

Industrias Bachoco S.A.B. de C.V.  
Form 20-F  
April 29, 2016

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

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2015**

**OR**

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

**OR**

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

**Date of event requiring this shell company report \_\_\_\_\_**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 333-7480**

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

**Bachoco Industries**

(Translation of Registrant's name into English)

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

**Avenida Tecnologico 401**

**Ciudad Industrial, 38010**

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing twelve Series B Shares.	New York Stock Exchange

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

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

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

Series B Capital Stock: 600,000,000 Shares

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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## **Introduction**

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

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

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

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

## **Presentation of Information**

### **Fiscal Year**

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

### **Currency**

Except as otherwise indicated, all data in the financial statements included below and in Item 18 (which together with the attached notes constitute our “Audited Consolidated Financial Statements”) and the selected financial information

included throughout this Form 20-F (this “Annual Report”) have been presented in millions of nominal pesos unless otherwise indicated. References herein to “pesos” or “\$” are to the lawful currency of Mexico.

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

This Annual Report contains translations of certain peso amounts into dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such dollar amounts have been translated from pesos at an exchange rate of \$17.21 to USD\$1.00 (one dollar), the exchange rate on December 31, 2015, according to the *Banco de Mexico* (or the “Central Bank”).

### Accounting Practices

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

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

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



## Other References

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

## Non-GAAP Financial Measures

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

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

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

## Market Data

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

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

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

## **Forward-looking Statements**

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

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

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

Part I

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

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

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

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

**STATEMENT OF PROFIT OR LOSS DATA**

In millions, for the year ended December 31,	2015 USD\$	2015 \$	2014 \$	2013 \$	2012 \$	2011 \$
Net revenues	2,686.2	46,229.0	41,779.1	39,710.7	39,367.4	27,735.0
Cost of sales	2,141.1	36,847.5	32,495.0	33,176.6	33,318.2	24,797.0
Gross profit	545.1	9,381.5	9,284.1	6,534.1	6,049.2	2,938.0
General, selling and administrative expenses	251.2	4,323.4	3,781.3	3,291.0	3,396.7	2,974.7

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Other(expenses) income, net	(0.3 )	(4.6 )	(160.9 )	30.7	(23.8 )	1,000.0
Operating income	293.6	5,053.5	5,341.9	3,273.8	2,628.8	963.2
Net finance income	25.9	446.6	246.9	118.4	165.0	177.6
Income tax	97.7	1,680.6	1,656.1	1,350.4	602.0	(38.6 )
Profit attributable to controlling interest	221.5	3,812.8	3,926.9	2,038.4	2,184.6	1,177.3
Profit attributable to non-controlling interest	0.4	6.7	5.7	3.4	7.2	2.1
Profit for the year	221.9	3,819.5	3,932.7	2,041.8	2,191.8	1,179.4
Basic and diluted earnings per share <sup>(1)</sup>	0.37	6.36	6.55	3.40	3.65	1.96
Basic and diluted earnings per ADR <sup>(2)</sup>	4.43	76.30	78.66	40.84	43.80	23.52
Dividends per share <sup>(3)</sup>	0.087	1.500	0.000	1.584	0.50	0.50
Weighted average shares outstanding <sup>(4)</sup>	599,631	599,631	599,955	599,993	598,960	599,822

(1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.

(2) Each ADR represents twelve shares.

(3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.

(4) In thousands of shares.

STATEMENT OF FINANCIAL POSITION DATA

In millions as of December 31	2015 USD\$	2015 \$	2014 \$	2013 \$	2012 \$	2011 \$
Total assets	2,350.2	40,446.6	34,843.1	28,889.7	28,040.2	24,717.3
Cash and cash equivalents	816.2	14,046.3	11,036.1	6,716.9	4,179.5	2,625.7
Total liabilities	736.0	12,667.2	10,481.1	8,738.5	8,951.5	7,337.5
Short-term debt <sup>(1)</sup>	94.8	1,631.9	798.0	557.6	1,197.1	1,453.0
Long-term debt	145.0	2,495.1	1,652.5	1,510.2	1,526.6	384.4
Total stockholders' equity	1,614.1	27,779.4	24,362.1	20,151.1	19,088.7	17,379.8
Capital stock	68.2	1,174.4	1,174.4	1,174.4	1,174.4	1,174.4

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

## MARGINS

In percentage, for the years ended December 31:	2015	2014	2013	2012	2011
Gross margin	20.3%	22.2%	16.5%	15.4%	10.6%
Operating margin	10.9%	12.8%	8.2 %	6.7 %	3.5 %
Margin for the year	8.4 %	9.4 %	5.1 %	5.6 %	4.3 %

## Other Indicators

The tables set below present key indicators.

## VOLUME SOLD BY BUSINESS LINE

In thousands of tons, as of December 31,	2015	2014	2013	2012	2011
Total sales volume:	2,034.3	1,841.4	1,771.1	1,861.6	1,606.3
Poultry	1,613.4	1,495.0	1,429.2	1,485.2	1,205.9
Others	420.9	346.4	341.9	376.4	400.4

## Gross Domestic Product, Inflation Rate and CETES

The chart below includes Mexican gross domestic product (“GDP”) and inflation rate data from 2011 to 2015, and the average interest rates on 28-day Mexican treasury bills (“CETES”), as provided by the Mexican Central Bank.

## Gross Domestic Product

Mexico has experienced economic growth in the last five years, but to varying degrees. In 2015, the Mexican GDP was 2.5%, higher than the growth reached in 2014, which was 2.1%. In 2013, Mexican GDP was 1.1% and in 2012 and in 2011, Mexican GDP was 3.9%.

## Interest Rates

Mexico historically has had, and may continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities averaged 2.9%, 2.7%, 3.8%, 3.9% and 4.3% for 2015, 2014, 2013, 2012 and 2011, respectively. High interest rates in Mexico could increase our financing costs and thereby impair our financial condition, results of operations and cash flow.

## Inflation Rates

Inflation rates in Mexico have remained on the low end for more than a decade. The annual rate of inflation, as measured by changes in the Mexican National Consumer Price Index, or NCPI, was 2.1% in 2015, 4.1% in 2014, 3.97% in 2013, 3.6% in 2012 and 3.8% in 2011, according to the *Banco de Mexico*. An adverse change in the Mexican economy may have a negative impact on price stability and result in higher inflation than its main trading partners, including the United States.

## GDP, INFLATION RATE AND CETES DATA

Year	GDP	Inflation Rate	CETES
2015	2.5 %	2.13 %	2.9 %
2014	2.1 %	4.08 %	2.7 %
2013	1.1 %	3.97 %	3.8 %
2012	3.9 %	3.57 %	3.9 %
2011	3.9 %	3.82 %	4.3 %

On April 10, 2016, the 28 day CETES rate was 3.73%.

## Exchange Rates

During the first half of 2011, the exchange rate of the peso to the dollar was stable, showing an average rate of \$11.89 per one dollar. This stability changed drastically during the second half of the year, where we observed a higher average rate of \$12.97 per one dollar, with a final depreciation of 13.0% by the end of the year with respect to year-end of 2010.

In 2012, the Mexican peso strengthened its position during the year as compared to the U.S. dollar, according to the U.S. Federal Reserve Bank, with the average peso-dollar exchange rate being \$13.15 and appreciated with respect to the U.S. dollar by 7.1% at year-end (or 7.9% according with *Banco de Mexico* statistics).

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

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

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

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

### EXCHANGE RATE FOR THE LAST 5 YEARS

In pesos per one dollar	High	Low	Average	Close
	\$	\$	\$	\$
2015	17.36	14.56	15.87	17.20 <sup>(1)</sup>
2014	14.79	12.85	13.30	14.75



2013	13.43	11.98	12.76	13.10
2012	14.37	12.63	13.15	12.96
2011	14.25	11.51	12.43	13.95
EXCHANGE RATE FOR THE LAST 6 MONTHS				
March 2016	17.94	17.21	17.63	17.21
February 2016	19.19	18.02	18.43	18.07
January 2016	18.59	17.36	18.06	18.21
December 2015	17.36	16.53	17.07	17.20 <sup>(1)</sup>
November 2015	16.85	16.37	16.63	16.60
October 2015	16.89	16.38	16.57	16.53

Source: [http://www.federalreserve.gov/releases/h10/Hist/dat00\\_mx.htm](http://www.federalreserve.gov/releases/h10/Hist/dat00_mx.htm).

(1) As of December 31, 2015, the exchange rate for the year end for the *Banco de Mexico* was \$17.21 per one dollar.

On March 31, 2016, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was \$17.214 per one dollar.

**B. Capitalization and Indebtedness**

Not applicable.

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

Not Applicable.

**D. Risk Factors**

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

Risks Related to Economic, Political and Regulatory Conditions

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

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

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

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

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

our cash balance. Mexico historically has had, and may continue to have, high real and nominal interest rates.

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

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

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

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

Mexican political events may significantly affect our operations. In June 2015, federal elections took place in Mexico, including, among others, the election of 500 representatives of the Mexican Congress and nine governors of various Mexican states. We cannot predict the impact these elections may have on future business conditions in Mexico. These, and future, federal elections may result in government instability and political uncertainty, which could have an adverse effect on Mexican economic policy and as a result, it could affect our business, financial position and operating results.

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

Political disagreements between the executive and the legislative branches could result in deadlock and prevent the timely implementation of political and economic reforms. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results.

In November 2016, presidential elections will take place in the U.S. that will result in a change of the nation's leadership since President Obama cannot run for re-election. Such political change and any other political or regulatory change in the U.S. regarding Mexico may affect the economic conditions in Mexico and, as a consequence, affect our financial performance.

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

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

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

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

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

Risks Related to Bachoco and the Poultry Industry

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

The market that we serve is subject to volatility with respect to supply and raw material prices, which affects our product prices. We can provide no assurance that future cyclical, excess supply, increases in main raw materials prices, or downturns in real prices will not adversely affect our financial results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Elimination of tariff barriers may adversely affect our performance.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

Our bylaws may only be enforced in Mexico.

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

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

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

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

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

requirements of the Securities Act of 1933, as amended.

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

#### **Item 4. Information of the Company**

##### **A. History and Development of the Company**

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

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

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

Our main business line is poultry, which includes chicken and eggs. The Company also produces and sells a wide range of other products that include, but are not limited to, balanced feed, live swine, beef and turkey value-added products.

Important events in the development of the Company's business

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

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

In 1974, we established a new complex in Celaya, Guanajuato, Mexico. Our products were widely accepted in that region, which led us to open offices and distribution centers in Mexico City. In 1993, we moved our headquarters from Obregon to Celaya city, and opened a new complex in the city of Tecamachalco, in the Southeast of Mexico.

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

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

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

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

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

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

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

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

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

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

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

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

See Note 30 of our Audited Consolidated Financial Statements for more detail.

#### Capital Expenditures

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

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

Our capital expenditures in 2015 totaled \$1,824.5 million, which was mainly allocated toward organic growth, by continued alleviating bottlenecks in some of our process and productivity projects across all of our facilities as well as our acquisition of the Georgia breeding assets of Morris Hatchery Inc. In 2014, we made capital expenditures of \$1,241.1 million, which was mainly allocated to projects geared towards the alleviation of some bottleneck in our operating processes, thereby increasing production, productivity improvements and the replacement of the transportation fleet used in our operations in Mexico and the U.S.

In 2013, we made capital expenditures of \$587.4 million, which were mainly allocated toward productivity projects in our chicken farms, and in some of our processing plants, increasing eggs production capacity, additional IT systems, and replacement of part of our transportation fleet in accordance with our replacement program and of other equipment in all of our facilities.

In 2012, we made capital expenditures of \$951.8 million, which were used to replace our transportation fleet, to complete certain expansion projects and to implement productivity projects across all of our facilities in both the U.S. and Mexico.

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

## **B. Business Overview**

### General

Bachoco owns and manages more than a thousand facilities, organized in 9 production complexes and 64 distribution centers in Mexico, and 1 production complex in the United States.

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

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

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

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

In the United States, our sole business line is chicken products.

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





## Principal Markets

We operate mainly in Mexico and in the U.S. We estimate that we are the biggest producer of chicken products in Mexico. Based on our internal estimates, we currently account for approximately 35.0% of the Mexican chicken production market and are the second largest producer of eggs with an estimated market share of approximately 5.0%. We currently estimate that we have a 3.3% market share in the balanced feed products.

