

Industrias Bachoco S.A.B. de C.V.
Form 20-F
April 29, 2019

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 OF
x 1934**

For the fiscal year ended December 31, 2018

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)**

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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.

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 every Interactive Data File required to be submitted 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 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	Other
		International Accounting Standards Board	x

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 \$19.67 to USD1.00 (one U.S. dollar), the exchange rate on December 31, 2018, according to the *Banco de México* (the “Mexican Central Bank”).

Accounting Practices

In January 2009, the *Comisión 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 generally accepted accounting principles 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; *Unión Nacional de Avicultores* (the National Poultry Association or "UNA"), the *Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición 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"), *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* (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,	2018	2018	2017	2016	2015	2014
	USD	\$	\$	\$	\$	\$
Net revenues	3,103.8	61,052.1	58,050.0	52,020.3	46,229.0	41,779.1
Cost of sales	2,614.3	51,422.4	47,503.0	42,635.1	36,847.5	32,495.0
Gross profit	489.6	9,629.7	10,547.1	9,385.2	9,381.5	9,284.1
General, selling and administrative expenses	306.3	6,024.4	5,423.4	4,847.9	4,323.4	3,781.3
Other income (expenses), net	5.2	102.7	167.6	260.2	(4.6)	(160.9)
Operating income	188.5	3,708.0	5,291.3	4,797.6	5,053.5	5,341.9

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Net finance income	41.1	808.6	747.6	797.0	446.6	246.9
Income tax	58.7	1,155.0	1,084.4	1,643.4	1,680.6	1,656.1
Profit attributable to controlling interest	170.3	3,350.0	4,948.2	3,946.6	3,812.8	3,926.9
Profit attributable to non-controlling interest	0.6	11.6	6.2	4.5	6.7	5.7
Profit for the year	170.9	3,361.6	4,954.4	3,951.2	3,819.5	3,932.7
Basic and diluted earnings per share ⁽¹⁾	0.28	5.58	8.25	6.58	6.36	6.55
Basic and diluted earnings per ADR ⁽²⁾	3.41	67.00	98.97	78.90	76.30	78.66
Dividends per share ⁽³⁾	0.072	1.420	1.300	1.300	1.500	0.000
Weighted average shares outstanding ⁽⁴⁾	599,981	599,981	599,998	599,980	599,631	599,955

- (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,	2018	2018	2017	2016	2015	2014
	USD	\$	\$	\$	\$	\$
Total assets	2,687.6	52,865.6	50,557.4	45,090.5	40,446.6	34,843.1
Cash and cash equivalents	910.1	17,901.8	16,112.3	14,681.2	14,046.3	11,036.1
Total liabilities	747.3	14,699.9	14,879.5	13,374.3	12,667.2	10,481.1
Short-term debt ⁽¹⁾	177.6	3,492.8	3,695.1	3,097.5	1,631.9	798.0
Long-term debt	78.5	1,544.8	1,554.0	950.4	2,495.1	1,652.5
Total stockholders' equity	1,940.3	38,165.7	35,677.9	31,716.2	27,779.4	24,362.1
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,	2018	2017	2016	2015	2014
Gross margin	15.8%	18.2%	18.0%	20.3%	22.2%
Operating margin	6.1 %	9.1 %	9.2 %	10.9%	12.8%
Net margin for the year	5.5 %	8.5 %	7.6 %	8.4 %	9.4 %

Other Indicators

The tables set below present key indicators.

VOLUME SOLD BY OPERATING SEGMENT

In thousands of tons, as of December 31,	2018	2017	2016	2015	2014
Total sales volume:	2,234.8	2,201.4	2,122.8	2,034.3	1,841.4
Poultry	1,770.1	1,723.8	1,668.6	1,613.4	1,495.0
Others	464.7	477.6	454.2	420.9	346.4

Gross Domestic Product, Inflation Rate and CETES

The chart below includes Mexican gross domestic product (“GDP”) and inflation rate data from 2014 to 2018, 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 2018, the Mexican GDP was 2.0%. In each of 2017 and 2016, Mexican GDP was 2.3%, in 2015 and 2014 it was 2.5% and 2.1% 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 7.6%, 6.7%, 4.2%, 2.9% and 2.7% for 2018, 2017, 2016, 2015 and 2014, 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 4.83% in 2018, 6.77% in 2017, 3.36% in 2016, 2.13% in 2015, and 4.08% in 2014, 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
2018	2.0 %	4.83 %	7.6 %
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 %

On March 28, 2019, the 28-day CETES rate was 7.85%.

Exchange Rates

As of December 31, 2018, the exchange rate for the year end published by the Mexican Central Bank was \$19.67 per one U.S. dollar. On March 29, 2019, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was \$19.40 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 on, among other factors, 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, 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. 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. Alternatively, 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 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 2018, Andrés Manuel López Obrador of the *Movimiento Regeneracion Nacional* was elected as President of Mexico. After taking office, there has been some uncertainty regarding his political decisions and their potential effect on the Mexican economy. While in the short term there has been some economic volatility, it is still unclear what the effects on the Mexican economy would be of President Obrador's policies.

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”) now United States – Mexico – Canada Agreement (“USMCA”). During 2017 the renegotiation process of NAFTA began between U.S., Canada and Mexico. The three countries reached an agreement in November 2018, but the USMCA still needs to be ratified by the congressional bodies in Mexico, the United States and Canada. As for the industry in which we compete, the trade agreement remained practically unchanged. Because the Mexican economy is heavily influenced by the U.S. economy, any potential re-negotiation, or non-ratification, of USMCA and/or other U.S. government policies that may be adopted by the 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.

International trade policies may impact demand for our products and our competitive position.

Government policies on international trade and investment, such as sanctions, import quotas, capital controls or tariffs, whether adopted by individual governments, multinational organizations or addressed by regional trade blocs, may affect the demand for our products lines, impact the competitive position of our products or prevent us from being able to sell products in certain countries. The implementation of more protectionist trade policies, such as more detailed inspections, higher tariffs, or new barriers to entry, in countries where we sell products could negatively impact our business, results of operations and financial position. For example, trade disputes between the U.S. and Mexico could negatively affect demand for export products from both countries and directly or indirectly affect the markets in which we compete.

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, the imposition of new taxes or changes in the existing tax laws or 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, therefore, 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 in 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, Alabama, 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 USMCA. 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, 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 stockholders 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 includes 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

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The Company was legally formed in Mexico as Industrias Bachoco, S.A.B. de C.V., on April 17, 1980, in Obregón, 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 by email at inversionistas@bachoco.net or by telephone at +52 (461) 618 3555.

The SEC maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be viewed on the SEC Internet site (<http://www.sec.gov>) and on our website (www.bachoco.com.mx). However, the content of our website is not incorporated by reference into this annual report.

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 Culiacán, producing just table eggs. In 1971, we commenced the production of chicken in an operating facility that we opened in the city of Culiacán.

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 Obregón, 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 Obregón 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 the Northeast of 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 León; (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 Producción Avícola 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 2018, we made capital expenditures of \$1,982.6, which were mainly allocated towards our organic growth plans, productivity and upgrading bottle necks in different parts of our process.

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.

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 nine production complexes and more than 80 distribution centers in Mexico, and one 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, pet food, live swine, beef and turkey value-added products, one day old breeders and chicks, 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/pet food 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 3.2% 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 1.9% of the chicken production 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, 2018, 2017 and 2016:

NET REVENUES BY OPERATING SEGMENTS

In millions of pesos, for the year ended December 31,	2018		2017		2016	
	\$	%	\$	%	\$	%
Net Revenues	61,052.1	100	58,050.0	100	52,020.3	100

Poultry	55,308.1	90.6	52,479.4	90.4	46,852.5	90.0
Others	5,744.0	9.4	5,570.6	9.6	5,167.8	10.0

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 3,470.7 thousand tons of chicken meat in 2018, and a per capita consumption of 32.5 kilograms a year in 2018, a 0.8% increase from 32.2 kilograms a year in 2017.

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 tradition and 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 418.7 thousand tons in 2018.

In particular, in 2018 total chicken imports remained practically identical to total chicken imports in 2017.

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 live 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.

While 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 2018	Industry /volume⁽¹⁾	Bachoco /volume	Bachoco /sales
Live	n/a	40	32
Public market	n/a	11	11
Rotisserie	n/a	28	29
Supermarket	n/a	4	5
Chicken parts	n/a	12	14
Value-added products	n/a	5	9

In 2017	Industry /volume⁽²⁾	Bachoco /volume	Bachoco /sales
Live	37	41	32
Public market	11	11	11
Rotisserie	35	24	26
Supermarket	5	5	5
Chicken parts	9	12	14
Value-added products	3	8	13

In 2016	Industry /volume ⁽²⁾		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	%

(1) Industry information for 2018 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 by producers in cuts, 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 19.3 million tons or 42.6 billion pounds in 2018. This represents a 2.2% increase over the 18.9 million tons produced in 2017, with per capita consumption among the highest worldwide, per annum, estimated at 41.8 kilograms (around 92.1 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 48.1% 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 1.9% 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 22.9 kilograms for 2018, a 1.0% increase when compared to 22.6 kilograms in 2017.

Mexico’s 2018 annual egg production is estimated at 2,802.7 million tons, an increase of 3.1% as compared to 2,718.5 million tons produced in 2017.

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** is 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 2018 and 2017, we produced approximately 5.1% of the total eggs produced in Mexico measured in 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 2018, 2017 and 2016, 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 2018	Industry / volume ⁽¹⁾	Bachoco /volume	Bachoco /sales
Bulk	n/a	27	27
Packaged	n/a	73	73
Processed	n/a	0	0

In 2017	Industry / volume ⁽²⁾	Bachoco /volume	Bachoco /sales
Bulk	79	29	25
Packaged	14	71	75
Processed	7	0	0

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

(1) Industry information for 2018 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 34,637 thousand tons of balanced feed were produced in Mexico in 2018, a 4.2% increase from 33,240 thousand tons of balanced feed produced in 2017.

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 2018, CONAFAB estimated that the production mix between commercial and integrated was about 38.1% and 61.9%, 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	
2018 ⁽¹⁾	13,203	429	3.2	%
2017 ⁽¹⁾	12,616	451	3.6	%
2016 ⁽²⁾	12,438	429	3.4	%

(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 first and fourth 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 2018, in terms of volume, we bought approximately 16.3% of our total grain from the domestic market and the remaining 83.7% 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 mainly 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. Our 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 pet food, 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 six feed plants dedicated to producing balanced feed to third parties.

Patents, Licenses and Other Contracts

At the end of 2018, we owned a total of 768 industrial and intellectual intangible assets as described below:

a) 621 registered brands, from them, 428 are brands registered in Mexico and 92 outside of Mexico, we including, 101 commercial media communications brands.

b) 7 patents in Mexico.

c) 140 copyrights, from them 52 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 Económica* (“Mexican Economic Competition Law” or “LFCE”), regulates monopolies and monopolistic practices.

Under this law, Mexican producers, including Bachoco are required to notify the *Comisión Federal de Competencia Económica* (“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.

Anti-dumping 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 and its successor, once ratified, the USMCA. 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 *Secretaría de Economía* (or “Mexican Ministry of 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 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 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 Economy regarding the application of such duties to the chicken industry. We do not believe we will be subject to any anti-dumping 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 *Comisión 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 2018, our subsidiary BSACV accounted for 58.9% of consolidated total assets and 62.6% of total consolidated sales and our subsidiary Bachoco USA, accounted for 18.2% of consolidated total assets and 28.9% 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, 2018, 2017 and 2016:

PERCENTAGE EQUITY INTEREST

Subsidiary	Country	2018	2017	2016
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	100.00
Proveedora La Perla S.A. de C.V.	Mexico	100.00	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 acquired 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 67 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, 2018:

BACHOCO'S FACILITIES

Facilities	Number of Facilities:	
	In Mexico	In The U.S.
Chicken breeding farms	128	199
Broiler grow-out farms	516	306
Broiler processing plants	8	2
Hatchery	21	2
Egg production farms	137	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 Mérida, Coatzacoalcos, Tecamachalco, Celaya, Lagos de Moreno, Monterrey, Gómez Palacios, Culiacán 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 11.8 million chickens per week and our laying farms produce around 12.0 thousand tons of commercial eggs each month.

Six of the twenty feed mill plants in Mexico, 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 36 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 2018, we continued with our organic growth plans and productivity projects to improve our efficiency and to alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we increased our grow-out capacity, we improved our productivity and increase our hatchery capacity, 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 Yucatan peninsula region, our table egg production capacity in the southwest region and our 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 3.0 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, Arkansas. 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 Heavener and Stigler, Oklahoma; broiler research farms, in Greenwood, Arkansas and Hartford, Arkansas; and our cooler storage and distribution center in Muldrow, Oklahoma.

