



2017

ANNUAL REPORT

65 YEARS ADDING VALUE

Industrias Bachoco S.A.B. de C.V.

Bachoco's PROFILE

Bachoco

Industrias Bachoco is leader in the Mexican poultry industry and one of the ten largest poultry producers globally.

The Company was founded in 1952 and became a public company in 1997, via a public offering of shares on the Mexican and the New York stock exchanges.

Bachoco is a vertically-integrated company with operations in Mexico and the US with its headquarters located in Celaya, Guanajuato, Mexico. Its main business lines are: chicken, table eggs, balanced feed, swine, and others, including further process products of turkey and beef.

Currently the Company is rated AAA (MEX), the highest rating awarded by Fitch Mexico, and HR AAA which signals that the Company and their bonds both have the highest credit quality by HR Ratings de Mexico S.A. de C.V.



*Enrique Robinson Bours
Honorary President of the Board of
Directors and Co-founder*

Bachoco owns and manages:



10
PROCESSING
PLANTS

9
FURTHER
PROCESSING
PLANTS

22
FEED
MILLS

26
HATCHERIES

+ THAN 80
DISTRIBUTION
CENTERS



THE COMPANY
EMPLOYS MORE
THAN 27,000 PEOPLE

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ALIMENTANDO DE VERDAD A MÉXICO.
EL POLLO RECOMENDADO POR LOS EXPERTOS.

Bachoco.
Alimentando de verdad

¿TE ALIMENTAS
DE MENTIS
O TE ALIMENTAS
DE VERDAD?

Bachoco.
Alimentando de verdad

ALIMENTANDO DE VERDAD A MÉXICO

EL POLLO TE ALIMENTA SIN



highlights

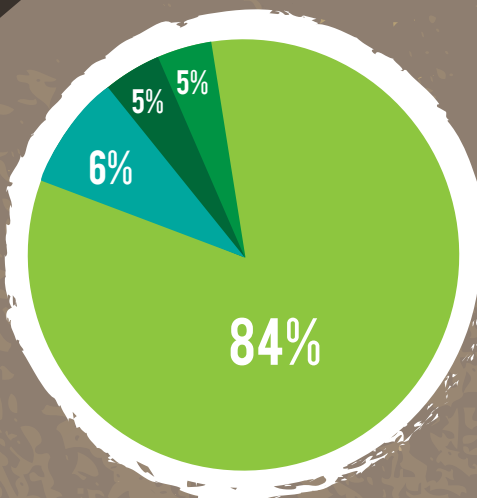
OPERATING DATA

In millions pesos	In U.S. Dollar ¹			
	2017	2017	2016	2015
Net sales	\$ 2,952.7	58,050.0	52,020.3	46,229.0
Gross profit	536.5	10,547.1	9,385.2	9,381.5
Operating income	269.1	5,291.3	4,797.6	5,053.5
EBITDA Result	326.8	6,424.1	5,777.0	5,873.4
Net income	\$ 252.0	4,954.4	3,951.2	3,819.5
EPS in pesos	0.42	8.25	6.58	6.36
Earnings per ADR en pesos	5.03	98.97	78.90	76.30
Gross margin	18.2%	18.2%	18.0%	20.3%
Operating margin	9.1%	9.1%	9.2%	10.9%
EBITDA margin	11.1%	11.1%	11.1%	12.7%
Net margin	8.5%	8.5%	7.6%	8.3%

¹ One dollar equal to \$19.66 pesos

STATEMENT OF FINANCIAL DATA

In millions pesos	In U.S. Dollars ¹			
	2017	2017	December 31, 2016	2015
TOTAL ASSETS	\$ 2,571.6	50,557.4	45,090.5	40,446.6
Cash and cash equivalents	876.9	17,240.1	15,659.8	15,290.1
Inventories	240.5	4,727.3	3,970.7	3,404.3
TOTAL LIABILITIES	\$ 756.8	14,879.5	13,374.3	12,667.2
Notes payable to banks	187.9	3,695.1	3,097.5	1,631.9
Accounts payable	241.1	4,740.4	4,545.2	4,597.1
Long-term debt	79.0	1,554.0	950.4	2,495.1
TOTAL STOCKHOLDERS' EQUITY	\$ 1,814.7	35,677.9	31,716.2	27,779.4
Capital stock	59.7	1,174.4	1,174.4	1,174.4
Retained earnings	1,646.4	32,367.9	28,245.0	24,749.6