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

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, as of December 31, 2015, 2014 and 2013:

### NET REVENUES BY BUSINESS LINES

In millions of pesos, for the year ended December 31,	2015		2014		2013	
	\$	%	\$	%	\$	%
Net Revenues	46,229.0	100.0	41,779.1	100.0	39,710.7	100.0
Poultry	41,789.5	90.4	37,994.7	90.9	35,943.9	90.5
Others	4,439.6	9.6	3,784.4	9.1	3,766.8	9.5

Our poultry business is our largest business line in terms of revenues. Within our poultry business, our main products are chicken and eggs, which are described in more detail in the following paragraphs. Within our “Others” segment, our main product is balanced feed, which is also described in more detail in the following paragraphs.

### Overview of the Chicken Industry in Mexico

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

Mexico is among the ten main chicken producers worldwide, with an estimated production of 3,175.0 thousand tons of chicken meat in 2015, and a per capita consumption of 30.9 kilograms a year in 2015, an increase of 5.0% when compared to 29.4 kilograms a year in 2014.

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

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

According to the USDA, Mexico is a main destination for U.S. chicken exports. Chicken imports from the U.S. have increased from 204.1 thousand tons in 2008 (when restrictions for leg quarters imports were phased out in January 2008) to approximately 480.5 thousand tons in 2015. In particular, in 2015, chicken imports increased 15.3% when compared to 2014. This increase was due to a decrease in the prices of products coming from the U.S. Chicken imports in Mexico have also increased due to an increase in the volume of products coming from other countries.

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

**Live chicken** is sold alive to small independent slaughtering operations or to wholesalers that contract with independent slaughtering operations for processing.

**Public market chicken** is a whole broiler presented either un-eviscerated or eviscerated, generally sold within 48 hours after slaughter. This product is sold to consumers without any packaging or brand identification.

- **Rotisserie chicken** is a whole broiler presented eviscerated and ready to cook.

- **Supermarket chicken** is a fresh whole broiler presented with the edible viscera packed separately.

**Chicken cuts** refers to cut-up fresh chicken parts sold wrapped in trays or in bulk principally to supermarket chains, the fast-food industry and other institutional food service providers.

**Value-added products** refer mainly to cut-up fresh chicken parts with value-added treatment like marinating, breading and individual quantity frozen.

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

#### SALES AND VOLUME OF CHICKEN BY CATEGORY

In 2015	Industry /volume <sup>(1)</sup>	Bachoco /volume		Bachoco /sales	
Live	n/a	38	%	30	%
Public market	n/a	13	%	13	%
Rotisserie	n/a	23	%	25	%
Supermarket	n/a	5	%	5	%
Chicken parts	n/a	11	%	13	%
Value-added products	n/a	10	%	14	%

In 2014	Industry /volume <sup>(2)</sup>	Bachoco /volume		Bachoco /sales
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Live	38	%	36	%	30	%
Public market	15	%	12	%	12	%
Rotisserie	28	%	26	%	26	%
Supermarket	7	%	4	%	4	%
Chicken parts	8	%	11	%	13	%
Value-added products	4	%	11	%	15	%

In 2013	Industry /volume <sup>(2)</sup>		Bachoco /volume		Bachoco /sales	
Live	33	%	36	%	29	%
Public market	19	%	13	%	13	%
Rotisserie	26	%	26	%	27	%
Supermarket	12	%	5	%	5	%
Chicken parts	6	%	12	%	15	%
Value-added products	4	%	8	%	11	%

(1) Industry information for 2015 is not available as of the date of this report.

(2) Source: UNA.

Overview of the Chicken Industry in the U.S.

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

The U.S. is the world's largest producers of chicken. Its annual production is estimated at 18.2 million tons or 40.04 billion pounds in 2015 a 4% increase over the 17.5 million tons produced in 2014, and its per capita consumption is also one of the highest worldwide, per annum, estimated at 40.4 kilograms (around 89.0 pounds).

The U.S. chicken industry is very consolidated and vertically integrated. Most producers of chicken use state-of-the-art technology in their processes. It is estimated that the main three chicken producers account for 46.0% of the total chicken production in the U.S.

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

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

#### Overview of the Egg Industry in Mexico

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

There is an estimated per capita consumption of around 22.44 kilograms for 2015, a 1.0% increase when compared to 22.2 kilograms in 2014.

Mexico's 2015 annual egg production is estimated at 2,635.6 million tons, an increase of 2.5% as compared with 2,571.3 million tons produced in 2014.

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

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

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

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

We estimate that we are the second largest producer of table eggs in Mexico. In 2015 and 2014, we produced 5.1% and 4.9%, respectively, of the total eggs produced in Mexico in terms of tons. We sell both brown and white eggs. We estimate that we are the largest producer of brown eggs in Mexico, and the largest marketer of packaged eggs with brand identification.

In 2015, 2014 and 2013, the volume sold in the table eggs category in the Mexican industry and by the Company was:

**SALES AND VOLUME OF EGG BY CATEGORY**

In 2015	<b>Industry / volume</b> <sup>(1)</sup>	Bachoco /volume		Bachoco /sales	
Bulk	n/a	32	%	27	%
Packaged	n/a	68	%	73	%
Processed	n/a	0	%	0	%

In 2014	<b>Industry / volume</b> <sup>(2)</sup>	Bachoco /volume		Bachoco /sales		
Bulk	82	%	31	%	28	%
Packaged	14	%	69	%	72	%
Processed	4	%	0	%	0	%

In 2013	<b>Industry / volume</b> <sup>(2)</sup>	Bachoco /volume		Bachoco /sales		
Bulk	82	%	40	%	36	%
Packaged	14	%	60	%	64	%
Processed	4	%	0	%	0	%

(1) Industry information for 2015 is not available as of the date of this report.  
 (2) Source: UNA.

Overview of the Balanced Feed Market in Mexico

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

According to CONAFAB, it is estimated that 31,115 thousand tons of balanced feed were produced in Mexico in 2015, a 3.5% increase from 30,063 thousand tons of balanced feed produced in 2014.

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

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

In 2015, CONAFAB estimated that the production mix between commercial and integrated was about 38.3% and 61.7%, respectively. This mix has not changed much over the past several years.

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

**BALANCED FEED VOLUME SOLD**

Thousands of tons	<b>Production</b> <sup>(1)</sup>	Bachoco's Production	Estimated Market Share	
2015 <sup>(2)</sup>	11,904	395	3.3	%
2014	11,433	320	2.8	%
2013	11,035	316	2.9	%

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

(2) CONAFAB estimates

**Seasonality Effects**

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

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



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

Pricing for chicken and eggs products

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

Main Raw Materials and Sources of Supply

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

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

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

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

In Mexico, domestic crops are limited, therefore a large percentage of our raw materials are imported from the U.S. In 2015, in terms of volume, we bought approximately 40.4% of our total grain from the domestic market and the remaining 59.6% from the U.S.

Marketing Channels Used by the Company

Marketing and Distribution of Chicken Products in Mexico

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

We participate and operate in all the following marketing channels:

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

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

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

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

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

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

We distribute products from our processing plants to our cold-storage facilities and warehouses, which serve as a midpoint in distribution to wholesalers and local customers. From our cold-storage facilities, we service wholesalers and retailers and transport certain products directly to supermarkets and food-service operations. Our distribution infrastructure includes more than 64 cold-storage warehouses and facilities and a large fleet of vehicles.

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

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

#### Marketing and Distribution of Eggs Products in Mexico

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

In some regions, however, we have reallocated part of our production from brown eggs to white eggs due to local market preferences. Our marketing strategy in the eggs business is to gradually move from bulk to packaged white eggs. Packaged eggs are less vulnerable to price fluctuation and create brand loyalty.

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

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

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

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

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

#### **Marketing and Distribution of Balanced Feed in Mexico**

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

We sell balanced feed products mainly to small livestock producers and through a network of small distributors located mainly in central and southern Mexico. Currently, we have 4 feed plants dedicated to producing balanced feed to third parties.

## Patents, Licenses and Other Contracts

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

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

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

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

### Import and Export Regulations

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

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

### Antitrust Regulations

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

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

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

As of the date of this Annual Report, these files remain open; the COFECE is evaluating our impugnation and is expected to release a response in the upcoming months. The Company has recorded a provision for the amount that it currently expects to be responsible for.

#### Antidumping Regulations

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

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

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

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

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

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

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

#### Environmental and Sanitary Regulation

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

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



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

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

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

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

### **C. Organizational Structure**

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

In 2015, our subsidiary BSACV accounted for 57.7% of consolidated total assets and 71.9% of total consolidated sales and our subsidiary Bachoco USA, accounted for 13.7% of consolidated total assets and 21.4% of total consolidated sales.

All of our subsidiaries are directly owned by us in the percentages listed below. The following table shows our main subsidiaries as of December 31, 2015, 2014 and 2013:

#### PERCENTAGE EQUITY INTEREST

Subsidiary	As of December 31,			
	Country	2015	2014	2013
Aviser, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	Mexico	99.99	99.99	99.99
Campi Alimentos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	Mexico	99.99	99.99	99.99
PEC LAB, S.A. de C.V., and subsidiary	Mexico	64.00	64.00	64.00
Secba, S.A. de C.V.	Mexico	99.99	99.99	99.99
Sepetec, S. A. de C.V.	Mexico	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	Mexico	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco USA, LLC. and subsidiary	U.S.	100.00	100.00	100.00

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

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

#### **D. Property, Plant and Equipment**

We have more than a thousand production facilities in Mexico and in the U.S. (most of which are farms) and 64 distribution centers that are located throughout Mexico, to ensure freshness and minimize transportation time and costs.

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

The following table indicates Bachoco's production facilities and the number of each type of facility both in Mexico and the U.S., as of December 31, 2015:

#### BACHOCO'S FACILITIES

Facilities	Number of Facilities:	
	In Mexico	In The U.S.
Chicken breeding farms	124	208
Broiler grow-out farms	513	355
Broiler processing plants	8	2
Hatchery	23	3
Egg production farms	115	0
Swine breeding farms	1	0
Swine grow-out farms	19	0
Feed mills	18	2
Further process plants	4	2

## Bachoco's facilities in Mexico

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

Our eight processing plants process around 11.0 million chickens per week and our laying farms produce around 11.2 thousand tons of commercial eggs each month.

Four of the eighteen feed mill plants are dedicated to the production of balanced feed for sales to third parties and the remaining fourteen are dedicated mainly to internal consumption. We produce around 33 thousand tons of balanced feed per month for sale to third parties.

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

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

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

During 2014, we undertook several projects to alleviate bottlenecks, thereby increasing production, in some of our production centers. For instance, we are increasing our live chicken production capacity in the state of Chiapas and in other southern states. At the same time, we are increasing our processing capacity in our processing plants located in central Mexico.

In 2013, several of our breeder farms located in the state of Guanajuato were affected by an outbreak of avian influenza type H7N3. As a result, the Company experienced a reduction in chicken volume sold of around 4.0% for

the year. Once the outbreak was under control, the Company was able to gradually recover its production level. However, in 2014, most of these facilities closed and their production was replaced through our U.S. operations.

Bachoco's facilities in the U.S.

We have facilities across the River Valley area in Arkansas and Oklahoma. We process around 3 million chickens per week in those facilities. Our offices are in Fort Smith, Arkansas. Our slaughter and deboning plants and feed mills are located in Fort Smith and in Heavener, Oklahoma. We have further-processing plants to produce value-added chicken products in Fort Smith and Muldrow, Oklahoma; hatcheries in Fort Smith, Heavener and Stigler, Oklahoma; broiler research farms, in Greenwood, Arkansas and Hartford, Arkansas; and our cooler storage and distribution center, in Muldrow.

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

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

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

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

See Notes 4, 12 and 30 of our Audited Consolidated Financial Statements for more detail.

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

ITEM 4.A. Unresolved Staff Comments

None.

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

**A.**

**Operating Results**

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

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

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

Year 2015 Overview

In 2015, we posted improvements in our total sales as compared to the previous year, while we were able to reach the second highest EBITDA margin in the last ten years.

