

Bachoco[®]



**ANNUAL
REPORT
2019**

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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.



BACHOCO OWNS AND MANAGES

• MORE THAN A **1000** FARMS



• **9** PROCESSING PLANTS



• **9** FURTHER PROCESSING PLANTS



• **22** FEED MILLS



• **23** HATCHERIES



• MORE THAN **80** DISTRIBUTION CENTERS

THE COMPANY EMPLOYS MORE THAN **28,000 PEOPLE.**



OPERATING DATA

In millions pesos	U.S. Dollar ¹		December 31,	
	2019	2019	2018	2017
Net sales	\$ 3,263.9	61,655.2	61,052.1	58,050.0
Gross profit	534.6	10,097.9	9,629.7	10,547.1
Operating income	210.5	3,976.5	3,708.0	5,291.3
EBITDA Result	278.6	5,263.0	4,993.1	6,424.1
Net income	\$ 171.1	3,232.8	3,361.6	4,954.4
EPS in pesos	0.28	5.37	5.58	8.25
Earnings per ADR en pesos	3.41	64.40	67.00	98.97
Gross margin	16.4%	16.4%	15.8%	18.2%
Operating margin	6.4%	6.4%	6.1%	9.1%
EBITDA margin	8.5%	8.5%	8.2%	11.1%
Net margin	5.2%	5.2%	5.5%	8.5%

¹ One dollar equal to \$18.89 pesos

STATEMENT OF FINANCIAL DATA

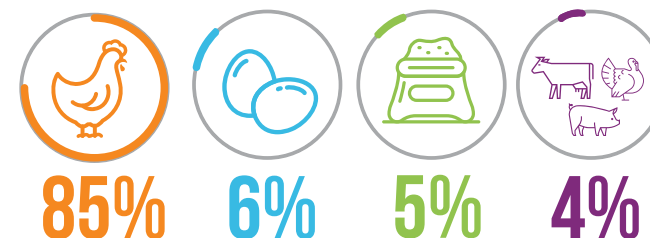
In millions pesos	In U.S. Dollars ¹		December 31,	
	2019	2019	2018	2017
TOTAL ASSETS	\$ 2,948.8	55,702.5	52,865.6	50,557.4
Cash and cash equivalents	1,015.5	19,182.7	18,458.5	17,250.1
Inventories	249.3	4,710.2	4,575.6	4,727.3
TOTAL LIABILITIES	\$ 817.5	15,442.2	14,699.9	14,879.5
Notes payable to banks	182.1	3,440.4	3,492.8	3,695.1
Accounts payable	273.1	5,158.8	5,196.3	4,740.4
Long-term debt	78.8	1,488.2	1,544.8	1,554.0
TOTAL STOCKHOLDERS' EQUITY	\$ 2,131.3	40,260.3	38,165.7	35,677.9
Capital stock	62.2	1,174.4	1,174.4	1,174.4
Retained earnings	1,928.2	36,424.4	34,792.3	32,367.9

¹ One dollar equal to \$18.89 pesos

SALES BY GEOGRAPHY

• **73%** MEXICO
• UNITED STATES **27%**

NET SALES



2019

• **28,218**

2018

• **27,597**

2017

• **27,397**

EMPLOYEES



MESSAGE TO SHAREHOLDERS

Dear Shareholders of Industrias Bachoco:

2019 was a challenging year regarding macroeconomic and industry conditions. Even though the inflation in Mexico was 2.83%, which is significantly lower than the rate reported in 2018, GDP decreased 0.1%; which was the first time a reduction has been reported in the last ten years. The negative effects of this deacceleration was mainly observed at the end of 2019.

In the Mexican poultry industry, we observed a good balance between supply and demand during most part of the year, with some oversupply conditions in the fourth quarter.

In the U.S., during 2019, we observed some oversupply conditions in animal proteins, mainly due to the expectancy of a higher demand from Asia caused by the African Swine Fever. Although this effect hasn't been materialized yet, the oversupply conditions resulted in some pressure in the chicken prices, mostly on white meat.

Regarding prices of raw materials, these remained relatively stable during most parts of the year. These conditions, in addition to our hedging strategy, allowed us to capitalize the benefits in our cost of sales.

Under the conditions mentioned above, we achieved an increase in our total sales of 1.0% when compared with 2018. Particularly in Balanced Feed, not only did we see an increase in sales, but we also achieved a new record in volume sold for a year. This reinforces our focus on attending our customers, productivity efforts and financial discipline.



In 2019, we continued working on our growth plans while significantly increasing our CAPEX. These investments were allocated to organic growth, as well as in productivity projects in all our supply chain. This will allow us to continue getting closer to our customers and to consolidate as their best alternative in the industry.

Our financial structure continued strong as we ended 2019 with a net cash of \$14,254 million, which will allow us to continue supporting our short and long-term growth plans and, at the same time, to face the uncertainties and volatilities of the industry in which we compete.

We continue generating and looking for both efficiency and growth opportunities. By the end of 2019, we shared with you the agreement achieved to invest in the company Sonora Agropecuaria S.A. de C.V. "SASA" a swine processor and distributor with operations in the states of Sonora and Jalisco. This agreement will have synergies with our current live swine business, while allowing us to accelerate our rhythm of growth and continue to move forward in the process of diversification in other animal proteins. We are working in the compliance of the requirements of Mexican authorities in competition matters in order to proceed in the integration process and capitalize the identified benefits.

As a commitment to be present every day, this year we worked on the construction of our first public Sustainability Report, where we align to the strategies of the company, we reflect on our principle actions and goals in sustainability topics related to our business, products, work team, planet and community.

Bachoco was placed in the top 50 companies with the best reputation in Mexico according to MERCO survey. We

are also very proud to mention that our CEO, Rodolfo Ramos Arvizu, has been again placed as one of the most respected CEO's in the country, getting 26th place on the list; improving 12 places from the previous year.

The work of our team has been essential in achieving our goals. Today there are more than 28,000 employees who are working constantly to achieve the best results in the industry. Undoubtedly, the invaluable effort that the Bachoco team makes every day has been key to maintain our level of competitiveness, with a solid and trustworthy brand.

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 of 2019 with comparative figures of 2018. It was prepared under IFRS accounting principles, and is presented in millions of pesos unless otherwise indicated.

During 2019, we continued consolidating our productivity and organic growth projects which contributes to the strengthening of our presence in each geography.

Despite the challenges that the national and global macroeconomic conditions presented, in Bachoco we reported positive results. Our financial position continued solid and allowed us to remain close to our customers and deliver high quality products.

2019 & 2018 RESULTS

Net sales in 2019 totaled \$61,655.2 million, \$603.1 million more or a 1.0% increase in net sales, when compared to \$61,052.1 million reported in 2018. This increase was mainly due to higher prices in our main business lines and more volume sold in our others business line, where the participation of Balance Feed was very prominent.

In 2019, sales of our US operations represented 27.4% of our total sales, compared with 28.7% reported in 2018. This was a result of an increase in sales of our Mexico operation.

The Company's total poultry sales increased 0.6%, while our Others line increased 4.5%. The increase in poultry was a result of better prices when

compared to 2018, while the higher sales in Others was mainly driven by higher volume sold.

Cost of sales totaled \$51,557.4 million, 0.3% higher than the \$51,422.4 million reported in 2018. The increase in cost of sales was mainly attributed to more volume sold that was highly offset by efficiencies in our production processes as well as an effective hedging strategy.

These numbers allowed us to reach a gross profit of \$10,097.9 million, which represented 16.4% of gross margin; higher than the \$9,629.7 million of gross profit and a margin of 15.8% reached in 2018.

Total SG&A expenses in 2019 were \$6,116.6 million, an increase of \$92.2 million or 1.5% when compared to \$6,024.4 million in 2018. Total SG&A expenses as a percentage of net sales represented 9.9% in both 2019 and 2018. These results were due to efficiencies in our production processes, mainly in our distribution network.

In 2019, we had other expenses of \$4.7 million, compared with other income of \$102.7 million reported in 2018. The decrease was mainly due to a one-time charge that we recognized in 2019 caused by the write-off on intangible assets in our Albertville operation.



DESAYUNO A LA CARTA.

Bachoco[®]
Contigo todos los días



Total debt as of December 31, 2019 was \$4,928.6 million, compared to total debt of \$5,037.6 million reported as of December 31, 2018. As a result, our net cash as of December 31, 2019 totaled \$14,254.1 million, compared with a net cash of \$13,420.9 million as of December 31, 2018.

Capex in 2019 totaled \$2,069.3 million, an increase of 4.4% when compared to \$1,982.6 million reported in 2018. In 2019, the Company continued with the implementation of new projects oriented toward organic growth and productivity which reinforces our commitment to continue to be close to our consumers.

Rodolfo Ramos Arvizu
Chief Executive Officer

Net financial income was \$381.3 million, a decrease when compared to the net financial income of \$808.6 million in 2018.

The operating income in 2019 totaled \$3,976.5 million with a margin of 6.4%, higher than the \$3,708.0 million of operating income and 6.1% margin as reported in 2018.

In 2019, we reached an EBITDA of \$5,263.0 million, representing an EBITDA margin of 8.5%, compared to an EBITDA of \$4,993.1 million in 2018, with a margin of 8.2%.

Net financial income was \$381.3 million, a decrease when compared to the net financial income of \$808.6 million in 2018.

Total taxes were \$1,125.0 million. This includes \$1,064.3 million in income tax and \$60.7 million in deferred taxes. This figure compares to total taxes of \$1,155.0 million, which includes income tax of \$1,246.8 and a favorable effect of \$91.9 million of deferred tax in 2018.

As a result, net income in 2019 was \$3,232.8 million, a 5.2% net margin, which represents earnings per share of \$5.37 pesos; while in 2018, net income totaled \$3,361.6 million with an 5.5% net margin, and \$5.58 pesos of earnings per share.

Cash and equivalents as of December 31, 2019 totaled \$19,182.7 million, an increase of \$724.2 million or 3.9% more than the \$18,458.5 million of cash and equivalents reported as of December 31, 2018.





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 2019, 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 2019, 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 2019.

Javier Bours Castelo

Chairman of the Board of Directors



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 24, 2019.

AUDIT COMMITTEE AND CORPORATE PRACTICES MEMBERS

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

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

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

This report has been submitted to the Audit and Corporate Practices Committee of the Company, which validated content, scope and conclusions for the Board of Directors approval and through the Board, its validation in the Annual and General Ordinary Shareholders' Meeting of the Company that will take place in April 2020.

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 2019, 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

AUDIT AND CORPORATE PRACTICES COMMITTEE



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 2019 fiscal year were reviewed and discussed, and did not submit observations and/or qualifications, in consequence, the Committee recommended its approval by the Board of Directors for submission to the Shareholders' Meeting.

Regarding External Audit Performance:

The services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) continued to be used as External Auditors of the Company. We worked with Deloitte to insure the compliance, from both Deloitte and the Company, of the 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 2019 were duly revised and approved. The Audited Financial Statements as of December 31, 2019 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, 2019, 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 2019.

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 2019, 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 2019, the Company's shares and ADRs reported a decrease in yield of 26.2% on the BMV and of 31.4% 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 \$48,858 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
2019	92.44	65.38	80.46	81.43	2019	56.34	40.07	50.10	52.00
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	46.68	49.02
2015	89.73	59.23	71.74	70.05	2015	63.49	45.64	54.09	49.23

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 24, 2019. 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

SENIOR MANAGEMENT TEAM

Rodolfo Ramos Arvizu **1**
Chief Executive Officer

R. Trent Goins **2**
Director of U.S. Operations

Ernesto Salmon Castelo **3**
Director of Mexico Operations

Andrés Morales Astiazaran **4**
Director of Sales

Daniel Salazar Ferrer **5**
Chief Financial Officer

Alejandro Elias Calles Gutierrez **6**
Director of Purchasing





SUSTAINABILITY

In 2019 we developed our first public sustainability report, which will be available on our website <https://corporativo.bachoco.com.mx/inversionistas/>

With this we reinforce our commitment to be a valuable alternative for our clients, collaborators, community and environment.

Our sustainability strategy is focused on four pillars:

- Boosting our talent.
- Strengthen our business.
- Contribute to our community.
- Take care of our planet.

At Bachoco we are aware of the challenges and changes that our industry is going through. So, for us, the focus on these four pillars are essential to be a competitive company in order to capitalize the growth opportunities that will allow us to be close to our consumers in a sustainable way every day.

