

**Bachoco**<sup>®</sup>

INDUSTRIAS BACHOCO S.A.B. DE C.V.



**ANNUAL  
REPORT**

**2018**

**RECOGNIZED BY OUR QUALITY**

# BACHOCO'S PROFILE

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  
Co-founder

Bachoco owns and manages more than a  
**1000**  
farms

**10**  
processing  
plants

**9**  
further  
processing  
plants

**22**  
feed  
mills

**23**  
hatcheries

and more than  
**80**  
distribution centers.

---

# INDEX

---

Highlights	01
Message to Shareholders	02
CEO's Letter	04
Report from the Board of Directors	06
Audit and Corporate Practices Committee	07
Report from the Audit and Corporate Practices Committee	08
Highlights to Investors	10
Board of Directors	11
Senior Management Team	12
Recognized by our Quality	13
Social Responsibility	14
Consolidated Financial Statements	15

## OPERATING DATA

In millions pesos	In U.S. Dollar <sup>1</sup>			
	2018	2018	2017	2016
<b>Net sales</b>	\$ 3,103.8	<b>61,052.1</b>	58,050.0	52,020.3
Gross profit	489.6	<b>9,629.7</b>	10,547.1	9,385.2
Operating income	188.5	<b>3,708.0</b>	5,291.3	4,797.6
<b>EBITDA Result</b>	253.8	<b>4,993.1</b>	6,424.1	5,777.0
<b>Net income</b>	\$ 170.9	<b>3,361.6</b>	4,954.4	3,951.2
EPS in pesos	0.28	<b>5.58</b>	8.25	6.58
Earnings per ADR en pesos	3.41	<b>67.00</b>	98.97	78.94
Gross margin	15.8%	<b>15.8%</b>	18.2%	18.0%
Operating margin	6.1%	<b>6.1%</b>	9.1%	9.2%
EBITDA margin	8.2%	<b>8.2%</b>	11.1%	11.1%
Net margin	5.5%	<b>5.5%</b>	8.5%	7.6%

<sup>1</sup> One dollar equals to \$19.67 pesos

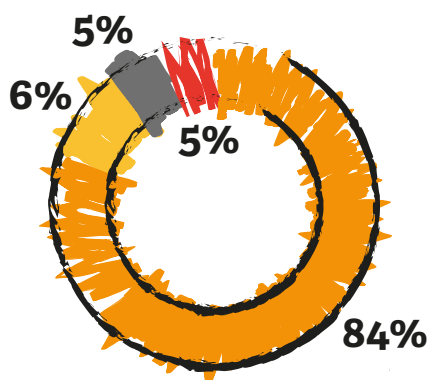
## STATEMENT OF FINANCIAL DATA

In millions pesos	In U.S. Dollar <sup>1</sup>			
	2018	2018	2017	2016
<b>TOTAL ASSETS</b>	\$ 2,687.6	<b>52,865.6</b>	<b>50,557.4</b>	<b>45,090.5</b>
Cash and cash equivalents	938.4	<b>18,458.5</b>	17,250.1	15,659.8
Inventories	232.6	<b>4,575.6</b>	4,727.3	3,970.7
<b>TOTAL LIABILITIES</b>	\$ 747.3	<b>14,699.9</b>	<b>14,879.5</b>	<b>13,374.3</b>
Notes payable to banks	177.6	<b>3,492.8</b>	3,695.1	3,097.5
Accounts payable	264.2	<b>5,196.3</b>	4,740.4	4,545.2
Long-term debt	78.5	<b>1,544.8</b>	1,554.0	950.4
<b>TOTAL STOCKHOLDERS' EQUITY</b>	\$ 1,940.3	<b>38,165.7</b>	<b>35,677.9</b>	<b>31,716.2</b>
Capital stock	59.7	<b>1,174.4</b>	1,174.4	1,174.4
Retained earnings	1,768.8	<b>34,792.3</b>	32,367.9	28,245.0

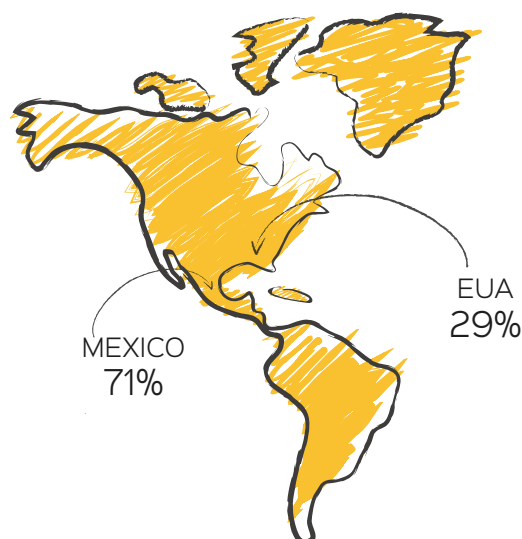
## EMPLOYEES



## NET SALES



84% CHICKEN  
6% EGG  
5% BALANCES FED  
5% OTHERS



# HIGHLIGHTS

SALES BY GEOGRAPHY

# MESSAGE TO SHAREHOLDERS

## Dear Shareholders of Industrias Bachoco:

2018 was for the Mexican Poultry Industry, a year with a better than expected first semester and a challenging second half. GDP in Mexico grew 2.0% and inflation rate was 4.8% which is significantly lower than the inflation rate reported in 2017. We observed high volatility on the Mexican peso exchange rate during most of the year, due in part to the election process held in Mexico at the middle of the year, which offset relatively stable raw material prices in USD terms.

In the Mexican poultry industry, we observed a good balance between supply and demand in the first semester of 2018, and over-supply conditions in the second half. These conditions were mainly driven by the evolution of the Mexican economy through the year and by domestic industry

production. It is worth mentioning that poultry imports remained unchanged year over year, which reinforces the capacity and competitiveness of the Mexican industry.

In June 2018, presidential elections in Mexico were held. Even when we observed a smooth transition between governments, we observed a very cautious consumer, particularly in our traditional markets.

In the U.S., particularly in the second half of 2018, we observed challenging conditions mainly due to oversupply in animal proteins, which put pressure on chicken prices as well. However, the integration of our Albertville operation allowed us to capture some benefits from the low-price commodity market, since this facility is a meat net buyer.