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.

In 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.

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 2016 through its subsidiary, OK Foods.

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

See Note 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 2018 Overview

In 2018, we posted improvements in our total sales and volume sold, mainly in our poultry segment, when compared to the previous year.

These results were driven by external and internal conditions. Externally, we benefitted from (i) a stable cost of our main raw materials in U.S. dollar terms, and (ii) a strong level of demand in Mexico during the first six months. However, we were negatively impacted by (i) oversupply conditions on the second half of the year, in both Mexico and the U.S. (ii) low prices for animal protein in the U.S. and (iii) volatility in exchange rate of the Mexican Peso versus the U.S. dollar.

Internally, we increased the volume sold in our poultry segment, primarily due to (i) the implementation of our organic growth strategies, (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 2018 Mexican macroeconomic conditions continued to display volatility. The annual inflation rate was 4.83%, annual GDP was 2.0%, the Mexican peso depreciating 2.0% on the average against the dollar and remained unchanged at year-end.

According to UNA estimates, in 2018, the volume of chicken in Mexico grew by approximately 2.5%, which means that the Mexican chicken industry continued growing at normalized levels. However, the production of eggs increased by approximately 3.0%. We believe this increase in supply was due to the recovery of the production results of part of the industry during 2018.

Operating Performance

All figures discussed below are information for 2018, with comparative figures of 2017 and 2016 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,	2018	2017	2016
	\$	\$	\$
Net revenues	61,052.1	58,050.0	52,020.3
Cost of sales	51,422.4	47,503.0	42,635.1
Gross profit	9,629.7	10,547.1	9,385.2
General, selling and administrative expenses	6,024.4	5,423.4	4,847.9
Other income (expenses), net	102.7	167.6	260.2
Operating income	3,708.0	5,291.3	4,797.6
Net finance income	808.6	747.6	797.0
Income tax	1,155.0	1,084.4	1,643.4
Profit attributable to controlling interest	3,350.0	4,948.2	3,946.6
Profit attributable to non-controlling interest	11.6	6.2	4.5
Profit for the year	3,361.6	4,954.4	3,951.2
Basic and diluted earnings per share ⁽¹⁾	5.58	8.25	6.58
Basic and diluted earnings per ADR ⁽²⁾	67.00	98.97	78.90
Dividends per share ⁽³⁾	1.420	1.300	1.300
Weighted average shares outstanding ⁽⁴⁾	599,981	599,998	599,980

- (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 2018 vs 2017

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	2018		2017		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	61,052.1	100.0	58,050.0	100.0	3,002.1	5.2
Poultry	55,308.1	90.6	52,479.4	90.4	2,828.7	5.4
Others	5,744.0	9.4	5,570.6	9.6	173.4	3.1

NET REVENUES BY GEOGRAPHY

In millions of pesos	2018		2017		Change	
	\$	% sales	\$	% sales	\$	% sales
Net Revenues	61,052.1	100.0	58,050.0	100.0	3,002.1	5.2
In Mexico	43,510.9	71.3	41,583.9	71.6	1,927.0	4.6
In the U.S.	17,541.2	28.7	16,466.1	28.4	1,075.0	6.5

Net Revenues

In 2018, net sales totaled \$61,052.1 million, \$3,002.1 million or 5.2% more than the \$58,050.0 million reported in the same period in 2017. The sales increase is mainly attributed to higher prices in both our poultry and others segments.

In 2018, sales of our U.S. operations represented 28.7% of our total sales, compared with 28.4% in 2017.

The Company's sales of poultry products increased 5.4% in 2018, mainly as a result of a 3.7% increase in poultry prices and a 1.7% increase in volume sold. The increase in prices was both in Mexico and the U.S. The increase in prices in the U.S. was due in part to a higher mix in value added products as a result of the full year integration of AQF. However, we were unable to fully translate our increased costs into a higher price because of downward pressure on price from oversupply conditions in the latter half of the year.

Sales of the "others" segment increased 3.1% due mainly to an increase of 8.2% in prices, which was partially offset by a decrease of 5.1% of volume sold.

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

COST OF SALES

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	51,422.4	84.2	47,503.0	81.8	3,919.4	8.3
Poultry	46,562.2	76.3	42,767.2	73.7	3,795.0	8.9
Others	4,860.2	8.0	4,735.8	8.2	124.4	2.6

Our total cost of sales increased \$3,919.4 million or 8.3% in 2018, when compared to the previous year.

This increase was mainly attributable to a higher cost of raw materials in Mexican peso terms, higher volume sold, 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 2018 to 2017.

GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	6,024.4	9.9	5,423.4	9.3	601.0	11.1

In 2018, general, selling and administrative expenses totaled \$6,024.4 million, compared to the \$5,423.4 million reported in 2017, representing an increase of \$601.0 million or 11.1%. Approximately 2% of this increase was attributable to more volume sold and the remainder is primarily due to higher unit expenses. In particular, we had (i) additional expenses as part of the implementation of projects related to improve our operating efficiency (ii) in Mexico, expenses increased due to price increases in fuel and energy, mainly in the second half of 2018; and (iii) a full year integration of our AQF and La Perla acquisitions.

In 2018 and 2017, our general, selling and administrative expenses represented 9.9% 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 37%), labor (about 35%) and publicity (about 4%), with no significant variation in these percentages.

OTHER INCOME (EXPENSE) NET

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	102.7	0.2	167.6	0.3	(64.9)	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 2018, we recognized other income of \$102.7 million and in 2017 we recorded other income of \$167.6 million. The decrease was mainly due to impairment charges and a full year amortization taken on intangible assets of our AQF acquisition within our U.S. operations.

OPERATING INCOME

	2018		2017		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating income	3,708.0	6.1	5,291.30	9.1	(1,583.4)	(29.9)

Operating income in 2018 totaled \$3,708.0 million, a decrease compared to the operating income of \$5,291.3 million reached in 2017. The decrease in operating income is mainly due to an increase in cost of sales and selling and administrative expenses, each as described above, and we were not able to fully translate these increases into our sales prices.

The operating margin in 2018 and 2017 was 6.1% and 9.1%, respectively.

NET FINANCE INCOME

	For the year ended December 31,				Change	
	2018	% over sales	2017	% over sales	\$	%
	\$		\$			
Net finance income	808.6	1.3	747.6	1.3	61.0	8.2
Financial income	1,140.7		1,087.6		53.1	4.9
Financial expense	332.2		340.1		(7.9)	(2.3)

In 2018, we reported net financial income of \$808.6, compared to net financial income of \$747.6 million in 2017. This increase was mainly due to an increase in our financial income driven by our higher cash position and higher interest rates on our Mexican peso denominated investments.

Financial income of \$1,140.7 million in 2018 was mainly attributable to a \$1,073.0 million of interest income and a \$39.3 million in foreign currency exchange gain. This financial income was partially offset by \$185.9 million in interest expense and \$146.3 million in commissions and other financial expenses.

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

TOTAL INCOME TAX

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:

	For the year ended			
	December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Total income taxes (benefit) expense	1,155.0	1,084.4	70.5	6.5
Current income tax	1,246.8	1,711.5	(464.7)	(27.2)
Deferred income tax	(91.9)	(627.1)	535.2	(85.3)

In 2018, total income tax expense was \$1,155.0 million, compared to income tax expense of \$1,084.4 million in 2017. This increase is mainly attributable to a \$535.2 million variance in deferred income taxes; partially offset by a \$464.7 decrease in current income taxes.

The effective income tax rate was 26.0% in 2018 and 18.0% in 2017. The increase in total income taxes expense 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 a) of the legislative change, our deferred tax liability decreased by 443.1 million in 2017. Also in 2017, we recognized a \$129.0 million benefit related to the cancelation of loss from the acquisition of La Perla. We did not recognize those benefits in 2018.

b) The difference in deferred income tax was partially offset by lower expected expense, as we have recorded a decrease in income before taxes.

PROFIT FOR THE YEAR

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

In millions of pesos	For the years ended			
	December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Profit for the year attributable to:	3,361.6	4,954.4	(1,592.9)	(32.2)
Controlling interest	3,350.0	4,948.2	(1,598.3)	(32.3)
Non-controlling interest	11.6	6.2	5.4	87.4
Basic and diluted earnings per share ⁽¹⁾	5.58	8.25	(2.66)	(32.3)
Net income per ADR ⁽¹⁾	67.00	98.97	31.96	(32.3)

(1) In pesos.

As a result of the factors detailed above, our net income for 2018 totaled \$3,361.6 million, or \$5.58 per basic and diluted share (\$67.00 per ADR), which represents a \$1,592.9 million or 32.2% decrease compared to the \$4,954.4 in net income or \$8.25 per basic and diluted share (\$98.97 per ADR), reported in 2017.

Our consolidated net margin in 2018 was 5.5% compared to a consolidated net margin of 8.5% in 2017.

EBITDA RESULT

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

	For the years ended			
	December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Net income	3,361.6	4,954.4	(1,592.9)	(32.2)
Income tax expense	1,155.0	1,084.4	70.5	6.5
Net finance income	(808.6)	(747.6)	(61.0)	8.2
Depreciation and amortization	1,285.1	1,132.7	152.4	13.5

EBITDA result	4,993.1	6,424.1	(1,431.0)	(22.3)
EBITDA margin (%)	8.2	% 11.1	% -	-

EBITDA result in 2018 and 2017 reached \$4,993.1 and \$6,424.1 million, respectively, representing an EBITDA margin of 8.2% and 11.1%.

Operating Results 2017 vs 2016

NET REVENUES BY OPERATING SEGMENTS

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:

In millions of pesos	2017		2016		Change	
	\$	%/sales	\$	%/sales	\$	%
Net revenues	58,050.0	100.0	52,020.3	100.0	6,029.7	11.6
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	\$	%
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 a 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% of total sales.

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)	(35.6)

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,		2016		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.

TOTAL INCOME TAX

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:

	For the year ended			
	December 31,		Change	
	2017	2016	\$	%
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.

PROFIT FOR THE YEAR

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

In millions of pesos	For the years ended			
	December 31,		Change	
	2017	2016	\$	%
	\$	\$	\$	%
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	25.4
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 \$1,003.3 million or 25.4% increase compared to the \$3,951.2 million in net income or \$6.58 per basic and diluted share (\$78.90 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.

EBITDA RESULT

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

	For the years ended			
	December 31,		Change	
	2017	2016		
	\$	\$	\$	%
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 for each year of 11.1%.

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 2018

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.

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.

Expected credit losses on accounts receivable

The expected credit losses on financial assets are estimated using a provision matrix based on the Company's historical experience of credit losses, adjusted for factors that are specific to each of the Company's customer and debtor groups, general economic conditions and an assessment of both current and forecast conditions at each reporting date.

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.

Recently Adopted and New Accounting Pronouncements

IFRS 9 and IFRS 15 are effective for 2018.

IFRS 9, *Financial Instruments* issued in July 2014, is the replacement of IAS 39, *Financial Instruments: Recognition and Measurement* and applies to annual reporting periods on or after January 1, 2018. This new standard establishes a model of expected loss and makes changes to the classification and measurement requirements for financial assets and liabilities.

IFRS 15, *Revenue from Contracts with Customers*, issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018. 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.

We have not recorded any material effects to our Audited Consolidated Financial Statements as a result of these new IFRS standards, see Note 2, (e) of our Audited Consolidated Financial Statements for more details.

In addition, new standards and interpretations have been issued by not yet adopted in our Audited Consolidated Financial Statements, such as IFRS 16, among others:

IFRS 16, *Leases*, went into effect on January 1, 2019 and introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset's value is not material. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. For purposes of the initial application of the standard, we took the option of recognizing the cumulative effect on the initial adoption date (January 1, 2019), and did not prepare comparative information. As a preliminary assessment, the amount to be recognized by the Company as a right-of-use asset and the corresponding liability as of January 1, 2019 will range from \$900,000 to \$950,000, with respect to all such leases.

B. Liquidity and Capital Resources

We are a holding company with no significant operations of our own, and we receive dividends from our operating subsidiaries from time to time. 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, 2018 and 2017, the unused credit lines of the Company totaled \$5,723.0 and \$7,031.8 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 2018 vs 2017

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

In millions of pesos	As of December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Total cash, cash equivalents, and investment in securities and derivative financial instruments	18,458.5	17,240.1	1,218.4	7.1
Cash and cash equivalents	17,901.8	16,112.3	1,789.6	11.1
Investment in securities	550.1	1,127.8	(577.8)	(51.2)
Derivative financial instruments	6.6	0.0	6.6	

In 2018, cash and cash equivalents, and investments in securities at fair value through profit or loss totaled \$18,458.5 million, \$1,218.4 million or 7.1%, more than the \$17,240.1 million recorded in 2017, mainly due to the net cash provided from our operating activities. Of this total amount, \$0.6 million corresponded to cash and cash equivalents in our U.S. operations.