SOCIAL RESPONSIBILITY

During 2019, we focused great efforts on our pillars of Social Responsibility, to ensure that our impact covers a greater area and involves our various stakeholders.

We continue to strengthen our culture among all staff through Code of Ethics courses, where we reinforce our values and beliefs.

We boost our talent

We have a committed team, who help us day by day to maintain our leadership and continue innovating. Thanks to them, we continue to grow, and as a proof of this, in the year we hired 13,671 people.



We take care of our planet

The environment is of great importance to us and an aspect of constant review, since from there we obtain our resources; we seek ways to reduce our environmental impact.

We chose to use natural gas instead of fuel oil to mitigate the emission of gases in the environment. Also, by implementing wastewater treatment in our work centers, we were able to optimize the use of this resource and in the same way we reduce energy consumption by using biogas.

In 2019 we inaugurated four new capillary leaching ditches or infiltration ditches.

We strengthen our business



We are proud to report that MERCO recognized us at number 33 in the top 100 of companies with the best corporate reputation.

We strengthen our ethical actions with various tools, such as the Code of Ethics, an Ethics Committee and internal and external complaint mechanisms so that our collaborators can express their disagreements and thus improve labor relations, continuing to always think of our people.

Annually, we develop communication and training campaigns to reinforce the culture of integrity and the knowledge of our collaborators about the Code of Ethics.



We contribute to our community

We had the participation of 2,000 runners in our half marathon 'Bachoco Unidos por la Alimentación', whose objective is to raise funds to improve the nutrition of our rural communities and our children with fresh, nutritious and healthy food of the highest quality.

This year's proceeds were designated to the construction of the DIF Dining Room CAFI (Coordinación de Acciones a Favor de la Infancia), which provides street children with a dining room where they can receive healthy and balanced food. All this with the aim that boys and girls have a decent space to receive their food and encouraging them to have a good diet.

Since 2015, through this initiative we have rehabilitated 18 community dining rooms and built 2 dining rooms.

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

(Figures in thousands of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Industrias Bachoco, S. A. B. de C. V. and its subsidiaries ("the Entity"), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

Other Matter

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

Key Audit Matters

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



Goodwill valuation

As of December 31, 2019, the carrying amount of the Entity's goodwill of \$ 1,578,994, of which \$1,155,543 relates to the Ok Foods - Albertville Quality Foods, Inc. cash-generating unit ("CGU"), is a material balance.

At least once a year, the Entity must analyze the recoverable amounts of each one of its CGUs. The objective of this analysis is to determine whether the recognition of an impairment loss is necessary. For purposes of this analysis, the Entity determines the fair value of the CGU, which involves using judgments in estimating future results and the discount rates applied to the projected cash flows. The audit team considers this to be a key audit matter mainly due to: i) the impairment indicators presented in the aforementioned CGU during the fiscal year 2019, 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; ii) audit efforts necessary when evaluating the model, the data and the significant assumptions considered on it such as revenue growth rates, discount rates, WACC and the future growth rate considered when determining the terminal value, and iii) the audit effort related to involving internal specialists to assist the audit team in reviewing the obtained audit evidence and to challenge the assumptions used by the Entity.

Note 15 of the accompanying consolidated financial statements, present the amounts, movements, and analysis of the recoverable amounts of the CGU.

Our audit procedures included, among others:

The audit team evaluated the design and implementation and tested the operational effectiveness of the Entity's internal controls related to the goodwill impairment evaluation for the aforementioned CGU, including also the Entity's Administration review, as well as the model, the data, the assumptions and disclosures included in the accompanying consolidated financial statements related to the CGU's goodwill.

The audit team was assisted by internal specialists from the Firm and, together with them, evaluated the reasonableness of Entity's conclusions regarding the key assumptions used to determine the UGE projected cash flows, focusing mainly on revenue growth rates, and the future growth rate considered to determine the terminal value, discount rates, and the WACC in relation to historical trends. Also, a comparison of the assumptions used against an external market analysis, and the specific industry was made, and an evaluation of the mathematical accuracy of the calculations made. We also compared the actual financial results for the current year against the figures on the budgeted for the current year, and the previous year, to consider whether any of the assumptions included in the projections could be considered as overly optimistic, and we evaluated the consistency of the most important assumptions considered by management when preparing other projections. We evaluated the possible sensitivity scenarios prepared by the Entity, and we calculated the degree to which modifications to the main assumptions could give rise to a possible impairment, and noted that a reasonably sufficient margin exists such that there are no impairment indicators.

Finally, we evaluated whether the projected cash flows, the assumptions and the data used were reviewed and approved in a timely manner and whether they are consistent with the plans approved by the Board of Directors.



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"). 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 communicate the matter.

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 consolidated financial reporting process.

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

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



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

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

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

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



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

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

Alberto Del Castillo V.V.

L.C.C. Alberto Del Castillo Velasco Vilchis

April 14, 2020



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

Consolidated Statements of Financial Position

December 31, 2019, 2018 and 2017

(Thousands of pesos)

		2019	2018	2017		2019	2018	2017
	Note				Liabilities and equity			
Assets								
Current assets:								
Cash and cash equivalents	7	\$ 18,662,765	17,901,845	16,112,268	Short-term debt	3,440,399	3,427,820	2,852,400
Investment in securities at fair value through profit or loss	8	186,284	550,068	1,127,841	Current portion of long-term debt	-	64,973	842,651
Investment in securities at fair value through other comprehensive income	8	315,761	-	-	Derivative financial instruments	-	-	6,821
Derivative financial instruments	8	18,098	6,570	-	Trade payable and other accounts payable	5,158,827	5,196,347	4,740,366
Accounts receivable, net	9	3,867,110	3,486,354	3,626,878	Lease liabilities	149,538	-	-
Due from related parties	20	13,674	99	326	Income tax payable	82,665	248,290	731,654
Inventories	10	4,710,207	4,575,596	4,727,333	Due to related parties	78,704	147,514	55,252
Current biological assets	11	2,043,237	2,073,526	1,942,193	Total current liabilities	8,908,133	9,084,944	9,227,144
Prepaid expenses and other current assets	12	1,227,196	1,131,870	638,671	Long term liabilities:			
Assets held for sale	13	52,916	49,068	49,523	Long-term debt, excluding current installments	1,488,208	1,544,807	1,553,973
Total current assets		31,097,248	29,774,996	28,225,033	Lease liabilities	653,512	-	-
Non-current assets:								
Property, plant and equipment, net	14	18,556,646	18,018,176	17,320,041	Deferred income tax	3,904,493	3,767,320	3,843,379
Right-of-use assets	24	822,732	-	-	Employee benefits	487,810	302,818	252,965
Non-current biological assets	11	1,818,911	1,721,728	1,617,503	Total long term liabilities	6,534,023	5,614,945	5,650,317
Deferred income tax	21	245,272	103,826	80,670	Total liabilities	15,442,156	14,699,889	14,877,461
Goodwill	15	1,578,994	1,631,771	1,631,094	Equity:			
Intangible assets	16	772,640	949,355	1,040,042	Capital stock	1,174,432	1,174,432	1,174,432
Other non-current assets	17	810,048	665,742	643,006	Share premium	414,516	414,470	414,385
Total non-current assets		24,605,243	23,090,598	22,332,356	Reserve for repurchase of shares	1,308,367	562,047	493,141
					Retained earnings	36,424,411	34,792,320	32,367,912
					Accumulated other comprehensive income	(19,771)	(307)	-
					Foreign currency translation reserve	1,073,925	1,273,671	1,268,021
					Actuarial remeasurements, net	(195,905)	(120,378)	(98,938)
					Equity attributable to controlling interest	40,179,975	38,096,255	35,618,953
					Non-controlling interest	80,360	69,450	58,975
					Total equity	40,260,335	38,165,705	35,677,928
					Commitments	-	-	-
					Contingencies	-	-	-
					Susequent events	-	-	-
Total assets		\$ 55,702,491	52,865,594	50,557,389	Total liabilities and equity	\$ 55,702,491	52,865,594	50,557,389

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, 2019, 2018 and 2017

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

	<u>Note</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net revenues		\$ 61,655,245	61,052,092	58,050,025
Cost of sales	23	<u>(51,557,351)</u>	<u>(51,422,376)</u>	<u>(47,502,959)</u>
Gross profit		10,097,894	9,629,716	10,547,066
General, selling and administrative expenses	23	(6,116,620)	(6,024,406)	(5,423,379)
Other (expenses) income, net	30	<u>(4,734)</u>	<u>102,660</u>	<u>167,642</u>
Operating income		<u>3,976,540</u>	<u>3,707,970</u>	<u>5,291,329</u>
Finance income	29	991,632	1,140,749	1,087,641
Finance costs	29	<u>(610,368)</u>	<u>(332,168)</u>	<u>(340,091)</u>
Net finance income		<u>381,264</u>	<u>808,581</u>	<u>747,550</u>
Profit before income taxes		4,357,804	4,516,551	6,038,879
Income taxes	21	<u>1,124,978</u>	<u>1,154,978</u>	<u>1,084,444</u>
Profit for the year		\$ <u>3,232,826</u>	<u>3,361,573</u>	<u>4,954,435</u>
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		\$ (199,746)	5,650	(197,636)
Hedge result		(19,464)	(307)	-
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	22	(107,897)	(30,629)	(17,377)
Income taxes related to actuarial remeasurements		<u>32,370</u>	<u>9,189</u>	<u>5,213</u>
Other comprehensive income		<u>(294,737)</u>	<u>(16,097)</u>	<u>(209,800)</u>
Comprehensive income for the year		\$ <u>2,938,089</u>	<u>3,345,476</u>	<u>4,744,635</u>
Profit attributable to:				
Controlling interest		\$ 3,219,931	3,349,967	4,948,242
Non-controlling interest		<u>12,895</u>	<u>11,606</u>	<u>6,193</u>
Profit for the year		\$ <u>3,232,826</u>	<u>3,361,573</u>	<u>4,954,435</u>
Comprehensive income attributable to:				
Controlling interest		\$ 2,925,194	3,333,870	4,738,442
Non-controlling interest		<u>12,895</u>	<u>11,606</u>	<u>6,193</u>
Comprehensive income for the year		\$ <u>2,938,089</u>	<u>3,345,476</u>	<u>4,744,635</u>
Weighted average outstanding shares		<u>599,971,832</u>	<u>599,980,734</u>	<u>599,997,696</u>
Basic and diluted earnings per share	26	\$ <u>5.37</u>	<u>5.58</u>	<u>8.25</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, 2019, 2018 and 2017

(Thousands of pesos)

	Capital stock	Attributable to controlling interest							Total	Non-controlling interest	Total equity
		Capital stock	Share premium	Reserve for repurchase of shares	Retained earnings	Hedge result	Foreign currency translation reserve	Actuarial remeasurements net			
Balance at January 1, 2017	\$ 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	-	-	-	(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	-	-	(1,800)	-	-	-	-	(1,800)	-	(1,800)	
Comprehensive income for the year:											
Profit for the year	-	-	-	4,948,242	-	-	-	4,948,242	6,193	4,954,435	
Other comprehensive income	-	-	-	-	-	(197,636)	(12,164)	(209,800)	-	(209,800)	
Total comprehensive income for the year	-	-	-	4,948,242	-	(197,636)	(12,164)	4,738,442	6,193	4,744,635	
Balance at December 31, 2017	1,174,432	414,385	493,141	32,367,912	-	1,268,021	(98,938)	35,618,953	58,975	35,677,928	
Dividends paid	-	-	-	(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	-	-	(4,653)	-	-	-	-	(4,568)	-	(4,568)	
Comprehensive income for the year:											
Profit for the year	-	-	-	3,349,967	(307)	5,650	(21,440)	3,349,967	11,606	3,361,573	
Other comprehensive income	-	-	-	-	-	-	-	(16,097)	-	(16,097)	
Total comprehensive income for the year	-	-	-	3,349,967	(307)	5,650	(21,440)	3,333,870	11,606	3,345,476	
Balance at December 31, 2018	1,174,432	414,470	562,047	34,792,320	(307)	1,273,671	(120,378)	38,096,255	69,450	38,165,705	
Dividends paid	-	-	-	(840,000)	-	-	-	(840,000)	-	(840,000)	
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(1,985)	(1,985)	
Reserve for repurchase of shares	-	-	747,840	(747,840)	-	-	-	-	-	-	
Repurchase and sale of shares	-	-	(1,520)	-	-	-	-	(1,474)	-	(1,474)	
Comprehensive income for the year:											
Profit for the year	-	-	-	3,219,931	-	-	-	3,219,931	12,895	3,232,826	
Other comprehensive income	-	-	-	-	(19,464)	(199,746)	(75,527)	(294,737)	-	(294,737)	
Total comprehensive income for the year	-	-	-	3,219,931	(19,464)	(199,746)	(75,527)	2,925,194	12,895	2,938,089	
Balance at December 31, 2019	\$ 1,174,432	414,516	1,308,367	36,424,411	(19,771)	1,073,925	(195,905)	40,179,975	80,360	40,260,335	