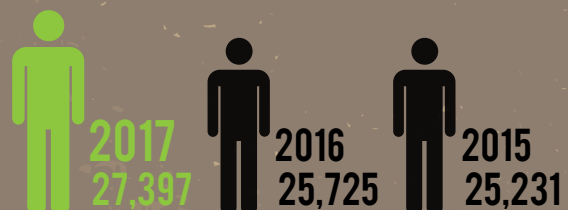


NET SALES

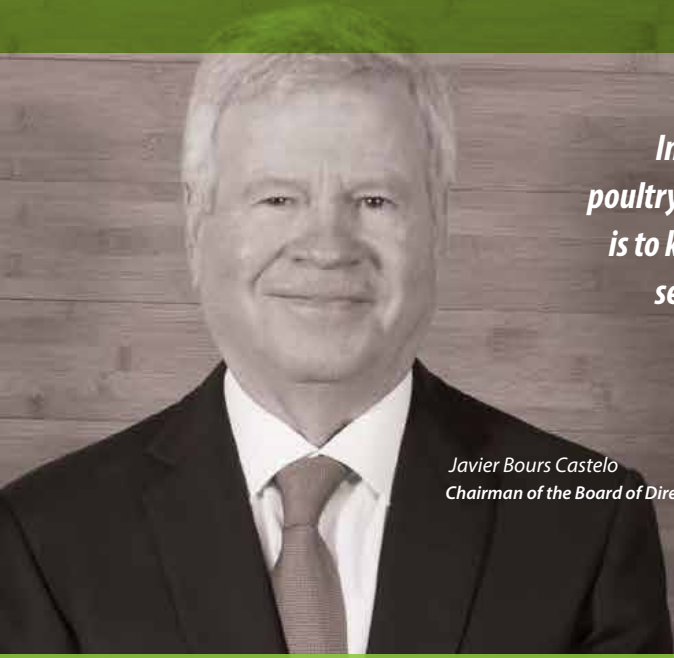
SALES BY GEOGRAPHY



EMPLOYEES



message to SHAREHOLDERS



Javier Bours Castelo
Chairman of the Board of Directors

In year 2017, we celebrated 65 years of presence in the poultry industry and 20 years as a public company [...] Our goal is to keep our position in Mexico as the leader of the poultry sector and to be one of the main players worldwide, [...]

Dear Shareholders of Industrias Bachoco:

2017 was a year that started under adverse macroeconomic expectations in Mexico and with high volatility on the Mexican peso exchange rate. However, conditions improved along the year, the GDP grew 2.3% in 2017 and, on average, the Mexican peso slightly depreciated vs the US dollar. The inflation rate in 2017 was 6.77%, a relatively high value compared with previous year values.

In the Mexican poultry industry, it is expected that chicken production continued growing 3.3%, a normalized growth level. In general, we saw a good balance between supply and demand for most of the year, with some over-supply conditions in the fourth quarter. It is expected imports of chicken from the US declined in 2017, this change in trend reflects the capacity and competitiveness of the Mexican industry. After oversupply conditions for nearly one year in the table eggs business line, conditions improved substantially in the second semester of the year.

In the US, the poultry industry grew 2.4% above its normalized growth levels; however, a good balance between supply and demand was observed for most of the year.

On the cost side, the US poultry industry continued to capitalize the benefits of a good grain crop, allowing stable raw materials costs in dollar terms. In Mexico, prices of raw material costs were relatively stable for most of the year.

In Mexico, we increased our total sales in our main product lines, reinforcing our presence in all the commercial channels we participate in.

Regarding our US operation, it continued yielding positive results and moving from commodity to value added products. In March, we announced a recall of approximately 1 million pounds of breaded chicken products produced at our Oklahoma City plant. We identified and isolated the problem and took immediate actions to increase quality control measures in this plant. We have been working intensively to restore the confidence of our customers for products produced in this facility.

We continue working on our growth plans for the company. We increased our CAPEX to more than \$3,500 million, focusing mainly on organic growth projects, and productivity projects along our supply chain.

In 2017, we materialized two acquisitions:

The first one, through our subsidiary OK Foods, we acquired Alabama-based "Albertville Quality Foods (AQF)", a company that produces and sells value added further processed products, with sales of around \$270 million USD a year. With this acquisition, we will continue the growth of our US operation, mainly with further processed products.

The second one, through our subsidiary Campi Alimentos S.A. de C.V, we acquired "La Perla", a Pet Food company located in the Mexican state of Queretaro and with the capacity to produce dry pet food, wet food and Pet Food Treats. With this acquisition, we are increasing significantly our Pet Food capacity, a product line in which we have had satisfactory results so far, and in which we see an interesting future.

We are integrating these companies into our normal operations and capturing the opportunities and synergies we have identified.

In September of last year, we were challenged by natural disasters in both Mexico and the US. While there were no material damages in our facilities, those events affected the economical dynamic in important regions of Mexico. This caused a temporary lower demand in Mexico, resulting in over supply conditions; conditions that changed at the end of the year.

Our company focused on providing immediate assistance to our employees and their families affected by these unfortunate events, and to help those affected by donating prepared foods directly and through some of the food chains we work with, in coordination with Mexican authorities. Also, we continue our operations for keeping the supply of our food products to all the regions we attend, either affected or not by these events.

In August, we successfully issued bonds for \$1,500 million, through the public issuance of bonds in the Mexican debt capital markets for a tenor of 5 years, maturing in 2022. This reflects the confidence the financial community has in our company.

In year 2017, we celebrated 65 years of presence in the poultry industry and 20 years as a public company, trading in the Mexican Bolsa and in the NYSE. When we went public, our total sales were nearly \$0.5 billion USD a year, 20 years later our total sales were more than \$3.0 billion USD.

We finished 2017 with very satisfactory results, as we reached historically high net sales, EBITDA and earnings per share, among other parameters.

Our financial structure continued strong as we ended the year with a net cash of nearly \$12,000 million, which will allow us to continue supporting our short and long-term growth plans.



As always, these results were possible with the support of our management team and staff, integrated by more than 27,000 people.

We know we still have many opportunities to improve our performance, as well as many challenges and uncertainties to face, but we are confident in the hard work and commitment of our staff to reach the Company's goals.

