

Bachoco[®]

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

A roasted chicken with potatoes and rosemary in a black tray. The chicken is golden brown and seasoned with herbs. The potatoes are small and roasted. The rosemary is fresh and green. The tray is black and sits on a wooden surface.

**TRULY
NOURISHING**

ANNUAL REPORT 2016

BACHOCO'S PROFILE

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

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

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

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



*Enrique Robinson Bours
Co-founder*

BACHOCO OWNS AND MANAGES:

- + THAN 1000** FARMS
- 10** PROCESSING PLANTS
- 7** FURTHER PROCESSING PLANTS
- 20** FEED MILLS
- 25** HATCHERIES
- 66** DISTRIBUTION CENTERS

THE COMPANY EMPLOYS
+ than 25,000
PEOPLE

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HIGHLIGHTS

OPERATING DATA

1 One dollar equal to \$20.64 pesos

U.S. Dollar¹

In millions pesos	2016	2016	2015	2014
Net sales	\$ 2,520.4	52,020.3	46,229.0	41,779.1
Gross profit	454.7	9,385.2	9,381.5	9,284.1
Operating income	232.4	4,797.6	5,053.5	5,341.9
EBITDA Result	279.9	5,777.0	5,873.4	6,147.5
Net income	\$ 191.4	3,951.2	3,819.5	3,932.7
EPS in pesos	0.32	6.58	6.36	6.55
Earnings per ADR in pesos	3.82	78.94	76.30	78.60
Gross margin	18.0 %	18.0 %	20.3 %	22.2 %
Operating margin	9.2 %	9.2 %	10.9 %	12.8 %
EBITDA margin	11.1 %	11.1 %	12.7 %	14.7 %
Net margin	7.6 %	7.6 %	8.3 %	9.4 %

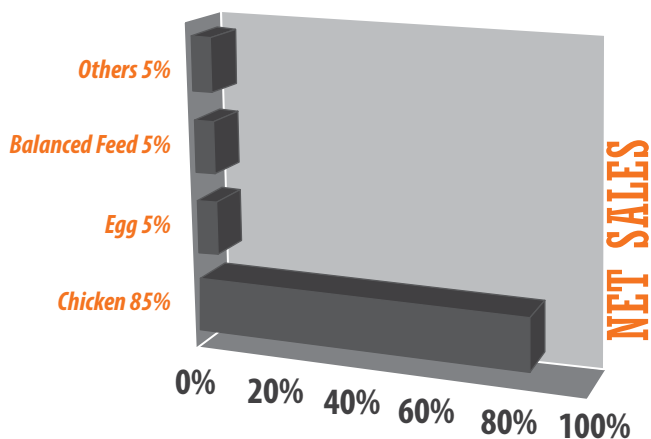
STATEMENT OF FINANCIAL DATA

1 One dollar equal to \$20.64 pesos

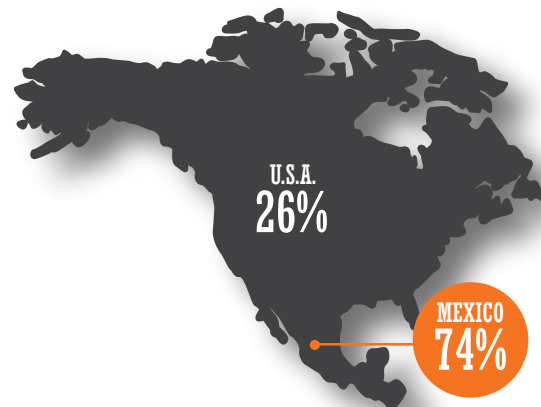
In U.S. Dollars¹

December 31,

In millions pesos	2016	2016	2015	2014
TOTAL ASSETS	\$ 2,184.6	45,090.5	40,446.6	34,843.1
Cash and cash equivalents	758.7	15,659.8	15,290.1	11,968.3
Inventories	192.4	3,970.7	3,404.3	2,968.1
TOTAL LIABILITIES	\$ 648.0	13,374.3	12,667.2	10,481.1
Notes payable to banks	150.1	3,097.5	1,631.9	798.0
Accounts payable	220.2	4,545.2	4,597.1	3,970.5
Long-term debt	46.0	950.4	2,495.1	1,652.5
TOTAL STOCKHOLDERS' EQUITY	\$ 1,536.6	31,716.2	27,779.4	24,362.1
Capital stock	56.9	1,174.4	1,174.4	1,174.4
Retained earnings	1,368.5	28,245.0	24,749.6	22,513.2



SALES BY GEOGRAPHY



MESSAGE TO SHAREHOLDERS

Dear Shareholders of Industrias Bachoco:

In 2016 the Mexican macroeconomic conditions continued with a high level of volatility, especially towards the end of the year. The Mexican peso continued depreciating against the US dollar, the annual inflation rate was 3.36% and the economic growth was 2.3%, below the expectations at the beginning of the year.

In the Mexican poultry industry, the chicken production grew 3.2%, what we consider a normalized growth level. Even though there were over-supply conditions in the first quarter, the industry presented a good balance between supply and demand for most of the year. For the table eggs business line, the industry presented over-supply conditions throughout the entire year.

In the US, the poultry industry grew 1.5%, which can be considered within normalized growth levels. On the other hand, most of the countries that imposed a ban on US exports due to the sanitary conditions in 2015, have lifted these trade restrictions in 2016, which mainly benefited the leg quarter prices.

On the cost side, the US poultry industry continued to capitalize the benefits of a good grain crop, allowing stable raw material costs in dollar terms. In Mexico, on the contrary, prices of raw material costs increased in Mexican peso terms, due in part to the Mexican peso depreciation against the US dollar. This has pushed up the cost of our products.

Under the above conditions, in Mexico, we increased our total sales. Particularly chicken, beef and balanced feed reached the largest volume sold for a year, while in table eggs we resume our growth.

Regarding our US operation, we continue to deliver positive results. In 2016, we grew in volume sold and we closed the acquisition of the Fully Cooked facility located in Oklahoma City, USA. This acquisition will allow us to continue to streamline and improve the product mix in our US operation, while increasing service to our further processed customers, and reducing dependency on the commodity markets.



*Javier Bourns Castelo
Chairman of the Board of Directors*

In Mexico we increased our total sales. Particularly chicken, beef and balanced feed reached the largest volume sold for a year.

We continue working on our growth plans for the company. We increased our CAPEX, focusing mainly on organic growth projects and productivity projects along our supply chain. This will allow us to continue to approach our customers and consolidate ourselves as their best alternative on the industry.

In April, David Gastelum Cazares was named as an Independent member of the Board of Directors of the Company. David has extensive experience and knowledge in the poultry industry, and we look forward to the many important contributions made on his part.

During 2016, Bachoco continued to receive many awards. Our Pecuaris Laboratories subsidiary obtained the ISO 9001:2008 certificate and the Merida processing plant obtained first place in the category TIF Empresa Grand. In addition, we received the award "Flavor of the Year" by the organization Global Quality Certifications Mexico, the award "Totem to the Publicity 2016" and the award "Mexico Calidad Suprema". Meanwhile, our US operation

in Arkansas was recognized by Aviagen for the second consecutive year as the Best Performance in Top Hatch for Ross 308's and was awarded "Jack In the Box Outstanding New Supplier of the Year". Our US operation in Oklahoma was awarded "Church's Supplier of the Year".

At the same time, we continued with efforts to create a more sustainable future. Bachoco received the recognition "Creating a more sustainable future" by DSM Nutritional Products, for our efforts to help preserve the environment.

Bachoco was placed in the Top 50 of companies with the best reputation in Mexico according to the Merco survey; improving 6 places when compared to 2015. Likewise, our CEO, Rodolfo Ramos Arvizu once again ranked as one of the 25 most respected CEOs in the country; where his strategic and commercial vision, international projection, achievement goals, ethical behaviors and his sense of innovation were evaluated.

This year, we inaugurated the Bachoco Innovation and Customer Service Center with the objective of increasing innovation of new products and developing more appropriate solutions to our customers' expectations.

Regarding our annual results, we increased our total sales more than 12.0%, with an EBITDA margin of 11.1%, a net margin of 7.6% and an equity per share of \$6.58 pesos. We consider 2016 a positive year for the Company, despite the volatile conditions we faced, particularly in Mexico.

We continue to be in a strong financial position with a net cash at the end of 2016 of \$11,611.9 million pesos.

With these results, we continue strengthening our Balance Sheet, which will allow us to continue with our organic growth plans in both Mexico and US operations, as well as preparing us for future growth opportunities according to our long-term strategies.

The Company remains a leader in the poultry industry in Mexico and an important player worldwide with a strong and trusting brand.

As always, all of these results were possible with the support of our management team and staff, consisting of more than 25,000 people. Through their hard work and commitment to reach the Company's goals, they were also able to improve efficiencies in our processes. We still have many opportunities to improve our performance and we will continue working hard on this and be more prepared to face the external conditions that may be present.



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

Javier Bours Castelo
Chairman of the Board of Directors

CEO'S LETTER

Dear Shareholders:

All figures discussed below are information for 2016 with comparative figures of 2015. It was prepared under IFRS accounting principles, and is presented in millions of pesos unless otherwise indicated.

In Mexico, where 75% of our income is generated, the economy grew 2.3% in 2016. During the year, we faced volatile conditions which had an effect on the Mexican peso, which depreciated about 20% vs the US dollar.

According to the Mexican National Poultry Association estimates in 2016, chicken volume produced in Mexico grew within its normalized growth levels. Regarding the US poultry industry, according to USDA sources, the chicken volume produced in the US grew about 1.5%, so the per capita consumption of poultry products grew in both markets.

Chicken supply in Mexico was stable during most parts of the year, even when oversupply conditions were present in the first quarter of 2016, the demand remained solid in both Mexican and US markets.

Although raw material costs remained relatively stable in dollar terms, we could not capitalize these reductions in Mexico due to the depreciation of the Mexican peso vs the US dollar, affecting our production costs.

Our derivatives positions were healthy throughout 2016 as we followed a disciplined practice in this regard.

During 2016, we consolidated several projects that will allow us to be closer to our customers and to better understand and attend to their needs, supplying products and services they need, while continuing our efforts to increase the consolidation of our brand in the markets we participate in.

2016 & 2015 RESULTS

Net sales in 2016 totaled \$52,020.3 million, \$5,791.3 million more or a 12.5% increase in net sales, when compared to \$46,229.0

“Net sales in 2016 totaled \$52,020.3 million; an increase of 12.5% compared to 2015”

million reported in 2015. This increase was mainly due to higher volume sold and price increases.

In 2016, sales of our US operation represented 25.8% of our total sales, compared with 24.0% in 2015.

The Company's sales of chicken products increased 13.8%, mainly as a result of 10.2% increase in prices and 3.3% increase in volume.

Egg sales decreased 8.8%, as a result of a decrease in prices and an increase of 5.0% in volume sold.

Sales of balanced feed increased 20.9%, resulting from an 11.4% increase in prices and an 8.5% increase in volume sold. In particular, the pet-food products volume continued with an important



*Rodolfo Ramos Arvizu
Chief Executive Officer*

increase above the expectations we set when building our own production plant.

In 2016, the other business lines showed good performance as well. In particular, sales of beef had an increase of 12.7%, mainly due to an increase in the volume sold.

Cost of sales totaled \$42,635.1 million, 15.7% higher than the \$36,847.5 million reported in 2015. The increase in the cost of sales was mainly attributed to more volume sold and an increase in raw material costs in peso terms, due in part to the depreciation of the Mexican peso vs the US dollar.

These numbers allow us to post a gross profit of \$9,385.2 million, which represented 18.0% of gross; slightly higher than \$9,381.5 million of gross profit and a margin of 20.3% reached in 2015.

Total SG&A expenses in 2016 were \$4,847.9 million, an increase of \$524.5 million or 12.1% when compared to \$4,323.4 million in 2015. Total SG&A expenses as a percentage of net sales represented 9.3% in 2016 and 9.4% in 2015.

In 2016, we had other income of \$260.2 million, compared with other expenses of \$4.6 million reported in 2015. This is mainly attributed to gains in the sale of several unused assets during the year.

The operating income in 2016 totaled \$4,797.6 million and a 9.2% margin; 5.1% lower than the \$5,053.5 million of operating income and 10.9% margin as reported in 2015.

In 2016, we reached an EBITDA of \$5,777.0 million, representing an EBITDA margin of 11.1%, compared to an EBITDA of \$5,873.4 million in 2015, with an EBITDA margin of 12.7%.

The net financial income was \$797.0 million, an increase when compared to the net financial income of \$446.6 million in 2015. This is mainly attributed to higher interest income resulting from higher levels of cash and lower interest expenses in the liabilities we have contracted.

Total taxes in 2016 were \$1,643.4 million. This figure compares to total taxes of \$1,680.6 million in 2015; the decrease is attributed to a lower income before taxes.

As a result, net income in 2016 was \$3,951.2 million, a 7.6% net margin, which represents earnings per share of \$6.58 pesos. In 2015, net income totaled \$3,819.5 million, an 8.3% net margin, and \$6.36 pesos of EPS.

Cash and equivalents as of December 31, 2016 totaled \$15,659.8 million, an increase of \$369.7 million or 2.4% more than the \$15,290.1 million of cash and equivalents reported as of December 31, 2015.

Total debt as of December 31, 2016 was \$4,047.9 million, compared to \$4,127.0 million reported as of December 31, 2015; mainly as a result of a reduction on long-term bank debt.

Our net cash as of December 31, 2016 totaled \$11,611.9 million, compared with a net cash of \$11,163.1 million as of December 31, 2015.

Capex in 2016 totaled \$2,459.7 million, an increase when compared to \$1,824.5 million expended in 2015. In 2016, the Company continued with the implementation of new projects oriented toward organic growth and productivity improvements.



Rodolfo Ramos Arvizu
Chief Executive Officer



REPORT FROM THE BOARD OF DIRECTORS

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

This Board of Directors reviewed and approved the Chief Executive Officer's report which supports the performance of management for fiscal year 2016, and it was based on the independent auditor's Opinion.

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

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

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

We determined that during year 2016, the Company did not engage in unusual operations or other activities different from the normal course of the business. No exemptions were granted to any member of the Board, executive officers or any other member of the Company to take advantage of business opportunities for themselves or in favor of third parties.

Lastly, the Board presented in the Annual Ordinary Shareholders' Meeting the report of the Auditing and Corporate Practices Committee, the Chief Executive Officer's report, the report on prompt compliance with tax obligations, and the report on the principal accounting and information policies and criteria followed by the Company in the preparation of its financial statements for fiscal year 2016.



Javier Bours Castelo
Chairman of the Board of Directors

AUDIT AND CORPORATE PRACTICES COMMITTEE

Bachoco has an Auditing and Corporate Practices Committee to support the Board of Directors, which is comprised of three Independent Directors and one Property Shareholder Director. This Committee was last ratified on the Annual and General Ordinary Shareholders' Meeting on April 27, 2016.

AUDIT COMMITTEE AND CORPORATE PRACTICES MEMBERS

Guillermo Ochoa Maciel (*President*)

Humberto Schwarzbeck Noriega

Avelino Fernandez Salido

Ricardo Aguirre Borboa

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

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

This report has been submitted to the Audit and Corporate Practices Committee of the Company, which validated content, scope and conclusions for the Board of Directors approval and through the Board, its validation in the Annual and General Ordinary Shareholders' Meeting of the Company that will take place in April 2017.

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

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

Regarding Corporate Practices:

- We concluded that the Officers performance was aligned with the Company's objectives.
- We reviewed the CEO and senior officers and compensation packages were granted.
- We checked that there was no existence of any grant or exceptions to Directors, senior officers, or other employees of the Company.
- In 2016, the total transactions in connection to related parties represented less than 3.5% of the Company's net sales.
- After an exhaustive review of the transactions carried out with related parties, we concluded that they were conducted in fair-market terms.
- We reviewed policies and guidelines related to the use of goods that constitute the equity of the Company and its subsidiaries, by any related parties, as well as policies for granting of loans or any type of credit or guarantees.
- We analyzed and assessed the services provided by the independent experts, when it was required.

Regarding Internal Audit Function:

- The Audit and Corporate Practices Committee has remained involved with the needs of the internal audit area to make sure they have the necessary human and material resources for the suitable performance of its function.

- The evaluations carried out by the Internal Audit, the external auditors, and the General Director have been reviewed, and it is concluded that the internal control processes provide reasonable security to prevent or detect errors or material irregularities in the normal course of social operations, although these processes are constantly improving and the corresponding revisions continue.

Regarding Financial Information:

- The Financial Statements of the Company were discussed quarterly with the executives responsible for their preparation and review, there were no significant observations to the information presented. Before being forwarded to the Mexican Stock and Exchange, the Financial Statements were reviewed by the Committee for its approval or ratification by the Board of Directors.
- In each quarterly Committee's meeting, reports to the Stock Exchange were analyzed and approved, having made the observations or suggestions of the case and recommending to the Board of Directors its approval (or ratification) in each case regarding its public disclosure.
- During the period in question, Financial Statements corresponding to 2016 fiscal year were reviewed and discussed, and did not submit observations and/or qualifications, in consequence, the Committee recommended its approval by the Board of Directors for submission to the Shareholders' Meeting.

Regarding External Audit Performance:

- The services of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) continued to be used as External Auditors of the Company. The fees corresponding to 2016 were duly revised and approved.
- The Audited Financial Statements as of December 31, 2016 were received on the part of the External Auditor.
- The Audit Committee concludes that the performance of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte) as External Auditors of the Company and of its partners in charge of the respective audit, is appropriate and that the communication between such Committee and the auditors referred herein is consistent. The External Auditors confirmed their independence.

Regarding Accounting and Self-Regulatory Policies:

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

- The accounting policies, criteria, and information observed by the Company are adequate and sufficient.