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, 2019, 2018 and 2017

(Thousands of pesos)

	Note	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:				
Profit for the year	\$	3,232,826	3,361,573	4,954,435
Adjustments for:				
Deferred income tax recognized in profit or loss	21	60,677	(91,869)	(627,090)
Current income tax recognized in profit or loss	21	1,064,301	1,246,847	1,711,534
Depreciation and amortization	14	1,286,443	1,226,917	1,075,788
Depreciation of right-of-use assets		302,804		
Intangible impairment loss	16	73,733	21,430	-
(Gain) loss on disposal of plant and equipment		(85,937)	23,227	41,890
Interest income earned	29	(991,632)	(1,077,507)	(857,109)
Interest expense and financial expense	29	330,119	332,168	255,997
Unrealized foreign exchange loss on loans		<u>(139,830)</u>	<u>43,400</u>	<u>82,600</u>
Subtotal		5,133,504	5,086,186	6,638,045
Derivative financial instruments		(11,528)	(13,391)	15,129
Accounts receivable, net		(306,588)	200,145	162,906
Due from related parties		(13,575)	227	3,967
Inventories		(133,572)	149,738	(461,783)
Current and non-current biological assets		(66,582)	(236,179)	70,941
Prepaid expenses and other current assets		(95,201)	(493,442)	875,307
Assets held for sale		(3,848)	455	7,205
Trade payable and other accounts payable		(38,542)	457,941	(350,299)
Due to related parties		(70,810)	92,262	(134,714)
Income taxes paid		(1,302,902)	(1,787,959)	(1,405,256)
Employee benefits		<u>184,992</u>	<u>49,853</u>	<u>57,946</u>
Net cash provided by operating activities		<u>3,275,348</u>	<u>3,505,836</u>	<u>5,479,394</u>
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment		(2,199,600)	(1,977,567)	(2,126,361)
Proceeds from sale of plant and equipment		197,059	32,455	35,175
Restricted cash		-	-	(24,058)
Investment in securities at fair value through profit or loss		363,784	577,773	(157,549)
Investment in securities at fair value through other comprehensive income		(315,761)	-	-
Other assets		24,244	(27,983)	2,125
Interest collected		991,632	1,077,507	857,109
Business acquisition including advance payment		-	-	(2,494,862)
Collection of principal of loans granted to related parties		<u>-</u>	<u>-</u>	<u>144,562</u>
Net cash used in investing activities		<u>(938,642)</u>	<u>(317,815)</u>	<u>(3,763,859)</u>
Cash flows from financing activities:				
Payment for repurchase of shares	25	(10,729)	(6,454)	(1,800)
Proceeds from issuance of repurchased shares	25	9,255	1,887	-
Dividends paid	25	(840,000)	(852,000)	(780,000)
Dividends paid to non-controlling interest		(1,985)	(1,131)	(1,081)
Proceeds from borrowings	18	4,839,000	3,370,400	5,378,915
Principal payment on loans	18	(4,808,163)	(3,588,067)	(4,246,100)
Interest paid on lease	24	(37,797)	-	-
Interest paid	29	(292,322)	(332,168)	(255,997)
Payment of lease liability	24	<u>(325,207)</u>	<u>-</u>	<u>-</u>
Net cash (used in) provided by financing activities		<u>(1,467,948)</u>	<u>(1,407,533)</u>	<u>93,937</u>
Net increase in cash and cash equivalents		868,758	1,780,488	1,809,472
Cash and cash equivalents at January 1		17,901,845	16,088,210	14,661,968
Effect of exchange rate fluctuations on cash and cash equivalents		<u>(107,838)</u>	<u>33,147</u>	<u>(383,230)</u>
Cash and cash equivalents at December 31	\$	<u>18,662,765</u>	<u>17,901,845</u>	<u>16,088,210</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, 2019, 2018 and 2017

(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 14, 2020, 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 and investment in securities at fair value through other comprehensive income
- 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 for most of its subsidiaries, except for 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 \$18.89, \$19.67 and \$19.66 pesos to one U.S. dollar as of December 31, 2019, 2018 and 2017, 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.

iv. Discount rate estimation to calculate the present value of future minimum rent payments

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental borrowing rate ("IBR").

The Company uses a two-level model, with which it determines the elements that make up the discount rate: (i) reference rate, (ii) credit risk component. In such model, Management also considers its policies and practices to obtain financing, distinguishing between borrowings obtained at the corporate level (that is, by the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for the characteristics of the underlying asset, taking into account the possibility that such asset may be granted as collateral or guarantee against the risk of default.

v. Estimate of the term of the lease contracts

The Company defines the term of the leases as the period for which there is a contractual payment commitment, considering the non-cancellable period of the contract, as well as the renewal and early termination options that are likely to be exercised. The Company participates in lease agreements that do not have a defined mandatory term, a defined renewal period (if it contains a renewal clause), or annual automatic renewals. Accordingly, to measure the lease liability, the Company estimates the term of the contracts considering their contractual rights and limitations, the business plan, as well as Management's intentions for the use of the underlying asset.

Additionally, the Company considers the early termination clauses of its contracts and the probability of exercising them, as part of its estimation of the lease term.

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.

viii. Uncertainties

Pandemics or disease outbreaks, such as the new coronavirus (COVID-19 virus – “COVID 19”), may alter consumption and trade patterns, supply chains, and production processes, which could affect our operations and results of operations. In Note 31 to the consolidated financial statements, we present an analysis regarding the possible impacts of COVID-19.

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, 2019 as it relates to its consolidated financial statements.

IFRS 16, Leases

IFRS 16, *Leases* supersedes IAS 17, *Leases* and related interpretations. The new standard incorporates most leases in the Company's consolidated statement of financial position, where it acts as lessee.

Under this standard, the Entity as lessee, recognizes a right-of-use asset and a lease liability, for each contract that is defined as a lease and for which the recognition exemptions that are detailed below do not apply. The right-of-use asset depreciates according to the contractual term or in some cases, over its economic useful life. For its part, the lease liability is measured at initial recognition by discounting the present value of future minimum income payments according to a term, using a discount rate that represents the cost of funding the lease; subsequently, the liability will accrue interest until maturity.

The Company applied the aforementioned exemptions to not recognize an asset and a liability for lease contracts with a lease term of less than 12 months (without purchase options or term renewal) and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture. Therefore, payments for such leases continue to be recognized as expenses within operating income.

For the adoption of IFRS 16, the Company chose the modified retrospective application through which all effects were recorded as of January 1, 2019, without adjusting the financial statements of the comparative years.

Additionally, the Company adopted and applied the following practical expedients provided by IFRS 16 for the transition date:

- The Company has chosen to combine the lease components and non lease components representing services (for example, maintenance and insurance) for some asset classes; however, for the rest of the asset classes, the Company measures the lease liability only considering the payments of components that are rents, while the services implicit in the payments are recognized directly in results as operating expenses.

- Created portfolios of contracts with similar terms, economic environments and asset characteristics, and used a discount rate per portfolio to measure leases.
- Did not revisit the conclusions previously reached for service contracts that were evaluated through December 31, 2018 under IFRIC 4, Determination of Whether a Contract Contains a Lease, for which the Company had previously concluded that there was no implicit lease.
- For operating leases that, as of December 31, 2018, contained direct costs to obtain a lease, the Company maintained the recognition of these costs in prior year results without adjustment to capitalize them in the initial value of the right of use assets as January 1, 2019.

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

- Recognized 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 in the amount of \$922,410.
- Recognized depreciation of right-of-use assets of \$302,804 and interest on lease liabilities of \$37,797 in the consolidated statement of profit or loss.
- Presented separately the total amount of cash paid for liability principal of \$325,207 (presented within financing activities) and interest of \$37,797 (presented within financing activities) in the consolidated statement of cash flow.

IFRIC - 23 Uncertainty over income tax treatments

This interpretation deals with the determination of taxable income (loss), tax bases, unused tax 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' inspections
- The determination of taxable income (loss), tax basis, unused tax losses, unused tax credits and tax rates
- The effects of changes in the facts and circumstances

This interpretation was effective on January 1, 2019. The adoption of this interpretation had no impact on the Company's consolidated financial statements, since its current practices for determining the effects of income taxes on its consolidated financial statements are similar to those set forth in the interpretation.

Amendments to IAS 19 Plan amendment, curtailment or settlement

The amendments clarify that past service cost (or settlement gain or loss) is calculated by measuring the defined benefit liability or asset, using current assumptions and comparing the benefits offered and the plan assets before and after the amendment, curtailment or settlement of the plan, but ignoring the effect of the asset ceiling (which can arise when the defined benefit plan is in a surplus position). IAS 19 now clarifies that the change in the effect of the asset ceiling that may result from the amendment, curtailment or settlement of the plan is determined through a second step and is generally recognized in other comprehensive income.

The Company is required to use the updated assumptions of the re-measurement to determine the current service cost and net interest after the plan amendment, curtailment or settlement

and for the remainder of the reporting period.

In the case of net interest, the modifications make it clear that for the period after the amendment, curtailment or settlement, the net interest is calculated by multiplying the defined benefit liability (asset) remeasured in accordance with IAS 19:99 with the discount rate used in the new remeasurement (taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The adoption of this amendment has had no material impact on the disclosures or amounts reported in these consolidated financial statements.

Annual Improvements 2015-2017 Cycle

The annual improvements include amendments to IFRS 3, IFRS 11, IAS 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 IAS 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 adoption of these improvements 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.

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of materiality

Management does not expect the adoption of the standards mentioned above have a significant impact on the consolidated financial statements of the Company in future periods, except as follows:

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments establish that the gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in profit or loss from the parent only to the extent that the unrelated investor share in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments held in any former subsidiary (which has become an associate or a joint venture that is accounted for using the equity method) at fair value are recognized in profit or loss of the previous parent, only to the extent of the participation of unrelated investors in the new associate or joint venture.

The effective date of the modifications has not yet been set by the IASB; however, early application is permitted. The Company's Management anticipates that the application of these modifications may have an impact on the Company's consolidated financial statements in future periods in the event that such transactions arise.

Amendments to IFRS 3 Definition of a business

The amendments clarify that, while businesses usually have outputs, outputs are not required for a series of integrated activities and assets to qualify as a business. To be considered a business, a series of activities and acquired assets must include, as a minimum, an input and a substantial process that together contribute significantly to the ability to generate outputs.

Additional guidance is provided to help determine if a substantial process has been acquired.

The amendments introduce an optional test to identify fair value concentration, which allows a simplified assessment of whether a series of activities and assets acquired is not a business if substantially all of the fair value of gross assets acquired is concentrated in a unique identifiable asset, or a group of similar assets.

The amendments apply prospectively to all business combinations and asset acquisitions whose acquisition date is on or after the first reporting period beginning on or after January 1, 2020, with early adoption permitted.

Amendments to IAS 1 and IAS 8 Definition of materiality

The amendments are intended to simplify the definition of materiality in IAS 1, making it easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of obscuring material information with immaterial information has been included in the new definition.

The limit for influential materiality for users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. In addition, the IASB amended other standards and the Conceptual Framework that contained a definition of materiality or reference to the term materiality to ensure consistency.

The amendment will be applied prospectively for reporting periods beginning on or after January 1, 2020, with early application permitted.

(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, 2019, 2018 and 2017 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

During 2019 and 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.

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.

The Company considers a significant increase in credit risk to have occurred when the financial investment assets's credit rating falls to the level of speculation, or when the rating provided by external ratings agencies 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.

During 2017, 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 over 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 2019, 2018 and 2017:

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

The Company has estimated the following residual values as of December 31, 2019, 2018 and 2017:

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

e) Goodwill

Goodwill arises as a result of the acquisition of a business over which control is obtained and is measured at cost less cumulative impairment losses; it is subject to annual tests for impairment.