I would like to remind you of the commitment that we have with all of you; Our goal is to keep our position in Mexico as the leader of the poultry sector and to be one of the main players worldwide, while continuing to grow our business with profitability, delivering positive results and maintaining the solid financial structure that always characterizes us.

Javier Bours Castelo
Chairman of the Board of Directors





Rodolfo Ramos Arvizu
Director General

Dear Shareholders:

All figures discussed below are information for 2017 with comparative figures of 2016. It was prepared under IFRS accounting principles, and is presented in millions of pesos unless otherwise indicated.

According to the Mexican National Poultry Association estimates, in 2017 chicken volume produced in Mexico grew within its normalized growth range, during most part of the year we observed a good balance between supply and demand, except in the last quarter in which natural disasters affected important regions in Mexico, events that had an impact on demand which was fulfilled by the end of the year. Regarding table egg industry, we observed oversupply conditions during the first semester, those conditions changed during the second half of the year when we observed a good balance between supply and demand.

We continue with our growing plans regarding our Balance Feed business line, particularly on pet food where we consider there are good opportunities that we can capture.

Regarding the US poultry industry, according to USDA sources, chicken volume produced in the US grew 2.4%, slightly above its normal rate of 1.0 to 1.5% without showing oversupply conditions.

During 2017, we kept consolidating several projects; from projects directed to increase our production capacity along our entire supply chain, identifying and eliminating bottle necks, projects to increase or maintain our facilities at the highest levels of efficiency within the industry, to projects that allow us to move towards our goal of being close and to better understand and attend to their needs.

Our financial position, in particular our derivatives position, remained healthy throughout 2017; We continue with a very disciplined practice in this sense.

2017 & 2016 RESULTS

Net sales in 2017 totaled \$58,050.0 million, \$6,029.7 million more or a 11.6% increase in net sales, when compared to \$52,020.3 million reported in 2016. This increase was mainly due to higher volume sold and price increases in poultry.

In 2017, sales of our US operation represented 28.4% of our total sales, compared with 25.8% in 2016.

The Company's sales on poultry increased 12.0%, while "Others" increased 7.8%; both as a result of higher volume and prices when compared to 2016. Particularly on poultry we reached an increase of 3.3% in volume sold and 8.7% increase in prices, this last one, mainly due to a higher mix of value added products in our U.S operation.

Cost of sales totaled \$47,503.0 million, 11.4% higher than the \$42,635.1 million reported in 2016. The increase in cost of sales was mainly attributed to more volume sold and higher inflation rate in Mexico and a mix effect, due to a higher percentage of value added products in our US operations.

These numbers allowed us to post a gross profit of \$10,547.1 million, which represented 18.2% of gross margin; slightly higher than \$9,385.2 million of gross profit and a margin of 18.0% reached in 2016.

Total SG&A expenses in 2017 were \$5,423.4 million, an increase of \$575.5 million or 11.9%

In 2017, we reached an EBITDA of \$6,424.1 million, representing an EBITDA margin of 11.1%, compared to an EBITDA de \$5,777.0 million in 2016, with a margin of 11.1%.



when compared to \$4,847.9 million in 2016. Total SG&A expenses as a percentage of net sales represented 9.3% in 2017 and 9.3% in 2016.

In 2017, we had other income of \$167.6 million, compared with other income of \$260.2 million reported in 2016. This is mainly attributed to gains in the sale of several unused assets during the year.

The operating income in 2017 totaled \$5,291.3 million with a margin of 9.1%, higher than the \$4,797.6 million of operating income and 9.2% margin as reported in 2016.

In 2017, we reached an EBITDA of \$6,424.1 million, representing an EBITDA margin of 11.1%, compared to an EBITDA of \$5,777.0 million in 2016, with a margin of 11.1%.

Net financial income was \$747.6 million, a decrease when compared to the net financial income of \$797.0 million in 2016.

Total taxes were \$1,084.4 million. This includes \$1,711.5 million income tax and a favorable effect of \$627.1 million on deferred taxes. This figure compares to total taxes of \$1,643.4 million which includes income tax of \$1,260.5 and \$382.9 million of deferred tax in 2016. In fourth quarter of 2017, we recognized a favorable effect on deferred taxes as a result of the fiscal change approved by the U.S authorities at the end of the year.

As a result, net income in 2017 was \$4,954.4 million, an 8.5% net margin, which represents earnings per share of \$8.25 pesos, while in 2016, net income totaled \$3,951.1 million with a 7.6% net margin, and \$6.58 pesos of earnings per share.

Cash and equivalents as of December 31, 2017 totaled \$17,240.1 million, an increase of \$1,580.3 million or 10.1% more than the \$15,659.8 million of cash and equivalents reported as of December 31, 2016.

Total debt as of December 31, 2017 was \$5,249.0 million, compared to total debt of \$4,047.9 million reported as of December 31, 2016. As a result, our net cash as of December 31, 2017 totaled \$11,991.1 million, compared with a net cash of \$11,611.9 million as of December 31, 2016.

Capex in 2017 totaled \$3,513.4 million, this includes assets from acquisitions made that year, an increase when compared to \$2,459.7 million reported in 2016. In 2017, the Company continued with the implementation of new projects oriented toward organic growth and productivity improvements.