Conclusions:

- The recommendations of the Audit and Corporate Practices Committee have been, or are being addressed by the Administration of the company.
- During the reported period, the Audit and Corporate Practices Committee did not receive from Shareholders, Directors, relevant executives, employees and in general from any third party, any remarks about accounting, internal controls and other matters related to the Internal or External Audit, other than those issued by the management during the preparation or revision of the respective documentation; no complaints were received about any irregular matters regarding the Administration.
- The Audit and Corporate Practices Committee has followed, within its competence and in accordance with the instructions received, the resolutions of the Board of Directors and the Shareholders' Meeting during the reporting period.
- From all the above, the Audit and Corporate Practices Committee has fulfilled the functions stated in Article 42, paragraph II of the LMV, during the reporting period.

Opinion of the Audit Committee to the Board of Directors on the Annual Report of the Chief Executive Officer

After having listened and analyzed the CEO's report for the fiscal year ended on December, 31, 2016, prepared in terms and for the purposes of the stated of Article 44, section XI of the Security Market Law, in relation to Article 172 of the General Law of Business Corporations and based on the reports of the External Audit presented to the Committee, the Audit and Corporate Practices Committee has determined that: (i) the accounting and information policies and criteria followed by the Company are adequate and sufficient, taking into account the Company's particular circumstances; (ii) these accounting policies and criteria have been consistently applied in the information presented by the CEO; (iii) as consequence of the previous numerals (i) and (ii), the information presented by the CEO reflects the Company's financial situation and results for the fiscal year 2016.

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

Mexico Distrito Federal, April 26th, 2017



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

HIGHLIGHTS TO INVESTORS

In 2016, the Company's shares and ADRs reached a yield of 21.0% on the BMV and a decrease of 0.4% on the NYSE.

Bachoco in the Stocks

- 600 million shares
- One single class (Class B)
- Full rights
- An ADR equals 12 shares
- 26.75% of float
- An estimated \$50,850 million pesos in market capitalization

The founding family holds

73.25%
of total shares,

by two Trust:

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



Share Prices

Bolsa Mexicana de Valores
Ticker symbol: Bachoco



In pesos per Share **BACHOCO**

IBA
LISTED
NYSE

The New York Stock Exchange
Ticker symbol: IBA

In dollars per ADR

Year	High	Low	Average	Close	Year	High	Low	Average	Close
2016	85.65	62.51	77.34	84.75	2016	55.65	41.17	49.68	49.02
2015	89.73	59.23	71.74	70.05	2015	63.49	45.64	54.09	49.23
2014	68.55	44.71	56.62	62.00	2014	61.24	40.37	50.84	49.88
2013	45.25	28.80	38.27	44.16	2013	43.08	27.02	35.92	40.27
2012	30.13	20.59	24.62	30.13	2012	27.97	18.86	22.41	27.92

Source: Yahoo finance

BOARD OF DIRECTORS

Bachoco's Board of Directors is comprised of eight Proprietary Shareholder Directors, four Alternate Shareholder Directors, and four Independent Proprietary Directors. This board was last ratified on April 27, 2016. The Board's main duties include the following:

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

PROPRIETARY SHAREHOLDERS DIRECTORS

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

INDEPENDENT PROPRIETARY DIRECTORS

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

ALTERNATE SHAREHOLDERS DIRECTORS

Jose Eduardo Robinson Bours Castelo alternate of Javier Bours Castelo and Jose Gerardo Robinson Bours Castelo.
Jose Francisco Robinson Bours Griffith, alternate of Octavio Robinson Bours and Arturo Bours Griffith.
Guillermo Pineda Cruz, alternate of Jesus Enrique Robinson Bours Muñoz and Jesus Rodolfo Robinson Bours Muñoz.
Gustavo Luders Becerril, alternate of Juan Salvador Robinson Bours Martinez and Ricardo Aguirre Borboa.

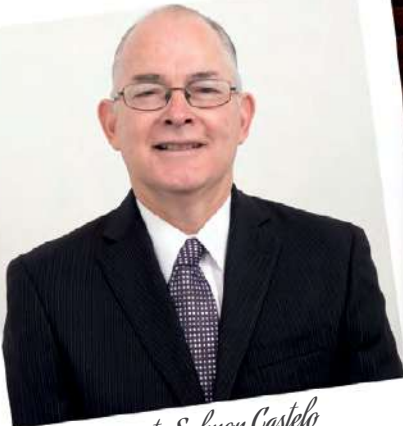
HONORARY MEMBERS OF THE BOARD

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

SECRETARY OF THE BOARD

Eduardo Rojas Crespo

SENIOR MANAGEMENT TEAM



Ernesto Salmon Castelo
Director of Operations



Rodolfo Ramos Arvizu
Chief Executive Officer



Daniel Salazar Ferrer
Chief Financial Officer



Andres Morales Astiazaran
Director of Sales



R. Trent Goins
Director of U.S. Operations



Augusto Franco Gomez
Director of Marketing



Ismael Sanchez Moreno
Director of Human Resources



Alejandro Elias Calles Gutierrez
Director of Purchasing

TRULY NOURISHING

Our mission is to always offer fresh, nutritious, tasty and healthy products, while increasing the food quality of the consumer.

We want to bring to our consumers' table food that nourish them, and products that contribute to improve their quality of life, while providing high quality animal protein.

We want you to have the confidence that our products truly nourish you, every day.



SOCIAL RESPONSIBILITY

Bachoco's Social Responsibility program is based on 5 essential cornerstones seeking to achieve an integral approach for the improvement of collaborators, surrounding communities and the environment. We work hard every day to achieve these goals and 2016 was evidence of it.

TOGETHER FOR OUR BACHOCO TEAM

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



TOGETHER FOR OUR PLANET

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



TOGETHER FOR OUR BUSINESS

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



TOGETHER FOR OUR PRODUCTS

Our work in safety and food quality is a continuous task and we consolidated it through the certification in SQF (Safe Quality Food) in our processing plants in Celaya and Lagos de Moreno, which joins the rest of our processing plants that have already received this international recognition.



TOGETHER FOR OUR COMMUNITY

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



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

Opinion

We have audited the consolidated financial statements of Industrias Bachoco, S. A. B. de C. V. and subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit and loss and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2016, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

Other Matter

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

Key Audit Matters

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

Fair value of biological assets

According to International Accounting Standard 41, *Agriculture*, the biological assets should be measured at fair value when there is an observable market or an acceptable valuation model. The only biological asset measured at fair value is live chicken that is more than 6.5 weeks old. Management has concluded that such assets are the only biological asset maintained by the Entity for which there is a reliable observable market in Mexico. Other biological assets are measured at cost because there is no reliable market in Mexico and because it is not possible to determine the fair value using alternative valuation methods because of the variability in prices and production costs. Biological assets of the United States operations are measured at cost because there is no observable market.

The valuation methods and critical judgments used by Entity's management are explained in note 2d) to the accompanying consolidated financial statements.

Our audit procedures included, among others

We obtained assistance from internal experts of our firm to confirm that no observable and reliable market exists for the biological assets measured at cost; also, we have assessed the utilization of alternative methods to determine the fair value of such assets, analyzing, among others, the short life of the biological assets of the Entity as compared to other living beings, the constant fluctuations in the price of agricultural products and inventory (poultry) as well as the costs of production, and we concur with the conclusion of management that there are no reliable alternative methods for determining the fair value of the biological assets measured at cost.

Segregation of duties and compensating controls

The significant financial and accounting systems of the Entity are highly automated. As part of its internal control, the Entity has established control activities to prevent unauthorized or inappropriate access and use of the systems. Nevertheless, the Entity has identified that certain assigned access profiles could potentially generate segregation of duties conflicts. As of December 31, 2016, the Entity is in the process of implementing a specialized software to manage the access profiles to prevent segregation of duties conflicts, and has designed and implemented indirect or compensating controls to detect inappropriate use of access to the systems that were operating during 2016. Additionally, the Entity has tested such indirect and compensating controls and concluded that the profiles with identified potential conflicts did not represent an inappropriate use of the systems.

Our audit procedures included, among others:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



C.P.C. Francisco Javier Robles Mujica
March 31, 2017

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

Consolidated Statements of Financial Position

December 31, 2016, 2015 and 2014

(Thousands of pesos)

Assets	Note	2016	2015	2014	Liabilities and equity	Note	2016	2015	2014
Current assets:					Current liabilities:				
Cash and cash equivalents	7	\$ 14,681,204	14,046,262	11,036,062	Short term debt	17	\$ 1,444,800	1,622,850	664,250
Investment in securities at fair value through profit or loss	8	970,292	1,242,614	925,584	Current portion of long-term debt	17	1,652,725	9033	133,732
Derivative financial instruments	8	8,308	1,244	6,669	Trade payable and other accounts payable	18	4,545,177	4,597,103	3,970,515
Accounts receivable, net	9	3,629,144	2,533,427	2,974,578	Income tax payable	20	483,618	248,205	759,982
Due from related parties	19	148,855	194,522	1,929	Due to related parties	19	189,966	165,628	127,033
Inventories	10	3,970,688	3,404,269	2,968,061	Total current liabilities		8,316,286	6,642,819	5,655,512
Current biological assets	11	1,961,191	1,651,794	1,501,428					
Prepaid expenses and other current assets	12	1,503,945	1,587,808	1,379,077	Long term liabilities:				
Assets held for sale	13	56,728	60,048	58,583	Long term debt, excluding current installments	17	950,412	2,495,127	1,652,470
Total current assets		26,930,355	24,721,988	20,851,971	Deferred income tax	20	3,912,575	3,369,036	3,082,197
					Employee benefits	21	195,019	160,218	90,899
Non-current assets:					Total long term liabilities		5,058,006	6,024,381	4,825,566
Property, plant and equipment, net	14	15,081,105	13,188,131	12,054,754					
Non-current biological assets	11	1,668,543	1,434,131	1,109,233	Total liabilities		13,374,292	12,667,200	10,481,078
Deferred income tax	20	60,132	54,127	49,378					
Goodwill	15	484,877	454,295	349,764	Equity:				
Other non-current assets	16	865,454	593,906	428,028	Capital stock	24	1,174,432	1,174,432	1,174,432
Total non-currents assets		18,160,111	15,724,590	13,991,157	Share premium		414,385	414,017	399,641
					Reserve for repurchase of shares		449,641	777,622	101,105
					Retained earnings		28,244,970	24,749,616	22,513,154
					Foreign currency translation reserve		1,465,657	710,439	208,107
					Actual re-measurements, net	21	(86,774)	(97,196)	(79,035)
					Equity attributable to controlling interest		31,662,311	27,728,930	24,317,404
					Non-controlling interest		53,863	50,448	44,646
					Total equity		31,716,174	27,779,378	24,362,050
					Commitments	26			
					Contingencies	27			
Total assets		\$ 45,090,466	40,446,578	34,843,128	Total liabilities and equity		\$ 45,090,466	40,446,578	34,843,128

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Profit and Loss and Other Comprehensive Income

Years ended December 31, 2016, 2015 and 2014

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

		<u>2016</u>	<u>2015</u>	<u>2014</u>
	Note			
Net revenues		\$ 52,020,303	46,229,049	41,779,087
Cost of sales	22	<u>(42,635,071)</u>	<u>(36,847,508)</u>	<u>(32,494,974)</u>
Gross profit		9,385,232	9,381,541	9,284,113
General, selling and administrative expenses	22	(4,847,858)	(4,323,374)	(3,781,326)
Other income (expenses), net	29	<u>260,202</u>	<u>(4,640)</u>	<u>(160,919)</u>
Operating income		<u>4,797,576</u>	<u>5,053,527</u>	<u>5,341,868</u>
Finance income	28	969,174	593,845	367,227
Finance costs	28	<u>(172,154)</u>	<u>(147,292)</u>	<u>(120,319)</u>
Net finance income		<u>797,020</u>	<u>446,553</u>	<u>246,908</u>
Profit before income taxes		5,594,596	5,500,080	5,588,776
Income taxes	20	<u>1,643,433</u>	<u>1,680,560</u>	<u>1,656,110</u>
Profit for the year		\$ <u>3,951,163</u>	<u>3,819,520</u>	<u>3,932,666</u>
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		<u>755,218</u>	<u>502,332</u>	<u>295,197</u>
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	21	14,888	(25,944)	(25,812)
Income taxes related to actuarial remeasurements		<u>(4,466)</u>	<u>7,783</u>	<u>7,744</u>
Other comprehensive income		<u>765,640</u>	<u>484,171</u>	<u>277,129</u>
Comprehensive income for the year		\$ <u>4,716,803</u>	<u>4,303,691</u>	<u>4,209,795</u>
Profit attributable to:				
Controlling interest		\$ 3,946,634	3,812,840	3,926,926
Non-controlling interest		<u>4,529</u>	<u>6,680</u>	<u>5,740</u>
Profit for the year		\$ <u>3,951,163</u>	<u>3,819,520</u>	<u>3,932,666</u>
Comprehensive income attributable to:				
Controlling interest		\$ 4,712,274	4,297,011	4,204,055
Non-controlling interest		<u>4,529</u>	<u>6,680</u>	<u>5,740</u>
Comprehensive income for the year		\$ <u>4,716,803</u>	<u>4,303,691</u>	<u>4,209,795</u>
Weighted average outstanding shares		<u>599,979,844</u>	<u>599,631,383</u>	<u>599,955,240</u>
Basic and diluted earnings per share	25	\$ <u>6.58</u>	<u>6.36</u>	<u>6.55</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2016, 2015 and 2014

(Thousands of pesos)

	Note	Attributable to controlling interest							Other comprehensive items		Total equity
		Capital stock	Share premium	Reserve for repurchase of shares	Retained earnings	Foreign currency translation reserve	Actuarial remeasurements net	Total	Non-controlling interest		
Balance at January 1, 2014		\$ 1,174,432	399,641	99,601	18,586,228	(87,090)	(60,967)	20,111,845	39,301	20,151,146	
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(845)	(845)	
Repurchase and sale of shares, net	24	-	-	1,504	-	-	-	1,504	-	1,504	
Disposal of non-controlling interest from dissolution		-	-	-	-	-	-	-	450	450	
Comprehensive income for the year:		-	-	-	3,926,926	-	-	3,926,926	5,740	3,932,666	
Profit for the year		-	-	-	-	295,197	(18,068)	277,129	-	277,129	
Other comprehensive income		-	-	-	-	295,197	(18,068)	4,204,055	5,740	4,209,795	
Total comprehensive income for the year		-	-	-	3,926,926	208,107	(79,035)	24,317,404	44,646	24,362,050	
Balance at December 31, 2014		1,174,432	399,641	101,105	22,513,154	208,107	(79,035)	24,317,404	44,646	24,362,050	
Dividends paid	24	-	-	-	(899,162)	-	-	(899,162)	-	(899,162)	
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(878)	(878)	
Reserve for repurchase of shares		-	-	677,216	(677,216)	-	-	-	-	-	
Repurchase and sale of shares	24	-	14,376	(699)	-	-	-	13,677	-	13,677	
Comprehensive income for the year:		-	-	-	3,812,840	-	-	3,812,840	6,680	3,819,520	
Profit for the year		-	-	-	-	502,332	(18,161)	484,171	-	484,171	
Other comprehensive income		-	-	-	-	502,332	(18,161)	4,297,011	6,680	4,303,691	
Total comprehensive income for the year		-	-	-	3,812,840	710,439	(97,196)	27,728,930	50,448	27,779,378	
Balance at December 31, 2015		1,174,432	414,017	777,622	24,749,616	710,439	(97,196)	27,728,930	50,448	27,779,378	
Dividends paid	24	-	-	-	(779,960)	-	-	(779,960)	-	(779,960)	
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(1,114)	(1,114)	
Reserve for repurchase of shares		-	-	(328,680)	328,680	-	-	-	-	-	
Repurchase and sale of shares	24	-	368	699	-	-	-	1,067	-	1,067	
Comprehensive income for the year:		-	-	-	3,946,634	-	-	3,946,634	4,529	3,951,163	
Profit for the year		-	-	-	-	755,218	10,422	765,640	-	765,640	
Other comprehensive income		-	-	-	-	755,218	10,422	4,712,274	4,529	4,716,803	
Total comprehensive income for the year		-	-	-	3,946,634	755,218	10,422	4,712,274	4,529	4,716,803	
Balance at December 31, 2016		\$ 1,174,432	414,385	449,641	28,244,970	1,465,657	(86,774)	31,662,311	53,863	31,716,174	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended December 31, 2016, 2015 and 2014

(Thousands of pesos)

	Note	2016	2015	2014
Cash flows from operating activities:				
Profit for the year	\$	3,951,163	3,819,520	3,932,666
Adjustments for:				
Deferred income tax recognized in profit or loss	20	382,904	192,070	280,070
Current income tax recognized in profit or loss	20	1,260,529	1,488,490	1,376,040
Depreciation	14	925,748	769,270	805,650
Goodwill impairment loss	15	-	38,619	-
(Gain) loss on disposal of plant and equipment		(157,245)	90,279	152,830
Interest income	28	(646,334)	(489,934)	(347,364)
Interest expense	28	172,154	147,292	118,090
Unrealized foreign exchange loss on loans		270,850	33,300	82,148
		<u>6,159,769</u>	<u>6,088,906</u>	<u>6,400,130</u>
Subtotal				
Derivative financial instruments		(7,064)	5,425	5,066
Accounts receivable, net		(1,144,991)	521,603	(663,813)
Due from related parties		1,154	(3,518)	(1,929)
Inventories		(562,905)	(448,404)	(246,515)
Current and non-current biological assets		(539,395)	(256,969)	(83,023)
Prepaid expenses and other current assets		82,324	(401,711)	(76,149)
Assets held for sale		3,320	(1,465)	(9,530)
Trade payable and other accounts payable		(43,707)	629,631	602,297
Due to related parties		24,338	38,595	72,938
Income taxes paid		(997,028)	(2,087,286)	(1,056,082)
Employee benefits		34,801	43,375	42,654
		<u>3,010,616</u>	<u>4,128,182</u>	<u>4,986,044</u>
Net cash provided by operating activities				
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment		(2,792,252)	(1,909,771)	(1,288,520)
Proceeds from sale of plant and equipment		278,340	71,427	62,342
Restricted cash		(19,236)	(25,771)	(8,008)
Investment in securities at fair value through profit or loss		272,322	(317,030)	78,522
Other assets		4,583	(55,698)	(42,087)
Interest collected		646,334	489,934	347,364
Business acquisition including advance payment		-	(190,595)	(139,655)
Loans granted to related parties		-	(189,075)	-
Collection of principal of loans granted to related parties		44,513	-	-
		<u>(1,565,396)</u>	<u>(2,126,579)</u>	<u>(990,042)</u>
Net cash used in investing activities				
Cash flows from financing activities:				
Payment for repurchase of shares		(4,157)	(40,612)	(7,019)
Proceeds from issuance of repurchased shares		5,224	54,289	8,523
Dividends paid		(779,960)	(899,162)	-
Dividends paid to non-controlling interest		(1,114)	(878)	(845)
Disposal of non-controlling interest from dissolution		-	-	450
Proceeds from borrowings		2,320,500	3,903,200	1,454,050
Principal payment on loans		(2,670,474)	(2,231,596)	(1,098,575)
Interest paid		(172,154)	(147,292)	(118,090)
		<u>(1,302,135)</u>	<u>637,949</u>	<u>238,494</u>
Net cash (used in) provided by financing activities				
Net increase in cash and cash equivalents				
Cash and cash equivalents at January 1		14,020,491	11,028,054	6,716,894
Effect of exchange rate fluctuations on cash and cash equivalents		498,392	352,885	76,664
		<u>14,661,968</u>	<u>14,020,491</u>	<u>11,028,054</u>
Cash and cash equivalents at December 31	\$			

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2016, 2015 and 2014

(Thousands of Mexican pesos, except amounts per share)

(1) Reporting entity

Industrias Bachoco, S.A.B. de C.V. and subsidiaries (hereinafter, "Bachoco" or the "Company") is a publicly traded company and was incorporated on April 17, 1980, as a legal entity. The Company's registered address is Avenida Tecnológico 401, Ciudad Industrial, Celaya, Guanajuato, Mexico.