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 less amortization and accumulated impairment losses.

Intangible assets are classified as having a definite or indefinite life. Those with a defined life are amortized under the straight-line method during their estimated life and when there are impairment indicators, they are tested for impairment. The amortization methods and the useful life of the assets are reviewed and adjusted, if necessary, at the date of each statement of financial position. Amortization is charged to income in the general expenses category. Those with an indefinite life are not amortized, but are subject to impairment tests at least annually.

g) Biological assets

Biological assets whose fair value can be measured reliably are measured at fair value less costs of sale, with any change therein recognized in profit and loss. Costs of sale include all costs that would be necessary to sell the assets, excluding finance costs and income taxes.

The Company's biological assets consist of growing poultry, poultry in its different production stages, hatching eggs, breeder pigs, and growing pigs.

When fair value cannot be reliably, verifiably and objectively determined, assets are valued at production cost less accumulated depreciation, and any cumulative impairment loss. Depreciation related to biological assets forms part of the cost of inventories and current biological assets and is ultimately recognized within cost of sales in the statement of profit and loss and other comprehensive income.

Depreciation of poultry and breeder pigs is estimated based on the expected future life of such assets and is calculated on a straight-line basis.

	Expected average useful life (weeks)
Poultry in its different production stages	40-47
Breeder pigs	156

Biological assets are classified as current and non-current assets, based on the nature of such assets and their purpose, whether for commercialization or for reproduction and production.

h) Leased assets

Until December 31, 2018 operating lease rentals paid by the Company were 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.

Beginning in 2019, the Company evaluates whether a contract is or contains a lease at the beginning of the contract term. A lease is defined as a contract that grants the right to control the use of an identified asset, for a specified period, in exchange for consideration. The Company recognizes a right-of-use asset and a corresponding lease liability, with respect to all the lease agreements in which it operates as lessee, except in the following cases: short-term leases (defined as leases with a term of lease less than 12 months); low-value asset leases (defined as asset leases with an individual market value of less than 5 thousand dollars); and, the lease contracts whose payments are variable (without any fixed contractually defined payment). For these contracts that exclude the recognition of a right-of-use asset and a lease liability, the Company recognizes rental payments as a straight-line operating expense during the lease term.

The right-of-use asset is made up of discounted lease payments at present value; direct costs of obtaining a lease; advance lease payments; and the dismantling or asset removal obligations. The Company depreciates the right-of-use asset over the shorter period of the lease term and the useful life of the underlying asset; In this sense, when a purchase option in the lease is likely to be exercised, the right-of-use asset depreciates over its useful life. Depreciation begins on the start date of the lease.

The lease liability is measured at initial recognition by discounting future minimum income payments at present value according to a term, using a discount rate that represents the cost of obtaining financing in an amount equivalent to the value of the contract's income, for the acquisition of the underlying asset, in the same currency and for a period similar to the corresponding contract (incremental borrowing rate). When the contract payments contain non-lease components (services), the Company has chosen, for some asset classes, not to separate them and to measure all payments as a single lease component; however, for the rest of the asset classes, the Company measures the lease liability only considering the payments of components that are rents, while the services implicit in the payments are recognized directly in results as operating expenses.

To determine the term of the lease, the Company considers the mandatory term, including the probability of exercising any right to extend the term and / or an early termination.

Subsequently, the lease liability is measured by increasing the book value to reflect the interest on the lease liability (using the effective interest method) and reducing the book value to reflect the rental payments made.

When there are modifications to the lease payments for inflation, the Company remits the lease liability from the date the new payments are known, without reconsidering the discount rate. However, if the modifications are related to the term of the contract or the exercise of a purchase option, the Company re-evaluates the discount rate in the measurement of the liability. Any increase or decrease in the value of the lease liability subsequent to this re-measurement is recognized by increasing or decreasing to the same extent, as the case may be, the value of the right-of-use asset.

Finally, the lease liability is derecognized at the time the Company pays all of the contract's payments. When the Company determines that it is probable that it will exercise an early termination from the contract that merits a cash outlay, said consideration is part of the re-measurement of the liability mentioned in the preceding paragraph; however, in those cases in which the early termination does not imply a cash outlay, the Company pays the lease liability and the corresponding right of use asset, recognizing the difference between the two immediately in the consolidated statement of income.

i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on average cost, and includes expenditures incurred for acquiring inventories, production or transformation costs, and other costs incurred for bringing them to their present location and condition.

Agricultural products derived from biological asses are processed chickens and commercial eggs.

Net realizable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale.

Cost of sales represents cost of inventories at the time of sale, increased, if applicable, by reductions in inventory to its net realizable value, if lower than cost, during the year.

The Company records the necessary reductions in the value of its inventories for impairment, obsolescence, slow movement and other factors that may indicate that the use or performance of the items that are part of the inventory may be lower than the carrying value.

j) Impairment

i. Financial assets

A financial asset that is not recorded at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of a loss event after the initial recognition of the asset, and that such loss event had a negative impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company, evidence that a debtor may go bankrupt, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged reduction in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for financial assets valued at amortized cost (accounts receivables) 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 2019 and 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.

During 2017 revenues from the sale of goods in the course of ordinary activities were measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues were recognized when persuasive evidence existed, usually in the form of an executed sales agreement, when the significant risks and rewards of ownership were transferred to the customer, recovery of the consideration relating to the transaction was deemed probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably. If it was probable that discounts will be granted and the amount can be measured reliably, the discount was recognized as a reduction of revenue.

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, 2019, 2018 and 2017, 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 iii).

u) Costs and expenses by function

Costs and expenses in the consolidated statements of profit and loss and other comprehensive income were classified by their function. The nature of costs and expenses is presented in Note 23.

v) Statement of cash flows

The Company presents cash flows from operating activities by using the indirect method, in which the income or loss is adjusted by the effects of items that do not require cash flows, including those related to investing or financing activities.

The Company classifies all interest received from its investments and accounts receivable as investment activities, and all interest paid as financing activities.

(4) Business and asset acquisitions

a) Acquisition of Albertville Quality Foods, Inc.

On July 14, 2017, the Company, through its subsidiary OK Foods, Inc., acquired 100% of the outstanding voting shares of Albertville Quality Foods, Inc. (“Acquired Co. I”). Acquired Co. I’s operating results are included in the consolidated financial statements as of the date of acquisition. Acquired Co. I is dedicated to the production and sale of processed and value-added products based on animal protein, and is located in the state of Alabama, in the United States of America. The aggregate purchase price paid in cash amounted to \$2,449,862 (138.10 million dollars). Acquired Co. I was merged with OK Foods, Inc. at the end of 2017.

The purchase of Acquired Co. I benefits the Company’s Poultry segment because it significantly increases OK Foods, Inc.’s product portfolio, significantly increases the client base in the United States of America and opens the opportunity for cross-sales between the clients of Acquired Co. I and OK Foods, Inc., significantly strengthening the presence of OK Foods, Inc. in the self-service channel. Regarding production activities, the acquisition increases the manual cutting process capacity, thereby reducing OK Foods, Inc.’s current cutting costs with external suppliers, and will optimize the production processes by adopting the best practices of both companies for the benefit of the operation as a whole. These benefits are not recognized separately from Goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

The Company used various valuation techniques to determine fair value. Cost and market approaches were used to determine the value of the property, plant and equipment. Customer relationships and trademarks are valued based on discounted cash flow analysis, relief from royalty and multi-period excess earnings valuation approaches, which use significant unobservable inputs, or level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, management made estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.

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

Identifiable assets acquired and liabilities assumed

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

	Acquisition value
Current assets, other than inventories	\$ 202,873
Inventories	304,594
Property, plant and equipment	547,987
Other current assets	10,189
Intangible assets	969,942
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 considered deductible for tax purposes.

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

Costs related to acquisition.

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

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

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

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

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

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

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

Identifiable assets acquired and liabilities assumed

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

	Acquisition value
Current assets, other than inventories	\$ 13,835
Inventories	5,846
Property, plant and equipment	584,884
Total assets	<u>604,565</u>
Current liabilities	(392,646)
Deferred income tax	(79,423)
Acquired net identifiable assets	<u>132,496</u>
Consideration paid	<u>45,000</u>
Bargain purchase gain (note 30)	<u>\$ 87,496</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 (expense) income (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, 2019, 2018 and 2017 are presented below:

Name	Country	Shareholding percentage in subsidiaries		
		December 31,		
		2019	2018	2017
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
Provedora La Perla S.A. de C.V.	México	100.00	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. 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.
- Wii kit RE LTD. in Bermuda, it is a Class I reinsurance company that provides insurance coverage to its affiliates.
- Proveedora La Perla, S.A. of C.V., in Mexico, it is dedicated to the elaboration and commercialization of balanced animal feed and pet treats.

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

(6) Operating segments

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

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

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

a) *Operating segment information*

	Year ended December 31, 2019		
	<u>Poultry</u>	<u>Other</u>	<u>Total</u>
Net revenues	\$ 55,653,027	6,002,218	61,655,245
Cost of sales	46,456,076	5,101,275	51,557,351
Gross profit	9,196,951	900,943	10,097,894
Finance income	860,140	131,492	991,632
Finance costs	529,226	81,142	610,368
Income before taxes	3,854,474	503,330	4,357,804
Income taxes	993,652	131,326	1,124,978
Net income attributable to controlling interest	2,849,145	370,786	3,219,931
Property, plant and equipment, net	16,440,851	2,115,795	18,556,646
Goodwill	1,490,978	88,016	1,578,994
Intangible assets	772,640	-	772,640
Total assets	49,533,440	6,169,051	55,702,491
Total liabilities	14,066,224	1,375,932	15,442,156
Purchases of property, plant and equipment	1,811,086	258,241	2,069,327
Depreciation and amortization	1,171,200	115,243	1,286,443
	<u>Poultry</u>	<u>Other</u>	<u>Total</u>
	revenues	revenues	revenues
Total revenues	\$ 55,656,645	6,037,772	61,694,417
Intersegments	(3,618)	(35,554)	(39,172)
Net revenues	\$ 55,653,027	6,002,218	61,655,245

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

	Poultry revenues	Other revenues	<u>Total revenues</u>
Total revenues	\$ 55,312,273	5,785,289	61,097,562
Intersegments	(4,132)	(41,338)	(45,470)
Net revenues	<u>\$ 55,308,141</u>	<u>5,743,951</u>	<u>61,052,092</u>

Year ended December 31, 2017

	<u>Poultry</u>	<u>Other</u>	<u>Total</u>
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>

	Poultry revenues	Other revenues	<u>Total revenues</u>
Total revenues	\$ 52,484,264	5,616,254	58,100,518
Intersegments	(4,871)	(45,622)	(50,493)
Net revenues	<u>\$ 52,479,393</u>	<u>5,570,632</u>	<u>58,050,025</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.

	Year ended December 31, 2019			
	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$ 38,778,025	16,931,735	(56,733)	55,653,027
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies:				
Non-current biological assets	1,058,126	760,785	-	1,818,911
Property, plant and equipment, net	13,799,774	2,641,077	-	16,440,851
Goodwill	212,833	1,278,145	-	1,490,978
Intangible assets	-	772,640	-	772,640
	Year ended December 31, 2018			
	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$ 37,766,974	17,599,239	(58,072)	55,308,141
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies:				
Non-current biological assets	979,034	742,694	-	1,721,728
Property, plant and equipment, net	13,002,755	3,057,835	-	16,060,590
Goodwill	212,833	1,330,922	-	1,543,755
Intangible assets	-	962,738	-	962,738

	Year ended December 31, 2017			
	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$ 36,013,268	16,533,664	(67,539)	52,479,393
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies:				
Non-current biological assets	899,691	717,812	-	1,617,503
Property, plant and equipment, net	12,143,632	3,320,772	-	15,464,404
Goodwill	212,833	1,330,245	-	1,543,078
Intangible assets	-	1,040,042	-	1,040,042

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 2019, 2018 and 2017, no customer represented over 10% of the Company's total revenues.

As of December 31, 2019, 2018 and 2017, the Company did not have operations with an individual customer that represented a significant concentration in the United States of America.