ACCOUNTS RECEIVABLE

In millions of pesos	As of December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Total accounts receivable	3,486.4	3,626.9	(140.5)	(3.9)

In 2018 accounts receivable decreased \$140.5 million, or 3.9%, when compared to 2017. This decrease is mainly due to decreases of \$149.8 million in trade receivables and \$43.1 million in recoverable value-added tax, which was partially offset by an increase of \$57.7 million in income tax receivable.

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

ACCOUNTS PAYABLE

In millions of pesos	As of December 31,		Change	
	2018	2017	\$	%
Total accounts payable	5,196.3	4,740.4	456.0	9.6

In 2018, accounts payable increased \$456.0 million or 9.6% when compared to 2017. This increase is mainly due to a \$311.8 million increase in trade payables and a \$118.1 million increase in sundry creditors and expenses payable.

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

TOTAL DEBT

In millions of pesos	As of December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Total debt	5,037.6	5,249.0	(211.4)	(4.0)
Short-term debt ⁽¹⁾	3,492.8	3,695.1	(202.3)	(5.5)
Long-term debt ⁽²⁾	44.8	54.0	(9.2)	(17.0)
Short-term debt (Local bond issue)	0.0	0.0	0.0	0.0
Long-term debt (Local bond issue)	1,500.8	1,500.0	0.8	0.1

(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, 2018, total debt was \$5,037.6 million, a decrease of \$211.4 million or 4.0% when compared to \$5,249.0 million of total debt as of December 31, 2017. This decrease was due to payments we made on our Mexican peso-denominated debt due in 2018.

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 TIE (“Equilibrium Interbank Interest Rate”), plus accruing interest at TIE + 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

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	2018				2017				Change	
		\$		\$		\$		\$	%	
Working Capital		20,690.1		18,995.9		1,694.2		8.9		
Total current assets		29,775.0		28,225.0		1,550.0		5.5		
Total current liabilities		9,084.9		9,229.1		(144.2)		(1.6)		

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

In 2018, our working capital increased \$1,694.2 million or 8.9% when compared to year 2017, due primarily to increases in our level of cash, which in turn resulted from an increase in cash from operating activities, as well as a decrease in income taxes payable.

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 2017 vs 2016

TOTAL CASH, CASH EQUIVALENTS, PRIMARY 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,			
	2017	2016	Change	
	\$	\$	\$	%
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	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.

CAPITAL EXPENDITURES

In millions of pesos, for the years ended December 31,	2018	2017	2016
	\$	\$	\$
Capital Expenditures	1,982.6	3,513.4	2,459.7

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

In 2018, we made capital expenditures of \$1,982.6, a decrease when compared to the \$3,513.4 million spent in 2017 when we made two acquisitions. Capital expenditures made in 2018 were mainly allocated to our organic growth strategies and some productivity projects in order to alleviate bottle neck in different parts of our process and supply chain.

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.

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,	2018	2017	2016
	\$	\$	\$
Operating leases expense	453.2	416.4	403.1

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 2018 vs 2017

	As of December 31,			
	2018	2017	Change	
	\$	\$	\$	%
Short-term financial debt liabilities in foreign currency⁽¹⁾	2,757.5	2,752.4	5.1	0.2

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

In 2018, our bank debt denominated in U.S. dollars totaled \$2,757.5 million pesos (equivalent to \$140.2 million USD), \$5.1 million pesos, or 0.2% higher than the \$2,752.4 million pesos (equivalent to \$140.0 million USD) in 2017. The short-term bank debt in U.S. dollars had an annual average interest rate of 2.26% in 2018, and 1.22% in 2017.

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

At the end of 2018, we had assets denominated in U.S. dollars of \$7,943.1 million pesos and liabilities of \$6,587.2 million pesos, resulting in a net position of \$1,355.9 million pesos (or \$68.9 million USD).

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

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).

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 as a result of the presidential elections held in July 2018, where Andrés Manuel López Obrador was elected president, and the pending ratification of the USMCA.

Despite the stability we have observed in the prices of our main raw material prices in U.S. dollar terms, we may see future volatility in prices depending on the market for 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 2018, 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, 2018 and 2017, we had \$65.0 and \$842.7 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, 2018 and 2017 was \$1,544.8 and \$1,554.0 million, respectively.

The weighted average interest rates on long-term debt, for years 2018 and 2017 were 8.42% and 7.72%, respectively.

See Note 18 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, 2018. The table does not include current installments of long-term debt, accounts payable or pension liabilities.

CONTRACTUAL OBLIGATIONS

In millions of pesos	Total	2019	2020	2021	2022	2023
		\$	\$	\$	\$	\$
Long-term debt ⁽¹⁾	1,544.8	1.8	12.0	12.0	1,512.0	7.0
Operating leases ⁽²⁾	440.1	117.5	103.3	97.5	71.0	50.8

(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 2018 was \$453.2 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	\$496.6	\$ 145.9	\$ 271.0	\$ 79.7

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.
 - 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 25, 2018, 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 and Mario Javier Robinson Bours Almada 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

Brothers:

Arturo Bours Griffith
Octavio Robinson Bours
Jose Francisco Bours Griffith

Brothers:

Jesus Enrique Robinson Bours Muñoz Guillermo Pineda Cruz
Jesus Rodolfo Robinson Bours Muñoz

Brothers:

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 Rassini 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 Bajio divisions, Commercial Manager in Northwest Division and Purchasing Manager at the Bajio 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 Ganadera Cocoreña S.P.R. de R.L., and Chairman of the Board of the Cultural Center of Cocorit, A.C. He is currently partner and Director of Productos Orgánicos la Cocoreña S.P.R. de R.L and Cervecera Komunila S.A. de C.V.

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., Agricola 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., Gasolinas Turymayo S.A. de C.V. and Agroempaques 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. In April of 2018 he joined the board of directors of Universal Wipes, dedicated to the production and commercialization of wet wipes.

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.

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 Mexico Operations	1962
Andres Morales Astiazaran	Director of Sales	1968
Daniel Salazar Ferrer	Chief Financial Officer	1964
Ismael Sanchez Moreno	Director of Human Resources	1965
Alejandro Elias Calles Gutierrez	Director of Purchasing	1956

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

Augusto Franco Gomez, Marketing, Research & Development Director, left the company in 2018, and we will not appoint a replacement. The responsibilities of this position will now fall under the scope of our current Director of Sales.

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 Mexico 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.

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, 2018, 2017 and 2016.

TOTAL COMPENSATION

	As of December 31,		
	2018	2017	2016
	\$	\$	\$
Compensation, net (in million pesos)	61.2	56.2	53.5

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 2018, around 55.0% 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

	2018	2017	2016	2015	2014
Total employees:	27,597	27,397	25,725	25,231	24,736
In Mexico	23,315	23,305	22,340	21,964	21,706
In the U.S.	4,282	4,092	3,385	3,267	3,030

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 Depositary Bank, as of February 28, 2019, we had 3,684,065 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,	2018	2017	2016
Total ADRs Outstanding	3,765,143	3,673,943	3,482,595
Percentage Over Total Shares	7.5	7.3	7.0

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, 2018 and February 28, 2019, from the 100.0% of the total Shares of the Company, there were approximately 52 and 44 shareholders in the NYSE, respectively.

According to the most recent information provided by broker dealers at the date of our 2018 Bachoco's stockholders Annual meeting, we estimated that there are 750 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, 2018.

	Shares⁽¹⁾	Position	Country
Control Trust	312,000,000	52.00 %	Mexico
Underwriting Trust	127,500,000	21.25 %	Mexico
Renaissance Technologies LLC	7,559,952	1.26 %	EEUU
GBM Fondo de Inversión Total, S.A. de C.V.	7,020,320	1.17 %	Mexico

(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 Aéreos 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 Aéreos del Noroeste, S.A. de C.V., for \$189.1 million. This loan is recorded in our balance sheet as a current asset 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, 2018 the amount due from Taxis Aéreos del Noroeste was \$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,		
	2018	2017	2016
	\$	\$	\$
Feed and packaging materials	8.8	47.4	41.8
Vehicles and related equipment	0.0	0.0	0.0
Air transportation services	0.0	1.0	1.9

EXPENSES INCURRED IN RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2018	2017	2016
	\$	\$	\$
Feed and packaging materials	788.9	598.4	733.3
Vehicles and related equipment	94.9	160.6	306.2
Air transportation services	8.4	7.9	7.7

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

In millions of Pesos	As of December 31,		
	2018	2017	2016
	\$	\$	\$
Feed and packaging materials	0.1	0.3	4.3
Vehicles and related equipment	0.0	0.0	0.0
Air transportation services ⁽¹⁾	0.0	0.0	144.6

(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 Aéreos del Noroeste, S.A. de C.V., as further described above.

Balance of Accounts Payable with Related Parties

As of December 31,

In millions of Pesos	2018	2017	2016
	\$	\$	\$
Feed and packaging materials	137.6	50.5	169.9
Vehicles and related equipment	9.9	4.7	19.6
Air transportation services	0.0	0.1	0.5

As of December 31, 2018 and 2017, 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 2018, 2017 and 2016 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,		
	2018	2017	2016
Total dividends declared (in million pesos)	852.0	780.0	780.0
Dividend declared per share (in pesos)	1.42	1.30	1.300
Dividends declared per ADR (in pesos)	17.0	15.600	15.600

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 Depositary Bank is BNY Mellon.

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 3,684,065 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	Bachoco22	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

Produce, transform, adapt, import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind

Current language

“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 incorporated by reference 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, 2018, 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. 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 certain 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 or 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 certain 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 certain 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/>

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 2018, 2017 and 2016, we recognized net foreign exchange gains of \$39.3, \$230.5 and \$297.5 million, respectively.

As of December 31, 2018, a hypothetical increase of 10% in the exchange rate, would have resulted in an increase in the foreign currency position of \$135.6 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 \$135.6 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, 2018, we had borrowings of approximately \$5,037.6 million pursuant to variable rate debt instruments, representing approximately 9.5% of our total assets.

Based on our debt position on December 31, 2018, we estimate that a hypothetical increase in the interest rate of 50 basis points would increase our interest expense by \$30.2 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 \$30.2 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 2018, 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 \$2.7 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 \$0.1 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 TIIE 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 bonds 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 TIE 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 Depositary 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 240 Greenwich Street, in New York, N.Y. 10007. 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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary may collect its annual fee for depositary 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 Depositary 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 2018 and 2017, we received a payment of US \$70,000.00 (less fees) and US\$70,000.00 (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, 2018. 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, 2018, 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, 2018. 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, 2018, the Company's internal control over financial reporting is effective based on such criteria.

Our management's assessment and conclusion on the effectiveness of our internal control over financial reporting as of December 31, 2018 includes AQF, Inc. and La Perla, which we acquired in July, 2017.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control financial reporting. During 2018, we implemented internal controls to ensure we have adequately evaluated our lease contracts and properly assessed the impact of the new IFRS 16 accounting standard to lease recognition on our financial statements to facilitate the adoption of such standard on January 1, 2019. We do not expect significant changes to our internal control over financial reporting due to the adoption of such new standard.

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, 2018, 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, 2018, based on 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, 2018, of the Company and our report dated April 29, 2019, expressed an unqualified opinion on those financial statements

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 29, 2019

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,	2018	2017
Total Fees:	\$ 12,531	\$ 13,242
Audit fees	10,412	12,984
Audit related fees	157	258
Other	1,963	-

Deloitte's audit related fees in the table above are fees related to the review of transfer price studies. Deloitte's other fees in the table above are fees related to a diagnostic of a "shared service center" for our company.

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 \$417 and \$733 in 2018 and 2017, respectively.