The Company is engaged in breeding, processing and marketing poultry (chicken and eggs), swine and other products (primarily balanced animal feed). Bachoco is a holding company that has control over a group of subsidiaries (see note 5).

The shares of the Company are listed on the Mexican Stock Exchange (BMV for its Spanish acronym) under the ticker symbol "Bachoco," and in the New York Stock Exchange (NYSE), under the ticker symbol "IBA".

(2) Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB).

On March 31, 2017, the accompanying consolidated financial statements and related notes were authorized for issuance by the Company's Chief Financial Officer, Mr. Daniel Salazar Ferrer, for review and approval by the Audit Committee, Board of Directors and stockholders. In accordance with Mexican General Corporate Law and the Company's bylaws, the stockholders are empowered to modify the consolidated financial statements after their issuance should they deem it necessary.

b) Basis of measurement

The accompanying consolidated financial statements were prepared on the historical cost basis (historical cost is generally based on the fair value of the consideration given in exchange for goods and services), except for the following items in the consolidated statement of financial position, which are measured at fair value:

- Derivative financial instruments for trading and hedging, and investment in securities at fair value through profit or loss
- Biological assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable either directly or indirectly.

Level 3 inputs are unobservable inputs.

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of Mexican pesos (pesos or \$), the official currency of Mexico, which is the currency in which the Company's accounting records are maintained and functional currency, except for the foreign subsidiaries for which the U.S. dollar is the functional currency as well as the currency in which accounting records are maintained.

For disclosure purposes, in the notes to the consolidated financial statements, "thousands of pesos" or "\$" means thousands of Mexican pesos, and "thousands of dollars" means thousands of U.S. dollars.

When deemed relevant, certain amounts are included between parentheses as a translation into thousands of dollars, into thousands of Mexican pesos, or both, as applicable. These translations are performed for the convenience of the reader at the closing exchange rate issued by Bank of Mexico, which is \$20.64, \$17.21 and \$14.75 pesos to one U.S. dollar as of December 31, 2016, 2015 and 2014 respectively.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and significant assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period in which they occur and in any future periods affected.

The following are the critical accounting estimates and assumptions used by management in the application of the Company's accounting policies, which are significant to the amounts recognized in the consolidated financial statements.

Critical accounting judgments

i. Fair value of biological assets

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

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

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

ii. Business combinations or acquisition of assets

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

iii. Aggregation of operating segments

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

Key sources of estimation uncertainty

i. Assessments to determine the recoverability of deferred tax assets

On an annual basis the Company prepares projections to determine if it will generate sufficient taxable income to utilize its deferred tax assets associated with deductible temporary differences, including tax losses and other tax credits.

ii. Useful lives and residual values of property, plant and equipment

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

iii. Measurements and disclosures at fair value

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

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

iv. Impairment of long-lived assets and goodwill

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

v. Employee retirement benefits

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

vi. Contingencies

A contingent liability is defined as:

- A possible obligation that arises from past events and whose existence can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or
- a present obligation that arises from past events but is not recognized because:
 - a. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - b. the amount of the obligation cannot be measured with sufficient reliability.

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

e) Issue of new IFRS

i. New and amended IFRS that affect reported balances and/or disclosures in financial statements

All new and amended IFRS issued by the IASB mandatorily effective on January 1, 2016 were early adopted by the Company in 2014.

ii. New IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued, but that are not yet effective for periods beginning on January 1, 2016.

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* issued in July 2014, is the replacement of IAS 39, *Financial Instruments: Recognition and Measurement*. This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. Another revised version of IFRS 9 was issued in July 2015 mainly to introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

All recognized financial assets that are within the scope of IAS 39 are required to be subsequently measured at amortized cost or fair value.

With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Company is in the process of assessing the potential impacts from the adoption of this standard in its financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is in the process of assessing the potential impacts from the adoption of this standard in its consolidated financial statements.

Clarifications to IFRS 15, Revenue from Contracts with Customers

The amendments add clarification in the following areas:

- Identification of performance obligations;
- Principal versus agent considerations; and
- Application guidance for licensing.

The amendments introduce additional practical expedients for entities making the transition to IFRS 15 on (i) contract modifications that occurred before the beginning of the last period presented and (ii) contracts that were completed at the beginning of the first period presented.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Company is in the process of assessing the potential impacts from the adoption of this amendments in its consolidated financial statements.

IFRS 16, Leases

IFRS 16, *Leases* was issued in January 2016 and supersedes IAS 17, *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Company is in the process of assessing the potential impacts from the adoption of this standard in its consolidated financial statements.

Amendments to IAS 12, Income Tax

IAS 12 provides requirements on the recognition and measurement of current and deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company does not expect significant impacts as a result of these amendments.

Amendments to IAS 7, Statements of Cash Flows

The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company does not expect significant impacts a result of these amendments.

Annual Improvements 2014-2016

The annual improvement cycle 2014-2016 makes amendments to the following standards:

- IFRS 12, *Disclosure of Interests in Other Entities*, clarification of the scope of the standard, establishes that the entity need not provide summarized financial information for the interests in subsidiaries, associates or joint ventures that are classified, or include a group for disposal that is classified, as held for sale (In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, effective for annual periods beginning on or after January 1, 2017, with retrospective application.

- IFRS 1, *First-time Adoption of International Financial Reporting Standards*, elimination of short-term exemptions for first-time adopters, effective for annual periods beginning on or after January 1, 2018.

- IAS 28, *Investments in Associates and Joint Ventures*, the amendments clarify that the option for the venture capital organization and other similar entities to measure investments in associates and joint ventures at fair value through other comprehensive results is available separately for each associate or joint venture, and that the choice must be made at the initial recognition of the associate or joint business, effective for annual periods beginning on or after January 1, 2018, with retrospective application.

The Company does not expect significant impacts as a result of these amendments.

Amendments to IFRS 2, Share-based Payment

The amendments to IFRS 2, *Share-based Payment*, clarify the classification and measurement of share-based payment transactions. The amendments contains clarifications and amendments address to the accounting for cash-settled share-based payment transactions; classification of share-based payment transactions with net settlement features; and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. These amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The amendments apply prospectively.

The Company does not expect significant impacts as a result of these amendments.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that when the entity pays or receives consideration in advance in a foreign currency, the date of the transaction for determining the exchange rate to be used in the initial recognition of the related asset, expense or income is the date of the anticipated consideration, i.e. when the advance payment or the income received in advance of the liability was recognized.

These amendments apply for annual periods beginning on or after January 1, 2018 and the entities may choose to apply either retrospectively or prospectively. The Company does not expect significant impacts as a result of these changes.

(3) Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost (see note 5).

Profits and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of profit and loss and other comprehensive income from the acquisition date to the disposal date.

Where necessary, subsidiaries' financial statements are adjusted to align their accounting policies with the Company's consolidated accounting policies.

ii. Transactions eliminated in consolidation

Significant intercompany balances and transactions, and any unrealized gains and losses arising from transactions between consolidated companies have been eliminated in preparing these consolidated financial statements.

iii. Business combinations

Business combinations are accounted for using the acquisition method. For each business combination, any non-controlling interest in the acquiree is valued either at fair value or according to the proportionate interest in the acquiree's identifiable net assets.

In a business combination, the Company evaluates the assets acquired and the liabilities assumed for proper classification and designation according to the contractual terms, economic circumstances and relevant conditions at the acquisition date.

Goodwill is originally valued at cost, and represents any excess of the transferred consideration over the net assets acquired and liabilities assumed. If the net amount of identifiable acquired assets and assumed liabilities as of the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the fair value of the prior shareholding of the acquirer in the acquired entity (if any), any excess is immediately recognized in the consolidated statement of profit and loss and other comprehensive income as a bargain purchase gain.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Company incurs related to a business combination are expensed as incurred.

Certain contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit and loss.

b) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain and loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for interest and principal payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

ii. Translation of foreign operations

Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, of foreign operations whose functional currency differs from the reporting currency, are translated into Mexican pesos at the exchange rates at the reporting date. Income and expenses are translated to pesos at the average exchange rate of the period of the transactions.

Foreign currency differences associated with translating foreign operations into the reporting currency (Mexican peso) are recognized in other comprehensive income, and presented in the foreign currency translation reserve in stockholders' equity.

Foreign exchange gains and losses arising from amounts receivable or payable to a foreign operation, whose settlement is neither planned nor likely in the foreseeable future, are considered part of a net investment in a foreign operation and are recognized under the "other comprehensive income" account, and presented within stockholders' equity in the foreign currency translation reserve. For the years ended December 31, 2016, 2015 and 2014 the Company did not enter into such transactions.

c) Financial instruments

i. Non-derivative financial assets

Non-derivative financial assets of the Company include cash and cash equivalents, investment in securities (financial assets designated at fair value through profit or loss and financial assets held to maturity), trade receivable and other receivables.

The Company initially recognizes accounts receivable and cash equivalents on the date that they arise. All other financial assets (including assets measured at fair value through profit and loss) are initially recognized on the trading date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position solely if the Company has a legal right to offset the amounts and intends either to settle them on a net basis of financial assets and liabilities or otherwise realize the asset and settle the liability simultaneously.

Financial assets valued at fair value through profit and loss

A financial asset is presented at fair value through profit and loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment or risk management policy. Costs attributable to the acquisition or issue of such financial assets are recognized in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are debt instruments that the Company has the intention and ability to hold to maturity. Held-to-maturity financial assets are originally recognized at fair value plus any directly attributable transaction costs.

Subsequently to initial recognition, held-to-maturity financial assets are measured at their amortized cost by using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity financial assets would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two years.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income or cost over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date, which are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost. Receivables comprise trade and other receivables.

ii. Non-derivative financial instrument liabilities

Debt and/or equity instruments are classified as financial liabilities or as equity according to the substance of the contractual agreement and the definitions of liability and equity.

All financial instrument liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial instrument liability when its contractual obligations are met, cancelled or expire.

The Company has the following non-derivative financial instrument liabilities: short-term and long-term debt, and trade and other payables and accounts payable to related parties.

The aforementioned financial liabilities are originally recognized at fair value, plus costs directly attributable to the transaction. Subsequently, these financial liabilities are measured at amortized cost during their contractual term.

iii. Derivative financial instruments

Derivative financial instruments entered into for fair value hedging or for trading purposes are initially recognized at fair value; any attributable transaction costs are recognized in profit and loss as incurred. Government grants are recognized initially as a liability, and subsequently recognized to profit and loss as the related obligation is settled. Subsequent to the initial recognition, such derivative financial instruments are measured at fair value, and changes in such value are immediately recognized in profit and loss unless the derivative is designated and is effective as a hedging instrument, in which case, its recognition in profit and loss will depend on the nature of the hedging.

Fair value of derivative financial instruments that are traded in recognized financial markets is based on quotes issued by these markets; when a derivative financial instrument is traded in the "over the counter" market, the fair value is determined based on internal models and market inputs accepted in the financial environment.

The Company analyzes if there are embedded derivatives that should be segregated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as those of the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair value of the separable embedded derivatives are immediately recognized in profit and loss.

The Company enters into derivative financial instruments, which are designated as fair value hedges for its exposure to commodity price risks (*commodities*) resulting from its operating activities. Derivative financial instruments that do not meet the requirements for hedge accounting treatment are accounted for as trading derivative financial instruments.

On initial designation of the derivative as a hedging instrument, the Company formally documents the relationship between hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, and the methods that will be used to assess the prospective and retrospective effectiveness of the hedging. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80 – 125 percent.

If the hedging instrument no longer meets the criteria for the hedging accounting treatment, expires or is sold, terminated or exercised, or the designation is revoked, then hedging accounting treatment is discontinued prospectively. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

iv. Capital stock

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Stock repurchase

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for repurchase of shares. When treasury shares are sold or are re-issued subsequently, the amount received as well as the resulting surplus or deficit on the transaction is recognized in equity.

d) Property, plant and equipment

i. Recognition and measurement

Property, plant and equipment, except for land, are recorded at acquisition cost less accumulated depreciation and any accumulated impairment losses. Land is measured at the acquisition costs less any accumulated impairment losses.

Acquisition cost includes the purchase price, as well as any cost directly attributable to the acquisition of the asset, including all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

When components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognized at the time of disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses on the sale of an item of property, plant and equipment are determined by comparing the proceeds from the sale with the carrying amount of property, plant and equipment, and are recognized net under "other income (expenses)" in profit and loss for the year.

ii. Subsequent costs

The replacement cost of an item of property, plant and equipment is capitalized if the future economic benefits associated with the cost are expected to flow to the Company and the related cost is reliably determined. The carrying amount of the replaced item is written off from the accounting records. Maintenance and repair expenses related to property, plant and equipment are expensed as incurred.

iii. Depreciation

Depreciation is calculated on the cost of the asset less its residual value, using the straight line method, based on the estimated useful life of the assets. Depreciation is recognized in profit and loss beginning from the time when the assets are available for use.

Below are the estimated useful lives for 2016, 2015 and 2014:

	Average useful Life
Buildings	46
Machinery and Equipment	19
Vehicles	11
Computers	8
Furniture	11

The Company has estimated the following residual values as of December 31, 2016, 2015 and 2014:

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

e) Goodwill

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

f) Biological assets

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

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

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

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

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

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

g) Leased assets

Operating leases entered into by the Company are not recognized in the Company's statement of financial position. Operating lease rentals paid by the Company are recognized in profit and loss using the straight-line method over the lease term, even though payments may not be made on the same basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease term, assets are depreciated over the shorter of the lease term or their useful lives. As of December 31, 2016, 2015 and 2014, the Company has not entered into any significant finance lease agreements.

h) Inventories

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

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

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

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

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

i) Impairment

i. Financial assets

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

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

The Company considers evidence of impairment for financial assets valued at amortized cost (accounts receivables and held-to-maturity investment securities) both individually and collectively. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of probabilities of default, timeliness of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are greater or less than those suggested by historical trends.

An impairment loss related to a financial asset valued at amortized cost is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against receivables or held-to-maturity investment securities. Interest on impaired assets continues being recognized. When a subsequent event that occurs after impairment has been recognized, it results in the reduction of the loss amount; this reduction is reversed through profit and loss.

ii. Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, biological assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated or cash generating units, as the lowest between its value in use and the fair value less cost of sale. Goodwill and indefinite-lived intangible assets are tested annually for impairment on the same dates.

The Company defines the cash generating units and also estimates the periodicity and cash flows that they should generate. Subsequent changes in the group of cash-generating units, or changes in the assumptions that support the cash flow estimates or the discount rate could impact the carrying amounts of the respective asset.

The main assumptions for developing estimates of recoverable amounts requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate its present value. The Company estimates cash flow projections considering current market conditions, determination of future prices of goods and volumes of production and sales. In addition, for the purposes of the discount and perpetuity growth rates, the Company uses indicators of market and expectations of

long-term growth in the markets in which it operates.

The Company estimates a discount rate before taxes for the purposes of the goodwill impairment test that reflects the risk of the corresponding cash-generating units and that enables the calculation of present value of expected future cash flows, as well as to reflect risks that were not included in the cash flow projection assumptions and premises. The discount rate that the Company estimates is based on the weighted average cost of capital. In addition, the discount rate estimated by the Company reflects the return that market participants would require if they had made a decision about an equivalent asset, as well as the expected generation of cash flow, time, and risk-and-return profiles.