(7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2019, 2018 and 2017 are as follows:

	December 31,		
	2019	2018	2017
Cash and banks	\$ 13,106,862	13,566,098	15,464,312
Investments with maturities less than three months	5,513,276	4,331,423	623,898
Cash and cash equivalents	18,620,138	17,897,521	16,088,210
Restricted cash	42,627	4,324	24,058
Total cash and cash equivalents and restricted cash	\$ 18,662,765	17,901,845	16,112,268

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, 2019, 2018 and 2017.

(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. The effects of COVID-19 on risk management are described in note 31, Subsequent Events.

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, 2019, 2018 and 2017, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2019 and 2018 meet the requirements to be treated as hedges for accounting purposes (24,352 and 1,500 thousand dollars of notional, other disclosures are considered non-material). During 2017 the derivative instruments held by the Company do not meet the requirements to be treated as hedges for accounting purposes.

Management by type or risk

a) Categories of financial assets and liabilities

The Company's financial assets and liabilities are shown below:

	December 31,		
	2019	2018	2017
Financial assets			
Cash and cash equivalents	\$ 18,662,765	17,901,845	16,112,268
Investment in securities at fair value through profit or loss	186,284	550,068	1,127,841
Investment in securities at fair value through other comprehensive income	315,761	-	-
Investments in life insurance	65,545	66,177	64,629
Accounts receivable	2,523,092	2,444,013	2,599,208
Due from related parties	13,674	99	326
Other long-term receivables	173,488	171,222	162,337
Derivative financial instruments	18,098	6,570	-
Financial liabilities			
Current and non-current financial debt	\$ (4,928,607)	(5,037,600)	(5,249,024)
Trade payables, sundry creditors and expenses payable	(4,491,171)	(4,593,344)	(4,163,443)
Current and non-current lease liabilities	(803,050)	-	-
Due to related parties	(76,704)	(147,514)	(55,252)
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 \$140,304, \$142,388 and \$141,636 as of December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, the fair value of such credit enhancements, determined by an appraisal at the time the credit lines were granted, is \$663,500, \$572,085 and \$618,481, respectively.

The fair value of trade accounts receivable is similar to the carrying amount, as the terms granted under credit lines are of a short term nature and do not include significant finance components.

Investments

The Company limits its exposure to credit risk investing solely with counterparties that have been rated on a well-recognized credit rating scale or are deemed to be investment grade. Management constantly monitors credit ratings, and as it invests solely in securities with high credit ratings, it is not expected that any counterparty will fail to fulfill its obligations.

Financial guarantees granted

It is the Company's policy to grant financial guarantees solely to 100% owned subsidiary companies.

Exposure to credit risk

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

	December 31,		
	2019	2018	2017
Cash and cash equivalents	\$ 18,662,765	17,901,845	16,112,268
Investments in securities at fair value through profit or loss	186,284	550,068	1,127,841
Investment in securities at fair value through other comprehensive income	315,761	--	
Investments in life insurance	65,545	66,177	64,629
Accounts receivable net of guarantees received	2,046,754	1,986,102	2,143,390
Derivative financial instruments	18,098	6,570	-
	<u>\$ 21,295,207</u>	<u>20,510,762</u>	<u>19,448,128</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

	December 31, 2019		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$ 4,491,171	-	-
Due to related parties	76,704	-	-
Lease liabilities	149,538	598,040	55,472
Financial debt, maturities at variable rates			
In U.S. dollars	2,831,191	-	-
In pesos	609,208	1,488,208	-
Interest	134,535	207,643	-
Total financial liabilities	\$ 8,292,347	2,293,891	55,472

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

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

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, 2019, 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 2020 and 2019, July, September and December 2019, 2018 and 2017, with companies listed on the Chicago Mercantile Exchange. As of December 2019, and 2018, the gain on valuation is \$574 (30 thousand dollars) and \$217 (11 thousand dollars), respectively; during 2017, there is no gain or loss from the valuation of these instruments.

As of December 31, 2019 there is a subsidy of \$50,730 by ASERCA for the purchase of hedging "puts" to the consumer, during 2018 and 2017 there is any subsidy; 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. The benefit under this scheme benefit as of December 31, 2019 is \$1,802, during 2018 and 2017, no benefits have been realized under this scheme.

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, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, 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, 2019, 2018 and 2017.

	December 31,					
	2019		2018		2017	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos	Dollars	Mexican Pesos
Assets						
Cash and cash equivalents	\$ 569,569	10,759,165	384,119	7,555,616	325,493	6,399,186
Investment in securities at fair value through profit or loss	4,576	86,447	19,447	382,519	29,212	574,312
Investment in securities at fair value through other comprehensive income	16,716	315,761	-	-	-	-
Accounts receivable	2,160	40,809	252	4,950	1,915	37,640
Total assets	<u>593,021</u>	<u>11,202,182</u>	<u>403,818</u>	<u>7,943,085</u>	<u>356,619</u>	<u>7,011,138</u>
Liabilities						
Trade accounts payable	(120,699)	(2,280,003)	(194,701)	(3,829,765)	(154,858)	(3,044,515)
Financial debt	(149,878)	(2,831,191)	(140,186)	(2,757,459)	(140,000)	(2,752,400)
Lease liabilities	(7,635)	(144,224)	-	-	-	-
Total Liabilities	<u>(278,212)</u>	<u>(5,255,418)</u>	<u>(334,887)</u>	<u>(6,587,224)</u>	<u>(294,858)</u>	<u>(5,796,915)</u>
Net asset position	<u>\$ 314,809</u>	<u>5,946,764</u>	<u>68,931</u>	<u>1,355,861</u>	<u>61,761</u>	<u>1,214,223</u>

The Company carries out a sensitivity analysis related to the potential effects of changes in exchange rates on its financial information. These results are shown in paragraph g) of this note. These analyses represent the scenarios that management considers reasonably possible of occurring.

The following is a detail of exchange rates effective during the fiscal year:

	Average exchange rate			Spot exchange rate at		
				December 31,		
	2019	2018	2017	2018	2018	2017
Dollars	\$ 19.25	19.23	18.91	18.89	19.67	19.66

The exchange rate at the date of issuance of the consolidated financial statements is \$23.70.

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 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
	2019		2018		2017	
Financial debt	\$ 4,928,607	4,952,445	5,037,600	5,037,688	5,249,024	5,255,932

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>
As of December 31, 2019				
Investment in securities at fair value through profit or loss	\$ 186,284	-	-	186,284
Investment in securities at fair value through other comprehensive income	315,761	-	-	315,761
Derivative financial instruments	-	18,098	-	18,098
	<u>\$ 502,045</u>	<u>18,098</u>	<u>-</u>	<u>520,143</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2018				
Investment in securities at fair value through profit or loss	\$ 550,068	-	-	550,068
Derivative financial instruments	-	6,570	-	6,570
	<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>
As of December 31, 2017				
Investment in securities at fair value through profit or loss	\$ 969,309	158,532	-	1,127,841
Derivative financial instruments	-	(6,821)	-	(6,821)
	<u>\$ 969,309</u>	<u>151,711</u>	<u>-</u>	<u>1,121,020</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>
As of December 31, 2019				
Financial debt - bank institutions	\$ -	(3,455,810)	-	(3,455,810)
Financial debt – debt securities	(1,496,635)	-	-	(1,496,635)
	<u>\$ (1,496,635)</u>	<u>(3,455,810)</u>	<u>-</u>	<u>(4,952,445)</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2018				
Financial debt - bank institutions	\$ -	(3,536,895)	-	(3,536,895)
Financial debt – debt securities	(1,500,793)	-	-	(1,500,793)
	<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>
As of December 31, 2017				
Financial debt - bank institutions	\$ -	(3,749,024)	-	(3,749,024)
Financial debt – debt securities	(1,506,908)	-	-	(1,506,908)
	<u>\$ (1,506,908)</u>	<u>(3,749,024)</u>	<u>-</u>	<u>(5,255,932)</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, 2019, 2018 and 2017. 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, 2019 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 2019, 2018 and 2017 would have resulted in a valuation gain of \$16,824, \$28,767 and \$25,971 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 \$31,133, \$48,429 and \$43,493.

The following table shows the Company's sensitivity to an increase and decrease of 15% for 2019, 2018 and 2017 in the "bushell" price of corn and short ton price of soybeans.

	Effect of Increase			Effect of Decrease		
	2019	2018	2017	2019	2018	2017
(Loss) profit for the year	\$ (121,762)	(2,665)	(16,094)	\$ 100,490	105	21,229

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 TIIE and LIBOR, respectively.

The following table shows the Company's sensitivity to an increase and decrease of 50 basis points for 2019, 2018 and 2017, in the variable rates to which the Company is exposed.

	Effect of Increase			Effect of Decrease		
	2019	2018	2017	2019	2018	2017
Loss (profit) for the year	\$ 24,465	30,192	43,485	\$ (24,465)	(30,192)	(43,485)

iii. Exchange risk

As of December 31, 2019, 2018 and 2017, the Company's net monetary liability position in foreign currency was \$ 5,946,764, \$1,355,861 and \$1,214,223, respectively.

The following table shows the Company's sensitivity of an increase and decrease of 30% for 2019 and 10% for 2018 and 2017, in exchange rate, which would have an effect in the result from foreign currency position.

	Effect of Increase			Effect of Decrease		
	2019	2018	2017	2019	2018	2017
Loss (profit) for the year	\$ (1,784,045)	(135,586)	(121,422)	\$ 1,784,045	135,586	121,422

(9) Accounts receivable, net

As of December 31, 2019, 2018 and 2017, accounts receivable are as follows:

	December 31,		
	2019	2018	2017
Trade receivables	\$ 2,595,978	2,523,950	2,673,705
Allowance for doubtful accounts	(72,886)	(79,937)	(96,900)
Other receivables	-	-	22,403
Income tax receivable	187,912	114,935	57,186
Recoverable value-added tax and other recoverable taxes	1,156,106	927,406	970,484
	<u>\$ 3,867,110</u>	<u>3,486,354</u>	<u>3,626,878</u>

Past-due but not impaired portfolio

Below is a classification of trade accounts receivable according to their aging as of the reporting date, which has not been subject to impairment:

	December 31,		
	2019	2018	2017
Past due 0 to 60 days	20,463	144,604	200,413
Past due by more than 60 days	47,573	17,250	6,190
	<u>\$ 68,036</u>	<u>161,854</u>	<u>206,603</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

	2019	2018	2017
Balance as of January 1	\$ (79,937)	(96,900)	(97,400)
Increase in allowance	(57)	(7,862)	(14,800)
Amounts written off	7,030	24,826	15,287
Currency translation effect	78	(1)	13
Balance as of December 31,	<u>\$ (72,886)</u>	<u>(79,937)</u>	<u>(96,900)</u>

As of December 31, 2019, 2018 and 2017 the Company has receivables in legal proceedings (receivables for which legal counsel is seeking recoverability) of \$140,304, \$142,388 and \$141,636, 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 the estimated credit losses were based on the incurred loss model.

The expected credit losses for 2019 and 2018 in trade accounts receivable under IFRS 9 were estimated at \$50,753 and \$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 2019 and 2018.

(10) Inventories

As of December 31, 2019, 2018 and 2017, inventories are as follows:

	December 31,		
	2019	2018	2017
Raw materials and by-products	\$ 1,836,783	1,688,527	1,861,092
Medicine, materials and spare parts	877,837	903,337	820,417
Balanced feed	330,238	322,522	296,538
Processed chicken	1,554,115	1,548,597	1,561,912
Commercial eggs	56,599	52,050	46,185
Processed beef	47,954	39,709	58,563
Processed turkey	4,482	10,762	64,918
Other processed products	2,199	10,092	17,708
Total	<u>\$ 4,710,207</u>	<u>4,575,596</u>	<u>4,727,333</u>

Inventory consumption for the years ended December 31, 2019, 2018 and 2017 was \$39,823,395, \$40,115,184 and \$37,567,550, respectively (note 23).

(11) Biological assets

For the years ended December 31, 2019, 2018 and 2017, biological assets are as follows:

	Current biological assets	Non-current biological assets	Total
Balance as of January 1, 2019	\$ 2,073,526	1,721,728	3,795,254
Increase due to purchases	510,403	701,764	1,212,167
Sales	-	(73,409)	(73,409)
Net increase due to births	267,773	2,378,419	2,646,192
Production cost	32,894,675	1,761,456	34,656,131
Depreciation	-	(2,262,245)	(2,262,245)
Transfers to inventories	(33,651,137)	(2,378,419)	(36,029,556)
Other	(52,003)	(30,383)	(82,386)
Balance as of December 31, 2019	\$ <u>2,043,237</u>	<u>1,818,911</u>	<u>3,862,148</u>

	Current biological assets	Non-current biological assets	Total
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>

	Current biological assets	Non-current biological assets	Total
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>

The “Other” category includes the change in fair value of biological assets that resulted in an increase of \$35,487 in 2019, decrease of \$22,270 in 2018 and increase of \$22,598 in 2017.