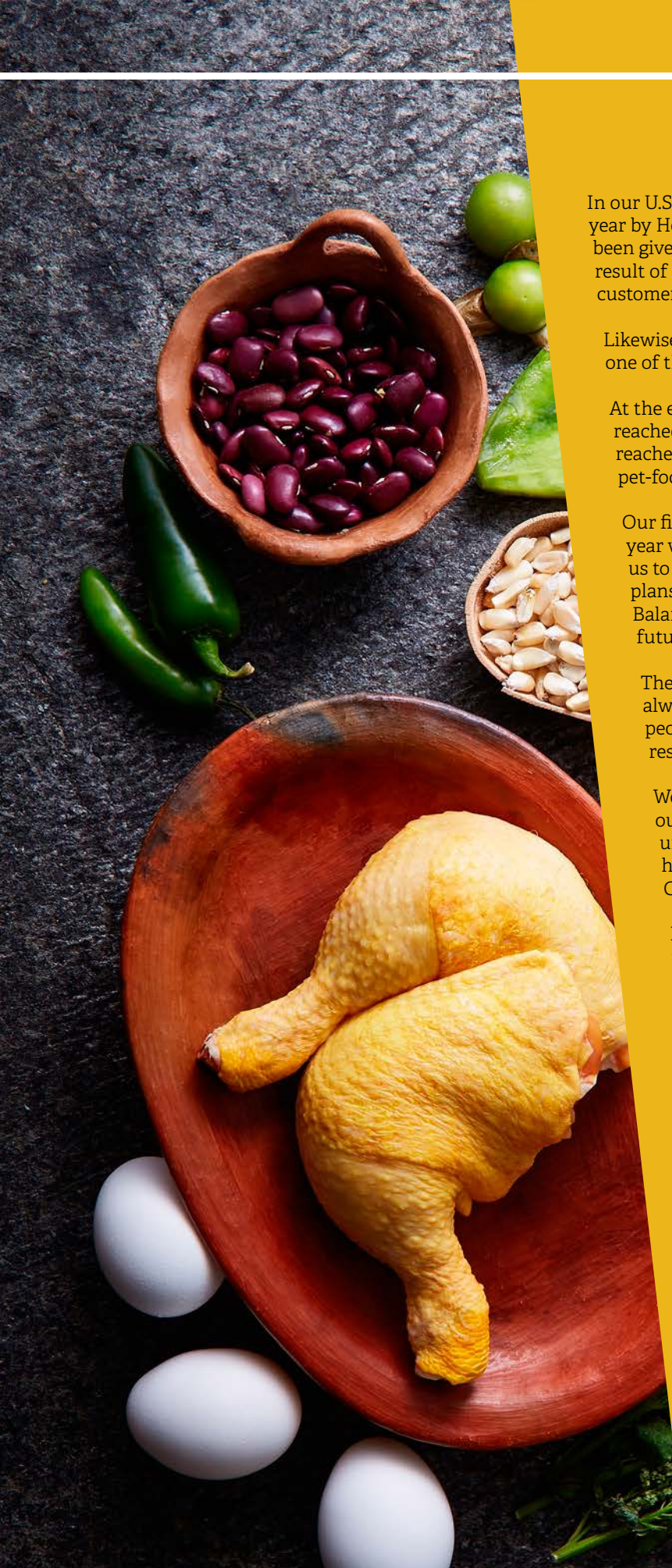
Regarding our cost of sales, prices of raw materials remained relatively stable during most part of the year in U.S. dollar terms. However, volatility in the Mexican exchange rate did not allow us to capitalize the benefit of stable raw materials in our Mexico Operation.

Under the conditions mentioned above, we continued focusing on attending our customers, productivity efforts and financial discipline, as those are the main pillars of our performance.



Javier Bours Castelo  
Chairman of the Board of Director

***In particular, we received from the hands of the Mexican President, the "Premio Nacional Agroalimentario", (National Agri Food Award), granted by the National Agricultural Council as the highest recognition for companies and agri-food organizations in Mexico. This is an award for achieving the highest quality in our production processes and products. Also, Reader's Digest granted us the recognition as the most reliable company in the category of frozen food in Mexico. Bachoco was placed in the top 50 companies with the best reputation in Mexico according to MERCOSUR survey; improving compared to 2017.***



In our U.S. Operation, OK Foods was awarded vendor of the year by Hooters and El Pollo Loco. This is a recognition that has been given in the last years by different customers and is the result of our commitment to be the best alternative for our customers.

Likewise, our CEO Rodolfo Ramos Arvizu continue ranked, as one of the most respected CEO's in the country.

At the end, we finished the year with positive results; We reached historically high total net sales, particularly, we reached the largest volume sold for a year in chicken and pet-food and an EBITDA margin of 8.2% for the whole year.

Our financial structure continued strong as we ended the year with a net cash of \$13,420.9 million, which will allow us to continue supporting our short and long-term growth plans. With these results, we continue strengthening our Balance Sheet, as well as preparing us for capitalizing future growth opportunities.

The support of our management team and staff, as always, has been invaluable for us. With more than 27,000 people working day by day to always achieve better results.

We know we still have 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 Director

# CEO'S LETTER

## Dear Shareholders:

All figures discussed below are information for 2018 with comparative figures of 2017. 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 2018 chicken volume produced in Mexico grew approximately 2.6%, within its normalized growth range, even when we observed oversupply conditions for the second part of the year.

Regarding the US poultry industry, according to USDA sources, chicken volume produced in the US grew 2.2%, slightly above its normal rate of 1.0% to 1.5%, showing some oversupply conditions.

During 2018, we continued consolidating our productivity and organic growth projects as well as integrating our Albertville Quality Foods and La Perla acquisitions which contributes to consolidate our presence in each geography.

Despite the volatility and industry challenges we observed during 2018, our financial position remained strong and allowed us to remain close to our customers and delivering high quality products.

## 2018 & 2017 RESULTS

Net sales in 2018 totaled \$61,052.1 million, \$3,002.1 million more or a 5.2% increase in net sales, when compared to \$58,050.0 million reported in 2017. This increase was mainly due to higher prices and more volume sold in our poultry business line, in part due to the integration of our Albertville operation.

In 2018, sales of our US operation represented 28.7% of our total sales, compared with 28.4% reported in 2017.



Rodolfo Ramos Arvizu  
Chief Executive Officer

The Company's total poultry sales increased 5.4%, while our Others line increased 3.1%; both as a result mainly of higher prices when compared to 2017. Particularly in poultry, we reached an increase of 1.7% in volume sold and 3.7% increase in prices, this last one was mainly due to a higher mix of value-added products in our U.S operation as a result of the integration of our Albertville operation for the full year.

Cost of sales totaled \$51,422.4 million, 8.3% higher than the \$47,503.0 million reported in 2017. The increase in cost of sales was mainly attributed to more volume sold and higher percentage of value-added products in our US operations.

These numbers allowed us to reach a gross profit of \$9,629.7 million, which represented 15.8% of gross margin; lower than the \$10,547.1 million of gross profit and a margin of 18.2% reached in 2017.

Total SG&A expenses in 2018 were \$6,024.4 million, an increase of \$601.0 million or 11.1% when compared to \$5,423.4 million in 2017. Total SG&A expenses as a percentage of net sales represented 9.9% in 2017 and 9.3% in 2017. Particularly, we observed an increase in SG&A due to higher fuel and energy prices in our Mexico operation.

In 2018, we had other income of \$102.7 million, compared with other expenses of \$167.6 million reported in 2017. The decrease was mainly due to a full year amortization and impairment of intangible assets of our Albertville operation.

The operating income in 2018 totaled \$3,708.0 million with a margin of 6.1%, lower than the \$5,291.3 million of operating income and 9.1% margin as reported in 2017.

In 2018, we reached an EBITDA of \$4,003.1 million, representing an EBITDA margin of 8.2%, compared to an EBITDA of \$6,424.1 million in 2017, with a margin of 11.1%.

Net financial income was \$808.6 million, an increase when compared to the net financial income of \$747.6 million in 2017.

Total taxes were \$1,155.0 million. This includes \$1,246.8 million in income tax and a favorable effect of \$91.9 million on deferred taxes. This figure compares to total taxes of \$1,084.4 million which includes income tax of \$1,711.5 and a favorable effect of \$627.1 million of deferred tax in 2017. The effect in deferred taxes in 2017 was a result of the fiscal change approved in the U.S. at the end of that year.

As a result, net income in 2018 was \$3,361.6 million, a 5.5% net margin, which represents earnings per share of \$5.58 pesos, while in 2017, net income totaled \$4,954.4 million with an 8.5% net margin, and \$8.25 pesos of earnings per share.

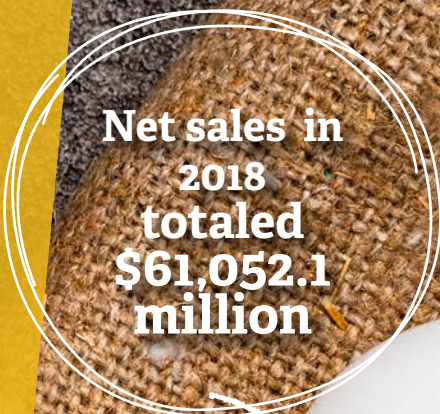
Cash and equivalents as of December 31, 2018 totaled \$18,458.5 million, an increase of \$1,218.4 million or 7.1% more than the \$17,240.1 million of cash and equivalents reported as of December 31, 2017.