These results were driven by external and internal conditions. Externally, we benefitted from (i) economic growth in Mexico and a lower inflation rate when compared to 2014, (ii) strong level of demand and consumption of poultry products in Mexico and in the U.S. and (iii) stable cost of our main raw materials, in U.S. dollar terms, which helped in light of the Mexican peso depreciation against the U.S. dollar in 2015.

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

#### Macroeconomic Conditions in Mexico

The Mexican economy experienced GDP growth of 2.5% in 2015, which was higher than the growth rate reached in 2014. In addition, the inflation rate was 2.13%, lower than 4.08% observed in 2014.

In terms of the Mexican peso-dollar exchange rate, while it remained stable through most of the year, there was an increase in volatility towards the end of the year, leading the Mexican peso-dollar exchange rate to depreciate 14.3% by the end of the year with respect to the end of 2014.

The Mexican peso-dollar exchange rate depreciation that occurred at the end of 2015 had an effect on our financial results, primarily, for the following reasons:

a) Approximately 24.0% of our sales correspond to our U.S. operations and are denominated in dollar terms. Therefore, these sales were positively affected by the Mexican peso-dollar exchange rate depreciation when preparing our results in Mexican peso terms.

b) About 35.4% of our total debt for the year ended December 31, 2015 was denominated in U.S. dollars. Therefore, this indebtedness was negatively affected by the Mexican peso-dollar exchange rate depreciation when preparing our results in Mexican peso terms.

c) The increase in the cost of our raw materials purchased in U.S. dollars, which occurred as a result of the Mexican peso-dollar exchange rate depreciation, was partially offset by a decrease in the prices of our main raw materials, such as grain and soybean meal, in U.S. dollar terms.

According to UNA estimates, in 2015, the volume of chicken and eggs produced in Mexico grew approximately 5.0% and 2.5%, respectively, which means the Mexican poultry industry accelerated its growth during 2015, as compared to 2014, after seeing a reduction in production in 2013 due to an outbreak of the avian flu.

### Operating Performance

All figures discussed below are information for 2015, with comparative figures of 2014 and 2013 prepared in accordance with IFRS and are presented in millions of pesos unless otherwise indicated. This information should be read in conjunction with our Audited Consolidated Financial Statements.

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

### STATEMENT OF PROFIT OR LOSS DATA

In millions of pesos, for the years ended December 31,	2015	2014	2013
	\$	\$	\$
Net revenues	46,229.0	41,779.1	39,710.7
Cost of sales	36,847.5	32,495.0	33,176.6
Gross profit	9,381.5	9,284.1	6,534.1
General, selling and administrative expenses	4,323.4	3,781.3	3,291.0
Other income (expenses), net	(4.6 )	(160.9 )	30.7
Operating income	5,053.5	5,341.9	3,273.8
Net finance income	446.6	246.9	118.4
Income tax	1,680.6	1,656.1	1,350.4



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Profit attributable to controlling interest	3,812.8	3,926.9	2,038.4
Profit attributable to non-controlling interest	6.7	5.7	3.4
Profit for the year	3,819.5	3,932.7	2,041.8
Basic and diluted earnings per share <sup>(1)</sup>	6.36	6.55	3.40
Basic and diluted earnings per ADR <sup>(2)</sup>	76.30	78.66	40.84
Dividends per share <sup>(3)</sup>	1.500	0.00	1.584
Weighted average shares outstanding <sup>(4)</sup>	599,631	599,955	599,993

(1) Calculated based on the weighted average number of basic and diluted shares. No potentially dilutive shares exist in any of the years presented, for which reason, basic and diluted earnings per share are the same.

(2) Each ADR represents twelve shares.

(3) Dividends per share have been computed by dividing the total amount of dividends paid by the weighted average shares outstanding.

(4) In thousands of shares.

*Operating Results 2015 vs 2014*

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

## NET REVENUES BY BUSINESS LINES

In millions of pesos	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	46,229.0	100.0	41,779.1	100.0	4,450.0	10.7
Total Poultry	41,789.5	90.4	37,994.7	90.9	3,794.8	10.0
Others	4,439.6	9.6	3,784.4	9.1	655.2	17.3

## NET REVENUES BY GEOGRAPHY

In millions of pesos	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	46,229.0	100.0	41,779.1	100.0	4,450.0	10.7
In Mexico	35,125.8	75.9	33,340.6	79.8	1,785.2	5.4
In the U.S.	11,103.3	24.1	8,438.5	20.2	2,664.8	31.6

## Net Revenues

Net sales in 2015 totaled \$46,229.0 million, \$4,450.0 million more, or a 10.7% increase, in net sales, when compared to the \$41,779.1 million in net sales reported in 2014. This increase was mainly due to a higher volume sold.

In 2015, sales of our U.S. operation represented 24.1% of our total sales, compared to 20.2% in 2014. During 2015, both our Mexican and U.S. operations reached a historical level of volumes sold.

The Company's sales of chicken products increased 10.6% in 2015, mainly as a result of an 8.1% increase in volume and a 2.3% increase in chicken prices. The increase in volume was mainly due to higher production volume and the

increase in price was mainly due to an increase in our U.S. operations in Mexican peso terms.

Egg sales increased 3.5% in 2015, mainly as a result of a 6.2% increase in volume sold, as we observed a higher level of supply in Mexico (we do not produce table eggs in our U.S. operation). This increase was partially offset by a decline in prices.

Sales of balanced feed increased 31.6% in 2015, resulting from a 23.4% increase in volume sold and a 6.7% increase in balance feed prices.

Sales of the other business lines increased 6.3% due to an increase in our sales of value-added beef products and hatching eggs sold to third parties, which in turn resulted from our increased capacity in hatching eggs production.

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

#### COST OF SALES

	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	36,847.5	79.7	32,495.0	77.8	4,352.5	13.4
Poultry	32,906.8	71.2	29,329.1	70.2	3,577.7	12.2
Others	3,940.7	8.5	3,165.9	7.6	774.8	24.5

Our total cost of sales increased \$4,352.5 million or 13.4% in 2015, when compared to the previous year.

This increase was mainly driven by higher volume sold and an increase in the cost of our main raw materials during the second half of 2015, mainly as a result of the depreciation of the Mexican peso against the U.S. dollar. The increase in volumes sold represented 10.5% of the total increase with the remaining increase being due to the increase in the cost of our main raw materials.

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



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

There are many other factors with much smaller contributions to the overall cost of sales. All of these secondary factors individually registered immaterial changes from 2014 to 2015.

#### GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	4,323.4	9.4	3,781.3	9.1	542.0	14.3

In 2015, general, selling and administrative expenses totaled \$4,323.4 million, compared to \$3,781.3 million in 2014, representing an increase of \$542.0 million or 14.3%. Approximately 80% of this increase was attributed to more volume sold.

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

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

In 2015 and 2014, our general, selling and administrative expenses represented 9.4% and 9.1% of total sales respectively.

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

#### OTHER INCOME (EXPENSE) NET

	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	(4.6)	(0.0 )	(160.9)	(0.4 )	156.3	(97.1)

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

In 2015, we recognized other net expenses of \$4.6 million and in 2014 we recorded other net expenses of \$160.9 million. In 2014, as per our usual results, we had a net expense position resulting from provisions mainly related to regulatory fines, which were not present in 2015.

#### OPERATING INCOME

	2015		2014		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating Income	5,053.5	10.9	5,341.9	12.8	(288.3)	(5.4)

Operating income in 2015 totaled \$5,053.5 million, this represented a decrease of \$288.3 million or 5.4%, when compared to the operating income of \$5,341.9 million reached in 2014. This decrease is mainly attributed to an increase in cost of sales and general, selling and administrative expenses as explained above.

The operating margin in 2015 and 2014 was 10.9% and 12.8% respectively.

#### NET FINANCE INCOME

	For the year ended December 31,				Change	
	2015	% over sales	2014	% over sales	\$	%
Net Finance Income	446.6	1.0	246.9	0.6	199.6	80.9
Financial Income	593.8		367.2		226.6	61.7
Financial Expense	147.3		120.3		27.0	22.4

In 2015, we reported net financial income of \$446.6 million, compared to net financial income of \$246.9 million in 2014. This increase was mainly due to an increase in our financial income driven by higher interest income on our investments and a higher level of foreign currency exchange gains. Our foreign currency exchange gains are mainly the result of our ability to obtain U.S. dollars at a lower cost than the average cost in the market.

Financial income of \$593.8 million in 2015 was mainly attributable to a \$482.4 million of interest income and a \$95.4 million in foreign currency exchange gain. This gain was partially offset by \$94.0 million in interest expense and a \$53.3 million in commissions and financial expenses.

Financial income of \$246.9 million in 2014 was mainly due to \$347.4 million of interest income and a \$19.9 million in foreign currency exchange gain. This gain was partially offset by \$87.6 million in interest expense and \$30.5 million in commissions and financial expenses.

For more details see Note 28 to our Audited Consolidated Financial Statements.

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

#### TOTAL INCOME TAX

	For the year ended			
	December 31,		Change	
	2015	2014	\$	%
	\$	\$	\$	%
Total income taxes (benefit) expense,	1,680.6	1,656.1	24.5	1.5
Current income tax	1,488.5	1,376.0	112.5	8.2
Deferred income tax	192.1	280.1	(88.0)	(31.4)

In 2015, total income tax expense was \$1,680.6 million, compared to income tax expense of \$1,656.1 million in 2014. This slight increase is mainly attributable to a \$112.5 million increase of current income taxes and; partially offset by a \$88.0 decrease in deferred income tax.

The effective income tax rate was 30.6% in 2015 and 29.6% in 2014. This increase was due to the fact that we had tax credits in 2014, which were not present in 2015.

Deferred income tax liability in 2015 increased \$286.8 million, as a result of the following movements in temporary differences during the year: (i) an increase of \$212.5 million for inventories, (ii) \$96.0 million for prepaid expenses and (iii) \$27.1 million for accounts payable. This increase was partially offset by decreases of \$18.3 million for goodwill.

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

PROFIT FOR THE YEAR

In millions of pesos	For the years ended			
	December 31,		Change	
	2015	2014	\$	%
Profit for the year attributable to:	3,819.5	3,932.7	(113.2)	(2.9)
Controlling interest	3,812.8	3,926.9	(114.1)	(2.9)
Non-controlling interest	6.7	5.7	1.0	17.5
Basic and diluted earnings per share <sup>(1)</sup>	6.36	6.55	(0.20 )	(3.0)
Net income per ADR <sup>(1)</sup>	76.30	78.66	(2.36 )	(3.0)

(1) In pesos.



As a result of the factors detailed above, our net income for 2015 totaled \$3,819.5 million, or \$6.36 per basic and diluted share (\$76.30 per ADR), which is a \$113.1 million or 2.9% decrease when compared to \$3,932.7 million in net income or \$6.55 per basic and diluted share (\$78.66 per ADR) reported in 2014.

Our consolidated net margin in 2015 was 8.3% compared to a consolidated net margin of 9.4% in 2014.

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

#### EBITDA RESULT

	For the years ended			
	December 31,		Change	
	2015	2014	\$	%
	\$	\$	\$	%
Net income	3,819.5	3,932.7	(113.1)	(2.9)
Income tax expense	1,680.6	1,656.1	24.5	1.5
Net finance income	(446.6 )	(246.9 )	(199.6)	80.9
Depreciation and amortization	819.9	805.7	14.3	1.8
EBITDA result	5,873.4	6,147.6	(274.1)	(4.5)
EBITDA margin (%)	12.7 %	14.7 %	-	-

EBITDA result in 2015 and 2014 reached \$5,873.4 and \$6,147.6 million respectively, representing an EBITDA margin of 12.7% and 14.7%.

#### Operating Results 2014 vs 2013

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

#### NET REVENUES BY BUSINESS LINES

In millions of pesos	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	41,779.1	100.0	39,710.7	100.0	2,068.4	5.2
Total Poultry	37,994.7	90.9	35,943.9	90.5	2,050.8	5.7
Others	3,784.4	9.1	3,766.8	9.5	17.6	0.5

## NET REVENUES BY GEOGRAPHY

In millions of pesos	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	41,779.1	100.0	39,710.7	100.0	2,068.4	5.2
In Mexico	33,340.6	79.8	31,193.3	78.6	2,147.3	6.9
In the U.S.	8,438.5	20.2	8,517.4	21.4	(78.9 )	(0.9)

## Net Revenues

Net sales in 2014 totaled \$41,779.1 million, \$2,068.4 million more, or a 5.2% increase, in net sales, when compared to the \$39,710.7 million in net sales reported in 2013. This increase was mainly due to a higher volume sold and stable demand in our core business lines.