The Company annually reviews the circumstances which led to an impairment loss arising from cash-generating units to determine whether such circumstances have been changed and that may result in the reversal of previously recognized impairment losses. An impairment loss in respect of goodwill is not reversed. For other long-lived assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if the impairment loss had not been recognized.

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

j) Held-for-sale assets

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

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

k) Other assets

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

The Company owns life insurance policies of some of the former stockholders of Bachoco USA, LLC (foreign subsidiary). The Company records these policies at net cash surrender value which approximates its fair value (see note 16).

l) Employee benefits

The Company grants to its employees in Mexico and abroad, different types of benefits as described below and detailed in note 21.

i. Defined contribution plan

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

ii. Defined benefit plan

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

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

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

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

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

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

iii. Short-term benefits

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

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

iv. Termination benefits from constructive obligations

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

m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When the effect of time value of money is significant, the amount of the provision is the present value of the disbursements expected to be necessary to settle the obligation. The discount rate applied is determined before taxes, and reflects market conditions at the reporting date and takes into account the specific risk of the relevant liability, if any. The unwinding of the present value discount is recognized as a financial cost.

n) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company as a joint operator recognizes, in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to such assets, liabilities, revenues and expenses.

The Company has joint operations derived from the broiler agreements for the development of its biological assets. For such operations, the Company accounts for its biological assets, its obligations derived from technical support, as well as the expenses it incurs with respect to the joint operations. The live poultry produced by the joint operation is ultimately used internally by the Company and may be sold by the Company to third parties. As a result, the joint operation itself does not generate any revenues with third parties.

o) Revenues

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

p) Financial income and costs and dividend income

Financial income comprises interest income from funds invested, fair value changes on financial assets at fair value through profit or loss and foreign currency exchange gains. Interest income is recognized in profit and loss, using the effective interest method. Dividend income is recognized in profit and loss on the date that the Company's right to receive the payment is established.

Financial costs comprise interest expense for borrowings, foreign currency exchange losses and fair value changes on financial assets at fair value through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit and loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Exchange gains and losses are reported on a net basis.

q) Income taxes

Income tax expenses comprise current and deferred tax. Current income taxes and deferred income taxes are recognized in profit and loss provided they do not relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the fiscal year, which can be applied to taxable income from previous years, using tax rates enacted or substantively enacted in each jurisdiction at the reporting date, plus any adjustment to taxes payable with respect to previous years.

Current income tax payable also includes any tax liability arising from the payment of dividends.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for tax purposes. Deferred income tax is not recognized for:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and did not affect either accounting or taxable profit or loss;
- differences related to investments in subsidiaries to the extent that it is probable that the Company is able to control the reversal date, and the reversion is not expected to take place in the near future.
- taxable temporary differences arising from the initial recognition of goodwill.

Deferred income tax is determined by applying the tax rates that are expected to apply in the period in which the temporary differences will reverse, based on the regulations enacted or substantively enacted at the reporting date.

The measurement of deferred income tax assets and liabilities reflect the tax consequences derived from the manner in which the Company expects to recover or settle the carrying amounts of its assets and liabilities.

In determining the amount of current and deferred income tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that the balance for its income tax liabilities are appropriate for all tax years subject to be reviewed by the tax authorities based on its assessment of several factors, including the interpretation of the tax laws and prior experience.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

r) Earnings per share

The Company presents information on basic and diluted earnings per share (EPS) related to its ordinary shares. Basic EPS is computed by dividing the profit and loss attributable to the holders of the Company's common shares by the weighted average number of outstanding ordinary shares during the period, adjusted for treasury shares held. Diluted EPS is determined by adjusting the profit and loss attributable to the holders of the ordinary shares and the outstanding weighted average number of ordinary shares, adjusted for treasury shares held, for the potential dilutive effects of all ordinary shares, including convertible instruments and options on shares granted to employees. At December 31, 2016, 2015 and 2014, the Company has no potentially dilutive shares, for which reason basic and diluted EPS are the same.

s) Segment information

An operating segment is a component of the Company that: i) is engaged in business activities from which revenues and expenses may be obtained and incurred, including revenues and expenses related to transactions with any of the other components of the Company, ii) which results are reviewed periodically by the chief operating decision maker for the purpose of resource allocation and assessment of segment performance, and iii) for which discrete financial information exists.

The Company discloses reportable segments based on operating segments whose revenues exceed 10% of the combined revenues from all segments, whose absolute value of profit or loss exceeds 10% of the combined absolute value of profit or loss from all segments, whose assets exceed 10% of the combined assets from all segments, or that result from the aggregation of two or more operating segments that share similar economic characteristics and meet the aggregation criteria under IFRS (note 2 d).

t) Costs and expenses by function

Costs and expenses in the consolidated statements of profit and loss and other comprehensive income were classified by their function. The nature of costs and expenses is presented in Note 22.

u) Statement of cash flows

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

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

(4) Business and asset acquisitions

Acquisition of assets from breeding farms from Morris Hatchery, Inc. 2013 and 2015

On July 9, 2013 and July 10, 2015, the Company reached agreements to acquire assets from the breeding farms of Morris Hatchery Inc., located in the states of Arkansas and Georgia in the United States of America. These acquisitions mainly consist of poultry equipment and biological assets comprised principally of breeding birds that produce hatching eggs. The acquisitions benefit the Company given that it did not previously have the capacity of breeding birds that produce hatching eggs, which are used internally. The Company concluded that the transactions represented the acquisition of businesses in accordance with IFRS 3.

Below is a summary of the fair value of the net assets acquired as of the acquisition date in conformity with IFRS 3, as well as the purchase price paid. The amounts are final; accordingly, the Company did not utilize the use of the provisional measurement period permitted by IFRS 3.

Acquired assets and identifiable assumed liabilities

	Acquisition value	
	2013	2015
Current and non-current biological assets	\$ 77,237	235,486
Inventories	3,257	300
Property, plant and equipment	11,982	11,581
Other assets	194	-
Acquired assets, net	92,670	247,367
Cash consideration paid	135,450	371,300
Goodwill	\$ (42,780)	(123,933)

The acquisition costs paid by the Company were not material, given that it utilized mostly its own resources in the acquisition. Given that the acquisition was for the benefit of the Company's own internal operations, it is impracticable to determine the amount of revenues or income attributable to the acquired business. Management believes that pro forma revenues and profit for the year, giving effect to the acquisition as of the beginning of the period, do not differ materially from historical revenues and profit for the year reported in the statements of profit or loss and comprehensive income.

(5) Subsidiaries of the Company

A list of subsidiaries and the Company's shareholding percentage in such subsidiaries as of December 31, 2016, 2015 and 2014 are presented below:

Name	Country	Shareholding percentage in subsidiaries		
		December 31,		
		2016	2015	2014
Bachoco, S.A. de C.V.	México	99.99	99.99	99.99
Bachoco USA, LLC. & Subsidiary	U.S.	100.00	100.00	100.00
Campi Alimentos, S.A. de C.V.	México	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	México	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	México	99.99	99.99	99.99
PEC LAB, S.A. de C.V.	México	64.00	64.00	64.00
Aviser, S.A. de C.V.	México	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	México	99.99	99.99	99.99
Secba, S.A. de C.V.	México	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	México	99.99	99.99	99.99
Sepetec, S. A. de C.V.	México	99.99	99.99	99.99
Wii kit RE LTD.	Bermuda	100.00	-	-

The main subsidiaries of the group and their activities are as follows:

- Bachoco, S.A. de C.V. (BSACV) (includes four subsidiaries which are 51% owned, and over which BSACV has control). BSACV is engaged in breeding, processing and marketing poultry goods (chicken and eggs).
- Bachoco USA, LLC. holds the shares of OK Industries, Inc. and, therefore, all operations controlled by the Company in the United States of America. Effective January 1, 2016, the Company merged O.K. Industries, Inc., O.K. Farms, Inc., O.K. Foods, Inc. and Ecology Management, Inc. into one surviving entity, O.K. Foods, Inc. The primary activities of Bachoco USA, LLC and its subsidiary are comprised of the production of chicken products and hatching eggs, mostly marketed in the United States of America and, to a lesser extent, in other foreign markets.
- Campi Alimentos, S.A. de C.V., is engaged in producing and marketing balanced animal feed, mainly for sales to third parties.
- The main activity of Bachoco Comercial, S.A. de C.V. and Induba Pavos, S.A. de C.V. is the distribution of chicken, turkey and beef value-added products.
- PEC LAB, S.A. de C.V. is the holding of the shares of Pecuaris Laboratorios, S.A. de C.V. Its main activity consists of the production and distribution of medicines and vaccines for animal consumption.
- Aviser, S.A. de C.V., Operadora de Servicios de Personal, S.A. de C.V., Secba, S.A. de C.V., Servicios de Personal Administrativo, S.A. de C.V. and Sepetec, S.A de C.V. are engaged in providing administrative and operating services rendered to their related parties.
- On December 2016 Wii kit RE LTD. was constituted in Bermuda as a subsidiary of the Company with 100% of the shareholding. Is a Class I reinsurance company that provides insurance coverage to its affiliates.

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

(6) Operating segments

Reportable segments have been determined based on a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of chicken and egg operations. The information included in the

"Others" segment corresponds to operations of swine, balanced feed for animal consumption and other by-products that do not meet the quantitative thresholds to be considered as reportable segments.

Inter-segment pricing is determined on an arm's length basis comparable to those which would be used with or between independent parties in comparable transactions. The accounting policies of operating segments are as those described in note 3 s).

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

a) Operating segment information

	Year ended December 31, 2016		
	Poultry	Other	Total
Net revenues	\$ 46,852,482	5,167,821	52,020,303
Cost of sales	38,285,367	4,349,704	42,635,071
Gross profit	8,567,116	818,116	9,385,232
Finance income	840,640	128,534	969,174
Finance costs	149,319	22,835	172,154
Income before taxes	5,077,042	517,554	5,594,596
Income taxes	1,494,918	148,515	1,643,433
Net income attributable to controlling interest	3,578,049	368,585	3,946,634
Property, plant and equipment, net	13,478,294	1,602,811	15,081,105
Goodwill	396,861	88,016	484,877
Total assets	40,035,990	5,054,476	45,090,466
Total liabilities	11,909,391	1,464,901	13,374,292
Purchases of property, plant and equipment	2,226,493	233,251	2,459,744
Depreciation and amortization	840,624	85,124	925,748

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

	Year ended December 31, 2015		
	Poultry	Other	Total
Net revenues	\$ 41,789,451	4,439,598	46,229,049
Cost of sales	32,906,801	3,940,707	36,847,508
Gross profit	8,882,649	498,892	9,381,541
Income before taxes	5,196,883	303,197	5,500,080
Income taxes	1,590,892	89,668	1,680,560
Net income attributable to controlling interest	3,599,728	213,112	3,812,840
Property, plant and equipment, net	11,805,132	1,382,999	13,188,131
Goodwill	366,280	88,015	454,295
Total assets	36,085,954	4,360,624	40,446,578
Total liabilities	11,325,636	1,341,564	12,667,200
Purchases of property, plant and equipment	1,646,968	177,541	1,824,509
Depreciation and amortization	694,502	74,768	769,270

	Poultry revenues	Other revenues
Total revenue	\$ 41,796,064	4,484,348
Intersegments	(6,613)	(44,750)
Net revenues	\$ 41,789,451	4,439,598

	Year ended December 31, 2014		
	Poultry	Other	Total
Net revenues	\$ 37,994,654	3,784,433	41,779,087
Cost of sales	29,329,056	3,165,918	32,494,974
Gross profit	8,665,598	618,515	9,284,113
Income before taxes	5,214,590	374,186	5,588,776
Income taxes	1,546,518	109,592	1,656,110
Net income attributable to controlling interest	3,662,769	264,157	3,926,926
Property, plant and equipment, net	11,017,198	1,037,556	12,054,754
Goodwill	261,749	88,015	349,764
Total assets	31,786,586	3,056,542	34,843,128
Total liabilities	9,578,370	902,708	10,481,078
Purchases of property, plant and equipment	1,128,331	112,785	1,241,116
Depreciation and amortization	738,663	66,987	805,650

	Poultry	Other
	revenues	revenues
Total revenue	\$ 37,995,157	4,433,379
Intersegments	(503)	(648,946)
Net revenues	\$ 37,994,654	3,784,433

b) Geographical information

When submitting information by geographic area, revenue is classified based on the geographic location where the Company's customers are located. Segment assets are classified in accordance with their geographic location. Geographical information for the "Others" segment is not included below because the operations are carried out entirely within Mexico.

	Year ended December 31, 2016			
	Domestic	Foreign	Operations	Total
	poultry	poultry	between	
			geographical	
			segments	
Net revenues	\$ 33,414,262	13,496,189	(57,969)	46,852,482
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	902,662	765,881	-	1,668,543
Property, plant and equipment, net	10,481,074	2,997,221	-	13,478,294
Goodwill	212,833	184,028	-	396,861

	Year ended December 31, 2015			
	Domestic	Foreign	Operations	Total
	poultry	poultry	between	
			geographical	
			segments	
Net revenues	\$ 30,686,151	11,159,936	(56,637)	41,789,451
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	795,157	638,974	-	1,434,131
Property, plant and equipment, net	9,682,701	2,122,431	-	11,805,132
Goodwill	212,833	153,447	-	366,280

	Year ended December 31, 2014			
	Domestic poultry	Foreign poultry	Operations between geographical segments	Total
Net revenues	\$ 29,556,202	8,955,964	(517,512)	37,994,654
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	791,256	317,977	-	1,109,233
Property, plant and equipment, net	9,386,883	1,630,315	-	11,017,198
Goodwill	212,833	48,916	-	261,749

c) Major Customers

In Mexico, the Company's products are traded among a large number of customers, without significant concentration with any specific customer. Therefore, in 2016, 2015 and 2014, no customer represented over 10% of the Company's total revenues.

In the United States of America, as of December 31, 2016 the Company has transactions with The Sygma Network, Inc. representing 9% of total sales outside of Mexico. As of December 31, 2015 and 2014, the Company has transactions with Ozark Mountain Poultry, Inc., representing 19% and 24% of total sales outside of Mexico.

(7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2016, 2015 and 2014 are as follows:

	December 31,		
	2016	2015	2014
Cash and banks	\$ 9,890,007	4,774,420	3,282,730
Investments with maturities less than three months	4,771,961	9,246,071	7,745,324
Cash and cash equivalents	14,661,968	14,020,491	11,028,054
Restricted cash	19,236	25,771	8,008
Total cash and cash equivalents and restricted cash	\$ 14,681,204	14,046,262	11,036,062

Restricted cash corresponds to the minimum margin required by the intermediary related to the Company's derivative financial instruments on commodities in order to meet future commitments that may stem from adverse market movements affecting prices on the open positions as of December 31, 2016, 2015 and 2014.

(8) Financial instruments and risk management

The Company is exposed to market risks, liquidity risks and credit risks for the use of financial instruments, for which reason it exercises its risk management.

This note presents information on the Company's exposure to each one of the aforementioned risks, as well as the Company's objectives, policies and processes for the measurement and management of financial risks.

Risk management framework

The philosophy adopted by the Company seeks to minimize risks and, therefore maximize business stability, focusing decisions on creating an optimum combination of products and assets that produce a risk – return ratio more in agreement with the risk profile of its stockholders.

In order to establish a clear and optimum organizational structure with respect to risk management, a Risk Committee has been established which is the specialized body in charge of defining, proposing, approving and implementing the objectives, policies, procedures, methodologies and strategies, as well as the determination of the maximum limits of exposure to risk and contingency plans.

At December 31, 2016, 2015 and 2014, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2016, 2015 and 2014, do not meet the requirements to be treated as hedges for accounting purposes.

Management by type or risk

a) Categories of financial assets and liabilities

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

	December 31,		
	2016	2015	2014
Financial assets			
Cash and cash equivalents	\$ 14,681,204	14,046,262	11,036,062
Investment in securities at fair value through profit or loss	970,292	1,242,614	910,519
Investments held to maturity	65,509	52,572	56,252
Accounts receivable	2,524,942	1,862,250	1,952,039
Due from related parties	148,855	194,522	1,929
Long-term receivables	161,690	128,169	104,495
Derivative financial instruments	8,308	1,244	6,669
Financial liabilities			
Financial debt	\$ (4,047,937)	(4,127,010)	(2,450,452)
Trade payables, sundry creditors and expenses payable	(4,095,089)	(4,088,989)	(3,530,546)
Due to related parties	(189,966)	(165,628)	(127,033)

b) Credit risk

Credit risk is defined as the potential loss of a portfolio of an amount owed to the Company due to lack of payment from a debtor, or for breach by a counterparty with which derivative financial instruments and investment in securities transactions are conducted.

The risk management process contemplates the use of derivative financial instruments, which are exposed to a market risk, but are also to counterparty risk.

Measurement and monitoring of counterparty risk

In terms of valuation and monitoring of over the counter (OTC) derivative financial instruments and investments in securities, the Company currently measures its counterparty risk by identifying the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA).

For investments in securities denominated in Mexican pesos, the financial instruments valuation models used by price vendors incorporate market movements and credit quality of issuers, thereby implicitly including the counterparty risk of the transaction in the fair value determination; therefore, the position in investment in securities includes the counterparty risk and no additional adjustment is carried out. The price of the instruments obtained from the price vendor is the mid-point between the bid price and the ask price (the "mid-price"). As of December 31, 2016, 2015 and 2014, the balance of held to maturity investments is \$65,509, \$52,572 and \$56,252, respectively.

Investments in securities denominated in a foreign currency, not listed in Mexico, are recorded at prices contained in the broker's statements of account. The Company validates these market prices using Bloomberg, which incorporate market movements and the credit quality of issuers; thereby implicitly including the counterparty risk of the transaction and no related adjustment is carried out. The prices obtained from Bloomberg are mid prices.