Rodolfo Ramos Arvizu
Chief Executive Officer



report from THE BOARD OF DIRECTORS

As Chairman of the Board of Directors of Industrias Bachoco, and pursuant to the provisions of Section IV of Article 28 of the Securities Market Law, I hereby inform you of the following:

This Board of Directors reviewed and approved the Chief Executive Officer's report which supports the performance of management for fiscal year 2017, and it was based on the independent auditor's Opinion.

The Board believes that the CEO's report was prepared in accordance with the Financial Reporting Standards and reflects the Company's financial position and its operating results.

We believe that the Company's policies, accounting and reporting principles followed are adequate and consistent with the Audited Financial Statements.

This Board directed the Company to continue acting in strict accordance with IFRS principals.

We determined that during year 2017, the Company did not engage in unusual operations or other activities different from the normal course of the business. No exemptions were granted to any member of the Board, executive officers or any other member of the Company to take advantage of business opportunities for themselves or in favor of third parties.

Lastly, the Board presented in the Annual Ordinary Shareholders' Meeting the report of the Auditing and Corporate Practices Committee, the Chief Executive Officer's report, the report on prompt compliance with tax obligations, and the report on the principal accounting and information policies and criteria followed by the Company in the preparation of its financial statements for fiscal year 2017.



Javier Bours Castelo
Chairman of the Board of Directors

audit and corporate PRACTICES COMMITTEE

Bachoco has an Auditing and Corporate Practices Committee to support the Board of Directors, which is comprised of three Independent Directors and one Property Shareholder Director. This Committee was last ratified on the Annual and General Ordinary Shareholders' Meeting on April 26, 2017.

AUDIT COMMITTEE AND CORPORATE PRACTICES MEMBERS

Guillermo Ochoa Maciel (President)
Humberto Schwarzbeck Noriega
Avelino Fernandez Salido
Ricardo Aguirre Borboa



annual report

OF THE PRESIDENT OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE TO THE BOARD OF DIRECTORS

In accordance with the terms of the Mexican Market Security Law (LMV), this report is issued by the President of the Audit and Corporate Practices Committee of Industrias Bachoco S.A.B. de C.V. (the "Society").

This report has been submitted to the Audit and Corporate Practices Committee of the Company, which validated content, scope and conclusions for the Board of Directors approval and through the Board, its validation in the Annual and General Ordinary Shareholders' Meeting of the Company that will take place in April 2018.

In the exercise of the Committee functions, and in attention of its responsibilities, the Committee has counseled with the Chief Financial Officer, the Internal Audit Manager and, the Chief Executive Officer of the Society.

The resolutions adopted by the Audit Committee have been informed timely and submitted to the consideration of the Board of Directors by means of the respective report submitted to this ultimate superior social entity in the corresponding meetings. A file has been integrated from each meeting, including the reports and other relevant documents.

Regarding Corporate Practices:

We concluded that the Officers performance was aligned with the Company's objectives. We reviewed the CEO and senior officers and compensation packages were granted. We verified that there was no existence of any grant or exceptions to Directors, senior officers, or other employees of the Company. In 2017, the total transactions in connection to related parties represented less than 3.5% of the Company's net sales. After an exhaustive review of the transactions carried out with related parties, we concluded that they were conducted in fair-market terms. We reviewed policies and guidelines related to the use of goods that constitute the equity of the Company and its subsidiaries, by any related parties, as well as policies for granting of loans or any type of credit or guarantees. We analyzed and assessed the services provided by the independent experts, when it was required.

Regarding Internal Audit Function:

The Audit and Corporate Practices Committee has remained involved with the needs of the internal audit area to make sure they have the necessary human and material resources for the suitable performance of its function. The evaluations carried out by the Internal Audit, the external auditors, and the General Director have been reviewed, and it is concluded that the

internal control processes provide reasonable security to prevent or detect errors or material irregularities in the normal course of social operations, although these processes are constantly improving and the corresponding revisions continue.

Regarding Financial Information:

The Financial Statements of the Company were discussed quarterly with the executives responsible for their preparation and review, there were no significant observations to the information presented. Before being forwarded to the Mexican Stock and Exchange, the Financial Statements were reviewed by the Committee for its approval or ratification by the Board of Directors. In each quarterly Committee's meeting, reports to the Stock Exchange were analyzed and approved, having made the observations or suggestions of the case and recommending to the Board of Directors its approval (or ratification) in each case regarding its public disclosure. During the period in question, Financial Statements corresponding to 2017 fiscal year were reviewed and discussed, and did not submit observations and/or qualifications, in consequence, the Committee recommended its approval by the Board of Directors for submission to the Shareholders' Meeting.

Regarding External Audit Performance:

The services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) continued to be used as External Auditors of the Company. The fees corresponding to 2017 were duly revised and approved. The Audited Financial Statements as of December 31, 2017 were received on the part of the External Auditor. The Audit Committee concludes that the performance of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) as External Auditors of the Company and of its partners in charge

of the respective audit, is appropriate and that the communication between such Committee and the auditors referred herein is consistent. The External Auditors confirmed their independence.

Regarding Accounting and Self-Regulatory Policies:

The main accounting policies followed by the Company were reviewed and approved in terms of the information received by reason of new regulations. During the period, the updates proposed by the Administration to various self-regulatory policies were reviewed, on which were favorably expressed for submission to the Board of Directors. The accounting policies, criteria, and information observed by the Company are adequate and sufficient.