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-3(b)(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
2018	April 25, 2018	April 29, 2019	\$568,500,000	12,000,000
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)

(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 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 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	20,000	76.93	20,000	11,980,000
November	66,928	73.37	66,928	11,913,072
December	0	0.00	0	11,913,072
Total 2018	86,928	74.19	86,928	11,913,072

REPURCHASED OF SHARES IN 2019

Monthly operation of the repurchase plan in 2019	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	86,928	\$ 74.19	86,928	11,913,072
January 2019	0	0.00	0	11,913,072
February 2019	0	0.00	0	11,913,072
March 2019	0	0.00	0	11,913,072
Total as of March 31, 2019:	0	0	0	12,000,000

REPURCHASE PLAN BALANCE

	Number of Shares
Total shares in the repurchase plan as of December 31, 2017	20,000
(+) Total shares purchased in 2018	86,928
(-) Total shares sold in 2018	20,000
Total shares in the repurchase plan as of December 31, 2018	86,928
(+) Total shares purchased as of April 15, 2019	0
(-) Total shares sold as of April 15, 2019	86,928
Total shares in the repurchase plan as of April 15, 2019	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 Depository 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 29, 2019

INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements

Years ended December 31, 2018, 2017 and 2016

Content

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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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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, 2018, 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 29, 2019, 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 29, 2019

We have served as the Company's auditor since 2013.

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INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2018, 2017 and 2016

(Thousands of pesos)

Assets	Note	2018	2017	2016
Current assets:				
Cash and cash equivalents	7	\$ 17,901,845	16,112,268	14,681,204
Investment in securities at fair value through profit or loss	8	550,068	1,127,841	970,292
Derivative financial instruments	8	6,570	-	8,308
Accounts receivable, net	9	3,486,354	3,626,878	3,629,144
Due from related parties	20	99	326	148,855
Inventories	10	4,575,596	4,727,333	3,970,688
Current biological assets	11	2,073,526	1,942,193	1,961,191
Prepaid expenses and other current assets	12	1,131,870	638,671	1,503,945
Assets held for sale	13	49,068	49,523	56,728
Total currents assets		29,774,996	28,225,033	26,930,355
Non-current assets:				
Property, plant and equipment, net	14	18,018,176	17,320,041	15,081,105
Non-current biological assets	11	1,721,728	1,617,503	1,668,543
Deferred income tax	21	103,826	80,670	60,132
Goodwill	15	1,631,771	1,631,094	484,877
Intangible assets	16	949,355	1,040,042	-
Other non-current assets	17	665,742	643,006	865,454
Total non-currents assets		23,090,598	22,332,356	18,160,111
Total assets		\$ 52,865,594	50,557,389	45,090,466
Liabilities and equity	Note	2018	2017	2016
Current liabilities:				
Short-term debt	18	\$ 3,427,820	2,852,400	1,444,800
Current portion of long-term debt	18	64,973	842,651	1,652,725
Derivative financial instruments	8	0	6,821	-
Trade payable and other accounts payable	19	5,196,347	4,740,366	4,545,177

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Income tax payable	21	248,290	731,654	483,618
Due to related parties	20	147,514	55,252	189,966
Total current liabilities		9,084,944	9,229,144	8,316,286
Long term liabilities:				
Long-term debt, excluding current installments	18	1,544,807	1,553,973	950,412
Deferred income tax	21	3,767,320	3,843,379	3,912,575
Employee benefits	22	302,818	252,965	195,019
Total long term liabilities		5,614,945	5,650,317	5,058,006
Total liabilities		14,699,889	14,879,461	13,374,292
Equity:				
Capital stock	25	1,174,432	1,174,432	1,174,432
Share premium		414,470	414,385	414,385
Reserve for repurchase of shares		562,047	493,141	449,641
Retained earnings		34,792,320	32,367,912	28,244,970
Accumulated other comprehensive income		(307)	-	-
Foreign currency translation reserve		1,273,671	1,268,021	1,465,657
Actuarial remeasurements, net	22	(120,378)	(98,938)	(86,774)
Equity attributable to controlling interest		38,096,255	35,618,953	31,662,311
Non-controlling interest		69,450	58,975	53,863
Total equity		38,165,705	35,677,928	31,716,174
Commitments	27			
Contingencies	28			
Total liabilities and equity		\$52,865,594	50,557,389	45,090,466

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, 2018, 2017 and 2016

(Thousands of pesos, except share and per share amount)

	Note	2018	2017	2016
Net revenues		\$61,052,092	58,050,025	52,020,303
Cost of sales	23	(51,422,376)	(47,502,959)	(42,635,071)
Gross profit		9,629,716	10,547,066	9,385,232
General, selling and administrative expenses	23	(6,024,406)	(5,423,379)	(4,847,858)
Other income (expenses), net	30	102,660	167,642	260,202
Operating income		3,707,970	5,291,329	4,797,576
Finance income	29	1,140,749	1,087,641	969,174
Finance costs	29	(332,168)	(340,091)	(172,154)
Net finance income		808,581	747,550	797,020
Profit before income taxes		4,516,551	6,038,879	5,594,596
Income taxes	21	1,154,978	1,084,444	1,643,433
Profit for the year		\$3,361,573	4,954,435	3,951,163
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		5,650	(197,636)	755,218
Hedge result		(307)	-	-
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	22	(30,629)	(17,377)	14,888
Income taxes related to actuarial remeasurements		9,189	5,213	(4,466)
Other comprehensive income		(16,097)	(209,800)	765,640
Comprehensive income for the year		\$3,345,476	4,744,635	4,716,803

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Profit attributable to:			
Controlling interest	\$3,349,967	4,948,242	3,946,634
Non-controlling interest	11,606	6,193	4,529
Profit for the year	\$3,361,573	4,954,435	3,951,163
Comprehensive income attributable to:			
Controlling interest	\$3,333,870	4,738,442	4,712,274
Non-controlling interest	11,606	6,193	4,529
Comprehensive income for the year	\$3,345,476	4,744,635	4,716,803
Weighted average outstanding shares	599,980,734	599,997,696	599,979,844
Basic and diluted earnings per share	26 \$5.58	8.25	6.58

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, 2018, 2017 and 2016

(Thousands of pesos)

	Note	Attributable to controlling interest			Accumulated other comprehensive income					Non-controlling interest	
		Capital stock		Reserve for repurchase of shares	Retained earnings	Hedge result	Foreign currency translation reserve		Actuarial remeasurements net		Total
		Capital stock	Share premium				Foreign currency translation reserve	Actuarial remeasurements net			
Balance at January 1, 2016		\$ 1,174,432	414,017	777,622	24,749,616	-	710,439	(97,196)	27,728,930	50,44	
Dividends paid	25	-	-	-	(779,960)	-	-	-	(779,960)	-	
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	(1,114	
Reserve for repurchase of shares		-	-	(328,680)	328,680	-	-	-	-	-	
Repurchase and sale of shares	25	-	368	699	-	-	-	-	1,067	-	
Comprehensive income for the year:											
Profit for the year		-	-	-	3,946,634	-	-	-	3,946,634	4,529	
Other comprehensive income		-	-	-	-	-	755,218	10,422	765,640	-	

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Total comprehensive income for the year	-	-	-	3,946,634	-	755,218	10,422	4,712,274	4,529
Balance at December 31, 2016	1,174,432	414,385	449,641	28,244,970	-	1,465,657	(86,774)	31,662,311	53,86
Dividends paid 25	-	-	-	(780,000)	-	-	-	(780,000)	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(1,08
Reserve for repurchase of shares	-	-	45,300	(45,300)	-	-	-	-	-
Repurchase and sale of shares 25	-	-	(1,800)	-	-	-	-	(1,800)	-
Comprehensive income for the year:									
Profit for the year	-	-	-	4,948,242	-	-	-	4,948,242	6,193
Other comprehensive income	-	-	-	-	-	(197,636)	(12,164)	(209,800)	-
Total comprehensive income for the year	-	-	-	4,948,242	-	(197,636)	(12,164)	4,738,442	6,193
Balance at December 31, 2017	1,174,432	414,385	493,141	32,367,912	-	1,268,021	(98,938)	35,618,953	58,97
Dividends paid 25	-	-	-	(852,000)	-	-	-	(852,000)	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(1,13
Reserve for repurchase of shares	-	-	73,559	(73,559)	-	-	-	-	-
Repurchase and sale of shares 25	-	85	(4,653)	-	-	-	-	(4,568)	-
Comprehensive income for the									

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year:									
Profit for the year	-	-	-	3,349,967	-	-	-	3,349,967	11,60
Other comprehensive income	-	-	-	-	(307)	5,650	(21,440)	(16,097)	-
Total comprehensive income for the year	-	-	-	3,349,967	(307)	5,650	(21,440)	3,333,870	11,60
Balance at December 31, 2018	\$1,174,432	414,470	562,047	34,792,320	(307)	1,273,671	(120,378)	38,096,255	69,45

See accompanying notes to consolidated financial statements.

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INDUSTRIAS BACHOCO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018, 2017 and 2016

(Thousands of pesos)

	Note	2018	2017	2016
Cash flows from operating activities:				
Profit for the year		\$3,361,573	4,954,435	3,951,163
Adjustments for:				
Deferred income tax recognized in profit or loss	21	(91,869)	(627,090)	382,904
Current income tax recognized in profit or loss	21	1,246,847	1,711,534	1,260,529
Depreciation	14	1,226,917	1,075,788	925,748
Intangible impairment loss	16	21,430	-	-
Loss (gain) on disposal of plant and equipment		23,227	41,890	(157,245)
Interest income	29	(1,077,507)	(857,109)	(646,334)
Interest expense	29	332,168	255,997	172,154
Unrealized foreign exchange loss on loans		43,400	82,600	270,850
Subtotal		5,086,186	6,638,045	6,159,769
Derivative financial instruments				
Accounts receivable, net		(13,391)	15,129	(7,064)
Due from related parties		200,145	162,906	(1,144,991)
Inventories		227	3,967	1,154
Current and non-current biological assets		149,738	(461,783)	(562,905)
Prepaid expenses and other current assets		(236,179)	70,941	(539,395)
Assets held for sale		(493,442)	875,307	82,324
Trade payable and other accounts payable		455	7,205	3,320
Due to related parties		457,941	(350,299)	(43,707)
Income taxes paid		92,262	(134,714)	24,338
Employee benefits		(1,787,959)	(1,405,256)	(997,028)
		49,853	57,946	34,801
Net cash provided by operating activities		3,505,836	5,479,394	3,010,616
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment		(1,977,567)	(2,126,361)	(2,792,252)
Proceeds from sale of plant and equipment		32,455	35,175	278,340

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Restricted cash	-	(24,058)	(19,236)
Investment in securities at fair value through profit or loss	577,773	(157,549)	272,322
Other assets	(27,983)	2,125	4,583
Interest collected	1,077,507	857,109	646,334
Bussiness acquisition including advance payment	-	(2,494,862)	-
Collection of principal of loans granted to related parties	-	144,562	44,513
Net cash used in investing activities	(317,815)	(3,763,859)	(1,565,396)
Cash flows from financing activities:			
Payment for repurchase of shares	(6,454)	(1,800)	(4,157)
Proceeds from issuance of repurchased shares	1,887	-	5,224
Dividends paid	(852,000)	(780,000)	(779,960)
Dividends paid to non-controlling interest	(1,131)	(1,081)	(1,114)
Proceeds from borrowings	3,370,400	5,378,915	2,320,500
Principal payment on loans	(3,588,067)	(4,246,100)	(2,670,474)
Interest paid	(332,168)	(255,997)	(172,154)
Net cash (used in) provided by financing activities	(1,407,533)	93,937	(1,302,135)
Net increase in cash and cash equivalents	1,780,488	1,809,472	143,085
Cash and cash equivalents at January 1	16,088,210	14,661,968	14,020,491
Effect of exchange rate fluctuations on cash and cash equivalents	33,147	(383,230)	498,392
Cash and cash equivalents at December 31	\$17,901,845	16,088,210	14,661,968

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, 2018, 2017 and 2016

(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 12, 2019, 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 defined as 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 \$19.67, \$19.66 and \$20.64 pesos to one U.S. dollar as of December 31, 2018, 2017 and 2016, 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.

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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 on the application of accounting policies

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.

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.

vi. Expected credit losses on accounts receivable

The expected credit losses on financial assets are estimated using a provision matrix based on the Company's historical experience of credit losses, adjusted for factors that are specific to each of the Company's customer and debtor groups, general economic conditions and an assessment of both current and forecast conditions at each reporting date.

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vii.

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, 2018 as it relates to its consolidated financial statements.

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments*, includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

The details of these new requirements, and their impact on the consolidated statements of financial position of the Company, are described below.

Classification and measurement of financial assets

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value, based on the Company's management of financial assets and the contractual cash flows characteristic of financial assets.

The Company has not made changes in the classification of financial assets based on the application of IFRS 9; therefore, the adoption of such classification and measurement provisions has not had an impact on its consolidated statements of financial position, results and other comprehensive results.

