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

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

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2017**

**OR**

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

**OR**

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

**Date of event requiring this shell company report ____________**

**For the transition period from ____________ to ___________**

**Commission File Number: 333-7480**

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

**Bachoco Industries**

(Translation of Registrant's name into English)

**The United Mexican States**
**(Jurisdiction of incorporation**
**or organization)**

**Avenida Tecnologico 401**

**Ciudad Industrial, 38010**

**Celaya, Guanajuato, Mexico.**
**(Address of principal executive offices)**

Daniel Salazar Ferrer

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Ciudad Industrial C.P. 38010

Celaya, Guanajuato, Mexico

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Email: inversionistas@bachoco.net

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| American Depositary Shares, each representing twelve Series B Shares. | New York Stock Exchange |

**Securities registered or to be registered pursuant to Section 12(g) of the Act**: None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act**: None

Indicate the number of outstanding Shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Series B Capital Stock: 600,000,000 Shares

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

Yes ¨ No x

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

Yes x No ¨

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

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

Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Emerging growth company ¨

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

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

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

| | | |
|---|---|---|
| U.S. GAAP ¨ | International Financial Reporting Standards as issued by the International Accounting Standards Board x | Other ¨ |

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No x

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

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

Yes ¨ No ¨

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**Introduction**

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

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

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

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

**Presentation of Information**

*Fiscal Year*

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

*Currency*

Except as otherwise indicated, all data in the financial statements included below and in Item 18 (which together with the attached notes constitute our "Audited Consolidated Financial Statements") and the selected financial information included throughout this Form 20-F (this “Annual Report”) have been presented in millions of nominal pesos unless otherwise indicated. References herein to “pesos” or “$” are to the lawful currency of Mexico.

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

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

*Accounting Practices*

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

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

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

*Other References*

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

*Non-GAAP Financial Measures*

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

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

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

**Market Data**

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

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

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

**Forward-looking Statements**

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

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

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

## Part I

## Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

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

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

**STATEMENT OF PROFIT OR LOSS DATA**

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

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

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

**STATEMENT OF FINANCIAL POSITION DATA**

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

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

**MARGINS**

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

***Other Indicators***

The tables set below present key indicators.

**VOLUME SOLD BY OPERATING SEGMENT**

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

***Gross Domestic Product, Inflation Rate and CETES***

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

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***Gross Domestic Product***

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

***Interest Rates***

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

***Inflation Rates***

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

**GDP, INFLATION RATE AND CETES DATA**

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

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

***Exchange Rates***

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

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

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

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

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

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

**EXCHANGE RATE FOR THE LAST 5 YEARS**

| In pesos per one U.S. dollar | High<br>$ | Low<br>$ | Average<br>$ | Close<br>$ |
|---|---|---|---|---|
| 2017 | 21.89 | 17.48 | 18.88 | 19.64 (1) |
| 2016 | 20.84 | 17.19 | 18.67 | 20.64 |
| 2015 | 17.36 | 14.56 | 15.87 | 17.20 |
| 2014 | 14.79 | 12.85 | 13.30 | 14.75 |
| 2013 | 13.43 | 11.98 | 12.76 | 13.10 |
| EXCHANGE RATE FOR THE LAST 6 MONTHS | | | | |
| March 2018 | 18.86 | 18.17 | 18.59 | 18.17 |
| February 2018 | 18.90 | 18.36 | 18.65 | 18.84 |
| January 2018 | 19.48 | 18.49 | 18.91 | 18.62 |
| December 2017 | 19.73 | 18.62 | 19.18 | 19.64 (1) |
| November 2017 | 19.26 | 18.51 | 18.93 | 18.63 |
| October 2017 | 19.18 | 18.21 | 18.22 | 19.13 |

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

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

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

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

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

***Risks Related to Economic, Political and Regulatory Conditions***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Risks Related to Bachoco and the Poultry Industry***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Elimination of tariff barriers may adversely affect our performance.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Our bylaws may only be enforced in Mexico.***

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

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

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

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

Under Mexican law and our bylaws, if we issue new shares for cash as part of a capital increase, we must grant our stockholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in the Company ("preemptive rights"). We can allow holders of ADRs in the United States to exercise preemptive rights in any future capital increase only in one of the following two circumstances: (i) we file a registration statement with the SEC with respect to that future issuance of shares; or (ii) the offering qualifies for an exemption from the registration requirements of the Securities Act of 1933, as amended.