Total debt as of December 31, 2018 was \$5,037.6 million, compared to total debt of \$5,249.0 million reported as of December 31, 2017. As a result, our net cash as of December 31, 2018 totaled \$13,420.9 million, compared with a net cash of \$11,991.1 million as of December 31, 2017.


Capex in 2018 totaled \$1,982.6 million, a decrease when compared to \$3,513.4 million reported in 2017, when we reported our acquisitions of Albertville and La Perla. In 2018, the Company continued with the implementation of new projects oriented toward organic growth and productivity improvements.



**Rodolfo Ramos Arvizu**  
Chief Executive Officer



**Net sales in  
2018  
totaled  
\$61,052.1  
million**



**This increase was mainly  
due to higher prices  
and more volume sold  
in our poultry business  
line, in part due to  
the integration of our  
Albertville operation**



---

## 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 2018, 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 2018, 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 2018.



**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 25, 2018.



### AUDIT COMMITTEE AND CORPORATE PRACTICES MEMBERS

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

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 2019.

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 2018, the total transactions in connection to related parties represented less than 3.0% 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 2018 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.



## **ANNUAL REPORT OF THE PRESIDENT OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE TO THE BOARD OF DIRECTORS**

### **Regarding External Audit Performance:**

The services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) continued to be used as External Auditors of the Company. We worked with Deloitte to insure the compliance, from both Deloitte and the Company, of the new regulation issued by the Mexican Authorities (Comision Nacional Bancaria y de Valores), regarding the "Circular Unica de Auditores Externos", (External Audit New Regulation). The fees corresponding to 2018 were duly revised and approved. The Audited Financial Statements as of December 31, 2018 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, 2018, 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 2018.

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 2018, 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 2018, the Company's shares and ADRs reported a decrease in yield of 31.1% on the BMV and of 30.9% on NYSE.

## Bachoco in the stocks

The founding family holds **73.25% of total shares**, by two Trusts:

Control Trust with 52.00%

Underwriting Trust with 21.25%

**600 million**  
shares

**One single class**  
(Class B)

**Full rights**

An ADR  
equals  
**12 shares**

**26.75%**  
of float

An estimated  
**\$38,712 million**  
pesos in market  
capitalization

## 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
2018	98.16	63.50	88.29	64.52	2018	63.84	38.08	55.23	39.56
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






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 25, 2018. 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.

## **SECRETARY OF THE BOARD**

Eduardo Rojas Crespo



**Daniel Salazar Ferrer**  
*Chief Financial Officer*



**Ernesto Salmon Castelo**  
*Director of Mexico Operations*



**R. Trent Goins**  
*Director of U.S. Operations*



**Rodolfo Ramos Arvizu**  
*Chief Executive Officer*



**Ismael Sanchez Moreno**  
*Director of Human Resources*



**Andres Morales Astiazaran**  
*Director of Sales*



**Alejandro Elias Calles Gutierrez**  
*Director of Purchasing*

---

## SENIOR MANAGEMENT TEAM

---



## RECOGNIZED BY OUR QUALITY

In Bachoco, we are convinced that in order to truly nourish and remain close to our customers, we must to deliver high quality products every day.

For us, quality consists in fulfilling our customers and consumers' needs.

In order to achieve that, we have in place a very strict Alimentary Quality and Safety Internal System which audit and certifies each of our actions, throughout all our production and supply chain.

In our processing plants, in México and the US, not only we comply with all regulations, we are focused in surpassing those requirements in order to warranty that our consumers will receive the best product in their tables.

Proof of that is the recognitions we received from the hands of the Mexican President, the **"Premio Nacional Agroalimentario"**, (National Agri Food Award), granted by the National Agricultural Council as the highest recognition for companies and agri-food organizations in Mexico.





# RESPONSIBILITY SOCIAL



## 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.



## TOGETHER FOR OUR BUSINESS

We define strategic lines in which we focus our efforts. Following those strategic lines, we updated our Code of Ethics and created an Ethics Committee, we kept consolidating existing 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).

---

# CONSOLIDATED FINANCIAL STATEMENTS

---

Report of Independent Auditors

Consolidated statements of financial position

Consolidated statements of income and other  
comprehensive income

Consolidated statements of changes in stockholders equity

Consolidated statements of cash flows

Notes to the consolidated financial statements

## **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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS), 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 internal control environment, 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, 2018, 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 2018. 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 specialists 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.

## ***Intangible assets valuation***

The Entity has materially important intangible assets, mainly amortizable customer relationships and non-amortizable trademarks. At December 31, 2017, the Entity recognized \$1,040,042 Mexican pesos related to intangible assets in connection with the acquisition of Albertville Quality Foods, Inc.

At least once a year, the Entity must analyze the recoverable amounts of each cash-generating unit (CGU). The goal of this analysis is to determine whether it is necessary to recognize an impairment loss against the intangible asset associated with the CGU to which the aforementioned assets belong. For purposes of this analysis, the Entity determines the impairment tests using cash flow methods. We considered this issue to be a key audit matter mainly due the impairment indicators presented in the CGU associated with the intangible asset during the third and fourth quarter of 2018, due to declines in the economic results of the United States poultry industry resulting from trade disputes with China, which impacted the financial performance of the CGU. The aforementioned impairment tests required the use of estimates, judgments and different scenarios regarding the future cash flow projections of the aforementioned CGU.

Note 15 of the accompanying consolidated financial statements, presents the amounts, movements, and analysis of the recoverable amounts of the CGU. Additionally, the corresponding disclosures of intangible assets are presented in note 16 of the accompanying consolidated financial statements.

Our audit procedures included, among others:

We obtained the calculations prepared by the Entity. We were assisted by internal specialists from the Firm and, together with them, we evaluated the reasonableness of Entity's conclusions regarding the key assumptions used to determine the UGE projected cash flows, focusing mainly on revenue, earnings before interest, 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. In addition, we evaluated the appropriateness of the disclosures included in the accompanying consolidated financial statements in relation to the intangible assets. We concurred with the reasonableness of the impairment loss recorded by the Company, which is immaterial.



## ***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.

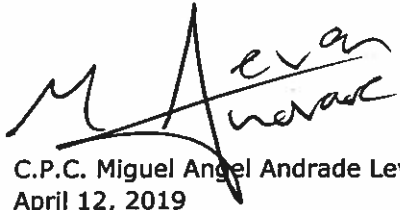
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