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Impairment of financial assets

IFRS 9 introduces a new model of impairment of expected loss and limited changes to the requirements of classification and measurement of financial assets. Specifically, the new impairment model is based on the expected credit losses rather than the losses incurred, and will be applied to debt instruments valued at amortized cost or at fair value through other comprehensive income, leases receivable, contract asset, certain written loan commitments and financial guarantee contracts. Regarding the new fair value measurement category through other comprehensive income, the impairment provisions will be applicable to debt instruments that (i) are held within a business model whose objectives are achieved through the collection of contractual cash flows and the sale of financial assets and (ii) have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has not identified a material impact on its financial assets from the application of the impairment provisions of IFRS 9, neither in its investment positions nor in its trade accounts receivable.

General Hedge Accounting

The new general hedge accounting requirements retain the three types of hedge accounting schemes 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.

IFRS 15, Revenue from Contracts with Customers

Under this standard, 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 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 of) the entity satisfies a performance obligation.

The Company conducted an analysis of revenues with customers and determined that the adoption of this standard has no impact on its consolidated financial statements.

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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 contain clarifications and amendments addressing 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. The adoption of these amendments had no impact on the consolidated financial statements of the Company as it does not have share-based payment plans.

IFRIC 22, Foreign Currency Transactions and Advance Considerations

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. The adoption of this interpretation had no impact on the Company's consolidated financial statements because it already accounts for transactions that involve the payment or receipt of advance consideration in a foreign currency in a manner that is consistent with the modifications.

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. The modifications have had no impact on the Company's consolidated financial statements.

ii. New IFRS issued 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, 2018.

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.

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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. The Company has decided to use an incremental borrowing rate.

The Company has decided 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.

IFRS 16 establishes different transitional provisions, the Company has chosen the modified retrospective application where the comparative period is not restated.

IFRS 16 will change the way in which the Company accounts for leases previously classified as operating leases under IAS 17, which were accounted for off-balance sheet.

In the initial application of IFRS 16, as of January 1, 2019, for all leases (except those that the Company has elected to account for as an expense), the Company:

Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36, Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For the first time application of IFRS 16, the Company has carried out an implementation project, which has shown that the new definition in the standard will not significantly change the scope of contracts that meet the definition of a lease for the Company.

A preliminary assessment indicates that \$ 18,290, monthly lease payments are related to leases other than short-term leases and leases of low-value assets, and therefore the amount to be recognized by the Company as a right-of-use asset and the corresponding liability as of January 1, 2019 will range from \$900,000 to \$950,000, with respect to all such leases. The effect of adoption arises from right-of-use assets and related liabilities related to leases of buildings, machinery and equipment and transport equipment. The impact on the 2019 consolidated statement of profit or loss will be comprised of an increase in the annual depreciation of approximately \$193,129 and the annual interest expense of approximately \$33,572.

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. Specifically, it 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 consolidated financial statements, since its current practices for determining the effects of income taxes on its consolidated 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.

(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, the financial statements of subsidiaries 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 are 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, 2018, 2017 and 2016 the Company did not enter into such transactions.

c)

Financial instruments

i. Financial assets

Classification of financial assets

The Company classifies and measures its financial assets under the following criteria:

The Company's debt instruments are subsequently measured at amortized cost if the financial asset is maintained in a business model whose objective is to hold financial assets with the objective of obtaining contractual cash flows; and the contractual terms of the financial asset give rise on specific dates to cash flows that are only principal and interest payments on the amount of the principal.

Furthermore, debt instruments are subsequently measured at fair value through other comprehensive income if the financial asset is maintained within a business model whose objective is met by obtaining contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only principal and interest payments on the outstanding amount of the principal.

- By default, all other financial assets are subsequently measured at fair value through profit and loss.

Recognition and derecognition of financial assets

Assets are initially recognized on the date of the contract in which the Company becomes a member of the contractual provisions of the instruments. And they are initially valued at their fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and liabilities (other than financial assets at fair value through profit or loss) are added to or reduced from the fair value of the financial assets or liabilities, where applicable, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All regular purchases or sales of financial assets are recognized and derecognised on a trade date. Regular purchases or sales are purchases or sales of financial assets that require the delivery of assets within the period established by the regulation or usual practices in the market.

All recognized financial assets are subsequently measured in full, either at amortized cost or fair value, according to the classification of financial assets.

Financial assets of the Company include cash and cash equivalents, investment in securities at fair value through profit or loss, derivative financial instruments and trade 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 consolidated 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.

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.

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.

Impairment of financial assets

As of 2018, the Company evaluates whether its financial assets accounted for at amortized cost and at fair value through other comprehensive income are impaired on the basis of losses due to expected credit losses.

The amount of expected credit losses is updated on each reporting date to reflect changes in credit risk since the initial recognition of the respective financial instrument.

The Company recognizes lifetime expected credit losses for commercial accounts receivable, contract assets and accounts receivable for leases. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical experience of credit losses, adjusted for factors that are specific to the debtors, the general economic conditions and management's assessment of both the current and forecast conditions at the reporting date, including the time value of money when appropriate.

The Company considers a significant increase in credit risk to have occurred when the asset's credit rating falls to the level of speculation, or when the rating has decreased by more than 2 levels with respect to the level at which it was acquired. Additionally, the Company considers that default has occurred when a financial asset is more than 90 days past-due, unless there is reasonable and reliable information demonstrating that a later default criterion is more appropriate.

For all other financial instruments, the Company recognizes the lifetime expected credit loss when there has been a significant increase in credit risk since the initial recognition. However, if the credit risk in the financial instrument has not increased significantly since the initial recognition, the Company measures the provision for losses for that financial instrument in an amount equal to the 12-month expected credit losses.

During 2017 and 2016, the method used to determine the impairment of financial assets was based on an incurred loss model.

ii. Financial 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 using the effective interest method or at fair value through results during their contractual term.

iii. Derivative financial instruments

The Company participates in a variety of derivative financial instruments to manage its exposure to exchange rate risks, including currency forward contracts.

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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.

A derivative with a positive fair value is recognized as a financial asset, while a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Company has both the legal right and the intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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.

iv. Hedge Accounting

The Company designates certain derivatives as hedging instruments with respect to foreign currency risk with fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Firm commitments that hedge foreign currency risk are accounted for as cash flow hedges.

At the beginning of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, together with its risk management objectives and its strategy to carry out various hedging transactions. In addition, at the beginning of the hedge and on an ongoing basis, the Company documents whether the instrument is effective to offset changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships comply with all of the following coverage effectiveness requirements:

· There is an economic relationship between the hedging instrument and the hedged item;

· The effect of credit risk does not dominate the value of the changes resulting from the economic relationship; and

The coverage ratio of the coverage ratio is the same as that resulting from the amount of the hedged item that the Company actually covers and the amount of the hedging instrument that the Company actually uses to cover that amount of the hedged item.

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If the hedging instrument no longer meets the effectiveness requirement related to the hedging relationship, but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedging relationship (that is, rebalances) so that it meets the qualification criteria again.

The Company designates the entire change in the fair value of a forward contract (that is, it includes the forward elements) as the hedging instrument for all its hedging relationships that involve forward contracts.

The Company designates only the intrinsic value of option contracts as a hedged item, that is, excluding the time value of the option. Changes in the fair value of the option are recognized in other comprehensive income and are accumulated in the cost of the hedge reserve. If the hedged item is related to the transaction, the fair value is reclassified to profit or loss when the hedged item affects the profit or loss. If the hedged item is related to the period of time, then the accumulated amount in the cost of the hedge reserve is reclassified to profit or loss in a rational manner: the Company amortizes the accumulated hedge reserve to profit or loss using the straight-line method. These reclassified amounts are recognized in profit or loss on the same line as the hedged item. If the hedged item is a non-financial item, the accumulated amount in the cost of the hedge reserve is eliminated directly from equity and is included in the initial carrying amount of the recognized non-financial item. In addition, if the Company expects that part or all of the accumulated loss in the cost of the hedge reserve will not be recovered in the future, that amount will be reclassified immediately to results.

v. 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.

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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.

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 2018, 2017 and 2016:

	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, 2018, 2017 and 2016:

	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 are mainly comprised of trade names 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 impairment indicators, 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, 2018, 2017 and 2016, 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 assets 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) both individually and collectively. All individually significant receivables and other financial assets 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 follows an expected loss model and the calculation is applicable to all receivables regardless of whether or not they have objective evidence of impairment. For these estimates, management 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 implied 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.

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.

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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

During 2017 and 2016 revenues from the sale of goods in the course of ordinary activities are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues are 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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Beginning in 2018, revenues from the sale of goods in the course of ordinary activities are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues are recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that control over the product has been transferred to the customer. 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. The Company generally does not accept sales returns. No asset is recognized for product returns, due to the fact that such products are not expected to be sold or recovered in another manner given that they are perishable. To the extent sales returns occur, the product returns are made simultaneously with the delivery and acceptance of the product (same day).

The Company has concluded that all performance obligations are satisfied at the time of delivery of the product to the customer.

The Company has a variety of credit terms for its various distribution channels, all of which have short terms, consistent with market and industry practices. Accordingly, there are no financing components. A significant portion of sales in Mexico are collected in cash on delivery.

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 expense is comprised of 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,

2018, 2017 and 2016, the Company has no potentially dilutive shares, for which reason basic and diluted EPS are the same.

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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.

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

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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.

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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 (see note 30).

b) Acquisition of Proveedora La Perla, S.A. de C.V.

On July 11, 2017, the Company acquired 100% of voting stock of Proveedora 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.

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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	

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 consolidated statement of profit or 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.

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(5)Subsidiaries of the Company

A list of subsidiaries and the Company's shareholding percentage in such subsidiaries as of December 31, 2018, 2017 and 2016 are presented below:

Name	Shareholding percentage in subsidiaries			
		December 31,		
	Country	2018	2017	2016
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	100.00
Proveedora La Perla S.A. de C.V.	México	100.00	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.

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- The main activity of Bachoco Comercial, S.A. de C.V. is the distribution of chicken, turkey and beef value-added products.
- The main activity of Induba Pavos, S.A. de C.V. is the leasing of property, plant and equipment to its related parties.
- 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.

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- 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, 2018

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	Poultry	Other	Total
Net revenues	\$55,308,141	5,743,951	61,052,092
Cost of sales	46,562,214	4,860,162	51,422,376
Gross profit	8,745,927	883,789	9,629,716
Finance income	1,094,377	46,372	1,140,749
Finance costs	288,703	43,465	332,168
Income before taxes	4,025,050	491,501	4,516,551
Income taxes	1,028,335	126,643	1,154,978
Net income attributable to controlling interest	2,986,328	363,639	3,349,967
Property, plant and equipment, net	16,060,590	1,957,586	18,018,176
Goodwill	1,543,755	88,016	1,631,771
Intangible assets	962,738	(13,383)	949,355
Total assets	47,205,252	5,660,342	52,865,594
Total liabilities	13,364,922	1,334,967	14,699,889
Purchases of property, plant and equipment	1,747,286	235,297	1,982,583
Depreciation and amortization	1,121,751	105,166	1,226,917

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	Poultry revenues	Other revenues
Total revenues	\$55,312,273	5,785,289
Intersegments	(4,132)	(41,338)
Net revenues	\$55,308,141	5,743,951

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 revenues	\$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

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	Poultry revenues	Other revenues
Total revenues	\$46,856,888	5,214,481
Intersegments	(4,406)	(46,660)
Net revenues	\$46,852,482	5,167,821

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, 2018			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$37,766,974	17,599,239	(58,072)	55,308,141
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	979,034	742,694	-	1,721,728
Property, plant and equipment, net	13,002,755	3,057,835	-	16,060,590
Goodwill	212,833	1,330,922	-	1,543,755
Intangible assets	-	962,738	-	962,738

	Year ended December 31, 2017			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
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			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
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

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 2018, 2017 and 2016, no customer represented over 10% of the Company's total revenues.

As of December 31, 2018 and 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 had transactions with The Sygma Network, Inc. representing 9% of total sales outside of Mexico.

(7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2018, 2017 and 2016 are as follows:

	December 31,		
	2018	2017	2016
Cash and banks	\$13,566,098	15,464,312	9,890,007
Investments with maturities less than three months	4,331,423	623,898	4,771,961
Cash and cash equivalents	17,897,521	16,088,210	14,661,968
Restricted cash	4,324	24,058	19,236
Total cash and cash equivalents and restricted cash	\$17,901,845	16,112,268	14,681,204

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, 2018, 2017 and 2016.