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

## Item 4. Information of the Company

### A. History and Development of the Company

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

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

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

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

***Important events in the development of the Company's business***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Capital Expenditures***

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

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

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

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

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

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

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

**B. Business Overview**

***General***

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

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

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

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

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

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

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

***Principal Markets***

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

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

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

**NET REVENUES BY OPERATING SEGMENTS**

| In millions of pesos, for the year ended | 2017 | 2016 | 2015 |
|---|---|---|---|

| December 31, | | | | | | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| Net Revenues | 58,050.0 | 100 | 52,020.3 | 100 | 46,229.0 | 100 |
| Poultry | 52,479.4 | 90.4 | 46,852.5 | 90.0 | 41,789.5 | 90.4 |
| Others | 5,570.6 | 9.6 | 5,167.8 | 10.0 | 4,439.5 | 9.6 |

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

*Overview of the Chicken Industry in Mexico*

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

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

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

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

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

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

- **Live chicken** is sold alive to small independent slaughtering operations or to wholesalers that contract with independent slaughtering operations for processing.
- **Public market chicken** is a whole broiler presented either un-eviscerated or eviscerated, generally sold within 48 hours after slaughter. This product is sold to consumers without any packaging or brand identification.
- **Rotisserie chicken** is a whole broiler presented eviscerated and ready to cook.
- **Supermarket chicken** is a fresh whole broiler presented with the edible viscera packed separately.
- **Chicken cuts** refers to cut-up fresh chicken parts sold wrapped in trays or in bulk principally to supermarket chains, the fast-food industry and other institutional food service providers.
- **Value-added products** refer mainly to cut-up fresh chicken parts with value-added treatment like marinating, breading and individual quantity frozen.

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

**SALES AND VOLUME OF CHICKEN BY CATEGORY**

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

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

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

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

*Overview of the Chicken Industry in the U.S.*

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

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

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

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

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

*Overview of the Egg Industry in Mexico*

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

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

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

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

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

- **Bulk** is distributed in large 360 egg cases.
- **Packaged** in branded packages of mainly 12, 18, 24 or more eggs.
- **Processed** is liquid or powdery eggs used mainly by the bakery industry.

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

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

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

**SALES AND VOLUME OF EGG BY CATEGORY**

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

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

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

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

*Overview of the Balanced Feed Market in Mexico*

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

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

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

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

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

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

**BALANCED FEED VOLUME SOLD**

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

(1) CONAFAB estimates

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

***Seasonality Effects***

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

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

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

*Pricing for chicken and eggs products*

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

***Main Raw Materials and Sources of Supply***

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

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

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

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

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

***Marketing Channels Used by the Company***

*Marketing and Distribution of Chicken Products in Mexico*

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

We participate and operate in all the following marketing channels:

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

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

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

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

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

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

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

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

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

*Marketing and Distribution of Eggs Products in Mexico*

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

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

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

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

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

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

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

*Marketing and Distribution of Balanced Feed in Mexico*

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

We sell balanced feed products mainly to small livestock producers and through a network of small distributors located mainly in central and southern Mexico. Currently, we have6 feed plants dedicated to producing balanced feed to third parties.

***Patents, Licenses and Other Contracts***

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

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

b) 8 patents in Mexico.