# Deloitte.

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 12, 2019



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	Liabilities and equity	Note	2018	2017	2016
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents	7	\$ 17,901,845	16,112,268	14,681,204	Short-term debt	18	\$ 3,427,820	2,852,400	1,444,800
Investment in securities at fair value through profit or loss	8	550,068	1,127,841	970,292	Current portion of long-term debt	18	64,973	842,651	1,652,725
Derivative financial instruments	8	6,570	-	8,308	Derivative financial instruments	8	0	6,821	-
Accounts receivable, net	9	3,486,354	3,626,878	3,629,144	Trade payable and other accounts payable	19	5,196,347	4,740,366	4,545,177
Due from related parties	20	99	326	148,855	Income tax payable	21	248,290	731,654	483,618
Inventories	10	4,575,596	4,727,333	3,970,688	Due to related parties	20	147,514	55,252	189,966
Current biological assets	11	2,073,526	1,942,193	1,961,191	<b>Total current liabilities</b>		<b>9,084,944</b>	<b>9,229,144</b>	<b>8,316,286</b>
Prepaid expenses and other current assets	12	1,131,870	638,671	1,503,945	<b>Long term liabilities:</b>				
Assets held for sale	13	49,068	49,523	56,728	Long-term debt, excluding current installments	18	1,544,807	1,553,973	950,412
<b>Total currents assets</b>		<b>29,774,996</b>	<b>28,225,033</b>	<b>26,930,355</b>	Deferred income tax	21	3,767,320	3,843,379	3,912,575
<b>Non-current assets:</b>					Employee benefits	22	302,818	252,965	195,019
Property, plant and equipment, net	14	18,018,176	17,320,041	15,081,105	<b>Total long term liabilities</b>		<b>5,614,945</b>	<b>5,650,317</b>	<b>5,058,006</b>
Non-current biological assets	11	1,721,728	1,617,503	1,668,543	<b>Total liabilities</b>		<b>14,699,889</b>	<b>14,879,461</b>	<b>13,374,292</b>
Deferred income tax	21	103,826	80,670	60,132	<b>Equity:</b>				
Goodwill	15	1,631,771	1,631,094	484,877	Capital stock	25	1,174,432	1,174,432	1,174,432
Intangible assets	16	949,355	1,040,042	-	Share premium		414,470	414,385	414,385
Other non-current assets	17	665,742	643,006	865,454	Reserve for repurchase of shares		562,047	493,141	449,641
<b>Total non-currents assets</b>		<b>23,090,598</b>	<b>22,332,356</b>	<b>18,160,111</b>	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)
					<b>Equity attributable to controlling interest</b>		<b>38,096,255</b>	<b>35,618,953</b>	<b>31,662,311</b>
					<b>Non-controlling interest</b>		<b>69,450</b>	<b>58,975</b>	<b>53,863</b>
					<b>Total equity</b>		<b>38,165,705</b>	<b>35,677,928</b>	<b>31,716,174</b>
					Commitments	27			
					Contingencies	28			
<b>Total assets</b>		<b>\$ 52,865,594</b>	<b>50,557,389</b>	<b>45,090,466</b>	<b>Total liabilities and equity</b>		<b>\$ 52,865,594</b>	<b>50,557,389</b>	<b>45,090,466</b>

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)

	<u>Note</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net revenues		\$ 61,052,092	58,050,025	52,020,303
Cost of sales	23	<u>(51,422,376)</u>	<u>(47,502,959)</u>	<u>(42,635,071)</u>
<b>Gross profit</b>		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	<u>102,660</u>	<u>167,642</u>	<u>260,202</u>
<b>Operating income</b>		<u>3,707,970</u>	<u>5,291,329</u>	<u>4,797,576</u>
Finance income	29	1,140,749	1,087,641	969,174
Finance costs	29	<u>(332,168)</u>	<u>(340,091)</u>	<u>(172,154)</u>
<b>Net finance income</b>		<u>808,581</u>	<u>747,550</u>	<u>797,020</u>
<b>Profit before income taxes</b>		4,516,551	6,038,879	5,594,596
Income taxes	21	<u>1,154,978</u>	<u>1,084,444</u>	<u>1,643,433</u>
<b>Profit for the year</b>		<u>\$ 3,361,573</u>	<u>4,954,435</u>	<u>3,951,163</u>
<b>Other comprehensive income (loss) items:</b>				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		5,650	(197,636)	755,218
Hedge result		<u>(307)</u>	<u>-</u>	<u>-</u>
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		<u>9,189</u>	<u>5,213</u>	<u>(4,466)</u>
Other comprehensive income		<u>(16,097)</u>	<u>(209,800)</u>	<u>765,640</u>
<b>Comprehensive income for the year</b>		<u>\$ 3,345,476</u>	<u>4,744,635</u>	<u>4,716,803</u>
Profit attributable to:				
Controlling interest		\$ 3,349,967	4,948,242	3,946,634
Non-controlling interest		<u>11,606</u>	<u>6,193</u>	<u>4,529</u>
Profit for the year		<u>\$ 3,361,573</u>	<u>4,954,435</u>	<u>3,951,163</u>
Comprehensive income attributable to:				
Controlling interest		\$ 3,333,870	4,738,442	4,712,274
Non-controlling interest		<u>11,606</u>	<u>6,193</u>	<u>4,529</u>
Comprehensive income for the year		<u>\$ 3,345,476</u>	<u>4,744,635</u>	<u>4,716,803</u>
Weighted average outstanding shares		<u>599,980,734</u>	<u>599,997,696</u>	<u>599,979,844</u>
Basic and diluted earnings per share	26	<u>\$ 5.58</u>	<u>8.25</u>	<u>6.58</u>

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										
	Capital stock		Retained earnings			Accumulated other comprehensive income					
	Capital stock	Share premium	Reserve for repurchase of shares	Retained earnings	Hedge result	Foreign currency translation reserve	Actuarial remeasurements net	Total	Non-controlling interest	Total equity	
<b>Balance at January 1, 2016</b>	\$	1,174,432	414,017	777,622	24,749,616	-	710,439	(97,196)	27,728,930	50,448	27,779,378
Dividends paid	25	-	-	-	(779,960)	-	-	-	(779,960)	-	(779,960)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	(1,114)	(1,114)
Reserve for repurchase of shares		-	-	(328,680)	328,680	-	-	-	-	-	-
Repurchase and sale of shares	25	-	368	699	-	-	-	-	1,067	-	1,067
Comprehensive income for the year:											
Profit for the year		-	-	-	3,946,634	-	-	-	3,946,634	4,529	3,951,163
Other comprehensive income		-	-	-	-	-	755,218	10,422	765,640	-	765,640
<b>Total comprehensive income for the year</b>		-	-	-	3,946,634	-	755,218	10,422	4,712,274	4,529	4,716,803
<b>Balance at December 31, 2016</b>		1,174,432	414,385	449,641	28,244,970	-	1,465,657	(86,774)	31,662,311	53,863	31,716,174
Dividends paid	25	-	-	-	(780,000)	-	-	-	(780,000)	-	(780,000)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	(1,081)	(1,081)
Reserve for repurchase of shares		-	-	45,300	(45,300)	-	-	-	-	-	-
Repurchase and sale of shares	25	-	-	(1,800)	-	-	-	-	(1,800)	-	(1,800)
Comprehensive income for the year:											
Profit for the year		-	-	-	4,948,242	-	-	-	4,948,242	6,193	4,954,435
Other comprehensive income		-	-	-	-	-	(197,636)	(12,164)	(209,800)	-	(209,800)
<b>Total comprehensive income for the year</b>		-	-	-	4,948,242	-	(197,636)	(12,164)	4,738,442	6,193	4,744,635
<b>Balance at December 31, 2017</b>		1,174,432	414,385	493,141	32,367,912	-	1,268,021	(98,938)	35,618,953	58,975	35,677,928
Dividends paid	25	-	-	-	(852,000)	-	-	-	(852,000)	-	(852,000)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	(1,131)	(1,131)
Reserve for repurchase of shares		-	-	73,559	(73,559)	-	-	-	-	-	-
Repurchase and sale of shares	25	-	85	(4,653)	-	-	-	-	(4,568)	-	(4,568)
Comprehensive income for the year:											
Profit for the year		-	-	-	3,349,967	-	-	-	3,349,967	11,606	3,361,573
Other comprehensive income		-	-	-	-	(307)	5,650	(21,440)	(16,097)	-	(16,097)
<b>Total comprehensive income for the year</b>		-	-	-	3,349,967	(307)	5,650	(21,440)	3,333,870	11,606	3,345,476
<b>Balance at December 31, 2018</b>	\$	1,174,432	414,470	562,047	34,792,320	(307)	1,273,671	(120,378)	38,096,255	69,450	38,165,705

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, 2018, 2017 and 2016

(Thousands of pesos)