(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, 2018, 2017 and 2016, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2018 meet the requirements to be treated as hedges for accounting purposes (1,500 thousand dollars of notional, other disclosures are considered non-material). During 2017 and 2016 the derivative instruments held by the Company 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,		
	2018	2017	2016
Financial assets			
Cash and cash equivalents	\$17,901,845	16,112,268	14,681,204
Investment in securities at fair value through profit or loss	550,068	1,127,841	970,292
Other financial assets	66,177	64,629	65,509
Accounts receivable	2,444,013	2,599,208	2,524,942
Due from related parties	99	326	148,855
Long-term receivables	171,222	162,337	161,690
Derivative financial instruments	6,570	-	8,308
Financial liabilities			
Financial debt	\$(5,037,600)	(5,249,024)	(4,047,937)
Trade payables, sundry creditors and expenses payable	(4,593,344)	(4,163,443)	(4,095,089)
Due to related parties	(147,514)	(55,252)	(189,966)
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, as well as 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").

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 in process of legal recovery, which amount to \$142,388, \$141,636 and \$130,290 as of December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, the fair value of such credit enhancements, determined by an appraisal at the time the credit lines were granted, is \$572,085, \$618,481 and \$570,546, 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

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The carrying amount of financial assets represents the maximum credit exposure, which as of the reporting date is as follows:

	December 31,		
	2018	2017	2016
Cash and cash equivalents	\$17,901,845	16,112,268	14,681,204
Investments in securities at fair value through profit or loss	550,068	1,127,841	970,292
Other financial assets	66,177	64,629	65,509
Accounts receivable net of guarantees received	1,986,102	2,143,390	2,264,941
Derivative financial instruments	6,570	-	8,308
	\$20,510,762	19,448,128	17,990,254

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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, 2018		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$4,593,344	-	-
Due to related parties	147,514	-	-
Variable-rate maturities			
In U.S. dollars	2,757,459	-	-
In pesos	735,334	44,014	1,500,793
Interest	145,860	270,977	79,719
Total financial liabilities	\$8,379,511	314,991	1,580,512

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	December 31, 2017		
	Less than 1 year	1 to 3 years	3 to 5 years
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
	December 31, 2016		
	Less than 1 year	1 to 3 years	3 to 5 years
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	-

At least on a monthly basis, management evaluates and advises the Board of Directors on its liquidity. As of December 31, 2018, 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, 2018 and 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 2019 and 2018, July, September and December 2018 and 2017, with companies listed on the Chicago Mercantile Exchange. As of December 2018, the gain on valuation is \$217 (11 thousand dollars), during 2017, there is no gain or loss from the valuation of these instruments.

As of December 31, 2016, 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 during 2016, recorded within cost of sales.

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As of December 31, 2018 and 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, 2018 and 2017, no benefits have been realized under this scheme.

As of December 31, 2016 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 is \$67,080 (3,250 thousand dollars).

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, 2018, 2017 and 2016, 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.

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As of December 31, 2018, 2017 and 2016, the Company entered into derivative financial instrument positions as economic hedges to cover exchange rate risks.

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, 2018, 2017 and 2016.

	December 31, 2018		2017		2016	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos	Dollars	Mexican Pesos
Assets						
Cash and cash equivalents	\$384,119	7,555,616	325,493	6,399,186	126,395	2,608,800
Investment in securities at fair value through profit or loss	19,447	382,519	29,212	574,312	27,863	575,085
Accounts receivable	252	4,950	1,915	37,640	2,488	51,350
Total assets	403,818	7,943,085	356,619	7,011,138	156,746	3,235,235
Liabilities						
Trade accounts payable	(194,701)	(3,829,765)	(154,858)	(3,044,515)	(103,854)	(2,143,547)
Financial debt	(140,186)	(2,757,459)	(140,000)	(2,752,400)	(70,000)	(1,444,800)
Total Liabilities	(334,887)	(6,587,224)	(294,858)	(5,796,915)	(173,854)	(3,588,347)
Net asset position	68,931	1,355,861	61,761	1,214,223	-	-
Net liability position	\$-	-	-	-	(17,108)	(353,112)

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:

Spot exchange rate at

	Average exchange rate			December 31,		
	2018	2017	2016	2018	2017	2016
Dollars	\$19.23	18.91	18.68	19.67	19.66	20.64

The exchange rate at the date of issuance of the consolidated financial statements is \$18.86.

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	Fair	Carrying	Fair	Carrying	Fair
	amount	value	amount	value	amount	value
	2018		2017		2016	
Financial debt	\$5,037,600	5,037,688	5,249,024	5,255,932	4,047,937	4,062,999

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, 2018				
Investment in securities at fair value through profit or loss	\$550,068	-	-	550,068
Derivative financial instruments	-	6,570	-	6,570
	\$550,068	6,570	-	556,638

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	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

	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

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, 2018				
Financial debt - bank institutions	\$-	(3,536,895)	-	(3,536,895)
Financial debt – debt securities	(1,500,793)	-	-	(1,500,793)
	\$(1,500,793)	(3,536,895)	-	(5,037,688)

	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)

g) Quantitative sensitivity measurements

The following are sensitivity analyses for the most significant risks to which the Company is exposed as of December 31, 2018, 2017 and 2016. 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, 2018 the Company has taken positions on derivative financial instruments to hedge exchange rate risks and commodities.

A 15% increase in the Mexican peso with respect to the U.S. dollar as of the end of 2018, 2017 and 2016 would have resulted in a valuation gain of \$28,767, \$25,971 and \$41,235 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 \$48,429, \$43,493 and \$47,639.

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The following table shows the Company's sensitivity to an increase and decrease of 15% for 2018, 2017 and 2016 in the "bushell" price of corn and short ton price of soybeans.

	Effect of Increase			Effect of Decrease		
	2018	2017	2016	2018	2017	2016
Loss (profit) for the year	\$(2,665)	(16,094)	(9,085)	\$105	21,229	8,785

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 2018, 2017 and 2016, in the variable rates to which the Company is exposed.

	Effect of Increase			Effect of Decrease		
	2018	2017	2016	2018	2017	2016
Loss (profit) for the year	\$30,192	43,485	15,385	\$(30,192)	(43,485)	(15,385)

iii. Exchange risk

As of December 31, 2018, the Company's net monetary liability position in foreign currency was \$1,355,861.

The following table shows the Company's sensitivity of an increase and decrease of 10% for 2018, 2017 and 2016, in exchange rate, which would have an effect in the result from foreign currency position.

	Effect of Increase			Effect of Decrease		
	2017	2017	2016	2018	2017	2016
Loss (profit) for the year	\$(135,586)	(121,422)	35,311	\$135,586	121,422	(35,311)

(9)

Accounts receivable, net

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As of December 31, 2018, 2017 and 2016, accounts receivable are as follows:

	December 31,		
	2018	2017	2016
Trade receivables	\$2,523,950	2,673,705	2,482,077
Allowance for doubtful accounts	(79,937)	(96,900)	(97,400)
Other receivables	-	22,403	140,265
Income tax receivable	114,935	57,186	115,428
Recoverable value-added tax and other recoverable taxes	927,406	970,484	988,774
	\$3,486,354	3,626,878	3,629,144

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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,		
	2018	2017	2016
Past due 0 to 60 days	144,604	200,413	164,458
Past due by more than 60 days	17,250	6,190	3,395
	\$ 161,854	206,603	167,853

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

	2018	2017	2016
Balance as of January 1	\$(96,900)	(97,400)	(81,641)
Increase in allowance	(7,862)	(14,800)	(18,405)
Amounts written off	24,826	15,287	2,818
Currency translation effect	(1)	13	(172)
Balance as of December 31,	\$(79,937)	(96,900)	(97,400)

As of December 31, 2018, 2017 and 2016 the Company has receivables in legal proceedings (receivables for which legal counsel is seeking recoverability) of \$142,388, \$141,636 and \$130,290, 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.

Expected credit losses

Beginning in 2018, the Company recognizes expected credit losses for life for trade accounts receivable, which are estimated using a provision matrix based on the Company's historical experience of credit losses, adjusted for factors that are specific each of the Company's customer and debtor groups, general economic conditions and an assessment of both the current and forecast conditions at the reporting date, including the time value of money when appropriate. During 2017 and 2016, the estimated credit losses were based on the incurred loss model.

The expected credit losses for 2018 in trade accounts receivable under IFRS 9 were estimated at \$45,823, considering the balances of the portfolio and the different customer groups of the Company.

As part of the implementation analysis and once planned activities were executed, the Company decided to maintain its previously recorded estimated reserve for doubtful accounts for its subsidiaries, although such amounts were higher than the expected credit losses in 2018.

(10)

Inventories

As of December 31, 2018, 2017 and 2016, inventories are as follows:

	December 31,		
	2018	2017	2016
Raw materials and by-products	\$1,688,527	1,861,092	1,515,824
Medicine, materials and spare parts	903,337	820,417	808,492
Balanced feed	322,522	296,538	275,845
Processed chicken	1,548,597	1,561,912	1,154,207
Commercial eggs	52,050	46,185	37,242
Processed beef	39,709	58,563	36,599
Processed turkey	10,762	64,918	122,722
Other processed products	10,092	17,708	19,757
Total	\$4,575,596	4,727,333	3,970,688

Inventory consumption for the years ended December 31, 2018, 2017 and 2016 was \$40,115,184, \$37,567,550 and \$34,018,493, respectively.

(11)

Biological assets

For the years ended December 31, 2018, 2017 and 2016, biological assets are as follows:

	Current	Non-current	Total
	biological	biological	
	assets	assets	
Balance as of January 1, 2018	\$1,942,193	1,617,503	3,559,696
Increase due to purchases	334,710	629,902	964,612
Sales	-	(119,297)	(119,297)
Net increase due to births	274,286	2,292,178	2,566,464
Production cost	33,189,920	1,729,478	34,919,398
Depreciation	-	(2,136,224)	(2,136,224)
Transfers to inventories	(33,690,071)	(2,292,178)	(35,982,249)
Other	22,488	366	22,854
Balance as of December 31, 2018	\$2,073,526	1,721,728	3,795,254

Current Non-current Total

	biological	biological	
	assets	assets	
Balance as of 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 of December 31, 2017	\$ 1,942,193	1,617,503	3,559,696

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	Current	Non-current	
	biological	biological	Total
	assets	assets	
Balance as of 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 of December 31, 2016	\$ 1,961,191	1,668,543	3,629,734

The “Other” category includes the change in fair value of biological assets that resulted in a decrease of \$22,270 in 2018, increase of \$22,598 in 2017 and decrease of \$18,276 in 2016, respectively.

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, 2018, 2017 and 2016, prepaid expenses and other current assets are as follows:

	December 31,		
	2018	2017	2016
Advances to suppliers of inventories	\$704,563	234,458	929,815
Prepaid expenses of services	217,074	235,652	217,244
Prepaid expenses of insurance and bonds	129,582	88,533	185,678
Other current assets	80,651	80,028	171,208
Total	\$1,131,870	638,671	1,503,945

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(13)

Assets held for sale

As of December 31, 2018, 2017 and 2016, assets held for sale are as follows:

	December 31,		
	2018	2017	2016
Buildings	\$18,920	18,920	21,551
Land	27,310	27,765	32,338
Other	2,839	2,838	2,839
Total	\$49,068	49,523	56,728

The Company recognized gains (losses) on sales of these assets of (13), \$2,437 and \$0 during 2018, 2017 and 2016, respectively.