Trade accounts receivable and other accounts receivable measurement and monitoring

It is the policy of the Company to establish an allowance for doubtful accounts to cover the balances of accounts receivable that are not likely to be recovered. To set the required allowance, the Company considers historical losses, assesses current market conditions, as well as customers' financial conditions, accounts receivable in litigation, price differences, portfolio aging and current payment patterns.

The impairment assessment of accounts receivable is performed on a collective basis, as there are no accounts with individually significant balances. The Company's products are marketed to a large number of customers without, except as described in note 6 c, any significant concentration with a specific customer. As part of the objective evidence that an account receivable portfolio is impaired, the Company considers past experiences with respect to collection, increases in the number of overdue payments in the portfolio exceeding the average loan period, as well as observable changes in national and local economic conditions that correlate to defaults.

The Company has a credit policy under which each new customer is analyzed individually in terms of its creditworthiness before offering it payment terms and conditions. The Company's review includes internal and external assessments, and in some cases, bank references and a search in the Public Registry of Properties. For each customer, purchase limits are established, which represent the maximum credit amount. Customers that do not meet the Company's credit references can solely conduct transactions in cash or through advance payments.

The allowance for doubtful accounts includes trade accounts receivable that are impaired, which amount to \$130,290, \$103,057 and \$110,462 as of December 31, 2016, 2015 and 2014, respectively. The reconciliation of movements of the allowance for doubtful accounts, and the analysis of past-due accounts receivable but not impaired, are presented in note 9.

The Company receives credit enhancements on credit lines granted to its clients, which consist of real and personal property, such as land, buildings, houses, vehicles, letters of credit, cash deposits and others. As of December 31, 2016, 2015 and 2014, the fair value of such credit enhancements, determined by an appraisal at the time the credit lines were granted, is \$570,546, \$563,012 and \$589,430 respectively.

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

Investments

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

Financial guarantees granted

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

Exposure to credit risk

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

	December 31,		
	2016	2015	2014
Cash and cash equivalents	\$ 14,681,204	14,046,262	11,036,062
Investments in securities at fair value through profit or loss	970,292	1,242,614	910,519
Investments held to maturity	65,509	52,572	56,252
Accounts receivable net of guarantees received	2,264,941	1,621,929	1,469,033
Derivative financial instruments	8,308	1,244	6,669
	<u>\$ 17,990,254</u>	<u>16,964,621</u>	<u>13,478,535</u>

c) Liquidity risk

Liquidity risk is defined as the potential loss stemming from the impossibility to renew liabilities or enter into other liabilities under normal terms, the early or forced sale of assets or the need to grant unusual discounts in order to meet obligations, or by the fact that a position cannot be disposed of, acquired or covered promptly through the establishment of an equivalent contrary position.

Liquidity risk management process considers the management of the assets and liabilities included in the consolidated statements of financial position (Assets Liabilities Management - ALM) in order to anticipate funding difficulties because of extreme events.

Monitoring

The Company's areas of risk management and financial planning measure, monitor and report to the Risk Committee liquidity risks associated with the ALM and prepare limits for the authorization, implementation and operation thereof, as well as contingent action measures in case of liquidity requirements.

Liquidity risk caused by differences between current and projected cash flows at different dates are measured and monitored, considering all asset and liability positions of the Company denominated in local and foreign currency. Similarly, funding diversification and sources to which the Company has access are evaluated.

The Company quantifies the potential loss arising from early or forced sale of assets or sale at unusual discounts to meet its obligations in a timely manner, as well as by the fact that a position cannot be disposed of, acquired or covered timely through the establishment of a contrary equivalent position.

Liquidity risk monitoring considers a liquidity gap analysis, scenarios for lack of liquidity and use of alternative sources of financing.

Below are the contractual maturities of the financial liabilities, including estimated interest payments. As of the date of the consolidated financial statements, there are no financial instruments which have been offset or recognized positions that are subject to offsetting rights.

Maturity table

	December 31, 2016		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$ 4,095,089	-	-
Due to related parties	189,966	-	-
Variable-rate maturities			
In U.S. dollars	1,444,800	-	-
In pesos	1,652,725	950,412	-
Interest	142,100	136,859	-
Total financial liabilities	\$ 7,524,680	1,087,271	-
	December 31, 2015		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$ 4,088,989	-	-
Variable-rate maturities			
In U.S. dollars	1,462,850	-	-
In pesos	169,033	2,495,127	-
Interest	113,840	98,840	-
Total financial liabilities	\$ 5,834,712	2,593,967	-

	December 31, 2014		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$ 3,530,546	-	-
Variable-rate maturities			
In U.S. dollars	221,250	-	-
In pesos	576,732	152,470	1,500,000
Interest	73,377	153,300	78,353
Total financial liabilities	\$ 4,401,905	305,770	1,578,353

At least on a monthly basis, management evaluates and advises the Board of Directors on its liquidity. As of December 31, 2016, the Company has evaluated that it has sufficient resources to meet its obligations in the short and long term; therefore, it does not consider having liquidity gaps in the future and it will not be necessary to sell assets to pay its debts at unusual discounts or at out-of-market prices.

d) Market risk

Market risk is defined as the potential loss arising from the portfolio of derivative financial instruments and investment in securities for changes in risk factors that affect the valuation of short or long positions. In this sense, the uncertainty of future losses resulting from changes in market conditions (interest rates, foreign currency, prices of commodities, among others), which directly affects movements in the price of both assets and liabilities, is detected.

The Company measures, monitors and reports all financial instruments subject to market risk, using sensitivity measurement models to show the potential loss associated with movements in risk variables, according to different scenarios on rates, prices and types of change during the period.

Monitoring

Sensitivity analyses are prepared at least monthly and are compared with the limits established. Any excess identified is reported to the Risk Committee.

Stress tests

At least monthly, the Company conducts stress tests calculating the value of the portfolios and considering changes in risk factors observed in historical dates of financial stress.

i. Commodities price risk

With respect to risks related to commodities designated in a formal hedging relationship, the Company seeks protection against downward variations in the agreed-upon price of corn and/or sorghum with the producer, which may represent an opportunity cost as there are lower prices in the current market upon receiving the inventory, and to hedge the risk of a decline in prices between the receipt date and that of inventory consumption.

Purchases of corn and/or sorghum are formalized through an agreement denominated "Forward buy-sell agreement", which has the following characteristics:

- Transaction date
- Number of agreed-upon tons
- Harvest, state and agricultural cycle from which the harvest comes
- Price of product per ton, plus quality award or penalty

Agricultural agreements that result in firm commitments are linked to two corn and/or sorghum agricultural cycles, and in contracting purchases, both contracting cycles and dates are itemized as follows:

- Fall-winter Cycle - The registration window period is at the discretion of the Agency of Services for Distribution and Development of Agricultural Markets (ASERCA, for its Spanish acronym), which is usually between December and March, while the fall-winter cycle harvest period takes place during May, June and July. However, corn and/or harvest could lengthen up to one month or several months, depending on the weather conditions, such as drought and frost.
- Spring-summer Cycle - The registration window period is at the discretion of ASERCA; the spring-summer cycle usually takes place during the July and August and the harvest depends on each state of the country and is highly variable.

For contracts entered into through the commercialization support scheme with Agriculture Trust Funds (FIRA for its Spanish acronym), there are no purchase periods established as this program is focused on selling excess crops that weren't sold through the contract agriculture program. Normally these purchases are made at the end of each harvest cycle.

As of December 31, 2016, 2015 and 2014, the Company has economic hedging positions comprised of corn long "puts" with ASERCA, maturing in March, July, September and December 2017, 2016 and 2015. The gain on valuation of these instruments is \$3,189, \$5,601, and \$5,518, in 2016, 2015 and 2014, respectively, recorded within cost of sales.

As of December 31, 2016, and 2015 the Company maintains a contractual agreement with ASERCA in which the Company will pay 80% (during 2014 was 55%) of the option premium and ASERCA will pay the remaining 20% (during 2014 was 45%). In case the option is In the Money (Strike>Forward), the Company will recover the 80% portion paid (during 2014, the recovery rate was 55%) and an additional 10% (during 2014, the portion paid was 22.5%) which is equivalent to 50% of the portion paid by ASERCA. Due to its nature and in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, the portion paid by ASERCA must be recognized as income over the term of the instrument in order to match it against the costs it is intended to offset, on a systematic basis. The effect of such benefit as of December 31, 2016, 2015 and 2014 is \$67,080 (3,250 thousand dollars), \$57,051 (3,315 thousand dollars) and \$280,058 (18,987 thousand dollars), respectively.

As of December 31, 2016 and 2015, the Company has no outstanding long puts, which are used from time to time by the Company as economic hedges in connection with future purchases of sorghum with FIRA. As of December 31, 2014, the Company has economic hedging positions in the form of outstanding sorghum long puts entered into with FIRA with maturities in March 2015. Such instruments gave rise to a gain on valuation of \$2,028, which was recorded to cost of sales for the year ended December 31, 2014.

Due to the above, the Company has a contractual agreement with FIRA in which the Company will absorb 50% of the premium payment option and FIRA the remaining 50%. Because of its nature and as established by IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, the portion paid by FIRA should be recognized as income over the periods the related costs are incurred, on a systematic basis. The effect of such benefit for the years ended December 31, 2016, 2015 and 2014 was \$0, \$0 and \$5,281 (358 thousand dollars), respectively.

With respect to the risk in commodities that are not designated in a formal hedging relationship and to which the Company is exposed, sensitivity tests on corn and sorghum futures agreements are entered into, considering different (bullish and bearish) scenarios. These results can be seen in paragraph g) of this note.

ii. Chicken price risk

The Company is exposed to financial risks mainly related to changes in the price of chicken. The Company presently does not anticipate that the price of chicken decreased to a level that represents a risk to the Company in the future; therefore, as of December 31, 2016, 2015 and 2014 it has not entered into any derivative financial instrument or other agreement for managing the risk related to a decrease in chicken price.

The Company reviews chicken prices frequently in order to evaluate the need of having a financial instrument to manage the risk.

iii. Exchange risk

The Company is exposed to the effects of exchange rate volatility, mainly on in relation to Mexican pesos/dollars exchange rates, on the Company's assets and liabilities, including: investments in securities, derivative financial

instruments hedging commodities, which are denominated in a currency other than the Company's functional currency. In this regard, the Company has implemented a sensitivity analysis to measure the effects that currency risk may have over the assets and liabilities described.

The Company protects itself from exchange rate risk through economic hedging with derivative financial instruments, which cover a percentage of its estimated exposure to exchange rate volatility in relation to projected sale and purchases transactions. All instruments entered into as economic hedges of foreign exchange risk have maturities of less than one year from the contract date.

As of December 31, 2016 and 2015 the Company entered into derivative financial instrument positions as economic hedges to cover exchange rate risks. As of December 31, 2014, the Company did not have any such positions.

iv. Foreign currency position

The Company has financial instrument assets and liabilities denominated in foreign currency on which there is an exposure to currency risk.

Below is the foreign currency position that the Company has as of December 31, 2016, 2015 and 2014.

	December 31,					
	2016		2015		2014	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos	Dollars	Mexican Pesos
Assets						
Cash and cash equivalents	\$ 126,395	2,608,800	66,929	1,151,844	1,866	27,526
Investment in securities at fair value through profit or loss	27,863	575,085	28,549	491,325	24,849	366,527
Accounts receivable	2,488	51,350	245	4,210	810	11,948
Total assets	<u>156,746</u>	<u>3,235,235</u>	<u>95,722</u>	<u>1,647,379</u>	<u>27,525</u>	<u>406,001</u>
Liabilities						
Trade accounts payable	(103,854)	(2,143,547)	(141,819)	(2,440,708)	(126,655)	(1,868,163)
Financial debt	(70,000)	(1,444,800)	(85,000)	(1,462,850)	(15,000)	(221,250)
Total Liabilities	<u>(173,854)</u>	<u>(3,588,347)</u>	<u>(226,819)</u>	<u>(3,903,558)</u>	<u>(141,655)</u>	<u>(2,089,413)</u>
Net liability position	<u>\$ (17,108)</u>	<u>(353,112)</u>	<u>(131,097)</u>	<u>(2,256,179)</u>	<u>(114,130)</u>	<u>(1,683,412)</u>

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

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

	Average exchange rate			Spot exchange rate at		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Dollars	\$ 18.68	15.87	13.30	20.64	17.21	14.75

The exchange rate at the date of issuance of the consolidated financial statements is \$18.67.

v. Interest rate risk

The Company is exposed to fluctuations in rates for certain financial instruments, such as investments, bank loans and debt securities. This risk is managed taking into account market conditions and the criterion of its Risk Committee and Board of Directors.

Interest rate fluctuations impacted mainly bank loans by changing either their fair value (fixed rate debt) or the future cash flows (variable rate debt). Management does not have a formal policy to determine how much of the Company's exposure should be at fixed or variable rate. However, at the time of obtaining new loans,

management uses its judgment considering technical analyses and the market's forecasts to decide whether fixed or variable rate instruments would be more favorable during the periods of such instruments.

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

e) Financial instruments at fair value

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

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

Liabilities recorded at amortized cost	Carrying amount		Fair value		Carrying amount		Fair value	
	2016		2015		2014			
	Financial debt	\$ 4,047,937	4,062,999	4,127,010	4,141,473	2,450,452	2,501,299	

f) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of the financial assets and liabilities that have standard terms and conditions and are traded in active liquid markets, which are determined by reference to quoted market prices (market approach), therefore, these instruments are considered Level 1 hierarchy according to the classification of fair value hierarchy described in note 2 b).
- The fair value of derivative financial instruments of the Company (Commodities) is determined on the futures prices of the Chicago Stock Exchange, so these instruments are considered Level 2 hierarchy.

The following table summarizes financial instruments carried at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2016				
Investment in securities at fair value through profit or loss	\$ 970,292	-	-	970,292
Derivative financial instruments	-	8,308	-	8,308
	<u>\$ 970,292</u>	<u>8,308</u>	<u>-</u>	<u>978,600</u>
As of December 31, 2015				
Investment in securities at fair value through profit or loss	\$ 1,242,614	-	-	1,242,614
Interest rate derivative financial instruments	-	195	-	195
Derivative financial instruments	-	1,244	-	1,244
	<u>\$ 1,242,614</u>	<u>1,439</u>	<u>-</u>	<u>1,244,053</u>
As of December 31, 2014				
Investment in securities at fair value through profit or loss	\$ 910,519	-	-	910,519
Derivative financial instruments	-	6,669	-	6,669
	<u>\$ 910,519</u>	<u>6,669</u>	<u>-</u>	<u>917,188</u>

Information regarding the hierarchy of fair value measurements related to financial liabilities that are not carried at fair value, but for which disclosures are required, is summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2016				
Financial debt - bank institutions	\$ -	(2,550,469)	-	(2,550,469)
Financial debt – debt securities	(1,512,530)	-	-	(1,512,530)
	<u>\$ (1,512,530)</u>	<u>(2,550,469)</u>	<u>-</u>	<u>(4,062,999)</u>
As of December 31, 2015				
Financial debt - bank institutions	\$ -	(2,626,327)	-	(2,626,327)
Financial debt – debt securities	(1,515,146)	-	-	(1,515,146)
	<u>\$ (1,515,146)</u>	<u>(2,626,327)</u>	<u>-</u>	<u>(4,141,473)</u>
As of December 31, 2014				
Financial debt - bank institutions	\$ -	(987,094)	-	(987,094)
Financial debt – debt securities	(1,514,205)	-	-	(1,514,205)
	<u>\$ (1,514,205)</u>	<u>(987,094)</u>	<u>-</u>	<u>(2,501,299)</u>

g) Quantitative sensitivity measurements

Following are sensitivity analyses for the most significant risks to which the Company is exposed as of December 31, 2016, 2015 and 2014. These analyses represent the scenarios that management believes are reasonably possible of occurring in future periods and were performed in accordance with the policies of Risk Committee.

i. Derivative Financial Instruments related to exchange rate and commodities risks

As of December 31, 2016, the Company has taken positions on derivative financial instruments to hedge exchange rate risks and commodities.

A 15% increase in the Mexican peso with respect to the U.S. dollar as of the end of 2016 and 2015 would have resulted in a valuation gain of \$41,235 and \$0 on the fair value of the Company's exchange rate derivative financial instruments position. On the other hand, a decrease of 15% in the aforementioned rate would have resulted in an additional valuation loss during the respective periods of \$47,639 and \$10,575. As of December 31, 2014, the Company did not have any such positions.

The following table shows the Company's sensitivity to an increase and decrease of 15% for 2016 and 2015 and 7.5% for 2014 in the "bushell" price of corn and short ton price of soybeans.

	<u>Effect of Increase</u>			<u>Effect of Decrease</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Loss (profit) for the year	\$ (9,085)	(44,589)	(4,966)	\$ 8,785	56,753	12,377

ii. Interest rate risk

As described in Note 17, the Company has financial debt denominated in pesos and dollars, which bear interest at variable rates based on TIE and LIBOR, respectively.

The following table shows the Company's sensitivity of an increase and decrease of 50 basis points for 2016, 2015 and 2014, in the variable rates to which the Company is exposed.

	Effect of Increase			Effect of Decrease		
	2015	2015	2014	2015	2015	2014
Loss (profit) for the year	\$ 15,385	17,375	12,111	\$ (15,385)	(17,375)	(12,111)

iii. Exchange risk

As of December 31, 2016, the Company's net monetary liability position in foreign currency was \$353,112.

The following table shows the Company's sensitivity of an increase and decrease of 10% for 2016 and 2015 and \$0.50 for 2014, in exchange rate, which would have an effect in the result from foreign currency position.