In 2014, sales of our U.S. operation represented 20.2% of our total sales, compared to 21.4% in 2013. During 2014, we slightly reduced the volume produced in our U.S. operation, mainly to increase efficiencies, and our U.S. operation reached an historical level of operating income and EBITDA.

The Company's sales of chicken products increased 7.1% in 2014, mainly as a result of a 6.2% increase in volume and a 0.9% increase in chicken prices.

Egg sales decreased 9.8% in 2014, as a result of a 10.3% decrease in volume sold.

Sales of balanced feed decreased 4.2% in 2014, resulting from a 5.4% decrease in prices, which was partially offset by a 1.4% increase in volume sold. In particular, sales of pet-food products increased one year after we opened our own facility for the production of pet-food products.

In 2014, the other business lines showed good performance; in particular, sales of swine were strong, as prices were high for most of 2014.

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

#### COST OF SALES

	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	32,495.0	77.8	33,176.6	83.6	(681.6)	(2.1)
Poultry	29,329.1	70.2	29,847.7	75.2	(518.6)	(1.7)
Others	3,165.9	7.6	3,328.9	8.4	(163.0)	(4.9)

Our total cost of sales decreased \$681.6 million or 2.1% in 2014, when compared to the previous year.

This decrease was mainly driven by a decline in our cost of sales per unit, equivalent to a decline of \$2,025.9 million, in our total cost of sales, mainly due to a reduction in the cost of our main raw materials, which represented \$1,876.2

million or 92.6% of the total decrease. This decrease was partially offset by an increase of 4.0% in volumes sold, which represented a \$1,369.7 million increase in our total cost of sales. The increase in volume was primarily the result of an increase in our sales of chicken products (within our poultry segment), as we did not experience the avian influenza outbreak that affected our chicken production in 2013.

The largest single component of our cost of sales is the cost related to our balanced feed raw materials, which has accounted for approximately 68% of our total cost of sales in the last few years. The main components of our balanced feed raw materials are corn, sorghum and soybean meal and all of the components of raw materials are subject to high volatility caused by supply, weather conditions and exchange rates, among others.

Besides balanced feed costs, the cost of sales includes other factors such as salaries and wages and energy costs. These two factors represented approximately 8.5% and 5.0% of our total cost of sales, respectively, in the last few years.

There are many other factors with much smaller contributions to the overall cost of sales. All of these secondary factors individually registered immaterial changes from 2013 to 2014.

#### GENERAL, SELLING AND ADMINISTRATIVE EXPENSES

	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	3,781.3	9.1	3,291.0	8.3	490.3	14.9

In 2014, general, selling and administrative expenses totaled \$3,781.3 million, compared to \$3,291.0 million in 2013, representing an increase of \$490.3 million or 14.9% that was primarily attributed to more volume sold.

The rest of this increase was the result of several projects the Company implemented to improve its go-to-market strategy and supply chain procedures, as well as the implementation of a new structure aimed at improving our closeness to our customers and increasing our flexibility in order to better serve our customers.

In 2014 and 2013, our general, selling and administrative expenses represented 9.1% and 8.3% of total sales respectively.

The main components that comprised our general, selling and administrative expenses in the past few years are the following: freight and transportation equipment expenses (about 36%), labor (about 32%) and publicity (about 4.5%), with no significant variation in these percentages.

#### OTHER INCOME (EXPENSE) NET

	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	(160.9)	(0.4)	30.7	0.1	(191.6)	(624.0)

Other income (expense) includes mainly the gains and losses on sales of unused fixed assets as well sales of hens and other by-products.

In 2014, we recognized other net expenses of \$160.9 million and in 2013, we recorded other net income of \$30.7 million, notably from a gain on the sale of land at one of our farms in the southern region of the country. In 2014, as per our usual results, we had a net expense position resulting from provisions related to (1) sales of unused fixed assets and (2) regulatory fines.

#### OPERATING INCOME

	2014		2013		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating Income	5,341.9	12.8	3,273.8	8.2	2,068.1	63.2

Operating income in 2014 totaled \$5,341.9 million, this represented an increase of \$2,068.1 million or 63.2%, when compared to the operating income of \$3,273.8 million reached in 2013. This increase is mainly attributed to an increase in sales and a reduction in cost of sales.

The operating margin in 2014 and 2013 were 12.8% and 8.2% respectively.

#### NET FINANCE INCOME

	For the year ended December 31,				Change	
	2014	% over	2013	% over	\$	%
	\$	sales	\$	sales		
Net Finance Income	246.9	0.6 %	118.4	0.3 %	128.5	108.5
Financial Income	367.2		344.8		22.4	6.5
Financial Expense	120.3		226.4		(106.1)	46.9

In 2014, we reported net financial income of \$246.9 million, compared to net financial income of \$118.4 million in 2013. This increase was mainly due to the 46.9% decrease in our financial expense driven by lower commissions and financial expenses.

Financial income of \$367.2 million in 2014 was mainly attributable to \$347.4 million of interest income and a \$19.9 million in foreign currency exchange gain. This gain was partially offset by \$87.6 million in interest expense and a \$30.5 million in commissions and financial expenses.

Financial income of \$344.8 million in 2013 was mainly due to \$314.2 million of interest income and a \$28.1 million in foreign currency exchange gain. This gain was partially offset by \$97.0 million in interest expense and \$129.3 million in commissions and financial expenses.

The following table sets forth our tax position for each of the periods indicated:

#### TOTAL INCOME TAX

	For the year ended			
	December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total income taxes (benefit) expense,	1,656.1	1,350.4	305.7	22.6
Current income tax in Mexico	1,211.0	1,227.3	(16.3 )	(1.3 )
Deferred income tax in Mexico	230.3	147.4	82.9	56.3
Current income tax in the U.S.	165.0	0.0	165.0	NA
Deferred income tax in the U.S.	49.8	(24.3 )	74.1	NA

In 2014, total income tax expense was \$1,656.1 million, compared to income tax expense of \$1,350.4 million in 2013. This increase is mainly attributable to \$165.0 million of current income taxes in our U.S. operation and a \$74.1 increase in deferred income taxes in our U.S. operation. The main reason for this increase in taxes in our U.S. operation is the improved in results in our U.S. operation in 2014 compared with 2013.

Through December 31, 2013, the Company was subject to a simplified tax regime, whereby its statutory tax rate was 21%. As a result of changes in the Mexican Tax Law enacted in 2013, such simplified regime was eliminated and beginning in 2014, the Company is subject to a new and equivalent regime named regime for agriculture, livestock, forestry and fisheries, which applies to companies exclusively dedicated to these activities and applies a 30% tax rate. The effects on deferred income taxes are reflected in tax expense in 2013 as the changes were enacted in 2013, resulting in a \$674.8 million charge.

Deferred income tax liability in 2014 increased \$346.1 million, as a result of the following movements in temporary differences during the year: (i) an increase of \$229.5 in accounts payable, (ii) \$94.5 million for accounts receivable, (iii) \$66.9 million for tax loss carry forwards and (iv) \$40.8 million for prepaid expenses. This increase was partially offset by decreases of \$59.1 million for inventories, \$75.6 million for property plant and equipment, and \$16.1 million in other provisions.

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

## PROFIT FOR THE YEAR

In millions of pesos	For the years ended			
	December 31,		Change	
	2014	2013	\$	%
	\$	\$	\$	%
Profit for the year attributable to:	3,932.7	2,041.8	1,890.9	92.6
Controlling interest	3,926.9	2,038.4	1,888.5	92.6
Non-controlling interest	5.7	3.4	2.3	67.7
Basic and diluted earnings per share <sup>(1)</sup>	6.55	3.40	3.2	92.6
Net income per ADR <sup>(1)</sup>	78.66	40.84	37.8	92.6

(1) In pesos.

As a result of the factors detailed above, our net income for 2014 totaled \$3,932.7 million, or \$6.55 per basic and diluted share (\$78.66 per ADR), which is a \$1,890.9 million or 92.6% increase when compared to \$2,041.8 million in net income or \$3.40 per basic and diluted share (\$40.84 per ADR) reported in 2013.

Our consolidated net margin in 2014 was 9.4% compared to a consolidated net margin of 5.1% in 2013.

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



## EBITDA RESULT

	For the years ended			
	December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Net income	3,932.7	2,041.8	1,890.9	92.6
Income tax expense (benefit)	1,656.1	1,350.4	305.7	22.6
Net finance income	(246.9 )	(118.4 )	(128.5 )	108.5
Depreciation	805.7	816.7	(11.0 )	(1.3 )
EBITDA result	6,147.6	4,090.5	2,057.1	50.3
EBITDA margin (%)	14.7 %	10.3 %	-	-

EBITDA result in 2014 and 2013 reached \$6,147.6 and \$4,090.5 million respectively, representing an EBITDA margin of 14.7% and 10.3%. These represent historically high results for the Company, mainly due to strong net sales together with decreases in cost of sales.

## Critical Tax and Accounting Policies

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

Income Tax, Asset Tax and Flat Rate Business Tax, Year 2015

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

Our subsidiary O.K. Industries is located in the U.S. and it has a different fiscal period than the rest of the subsidiaries located in Mexico. O.K. Industries' fiscal year ends in April each year, while the rest of the Companies end in December.

For more information please see Note 20 of the Audited Consolidated Financial Statements.

Starting on January 1, 2014, the simplified tax regime, the Flat Rate Business Tax (“IETU”) and the cash deposit cash (“IDE”) laws were eliminated.

### Income Tax

After a 2010 tax reform, the tax rate was increased from 19.0% to 21.0% in the simplified regime and from 28.0% to 30.0% in the general regime. In 2013, the Mexican Government approved further changes, and as a result the income tax subsidy for the simplified regime phased out.

Therefore, for fiscal year 2011 to 2013 the income tax rate was 21.0% for the simplified regime and 30.0% for the general regime. As of 2014, and in accordance with new regulations approved in 2013, the income tax for both regimes is 30.0%.

The income tax rate for OK Foods is 38.79%

### Recent changes in tax laws

The main impact on income taxes for the Company, resulting from the tax reform enacted in 2013, was the increase from 21% to 30% of the tax rate applicable to BSACV, the Company’s main subsidiary, and the limitation on the deductibility by 53% of expenditures for wages that are exempt income for the employees.

### Flat Rate Business Tax

The IETU was published on October 1, 2007 and it came into effect on January 1, 2008. The IETU rate was 17.5% in 2013, 2012 and 2011 and was based on cash flows, and limited certain deductions. Through December 31, 2013, IETU was required to be paid only when it was greater than the income tax to be paid in any given year. As a result of the aforementioned changes in Mexican Tax Law in 2013, IETU was eliminated. As the Company had projected that it would only pay regular income tax, it did not have any deferred income taxes calculated under the IETU regime, such that elimination of IETU did not have a significant impact on the Company's results.

### Use of Estimates and Judgments in Certain Accounting Policies

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

#### Business combinations or acquisition of assets

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

#### Fair value of biological assets

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

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

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

#### Aggregation of operating segments

The Company's chicken and egg operating segments are aggregated into one reportable segment (Poultry) because they have similar products and services, production processes, types of customers, distribution methods, regulatory environment, and economic trends in gross profit margins. These factors are evaluated annually.

#### Key sources of estimation uncertainty

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

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

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

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

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

#### Measurements and disclosures at fair value

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

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

#### Impairment of long-lived assets and goodwill

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

## Employee retirement benefits

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

## Contingencies

A contingent liability is defined as:

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

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

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

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

## **B. Liquidity and Capital Resources**

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

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

Credit lines we use from time to time; as of December 31, 2015 and 2014, the unused credit lines of the Company totaled \$6,156.2 and \$5,282.6 million, respectively. The Company did not pay any commission or charge for the unused credits.

The current Mexican bond issuance program available until August 2017. For more details, please refer to Item 12 (“Description of Securities Other than Equity Securities”) of this Annual Report.