Conclusions:

The recommendations of the Audit and Corporate Practices Committee have been, or are being addressed by the Administration of the company. During the reported period, the Audit and Corporate Practices Committee did not receive from Shareholders, Directors, relevant executives,

employees and in general from any third party, any remarks about accounting, internal controls and other matters related to the Internal or External Audit, other than those issued by the management during the preparation or revision of the respective documentation; no complaints were received about any irregular matters regarding the Administration. The Audit and Corporate Practices Committee has followed, within its competence and in accordance with the instructions received, the resolutions of the Board of Directors and the Shareholders' Meeting during the reporting period. From all the above, the Audit and Corporate Practices Committee has fulfilled the functions stated in Article 42, paragraph II of the LMV, during the reporting period.

OPINION OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS ON THE ANNUAL REPORT OF THE CHIEF EXECUTIVE OFFICER

After having listened and analyzed the CEO's report for the fiscal year ended on December, 31, 2017, prepared in terms and for the purposes of the stated of Article 44, section XI of the Security Market Law, in relation to Article 172 of the General Law of Business Corporations and based on the reports of the External Audit presented to the Committee, the Audit and Corporate Practices Committee has determined that: (i) the accounting and information policies and criteria followed by the Company are adequate and sufficient, taking into account the Company's particular circumstances; (ii) these accounting policies and criteria have been consistently applied in the information presented by the CEO; (iii) as consequence of the previous numerals (i) and (ii), the information presented by the CEO reflects the Company's financial situation and results for the fiscal year 2017.

Based on the above, under the terms and for the purpose of the provisions of the Article 42, paragraph II, section e) of the LMV, the Audit and Corporate Practices Committee recommend to the Board of Directors the approval of the CEO's annual report for fiscal 2016, for its presentation to the Annual and General Ordinary Shareholder's Meeting of the Company.



Guillermo Ochoa Maciel
*President of Bachoco's Audit and Corporate Practices
Committee*

highlights TO INVESTORS

IN 2017



THE COMPANY'S SHARES
AND ADRs REACHED

A YIELD OF **10.5%**
ON THE BMV AND OF

16.9% ON NYSE

BACHOCO IN THE STOCKS

- 600 million shares
- One single class (Class B)
- Full rights
- An ADR equals 12 shares
- 26.75% of float
- An estimated \$56,172 million pesos in market capitalization

The founding
family holds

73.25%
OF TOTAL SHARES

By two Trusts:

- Control Trust with **52.00%**
- Underwriting Trust with **21.25%**

SHARE PRICES



Bolsa Mexicana de Valores
In pesos per Share



The New York Stock Exchange
In dollars per ADR

Year	High	Low	Average	Close	Year	High	Low	Average	Close
2017	102.00	79.53	88.51	93.62	2017	67.61	46.20	56.39	57.30
2016	85.65	62.51	77.34	84.75	2016	55.65	41.17	49.68	49.02
2015	89.73	59.23	71.74	70.05	2015	63.49	45.64	54.09	49.23
2014	68.55	44.71	56.62	62.00	2014	61.24	40.37	50.84	49.88
2013	45.25	28.80	38.27	44.16	2013	43.08	27.02	35.92	40.27

Source: Yahoo Finance

board of DIRECTORS

Bachoco's Board of Directors is comprised of eight Proprietary Shareholder Directors, four Alternate Shareholder Directors, and four Independent Proprietary Directors. This board was last ratified on April 26, 2017. The Board's main duties include the following:

- Determine policies, general strategies, and the organization and management criteria that guide the activities of the Company.
- Prepare and develop programs to optimize resource management and the operation of the business, such as budgets and financial planning.
- After considering the Auditing and Corporate Practices Committee's opinion, approve the internal control and guidelines of the internal auditing of the Company.
- Authorize acquisitions or disposing, as well as the granting of guarantees or the taking of liabilities for a value equal to or higher than five per cent of the consolidated assets of the Company, except for investments in debt securities or bank instruments; provided such are made in accordance with the policies approved by the Board for such purposes.
- Review and authorize operating results and work plans, and the overall compensation of the Company's senior officers.

PROPRIETARY SHAREHOLDERS DIRECTORS

Javier Bours Castelo (Chairman of the Board), Jose Gerardo Robinson Bours Castelo, Jesus Enrique Robinson Bours Muñoz, Jesus Rodolfo Robinson Bours Muñoz, Arturo Bours Griffith, Octavio Robinson Bours, Ricardo Aguirre Borboa and, Juan Salvador Robinson Bours Martinez.

INDEPENDENT PROPRIETARY DIRECTORS

Avelino Fernandez Salido, Humberto Schwarzbeck Noriega, Guillermo Ochoa Maciel and, David Gastelum Cazares.

ALTERNATE SHAREHOLDERS DIRECTORS

Jose Eduardo Robinson Bours Castelo alternate of Javier Bours Castelo and Jose Gerardo Robinson Bours Castelo.

Jose Francisco Robinson Bours Griffith, alternate of Octavio Robinson Bours and Arturo Bours Griffith.

Guillermo Pineda Cruz, alternate of Jesus Enrique Robinson Bours Muñoz and Jesus Rodolfo Robinson Bours Muñoz.

Gustavo Luders Becerril, alternate of Juan Salvador Robinson Bours Martinez and Ricardo Aguirre Borboa.