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, 2019, 2018 and 2017, prepaid expenses and other current assets are as follows:

		December 31,		
		2019	2018	2017
Advances to suppliers of inventories	\$	628,286	704,563	234,458
Prepaid expenses of services		280,950	217,074	235,652
Prepaid expenses of insurance and bonds		128,178	129,582	88,533
Other current assets		189,782	80,651	80,028
Total	\$	<u>1,227,196</u>	<u>1,131,870</u>	<u>638,671</u>

(13) Assets held for sale

As of December 31, 2019, 2018 and 2017, assets held for sale are as follows:

		December 31,		
		2019	2018	2017
Buildings	\$	22,394	18,920	18,920
Land		29,563	27,310	27,765
Other		959	2,839	2,838
Total	\$	<u>52,916</u>	<u>49,068</u>	<u>49,523</u>

The Company recognized gains (losses) on sales of these assets of \$2,311, (13) and \$2,437 during 2019, 2018 and 2017, respectively.

(14) Property, plant and equipment

As of December 31, 2019, 2018 and 2017, property, plant and equipment are comprised as follows:

Cost	Balance as of January 1, 2019	Additions	Disposals	Currency translation effect	Balance as of December 31, 2019
Land	\$ 1,378,090	209,752	(30,677)	(3,666)	1,553,499
Buildings and construction	11,943,476	472,095	(7,478)	(67,688)	12,340,405
Machinery and equipment	15,182,044	891,008	(92,623)	(113,477)	15,866,952
Transportation equipment	1,792,273	474,960	(154,116)	(1,118)	2,111,999
Computer equipment	136,183	3,828	(3,257)	(2,273)	134,481
Furniture	178,455	17,684	(5,295)	(555)	190,289
Leasehold improvements	4,350		(752)	-	3,598
Construction in progress	1,501,697		(38,065)	(3,710)	1,459,922
Total	\$ 32,116,568	2,069,327	(332,263)	(192,487)	33,661,145

Accumulated depreciation	Balance as of January 1 2019	Depreciation for the year	Disposals	Currency translation effect	Balance as of December 31, 2019
Buildings and construction	\$ (5,536,825)	(230,450)	2,199	14,105	(5,750,971)
Machinery and equipment	(7,505,222)	(874,447)	65,136	60,761	(8,253,772)
Transportation equipment	(829,664)	(134,708)	106,955	988	(856,429)
Computer equipment	(98,034)	(13,635)	3,145	1,508	(107,016)
Furniture	(128,647)	(12,151)	4,109	378	(136,311)
Total	\$ (14,098,392)	(1,265,391)	181,544	77,740	(15,104,499)

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

Accumulated depreciation	Balance as of January 1 2018	Depreciation for the year	Disposals	Currency translation effect	Balance as of December 31, 2018
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)

Cost	Balance as of January 1, 2017	Additions	Disposals	Currency translation effect	Balance as of December 31, 2017
Land	\$ 1,210,052	156,000	(8,851)	(3,558)	1,353,643
Buildings and construction	10,603,293	896,020	(3,200)	(55,829)	11,440,284
Machinery and equipment	12,035,769	2,158,477	(106,310)	(66,055)	14,021,881
Transportation equipment	1,611,153	269,462	(105,982)	(1,480)	1,773,153
Computer equipment	118,759	13,210	(3,173)	(2,805)	125,991
Furniture	174,183	19,515	(23,505)	(441)	169,752
Leasehold improvements	5,186	-	(2,525)	-	2,661
Construction in progress	1,459,682	694	(33,419)	8,190	1,435,147
Total	\$ 27,218,077	3,513,378	(286,965)	(121,978)	30,322,512

Accumulated depreciation	Balance as of January 1 2017	Depreciation for the year	Disposals	Currency translation effect	Balance as of December 31, 2017
Buildings and construction	\$ (5,131,723)	(202,513)	2,074	8,848	(5,323,314)
Machinery and equipment	(6,064,744)	(735,461)	69,960	23,421	(6,706,824)
Transportation equipment	(741,253)	(111,073)	80,177	743	(771,406)
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)

Carrying amounts, net	December 31,		
	2019	2018	2017
Land	\$ 1,553,499	1,378,090	1,353,643
Buildings and construction	6,589,434	6,406,651	6,116,970
Machinery and equipment	7,613,180	7,676,822	7,315,057
Transportation equipment	1,255,570	962,609	1,001,747
Computer equipment	27,465	38,149	44,487
Furniture	53,978	49,808	50,329
Leasehold improvements	3,598	4,350	2,661
Construction in progress	1,459,922	1,501,697	1,435,147
Total	\$ 18,556,646	18,018,176	17,320,041

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, 2019, 2018 and 2017 was \$1,265,391, \$1,226,917 and \$1,075,788, respectively, which was charged to cost of sales and operating expenses.

(15) Goodwill

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balances at beginning of the year	\$ 1,631,771	1,631,094	484,877
Business combinations (Note 4)	-	-	1,042,163
Foreign currency effects	<u>(52,777)</u>	<u>677</u>	<u>104,054</u>
Balances at end of year	<u>\$ 1,578,994</u>	<u>1,631,771</u>	<u>1,631,094</u>

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:

2019				
Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	12.84%	3.00%
Campi	88,015	5	12.84%	3.00%
Ok Farms - Morris Hatchery, Inc. Arkansas	62,647	5	5.22%	0.00%
Ok Farms - Morris Hatchery Inc. Georgia	105,780	5	5.22%	0.00%
Ok Foods- Albertville Quality Foods, Inc.	<u>1,109,719</u>	5	5.22%	0.00%
	<u>\$ 1,578,994</u>			

2018				
Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	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.	<u>1,155,543</u>	5	5.87%	0.00%
	<u>\$ 1,631,771</u>			

2017

Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	12.52%	3.00%
Campi	88,015	5	12.52%	3.00%
Ok Farms - Morris Hatchery, Inc. Arkansas	65,200	5	6.14%	0.00%
Ok Farms - Morris Hatchery Inc. Georgia	110,091	5	6.14%	0.00%
Ok Foods- Albertville Quality Foods, Inc.	1,154,955	5	6.14%	0.00%
	<u>\$ 1,631,094</u>			

(16) Intangible assets

The balances as of December 31, 2019, 2018 and 2017 for \$772,640, \$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 2019 and 2018, the Company ended a relationship with clients for which an intangible asset was recognized. The Company does not expect to do future business with those clients resulting in an impairment of \$73,733 and \$ 6,139 in 2019 and 2018, respectively, which was charged to the results of the fiscal year as other expenses.

During 2018 the Company decided 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>2019</u>	<u>2018</u>	<u>2017</u>
Amortizable intangible assets			
Customer relationships	\$ 891,553	1,020,500	1,028,747
Accumulated amortization	(74,859)	(95,911)	(34,876)
Impairment loss	(73,733)	(6,139)	-
Total net amortizable intangible assets	<u>742,961</u>	<u>918,450</u>	<u>993,871</u>
Trade names not subject to amortization	29,679	46,196	46,171
Impairment loss	-	(15,291)	-
Total intangible assets	<u>\$ 772,640</u>	<u>949,355</u>	<u>1,040,042</u>

(17) Other non-current assets

Other non-current assets consist of the following:

	December 31,		
	2019	2018	2017
Advances for purchase of property, plant and equipment	\$ 495,015	326,676	331,691
Investments in life insurance (note 3 (1))	65,545	66,177	64,629
Security deposits	21,545	20,745	16,796
Other long-term receivable	173,488	171,222	162,337
Intangible assets in process	2,841	26,898	11,506
Other	51,614	54,024	56,047
Total non-current assets	<u>\$ 810,048</u>	<u>665,742</u>	<u>643,006</u>

(18) Financial debt

a) Short-term financial debt is as follows:

	December 31,		
	2019	2018	2017
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
Loan denominated in pesos, maturing in January 2018, at TIIE (1) FIRA (2) rate plus 0.60 percentage points	-	-	100,000
Loan 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	-
Loan denominated in pesos, maturing in February 2019, at TIIE (1) rate plus 1.25 percentage points.	-	300,028	-
Loan denominated in pesos, maturing in March 2019, at TIIE (1) rate plus 1.25 percentage points.	-	250,023	-
Loan denominated in pesos, maturing in May 2019, at TIIE (1) rate plus 0.40 percentage points.	-	20,003	-
Loan in the amount of 70,000 thousand dollars, maturing in January 2020, at LIBOR (3) rate plus 0.62 percentage points.	1,322,176	-	-
Loan denominated in pesos, maturing in January 2020, at TIIE (1) rate plus 0.50 percentage points.	50,000	-	-
Loan in the amount of 80,000 thousand dollars, maturing in February 2020, at LIBOR6 (4) rate plus 0.35 percentage points.	1,509,015	-	-
Loan denominated in pesos, maturing in February 2020, at TIIE (1) rate plus 1.05 percentage points.	449,572	-	-
Loan denominated in pesos, maturing in May 2020, at TIIE (1) rate plus 1.05 percentage points.	99,678	-	-
Loan denominated in pesos, maturing in June 2020, at TIIE (1) rate plus 0.50 percentage points.	9,958	-	-
Total short-term debt	<u>\$ 3,440,399</u>	<u>3,427,820</u>	<u>2,852,400</u>

The annual weighted average interest rate of short-term loans denominated in pesos for 2019, 2018 and 2017 was 9.24%, 9.14% and 8.06%, respectively. The average interest rate for loans outstanding as of December 31, 2019, 2018 and 2017 was 8.77%, 9.15% and 8.06%, respectively.

The annual weighted average interest rate of short-term loans denominated in dollars for the years 2019, 2018 and 2017 was 2.36%, 2.26% and 1.22%, respectively. The average interest rate for loans outstanding as of December 31, 2019, 2018 and 2017 was 2.37%, 2.29% and 1.57%, 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
- (4) LIBOR6= London InterBank Offered Rate (6 months)

b) Long-term debt consists of the following:

	December 31,		
	2019	2018	2017
Loan denominated in pesos, maturing in 2017 and 2018, at TIIE (1) FIRA (2) rates less 0.25 percentage points.	\$ -	-	553,651
Loan denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.60 percentage points.	-	-	289,000
Loan denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.25 percentage points.	-	53,980	53,973
Loan denominated in pesos, maturing in 2023, at TIIE (1) FIRA (2) plus 0 percentage points.	-	55,007	-
Debt securities (subsection (d) of this note)	1,488,208	1,500,793	1,500,000
Total	1,488,208	1,609,780	2,396,624
Less current maturities	-	(64,973)	(842,651)
Long-term debt, excluding current maturities	\$ <u>1,488,208</u>	<u>1,544,807</u>	<u>1,553,973</u>

The annual weighted average interest rate on long-term debt for 2019, 2018 and 2017 was 8.53%, 8.42% and 7.72%, respectively. The average rate for outstanding loans as of December 31, 2019, 2018 and 2017 was 8.26%, 8.46% and 7.48%, respectively.

- (1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate
- (2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture

During 2019 and 2017 the Company made early payments on its long-term debt of \$51,000 and \$53,900, during 2018 the Company did not make early payments on its long-term debt.

As of December 31, 2019, 2018 and 2017, unused lines of credit amounted to \$3,325,981, \$5,723,011 and \$7,031,813, 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, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 1,488,208

Interest expense on total loans during the years ended December 31, 2019, 2018 and 2017, amounted to \$250,820, \$185,913 and \$188,597, respectively, (note 29).

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, 2019, 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 \$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 THIE, and in the event the 28-day THIE 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 THIE.