(14)

Property, plant and equipment

As of December 31, 2018, 2017 and 2016, property, plant and equipment are comprised as follows:

Cost	Balance as of	Additions	Disposals	Currency	Balance as of
	January 1,			translation	December 31,
	2018			effect	2018
Land	\$ 1,353,643	24,400	-	47	1,378,090
Buildings and construction	11,440,284	513,033	(11,546)	1,705	11,943,476
Machinery and equipment	14,021,881	1,255,026	(96,727)	1,864	15,182,044
Transportation equipment	1,773,153	101,645	(82,543)	18	1,792,273
Computer equipment	125,991	10,441	(318)	69	136,183
Furniture	169,752	12,985	(4,258)	(24)	178,455
Leasehold improvements	2,661	1,689	-	-	4,350
Construction in progress	1,435,147	63,364	-	3,186	1,501,697
Total	\$ 30,322,512	1,982,583	(195,392)	6,865	32,116,568
	Balance as of	Depreciation		Currency	Balance as
Accumulated depreciation	January 1		Disposals	translation	of December
	2018	for the year		effect	31, 2018
Buildings and construction	\$ (5,323,314)	(221,565)	9,315	(1,261)	(5,536,825)

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Machinery and equipment	(6,706,824)	(857,930)	66,578	(7,046)	(7,505,222)
Transportation equipment	(771,406)	(118,439)	60,276	(95)	(829,664)
Computer equipment	(81,504)	(16,598)	305	(237)	(98,034)
Furniture	(119,423)	(12,385)	3,218	(57)	(128,647)
Total	\$(13,002,471)	(1,226,917)	139,692	(8,696)	(14,098,392)

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Cost	Balance as of	Additions	Disposals	Currency	Balance as of
	January 1,			translation	December 31,
	2017			effect	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 of	Depreciation	Disposals	Currency	Balance as
	January 1			translation	of December
	2017	for the year		effect	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)
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)

Cost	Balance as of	Additions	Disposals	Currency	Balance as of
	January 1,			translation	December 31,
	2016			effect	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 of	Depreciation	Disposals	Currency	Balance as
	January 1	for the year		translation	of December

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	2016			effect	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)		

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Carrying amounts, net	December 31,		
	2018	2017	2016
Land	\$1,378,090	1,353,643	1,210,052
Buildings and construction	6,406,651	6,116,970	5,471,570
Machinery and equipment	7,676,822	7,315,057	5,971,025
Transportation equipment	962,609	1,001,747	869,900
Computer equipment	38,149	44,487	48,466
Furniture	49,808	50,329	45,224
Leasehold improvements	4,350	2,661	5,186
Construction in progress	1,501,697	1,435,147	1,459,682
Total	\$18,018,176	17,320,041	15,081,105

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

Depreciation expense during the years ended December 31, 2018, 2017 and 2016 was \$1,226,917, \$1,075,788 and \$925,748, respectively, which was charged to cost of sales and operating expenses.

(15)

Goodwill

	2018	2017	2016
Balances at beginning of the year	\$1,631,094	484,877	454,295
Business combinations (Note 4)	-	1,042,163	-
Foreign currency effects	677	104,054	30,582
Balances at end of year	\$1,631,771	1,631,094	484,877

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.

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.

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The assumptions and balances of each cash-generating unit are as follows:

2018

Cash-generating unit	Final balance of the year	Projection period (years)	Annual	Annual		
			discount rate	growth rate	(%)	(%)
Bachoco - Istmo and Peninsula regions	\$212,833	5	13.17	%	3.00	%
Campi	88,015	5	13.17	%	3.00	%
Ok Farms - Morris Hatchery, Inc. Arkansas	65,233	5	5.87	%	0.00	%
Ok Farms - Morris Hatchery Inc. Georgia	110,147	5	5.87	%	0.00	%
Ok Foods- Albertville Quality Foods, Inc.	1,155,543	5	5.87	%	0.00	%
	\$1,631,771					

2017

Cash-generating unit	Final balance of the year	Projection period (years)	Annual	Annual		
			discount rate	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	Annual		
			discount rate	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					

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(16)

Intangible assets

The balances as of December 31, 2018 and 2017 for \$949,355 and \$1,040,042 are mainly comprised of trade names and customer relationships 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.

Indefinite life intangible assets are initially recorded at their fair value and are not amortized, but they are reviewed for impairment at least annually or more frequently if impairment indicators arise.

During 2018, the Company decide to discontinue a product line that it was no longer producing and did not have any success in selling the trademarks associated with that line. Accordingly, an impairment charge of \$11,756 in trade names was recognized. The remaining intangible assets were evaluated internally and an independent external impairment study was performed to determine the fair value. This study resulted in impairment charges of \$3,535 in the trade names in addition to the amounts listed above. The total impairment charges recognized during 2018 for intangible assets were \$21,430.

Intangible assets consist of the following:

	2018	2017	2016
Amortizable intangible assets			
Customer relationships	\$1,020,500	1,028,747	-
Accumulated amortization	(95,911)	(34,876)	-
Impairment loss	(6,139)	-	-
Total net amortizable intangible assets	918,450	993,871	-
Trade names not subject to amortization	46,196	46,171	-
Impairment loss	(15,291)	-	-
Total intangible assets	\$949,355	1,040,042	-

(17)

Other non-current assets

Other non-current assets consist of the following:

	December 31,		
	2018	2017	2016
Advances for purchase of property, plant and equipment	\$326,676	331,691	552,417

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Investments in life insurance (note 3 (l))	66,177	64,629	65,509
Security deposits	20,745	16,796	15,132
Other long-term receivable	171,222	162,337	161,690
Intangible assets in process	26,898	11,506	12,200
Other	54,024	56,047	58,506
Total non-current assets	\$665,742	643,006	865,454

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(18)

Financial debt

a) **Short-term financial debt is as follows:**

	December 31,		
	2018	2017	2016
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
Denominated in pesos, maturing in January 2019, at TIIE (1) FIRA (2) rate plus 1.25 percentage points.	100,306	-	-
Loan in the amount of 140,000 thousand dollars, maturing in February 2019, at fixed rate 2.29 percentage points.	2,757,460	-	-
Denominated in pesos, maturing in February 2019, at TIIE (1) rate plus 1.25 percentage points.	300,028	-	-
Denominated in pesos, maturing in March 2019, at TIIE (1) rate plus 1.25 percentage points.	250,023	-	-
Denominated in pesos, maturing in May 2019, at TIIE (1) rate plus 0.40 percentage points.	20,003	-	-
Total short-term debt	\$3,427,820	2,852,400	1,444,800

The annual weighted average interest rate of short-term loans denominated in pesos for 2018 and 2017 was 9.14% and 8.06%, respectively, and during 2016, no short-term debt denominated in pesos was contracted. The average interest rate for loans outstanding as of December 31, 2018 and 2017 was 9.15% and 8.06%, respectively.

The annual weighted average interest rate of short-term loans denominated in dollars for the years 2018, 2017 and 2016 was 2.26%, 1.22% and 1.04%, respectively. The average interest rate for loans outstanding as of December 31, 2018, 2017 and 2016 was 2.29%, 1.57% and 1.05%, 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,		
	2018	2017	2016
Denominated in pesos, maturing in September 2017, at TIIE (1) rates plus 0.63 percentage points.	\$-	-	98,000
Denominated in pesos, maturing in 2017 and 2018, at TIIE (1) FIRA (2) rates less 0.25 percentage points.	-	553,651	603,739
Denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.60 percentage points.	-	289,000	293,400
Denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.25 percentage points.	53,980	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 2023, at TIIE (1) FIRA (2) plus 0 percentage points.	55,007	-	-
Debt securities (subsection (d))	-	-	1,500,000
Debt securities (subsection (d))	1,500,793	1,500,000	-
Total	1,609,780	2,396,624	2,603,137
Less current maturities	(64,973)	(842,651)	(1,652,725)
Long-term debt, excluding current maturities	\$ 1,544,807	1,553,973	950,412

The annual weighted average interest rate on long-term debt for 2018, 2017 and 2016 was 8.42%, 7.72% and 4.04%, respectively. The average rate for outstanding loans as of December 31, 2018, 2017 and 2016 was 8.46%, 7.48% and 5.63%, 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 2018 and 2017 the Company did not make early payments on its long-term debt, during 2017 the Company made early payments on its long-term debt of \$53,900, the Company did not make early payments on its long-term debt.

As of December 31, 2018, 2017 and 2016, unused lines of credit amounted to \$5,723,011, \$7,031,813 and \$5,551,263, 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	\$1,807
2020	12,000
2021	12,000
2022	1,512,000
2023	7,000
	1,544,807

Interest expense on total loans during the years ended December 31, 2018, 2017 and 2016, amounted to \$185,913, \$188,597 and \$129,769, respectively.

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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, 2018, among which are:

- 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 TIE.

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

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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.

e) **Reconciliation of liabilities arising from financing activities**

	December 31,	
	2018	2017
Balance as of January 1	\$5,249,024	4,047,937
Changes that represent cash flows		
Proceeds from borrowings	3,370,400	5,378,915
Principal payment on loans	(3,588,067)	(4,246,100)
Changes that do not represent cash flows		
Others	6,243	68,272
Balance as of December 31	\$5,037,600	5,249,024

(19) **Trade accounts and other accounts payable**

	December 31,		
	2018	2017	2016
Trade payables	\$3,996,014	3,684,220	3,646,410
Sundry creditors and expenses payable	597,330	479,223	448,679
Provisions	103,494	103,474	105,434
Statutory employee profit sharing	68,432	42,940	42,134
Retained payroll taxes and other local taxes	259,828	241,739	214,558
Direct employee benefits	160,431	171,784	76,721
Interest payable	10,728	16,904	11,160
Others	90	82	81
	\$5,196,347	4,740,366	4,545,177

Note 8 discloses the Company's exposure to the exchange and liquidity risks related to trade accounts payable and other accounts payable.

In 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.

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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, 2018, 2017 and 2016, the Company has recorded provisions of \$39,340 (2,000 thousand dollars), \$39,320 (2,000 thousand dollars) and \$41,280 (2,000 thousand dollars) for estimated probable payments.

(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, 2018, 2017 and 2016:

	December 31,		
	2018	2017	2016
Compensation	\$61,189	56,201	53,531

(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, 2018	2017	2016	December 31, 2018	2017	2016
Sales of products to:						
Vimifos, S.A. de C.V.	\$8,812	47,344	41,715	\$99	326	4,261
Frescopack, S.A. de C.V.	-	10	66	-	-	32
Taxis Aéreos del Noroeste, S.A. de C.V.	28	1,013	1,927	-	-	144,562

\$8,840 48,367 43,708 \$99 326 148,855

The balance of Taxis Aéreos del Noroeste, S.A. de C.V. as of December 31, 2016 for \$144,562 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, 2018	2017	2016	December 31, 2018	2017	2016
Purchases of food, raw materials and packing supplies						
Vimifos, S.A. de C.V.	\$557,490	392,226	554,282	\$103,371	12,830	126,396
Frescopack, S.A. de C.V.	193,396	179,357	137,752	28,951	29,537	35,931
Pulmex 2000, S.A. de C.V.	37,794	26,700	41,122	5,227	8,138	7,528
Qualyplast, S.A. de C.V.	230	95	193	41	-	64
Purchases of vehicles, tires and spare parts						
Maquinaria Agrícola, S.A. de C.V.	\$-	793	34,446	64	64	1,898
Llantas y Accesorios, S.A. de C.V.	38,581	35,225	29,457	3,374	4,207	3,449
Autos y Accesorios, S.A. de C.V.	18,776	24,645	40,575	4,712	57	1,985
Autos y Tractores de Culiacán, S.A. de C.V.	17,671	14,037	39,504	1,486	79	5,298
Camiones y Tractocamiones de Sonora, S.A. de C.V.	19,490	85,448	153,802	216	172	6,137
Agencia MX-5, S.A de C.V.	47	15	25	7	4	2
Alfonso R. Bours, S.A. de C.V.	307	428	394	40	95	94
Cajeme Motors S.A. de C.V.	30	29	7,974	5	1	710
Airplane leasing expenses						
Taxis Aéreos del Noroeste, S.A. de C.V.	\$8,368	7,854	7,739	20	68	474
				\$147,514	55,252	189,966

As of December 31, 2018, 2017 and 2016, 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, 2018, 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, 2018, 2017 and 2016, 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 during 2017 and 2016 for the Company's US subsidiary is 35% (plus state and federal taxes) and as of January 1, 2018 the rate is 21% (plus state and federal taxes).