	Effect of Increase			Effect of Decrease		
	2016	2015	2014	2016	2015	2014
Loss (profit) for the year	\$ 35,311	225,618	57,065	\$ (35,311)	(225,618)	(57,065)

(9) Accounts receivable, net

As of December 31, 2016, 2015 and 2014, accounts receivable are as follows:

	December 31,		
	2016	2015	2014
Trade receivables	\$ 2,482,077	1,867,104	1,688,308
Allowance for doubtful accounts	(97,400)	(81,641)	(76,793)
Other receivables	140,265	76,787	340,524
Government grant	-	40	-
Income tax receivable	115,428	143,517	56,512
Recoverable value-added tax and other recoverable taxes	988,774	527,620	966,027
	\$ 3,629,144	2,533,427	2,974,578

Past-due but not impaired portfolio

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

	December 31,		
	2016	2015	2014
Past due 0 to 60 days	164,458	129,315	185,291
Past due by more than 60 days	3,395	3,443	9,438
	\$ 167,853	132,758	194,729

The Company believes that non-impaired amounts that are past-due by more than 60 days can still be collected, based on the historical behavior of payments and analysis of credit ratings of customers.

Reconciliation of movements in allowance for doubtful accounts

	2016	2015	2014
Balance as of January 1	\$ (81,641)	(76,793)	(69,245)
Increase in allowance	(18,405)	(17,179)	(16,164)
Amounts written off	2,818	12,454	9,529
Currency translation effect	(172)	(123)	(913)
Balance as of December 31,	\$ (97,400)	(81,641)	(76,793)

As of December 31, 2016, 2015 and 2014 the Company has receivables in a legal process (receivables for which legal counsel is seeking recoverability) of \$130,290, \$103,057 and \$110,462, respectively.

To determine the recoverability of an account receivable, the Company considers any change in the credit quality of the account receivable from the date of authorization of the credit line to the end of the reference period. In addition, the Company estimates that the credit risk concentration is limited as the customer base is very large and there are no related party receivables or receivables from entities under common control.

(10) Inventories

As of December 31, 2016, 2015 and 2014, inventories are as follows:

	December 31,		
	2016	2015	2014
Raw materials and by-products	\$ 1,515,824	1,155,841	1,226,778
Medicine, materials and spare parts	808,492	772,226	656,618
Balanced feed	275,845	241,473	218,951
Processed chicken	1,154,207	1,112,068	777,734
Commercial eggs	37,242	38,683	35,957
Processed beef	36,599	38,533	23,008
Processed turkey	122,722	34,251	17,561
Other processed products	19,757	11,194	11,454
Total	<u>\$ 3,970,688</u>	<u>3,404,269</u>	<u>2,968,061</u>

Inventory consumption for the years ended December 31, 2016, 2015 and 2014 was \$34,018,493, \$28,877,468 and \$24,873,999, respectively.

(11) Biological assets

For the years ended December 31, 2016, 2015 and 2014, biological assets are as follows:

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2016	\$ 1,651,794	1,434,131	3,085,925
Increase due to purchases	237,525	604,527	842,052
Sales	-	(109,776)	(109,776)
Net increase due to births	240,085	2,034,670	2,274,755
Production cost	29,620,380	1,515,440	31,135,820
Depreciation	-	(1,903,086)	(1,903,086)
Transfers to inventories	(29,886,985)	(2,034,670)	(31,921,655)
Other	98,392	127,307	225,699
Balance as at December 31, 2016	<u>\$ 1,961,191</u>	<u>1,668,543</u>	<u>3,629,734</u>

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2015	\$ 1,501,428	1,109,233	2,610,661
Increase due to purchases	337,632	603,081	940,713
Sales	-	3,032	3,032
Net increase due to births	225,000	1,422,535	1,647,535
Production cost	26,283,885	1,120,359	27,404,244
Depreciation	-	(1,475,470)	(1,475,470)
Transfers to inventories	(26,746,796)	(1,422,535)	(28,169,331)
Other	50,645	73,896	124,541
Balance as at December 31, 2015	<u>\$ 1,651,794</u>	<u>1,434,131</u>	<u>3,085,925</u>

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2014	\$ 1,420,174	1,109,936	2,530,110
Increase due to purchases	301,516	296,846	598,362
Sales	-	(222,283)	(222,283)
Net increase due to births	227,892	1,426,359	1,654,251
Production cost	24,324,638	1,088,254	25,412,892
Depreciation	-	(1,194,779)	(1,194,779)
Transfers to inventories	(24,789,388)	(1,426,359)	(26,215,747)
Other	16,596	31,259	47,855
Balance as at December 31, 2014	\$ <u>1,501,428</u>	<u>1,109,233</u>	<u>2,610,661</u>

The "Other" category includes the change in fair value of biological assets that resulted in a decrease of \$18,276, increase of \$13,020 in 2015, and decreases of \$23,096 in 2014, respectively.

The Company is exposed to different risks relating to its biological assets:

- Future excesses in the offer of poultry products and a decline in the demand growth of the chicken industry may negatively affect the Company's results.
- Increases in raw material prices and price volatility may negatively affect the Company's margins and results.
- In addition, in the case of the Company's operations in the United States of America, the cost of corn and grain may be affected by an increase in the demand for ethanol, which may reduce the market's available corn inventory.
- Operations in Mexico and the United States of America are based on animal breeding and meat processing, which are subject to sanitary risks and natural disasters.
- Hurricanes and other adverse climate conditions may result in additional inventory losses and damage to the Company's facilities and equipment.

(12) Prepaid expenses and other current assets

As of December 31, 2016, 2015 and 2014, prepaid expenses and other current assets are as follows:

	December 31,		
	2016	2015	2014
Advances to suppliers of inventories	\$ 929,815	1,224,454	866,119
Prepaid expenses of services	217,244	130,086	145,849
Option agreement on potential acquisition	-	-	154,875
Advances for purchase of property, plant and equipment to related parties	-	-	12,500
Prepaid expenses of insurance and bonds	185,678	82,238	64,979
Other current assets	171,208	151,030	134,755
Total	\$ <u>1,503,945</u>	<u>1,587,808</u>	<u>1,379,077</u>

Effective June 20, 2014, the Company executed an option agreement with Morris Hatchery, Inc. that gives the Company the right to purchase its hatching egg operations located in Gillsville, Georgia once the contractual obligations made by Morris Hatchery Inc. with its customers have concluded, which wasn't completed by December 31, 2014. As consideration for this right, the Company made a nonrefundable payment of \$154,875 (10,500 thousand dollars) which was credited against the total purchase price of \$371,300 (23,500 thousand dollars) on the closing of the transaction on July 10, 2015.

(13) Assets held for sale

As of December 31, 2016, 2015 and 2014, assets held for sale are as follows:

	December 31,		
	2016	2015	2014
Buildings	\$ 21,551	24,430	22,965
Land	32,338	32,779	32,779
Other	2,839	2,839	2,839
Total	\$ 56,728	60,048	58,583

The Company recognized gains (losses) on sales of these assets of \$0, \$(24), and \$5 during 2016, 2015 and 2014, respectively.

(14) Property, plant and equipment

As of December 31, 2016, 2015 and 2014, property, plant and equipment are comprised as follows:

Cost	Balance as at January 1, 2016	Additions	Disposals	Currency translation effect	Balance as at December 31, 2016
Land	\$ 1,160,809	40,398	(6,257)	15,102	1,210,052
Buildings and construction	10,017,180	423,357	(69,520)	232,276	10,603,293
Machinery and equipment	10,706,221	1,408,298	(355,957)	277,207	12,035,769
Transportation equipment	1,286,212	433,746	(114,222)	5,417	1,611,153
Computer equipment	85,842	29,702	(2,134)	5,349	118,759
Furniture	155,995	20,548	(5,183)	2,823	174,183
Leasehold improvements	8,742	-	(3,556)	-	5,186
Construction in progress	1,268,545	103,695	-	87,442	1,459,682
Total	\$ 24,689,546	2,459,744	(556,829)	625,616	27,218,077

Accumulated depreciation	Balance as at January 1 2016	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2016
Buildings and construction	\$ (4,942,844)	(192,810)	38,726	(34,795)	(5,131,723)
Machinery and equipment	(5,627,281)	(630,370)	297,180	(104,273)	(6,064,744)
Transportation equipment	(751,539)	(81,783)	94,872	(2,803)	(741,253)
Computer equipment	(60,198)	(10,544)	2,918	(2,469)	(70,293)
Furniture	(119,553)	(10,241)	2,038	(1,203)	(128,959)
Total	\$ (11,501,415)	(925,748)	435,734	(145,543)	(12,136,972)

Cost	Balance as at January 1, 2015	Additions	Disposals	Currency translation effect	Balance as at December 31, 2015
Land	\$ 1,094,182	57,901	(661)	9,387	1,160,809
Buildings and construction	9,669,990	204,254	(17,191)	160,127	10,017,180
Machinery and equipment	9,816,722	991,378	(262,222)	160,343	10,706,221
Transportation equipment	1,171,030	247,232	(135,257)	3,207	1,286,212
Computer equipment	67,780	22,081	(6,163)	2,144	85,842
Furniture	153,015	6,372	(5,351)	1,959	155,995
Leasehold improvements	21,442	-	(12,700)	-	8,742
Construction in progress	991,866	295,291	(18,612)	-	1,268,545
Total	\$ 22,986,027	1,824,509	(458,157)	337,167	24,689,546

Accumulated depreciation	Balance as at January 1 2015	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2015
Buildings and construction	\$ (4,754,662)	(179,402)	9,199	(17,979)	(4,942,844)
Machinery and equipment	(5,210,886)	(512,786)	150,685	(54,294)	(5,627,281)
Transportation equipment	(795,625)	(59,655)	107,333	(3,592)	(751,539)
Computer equipment	(56,462)	(7,946)	6,411	(2,201)	(60,198)
Furniture	(113,638)	(9,481)	4,210	(644)	(119,553)
Total	\$ (10,931,273)	(769,270)	277,838	(78,710)	(11,501,415)

Cost	Balance as at January 1, 2014	Additions	Disposals	Currency translation effect	Balance as at December 31, 2014
Land	\$ 1,057,182	30,833	(29)	6,196	1,094,182
Buildings and construction	9,548,846	101,388	(87,755)	107,511	9,669,990
Machinery and equipment	9,524,495	298,248	(113,567)	107,546	9,816,722
Transportation equipment	1,204,326	114,453	(149,487)	1,738	1,171,030
Computer equipment	141,252	8,178	(82,768)	1,118	67,780
Furniture	149,741	8,512	(6,410)	1,172	153,015
Leasehold improvements	26,852	-	(5,410)	-	21,442
Construction in progress	356,447	679,504	(44,085)	-	991,866
Total	\$ 22,009,141	1,241,116	(489,511)	225,281	22,986,027

Accumulated depreciation	Balance as at January 1 2014	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2014
Buildings and construction	\$ (4,607,271)	(188,909)	52,135	(10,617)	(4,754,662)
Machinery and equipment	(4,724,963)	(513,983)	58,514	(30,454)	(5,210,886)
Transportation equipment	(789,154)	(87,375)	81,874	(970)	(795,625)
Computer equipment	(126,897)	(5,954)	77,317	(928)	(56,462)
Furniture	(108,407)	(9,429)	4,499	(301)	(113,638)
Total	\$ (10,356,692)	(805,650)	274,339	(43,270)	(10,931,273)

Carrying amounts, net	December 31,		
	2016	2015	2014
Land	\$ 1,210,052	1,160,809	1,094,182
Buildings and construction	5,471,570	5,074,336	4,915,328
Machinery and equipment	5,971,025	5,078,940	4,605,836
Transportation equipment	869,900	534,673	375,405
Computer equipment	48,466	25,644	11,318
Furniture	45,224	36,442	39,377
Leasehold improvements	5,186	8,742	21,442
Construction in progress	1,459,682	1,268,545	991,866
Total	\$ 15,081,105	13,188,131	12,054,754

Additions of property, plant and equipment in 2015 include assets acquired through business combinations of \$11,581 that consist of machinery and equipment for \$126, furniture for \$16 and transportation equipment for \$11,439.

Depreciation expense during the years ended December 31, 2016, 2015 and 2014 was \$925,748, \$769,270 and \$805,650, respectively, which were charged to cost of sales and operating expenses.

(15) Goodwill

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balances at beginning of the year	\$ 454,295	349,764	344,259
Business combinations (Note 4)	-	123,933	-
Goodwill impairment loss	-	(38,619)	-
Foreign currency effects	30,582	19,217	5,505
Balances at end of year	<u>\$ 484,877</u>	<u>454,295</u>	<u>349,764</u>

Based on market conditions in which the reporting unit operates, the Company's estimates of fair value indicated an impairment in Ok Farms – Morris Hatchery, Inc. Georgia, resulting in the recognition of a goodwill impairment loss of \$38,619 (2,244 thousand dollars) for the year ended December 31, 2015.

The recoverable amount of the cash-generating unit is determined based on a calculation of its value in use, which uses projections of the estimated cash flows based on financial budgets approved by management for a determined projection period, which are discounted using an annual discount rate.

Projections of the cash flows during the budgeted period are based on sales projections which include increases due to inflation, as well as the projection of expected gross margins and operating margins during the budgeted period. Cash flows that exceed such period are extrapolated using an annual stable growth rate, which is the long-term weighted average growth rate for the market in which the cash-generating unit operates.

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

2016				
Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	12.76%	2.70%
Campi	88,015	5	12.76%	2.10%
Ok Farms - Morris Hatchery, Inc. Arkansas	68,449	5	8.62%	0.00%
Ok Farms- Morris Hatchery Inc. Georgia	115,580	5	8.62%	0.00%
	<u>\$ 484,877</u>			
2015				
Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	9.67%	2.70%
Campi	88,015	5	9.67%	2.10%
Ok Farms - Morris Hatchery, Inc. Arkansas	57,075	5	9.32%	0.00%
Ok Farms- Morris Hatchery Inc. Georgia	96,372	5	9.32%	0.00%
	<u>\$ 454,295</u>			
2014				
Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	9.93%	2.70%
Campi	88,015	5	9.93%	2.10%
Ok Farms- Morris Hatchery Inc. Arkansas	48,916	5	8.24%	0.00%
	<u>\$ 349,764</u>			

(16) Other non-current assets

Other non-current assets consist of the following:

	December 31,		
	2016	2015	2014
Advances for purchase of property, plant and equipment	\$ 552,417	277,277	167,935
Investments in life insurance (note 3 (k))	65,509	52,572	41,187
Security deposits	15,132	13,574	17,341
Other long-term receivable	161,690	128,169	104,495
Intangible assets in process	12,200	73,125	54,512
Other	58,506	49,189	42,558
Total non-current assets	<u>\$ 865,454</u>	<u>593,906</u>	<u>428,028</u>

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

	December 31,		
	2016	2015	2014
Loan in the amount of 70,000 thousand dollars, maturing in June 2017, at LIBOR (3) rate plus 0.50 percentage points.	\$ 1,444,800	-	-
Loan of 85,000 thousand dollars, maturing in June 2016, at LIBOR (3) rate plus 0.48 percentage points	-	1,462,850	-
Denominated in pesos, maturing in January 2016, at TIIE (1) FIRA (2) rate plus 0.85 percentage points	-	160,000	-
Loan in the amount of 15,000 thousand dollars, maturing in January 2015, at LIBOR (3) rate plus 1.04 percentage points.	-	-	221,250
Denominated in pesos, maturing in January 2015, at TIIE (1) FIRA (2) less 0.70 percentage points.	-	-	193,000
Denominated in pesos, maturing in January 2015, at TIIE (1) FIRA (2) rate plus 1.25 percentage points	-	-	250,000
Total short-term debt	<u>\$ 1,444,800</u>	<u>1,622,850</u>	<u>664,250</u>

During 2016 no short-term debt denominated in pesos was contracted. Annual weighted average interest rate of short-term loans denominated in pesos for 2015 and 2014 was 3.13% and 2.78%, respectively. Average interest rate for short-term loans existing as of December 31, 2015 and 2014, was 4.17% and 3.68%, respectively.

Annual weighted average interest rate of short-term loans denominated in dollars for the years 2016, 2015 and 2014 was 1.04%, 1.05% and 1.10%, respectively. Average interest rate for loans existing as of December 31, 2016, 2015 and 2014 was 1.05%, 0.83% and 1.24%, respectively.

(1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate

(2) FIRA (for its acronym in Spanish) = Agriculture Trust Funds

(3) LIBOR= London Interbank Offered Rate

b) Long-term debt consists of the following:

	December 31,		
	2016	2015	2014
Denominated in pesos, maturing in September 2017, at TIIE (1) rates plus 0.63 percentage points.	\$ 98,000	100,000	102,000
Denominated in pesos, maturing in 2017 and 2018, at TIIE (1) FIRA (2) rates less 0.25 percentage points.	603,739	603,871	-
Denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.60 percentage points.	293,400	297,800	-
Denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.25 percentage points.	53,978	-	-
Denominated in pesos, maturing in 2019, at TIIE (1) FIRA (2) rates plus 0.50 percentage points.	54,000	-	-
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 percentage points.	-	2,489	10,209
Denominated in pesos, maturing in August 2015, at TIIE (1) FIRA (2) rates less 0.90 percentage points.	-	-	124,000
Denominated in pesos, maturing in April 2017, at TIIE (1) rates plus 0.25 percentage points.	-	-	49,993
Debt securities (subsection (d))	1,500,000	1,500,000	1,500,000
Total	2,603,137	2,504,160	1,786,202
Less current maturities	(1,652,725)	(9,033)	(133,732)
Long-term debt, excluding current maturities	\$ 950,412	2,495,127	1,652,470

Long-term annual weighted average interest rate for 2016, 2015 and 2014 was 4.04%, 3.07% and 3.72%, respectively. Average rate for current loans as of December 31, 2016, 2015 and 2014 was 5.63%, 3.56% and 3.68%, respectively.

