurements are recognized as other components of comprehensive income and are related to variations in actuarial assumptions that generate actuarial gains or losses as well as adjust the actual yields from plan assets from the net interest cost calculated over the net defined benefits liability balance. Actuarial remeasurements are presented net of income tax within other comprehensive income in the consolidated statement of changes in stockholders' equity, the amount of these actuarial remeasurements net of taxes as of December 31, 2017 and 2016 amounts to \$98,938 and \$86,774, which includes a deferred tax effect of \$41,679 and \$36,466.

d) Reserve for repurchase of shares

In 1998, the Company approved a stock repurchase plan in conformity with the Mexican Securities Trading Act and created a reserve for that purpose of \$180,000 charged to retained earnings in such year.

On April 26, 2017, pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$494,940 was approved to be used in the reserve for acquisition own shares.

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The following table shows the movements of the reserve for acquisition of shares during the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Balance as at January 1	-	10,000	-
(+) Total shares purchased	20,000	100,157	677,013
(-) Total shares sold	-	(110,157)	(667,013)
Balance as at December 31	20,000	-	10,000

The net amount of repurchase and treasury share sale transactions gave rise to loss of (\$1,800) during 2017, and gave rise to additional paid in capital of \$368 and \$14,376 during the years ended December 31, 2016 and 2015, respectively, recognized within equity.

As at December 31, 2017, the Company has 20,000 treasury shares.

e) Dividends

During the years ended December 31, 2017, 2016 and 2015, the Company has declared and paid the following dividends:

On April 26, 2017, the Company declared a payment of dividends in cash at nominal value of \$780,000 or \$1.30 pesos per outstanding share. The payment was made in two equal installments, in May 11 and July 6, 2017.

On April 27, 2016, the Company declared a payment of dividends in cash at nominal value of \$780,000 or \$1.30 pesos per outstanding share, from which there is a reduction of \$40 for the dividend corresponding to repurchased shares. The payment was made in two equal installments, in May 12 and July 7, 2016.

On April 22, 2015, the Company declared a payment of dividends in cash at nominal value of \$900,000 or \$1.50 pesos per outstanding share, from which there is a reduction of \$838 for the dividend corresponding to repurchased shares. The payment was made in two equal installments, in May 14 and July 9, 2015.

Dividends that the Company pays to stockholders are subject to ISR solely insofar as such dividends exceed the balance in its net tax income account (CUFIN) consisting of income in which ISR is already paid by the Company. The ISR paid on dividends corresponds to a tax payable by legal entities and not by individuals. However, as a result of changes to the income tax law described in note 20(a), beginning on January 1, 2014, a new withholding tax of 10% for resident individuals in Mexico and for all residents in foreign countries who receive dividends from entities was established. Such tax is considered a withholding tax by the entity that pays the dividends. This tax will be applicable only to the income generated from period 2014. Thus, the Company must update its CUFIN from income generated up to December 31, 2013 and must calculate a new CUFIN with the income generated from January 1, 2014.

The Company obtains most of its revenue and net income from BSACV. For fiscal years 2017, 2016 and 2015, net income of BSACV, accounted for 63%, 65% and 67%, respectively, of consolidated net income. Dividends for which BSACV pays ISR will be credited to the Company's CUFIN account, and accordingly, any future liabilities arising from ISR will be incurred when such amounts are distributed as dividends to the stockholders.

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f) Tax balances of stockholders' equity

CUFIN	Balance as	Balance	Total
	2013	from 2014	
IBSA individual	\$7,445,747	5,890,995	13,336,742
IBSA Consolidated	8,273,539	10,719,930	18,993,469

The restated amount as of December 31, 2017 on tax bases of the contributions made by stockholders (CUCA), totaling \$2,834,872, may be refunded to them tax-free, to the extent that such amount is the same or higher than equity.

(26) Earnings per share

The basic and diluted earnings per share for the years ended December 31, 2017, 2016 and 2015 are \$8.25, \$6.58 and \$6.36, respectively. The calculation of earnings per share was based on income attributable to ordinary stockholders of \$4,948,242, \$3,946,634 and \$3,812,840 for the years ended December 31, 2017, 2016 and 2015, respectively.

The average weighted number of common outstanding in 2017, 2016 and 2015 was 599,997,696, 599,979,844 and 599,631,383 shares, respectively.

The Company has no ordinary shares with potential dilutive effects.

(27) Commitments

Bachoco USA, LLC has self-insurance programs for health care costs and workers' payments. The subsidiary is liable for health care claims up to \$6,881 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$19,660 (1,000 thousand dollars) per event. Self-insurance costs are recorded based on the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The provision for this concept is recorded in the accompanying consolidated statement of financial position within current liabilities amounting to \$98,221 (4,996 thousand dollars), \$75,873 (3,676 thousand dollars) and \$69,718 (4,051 thousand dollars) as at December 31, 2017, 2016 and 2015, respectively. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$221,644, (11,721 thousand dollars), \$120,729 (6,463 thousand dollars) and \$108,360 (6,828 thousand dollars) for the years ended December 31, 2017, 2016 and 2015, respectively. The Company is required to maintain letters of credit on behalf of the subsidiary of

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\$57,014, (2,900 thousand dollars) during 2017 and \$70,176 and \$58,514 (3,400 thousand dollars) as at December 31, 2016 and 2015, respectively, to secure self-insured workers' payments.

The Company has entered into grain supply agreements with third parties as part of the regular course of its operations.

The Company has entered into certain contracts with suppliers under which advanced payments are rendered in order to assure the supply of materials and services.

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(28) Contingencies**a) Insurance**

The Company has established a risk management program under a best practices methodology that assures the main risks of the business with the objective of reducing losses due to relevant claims. At the end of 2016 the Company set up a captive reinsurance company to complement its risk management strategy. Notwithstanding the foregoing, since all the exposures are not covered, there is a risk that the loss or destruction of certain assets may have a significant adverse effect on the Company's operations and financial situation.

b) Lawsuits

The Company is involved in a number of lawsuits and claims arising from the regular course of business. In the opinion of the Company's management, they are not expected to have significant effects on the Company's financial position, operating results and future consolidated statements of cash flows.

c) Tax contingencies

In accordance with tax laws, Mexican authorities are empowered to review transactions carried out during the five years prior to the most recent ISR return filed. For the operations in the United States of America, the authorities of that country are empowered to review transactions carried out during the three years prior to the due date of the most recent annual tax return. The Company has not identified factors that may indicate the existence of a contingency.

(29) Financial income and costs

	2017	2016	2015
Interest income	\$848,148	637,977	482,442
Income from interest in accounts receivable	8,961	8,357	7,492
Foreign exchange gain, net	230,532	297,463	95,447
Effects of valuation of derivative financial instruments	-	25,377	8,464
Financial income	1,087,641	969,174	593,845
Effects of valuation of derivative financial instruments	(84,094)	-	-
Interest expense and financial expenses on financial debt	(188,597)	(129,769)	(93,964)
Commissions and other financial expenses	(67,400)	(42,385)	(53,328)
Financial costs	(340,091)	(172,154)	(147,292)

Financial income, net	\$747,550	797,020	446,553
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(30) Other income (expenses)

	2017	2016	2015
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$ 896,840	1,076,902	636,386
Bargain purchase gain of domestic business acquisition (note 4b)	87,496	-	-
Total other income	984,336	1,076,902	636,386
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(731,110)	(704,152)	(507,196)
Other	(85,584)	(112,548)	(133,830)
Total other expenses	(816,694)	(816,700)	(641,026)
Total other income (expenses), net	\$ 167,642	260,202	(4,640)

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