As of December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, the income tax (benefit) expense included in profit and loss is as follows:

	December 31		
	2018	2017	2016
Operation in Mexico:			
Current ISR	\$1,242,553	1,512,721	1,215,171
Deferred ISR	(33,718)	(157,646)	264,086
	1,208,835	1,355,075	1,479,257
Foreign operation:			
Current ISR	4,294	198,813	45,358
Deferred ISR	(58,151)	(469,444)	118,818
Total ISR expense	\$1,154,978	1,084,444	1,643,433

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 2018, 2017 and 2016 due to the items listed below:

	December 31,		2017		2016			
	ISR	Percentage	ISR	Percentage	ISR	Percentage		
Expected expense	\$1,354,965	30 %	\$1,811,667	30 %	\$1,678,379	30 %		
Increase (decrease) resulting from:		-						
Net effects of inflation	(276,758)	(6)%	(329,516)	(5)%	(144,611)	(2)%		
(Non-taxable income) Non-deductible expenses	16,648	0 %	88,330	1 %	14,550	0 %		
Effect of rate difference of foreign subsidiary	(16,572)	(0)%	702	0 %	21,979	0 %		
Effect from non-deductible employee benefits	90,820	2 %	83,953	1 %	71,868	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	(14,126)	(0)%	1,448	0 %	1,268	0 %		
Income tax expense	\$1,154,978	26 %	\$1,084,444	18 %	\$1,643,433	29 %		

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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 of December 31, 2018, 2017 and 2016 are detailed below:

	December 31,		
	2018	2017	2016
Deferred tax assets			
Accounts payable	\$27,738	16,404	831
Employee benefits	53,398	45,519	42,221
PTU payable	20,536	12,917	12,700
Tax loss carryforwards	-	-	2,760
Other provisions	2,205	7,025	1,754
Total deferred tax assets	103,877	81,865	60,266
Deferred tax liabilities			
Property, plant and equipment	51	59	82
Prepaid expenses	-	1,136	52
Total deferred tax liabilities	51	1,195	134
Net deferred tax assets	103,826	80,670	60,132

	December 31,		
	2018	2017	2016
Deferred tax assets			
Accounts payable	\$1,483,275	1,170,771	964,676
Tax loss carryforwards	59,883	22,013	676
Goodwill	3,879	7,562	19,846
Other provisions	76,025	54,020	24,049
Total deferred tax assets	1,623,062	1,254,366	1,009,247
Deferred tax liabilities			
Inventories	1,639,156	1,601,498	1,612,890
Accounts receivable	366,825	421,191	438,146
Property, plant and equipment	2,503,172	2,428,358	2,566,002
Prepaid expenses	647,480	392,800	302,958
Intangible assets	233,749	253,898	-
Derivative financial instruments	-	-	1,826
Total deferred tax liabilities	5,390,382	5,097,745	4,921,822

Net deferred tax liability	\$3,767,320	3,843,379	3,912,575
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d) 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, 2018, 2017 and 2016 amounts to \$2,049,327, \$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.

e) Movement in temporary differences during the fiscal year

	January 1, 2018	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2018
Accounts payable	\$(1,187,175)	(323,784)	(54)	(1,511,013)
Employee benefits	(45,519)	(1,317)	(6,562)	(53,398)
PTU payable	(12,917)	(7,619)	-	(20,536)
Tax loss carryforwards	(22,013)	(37,004)	(866)	(59,883)
Other provisions	(61,045)	(17,240)	55	(78,230)
Goodwill	(7,562)	3,604	79	(3,879)
Intangible assets	253,898	(19,825)	(324)	233,749
Inventories	1,601,498	37,319	339	1,639,156
Accounts receivable	421,191	(54,366)	-	366,825
Property, plant and equipment	2,428,417	74,819	(13)	2,503,223
Prepaid expenses	393,936	253,544	-	647,480
Net deferred tax liability	\$3,762,709	(91,869)	(7,346)	3,663,494

	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)

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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

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	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

f) Tax on assets and tax loss carryforwards

As of December 31, 2018, tax loss carryforwards expire as shown below. Amounts are indexed for inflation as permitted by Mexican income tax law:

Year	Amount as of December 31, 2018 Tax loss carryforwards	Year of expiration / maturity
2017	\$ 58,710	2027
2018	196,197	2028
	\$ 254,907	

(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.

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, \$0 and \$1,597, in 2018, 2017 and 2016, respectively.

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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 \$62,028, \$56,063 and \$50,047, in 2018, 2017 and 2016, 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 of 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.

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. As of 2018 this obligation is only recognized for directors and executives.

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:

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	December 31,		
	2018	2017	2016
Present value of unfunded obligations	\$302,818	252,965	195,019
Present value of funded obligations	197,254	259,245	267,535
Total present value of benefit obligations (PBO)	500,072	512,210	462,554
Plan assets at fair value	(197,254)	(259,245)	(267,535)
Projected liability, net	\$302,818	252,965	195,019

i. Composition and return of plan assets

	Actual return of the plan assets						Composition of the plan assets					
	2018		2017		2016		2018		2017		2016	
Fixed income securities	5.10	%	7.18	%	7.16	%	67	%	61	%	64	%
Variable income securities	(10.95)	%	12.78	%	10.07	%	33	%	39	%	36	%
Total							100	%	100	%	100	%

ii. Movements in the present value of defined benefit obligations (PBO)

	2018	2017	2016
PBO as of January 1	\$462,986	462,554	447,099
Benefits paid by the plan	(38,393)	(32,940)	(26,031)
Service cost	28,084	28,968	29,604
Interest cost	41,410	40,170	34,857
Actuarial (gains) losses recognized in other comprehensive income	494	13,458	(24,827)
Past service cost – plan amendments	5,491	-	1,852
PBO as of December 31	\$500,072	512,210	462,554

iii. Movements in the fair value of plan assets

	2018	2017	2016
Plan assets at fair value as of January 1	\$259,245	267,535	286,881
Transfer of assets to fund defined contribution benefit plan	(38,327)	(10,664)	(25,600)
Benefits paid by the plan	(16,772)	(17,049)	(9,457)
Expected return on plan assets	23,244	23,342	25,650
Actuarial losses in other comprehensive income	(30,136)	(3,919)	(9,939)
Fair value of plan assets as of December 31	\$197,254	259,245	267,535

iv. Expense recognized in profit and loss

	2018	2017	2016
Current service cost	\$28,084	28,968	29,604
Interest cost, net	18,166	16,828	9,207
	\$46,250	45,796	38,811

v. Actuarial gains and (losses)

	2018	2017	2016
Amount accumulated as of January, 1	\$(140,617)	(123,240)	(138,128)
Recognized during the year	(30,630)	(17,377)	14,888
Amount accumulated as of December, 31	\$(171,247)	(140,617)	(123,240)

vi. Actuarial assumptions

Primary actuarial assumptions at the consolidated financial statements date (expressed as weighted averages) are as follows.

	2018	2017	2016
Discount rate as of December, 31	10.50 %	9.25 %	9.00 %
Rate for future salary increases	4.50 %	4.50 %	4.50 %
Social security wage increase rate	3.50 %	3.50 %	3.50 %

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,		
	2018	2017	2016
Present value of defined benefit obligation	\$500,072	512,210	462,554
Plan assets at fair value	(197,254)	(259,245)	(267,535)

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Plan deficit	\$302,818	252,965	195,019
Experience adjustments arising from plan liabilities	\$494	13,458	(24,827)
Experience adjustments arising from plan assets	\$(30,136)	(3,919)	(9,939)

viii. Sensitivity analysis of the defined benefits obligations as of December 31, 2018, 2017 and 2016

2018	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 10.50%	(358,635)	(119,973)	(21,464)	(500,072)
Rate increase (+ 1%)	(313,585)	(109,872)	(20,258)	(443,715)
Rate decrease (- 1%)	(364,699)	(121,572)	(21,649)	(507,920)

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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)

ix. Expected cash flows

Total
2019-2029 \$482,775

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.

b) Foreign employee benefitsDefined 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 \$12,999, \$11,497 and \$10,909 for the year ended December 31, 2018, 2017 and 2016, 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 units were outstanding as of December 31, 2018, 2017 and 2016, all of which were fully vested. The total liability under this plan totaled \$20,922, \$3,378 and \$3,337 as of December 31, 2018, 2017 and 2016, respectively. No expense was recognized for this plan for the year ended December 31, 2018, 2017 and 2016.

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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, 2018, 2017 and 2016 is shown in note 19, Trade payable and other accounts payable.

(23) Costs and expenses by nature

	2018	2017	2016
Cost of sales	\$51,422,376	47,502,959	42,635,071
General, selling and administrative expenses	6,024,406	5,423,379	4,847,858
Total costs and expenses	\$57,446,782	52,926,338	47,482,929
Inventory consumption	\$40,115,184	37,567,550	34,018,493
Wages and salaries	7,348,795	6,605,584	5,971,382
Freight	4,809,678	4,176,508	3,712,349
Maintenance	1,719,907	1,471,392	1,292,763
Other utility expenses	1,591,920	1,334,339	1,005,570
Depreciation	1,226,917	1,075,788	925,748
Leases	453,162	416,437	403,116
Other	181,219	278,740	153,508
Total	\$57,446,782	52,926,338	47,482,929

(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.

	2018	2017	2016
Lease expenses	\$453,162	416,437	403,116

The amount of annual rentals payable, arising from lease agreements for the following five years is as follows:

2019	\$117,496
2020	103,347
2021	97,548
2022	70,956
2023	50,751

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(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 2018, 2017 and 2016 these ratios were below the thresholds established by the Company's Risk Committee.

b) Common stock and premiums

As of December 31, 2018, 2017 and 2016, 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.

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, 2018, stockholders with 1% or more interest in the Company, in addition to the family trusts, are as follows:

	Shares	Position
Renaissance Technologies LLC	7,559,952	1.26 %

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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, 2018, 2017 and 2016 amounts to \$120,378, \$98,938 and \$86,774, which includes a deferred tax effect of \$50,867, \$41,679 and \$36,466, respectively.

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 25, 2018, pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$568,500 was approved to be used in the reserve for acquisition own shares.

The following table shows the movements of the reserve for acquisition of shares during the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Balance as of January 1	20,000	-	10,000
(+) Total shares purchased	86,928	20,000	100,157
(-) Total shares sold	(20,000)	-	(110,157)
Balance as of December 31	86,928	20,000	-

The net amount of repurchase and treasury share sale transactions gave rise to additional paid in capital of \$85, loss of (\$1,800), and gave rise to additional paid in capital of \$368 during the years ended December 31, 2018, 2017 and 2016, respectively, recognized within equity.

As of December 31, 2018, the Company has 86,928 treasury shares.

e)

Dividends

During the years ended December 31, 2018, 2017 and 2016, the Company has declared and paid the following dividends:

On April 25, 2018, the Company declared a payment of dividends in cash at nominal value of \$852,000 or \$1.42 pesos per outstanding share. The payment was made in two equal installments, on May 11 and July 6, 2018.

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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, on 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, on May 12 and July 7, 2016.

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 2018, 2017 and 2016, net income of BSACV, accounted for 63%, 63% and 65%, 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.

f) **Tax balances of stockholders' equity**

CUFIN	Balance as	Balance	Total
	2013	from 2014	
IBSA individual	\$7,221,441	7,732,775	14,954,216
IBSA Consolidated	7,595,797	15,170,021	22,765,818

The restated amount as of December 31, 2018 on tax bases of the contributions made by stockholders (CUCA), totaling \$2,971,796, may be refunded to them tax-free, to the extent that such amount is the same or higher than equity.

The basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are \$5.58, \$8.25 and \$6.58, respectively. The calculation of earnings per share was based on income attributable to ordinary stockholders of \$3,349,967, \$4,948,242 and \$3,946,634 for the years ended December 31, 2018, 2017 and 2016, respectively.

The average weighted number of common outstanding in 2018, 2017 and 2016 was 599,980,734, 599,997,696 and 599,979,844 shares, respectively.

The Company has no ordinary shares with potential dilutive effects.

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(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 \$6,885 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$19,670 (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 \$74,766 (3,801 thousand dollars), \$98,221 (4,996 thousand dollars) and \$75,873 (3,676 thousand dollars) as of December 31, 2018, 2017 and 2016, respectively. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$139,783, (7,269 thousand dollars), \$221,644, (11,721 thousand dollars) and \$120,729 (6,463 thousand dollars) for the years ended December 31, 2018, 2017 and 2016, respectively. The Company is required to maintain letters of credit on behalf of the subsidiary of \$57,043, (2,900 thousand dollars) during 2018, \$57,014, (2,900 thousand dollars) during 2017 and \$70,176 and \$58,514 (3,400 thousand dollars) as of December 31, 2016, 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.

(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.

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(29)

Financial income and costs

	2018	2017	2016
Interest income	\$1,072,991	848,148	637,977
Income from interest in accounts receivable	4,516	8,961	8,357
Foreign exchange gain, net	39,323	230,532	297,463
Effects of valuation of derivative financial instruments	23,919	-	25,377
Financial income	1,140,749	1,087,641	969,174
Effects of valuation of derivative financial instruments	-	(84,094)	-
Interest expense and financial expenses on financial debt	(185,913)	(188,597)	(129,769)
Commissions and other financial expenses	(146,255)	(67,400)	(42,385)
Financial costs	(332,168)	(340,091)	(172,154)
Financial income, net	\$808,581	747,550	797,020

(30)

Other income (expenses)

	2018	2017	2016
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$1,041,677	896,840	1,076,902
Bargain purchase gain of domestic business acquisition (note 4b)	-	87,496	-
Total other income	1,041,677	984,336	1,076,902
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(737,077)	(731,110)	(704,152)
Other	(201,940)	(85,584)	(112,548)
Total other expenses	(939,017)	(816,694)	(816,700)
Total other income (expenses), net	\$102,660	167,642	260,202

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