(1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate

(2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture

During 2016 and 2015 the Company did not make early payments on its long-term debt, in 2014 the Company made early payments on its long-term debt of \$201,300, without payment of fees for early termination.

As of December 31, 2016, 2015 and 2014, total unused lines of credit totaled \$5,551,263, \$6,156,229 and \$5,282,600, respectively. In all such years, the Company did not pay any fee for undrawn balances.

c) Maturities of long-term debt, excluding current maturities, as of December 31, 2016, are as follows:

Year	Amount
2018	\$ 842,839
2019	107,573
	\$ 950,412

Interest expense on total loans during the years ended December 31, 2016, 2015 and 2014, amounted to \$129,769, \$93,964 and \$87,624, respectively.

Certain bank loans establish certain affirmative and negative covenants, as well as the requirement to maintain certain financial ratios, which have been met as of December 31, 2016, among which are:

- a) Provide financial information at request from the bank.
- b) Not to contract liabilities with financial cost or grant loans that may affect payment obligations.

- c) Notify the bank regarding the existence of legal issues that could substantially affect the financial situation of the Company.
- d) Not to perform substantial changes to the nature of the business, or the administrative structure.
- e) Not to merge, consolidate, separate, settle or dissolve except for those mergers in which the Company or surety are the merging company and do not constitutes a change on control of the entities of the group to which the Company or the surety belong, at the date of the agreement.

d) Issuance of debt securities

On August 28, 2012, the Company was authorized to issue debt securities in the total amount of the program of \$5,000,000 or the equivalent in UDIS (1), on a revolving basis, for a term of five years from the date of the authorization letter from the Mexican Banking and Securities Commission. The initial issuance dated August 31, 2012 was of \$1,500,000 pesos with ticker symbol: "BACHOCO 12" for a term of 1,820 days, equivalent to 65 periods of 28 days, approximately five years, with 15,000,000 debt securities and a par value of \$100 pesos per certificate.

From the date of issuance, and while the debt securities have not been paid, they will accrue annual gross interest on their par value, at an annual interest rate, which is calculated by adding 0.60 percentage points at the 28-day TIE, and in the event the 28-day TIE were not published, at the nearest term published by the Bank of Mexico. The common representative of the stock-holders will calculate the accrued interest two business days prior to the beginning of each interest period of 28 days, according to the payment schedule, computed from the date of issuance or at the beginning of each interest period and governed precisely during that interest period.

The debt securities will be paid at the expiration of the contractual term. Direct costs arising from debt issuance or contract are deferred and amortized as part of financial expense using the effective interest rate through the expiration of each transaction. Such costs include commissions and professional fees.

(1) UDIS = Investment units

Derived from the issuance of the Debt securities, the Company is subject to certain requirements, affirmative and negative covenants, with which they comply as of December 31, 2016.

(18) Trade accounts and other accounts payable

	December 31,		
	2016	2015	2014
Trade payables	\$ 3,646,410	3,800,407	3,257,291
Sundry creditors and expenses payable	448,679	288,582	273,255
Provisions	105,434	202,303	215,003
Statutory employee profit sharing	42,134	31,730	19,939
Retained payroll taxes and other local taxes	214,558	197,806	167,205
Direct employee benefits	76,721	72,898	33,894
Interest payable	11,160	3,306	1,920
Government grant	-	-	1,947
Others	81	71	61
	<u>\$ 4,545,177</u>	<u>4,597,103</u>	<u>3,970,515</u>

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

On December 2009, the Mexican Federal Competition Agency (CFC, for its Spanish acronym) released a news report in which it announced an investigation on the Mexican poultry industry in reference to possible monopolistic practices. As a result of this investigation, CFC imposed several fines to the Company for supposedly having certain practices where the price of chicken was manipulated. Although the Company and its legal advisors considered that the interposed legal processes were well sustained and attended, a provision that was considered adequate was recognized. During 2016 these judgments were concluded in favor of the Company's interests, for which reason the provision recorded for this purpose was canceled.

Additionally, the National Water Commission (CNA, for its Spanish acronym) imposed credits and fines to the Company for supposed infractions made by the Company in water administration for exploitation of livestock. The Company has recognized a provision for the amount that it expects to be probable to pay.

Bachoco USA, LLC. is involved in claims with the United States of America Department of Labor and the United States Immigration and Customs Enforcement, and various other matters related to its business, including workers' payment claims and environmental issues. As of December 31, 2016, 2015 and 2014, the Company has recorded provisions of \$41,280 (2,000 thousand dollars), \$51,630 (3,000 thousand dollars) and \$22,125 (1,500 thousand dollars) for estimated probable payments.

(19) Transactions and balances with related parties

(a) Transactions with management

Compensation

The following table shows the compensation paid to the directors and executives for services provided in their respective positions for the years ended December 31, 2016, 2015 and 2014:

	December 31,		
	2016	2015	2014
Compensation	\$ 53,531	42,295	39,538

(b) Transactions with other related parties

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

i. Revenues

	Transaction value			Balance as of		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Sales of products to:						
Vimifos, S.A. de C.V.	\$ 30,714	32,827	32,202	\$ 4,261	5,447	109
Frescopack, S.A. de C.V.	66	-	-	32	-	-
Maquinaria Agrícola, S.A. de C.V.	-	-	-	-	-	19
Autos y Accesorios, S.A. de C.V.	-	419	1,302	-	-	-
Alfonso R. Bours, S.A. de C.V.	-	-	-	-	-	1,801
Taxis Aéreos del Noroeste, S.A. de C.V.	1,927	135	19	144,562	189,075	-
	<u>\$ 43,708</u>	<u>33,381</u>	<u>33,523</u>	<u>\$ 148,855</u>	<u>194,522</u>	<u>1,929</u>

The balance of Taxis Aéreos del Noroeste, S.A. de C.V., as of December 31, 2016 and 2015 for \$144,562 and \$189,075 corresponds to a loan that bears interest and is due in the short term.

ii. Expenses and balances payable to related parties

	Transaction value			Balance as of		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Purchases of food, raw materials and packing supplies						
Vimifos, S.A. de C.V.	\$ 554,282	477,920	359,258	\$ 126,396	91,982	76,482
Frescopack, S.A. de C.V.	137,752	181,802	153,891	35,931	37,827	23,267
Pulmex 2000, S.A. de C.V.	41,122	42,263	21,283	7,528	16,181	6,858
Qualyplast, S.A. de C.V.	193	237	925	64	158	97
Purchases of vehicles, tires and spare parts						
Maquinaria Agrícola, S.A. de C.V.	\$ 34,446	41,947	55,166	1,898	4,074	4,315
Llantas y Accesorios, S.A. de C.V.	29,457	29,269	31,423	3,449	2,732	4,688
Autos y Accesorios, S.A. de C.V.	40,575	29,510	21,397	1,985	3,364	6,454
Autos y Tractores de Culiacán, S.A. de C.V.	39,504	54,853	19,140	5,298	3,100	1,971
Camiones y Tractocamiones de Sonora, S.A. de C.V.	153,802	69,779	33,227	6,137	5,815	2,384
Agencia MX-5, S.A de C.V.	25	1	2	2	-	2
Alfonso R. Bours, S.A. de C.V.	394	526	452	94	93	63
Cajeme Motors S.A. de C.V.	7,974	6,632	-	710	2	-
Airplane leasing expenses						
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 7,739	7,874	1,964	474	300	452
				\$ 189,966	165,628	127,033

As of December 31, 2016, 2015 and 2014, balances payable to related parties correspond to current accounts denominated in pesos that bear no interest and are payable in a short-term basis.

As of December 31st 2014 the Company has a prepayment for the purchase of property, plant and equipment for \$12,500 paid to Autos y Tractores de Culiacan S.A. de C.V., which is included on note 12.

(20) Income Tax

Under the tax legislation in Mexico and the United States of America in effect through December 31, 2016, entities are subject to pay Income Tax (ISR, by its Spanish acronym). During 2013, certain reforms to the Mexican tax law were enacted that entered into effect beginning January 1, 2014, which include, among others, the cancelation of scheduled reductions in the income tax rate and the elimination of the business flat tax ("IETU" for its Spanish acronym).

a) ISR

The Company and each of its subsidiaries file separate income tax returns (including its foreign subsidiary, which files income tax returns in the United States of America, based on its fiscal year ending in April of every year). For the years ended December 31, 2016, 2015 and 2014, the applicable rate under the general tax regime in Mexico is 30%; this rate will be applicable in future years as well. The applicable rate for the Company's US subsidiary is 38.79% (includes state and federal taxes).

As of December 31, 2016, 2015 and 2014 BSACV, the Company's primary operating subsidiary is subject to the agriculture, cattle-raising, forestry and fishing regime of the ISR law, which is applicable to entities exclusively dedicated to such activities. The new ISR Law establishes that such activities are exclusive when no more than 10% of an entity's total revenues are generated from something other than those activities or from industrialized products.

b) Tax charged to profit and loss

For the years ended December 31, 2016, 2015 and 2014, the income tax (benefit) expense included in profit and loss is as follows:

	December 31		
	2016	2015	2014
Operation in Mexico:			
Current ISR	1,215,171	1,291,536	1,211,006
Deferred ISR	264,086	146,595	230,255
	<u>1,479,257</u>	<u>1,438,131</u>	<u>1,441,261</u>
Foreign operation:			
Current ISR	45,358	196,954	165,034
Deferred ISR	118,818	45,475	49,815
Total ISR expense	<u>\$ 1,643,433</u>	<u>1,680,560</u>	<u>1,656,110</u>

Total income tax expense

The income tax expense attributable to income before income taxes, was different from the amount computed by applying the ISR rate of 30% in 2016, 2015 and 2014 as a result of the items listed below:

	December 31,					
	2016		2015		2014	
	ISR	Percentage	ISR	Percentage	ISR	Percentage
Expected expense	\$ 1,678,379	30%	\$ 1,650,025	30%	\$ 1,676,633	30%
Increase (decrease) resulting from:						
Net effects of inflation	(144,611)	(2%)	(87,322)	(2%)	(112,388)	(2%)
(Non-taxable income) Non-deductible expenses	14,550	0%	(4,882)	(0%)	(7,101)	(0%)
Effect of rate difference of foreign subsidiary	21,979	0%	57,103	1%	26,712	1%
Effect from non-deductible employee benefits	71,868	1%	74,173	1%	73,038	1%
Other	1,268	0%	(8,537)	0%	(784)	(0%)
Income tax expense	<u>\$ 1,643,433</u>	<u>29%</u>	<u>\$ 1,680,560</u>	<u>30%</u>	<u>\$ 1,656,110</u>	<u>30%</u>

c) Deferred income tax

The Company and each one of its subsidiaries determine the deferred taxes that are reflected at a consolidated level, on stand-alone basis. BSACV, the main operating subsidiary of the Company is subject to tax payment under the agriculture, cattle-raising, forestry and fishing regime, in which the tax base for ISR is determined on collected revenues minus paid deductions.

The tax effects of temporary differences, tax losses and tax credits that give rise to significant portions of deferred tax assets and liabilities as at December 31, 2016, 2015 and 2014 are detailed below:

	December 31,		
	2016	2015	2014
Deferred tax assets			
Accounts payable	\$ 831	764	5,019
Employee benefits	42,221	32,572	14,071
PTU payable	12,700	9,516	6,376
Accounts receivable	-	404	-
Tax loss carryforwards	2,760	10,236	21,383
Property, plant and equipment	-	490	-
Prepaid expenses	-	-	245
Other provisions	1,754	239	2,284
Total deferred tax assets	60,266	54,221	49,378
Deferred tax liabilities			
Property, plant and equipment	82	-	-
Prepaid expenses	52	94	-
Total deferred tax liabilities	134	94	-
Net deferred tax assets	60,132	54,127	49,378

	December 31,		
	2016	2015	2014
Deferred tax assets			
Accounts payable	\$ 964,676	1,093,145	1,120,240
Employee benefits	-	-	7,445
PTU payable	-	-	423
Tax loss carryforwards	676	1,081	4,073
Goodwill	19,846	22,326	-
Other provisions	24,049	6,606	13,817
Derivative financial instruments	-	859	-
Total deferred tax assets	1,009,247	1,124,017	1,145,998
Deferred tax liabilities			
Inventories	1,612,890	1,400,793	1,188,259
Accounts receivable	438,146	382,585	411,312
Property, plant and equipment	2,566,002	2,356,509	2,365,619
Prepaid expenses	302,958	353,166	257,133
Derivative financial instruments	1,826	-	5,872
Total deferred tax liabilities	4,921,822	4,493,053	4,228,195
Net deferred tax liability	\$ 3,912,575	3,369,036	3,082,197

d) Unrecognized deferred tax assets

Deferred tax assets that have not been recognized in the Company's consolidated financial statements are as follows:

	December 31,		
	2016	2015	2014
Recoverable tax on assets	-	1,774	2,586
Total	\$ -	1,774	2,586

e) Unrecognized deferred tax liabilities

Deferred taxes related to investments in subsidiaries have not been recognized as the Company is able to control the moment of the reversal of the temporary difference, and the reversal is not expected to take place in the foreseeable future. Deferred income tax on investments in subsidiaries not recognized as of December 31, 2016 amounts to \$1,962,545. The Company's policy has been to distribute accounting profits when the respective taxes have been paid and in the case of foreign profits, such tax may be duly credited in Mexico.

f) Movement in temporary differences during the fiscal year

	January 1, 2016	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2016
Accounts payable	\$ (1,093,909)	134,658	(6,256)	(965,507)
Employee benefits	(32,572)	(14,115)	4,466	(42,221)
PTU payable	(9,516)	(3,184)	-	(12,700)
Tax loss carryforwards	(11,317)	7,881	-	(3,436)
Other provisions	(6,846)	(18,200)	(757)	(25,803)
Goodwill	(22,326)	6,272	(3,792)	(19,846)
Inventories	1,400,793	167,441	44,656	1,612,890
Accounts receivable	382,182	55,964	-	438,146
Property, plant and equipment	2,356,019	93,752	116,313	2,566,084
Prepaid expenses	353,260	(50,250)	-	303,010
Derivative financial instruments	(859)	2,685	-	1,826
Net deferred tax liability	\$ 3,314,909	382,904	154,630	3,852,443

	January 1, 2015	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2015
Accounts payable	\$ (1,125,260)	35,489	(4,138)	(1,093,909)
Employee benefits	(21,515)	(3,274)	(7,783)	(32,572)
PTU payable	(6,800)	(2,716)	-	(9,516)
Tax loss carryforwards	(25,455)	14,389	(251)	(11,317)
Other provisions	(16,101)	9,379	(124)	(6,846)
Goodwill	-	(20,588)	(1,738)	(22,326)
Inventories	1,188,259	187,852	24,682	1,400,793
Accounts receivable	410,870	(28,688)	-	382,182
Property, plant and equipment	2,365,620	(88,973)	79,372	2,356,019
Prepaid expenses	257,329	95,931	-	353,260
Derivative financial instruments	5,872	(6,731)	-	(859)
Net deferred tax liability	\$ 3,032,819	192,070	90,020	3,314,909

	January 1, 2014	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2014
Accounts payable	\$ (1,352,591)	229,510	(2,179)	(1,125,260)
Employee benefits	(5,110)	(8,661)	(7,744)	(21,515)
PTU payable	(8,857)	2,057	-	(6,800)
Tax loss carryforwards	(90,637)	66,899	(1,717)	(25,455)
Other provisions	-	(16,249)	148	(16,101)
Inventories	1,235,848	(59,061)	11,472	1,188,259
Accounts receivable	316,374	94,496	-	410,870
Property, plant and equipment	2,389,609	(75,567)	51,578	2,365,620
Prepaid expenses	216,555	40,774	-	257,329
Derivative financial instruments	-	5,872	-	5,872
Net deferred tax liability	\$ <u>2,701,191</u>	<u>280,070</u>	<u>51,558</u>	<u>3,032,819</u>

g) Tax on assets and tax loss carryforwards

As at December 31, 2016, tax loss carryforwards expires as shown below. Amounts are indexed for inflation as permitted by Mexican income tax law:

Year	Amount as of December 31, 2016	
	Tax loss carryforwards	Year of expiration / maturity
2014	\$ 10,615	2024
2015	1,365	2025
	\$ <u>11,980</u>	

h) Impacts on the tax reform for changes beginning 2014

The main income tax impact to the Company, due to tax reform with effect beginning January 1, 2014, is related to the increase from 21% to 30% in the tax rate of BSACV, the Company's primary operating subsidiary (beginning 2014 the tax rate is 21% on annual taxable income up to 10 million pesos, and for taxable income in excess of that amount, the tax rate is 30%), and to the deductible limitation of 53% of wage expenses of employee benefits that are tax exempt income for workers.

(21) Employee benefits

a) Employee benefits in Mexico

Defined contribution plans

Effective January 1, 2016 the Company has a defined contribution plan which receives contributions from both the employees and the Company. Employees can make contributions from 1% to 5% of their wage and the Company is obligated to make contributions as follows: i) 20% of employee contributions for employees with 1 - 4.99 years of service, ii) 40% of employee contributions for employees with 5 - 9.99 years of service, and iii) 100% matching contributions for employees with 10 or more years of service or when the employee reaches 40 years of age, regardless of the years of service. During 2015 and 2014 the Company has a defined contribution plan which receives contributions from both the employees and the Company. Employees can make contributions from 1% to 5% of their wage and the Company is obligated to make contributions as follows: i) from the first to the fifth year of service of 1% of the wage, ii) from the sixth year of services of the employee the contribution of the Company is increased by 1% until it reaches 5%, and iii) for the subsequent years the Company contribution will be the same as the employee's.