	Note	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>				
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		<u>5,086,186</u>	<u>6,638,045</u>	<u>6,159,769</u>
Derivative financial instruments		(13,391)	15,129	(7,064)
Accounts receivable, net		200,145	162,906	(1,144,991)
Due from related parties		227	3,967	1,154
Inventories		149,738	(461,783)	(562,905)
Current and non-current biological assets		(236,179)	70,941	(539,395)
Prepaid expenses and other current assets		(493,442)	875,307	82,324
Assets held for sale		455	7,205	3,320
Trade payable and other accounts payable		457,941	(350,299)	(43,707)
Due to related parties		92,262	(134,714)	24,338
Income taxes paid		(1,787,959)	(1,405,256)	(997,028)
Employee benefits		<u>49,853</u>	<u>57,946</u>	<u>34,801</u>
<b>Net cash provided by operating activities</b>		<u>3,505,836</u>	<u>5,479,394</u>	<u>3,010,616</u>
<b>Cash flows from investing activities:</b>				
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
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
Business acquisition including advance payment		-	(2,494,862)	-
Collection of principal of loans granted to related parties		-	144,562	44,513
<b>Net cash used in investing activities</b>		<u>(317,815)</u>	<u>(3,763,859)</u>	<u>(1,565,396)</u>
<b>Cash flows from financing activities:</b>				
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		<u>(332,168)</u>	<u>(255,997)</u>	<u>(172,154)</u>
<b>Net cash (used in) provided by financing activities</b>		<u>(1,407,533)</u>	<u>93,937</u>	<u>(1,302,135)</u>
<b>Net increase in cash and cash equivalents</b>		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		<u>33,147</u>	<u>(383,230)</u>	<u>498,392</u>
<b>Cash and cash equivalents at December 31</b>	\$	<u>17,901,845</u>	<u>16,088,210</u>	<u>14,661,968</u>

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

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.

## **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.

**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.



### ***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.

### **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.

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.



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.

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.

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:

	<b><u>Average useful Life</u></b>
Buildings	46
Machinery and Equipment	19
Vehicles	11
Computers	8
Furniture	<u>11</u>

The Company has estimated the following residual values as of December 31, 2018, 2017 and 2016:

	<b><u>Residual Value</u></b>
Buildings	9%
Machinery and Equipment	8%
Vehicles	5%
Computers	0%
Furniture	<u>2%</u>

**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.

**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.

	<b>Expected average useful life (weeks)</b>
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.

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.

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.

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of CGUs), and subsequently to reduce the carrying amount of the other long-lived assets within the cash-generating unit (or group of CGUs) on a pro rata basis.

**k) Held-for-sale assets**

Available for sale assets mainly consist of foreclosed assets. Foreclosed assets are initially recorded at the lower of fair value less costs to sell or the net carrying amount of the related account receivable.

Immediately before being classified as held-for-sale, assets are valued according to the Company's accounting policies in accordance with the applicable IFRS. Subsequently, held-for-sale assets are recorded at the lower of the carrying amount and fair value less costs to sell. Impairment losses on initial classification of held-for-sale assets and subsequent remeasurement gains and losses are recognized in profit and loss. Recognized gains shall not exceed cumulative impairment losses previously recognized.

**l) Other assets**

Other long-term assets primarily include advances for the purchase of property, plant and equipment, investments in insurance policies and security deposits.

The Company owns life insurance policies of some of the former stockholders of Bachoco USA, LLC (foreign subsidiary). The Company records these policies at net cash surrender value which approximates its fair value (see note 17).

**m) Employee benefits**

The Company grants to its employees in Mexico and abroad, different types of benefits as described below and as detailed in note 22.

**i. Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit and loss in the periods during which the related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that the Company has the right to a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan due more than 12 months after the end of the period in which the employees render the service are discounted at present value.

**ii. Defined benefit plan**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. It is funded by contributions made by the Company and is intended to meet the Company's labor obligations to its employees.

The Company's net obligations in respect of defined benefit plans is calculated separately for each plan, estimating the amount of the future benefit that the employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and is reduced by the fair value of the plan assets. The discount rate is the yield at the end of the reporting period on high quality corporate bonds (or governmental bonds in the instance that a deep market does not exist for high quality corporate bonds, which is the case in Mexico) that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income

The Company presents service cost as part of operating income in the consolidated statements of profit or loss and other comprehensive income (loss). Gains and losses for reduction of service are accounted for as past service costs.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. When the benefits of a plan are modified or improved, the portion of the improved benefits related to past services by employees is recognized in profit and loss on the earlier of the following dates: when there is a modification or curtailment to the plan, or when the Company recognizes the related restructuring costs or termination benefits.

Remeasurement adjustments, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are reflected immediately with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in equity and is not reclassified to profit or loss.

### ***iii. Short-term benefits***

Short-term employee benefits are valued on a non-discounted basis and are expensed as the respective services are rendered.

A liability is recognized for the amount expected to be paid under the short-term cash bonus plans or statutory employee profit sharing (PTU for its acronym in Spanish), if the Company has a legal or constructive obligation to pay such amounts as a result of prior services rendered by the employee, and the obligation may be reliably estimated.

### ***iv. Termination benefits from constructive obligations***

The Company recognizes, as a defined benefit plan, a constructive obligation from past practices. The liability accrues based on the services rendered by the employee. Payment of this benefit is made in one installment at the time that the employee voluntarily ceases working for the Company.



**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.

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.

**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:

	<b>Acquisition value</b>
Current assets, other than inventories	\$ 202,873
Inventories	304,594
Property, plant and equipment	547,987
Other current assets	10,189
Intangible assets	969,942
Total assets	<u>2,035,585</u>
Current liabilities	(155,798)
Deferred income tax	(472,088)
Acquired net identifiable assets, net	<u>1,407,699</u>
Consideration paid	<u>2,449,862</u>
Goodwill at acquisition date	<u>\$ 1,042,163</u>

Goodwill arises because the transferred consideration exceeds the identifiable assets acquired net of liabilities assumed on the acquisition date.

The goodwill that arose from the acquisitions is not expected to be deductible for tax purposes.

Certain estimated values in the acquisition, including goodwill, intangible assets and deferred taxes, have not yet been definitively determined and are subject to revision as new information emerges and the analyses are completed. The purchase price was allocated based on the information available on the date of acquisition.

Had the acquisition occurred on January 1, 2017, management estimates that consolidated revenues and consolidated profits for the year ended December 31, 2017 would have totaled \$61,093,104 and \$5,202,397, respectively. In determining these amounts, management has assumed that the provisional adjustments to fair value recognized at the date of acquisition would have been similar if the acquisition had occurred on January 1, 2017.

#### **Costs related to acquisition.**

During 2017, the Company incurred costs related to the acquisition of Acquired Co. I of \$16,145 corresponding to external legal fees and due diligence costs, which are included in other expenses in the Company's consolidated statement of profit and loss and other comprehensive income for the year ended December 31, 2017 (see note 30).

#### ***b) Acquisition of Provedora La Perla, S.A. de C.V.***

On July 11, 2017, the Company acquired 100% of voting stock of Provedora La Perla S.A. de C.V. (Acquired Co. II). Acquired Co. II's operating results are included in the consolidated financial statements as of that date. Acquired Co. II is dedicated to the production and sale of pet food and treats, and is located in the state of Queretaro, Mexico. The purchase price in cash amounted to \$45,000.

The purchase of Acquired Co. II benefits the Other segment due to the fact that it expands its current production capacity for dry pet food. In addition, Acquired Co. II has equipment for the production of wet pet food and pet treats, which will allow the Company to enter this market where it currently does not participate. The production facilities of Acquired Co. II will allow for a reduction of logistics cost since they are within close proximity of the Company's clients located in the central region of the country, and it will contribute improved customer service. This acquisition will allow for accelerated growth in the pet food business.

The assets acquired and the assumed liabilities of Acquired Co. II were recognized based on the best estimate of their fair value at the acquisition date.

The fair value of the assets was determined using cost and market approaches. The cost approach, which estimates the value based on the current replacement cost of an asset by another asset of equal usefulness, was used mainly for plant and equipment. The market approach, in which the value of an asset is based on available market prices for comparable assets, was used mainly for real estate.

Due to their liquidity or short-term maturities, as appropriate, the Company concluded that Acquired Co. II's pre-acquisition carrying amounts for cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair value at the acquisition date, while inventories are recorded at their net realizable value.