HONORARY MEMBERS OF THE BOARD

Enrique Robinson Bours Almada, Mario Javier Robinson Bours Almada, Juan Bautista Salvador Robinson Bours Almada.

SECRETARY OF THE BOARD

Eduardo Rojas Crespo

senior management TEAM



- 1 *Rodolfo Ramos Arvizu / Chief Executive Officer*
- 2 *R. Trent Goins / Director of U.S. Operations*
- 3 *Ernesto Salmon Castelo / Director of Operations*
- 4 *Andrés Morales Astiazaran / Director of Sales*
- 5 *Daniel Salazar Ferrer / Chief Financial Officer*
- 6 *Augusto Franco Gomez / Director of Marketing*
- 7 *Ismael Sanchez Moreno / Director of Human Resources*
- 8 *Alejandro Elias Calles Gutierrez / Director of Purchasing*

65 years adding value

Bachoco was born 65 years ago, currently, is considered the largest poultry company in Mexico and one of the top producers worldwide, constantly growing on infrastructure, with a wide range of products and a well-recognized brand which gives Bachoco solid presence in the market.

This can only be achieved by consistently adding value and satisfying our groups of interest expectations.

We constantly look for ways to add value to our products and processes in order to keep our vision of being present every day in the consumer's nourishment.





TOGETHER FOR OUR BACHOCO TEAM

We consolidated the Bachoco Welfare program by focusing on three specific areas: Occupational Welfare, Personal Welfare and Social Welfare. Through this program, the company seeks more people join our initiatives and perceive the value of belonging to a company focused on taking care of the life quality of its collaborators.



TOGETHER FOR OUR PLANET

The interaction we have with the environment is a key aspect in which we seek to contribute in a positive way. Proof of these efforts are the water treatment plants in our production centers.

Social Responsibility

Bachoco's Social Responsibility program is based on 5 essential cornerstones seeking to achieve an integral approach for the improvement of collaborators, surrounding communities and the environment. We work hard every day to achieve these goals and 2017 was evidence of it.



TOGETHER FOR OUR BUSINESS

We define strategic lines in which we focus our efforts. Following those strategic lines, we consolidated programs such as the deployment of Bachoco's Cultural Model, the Corporative University and Bachoco Welfare, thinking always of our people.



TOGETHER FOR OUR COMMUNITY

Our commitment and collaboration with neighboring communities constitutes one of our working areas. Beyond providing support in natural disaster situations, we also developed initiatives that contribute to the community improvement.



TOGETHER FOR OUR PRODUCTS

Our work in safety and food quality is a continuous task and we consolidated it through the certification in SQF (Safe Quality Food).

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**Industrias Bachoco
S.A.B. de C.V. and
Subsidiaries**

Independent Auditor's
Report to the Board of
Directors and Stockholders
as of December 31, 2017



Independent Auditor's Report to the Board of Directors and Stockholders of Industrias Bachoco S.A.B. de C.V. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Industrias Bachoco, S. A. B. de C. V. and subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of profit and loss and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2017, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in the forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters to be reported in our report.



Segregation of duties and compensating controls

The significant financial and accounting systems of the Entity are highly automated. As part of its system of internal control, the Entity has established control activities to prevent unauthorized or inappropriate access and use of the systems. Nevertheless, the Entity has identified that certain assigned access profiles could potentially generate segregation of duties conflicts. As of December 31, 2017, the Entity continues, as planned, the process of implementing specialized software to manage the access profiles to prevent segregation of duties conflicts, the Entity estimated that the process will conclude in 2019. While the software is being implemented, the Entity has designed and implemented indirect or compensating controls to detect inappropriate access to the systems that were operating during 2017. Additionally, the Entity has tested such indirect and compensating controls and concluded that the profiles with identified potential conflicts did not represent an inappropriate use of the systems.

Our audit procedures included, among others

We obtained assistance from internal experts of our firm to identify potential segregation of duties conflicts and compared them to those identified by the Entity. Also, we assessed the design and implementation of the indirect and compensating controls of the Entity and tested the design and operating effectiveness of such controls. The results of our tests were reasonable and we concur with the Entity that such indirect and compensating controls were effective.

Business combination

During the year ended December 31, 2017, the Entity completed the acquisition of Albertville Quality Foods, Inc., as disclosed in the note 4 of the accompanying consolidated financial statements. The Entity has determined that this acquisition corresponds to a business combination for which the consideration paid was allocated to the assets acquired and the liabilities assumed, including identified intangible assets, which resulted in the recognition of a goodwill. The Entity hired independent specialists that determined the fair values of the assets and liabilities. The allocation of the consideration paid was determined by the Entity's management. The relevant amounts of the allocation, in thousands of dollars, are summarized as follows:

Tangible assets	66,880
Intangible assets	35,000
Liabilities	(24,282)
Goodwill	60,504
Consideration paid	138,102

Our audit procedures included, among others

We obtained the appraisals and the fair value calculations prepared by the Entity as well as by the independent specialists hired by the Entity. We were assisted by internal experts from the Firm and, together with them, we evaluated the competence, objectivity and capabilities of the specialists, as well as the reasonableness of their conclusions and those of the Entity regarding the key assumptions used to determine the projected cash flows, focusing mainly on revenue, earnings before interest, depreciation and amortization, the assigned useful lives, discount rates and growth rates in relation to historical trends, including comparing the assumptions used with external market analysis and evaluating the mathematical accuracy of the calculations made. Also, we evaluated the process for identifying the assets acquired and the liabilities assumed. In addition, we evaluated the appropriateness of the disclosures included in the accompanying consolidated financial statements in relation to the business combination.



Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the information other than the consolidated financial statements. The other information will comprise the information that will be incorporated in the Annual Report that the Entity is obliged to prepare pursuant to Article 33 Fraction I, clause b) of Title Four, First Chapter of the "General Provisions Applicable to Issuers and Other Stock Market Participants" in Mexico, together with the Instructions Guide accompanying those provisions (collectively, the Provisions). The Annual Report is expected to be made available to us after the date of this audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the Annual Report, we will issue the declaration surrounding the reading of the annual report required by Article 33 Fraction I, clause b) number 1.2. of the Provisions. If, based on the work we have performed, we conclude that there is a material misstatement therein, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Miguel Angel Andrade Leven
April 13, 2018



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

Consolidated Statements of Financial Position

December 31, 2017, 2016 and 2015

(Thousands of pesos)

Assets	Note	2017	2016	2015	Liabilities and equity	Note	2017	2016	2015
Current assets:					Current liabilities:				
Cash and cash equivalents	7	\$ 16,112,268	14,681,204	14,046,262	Short term debt	18	2,852,400	1,444,800	1,622,850
Investment in securities at fair value through profit or loss	8	1,127,841	970,292	1,242,614	Current portion of long-term debt	18	842,651	1,652,725	9,033
Derivative financial instruments	8	-	8,308	1,244	Derivative financial instruments	8	6821	-	-
Accounts receivable, net	9	3,626,878	3,629,144	2,533,427	Trade payable and other accounts payable	19	4,740,366	4,545,177	4,597,103
Due from related parties	20	326	148,855	194,522	Income tax payable	21	731,654	483,618	248,205
Inventories	10	4,727,333	3,970,688	3,404,269	Due to related parties	20	55,252	189,966	165,628
Current biological assets	11	1,942,193	1,961,191	1,651,794	Total current liabilities		9,229,144	8,316,286	6,642,819
Prepaid expenses and other current assets	12	638,671	1,503,945	1,587,808	Long term liabilities:				
Assets held for sale	13	49,523	56,728	60,048	Long term debt, excluding current installments	18	1,553,973	950,412	2,495,127
Total current assets		28,225,033	26,930,355	24,721,988	Deferred income tax	21	3,843,379	3,912,575	3,369,036
					Employee benefits	22	-252,965	195,019	160,218
Non-current assets:					Total long term liabilities		5,650,317	5,058,006	6,024,381
Property, plant and equipment, net	14	17,320,041	15,081,105	13,188,131	Total liabilities		14,879,461	13,374,292	12,667,200
Non-current biological assets	21	1,617,503	1,668,543	1,434,131	Equity:				
Deferred income tax	15	80,670	60,132	54,127	Capital stock	25	1,174,432	1,174,432	1,174,432
Goodwill	16	1,631,094	484,877	454,295	Share premium		414,385	414,385	414,017
Intangible assets	17	1,040,042	-	-	Reserve for repurchase of shares		493,141	449,641	777,622
Other non-current assets		643,006	865,454	595,906	Retained earnings		32,367,912	28,244,970	24,749,616
Total non-current assets		22,332,356	18,160,111	15,724,590	Foreign currency translation reserve		1,268,021	1,465,657	710,439
					Actuarial remeasurements, net	22	(98,938)	(86,774)	(97,196)
					Equity attributable to controlling interest		35,618,953	31,662,311	27,728,930
Total assets		\$ 50,557,389	45,090,466	40,446,578	Non-controlling interest		58,975	53,863	50,448
					Total equity		35,677,928	31,716,174	27,779,378
					Commitments	27			
					Contingencies	28			
					Total liabilities and equity		\$ 50,557,389	45,090,466	40,446,578

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Profit and Loss and Other Comprehensive Income