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, 2019.

e) Reconciliation of liabilities arising from financing debt

	December 31,		
	2019	2018	2017
Balance as of January 1	\$ 5,037,600	5,249,024	4,047,937
Changes that represent cash flows			
Proceeds from borrowings	4,839,000	3,370,400	5,378,915
Principal payment on loans	(4,808,163)	(3,588,067)	(4,246,100)
Changes that do not represent cash flows			
Others	(139,830)	6,243	68,272
Balance as of December 31	<u>\$ 4,928,607</u>	<u>5,037,600</u>	<u>5,249,024</u>

(19) Trade accounts and other accounts payable

	December 31,		
	2019	2018	2017
Trade payables	\$ 3,972,460	3,996,014	3,684,220
Sundry creditors and expenses payable	518,711	597,330	479,223
Provisions	64,154	103,494	103,474
Statutory employee profit sharing	86,710	68,432	42,940
Retained payroll taxes and other local taxes	275,214	259,828	241,739
Direct employee benefits	213,345	160,431	171,784
Interest payable	28,060	10,728	16,904
Others	173	90	82
	<u>\$ 5,158,827</u>	<u>5,196,347</u>	<u>4,740,366</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 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, 2019 the Company has not recorded any provisions, during 2018 and 2017, the Company has recorded provisions of \$39,340 (2,000 thousand dollars) and \$39,320 (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, 2019, 2018 and 2017:

	December 31,		
	2019	2018	2017
Compensation	\$ 52,635	61,189	56,201

(b) Transactions with other related parties

Below is a summary of the Company's transactions and balances with other related parties, which are comprised of affiliates that are under common control:

i. Revenues

	Transaction value			Balance as of		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Sales of products to:						
Vimifos, S.A. de C.V.	\$ 9,323	8,812	47,344	\$ 785	99	326
Frescopack, S.A. de C.V.	58	-	10	58	-	-
Taxis Aéreos del Noroeste, S.A. de C.V.	42	28	1,013	-	-	-
Alimentos Kowi, S.A. de C.V.	934	-	-	337	-	-
Sonora Agropecuaria, S.A. DE C.V.	178,624	-	-	12,494	-	-
	<u>\$ 188,981</u>	<u>8,840</u>	<u>48,367</u>	<u>\$ 13,674</u>	<u>99</u>	<u>326</u>

ii. Expenses and balances payable to related parties

	Transaction value			Balance as of		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Purchases of food, raw materials and packing supplies						
Vimifos, S.A. de C.V.	\$ 582,458	557,490	392,226	\$ 41,399	103,371	12,830
Frescopack, S.A. de C.V.	148,210	193,396	179,357	26,233	28,951	29,537
Pulmex 2000, S.A. de C.V.	20,667	37,794	26,700	3,976	5,227	8,138
Qualyplast, S.A. de C.V.	244	230	95	-	41	-
Alimentos Kowi, S.A. de C.V.	907	-	-	2	-	-
Sonora Agropecuaria, S.A. DE C.V.	3,374	-	-	-	-	-
Purchases of vehicles, tires and spare parts						
Maquinaria Agrícola, S.A. de C.V.	\$ -	-	793	5	64	64
Llantas y Accesorios, S.A. de C.V.	38,947	38,581	35,225	4,213	3,374	4,207
Autos y Accesorios, S.A. de C.V.	10,776	18,776	24,645	124	4,712	57
Autos y Tractores de Culiacán, S.A. de C.V.	11,519	17,671	14,037	149	1,486	79
Camiones y Tractocamiones de Sonora, S.A. de C.V.	270,968	19,490	85,448	149	216	172
Agencia MX-5, S.A de C.V.	904	47	15	9	7	4
Alfonso R. Bours, S.A. de C.V.	187	307	428	49	40	95
Cajeme Motors S.A. de C.V.	183	30	29	89	5	1
Airplane leasing expenses						
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 24,971	8,368	7,854	\$ 307	20	68
				\$ 76,704	147,514	55,252

As of December 31, 2019, 2018 and 2017, 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, 2019, 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, 2019, 2018 and 2017, 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 2019 and 2018 for the Company's US subsidiary is 21% (plus state and federal taxes), during 2017 the rate was 35% (plus state and federal taxes).

As of December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, the income tax (benefit) expense included in profit and loss is as follows:

	December 31		
	2019	2018	2017
Operation in Mexico:			
Current ISR	\$ 1,066,160	1,242,553	1,512,721
Deferred ISR	324,415	(33,718)	(157,646)
	<u>1,390,575</u>	<u>1,208,835</u>	<u>1,355,075</u>
Foreign operation:			
Current ISR	(1,859)	4,294	198,813
Deferred ISR	(263,738)	(58,151)	(469,444)
Total ISR expense	<u>\$ 1,124,978</u>	<u>1,154,978</u>	<u>1,084,444</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 2019, 2018 and 2017 due to the items listed below:

	December 31,					
	2019		2018		2017	
	ISR	Percentage	ISR	Percentage	ISR	Percentage
Expected expense	\$ 1,292,925	30%	\$ 1,354,965	30%	\$ 1,811,667	30%
Increase (decrease) resulting from:						
Net effects of inflation (Non-taxable income)	(168,822)	(4%)	(276,758)	(6%)	(329,516)	(5%)
Non-deductible expenses	11,027	0%	16,648	0%	88,330	1%
Effect of rate difference of foreign subsidiary	48,658	1%	(16,572)	(0%)	702	0%
Effect from non-deductible employee benefits	70,202	2%	90,820	2%	83,953	1%
Effect of tax incentive	(60,861)	(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	(68,151)	(2%)	(14,126)	(0%)	1,448	0%
Income tax expense	<u>\$ 1,124,978</u>	<u>26%</u>	<u>\$ 1,154,978</u>	<u>26%</u>	<u>\$ 1,084,444</u>	<u>18%</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, 2019, 2018 and 2017 are detailed below:

	December 31,		
	2019	2018	2017
Deferred tax assets			
Accounts payable	\$ 2,481	27,738	16,404
Employee benefits	164,019	53,398	45,519
PTU payable	26,020	20,536	12,917
Tax loss carryforwards	56,163	-	-
Inventories	616	-	-
Property, plant and equipment	1,113	-	-
Other provisions	-	2,205	7,025
Total deferred tax assets	250,412	103,877	81,865
Deferred tax liabilities			
Property, plant and equipment	-	51	59
Prepaid expenses	4,593	-	1,136
Other provisions	547	-	-
Total deferred tax liabilities	5,140	51	1,195
Net deferred tax assets	\$ 245,272	103,826	80,670

	December 31,		
	2019	2018	2017
Deferred tax assets			
Accounts payable	\$ 1,097,422	1,483,275	1,170,771
Tax loss carryforwards	271,772	59,883	22,013
Goodwill	-	3,879	7,562
Other provisions	63,314	76,025	54,020
Total deferred tax assets	1,432,508	1,623,062	1,254,366
Deferred tax liabilities			
Inventories	1,696,300	1,639,156	1,601,498
Accounts receivable	445,198	366,825	421,191
Property, plant and equipment	2,667,824	2,503,172	2,428,358
Prepaid expenses	332,392	647,480	392,800
Goodwill	584	-	-
Intangible assets	190,900	233,749	253,898
Derivative financial instruments	3,803	-	-
Total deferred tax liabilities	5,337,001	5,390,382	5,097,745
Net deferred tax liability	\$ 3,904,493	3,767,320	3,843,379

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, 2019, 2018 and 2017 amounts to \$1,919,720, \$2,049,327 and \$2,587,954, respectively. The Company's policy has been to distribute accounting profits when the respective taxes have been paid and in the case of foreign profits, such tax may be duly credited in Mexico.

e) Movement in temporary differences during the fiscal year

	January 1, 2019	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2019
Accounts payable	\$ (1,511,013)	410,152	958	(1,099,903)
Employee benefits	(53,398)	(197,728)	87,107	(164,060)
PTU payable	(20,536)	(5,484)	-	(26,020)
Tax loss carryforwards	(59,883)	(273,479)	5,427	(327,935)
Other provisions	(78,230)	15,436	27	(62,767)
Goodwill	(3,879)	4,391	72	584
Intangible assets	233,749	(34,220)	(8,629)	190,900
Inventories	1,639,156	64,120	(7,592)	1,695,684
Accounts receivable	366,825	78,373	-	445,198
Property, plant and equipment	2,503,223	184,454	(20,966)	2,666,752
Prepaid expenses	647,480	(310,495)	-	336,985
Derivative financial instruments	-	3,803	-	3,803
Net deferred tax liability	<u>\$ 3,663,494</u>	<u>(60,677)</u>	<u>56,404</u>	<u>3,659,221</u>

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

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

f) Tax on assets and tax loss carryforwards

As of December 31, 2019, 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, 2019	
	Tax loss carryforwards	Year of expiration / maturity
2017	\$ 64,729	2027
2018	11,877	2028
2019	1,184,933	2029
	\$ <u>1,438,549</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 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, 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. During 2019, 2018 and 2017 there were not the expenses for paid contributions to defined contribution plans, other than those mandated by Mexican law.

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 \$66,134, \$62,028 and \$56,063, in 2019, 2018 and 2017, 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.

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:

	December 31,		
	2019	2018	2017
Present value of unfunded obligations	\$ 487,810	302,818	252,965
Present value of funded obligations	148,392	197,254	259,245
Total present value of benefit obligations (“PBO”)	636,202	500,072	512,210
Plan assets at fair value	(148,392)	(197,254)	(259,245)
Projected liability, net	\$ 487,810	302,818	252,965

ii. Composition and return of plan assets

	Actual return of the plan assets			Composition of the plan assets		
	2019	2018	2017	2019	2018	2017
Fixed income securities	12.67%	5.10%	7.18%	62%	67%	61%
Variable income securities	15.65%	(10.95%)	12.78%	38%	33%	39%
Total	100%	100%	100%	100%	100%	100%

ii. Movements in the present value of PBO

	2019	2018	2017
PBO as of January 1	\$ 500,072	462,986	462,554
Benefits paid by the plan	(54,932)	(38,393)	(32,940)
Service cost	30,108	28,084	28,968
Interest cost	50,421	41,410	40,170
Actuarial (gains) losses recognized in other comprehensive income	110,533	494	13,458
Past service cost – plan amendments	-	5,491	-
PBO as of December 31	\$ 636,202	500,072	512,210

iii. Movements in the fair value of plan assets

	2019	2018	2017
Plan assets at fair value as of January 1	\$ 197,247	259,245	267,535
Transfer of assets to fund defined contribution benefit plan	(39,079)	(38,327)	(10,664)
Benefits paid by the plan	(32,027)	(16,772)	(17,049)
Expected return on plan assets	19,615	23,244	23,342
Actuarial losses in other comprehensive income	2,636	(30,136)	(3,919)
Fair value of plan assets as of December 31	\$ 148,392	197,254	259,245

iv. Expense recognized in profit and loss

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current service cost	\$ 30,108	28,084	28,968
Interest cost, net	30,806	18,166	16,828
	<u>\$ 60,914</u>	<u>46,250</u>	<u>45,796</u>

v. Actuarial gains and (losses)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Amount accumulated as of January, 1	\$ (171,247)	(140,617)	(123,240)
Recognized during the year	(107,897)	(30,630)	(17,377)
Amount accumulated as of December, 31	<u>\$ (279,144)</u>	<u>(171,247)</u>	<u>(140,617)</u>

vi. Actuarial assumptions

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rate as of December, 31	8.75%	10.50%	9.25%
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

	<u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation	\$ 636,202	500,072	512,210
Plan assets at fair value	(148,392)	(197,254)	(259,245)
Plan deficit	<u>\$ 487,810</u>	<u>302,818</u>	<u>252,965</u>
Experience adjustments arising from plan liabilities	<u>\$ (110,533)</u>	<u>(494)</u>	<u>(13,458)</u>
Experience adjustments arising from plan assets	<u>\$ 2,636</u>	<u>(30,136)</u>	<u>(3,919)</u>

viii. Sensitivity analysis of the defined benefits obligations as of December 31, 2019, 2018 and 2017

<u>2019</u>	<u>Pension plan</u>	<u>Seniority premium</u>	<u>Constructive obligation</u>	<u>Total PBO</u>
Discount rate 8.75%	\$ (442,133)	(173,401)	(20,668)	(636,202)
Rate increase (+ 1%)	\$ (434,134)	(170,812)	(20,490)	(625,436)
Rate decrease (- 1%)	\$ (450,391)	(176,067)	(20,852)	(647,310)

	Pension plan	Seniority premium	Constructive obligation	Total PBO
2018				
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)
2017				
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)

ix. Expected cash flows

	Total
2020-2030 \$	608,911

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 \$14,919, \$12,999 and \$11,497 for the year ended December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, all of which were fully vested. The total liability under this plan totaled \$32,874, \$20,922 and \$3,378 as of December 31, 2019, 2018 and 2017, respectively. No expense was recognized for this plan for the year ended December 31, 2019, 2018 and 2017.