### **Identifiable assets acquired and liabilities assumed**

The following is a summary of the recognized amounts of acquired assets and assumed liabilities at the date, compared to the consideration paid:

	<b>Acquisition value</b>
Current assets, other than inventories	\$ 13,835
Inventories	5,846
Property, plant and equipment	584,884
Total assets	<u>604,565</u>
Current liabilities	(392,646)
Deferred income tax	(79,423)
Acquired net identifiable assets	<u>132,496</u>
Consideration paid	45,000
Bargain purchase gain (note 30)	<u><u>\$ 87,496</u></u>

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.

## (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	Country	Shareholding percentage in subsidiaries		
		December 31,		
		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.

- 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 Pecuarius Laboratorios, S.A. de C.V. Its main activity consists of the production and distribution of medicines and vaccines for animal consumption.



- Aviser, S.A. de C.V., Operadora de Servicios de Personal, S.A. de C.V., Secba, S.A. de C.V., Servicios de Personal Administrativo, S.A. de C.V. and Sepetec, S.A de C.V. are engaged in providing administrative and operating services rendered to their related parties.

- On December 2016 Wii kit RE LTD. was constituted in Bermuda as a subsidiary of the Company with 100% of the shareholding. It is a Class I reinsurance company that provides insurance coverage to its affiliates.

- In July 2017, the Company acquired Proveedora La Perla, S.A. of C.V., in Mexico, as a subsidiary of the Company with 100% participation, it is dedicated to the elaboration and commercialization of balanced animal feed and pet treats.

None of the Company's contracts or loan agreements restrict the net assets of its subsidiaries.

## (6) Operating segments

Reportable segments have been determined based on a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of chicken and egg operations. The information included in the "Others" segment corresponds to operations of swine, balanced feed for animal consumption and other by-products that do not meet the quantitative thresholds to be considered as reportable segments.

Inter-segment pricing is determined on an arm's length basis comparable to those which would be used with or between independent parties in comparable transactions. The accounting policies of operating segments are as those described in note 3 t).

Below is the information related to each reportable segment. Performance is measured based on each segment's income before taxes, in the same manner as it is included in management reports that are regularly reviewed by the Company's Board of Directors.

### a) Operating segment information

	<b>Year ended December 31, 2018</b>		
	<b><u>Poultry</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
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

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

**Year ended December 31, 2017**

	<b><u>Poultry</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
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	<u>982,019</u>	<u>93,769</u>	<u>1,075,788</u>

	<b>Poultry revenues</b>	<b>Other revenues</b>
Total revenues	\$ 52,484,264	5,616,254
Intersegments	(4,871)	(45,622)
Net revenues	<u>\$ 52,479,393</u>	<u>5,570,632</u>

**Year ended December 31, 2016**

	<b><u>Poultry</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
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	<u>840,624</u>	<u>85,124</u>	<u>925,748</u>

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

***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.

	<b>Year ended December 31, 2018</b>			
	<b>Domestic poultry</b>	<b>Foreign poultry</b>	<b>Operations between geographical segments</b>	<b>Total</b>
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
	<b>Year ended December 31, 2017</b>			
	<b>Domestic poultry</b>	<b>Foreign poultry</b>	<b>Operations between geographical segments</b>	<b>Total</b>
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

	<b>Year ended December 31, 2016</b>			
	<b>Domestic poultry</b>	<b>Foreign poultry</b>	<b>Operations between geographical segments</b>	<b>Total</b>
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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>			
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
<b>Financial liabilities</b>			
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)	-
----------------------------------	---	---------	---

**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.

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**

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

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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
	<u>\$ 20,510,762</u>	<u>19,448,128</u>	<u>17,990,254</u>



**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***

	<b>December 31, 2018</b>		
	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>
Trade payables, sundry creditors and expenses payable	\$ 4,593,344	-	-
Due to related parties	147,514	-	-
<b>Variable-rate maturities</b>			
In U.S. dollars	2,757,459	-	-
In pesos	735,334	44,014	1,500,793
Interest	145,860	270,977	79,719
<b>Total financial liabilities</b>	<b>\$ 8,379,511</b>	<b>314,991</b>	<b>1,580,512</b>

	<b>December 31, 2017</b>		
	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>
Trade payables, sundry creditors and expenses payable	\$ 4,163,443	-	-
Due to related parties	55,252	-	-
Derivative financial instruments	6,821	-	-
<b>Variable-rate maturities</b>			
In U.S. dollars	2,752,400	-	-
In pesos	942,651	53,973	1,500,000
Interest	162,785	244,484	203,840
<b>Total financial liabilities</b>	<b>\$ 8,083,352</b>	<b>298,457</b>	<b>1,703,840</b>

	<b>December 31, 2016</b>		
	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>
Trade payables, sundry creditors and expenses payable	\$ 4,095,089	-	-
Due to related parties	189,966	-	-
<b>Variable-rate maturities</b>			
In U.S. dollars	1,444,800	-	-
In pesos	1,652,725	950,412	-
Interest	142,100	136,859	-
<b>Total financial liabilities</b>	<b>\$ 7,524,680</b>	<b>1,087,271</b>	<b>-</b>

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.

### *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.

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.

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.

	<b>December 31,</b>					
	<b>2018</b>		<b>2017</b>		<b>2016</b>	
	<b>Dollars</b>	<b>Mexican Pesos</b>	<b>Dollars</b>	<b>Mexican Pesos</b>	<b>Dollars</b>	<b>Mexican Pesos</b>
<b>Assets</b>						
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	<u>403,818</u>	<u>7,943,085</u>	<u>356,619</u>	<u>7,011,138</u>	<u>156,746</u>	<u>3,235,235</u>
<b>Liabilities</b>						
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	<u>(334,887)</u>	<u>(6,587,224)</u>	<u>(294,858)</u>	<u>(5,796,915)</u>	<u>(173,854)</u>	<u>(3,588,347)</u>
Net asset position	<u>68,931</u>	<u>1,355,861</u>	<u>61,761</u>	<u>1,214,223</u>	<u>-</u>	<u>-</u>
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:

	<b>Average exchange rate</b>			<b>Spot exchange rate at</b>		
				<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
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.

Interest rate fluctuations impacted mainly bank loans by changing either their fair value (fixed rate debt) or the future cash flows (variable rate debt). Management does not have a formal policy to determine how much of the Company's exposure should be at fixed or variable rate. However, at the time of obtaining new loans, management uses its judgment considering technical analyses and market forecasts to decide whether fixed or variable rate instruments would be more favorable during the periods of such instruments.

To monitor this risk, the Company performs sensitivity tests at least monthly to measure the effect of the change in interest rates in the instruments described in the preceding paragraph, which are summarized in subsection g) of this note.

**e) Financial instruments at fair value**

The amounts of accounts payable and accounts receivable approximate their fair value because of their nature and short-term maturities.