Years ended December 31, 2017, 2016 and 2015

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

		<u>2017</u>	<u>2016</u>	<u>2015</u>
	Note			
Net revenues		\$ 58,050,025	52,020,303	46,229,049
Cost of sales	23	<u>(47,502,959)</u>	<u>(42,635,071)</u>	<u>(36,847,508)</u>
Gross profit		10,547,066	9,385,232	9,381,541
General, selling and administrative expenses	23	(5,423,379)	(4,847,858)	(4,323,374)
Other income (expenses), net	30	<u>167,642</u>	<u>260,202</u>	<u>(4,640)</u>
Operating income		<u>5,291,329</u>	<u>4,797,576</u>	<u>5,053,527</u>
Finance income	29	1,087,641	969,174	593,845
Finance costs	29	<u>(340,091)</u>	<u>(172,154)</u>	<u>(147,292)</u>
Net finance income		<u>747,550</u>	<u>797,020</u>	<u>446,553</u>
Profit before income taxes		6,038,879	5,594,596	5,500,080
Income taxes	21	<u>1,084,444</u>	<u>1,643,433</u>	<u>1,680,560</u>
Profit for the year		<u>\$ 4,954,435</u>	<u>3,951,163</u>	<u>3,819,520</u>
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		<u>(197,636)</u>	<u>755,218</u>	<u>502,332</u>
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	22	(17,377)	14,888	(25,944)
Income taxes related to actuarial remeasurements		<u>5,213</u>	<u>(4,466)</u>	<u>7,783</u>
Other comprehensive income		<u>(209,800)</u>	<u>765,640</u>	<u>484,171</u>
Comprehensive income for the year		<u>\$ 4,744,635</u>	<u>4,716,803</u>	<u>4,303,691</u>
Profit attributable to:				
Controlling interest		\$ 4,948,242	3,946,634	3,812,840
Non-controlling interest		<u>6,193</u>	<u>4,529</u>	<u>6,680</u>
Profit for the year		<u>\$ 4,954,435</u>	<u>3,951,163</u>	<u>3,819,520</u>
Comprehensive income attributable to:				
Controlling interest		\$ 4,738,442	4,712,274	4,297,011
Non-controlling interest		<u>6,193</u>	<u>4,529</u>	<u>6,680</u>
Comprehensive income for the year		<u>\$ 4,744,635</u>	<u>4,716,803</u>	<u>4,303,691</u>
Weighted average outstanding shares		<u>599,997,696</u>	<u>599,979,844</u>	<u>599,631,383</u>
Basic and diluted earnings per share	26	<u>\$ 8.25</u>	<u>6.58</u>	<u>6.36</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended December 31, 2017, 2016 and 2015

(Thousands of pesos)

	Note	2017	2016	2015
Cash flows from operating activities:				
Profit for the year		\$ 4,954,435	3,951,163	3,819,520
Adjustments for:				
Deferred income tax recognized in profit or loss	21	(627,090)	382,904	192,070
Current income tax recognized in profit or loss	21	1,711,534	1,260,529	1,488,490
Depreciation	14	1,075,788	925,748	769,270
Goodwill impairment loss	15	-	-	38,619
Loss (Gain) on disposal of plant and equipment		41,890	(157,245)	90,279
Interest income	29	(857,109)	(646,334)	(489,934)
Interest expense	29	255,997	172,154	147,292
Unrealized foreign exchange loss on loans		82,600	270,850	33,300
		<u>6,638,045</u>	<u>6,159,769</u>	<u>6,088,906</u>
Subtotal				
Derivative financial instruments		15,129	(7,064)	5,425
Accounts receivable, net		162,906	(1,144,991)	521,603
Due from related parties		3,967	1,154	(3,518)
Inventories		(461,783)	(562,905)	(448,404)
Current and non-current biological assets		70,941	(539,395)	(256,969)
Prepaid expenses and other current assets		875,307	82,324	(401,711)
Assets held for sale		7,205	3,320	(1,465)
Trade payable and other accounts payable		(350,299)	(43,707)	629,631
Due to related parties		(134,714)	24,338	38,595
Income taxes paid		(1,405,256)	(997,028)	(2,087,286)
Employee benefits		57,946	34,801	43,375
		<u>5,479,394</u>	<u>3,010,616</u>	<u>4,128,182</u>
Net cash provided by operating activities				
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment		(2,126,361)	(2,792,252)	(1,909,771)
Proceeds from sale of plant and equipment		35,175	278,340	71,427
Restricted cash		(24,058)	(19,236)	(25,771)
Investment in securities at fair value through profit or loss		(157,549)	272,322	(317,030)
Other assets		2,125	4,583	(55,698)
Interest collected		857,109	646,334	489,934
Business acquisition including advance payment		(2,494,862)	-	(190,595)
Loans granted to related parties		-	-	(189,075)
Collection of principal of loans granted to related parties		144,562	44,513	-
		<u>(3,763,859)</u>	<u>(1,565,396)</u>	<u>(2,126,579)</u>
Net cash used in investing activities				
Cash flows from financing activities:				
Payment for repurchase of shares		(1,800)	(4,157)	(40,612)
Proceeds from issuance of repurchased shares		-	5,224	54,289
Dividends paid		(780,000)	(779,960)	(899,162)
Dividends paid to non-controlling interest		(1,081)	(1,114)	(878)
Proceeds from borrowings		5,378,915	2,320,500	3,903,200
Principal payment on loans		(4,246,100)	(2,670,474)	(2,231,596)
Interest paid		(255,997)	(172,154)	(147,292)
		<u>93,937</u>	<u>(1,302,135)</u>	<u>637,949</u>
Net cash provided by (used in) financing activities				
Net increase in cash and cash equivalents				
Cash and cash equivalents at January 1		14,661,968	14,020,491	11,028,054
Effect of exchange rate fluctuations on cash and cash equivalents		(383,230)	498,392	352,885
		<u>16,088,210</u>	<u>14,661,968</u>	<u>14,020,491</u>
Cash and cash equivalents at December 31		\$ 16,088,210	14,661,968	14,020,491

See accompanying notes to consolidated financial statements.



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Financial Statements Consolidated 2017

The digitalized version of the Annual Report 2017 of Bachoco, as well as the Consolidated Financial Statements with their respective notes are available at the following addresses:

Annual Report 2017 (PDF)

<https://corporativo.bachoco.com.mx/wp-content/uploads/2018/03/Annual-Report-2017.pdf>

Consolidated Financial Statements 2017 (PDF)

<https://corporativo.bachoco.com.mx/wp-content/uploads/2018/03/Financial-Statements-2017.pdf>

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