### *Liquidity and Capital Resources 2015 vs 2014*

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

In millions of pesos	As of December 31,			
	2015	2014	Change	%
	\$	\$	\$	%
Total cash, cash equivalents, and investment in securities and derivative financial instruments	15,290.1	11,968.3	3,321.8	27.8
Cash and cash equivalents	14,046.3	11,036.1	3,010.2	27.3
Investment in securities	1,242.6	925.5	317.1	34.3
Derivative financial instruments	1.2	6.7	(5.4)	(81.3)

In 2015, cash and cash equivalents, and investments in securities at fair value through profit or loss totaled \$15,290.1 million, \$3,321.8 million or 27.8%, more than \$11,968.3 million recorded in 2014. This increase is mainly due to our

positive operating results in 2015.

As of December 31, 2015, we held cash and cash equivalents in our U.S. operations equivalent to \$535.7 million.

#### ACCOUNTS RECEIVABLE

In millions of pesos	As of December 31,		Change	
	2015	2014	\$	%
Total accounts receivable	2,533.4	2,974.6	(441.2)	(14.8)

Accounts receivable decreased \$441.2 million, or 14.8%, when compared to 2014. This decrease is mainly due to a \$438.4 million decrease in recoverable value added tax and other recoverable taxes, \$263.7 million of other receivables, which was partially offset by an increase of \$178.8 million in trade receivables.

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



## ACCOUNTS PAYABLE

In millions of pesos	As of December 31,			
	2015	2014	Change	
	\$	\$	\$	%
Total accounts payable	4,597.1	3,970.5	626.6	15.8

In 2015, accounts payable increased \$626.6 million or 15.8% when compared to 2014. This increase is mainly due to a \$543.1 million increase in trade payables and \$39.0 million accrued employee benefits.

For more detail please see Note 18 of the Audited Consolidated Financial Statements.

## TOTAL DEBT

In millions of pesos	As of December 31,			
	2015	2014	Change	
	\$	\$	\$	%
Total debt	4,127.0	2,450.5	1,676.5	68.4
Short-term debt <sup>(1)</sup>	1,631.9	798.0	833.9	104.5
Long-term debt <sup>(2)</sup>	995.1	152.5	842.6	552.5
Long-term debt (Local bond issue)	1,500.0	1,500.0	0.0	0.0

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

(2) Does not include current installments of long-term debt.

As of December 31, 2015, total debt was \$4,127.0 million, an increase of \$1,676.5 million or 68.4% when compared to \$2,450.5 million of total debt as of December 31, 2014. This additional debt was comprised of short-term debt in U.S. dollars terms we entered into to counter the economic volatility we faced at the end of the year and long-term debt we entered into at low interest rates.

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

For details of maturity of our debt and the prevailing interest rates, see Note 17 of our Audited Consolidated Financial Statements.

## WORKING CAPITAL

In millions of pesos	As of December 31,			
	2015	2014	Change	
	\$	\$	\$	%
Working Capital	18,079.2	15,196.5	2,882.7	19.0
Total current assets	24,722.0	20,852.0	3,870.0	18.6
Total current liabilities	6,642.8	5,655.5	987.3	17.5

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

In 2015, our working capital increased \$2,882.7 million or 19.0% when compared to year 2014, due primarily to increases in our level of cash, which in turn resulted from an increase in cash from operating activities and from financing activities.

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

*Liquidity and Capital Resources 2014 vs 2013*

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

In millions of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total cash, cash equivalents, and primary and derivative financial instruments	11,968.3	7,732.7	4,235.6	54.8
Cash and cash equivalents	11,036.1	6,716.9	4,319.2	64.3
Investment in securities	925.5	1,004.1	(78.6 )	(7.8 )
Derivative financial instruments	6.7	11.7	(5.0 )	(42.7)

In 2014, cash and cash equivalents, primary financial instruments and derivative financial instruments totaled \$11,968.3 million, \$4,235.6 million or 54.8% more than the \$7,732.7 million recorded in 2013. The increase was mainly due to our strong operations in 2014.

## ACCOUNTS RECEIVABLE

In millions of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total accounts receivable	2,976.5	2,321.8	654.7	28.2

In 2014, accounts receivable increased \$654.7 million, or 28.2%, when compared to 2013. This increase was due to a \$373.6 million increase of recoverable value added tax and other receivables as of December 31, 2014 when compared to 2013.

## ACCOUNTS PAYABLE

In millions of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%

Total accounts payable 3,970.5 3,375.6 594.9 17.6

In 2014, accounts payable increased \$594.9 million or 17.6% when compared to 2013. This increase was mainly due to a \$492.5 million increase in payments to suppliers and \$81.9 million of accrued expenses.

#### TOTAL DEBT

In millions of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total debt	2,450.5	2,067.8	382.7	18.5
Short-term debt <sup>(1)</sup>	798.0	557.6	240.4	43.1
Long-term debt <sup>(2)</sup>	152.5	10.2	142.3	1,395.1
Long-term debt (Local bond issue)	1,500.0	1,500.0	0.0	0.0

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

(2) Does not include current installments of long-term debt.

As of December 31, 2014, total debt was \$2,450.5 million, an increase of \$382.7 million or 18.5% when compared to the \$2,067.8 million of total debt as of December 31, 2013. This additional debt was mainly short-term debt acquired at low interest rates.

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

## WORKING CAPITAL

In millions of pesos	As of December 31,		Change	
	2014	2013	\$	%
Working Capital	15,196.5	10,953.6	4,242.9	38.7
Total current assets	20,852.0	15,397.5	5,454.5	35.4
Total current liabilities	5,655.5	4,443.9	1,211.6	27.3

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

In 2014, our working capital increased \$4,242.9 million or 38.7% when compared to 2013, due primarily to increases in our level of cash, which in turn resulted from an increase in cash from operating activities and from financing activities.

## CAPITAL EXPENDITURES

In millions of pesos, for the years ended December 31,	2015	2014	2013
	\$	\$	\$
Capital Expenditures	1,824.5	1,241.1	587.4

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

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

In 2014 and 2013, capital expenditures totaled \$1,241.1 and \$587.4 million respectively, incurred primarily in (i) the replacement of our transportation fleet and other equipment in our facilities, (ii) the completion of certain expansion projects (iii) the implementation of productivity projects in our chicken farms and in some processing plants, (iv) increasing eggs production capacity and (v) additional IT systems.

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

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

#### OPERATING LEASES

In millions of pesos, for the years ended December 31,	2015	2014	2013
	\$	\$	\$
Operating Leases expense	359.7	311.6	286.0

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

See Note 23 to our Audited Consolidated Financial Statements for more information.

## Financial Instruments

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

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

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

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

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

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

## LIABILITIES IN FOREIGN CURRENCY 2015 vs 2014

	As of December 31,			
	2015	2014	Change	
	\$	\$	\$	%
<b>Short-term financial debt liabilities in foreign currency<sup>(1)</sup></b>	1,462.9	221.3	(1,241.6)	(561.0)

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

In 2015, our bank debt denominated in U.S. dollars totaled \$1,462.9 million pesos (equivalent to \$85.0 million USD), \$1,241.6 million pesos or 561.2% higher than the \$221.3 million pesos (equivalent to \$15.0 million USD) in 2014. The short-term bank debt in U.S. dollars had an annual average interest rate of 1.05% in 2015, 1.10% in 2014.

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

At the end of 2015, we have assets denominated in U.S. dollars of \$1,647.4 million pesos and liabilities of \$3,903.6 million pesos, resulting in a net liability position of \$2,256.2 million pesos (or \$131.1 million USD).

For more details see Note 8 and Note 17 to our Audited Consolidated Financial Statements.

#### LIABILITIES IN FOREIGN CURRENCY 2014 vs 2013

	As of December 31,		Change	
	2014	2013	\$	%
<b>Short-term liabilities in foreign currency</b> <sup>(1)</sup>	\$ 221.3	\$ 392.7	\$ (171.4)	(43.6)

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

In 2014, our bank debt denominated in U.S. dollars totaled \$221.3 million (equivalent to \$15.0 million USD), \$171.5 million or 43.6% lower than the \$392.7 million pesos (equivalent to \$30.0 million USD) in 2013. The short-term bank debt in U.S. dollars had an annual average interest rate of 1.10% in 2014 and 1.49% in 2013.

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



At the end of 2014, we had assets denominated in U.S. dollars of \$1,097.0 million pesos and liabilities of \$2,691.1 million pesos, resulting in a net liability position of \$108.1 million dollars (or \$1,594.0 million pesos).

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

None.

**D. Trend Information**

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

We have seen a consistent, gradual increase of supply in chicken markets in which we operate, which might cause oversupply condition towards the first half of 2016.

Despite the lower trend we have observed in the prices of our main raw material prices in U.S. dollar terms, the sharp increase in the Mexican peso depreciation against the U.S. dollar will not allow us to capitalize the benefit from these lower grain and soybean meal prices.

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

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

**E. Off-Balance Sheet Arrangements**

In 2015, except for our operating lease agreements, we do not have off-balance sheet arrangements that might have current or future effects on the Company's financial condition. Disclosure of operating leases is included in this Annual Report under Item 5-B.

**F. Tabular Disclosure of Contractual Obligations**

Our major categories of indebtedness included the following:

As of December 31, 2015 and 2014, we had \$9.0 and \$133.7 million in current portion of long-term debt respectively.

- Long-term debt to banks, excluding the current installments of long-term debt, as of December 31, 2015 and 2014 were \$995.1 and \$152.5 million, respectively, plus an additional \$1,500.0 million as a result of our Mexican bond issuance in 2012 and due in 2017.

The weighted average interest rates on long-term debt, excluding the Mexican bond issuance, for years 2015 and 2014 were 3.07% and 3.72%, respectively.

See Note 17a and b of our Audited Consolidated Financial Statements for more detail.

The Company has certain leases related to operating assets, including farms and administrative offices. The following table summarizes the Company's contractual obligations as of December 31, 2015. The table does not include current installments of long-term debt, accounts payable or pension liabilities.

## CONTRACTUAL OBLIGATIONS

In millions of pesos	Total	2016	2017	2018	2019	2020
		\$	\$	\$	\$	\$
Long-term debt <sup>(1)</sup>	2,495.1	-	1,652.5	842.6	-	-
Operating leases <sup>(2)</sup>	308.7	91.8	78.4	46.8	57.2	34.4

(1) See Note 17-c of the Audited Consolidated Financial Statements for more detail.

(2) See Note 23 of the Audited Consolidated Financial Statements for more detail.

Operating lease expense for 2015 was \$359.7 and, current installments made under long term debt were \$0.0 million; the Company did not make early payments of its long-term debt.

The Company has entered into grain supply agreements with third parties as part of the regular course of its operations. However, the payment terms are not fixed for which reason no amounts have been included in the table above.

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

## INTEREST

In millions of pesos	Total	Less than 1 year	From 1 To 3 years	From 3 to 5 years
Interest	\$212.7	\$ 113.8	\$ 98.8	\$ 0

The Company's future minimum rental payments required under its operating leases having an initial or remaining non-cancellable lease term in excess of one year as of December 31, 2015, and for each of the five succeeding years, are as follows:

## MINIMUM PAYMENTS OF OPERATING LEASES

In millions of pesos	Total	2016	2017	2018	2019	2020
Operating Leases	\$88.0	\$8.7	\$8.7	\$1.9	\$1.9	\$1.0

**G.**

**Safe Harbor**

Not applicable.

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

**A.**

**Directors and Senior Management**

Directors

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

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

At our annual stockholders' meeting held on April 22, 2015, we ratified the membership of our Board of Directors.

Additionally, at our general ordinary stockholders' meeting held on November 3, 2015, Mr. Guillermo Ochoa Maciel was appointed as an independent member of the Board of Directors and as an independent director financial expert.

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

MEMBERS OF THE BOARD	Year of Birth	Member since
Chairman of the Board and Proprietary Shareholder Director:		
Javier R. Bours Castelo	1953	1982
Proprietary Shareholder Directors:		
Jose Gerardo Robinson Bours Castelo	1958	2008
Jesus Enrique Robinson Bours Muñoz	1951	1994
Jesus Rodolfo Robinson Bours Muñoz	1957	2002
Arturo Bours Griffith	1955	1994
Octavio Robinson Bours	1952	1997
Ricardo Aguirre Borboa	1954	1994
Juan Salvador Robinson Bours Martinez	1965	1994
Alternate Directors:		
Jose Eduardo Robinson Bours Castelo	1956	1994
Jose Francisco Bours Griffith	1950	1994
Guillermo Pineda Cruz	1948	1994
Gustavo Luders Becerril	1953	2011
Independent Directors:		
Avelino Fernandez Salido	1938	2003
Humberto Schwarzbeck Noriega	1954	2003
Guillermo Ochoa Maciel	1955	2015
Secretary of the Board:		
Eduardo Rojas Crespo	1969	2008

Honorary Members of the Board

Enrique Robinson Bours Almada, Mario Javier Robinson Bours Almada, and Juan Bautista Salvador Robinson Bours are co-founders of the Company and Honorary members of the board.