The table below summarizes the presents the fair value of the financial instruments that are recognized at amortized cost, together with the carrying amount included in the consolidated statement of financial position:

Liabilities recorded at amortized cost	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	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).
- 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2018</b>				
Investment in securities at fair value through profit or loss	\$ 550,068	-	-	550,068
Derivative financial instruments	-	6,570	-	6,570
	<u>\$ 550,068</u>	<u>6,570</u>	<u>-</u>	<u>556,638</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2017</b>				
Investment in securities at fair value through profit or loss	\$ 969,309	158,532	-	1,127,841
Derivative financial instruments	-	(6,821)	-	(6,821)
	<u>\$ 969,309</u>	<u>151,711</u>	<u>-</u>	<u>1,121,020</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2016</b>				
Investment in securities at fair value through profit or loss	\$ 970,292	-	-	970,292
Derivative financial instruments	-	8,308	-	8,308
	<u>\$ 970,292</u>	<u>8,308</u>	<u>-</u>	<u>978,600</u>

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2018</b>				
Financial debt - bank institutions	\$ -	(3,536,895)	-	(3,536,895)
Financial debt – debt securities	(1,500,793)	-	-	(1,500,793)
	<u>\$ (1,500,793)</u>	<u>(3,536,895)</u>	<u>-</u>	<u>(5,037,688)</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2017</b>				
Financial debt - bank institutions	\$ -	(3,749,024)	-	(3,749,024)
Financial debt – debt securities	(1,506,908)	-	-	(1,506,908)
	<u>\$ (1,506,908)</u>	<u>(3,749,024)</u>	<u>-</u>	<u>(5,255,932)</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>As of December 31, 2016</b>				
Financial debt - bank institutions	\$ -	(2,550,469)	-	(2,550,469)
Financial debt – debt securities	(1,512,530)	-	-	(1,512,530)
	<u>\$ (1,512,530)</u>	<u>(2,550,469)</u>	<u>-</u>	<u>(4,062,999)</u>

**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.

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 TIE 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**

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



### 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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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
\$	<u>161,854</u>	<u>206,603</u>	<u>167,853</u>

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
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,	\$ <u>(79,937)</u>	<u>(96,900)</u>	<u>(97,400)</u>

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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	<u>\$ 4,575,596</u>	<u>4,727,333</u>	<u>3,970,688</u>

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:

	<b>Current biological assets</b>	<b>Non-current biological assets</b>	<b>Total</b>
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	<u>\$ 2,073,526</u>	<u>1,721,728</u>	<u>3,795,254</u>

	<b>Current biological assets</b>	<b>Non-current biological assets</b>	<b>Total</b>
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	<u>\$ 1,942,193</u>	<u>1,617,503</u>	<u>3,559,696</u>

	<b>Current biological assets</b>	<b>Non-current biological assets</b>	<b>Total</b>
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	\$ <u>1,961,191</u>	<u>1,668,543</u>	<u>3,629,734</u>

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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	\$ <u>1,131,870</u>	<u>638,671</u>	<u>1,503,945</u>

**(13) Assets held for sale**

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

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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:

<b>Cost</b>	<b>Balance as of January 1, 2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2018</b>
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

<b>Accumulated depreciation</b>	<b>Balance as of January 1 2018</b>	<b>Depreciation for the year</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2018</b>
Buildings and construction	\$ (5,323,314)	(221,565)	9,315	(1,261)	(5,536,825)
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)

<b>Cost</b>	<b>Balance as of January 1, 2017</b>	<b>Additions</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2017</b>
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

<b>Accumulated depreciation</b>	<b>Balance as of January 1 2017</b>	<b>Depreciation for the year</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2017</b>
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)

<b>Cost</b>	<b>Balance as of January 1, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2016</b>
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

<b>Accumulated depreciation</b>	<b>Balance as of January 1 2016</b>	<b>Depreciation for the year</b>	<b>Disposals</b>	<b>Currency translation effect</b>	<b>Balance as of December 31, 2016</b>
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)

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.

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

<b>2018</b>				
<b>Cash-generating unit</b>	<b>Final balance of the year</b>	<b>Projection period (years)</b>	<b>Annual discount rate (%)</b>	<b>Annual growth rate (%)</b>
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%
	<u>\$ 1,631,771</u>			
<b>2017</b>				
<b>Cash-generating unit</b>	<b>Final balance of the year</b>	<b>Projection period (years)</b>	<b>Annual discount rate (%)</b>	<b>Annual growth rate (%)</b>
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%
	<u>\$ 1,631,094</u>			
<b>2016</b>				
<b>Cash-generating unit</b>	<b>Final balance of the year</b>	<b>Projection period (years)</b>	<b>Annual discount rate (%)</b>	<b>Annual growth rate (%)</b>
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%
	<u>\$ 484,877</u>			

## (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:

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

## (17) Other non-current assets

Other non-current assets consist of the following:

	<u>December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Advances for purchase of property, plant and equipment	\$ 326,676	331,691	552,417
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	<u>\$ 665,742</u>	<u>643,006</u>	<u>865,454</u>



**(18) Financial debt**

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

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	\$ <u>3,427,820</u>	<u>2,852,400</u>	<u>1,444,800</u>

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:**

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Denominated in pesos, maturing in September 2017, at TIEE (1) rates plus 0.63 percentage points.	\$ -	-	98,000
Denominated in pesos, maturing in 2017 and 2018, at TIEE (1) FIRA (2) rates less 0.25 percentage points.	-	553,651	603,739
Denominated in pesos, maturing in 2018, at TIEE (1) FIRA (2) rates less 0.60 percentage points.	-	289,000	293,400
Denominated in pesos, maturing in 2019, at TIEE (1) FIRA (2) rates plus 0.25 percentage points.	53,980	53,973	53,978
Denominated in pesos, maturing in 2019, at TIEE (1) FIRA (2) rates plus 0.50 percentage points.	-	-	54,000
Denominated in pesos, maturing in 2023, at TIEE (1) FIRA (2) plus 0 percentage points.	55,007	-	-
Debt securities (subsection (d))	-	-	1,500,000
Debt securities (subsection (d))	<u>1,500,793</u>	<u>1,500,000</u>	<u>-</u>
Total	1,609,780	2,396,624	2,603,137
Less current maturities	<u>(64,973)</u>	<u>(842,651)</u>	<u>(1,652,725)</u>
Long-term debt, excluding current maturities	<u>\$ 1,544,807</u>	<u>1,553,973</u>	<u>950,412</u>

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) TIEE (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:**

<u>Year</u>	<u>Amount</u>
2019 \$	1,807
2020	12,000
2021	12,000
2022	1,512,000
2023	<u>7,000</u>
	<u>1,544,807</u>

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.

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.
- e) Not to merge, consolidate, separate, settle or dissolve except for those mergers in which the Company or surety are 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 TIE, and in the event the 28-day TIE 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

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**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
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	<u>\$ 5,037,600</u>	<u>5,249,024</u>

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

	<u>December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
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
	<u>\$ 5,196,347</u>	<u>4,740,366</u>	<u>4,545,177</u>

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.

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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
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**

	<b>Transaction value</b>			<b>Balance as of</b>		
	<b>December 31,</b>			<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
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
	<u>\$ 8,840</u>	<u>48,367</u>	<u>43,708</u>	<u>\$ 99</u>	<u>326</u>	<u>148,855</u>

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.

**ii. Expenses and balances payable to related parties**

	<b>Transaction value</b>			<b>Balance as of</b>		
	<b>December 31,</b>			<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Purchases of food, raw materials and packing supplies</b>						
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
<b>Purchases of vehicles, tires and spare parts</b>						
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
<b>Airplane leasing expenses</b>						
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 8,368	7,854	7,739	\$ 20	68	474
				\$ <u>147,514</u>	<u>55,252</u>	<u>189,966</u>

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.