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

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

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

***Material Effects of Government Regulations on the Company's Business***

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

*Import and Export Regulations*

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

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

*Antitrust Regulations*

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

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

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

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

*Antidumping Regulations*

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

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

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

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

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

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

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

*Environmental and Sanitary Regulation*

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

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

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

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

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

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

**C. Organizational Structure**

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

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

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

**PERCENTAGE EQUITY INTEREST**

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

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

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

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

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

**D. Property, Plant and Equipment**

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

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

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

**BACHOCO'S FACILITIES**

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

***Bachoco's facilities in Mexico***

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

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

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

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

***Expansion, Construction or Issues Related to Our Facilities in Mexico***

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

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

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

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

***Bachoco's facilities in the U.S.***

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

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

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

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

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

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

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

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

**ITEM 4.A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

**A. Operating Results**

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

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

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

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***Year 2017 Overview***

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

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

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

*Macroeconomic Conditions in Mexico*

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

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

*Operating Performance*

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

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

**STATEMENT OF PROFIT OR LOSS DATA**

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

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

***Operating Results 2017 vs 2016***

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

**NET REVENUES BY OPERATING SEGMENTS**

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

**NET REVENUES BY GEOGRAPHY**

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

***Net Revenues***

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

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

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

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

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

**COST OF SALES**

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

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

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

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

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

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

**GENERAL, SELLING AND ADMINISTRATIVE EXPENSES**

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

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

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

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

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

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

**OTHER INCOME (EXPENSE) NET**

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

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

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

**OPERATING INCOME**

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

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

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

**NET FINANCE INCOME**

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

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

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

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

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

**TOTAL INCOME TAX**

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

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

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

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

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

**PROFIT FOR THE YEAR**

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

(1) In pesos.

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

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

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

**EBITDA RESULT**

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

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

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

***Operating Results 2016 vs 2015***

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

**NET REVENUES BY OPERATING SEGMENTS**

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

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**NET REVENUES BY GEOGRAPHY**

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

***Net Revenues***

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

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

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

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

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

**COST OF SALES**

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

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

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

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

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

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

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

**GENERAL, SELLING AND ADMINISTRATIVE EXPENSES**

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

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

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

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

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

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

**OTHER INCOME (EXPENSE) NET**

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

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

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

**OPERATING INCOME**

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

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

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

**NET FINANCE INCOME**

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

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

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

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

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

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

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

**TOTAL INCOME TAX**

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

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

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

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

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

**PROFIT FOR THE YEAR**

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

(1) In pesos.

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

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

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

**EBITDA RESULT**

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

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

***Critical Tax and Accounting Policies***

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

*Income Tax Year 2017*

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

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

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

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

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

*Recent changes in tax laws*

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

*Use of Estimates and Judgments in Certain Accounting Policies*

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

***Business combinations or acquisition of assets***

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

***Fair value of biological assets***

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

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

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

***Aggregation of operating segments***

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

***Key sources of estimation uncertainty***

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

***Assessments to determine the recoverability of deferred tax assets***

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

***Useful lives and residual values of property, plant and equipment***

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

*Measurements and disclosures at fair value*

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

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

*Impairment of long-lived assets and goodwill*

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

*Employee retirement benefits*

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

*Contingencies*

A contingent liability is defined as:

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

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

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

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

**B. Liquidity and Capital Resources**

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

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

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

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

***Liquidity and Capital Resources 2017 vs 2016***

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

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

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

**ACCOUNTS RECEIVABLE**

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

In 2017 accounts receivable decreased $2.3 million, or 0.1%, when compared to 2016. This decrease is mainly due to decreases of $58.2 million on income tax receivable, $18.3 million in recoverable value-added tax and $117.9 in other receivables, which was partially offset by an increase of $191.6 million increase in trade receivables.

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

**ACCOUNTS PAYABLE**

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

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

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

**TOTAL DEBT**

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

(1) Includes notes payable to banks and current portion of long-term debt.
(2) Does not include current installments of long-term debt.

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

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

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

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

**WORKING CAPITAL**

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

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

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

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

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

***Liquidity and Capital Resources 2016 vs 2015***

**TOTAL CASH, CASH EQUIVALENTS, PRIMARY AND DERIVATIVES FINANCIAL INSTRUMENTS**

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

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

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

**ACCOUNTS RECEIVABLE**

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

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

**ACCOUNTS PAYABLE**

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

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

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

**TOTAL DEBT**

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

(1) Includes notes payable to banks and current portion of long-term debt.
(2) Does not include current installments of long-term debt.