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

**Cousins in law-related**

Brothers:

- Arturo Bours Griffith
- Octavio Robinson Bours
- Jose Francisco Bours Griffith

Brothers:

Jesus Enrique Robinson Bours Muñoz      Guillermo Pineda Cruz  
Jesus Rodolfo Robinson Bours Muñoz

Brothers:

Francisco Javier R. Bours Castelo  
Jose Gerardo Robinson Bours Castelo  
Jose Eduardo Robinson Bours Castelo      Ricardo Aguirre Borboa  
Juan Salvador Robinson Bours Martinez      Gustavo Luders Becerril

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

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

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

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

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

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

**Octavio Robinson Bours**, Proprietary Shareholder Director since 1997. Mr. Robinson Bours holds a degree in Agricultural Engineering from the ITESM. He has experience in producing swine, and is also a member of the board of Choya, S.A. de C.V. and runs a business of agriculture and aquaculture.

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

**Juan Salvador Robinson Bours Martinez**, Proprietary Shareholder Director since 1994. He has served Bachoco as Purchasing Manager. Mr. Robinson Bours holds a degree in Industrial Engineering from the ITESM. His other

appointments include Chairman of the board of Llantas y Accesorios, S.A. de C.V. and member of the Board of Megacable Holdings, S.A.B. de C.V.

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

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

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



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

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

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

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

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

Honorary members

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

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

**Juan Bautista S. Robinson Bours Almada**, Mr. Bours was co-founder of Industrias Bachoco, S.A.B. de C.V. and a Proprietary Shareholder Director for 57 years. Mr. Bours retired in April 2011 and was named as a Life Honorary Propriety Shareholders Director. On the same date, the Board named Mr. Juan Salvador Robinson Bours Martinez as a Proprietary Shareholders Director in the place of Mr. Juan Bautista S. Robinson Bours Almada.

Executive Officers

**EXECUTIVE OFFICERS**

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

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

**None.**

A biography of the Executive Officers is set forth below:

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

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

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

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

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

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

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

**Augusto Franco Gómez**, Marketing, Research & Development Director, joined us and assumed his current position in September 2014. Mr. Franco has 16 years of work experience, with strong experience in Latin America, and has worked in foods, food service, HPC products and advertising. He has lived in different countries such as Mexico, Colombia, Bolivia and the U.S. He has worked for companies such as Unilever, Team Foods, Glaxo, General Mills and Leo Burnett and his last position was Marketing Director for Food Solutions in Unilever for the North Latin American region. Mr. Franco has a bachelor's degree in Business Administration from the Colegio de Estudios Superiores de Administración in Colombia, an International MBA from St. Tomas University in the U.S., and took courses such as New Products Development at the University of Chicago.

## **B. Compensation**

The table below sets forth the aggregate compensation paid to our directors and executive officers, for services they rendered in their respective capacities, for the years ended December 31, 2015, 2014 and 2013.

### TOTAL COMPENSATION

	As of December 31,		
	2015	2014	2013
	\$	\$	\$
Compensation, net (in millions pesos)	42.3	39.5	52.8

## **C. Board Practices**

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

Audit and Corporate Practices Committee

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

- Submit an annual report to the Board of Directors;

- Inform the Board of Directors of the current condition of the internal controls and internal auditing system of the Company or of the entities it controls, including any irregularities detected;

- Require the relevant directors and other employees of the Company, or of the entities it controls, to provide reports relative to the preparation of the financial information or any other kind of reports or information it deems appropriate to perform its duties;

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

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

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

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

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

#### AUDIT AND CORPORATE PRACTICES COMMITTEE

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

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

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

#### **D.**

#### **Employees**

The Company has employees in Mexico and the United States.

In 2015, around 50.0% of our employees in Mexico were members of labor unions in our operations. As of March 2016 and the date of this Annual Report, labor relations with our employees in Mexico are governed by 52 separate collective labor agreements, each relating to a different group of employees and negotiated on behalf of each such group by a different labor union.

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

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

In our U.S. operations none of our employees are members of labor unions. As of the date of this Annual Report, labor relations with our U.S. employees are not governed by any collective labor bargaining agreements

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

## WORKFORCE

	2015	2014	2013	2012	2011
Total employees:	25,231	24,736	24,486	25,272	25,326
in Mexico	21,964	21,706	21,404	22,048	22,473
In the U.S.	3,267	3,030	3,082	3,224	2,853



**E. Share Ownership**

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

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

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

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

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

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

**A. Major Shareholders**

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

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

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

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

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

(2) Trading on the BMV and at the NYSE.

According to our Depository Bank, as of March 31, 2016, we had 3,453,865 ADRs outstanding on the NYSE, which represent 6.9% over the total shares and 25.8% over the free float.

#### ADRs Outstanding

As of December 31:	2015	2014	2013
Total ADRs Outstanding	3,362,229	3,449,735	4,593,364
Percentage Over Total Shares	6.7 %	6.9 %	9.2 %

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

According to information providing by BNY Mellon, as of December 31, 2015 and March 31, 2016, from the 100.0% of the total Shares of the Company, there were approximately 122 and 120 shareholders in the NYSE, respectively.

According to the most recent information provided by broker dealers at the date of our 2015 Bachoco's stockholders Annual meeting, we estimated that there are 1,241 Shareholders on the BMV.

The following table sets forth the Company's main shareholders, which held 1.0% or more of the total shares of the Company, as of December 31, 2015.

	<b>Shares<sup>(1)</sup></b>	<b>Position</b>	<b>Country</b>
Control Trust	312,000,000	52.00 %	Mexico
Underwriting Trust	127,500,000	21.25 %	Mexico

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

As of March 31, 2016 there have been no significant changes in the composition of the Company's main shareholders.

## **B. Related Party Transactions**

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

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

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

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

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

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

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

In addition, during 2015, we granted a short-term loan that bears interest to a related party, Taxis Aereos del Noroeste, S.A. de C.V., for \$189.1 million. This loan is recorded in our balance sheet as a current assets under the “Due for related parties” line item. This non-recurring loan was made on terms and conditions substantially similar as those prevailing at the time for comparable transactions with unrelated third parties.

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

## REVENUES FROM RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2015	2014	2013
	\$	\$	\$
Feed and packaging materials	32.8	32.2	42.7
Vehicles and related equipment	0.4	1.3	0.0
Air Transportation Services	0.1	0.0	0.0

## EXPENSES INCURRED IN RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2015	2014	2013
	\$	\$	\$
Feed and packaging materials	702.2	535.4	523.2
Vehicles and related equipment	232.5	160.8	157.5
Air Transportation Services	7.9	2.0	7.4

## BALANCES WITH RELATED PARTIES

**Balance of Revenues with Related Parties**

In millions of Pesos	As of December 31,		
	2015	2014	2013
	\$	\$	\$
Feed and packaging materials	5.4	0.1	3.7
Vehicles and related equipment	0.0	1.8	0.0
Air Transportation Services <sup>(1)</sup>	189.1	0.0	0.0

(1) As of December 31, 2015, the balance due from Air Transportation Services is comprised of the short-term loan in an amount of \$189.1 million we granted to Taxis Aereos del Noroeste, S.A. de C.V., as further described above.

**Balance of Accounts Payable with Related Parties**

In millions of Pesos	As of December 31,		
	2015	2014	2013
	\$	\$	\$
Feed and packaging materials	146.1	106.7	40.2
Vehicles and related equipment	19.2	19.9	13.9
Air Transportation Services	0.3	0.5	0.0

As of December 31, 2015 and 2014, the balances due to related parties are the balances owed denominated in pesos, which do not accrue interest, payable in cash in the short-term, for which there are no guarantees.

See Note 19 to our Audited Consolidated Financial Statements for more detail regarding income and expenses incurred in connection with related parties transactions.

**C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

Our Audited Consolidated Financial Statements are included in Item 18 of this Annual Report. The Audited Consolidated Financial Statements were audited by independent registered public accounting firms and are accompanied by their audit reports.

#### The Auditors

On September 3, 2013, we announced that the Company's Board of Directors, as per the Audit Committee's recommendation, approved the selection of Galaz, Yamazaki, Ruiz Urquiza, S.C., Member of Deloitte Touche Tohmatsu Limited ("Deloitte") as the Company's independent registered public accounting firm, effective as of September 30, 2013. Deloitte was ratified as the Company's external auditor for the 2014 and 2015 fiscal years and remains our external auditor as of the date of this Annual Report.

#### Legal Proceedings

We are a party to certain legal proceedings in the ordinary course of our business.

We believe that none of these proceedings, individually or in the aggregate, is likely to have a material adverse effect on the Company's Audited Consolidated Financial positions and consolidated results of operations.

#### Dividends Policy

Pursuant to Mexican law and our bylaws, the declaration, amount and payment of annual dividends are determined by a majority vote of the shareholders, generally but not necessarily on the recommendation of the Board of Directors.

#### DIVIDENDS

	As of December 31,		
	2015	2014	2013
Total dividends declared (in million pesos)	900.0	0.0	950.4
Dividend declared per share (in pesos)	1.500	0.000	1.584
Dividends declared per ADR (in pesos)	18.000	0.000	19.000

Although there can be no assurance as to the amount or timing of future dividends, we expect to pay an annual dividend pro rata to holders of outstanding shares in an amount of approximately 20.0% of the prior year's net income. The declaration and payment of dividends will depend on our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors and the shareholders, including debt instruments which may limit our ability to pay dividends.

Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries, principally BSACV. Accordingly, there can be no assurance that we will pay dividends or of the amount of any such dividends. BSACV, our principal operating subsidiary, could, in the future, enter into loan agreements containing covenants whose terms limit its ability to pay dividends under certain circumstances.

Mexican law requires that 5.0% of our net income each year be allocated to a legal reserve fund until such fund reaches an amount equal to at least 20.0% of our capital stock. Mexican corporations may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up) and only after such allocation to the legal reserve fund. The Company complies with this requirement and it is able to distribute dividends.



## B. Significant Changes

The Company and each of its subsidiaries file separate income tax returns. Through December 31, 2013, BSACV, the Company's main subsidiary, was subject to the simplified regime. This simplified regime is applicable to agriculture, cattle-raising and fishing, among others, and permitted a reduced tax rate. See Note 20a in our Audited Consolidated Financial Statements.

Starting on January 1, 2014, the simplified tax regime, the Flat Rate Business Tax ("IETU") and the Cash Deposits Tax ("IDE") laws were repealed.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

We have traded with fully registered shares since 1997. The Company trades on the NYSE and the BMV with one single class of shares, with full rights.

On the NYSE, we trade through ADRs, with full registration, level 3, and each of our ADRs represents twelve shares. Our Depository Bank is BNY Mellon.

The following tables set forth the high, low, average, and close prices and total trading volume of the Shares and ADRs on the BMV and NYSE, reported by these companies, for each of the periods indicated.