**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:

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

**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:

	<b>December 31,</b>					
	<b>2018</b>		<b>2017</b>		<b>2016</b>	
	<b>ISR</b>	<b>Percentage</b>	<b>ISR</b>	<b>Percentage</b>	<b>ISR</b>	<b>Percentage</b>
Expected expense	\$ 1,354,965	30%	\$ 1,811,667	30%	\$ 1,678,379	30%
Increase (decrease) resulting from:		-				
Net effects of inflation (Non-taxable income)	(276,758)	(6%)	(329,516)	(5%)	(144,611)	(2%)
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	<u>\$ 1,154,978</u>	<u>26%</u>	<u>\$ 1,084,444</u>	<u>18%</u>	<u>\$ 1,643,433</u>	<u>29%</u>

**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:

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Deferred tax assets</b>			
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
<b>Total deferred tax assets</b>	<b>103,877</b>	<b>81,865</b>	<b>60,266</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	51	59	82
Prepaid expenses	-	1,136	52
<b>Total deferred tax liabilities</b>	<b>51</b>	<b>1,195</b>	<b>134</b>
<b>Net deferred tax assets</b>	<b>103,826</b>	<b>80,670</b>	<b>60,132</b>
	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Deferred tax assets</b>			
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
<b>Total deferred tax assets</b>	<b>1,623,062</b>	<b>1,254,366</b>	<b>1,009,247</b>
<b>Deferred tax liabilities</b>			
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
<b>Total deferred tax liabilities</b>	<b>5,390,382</b>	<b>5,097,745</b>	<b>4,921,822</b>
<b>Net deferred tax liability</b>	<b>\$ 3,767,320</b>	<b>3,843,379</b>	<b>3,912,575</b>



**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**

	<b>January 1, 2018</b>	<b>Recognized in profit and loss</b>	<b>Acquired or/ Recognized directly in equity</b>	<b>December 31, 2018</b>
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	<b>\$ 3,762,709</b>	<b>(91,869)</b>	<b>(7,346)</b>	<b>3,663,494</b>

	<b>January 1, 2017</b>	<b>Recognized in profit and loss</b>	<b>Acquired or/ Recognized directly in equity</b>	<b>December 31, 2017</b>
Accounts payable	\$ (965,507)	(223,640)	1,972	(1,187,175)
Employee benefits	(42,221)	1,915	(5,213)	(45,519)
PTU payable	(12,700)	(217)	-	(12,917)
Tax loss carryforwards	(3,436)	(18,577)	-	(22,013)
Other provisions	(25,803)	(35,577)	335	(61,045)
Goodwill	(19,846)	10,895	1,389	(7,562)
Intangible assets	-	-	253,898	253,898
Inventories	1,612,890	(82,523)	71,131	1,601,498
Accounts receivable	438,146	(16,955)	-	421,191
Property, plant and equipment	2,566,084	(351,511)	213,844	2,428,417
Prepaid expenses	303,010	90,926	-	393,936
Derivative financial instruments	1,826	(1,826)	-	-
Net deferred tax liability	<b>\$ 3,852,443</b>	<b>(627,090)</b>	<b>537,356</b>	<b>3,762,709</b>

	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	<u>\$ 3,314,909</u>	<u>382,904</u>	<u>154,630</u>	<u>3,852,443</u>

**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
	<u>\$ 254,907</u>	

**(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.

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:

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

***ii. Composition and return of plan assets***

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

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	<u>\$ 500,072</u>	<u>512,210</u>	<u>462,554</u>

***iii. Movements in the fair value of plan assets***

	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	<u>(30,136)</u>	<u>(3,919)</u>	<u>(9,939)</u>
Fair value of plan assets as of December 31	<u>\$ 197,254</u>	<u>259,245</u>	<u>267,535</u>

**iv. Expense recognized in profit and loss**

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

**v. Actuarial gains and (losses)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	<u>\$ (171,247)</u>	<u>(140,617)</u>	<u>(123,240)</u>

**vi. Actuarial assumptions**

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
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	<u>3.50%</u>	<u>3.50%</u>	<u>3.50%</u>

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**

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 500,072	512,210	462,554
Plan assets at fair value	(197,254)	(259,245)	(267,535)
Plan deficit	<u>\$ 302,818</u>	<u>252,965</u>	<u>195,019</u>
Experience adjustments arising from plan liabilities	<u>\$ 494</u>	<u>13,458</u>	<u>(24,827)</u>
Experience adjustments arising from plan assets	<u>\$ (30,136)</u>	<u>(3,919)</u>	<u>(9,939)</u>

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

<b>2018</b>	<b>Pension plan</b>	<b>Seniority premium</b>	<b>Constructive obligation</b>	<b>Total PBO</b>
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)

<b>2017</b>	<b>Pension plan</b>	<b>Seniority premium</b>	<b>Constructive obligation</b>	<b>Total PBO</b>
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)
<b>2016</b>	<b>Pension plan</b>	<b>Seniority premium</b>	<b>Constructive obligation</b>	<b>Total PBO</b>
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**

	<b>Total</b>
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 benefits**

**Defined contribution plans**

Bachoco USA, LLC. (foreign subsidiary) has a defined contribution retirement 401(k) plan, covering all employees who meet certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's contribution. The cumulative contribution expense for this plan was \$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.

**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**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
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	<u>\$ 57,446,782</u>	<u>52,926,338</u>	<u>47,482,929</u>
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	<u>\$ 57,446,782</u>	<u>52,926,338</u>	<u>47,482,929</u>

**(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.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
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

**(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:

	<b>Before the Transaction</b>		<b>After the Transaction</b>	
	<b>Shares <sup>(1)</sup></b>	<b>Position</b>	<b>Shares <sup>(1)</sup></b>	<b>Position</b>
<b>Familiar Trusts</b>	<b>496,500,000</b>	<b>82.75%</b>	<b>439,500,000</b>	<b>73.25%</b>
- Control Trust	312,000,000	52.00%	312,000,000	52.00%
- Placement Trust	184,500,000	30.75%	127,500,000	21.25%
<b>Floating Position <sup>(2)</sup></b>	<b>103,500,000</b>	<b>17.25%</b>	<b>160,500,000</b>	<b>26.75%</b>

(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:

	<b>Shares</b>	<b>Position</b>
Renaissance Technologies LLC	7,559,952	1.26%



**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:

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

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.

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**

<u>CUFIN</u>	<u>Balance as 2013</u>	<u>Balance from 2014</u>	<u>Total</u>
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.

**(26) Earnings per share**

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.

## **(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.

**(29) Financial income and costs**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
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	<u>1,140,749</u>	<u>1,087,641</u>	<u>969,174</u>
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	<u>(146,255)</u>	<u>(67,400)</u>	<u>(42,385)</u>
Financial costs	<u>(332,168)</u>	<u>(340,091)</u>	<u>(172,154)</u>
Financial income, net	<u>\$ 808,581</u>	<u>747,550</u>	<u>797,020</u>

**(30) Other income (expenses)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Other income</b>			
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	<u>1,041,677</u>	<u>984,336</u>	<u>1,076,902</u>
<b>Other expenses</b>			
Cost of disposal of biological assets, raw materials, by-products and other	(737,077)	(731,110)	(704,152)
Other	<u>(201,940)</u>	<u>(85,584)</u>	<u>(112,548)</u>
Total other expenses	<u>(939,017)</u>	<u>(816,694)</u>	<u>(816,700)</u>
Total other income (expenses), net	<u>\$ 102,660</u>	<u>167,642</u>	<u>260,202</u>

---

**DEPOSITARY BANK**

**BNY MELLON**

**BNY Mellon Shareowner Services**

T. US: 1-888-269-2377

T. 201-680-6825

E-mail: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)

Website: [www.mybnymdr.com](http://www.mybnymdr.com)

Proxy Services

[shareowner@bankofny.com](mailto:shareowner@bankofny.com)

Toll Free: 1.888.269.2377

T. (212)815.374.00

---

**INDEPENDENT AUDITORS**

Deloitte Touche Tohmatsu/ Galaz, Yamazaki, Ruiz Urquiza, S.C.

T. +52 (442) 238.29.34

---

**CORPORATE HEADQUARTERS**

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

Av. Tecnológico 401

Celaya, Guanajuato

38030, México

T. +52 (461) 618.35.00

---

**INVESTOR RELATIONS**

María Guadalupe Jáquez

Andrea Guerrero

T. +52 (461) 618.35.55 (México)

[inversionistas@bachoco.net](mailto:inversionistas@bachoco.net)

Consult online our Annual Report 2018:  
<https://bit.ly/2UgGK1m>



**Bachoco**<sup>®</sup>

INDUSTRIAS BACHOCO S.A.B. DE C.V.

[www.bachoco.com.mx](http://www.bachoco.com.mx)