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, 2019, 2018 and 2017 is shown in note 19, Trade payable and other accounts payable.

(23) Costs and expenses by nature

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cost of sales	\$ 51,557,351	51,422,376	47,502,959
General, selling and administrative expenses	<u>6,116,620</u>	<u>6,024,406</u>	<u>5,423,379</u>
Total costs and expenses	<u>\$ 57,673,971</u>	<u>57,446,782</u>	<u>52,926,338</u>
Inventory consumption	\$ 39,823,395	40,115,184	37,567,550
Wages and salaries	7,561,229	7,348,795	6,605,584
Freight	5,047,007	4,809,678	4,176,508
Maintenance	1,715,820	1,719,907	1,471,392
Other utility expenses	1,595,993	1,591,920	1,334,339
Depreciation	1,265,391	1,226,917	1,075,788
Depreciation of right-of-use assets	302,804	-	-
Leases ⁽¹⁾	96,825	453,162	416,437
Other	<u>265,507</u>	<u>181,219</u>	<u>278,740</u>
Total	<u>\$ 57,673,971</u>	<u>57,446,782</u>	<u>52,926,338</u>

(1) Leasing expense in 2019 includes contracts classified as low value or those with terms less than twelve months. For its part, the expense corresponding to the 2018 and 2017 annual periods includes everything previously classified as operating leases under IAS 17 Leases, which was replaced by IFRS 16 Leases.

(24) Leases

Operating leases as lessee

During 2018 and 2017 the Company has entered 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.

Lease expenses	<u>\$ 453,162</u>	<u>416,437</u>
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a) As of December 31, 2019, the leased assets with recognized right of use are comprised as follows:

Right-of-use assets	Balance as of January 1	Additions	Balance as of December 31, 2019
Buildings and construction	\$ 320,528	59,483	380,011
Machinery and equipment	370,410	76,769	447,179
Transportation equipment	219,132	64,200	283,332
Computer equipment	12,340	2,674	15,014
Total	\$ 922,410	203,126	1,125,536

Depreciation of right-of-use assets	Balance as of December 31, 2019
Buildings and construction	\$ (97,736)
Machinery and equipment	(116,391)
Transportation equipment	(84,120)
Computer equipment	(4,557)
Total	\$ (302,804)
Total right-of-use assets	\$ 822,732

b) The movements in liabilities for these lease contracts were as follows:

Lease liabilities	Balance as of January 1, 2019	Additions	Payment	Interest paid	Currency translation effect	Balance as of December 31, 2019
Buildings and construction	\$ 320,528	59,297	(113,097)	17,423	(3,874)	280,277
Machinery and equipment	370,410	63,662	(124,435)	11,933	(12,860)	308,710
Transportation equipment	219,132	64,129	(82,381)	8,070	(4,692)	204,258
Computer equipment	12,340	2,674	(5,294)	371	(286)	9,805
Total	\$ 922,410	189,762	(325,207)	37,797	(21,712)	803,050
Current Lease liabilities	-	-	-	-	-	(149,538)
Long term lease liabilities	\$ -	-	-	-	-	653,512

c) The analysis of the maturity of the long-term lease liabilities is shown below:

2020	\$ 263,160
2021	190,613
2022	144,267
Subsequent	55,472
	\$ 653,512

d) During 2019, an amount of \$19,116 was charged as expense for rental contracts with a term of less than one year and \$77,709 for rental contracts with insignificant amounts, a total of \$96,825 (note 23).

(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 does not exceed 2.75 times and that the interest coverage ratio is at least 3 to 1.

During 2019, 2018 and 2017 these ratios were below the thresholds established by the Company's Risk Committee.

b) Common stock and premiums

As of December 31, 2019, 2018 and 2017, 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 439,500,000 shares through two family trusts: the placement trust and the control trust, which collectively represented 73.25% of the Company's total shares. The remaining 26.75% represents the floating position:

	Shareholding integration as of December 31, 2019, 2018 and 2017	
	Shares ⁽¹⁾	Position
Familiar Trusts	439,500,000	73.25%
- Control Trust	312,000,000	52.00%
- Placement Trust	127,500,000	21.25%
Floating Position ⁽²⁾	160,500,000	26.75%

(1) All Series B shares with voting power.

(2) Operating at the BMV and the NYSE.

Based on the information provided to the Company, as of December 31, 2019, stockholders with 1% or more interest in the Company, in addition to the family trusts, are as follows:

	Shares	Position
Renaissance Technologies LLC	7,657,200	1.28%
GBM Fondo de Inversión Total, S.A. de C.V.	7,097,646	1.18%

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, 2019, 2018 and 2017 amounts to \$195,905, \$120,378 and \$98,938, which includes a deferred tax effect of \$83,236, \$50,867 and \$41,679, 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 24, 2019, pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$1,316,340 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, 2019, 2018 and 2017:

	2019	2018	2017
Balance as of January 1	86,928	20,000	-
(+) Total shares purchased	133,488	86,928	20,000
(-) Total shares sold	(120,020)	(20,000)	-
Balance as of December 31	<u>100,396</u>	<u>86,928</u>	<u>20,000</u>

The net amount of repurchase and treasury share sale transactions was of (\$1,474), (\$4,568) and (\$1,800), during the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, the Company has 100,396 treasury shares.

e) Dividends

During the years ended December 31, 2019, 2018 and 2017, the Company has declared and paid the following dividends:

On April 25, 2019, the Company declared a payment of dividends in cash at nominal value of \$840,000 or \$1.40 pesos per outstanding share. The payment was made in two equal installments, on May 14 and July 9, 2019.

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.

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 2019, 2018 and 2017, net income of BSACV, accounted for 63%, 63% and 63%, respectively, of consolidated net income. Dividends for which BSACV pays ISR will be credited to the Company's CUFIN account, and accordingly, any future liabilities arising from ISR will be incurred when such amounts are distributed as dividends to the stockholders.

f) Tax balances of stockholders' equity

CUFIN	Balance as 2013	Balance from 2014	Total
IBSA individual	\$ 6,851,739	8,731,894	15,583,633
IBSA Consolidated	7,176,816	17,954,497	25,131,313

The restated amount as of December 31, 2019 on tax bases of the contributions made by stockholders (CUCA), totaling \$3,055,601, 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, 2019, 2018 and 2017 are 5.37, \$5.58 and \$8.25, respectively. The calculation of earnings per share was based on income attributable to ordinary stockholders of \$3,219,931, \$3,349,967 and \$4,948,242 for the years ended December 31, 2019, 2018 and 2017, respectively.

The average weighted number of common outstanding in 2019, 2018 and 2017 was 599,971,832, 599,980,734 and 599,997,696 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 \$6,612 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$18,890 (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 \$81,737 (4,327 thousand dollars), \$74,766 (3,801 thousand dollars) and \$98,221 (4,996 thousand dollars) as of December 31, 2019, 2018 and 2017, respectively. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$126,376 (6,565 thousand dollars), \$139,783 (7,269 thousand dollars) and \$221,644 (11,721 thousand dollars) for the years ended December 31, 2019, 2018 and 2017, respectively. The Company is required to maintain letters of credit on behalf of the subsidiary of \$54,781 (2,900 thousand dollars) during 2019, \$57,043 (2,900 thousand dollars) during 2018 and \$57,014 (2,900 thousand dollars) during 2017, 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>2019</u>	<u>2018</u>	<u>2017</u>
Interest income	\$ 988,005	1,072,991	848,148
Income from interest in accounts receivable	3,627	4,516	8,961
Foreign exchange gain, net	-	39,323	230,532
Effects of valuation of derivative financial instruments	-	23,919	-
Financial income	<u>991,632</u>	<u>1,140,749</u>	<u>1,087,641</u>
Effects of valuation of derivative financial instruments	(8,029)	-	(84,094)
Foreign exchange loss, net	(272,220)	-	-
Interest expense and financial expenses on financial debt	(250,820)	(185,913)	(188,597)
Interest paid on lease	(37,797)	-	-
Commissions and other financial expenses	(41,502)	(146,255)	(67,400)
Financial costs	<u>(610,368)</u>	<u>(332,168)</u>	<u>(340,091)</u>
Financial income, net	<u>\$ 381,264</u>	<u>808,581</u>	<u>747,550</u>

(30) Other (expenses) income

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$ 1,203,836	1,041,677	896,840
Bargain purchase gain of domestic business acquisition (note 4b)	-	-	87,496
Total other income	<u>1,203,836</u>	<u>1,041,677</u>	<u>984,336</u>
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(944,848)	(737,077)	(731,110)
Other	(263,722)	(201,940)	(85,584)
Total other expenses	<u>(1,208,570)</u>	<u>(939,017)</u>	<u>(816,694)</u>
Total other (expenses) income, net	<u>\$ (4,734)</u>	<u>102,660</u>	<u>167,642</u>

(31) Subsequent events**a) Business acquisition agreement**

In 2019, the Company announced that an agreement was reached to invest in the company Sonora Agropecuaria S.A. de C.V. "SASA", a pig processing and distribution company with operations in the states of Sonora and Jalisco. This agreement is expected to create synergies with the Company's real live pig business, to accelerate the growth rate and continue advancing in the process of diversifying other animal proteins. We hope to complete the process during 2020 and capture the opportunities that we have identified.

b) COVID-19

c) During the first quarter of 2020, an outbreak of a new coronavirus strain (COVID-19) emerged worldwide. As of the date of issuance of the consolidated financial statements, measures have been established by the federal, state and local authorities (Mexican and United States) that require the forced closure of certain activities considered non-essential (businesses, non-essential government agencies, educational sector, among others) which could negatively affect the Company's business. Although it is not possible to reliably estimate the duration or severity of the outbreak and, therefore, its financial impact on the Company, we have carried out an analysis of the possible effects of COVID 19 on the Company's operation in the following areas:

- Impairment of non-financial assets (including goodwill) - The long-term projections have been reviewed, the basis of the calculations for a possible impairment in goodwill and intangible assets and no change in the projections has been identified that has a significant impact.
- Inventory valuation - We have not had a deterioration in the price of chicken and eggs, and although raw material prices are estimated to increase due to the depreciation of the peso against the dollar, there will be no significant impact.
- Provision for expected losses - The estimate for expected credit losses was reviewed and we consider that it is sufficient to support an increase in credit risk.
- Measurement at fair value - It is estimated that there will be no losses on investments at fair value.
- Breaches of agreements - The Company plans to fulfill its commitments to its suppliers and customers due to its solid financial position.
- Going concern - The Company qualifies as an essential activity in the contingency period, so it continues to operate normally with full operation in its farms, plants, distribution centers, logistics, supply chain and offices, despite partially working remotely in some of its corporate locations. We have also implemented strict additional measures to guarantee the well-being of clients, suppliers and workers; as well as the quality and safety of our products.
- Liquidity risk management - The Company has sufficient liquidity to assume its long-term commitments.
- Insurance recoveries related to business interruptions - The Company has insurance policies to cover business continuity, however, it is not expected that they will be used because it will continue to operate during the contingency period, considering its corporate purpose as an essential activity.
- Benefits for termination of employment relationship and contingency considerations for contractual agreements - There is no technical stoppage in operations, so labor relations will not be affected.
- Modifications of contractual agreements - No change is anticipated as the Company continues to operate normally.
- Income tax considerations - So far, no fiscal impact is anticipated.

In order to guarantee the safety of collaborators and business partners, controls and measures have been established in accordance with the recommendations of the World Health Organization and federal authorities. These include: the control of access to work centers by means of temperature taking checkpoints, sanitation and the compulsory use of face masks, a large part of our administrative process personnel are carrying out home office to decrease population density, restrictions applied to travel and interoperation movement to mitigate the risk of contagion, the most vulnerable personnel (pregnant, breastfeeding or people with diseases that compromise the immune system) have been sent home with full pay, and finally, our staff of occupational physicians has been increased to attend to this contingency.

At the date of issuance of the consolidated financial statements, the Company does not consider that it should substantially modify its budgets and/or financial projections or recognize significant losses in the valuation of its monetary and non-monetary assets. However, there is no guarantee that the crisis will not have an adverse effect on the Company's financial position, results of operations or cash flows if the significant disruptions to the national and global economy continue in future periods.

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