Year	Mexican Stock Exchange Ticker Symbol: Bachoco In nominal pesos per Share					The New York Stock Exchange Ticker Symbol: IBA In U.S. Dollar per ADR				
	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
2015	89.73	59.23	71.74	70.05	100,682,602	63.49	45.64	54.09	49.23	4,257,623
2014	68.50	44.71	56.62	61.94	91,033,100	61.24	40.37	50.84	49.88	4,937,600
2013	45.25	28.80	38.27	44.16	99,113,100	43.08	27.02	35.92	40.27	4,332,600
2012	30.13	20.59	24.62	30.13	44,787,100	27.97	18.86	22.41	27.92	4,525,400
2011	27.86	20.30	24.71	22.3	31,333,000	28.75	17.40	24.04	19.07	3,338,300

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Quarter	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
4Q-2015	85.80	65.95	74.50	70.05	31,816,471	61.13	45.64	53.39	49.23	1,598,402
3Q-2015	89.73	69.23	78.98	85.79	25,104,071	63.49	50.51	57.54	61.10	1,118,211
2Q-2015	73.70	64.38	70.01	70.50	21,136,177	58.14	50.87	54.79	54.11	794,201
1Q-2015	67.40	59.23	62.91	63.36	22,625,883	53.78	47.97	50.44	49.85	746,809
4Q-2014	68.50	60.59	65.01	61.94	21,459,900	61.15	49.75	56.18	49.88	1,288,900
3Q-2014	66.91	57.84	61.97	66.91	25,221,200	61.24	53.00	56.61	59.74	1,250,100
2Q-2014	57.99	47.43	51.64	57.99	19,502,700	53.77	42.60	47.44	53.77	1,336,700
1Q-2014	49.85	45.49	47.42	47.79	24,447,800	46.00	40.64	42.76	43.67	1,034,300

Month	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
Mar-16	77.40	73.05	74.94	73.91	7,407,913	53.52	49.11	51.00	51.28	309,703
Feb-16	74.00	65.45	70.89	72.98	7,185,805	49.11	43.15	46.12	48.28	355,347
Jan-16	70.40	62.51	67.45	65.45	9,777,602	48.67	41.17	44.82	43.32	474,206
Dec-15	71.03	65.95	69.04	70.05	8,183,685	50.99	45.64	48.54	49.23	624,963
Nov-15	78.97	69.37	72.69	69.37	9,375,235	57.22	49.87	52.48	50.18	517,771
Oct-15	85.80	75.18	81.68	75.18	14,257,551	61.13	54.72	59.11	54.72	455,668

Source: Yahoo

Market Maker

Currently the Company does not have any market maker program.

**B. Plan of Distribution**

Not applicable.

**C. Markets**

On September 19, 1997, Bachoco commenced trading on the BMV and on the NYSE.

As of March 31, 2016, there were 3,453,865 ADRs outstanding at the NYSE. They represented 6.9% of the total shares of the Company or 25.8% of the free float.

Based on these figures, we can assume that the remaining 74.5% of the free float is trading at the Mexican Stock Exchange.

<b>Exchange</b>	<b>Country</b>	<b>Ticker Symbol</b>	<b>Securities</b>
BMV	Mexico	Bachoco	Shares
BMV	Mexico	Bachoco12	Bonds
NYSE	U.S.	IBA	ADR

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

Information regarding the memorandum and articles of association are included in our F-1 Form and, an English translation of our bylaws is attached in this Annual Report, and is incorporated by reference herein and is also available on our web page [www.bachoco.com.mx](http://www.bachoco.com.mx)

The discussion set forth below contains information concerning our capital stock and a brief summary of the material provisions of the bylaws and applicable Mexican law. This summary does not purport to be complete and is qualified in its entirety by reference to the bylaws and the applicable provisions of Mexican law.

General

The Company was incorporated on April 17, 1980 as a variable capital corporation under the laws of Mexico. To fully comply with Mexican laws, the Company modified its name to Industrias Bachoco, S.A.B. de C.V. in April 2007.

In 1995, our stockholders authorized the issuance of up to 15,525,000 additional Series B Shares and 15,525,000 additional Series L Shares, all constituting fixed capital, to be issued in connection with the global offering of Shares that took place on September 19, 1997 (the "Global Offering").

On April 21, 1997, we restructured our capital by (i) declaring a four-to-one stock split of the 106,678,125 Series B Shares and 35,559,375 Series L Shares outstanding, (ii) converting 7,762,500 Series L Shares (on a post-split basis) into Series B Shares and (iii) combining all of the 434,475,000 Series B Shares and 134,475,000 Series L Shares outstanding (in each case, on a post-split basis) into 134,475,000 Units and 150,000,000 B Units. Holders of Units were entitled to exercise all the rights of holders of the Series B Shares and Series L Shares underlying their Units. Each B Unit consisted of two Series B Shares. B Units entitle the holders thereof to exercise all the rights of holders of the Series B Shares underlying such B Units. Immediately prior to the Global Offering, our outstanding capital stock consisted of 434,475,000 Series B Shares and 134,475,000 Series L Shares, all of which were duly authorized, validly issued and are fully paid and non-assessable.

During the annual shareholders meeting held on April 26, 2006, shareholders approved to proceed with the anticipated conversion of the Series L Shares into Series B Shares, which have full voting rights. This conversion was effective in September 2006 and included two steps: separating the UBL and UBB Units currently trading on the Mexican Stock Exchange into their component Shares, and converting the Series L Shares into Series B Shares (on a one-to-one basis), thereby created a single share class, the Series B Shares, which represents all of our Common Stock.

The Robinson Bours Stockholders have advised us that they intend to ensure that the Control Trust will hold at least 51.0% of the Series B Shares at any time outstanding. See “—Foreign Investment Legislation” in this Item.

On April 27, 2011 during the extraordinary Stockholders meeting the Article Two - XII of our bylaws were modified as follows:

Prior language

Produce, transform, adapt, import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind

Current language

“Produce, transform, adapt or manufacturing of processed food in package and/or canned and/or in flask, as well as import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind”

Note: An English translation of our complete bylaws is attached in this Annual Report.

## Registration and Transfer

Shares are evidenced by certificates in registered form, which may have dividend coupons attached. We maintain a registry and, in accordance with Mexican law, we recognize as stockholders only those holders listed in the stock registry. Stockholders may hold their Shares in the form of physical certificates (which, together with notations made in our stock registry, evidence ownership of the Shares) or through book entries with institutions that have accounts with *S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.* (“Indeval”).

Indeval is the holder of record in respect of Shares held through it. Accounts may be maintained at Indeval by brokerage houses, banks and other entities approved by the CNBV. Ownership of Shares maintained at Indeval is evidenced through Indeval’s records and through lists kept by Indeval participants.

In accordance with Article 130 of the *Ley General de Sociedades Mercantiles* (“Mexican Corporations Law”), the Board of Directors must authorize any transfer of stock, or any securities based on such stock, when the number of Shares sought to be transferred in one act or a succession of acts, without limit of time or from one group of interrelated stockholders or stockholders who act in concert, constitutes 10.0% or more of the voting stock issued by the Company. If the Board of Directors refuses to authorize such a transfer, the Board must designate one or more purchasers of the stock, who must pay the interested party the prevailing price on the Mexican Stock Exchange. The Board must issue its resolution within three months of the date on which it receives the relevant request for authorization and, in any case, must consider: (i) the criteria that are in the best interests of the Company, the Company’s operations and the long-term vision of the activities of the Company and its Subsidiaries; (ii) that no shareholder of the Company is excluded, other than the person that intends to acquire control of the financial benefits that may result from the application of the terms of this clause; (iii) that the taking of the Control of the Company is not restricted in an absolute manner; (iv) that the provisions of the Securities Market Law, with respect to acquisition public offerings, are not contravened; and (v) that the exercise of the patrimonial rights of the acquirer are not rendered without effect.

If any person participates in a transaction that would have resulted in the acquisition of 10.0% or more voting stock of the Company without having obtained the board’s prior approval, they must pay the Company a fine equal to the market value of the Shares.

Any person who participates in an act that violates the terms of Article 130 discussed in the preceding paragraph will be obligated to pay the Company a fine in an amount equal to the value of the Shares owned directly or indirectly by the stockholder, or the value of the Shares involved in the prohibited transaction, if such person does not own Shares issued by the Company. In the case of a prohibited transaction that would have resulted in the acquisition of 10.0% or more of the voting stock of the Company, the fine will be equal to the market value of those Shares, provided that board authorization was not obtained in advance.

According to our bylaws, a majority of the members of the Board of Directors must authorize in writing, by a resolution made at a Board of Directors' meeting, any change in the control of the Company. Our Board of Directors has the right to decide if a person or a group of persons is acting for the purpose of acquiring control of the Company.

“Control” or “Controlled” means (i) to directly or indirectly impose decisions at the general meetings of shareholders, stockholders or equivalent bodies or to appoint or remove the majority of the directors, managers or equivalent officers; (ii) to hold title to the rights that directly or indirectly allow the exercise of votes with respect to more than fifty percent of the capital stock; or (iii) to directly or indirectly direct the management, the strategy or the principal policies of the Company, whether through the ownership of securities, by contract or otherwise.

#### Voting Rights and Stockholders' Meetings

Each share entitles the holder thereof to one vote at any general meeting of the stockholders. Holders are currently entitled to elect all members of the Board of Directors.

Our bylaws provide that the Board of Directors shall consist of at least five members and no more than twenty one. The stockholders also appointed four alternate Shareholder Directors to the Board of Directors.

General stockholders' meetings may be ordinary or extraordinary meetings. Extraordinary general meetings are meetings called to consider the matters specified in Article 182 of the Mexican Corporations Law and the bylaws, including changes in the fixed portion of the capital stock and other amendments to the bylaws, liquidation, merger, transformation from one type of corporate form to another, change in nationality and changes of corporate purposes.

General meetings called to consider all other matters, including election of the directors, are ordinary meetings. An ordinary general meeting of the Company must be held at least annually during the four months following the end of the preceding fiscal year to consider certain matters specified in Article 181 and 182 of the Mexican Corporations

Law, including, principally, the election of directors, the approval of the report of the Board of Directors regarding their company's performance, the Company's financial statements for the preceding fiscal year and the allocation of the profits and losses of the preceding year, and to approve the transactions that the Company or the entities that the Company controls intend to carry out, in terms of Article 47 of the Securities Market Law, in one fiscal year, when such transactions represent 20.0% (twenty percent) or more of the consolidated assets of the Company, based on the figures corresponding to the closing of the immediately preceding quarter, independently of the manner in which such transactions are carried out, whether simultaneously or successively, but which due to their characteristics, may be considered as a single transaction. Holders of Shares may vote at such meetings.

Under our bylaws, the quorum on first call for a general ordinary meeting is at least 50%. If a quorum is not available on first call, a second meeting may be called at which action may be taken by a majority of those present, regardless of the number of Shares represented at the meeting. On a second call, Ordinary General Shareholders' Meetings will be considered validly held regardless of the number of common or ordinary Shares represented therein and the resolutions of such meetings will be valid when passed by majority vote of the Common Stock therein.

The quorum on first call for a general extraordinary meeting or a special meeting is 75% of the outstanding Shares with voting rights on the matters to be addressed in that meeting. If a quorum is not available on first call, a second meeting may be called, provided that at least 50% of the outstanding Shares with voting rights on the matters to be addressed in that meeting are represented.



Our bylaws require the approval of holders of at least 95% of the outstanding Shares and the approval of the CNBV for the amendment of the controlling stockholders' obligation under the bylaws to repurchase Shares and certain other provisions in the event of delisting. See “—Other Provisions—Repurchase in the Event of Delisting.” For more detail, see our bylaws on our webpage at [www.bachoco.com.mx](http://www.bachoco.com.mx). Holders of ADRs are entitled to instruct the Depository as to the exercise of the voting rights.

According to our bylaws, stockholders with a right to vote may ask to postpone a vote on any matters on which they believe they do not have enough information as defined by Article 199 of the Mexican Corporation Law. Stockholders with a right to vote, including a limited right to vote, and who hold at least 20% of the capital stock, may legally object to the decisions of a general stockholders' meeting, with respect to matters in which they have rights, without the percentage established under article 201 of the General Law of Business Entities being applicable in such case.

Moreover, holders of shares having voting rights, including limited or restricted voting rights or holders of Shares without voting rights that jointly or individually represent 5% or more of the capital stock, may directly exercise the action of liability against the members and secretary of the Board of Directors, as well as against the relevant directors or executive officers. The exercise of such action will not be subject to the compliance with the requirements set forth under articles 161 and 163 of the General Law of Business Entities.

The Board of Directors, or its President or Secretary or the judicial authority, as applicable, must issue notices of calls of Shareholders' Meetings. In addition, shareholders that jointly or separately represent at least 10% of the capital of the Company may request the President of the Board of Directors or the President of the Audit Committee to call a General Shareholder's Meeting, without the percentage indicated under article 184 of the General Law of Business Entities being applicable for such purpose. If the notice of meeting is not issued within fifteen days after the date of the corresponding request, a Civil or District Judge of the Company's domicile will issue such notice at the request of the interested parties that represent the requesting 10% of the capital, who must present their stock certificates for such purpose.