When an employee retires from the Company he/she has the right to receive the contribution he/she has made to the plan, and i) if the employee retires between the first and the 4.99 year of services (4 year of services during

2015 and 2014), he/she does not have the right to receive the contribution made by the Company, ii) if he/she retires on the fifth year of services he/she has the right to receive 50% of the contributions made by the Company and, for each additional service year, the employee has the right to receive an additional 10% of the contributions made by the Company. The expenses for paid contributions to defined contribution plans, other than those mandated by Mexican law, were \$1,597, \$1,481 and \$7,973, in 2016, 2015 and 2014, respectively.

The Company makes payments equivalent to 2% of the integrated wage of its workers to the defined contribution plan for the retirement saving fund system established by Mexican law. The expense for this concept was \$50,047, \$46,670 and \$42,742, in 2016, 2015 and 2014, respectively.

Defined benefits plan

The Company has a defined benefit pension plan covering non-unionized personnel in Mexico. The benefits are based on the age, years of service and the employee's payment. The retirement age is 65 years, with a minimum of 10 years of services, and there is an option for an anticipated retirement option, in certain circumstances, at 55 years of age. The Company's policy to fund the pension plan is to make contributions up to the maximum amount that can be deducted for ISR.

Additionally, according to the Mexican Federal Labor Law, the Company is obligated to pay a seniority premium as a retirement benefit if an employee retires and has at least 15 years of services, which consists of a sole payment of 12 days for each worked year based on the last wage, limited to the two minimal wages established by law.

The Company recognizes as a benefit plan, a constructive obligation from past practices. Such constructive obligation is associated with service time the employee has worked on the Company. The payment of this benefit is disbursed in a single installment at the time the employee voluntarily stops working for the Company.

The plans in Mexico expose the Company to actuarial risks such as: interest rate risk, longevity risk and salary risk:

Interest risk	A decrease in the interest rate for the governmental bonds will increase the plan's liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The projected net liability presented on the consolidated statements of financial position is as follows:

	December 31,		
	2016	2015	2014
Present value of unfunded obligations	\$ 195,019	160,218	90,899
Present value of funded obligations	267,535	286,881	314,804
Total present value of benefit obligations (PBO)	462,554	447,099	405,703
Plan assets at fair value	(267,535)	(286,881)	(314,804)
Projected liability, net	\$ 195,019	160,218	90,899

i. Composition and return of plan assets

	Actual return of the plan's assets			Composition of the plan's assets		
	2016	2015	2014	2016	2015	2014
Fixed income securities	7.16%	1.25%	5.99%	64%	60%	63%
Variable income securities	10.07%	4.87%	7.69%	36%	40%	37%
Total				100%	100%	100%

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

	2016	2015	2014
PBO as at January 1	\$ 447,099	405,703	360,415
Benefits paid by the plan	(26,031)	(25,244)	(31,091)
Service cost	29,604	26,836	24,438
Interest cost	34,857	31,603	29,768
Actuarial (gains) losses recognized in other comprehensive income	(24,827)	8,201	22,173
Past service cost – plan amendments	1,852	-	-
PBO as at December 31	<u>\$ 462,554</u>	<u>447,099</u>	<u>405,703</u>

iii. Movements in the fair value of plan assets

	2016	2015	2014
Plan assets at fair value as at January 1	\$ 286,881	314,804	312,170
Transfer of assets to fund defined contribution benefit plan	(25,600)	(24,187)	-
Benefits paid by the plan	(9,457)	(10,894)	(20,011)
Expected return on plan assets	25,650	24,901	26,283
Actuarial losses in other comprehensive income	(9,939)	(17,743)	(3,638)
Fair value of plan assets as at December 31	<u>\$ 267,535</u>	<u>286,881</u>	<u>314,804</u>

iv. Expense recognized in profit and loss

	2016	2015	2014
Current service cost	\$ 29,604	26,836	24,438
Interest cost, net	9,207	6,702	3,485
	<u>\$ 38,811</u>	<u>33,538</u>	<u>27,923</u>

v. Actuarial gains and (losses)

	2016	2015	2014
Amount accumulated as at January, 1	\$ (138,128)	(112,184)	(86,372)
Recognized during the year	14,888	(25,944)	(25,812)
Amount accumulated as at December, 31	<u>\$ (123,240)</u>	<u>(138,128)</u>	<u>(112,184)</u>

vi. Actuarial assumptions

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

	2016	2015	2014
Discount rate as at December, 31	9.00%	8.00%	8.00%
Rate for future salary increases	4.50%	4.50%	4.50%
Social security wage increase rate	3.50%	3.50%	3.50%

The assumptions related to mortality are based on statistics and experiences over the Mexican population. The average expected life of an individual that retires at 65 years of age is 17.13 years for men and 10.92 years for women (Experience Chart of Demographic Mortality for Active EMSSA 1997).

vii. Historical information

	December 31,		
	2016	2015	2014
Present value of defined benefit obligation	\$ 462,554	447,099	405,703
Plan assets at fair value	(267,535)	(286,881)	(314,804)
Plan deficit	\$ 195,019	160,218	90,899
Experience adjustments arising from plan liabilities	\$ (24,827)	8,201	22,173
Experience adjustments arising from plan assets	\$ (9,939)	(17,743)	(3,638)

viii. Sensitivity analysis of the defined benefits obligations as of December 31, 2016, 2015 and 2014

2016	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 9.00%	(308,885)	(93,877)	(59,792)	(462,554)
Rate increase (+ 1%)	(280,316)	(88,657)	(56,237)	(425,210)
Rate decrease (- 1%)	(312,017)	(99,733)	(63,796)	(475,546)
2015	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 8.00%	(293,443)	(93,037)	(60,619)	(447,099)
Rate increase (+ 1%)	(248,925)	(87,540)	(56,784)	(393,249)
Rate decrease (- 1%)	(338,238)	(99,240)	(64,961)	(502,439)
2014	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 8.00%	(266,298)	(84,908)	(54,497)	(405,703)
Rate increase (+ 1%)	(216,605)	(79,874)	(51,033)	(347,512)
Rate decrease (- 1%)	(334,923)	(90,594)	(58,423)	(483,940)

ix. Expected cash flows

	Total
2017-2027 \$	455,006

x. Future contributions to the defined benefits plan

The Company does not expect to make contributions to the defined benefit plans in the following financial year.

b) Foreign employee benefits

Defined contribution plans

Bachoco USA, LLC. (foreign subsidiary) has a defined contribution retirement 401(k) plan, covering all employees who meet certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's contribution. The cumulative contribution expense for this plan was \$10,909, \$8,014 and \$6,597 for the year ended December 31, 2016, 2015 and 2014, respectively.

Equity-based compensation

Bachoco USA, LLC. has a deferred payment agreement with certain key employees. Amounts payable under this plan are vested after 10 years from the date of the agreement. The benefit value of each unit is equal to the increase in the initial book value from the date of the agreement to the conclusion of the vesting period. Under the agreement, 26,000, 38,000 and 38,000 units were outstanding as of December 31, 2016, 2015 and 2014, respectively, all of which were fully vested. The total liability under this plan totaled \$3,337, \$4,195 and \$3,516 as at December 31, 2016, 2015 and 2014, respectively. No expense was recognized for this plan for the year ended December 31, 2016, 2015, and 2014.

c) PTU

Industrias Bachoco, S.A.B de C.V. and BSACV has no employees. Each of the subsidiaries of the Company that has employees in Mexico is required under Mexican laws to pay employees, in addition to their payment and benefits, statutory employee profit sharing in an aggregate amount equal to 10% of each subsidiary's taxable income. The accrued liability as of December 31, 2016, 2015 and 2014 is shown in note 18, Trade payable and other accounts payable.

(22) Costs and expenses by nature

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cost of sales	\$ 42,635,071	36,847,508	32,494,974
General, selling and administrative expenses	4,847,858	4,323,374	3,781,326
Total costs and expenses	<u>\$ 47,482,929</u>	<u>41,170,882</u>	<u>36,276,300</u>
Inventory consumption	\$ 34,018,493	28,877,468	24,873,999
Wages and salaries	5,971,382	5,127,750	4,451,457
Freight	3,712,349	3,394,780	2,948,439
Maintenance	1,292,763	1,166,326	1,077,940
Other utility expenses	1,005,570	1,020,610	1,193,449
Depreciation	925,748	769,270	805,650
Leases	403,116	359,749	311,585
Other	153,508	454,929	613,781
Total	<u>\$ 47,482,929</u>	<u>41,170,882</u>	<u>36,276,300</u>

(23) Operating leases

Company as lessee

The Company has entered into operating leases for certain offices, production facilities, and automotive and computer equipment. Some leases contain renewal options. These agreements have terms between one and five years.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Lease expenses	\$ <u>403,116</u>	<u>359,749</u>	<u>311,585</u>

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

2017	\$	107,842
2018		78,691
2019		57,826
2020		72,121
2021		114,116

(24) Stockholders' equity and reserves

a) Capital risk management

An adequate capital risk management allows ongoing business continuity and the maximization of the return towards the Company's investors, which is why management has taken actions that ensure the Company maintains an adequate balance of the funding sources that build its capital structure.

Within its activities in risk management, the Company ensures that the ratio between financial debt and EBITDA of the last 12 months doesn't exceed 2.75 times and that the interest coverage ratio is at least 3 to 1.

During 2016, 2015 and 2014 these ratios were below the thresholds established by the Company's Risk Committee.

b) Common stock and premiums

As of December 31, 2016, 2015 and 2014, the Company's capital stock is represented by 600,000,000 Series "B" registered shares with a par value of \$1 peso per share.

The Robinson Bours family owned 496,500,000 shares through two family trusts: the placement trust and the control trust, which collectively represented 82.75% of the Company's total shares.

On December 9, 2013, the members of the placement trust decided to sell 57,000,000 shares that represent 9.5% of the total shares of the Company. The transaction was conducted through the BMV at market price.

After the sale of the shares, the Company's capital stock was as follows:

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

(1) All Series B shares with voting power.

(2) Operating at the BMV and the NYSE.

Based on the information provided to the Company, as of December 31, 2016, stockholders with 1% or more interest in the Company, in addition to the family trusts, are as follows:

	Shares	Position
Renaissance Technologies LLC	6,376,800	1.06%

c) Other comprehensive income items

i. Foreign currency translation reserve

This concept is related to the translation of the Company's U.S. operations from their functional currency (U.S. dollar) to the reporting currency, the Mexican peso.

ii. Actuarial remeasurements

Actuarial remeasurements are recognized as other components of comprehensive income and are related to variations in actuarial assumptions that generate actuarial gains or losses as well as adjust the actual yields from plan assets from the net interest cost calculated over the net defined benefits liability balance. Actuarial remeasurements are presented net of income tax within other comprehensive income in the consolidated statement of changes in stockholders' equity, the amount of these actuarial remeasurements net of taxes as of December 31, 2016 amounts to \$86,774, which includes a deferred tax effect of \$36,466.

d) Reserve for repurchase of shares

In 1998, the Company approved a stock repurchase plan in conformity with the Mexican Securities Trading Act and created a reserve for that purpose of \$180,000 charged to retained earnings in such year.

On April 27, 2016, pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$449,641 was approved to be used in the reserve for acquisition own shares.

The following table shows the movements of the reserve for acquisition of shares during the years ended December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Balance as at January 1	10,000	-	-	
(+) Total shares purchased	100,157	677,013	149,475	
(-) Total shares sold	(110,157)	(667,013)	(149,475)	
Balance as at December 31	<u>-</u>	<u>10,000</u>	<u>-</u>	

The net amount of repurchase and treasury share sale transactions gave rise to additional paid in capital of \$368, \$14,376 and \$1,504 during the years ended December 31, 2016, 2015 and 2014, respectively, recognized within equity.

As at December 31, 2016, the Company has no treasury shares.

e) Dividends

During the years ended December 31, 2016, 2015 and 2014, the Company has declared and paid the following dividends:

On April 27, 2016, the Company declared a payment of dividends in cash at nominal value of \$780,000 or \$1.30 pesos per outstanding share, from which there is a reduction of \$40 for the dividend corresponding to repurchased shares. The payment was made in two equal installments, in May and July, 2016.

On April 22, 2015, the Company declared a payment of dividends in cash at nominal value of \$900,000 or \$1.50 pesos per outstanding share, from which there is a reduction of \$838 for the dividend corresponding to repurchased shares. The payment was made in two equal installments, in May and July, 2015.

In 2014, the Company didn't declare dividends or pay any dividends.

Dividends that the Company pays to stockholders are subject to ISR solely insofar as such dividends exceed the balance in its net tax income account (CUFIN) consisting of income in which ISR is already paid by the Company. The ISR paid on dividends corresponds to a tax payable by legal entities and not by individuals. However, as a result of changes to the income tax law described in note 20(a), beginning on January 1, 2014, a new withholding tax of 10% for resident individuals in Mexico and for all residents in foreign countries who receive dividends from entities was established. Such tax is considered a withholding tax by the entity that pays the dividends. This tax will be applicable only to the income generated from period 2014. Thus, the Company must update its CUFIN from income generated up to December 31, 2013 and must calculate a new CUFIN with the income generated from January 1, 2014.

The Company obtains most of its revenue and net income from BSACV. For fiscal years 2016, 2015 and 2014, net income of BSACV, accounted for 65%, 67% and 72% respectively, of consolidated net income. Dividends for which BSACV pays ISR will be credited to the Company's CUFIN account, and accordingly, any future liabilities arising from ISR will be incurred when such amounts are distributed as dividends to the stockholders.

f) Tax balances of stockholders' equity

<u>CUFIN</u>		<u>Balance as 2013</u>	<u>Balance from 2014</u>	<u>Total</u>
IBSA individual	\$	7,646,453	3,561,184	11,207,637
IBSA Consolidated		8,366,664	8,172,556	16,539,220

The restated amount as of December 31, 2016 on tax bases of the contributions made by stockholders (CUCA), totaling \$2,655,121, may be refunded to them tax-free, to the extent that such amount is the same or higher than equity.

(25) Earnings per share

The basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014 are \$6.58, \$6.36 and \$6.55, respectively. The calculation of earnings per share was based on income attributable to ordinary stockholders of \$3,946,634, \$3,812,840 and \$3,926,926 for the years ended December 31, 2016, 2015 and 2014, respectively.

The average weighted number of common outstanding in 2016, 2015 and 2014 was 599,979,844, 599,631,383 and 599,955,240 shares, respectively.

The Company has no ordinary shares with potential dilutive effects.

(26) Commitments

- Bachoco USA, LLC has self-insurance programs for health care costs and workers' payments. The subsidiary is liable for health care claims up to \$7,224 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$20,640 (1,000 thousand dollars) per event. Self-insurance costs are recorded based on the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The provision for this concept is recorded in the accompanying consolidated statement of financial position within current liabilities amounting to \$75,873 (3,676 thousand dollars), \$69,718 (4,051 thousand dollars) and \$50,342 (3,413 thousand dollars) as at December 31, 2016, 2015 and 2014, respectively. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$120,729 (6,463 thousand dollars), \$108,360 (6,828 thousand dollars) and \$101,293 (7,616 thousand dollars) for the years ended December 31, 2016, 2015 and 2014, respectively. The Company is required to maintain letters of credit on behalf of the subsidiary of \$70,176, \$58,514 and \$50,150 (3,400 thousand dollars) as at December 31, 2016, 2015 and 2014, respectively, to secure self-insured workers' payments.
- The Company has entered into grain supply agreements with third parties as part of the regular course of its operations.
- The Company has entered into certain contracts with suppliers under which advanced payments are rendered in order to assure the supply of materials and services.

(27) Contingencies

a) Insurance

The Company has established a risk management program under a best practices methodology that assures the main risks of the business with the objective of reducing losses due to relevant claims. At the end of 2016 the company set up a Captiva reinsurance company to complement its risk management strategy. Notwithstanding the foregoing, since all the exposures are not covered, there is a risk that the loss or destruction of certain assets may have a significant adverse effect on the Company's operations and financial situation.

b) Lawsuits

The Company is involved in a number of lawsuits and claims arising from the regular course of business. In the opinion of the Company's management, they are not expected to have significant effects on the Company's financial position, operating results and future consolidated statements of cash flows.

c) Tax contingencies

In accordance with tax laws, Mexican authorities are empowered to review transactions carried out during the five years prior to the most recent ISR return filed. For the operations in the United States of America, the authorities of that country are empowered to review transactions carried out during the three years prior to the due date of the most recent annual tax return. Although the Company is under review by the Mexican tax authorities for the fiscal

year of 2009, nothing has come to its attention as a result of those reviews that would indicate that a contingency exists.

(28) Financial income and costs

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest income	\$ 637,977	482,442	337,769
Income from interest in accounts receivable	8,357	7,492	9,595
Foreign exchange gain, net	297,463	95,447	19,863
Effects of valuation of derivative financial instruments	25,377	8,464	-
Financial income	<u>969,174</u>	<u>593,845</u>	<u>367,227</u>
Effects of valuation of derivative financial instruments	-	-	(2,229)
Interest expense and financial expenses on financial debt	(129,769)	(93,964)	(87,624)
Commissions and other financial expenses	(42,385)	(53,328)	(30,466)
Financial costs	<u>(172,154)</u>	<u>(147,292)</u>	<u>(120,319)</u>
Financial income, net	<u>\$ 797,020</u>	<u>446,553</u>	<u>246,908</u>

(29) Other income (expenses)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$ 1,076,902	636,386	722,653
Total other income	<u>1,076,902</u>	<u>636,386</u>	<u>722,653</u>
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(704,152)	(507,196)	(623,148)
Other	(112,548)	(133,830)	(260,424)
Total other expenses	<u>(816,700)</u>	<u>(641,026)</u>	<u>(883,572)</u>
Total other income (expenses), net	<u>\$ 260,202</u>	<u>(4,640)</u>	<u>(160,919)</u>

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