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

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

**WORKING CAPITAL**

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

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

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

**CAPITAL EXPENDITURES**

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

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

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

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

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

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

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

**OPERATING LEASES**

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

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

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

***Financial Instruments***

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

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

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

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

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

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

**DEBT IN FOREIGN CURRENCY 2017 vs 2016**

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

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

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

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

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

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

**DEBT IN FOREIGN CURRENCY 2016 vs 2015**

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

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

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

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

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

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

None.

**D. Trend Information**

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

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

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

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

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

**E. Off-Balance Sheet Arrangements**

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

**F. Tabular Disclosure of Contractual Obligations**

Our major categories of indebtedness included the following:

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

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

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

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

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

**CONTRACTUAL OBLIGATIONS**

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

(1) See Note 18-c of the Audited Consolidated Financial Statements for more detail.
(2) See Note 24 of the Audited Consolidated Financial Statements for more detail.

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

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

**INTEREST**

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

**G. Safe Harbor**

Not applicable.

**Item 6. Directors, Senior Management and Employees**

**A. Directors and Senior Management**

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

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

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

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

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

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

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- Approval and appointment of management.

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

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

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

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

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

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

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

- A consolidated entity-wide statement of financial position.
- A consolidated entity-wide statement of cash flow.

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

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

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

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

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

***Directors***

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

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

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

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

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

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

***Honorary Members of the Board***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Honorary members***

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

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

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

***Executive Officers***

**EXECUTIVE OFFICERS**

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

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

None.

A biography of the Executive Officers is set forth below:

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

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

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

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

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

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

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

School and a MS in Human Resources from CEF.

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

**B. Compensation**

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

**TOTAL COMPENSATION**

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

**C. Board Practices**

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

***Audit and Corporate Practices Committee***

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

- Submit an annual report to the Board of Directors;
- Inform the Board of Directors of the current condition of the internal controls and internal auditing system of the Company or of the entities it controls, including any irregularities detected;
- Require the relevant directors and other employees of the Company, or of the entities it controls, to provide reports relative to the preparation of the financial information or any other kind of reports or information it deems

appropriate to perform its duties;

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

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

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

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

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

**AUDIT AND CORPORATE PRACTICES COMMITTEE**

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

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

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

**D. Employees**

The Company has employees in Mexico and the United States.

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

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

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

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

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

**WORKFORCE**

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

**E. Share Ownership**

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

**Item 7. Major Stockholders and Related Party Transactions**

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

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

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

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

**A. Major Shareholders**

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

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

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

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

(1) All shares B Class with full voting rights.
(2) Trading on the BMV and at the NYSE.

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

**ADRs Outstanding**

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

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

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

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

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

| | **Shares**[1] | Position | Country |
| --- | --- | --- | --- |
| Control Trust | 312,000,000 | 52.00% | Mexico |
| Underwriting Trust | 127,500,000 | 21.25% | Mexico |
| Renaissance Technologies LLC | 6,562,800 | 1.09% | EEUU |

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

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

**B. Related Party Transactions**

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

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

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

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

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

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

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

In addition, during 2016, we granted a short-term loan that bears interest to a related party, Taxis Aereos del Noroeste, S.A. de C.V., for $189.1 million. This loan is recorded in our balance sheet as a current assets under the "Due for related parties" line item. This non-recurring loan was made on terms and conditions substantially similar as those prevailing at the time for comparable transactions with unrelated third parties. As of December 31, 2017 the amount due from Taxis Aereos del Noroeste is $0.0 million pesos.

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

**REVENUES FROM RELATED PARTY TRANSACTIONS**

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

**EXPENSES INCURRED IN RELATED PARTY TRANSACTIONS**

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

**BALANCES WITH RELATED PARTIES**

**Balance of Revenues with Related Parties**

| | As of December 31, | |
|---|---|---|
| In millions of Pesos | 2017 | 2016 |