At least 15 days prior to the meeting, notice of the meeting must be published in the *Diario Oficial de la Federacion* (“Official Gazette”) or in a newspaper of general circulation in Mexico City. Stockholders' meetings may be held without such publication provided that 100% of the outstanding Shares with voting rights on the matters to be addressed by such meeting are represented.

From the moment that a call for a stockholders' meeting is made public, all the information related to the meeting must be available to the stockholders. In order to attend a stockholders' meeting, a stockholder must request and obtain an admission card by furnishing, at least 24 hours before the time set for holding the stockholders' meeting, appropriate evidence of ownership of Shares in us and depositing such Shares with our corporate secretary or with an institution authorized to accept such deposit. If so entitled to attend the meeting, a stockholder may be represented by proxy

signed before two witnesses. Additionally, the stockholder may be represented at the stockholders' meetings by a person named by proxy, on a printed form that we issue, which, under Mexican law, must identify our Company and indicate clearly the matters to be addressed in the meeting, with enough space for the instructions that the stockholder specifies. We are obliged to make information on the upcoming meeting available to the intermediaries in the stock market, for the time specified in Article 173 of the Mexican Law, in order to give the intermediaries time to send it to the stockholders they represent. The Secretary of the Board of Directors must verify that this requirement is met and report on this matter at the stockholders' meeting. See "—Registration and Transfer."

#### Members of the Board

Under the Mexican Corporations Law, a Board of Directors must conform to the following requirements:

-The Board of Directors will be integrated by a minimum of five and a maximum of twenty-one principal members.

At least twenty-five percent of the members of the Board of Directors must be independent, in accordance with the terms of Article 24 of the Securities Market Law.

For each principal member, a substitute will be appointed, in the understanding that the substitutes of independent Board members must also be independent.

Besides satisfying all of the requirements mentioned above, failure to meet these standards for any reason will not constitute grounds for judicial action challenging any act, contract, or agreement undertaken by the board, an intermediate committee or other delegated authority. Furthermore, such standards will not be mandatory for the validity or existence of such acts.

The Board of Directors must meet at least every three months at our address or any other place in Mexico and on the dates that the board determines. Meetings previously scheduled in accordance with a schedule pre-approved by the board do not need to be called. Meetings must be called by at least 25% of the members of the Board of Directors, the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors, the Secretary or the Alternate Secretary of the Board or the President of the Audit Committee. Members of the board must be notified via e-mail or in writing at least five calendar days in advance of a meeting.

#### Dividends and Distributions

At the annual ordinary general stockholders' meeting, the Board of Directors submits our financial statements for the previous fiscal year, together with a report thereon by the board, to the holders of Shares for their consideration. The holders of Shares, once they have approved the financial statements, determine the allocation of our net profits, if any, for the preceding year. As of December 31, 2015, our legal reserve fund was equal to at least 20% of our paid-in capital stock. Amounts in excess of those allocated to the legal reserve fund may be allocated to other reserve funds as the stockholders determine, including a reserve for the repurchase of our Shares. The remaining balance of net profits, if any, is available for distribution as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been paid or absorbed.

Holders of shares and, accordingly, holders of ADRs will have equal rights, on a per Share basis, to dividends and other distributions, including any distributions we make upon liquidation. Partially paid Shares participate in any distribution to the extent that such Shares have been paid at the time of the distribution or, if not paid, only with respect to the proportion paid.

#### Changes in Capital Stock

An increase of capital stock may generally be affected through the issuance of new shares for payment in cash or in kind, by capitalization of indebtedness or by capitalization of certain items of stockholders' equity. An increase of capital stock generally may not be realized until all previously issued and subscribed Shares of capital stock have been fully paid. Generally, a reduction of capital stock may be effected to absorb losses, to redeem Shares, or to release stockholders from payments not made. A reduction of capital stock to redeem Shares is effected by reimbursing

holders of Shares pro rata or by lot. Stockholders may also approve the redemption of fully paid Shares with retained earnings. Such redemption would be affected by a repurchase of Shares on the Mexican Stock Exchange (in the case of Shares listed thereon).

Except under limited circumstances, the bylaws require that any capital increase affected pursuant to a capital contribution be represented Shares.

The fixed portion of our capital stock may only be increased or decreased by resolution of a general extraordinary meeting and an amendment to the bylaws, whereas the variable portion of our capital stock may be increased or decreased by resolution of a general ordinary meeting. See “Other Provisions—Fixed and Variable Capital.”

No resolution by the stockholders is required for decreases in capital stock resulting from exercise of our right to withdraw variable Shares or from our repurchase of our own Shares or for increases in capital stock resulting from our sale of Shares we previously purchased. See “Other Provisions— Repurchase of our own Shares” and “Other Provisions—Appraisal Rights.”

## Preemptive Rights

Except in certain limited circumstances, in the event of a capital increase through the issuance of new Shares for payment in cash or in kind, a holder of existing Shares of a given Series at the time of the capital increase has a preferential right to subscribe for a sufficient number of new Shares of the same Series to maintain the holder's existing proportionate holdings of Shares of that Series or, in the event of a capital increase through the issuance of limited-voting or non-voting stock only, to subscribe for a sufficient number of the Shares to be issued to maintain the holder's existing proportionate holdings of our capital stock. Preemptive rights must be exercised within 15 days following the publication of notice of the capital increase in the *Diario Oficial de la Federacion* (Official Gazette) or following the date of the stockholders' meeting at which the capital increase was approved if all stockholders were represented at such meeting; otherwise, such rights will lapse. Under Mexican law, preemptive rights cannot be waived in advance by a stockholder, except under limited circumstances, and cannot be represented by an instrument that is negotiable separately from the corresponding share. The Robinson Bours Stockholders, including the Selling Stockholders, have waived all preemptive rights with respect to the Shares and the ADRs being offered in the Global Offering. Holders of ADRs that are U.S. citizens or are located in the United States may be restricted in their ability to participate in the exercise of preemptive rights.

## Foreign Investment Legislation

Ownership by foreigners of Shares of Mexican companies is regulated by the *Ley de Inversion Extranjera* ("Foreign Investment Law") and by the *Reglamento de la Ley para Promover la Inversion Mexicana y Regular la Inversion Extranjera* ("Foreign Investment Regulations"). The Ministry of Commerce and Industrial Development and the Foreign Investment Commission are responsible for the administration of the Foreign Investment Law.

The Foreign Investment Law reserves certain economic activities exclusively for the Mexican state and certain other activities exclusively for Mexican individuals or Mexican corporations, and limits the participation of foreign investors to certain percentages in regard to enterprises engaged in activities specified therein. Foreign investors may own up to 100.0% of the capital stock of Mexican companies or entities, except for companies (i) engaged in reserved activities as referred to above or (ii) with assets exceeding an amount to be established annually by the Foreign Investment Commission, in which case an approval from the Foreign Investment Commission will be necessary in order for foreign investment to exceed 49.0% of the capital stock. Mexican and non-Mexican nationals will be entitled to hold and to exercise the rights of holders. The Robinson Bours Stockholders have advised us that they intend to maintain a control position. Pursuant to our bylaws, foreigners may only own Shares up to 49.0%.

## Other Provisions

Fixed and variable capital

As a “sociedad anonima de capital variable”, we are permitted to issue Shares constituting fixed capital and Shares constituting variable capital. The issuance of variable capital Shares, unlike the issuance of fixed capital Shares, does not require an amendment of the bylaws, although it does require approval at a general ordinary stockholders’ meeting. In no case may the capital of the Company be decreased to less than the minimum required by law and any decrease in the shareholders’ equity must be registered in the Equity Variations Book that the Company will keep for such purpose.

Repurchase in the event of delisting

In the event of cancellation of the registration of the Company’s Shares in such Registry, whether at the request of the Company or by a resolution of the National Securities and Banking Commission under applicable law, the Company agrees to make a public offering for the acquisition of the total number of the Shares registered prior to the cancellation. The Company must contribute to a trust for at least six months, the necessary resources to purchase at the same price of the public offering, the Shares of the investors that did not attend or did not accept such offer, in case that after the public offering for purchase has been made and prior to the cancellation of the registration of the Shares that represent the capital stock of the Company or of other securities issued based on such Shares in the National Securities Registry, the Company had been unable to acquire 100.0% of the paid in capital stock.

### Forfeiture of Shares

As required by Mexican law, our bylaws provide that our current and future foreign stockholders are formally bound to the Mexican *Secretaria de Relaciones Exteriores* (“Ministry of Foreign Relations”) to consider themselves as Mexican nationals with respect to our Shares that they may acquire or of which they may be owners, and with respect to the property, rights, concessions, participations or interests that we may own or rights and obligations that are based on contracts to which we are party with the Mexican authorities, and not to invoke the protection of their government under penalty, should they do so, of forfeiting to the Mexican State the corporate participation that they may have acquired. In the opinion of Galicia & Robles, S.C., our special Mexican counsel, under this provision a non-Mexican stockholder (including a non-Mexican holder of ADRs) is deemed to have agreed not to invoke the protection of his own government by requesting such government to interpose a diplomatic claim against the Mexican government with respect to the stockholder’s rights as a stockholder, but is not deemed to have waived any other rights it may have with respect to its investment in us, including any rights under U.S. securities laws. If the stockholder should invoke such governmental protection in violation of this agreement, its Shares could be forfeited to the Mexican State. Mexican law requires that such a provision be included in the bylaws of all Mexican corporations unless such bylaws prohibit ownership of capital stock by foreign investors.

### Exclusive Jurisdiction

Our bylaws provide that legal actions relating to any conflict between our stockholders and us, or among the stockholders in connection with matters related to us, may be brought only in courts in Mexico City. Therefore, our stockholders are restricted to the courts of Mexico City.

### Duration

The duration of our existence under our bylaws is indefinite.

### Repurchase of our own Shares

We may repurchase our Shares on the Mexican Stock Exchange at any time at the then prevailing market price. Any repurchases will be charged to the Stockholders’ Equity as long as these Shares belong to the same Company or to the Capital Stock in the event that we convert these Shares to treasury stock, and in this last case no resolution of the stockholders’ meeting is required. At each annual ordinary Stockholder’s Meeting, the maximum amount of resources

that may be used to repurchase Shares will be expressly defined. The Board of Directors will name the persons responsible for the operation of the repurchase process. The Shares that belong to the Treasury Stock or us can be resold among the public stockholders; in the latter case, no resolution of a stockholders' meeting is necessary for an increase in capital. The economic and voting rights corresponding to such repurchased Shares may not be exercised during the period in which such Shares are owned by us, and such Shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any stockholders' meeting during such period.

#### Non-Subscribed Shares

With prior authorization of the CNBV, we may issue non-subscribed Shares provided that such Shares will be held by a depositary institution and that there is compliance with the conditions of Article 53 of the *Ley del Mercado de Valores* ("Mexican Securities Law"). In any extraordinary stockholders' meeting at which this issuance of non-subscribed Shares is approved, the preference rights established by Article 132 of the Mexican Corporations Law must be respected. With a quorum at the meeting, the approval of the issuance will take effect, even with respect to stockholders that were not present at the meeting, such that we will be free to issue these Shares with no prior publication. When a minority of stockholders representing at least 25.0% of the voting capital stock vote against the issuance of these Shares, such issuance cannot be made. Any stockholder that votes against this issuance at the stockholders' meeting will have the right to request that we sell its Shares before issuing the new non-subscribed Shares. In such event, we will have the obligation to sell first the Shares belonging to such stockholders, at the same price that the non-subscribed Shares are to be offered to the public.



### Stockholder Conflicts of Interest

Under Mexican law, any stockholder that has a conflict of interest with respect to any transaction must abstain from voting thereon at the relevant stockholders' meeting. A stockholder that votes on a business transaction in which its interest conflicts with that of ours may be liable for damages if the transaction would not have been approved without such stockholder's vote.

### Board Member Conflicts of Interest

Under Mexican law, any member of the Board of Directors who has a conflict of interest with us in any transaction must disclose such fact to the other members of the Board of Directors and abstain from voting. Any member of the Board of Directors who violates such provision may be liable for damages caused to us. Additionally, members of the Board of Directors and statutory auditors may not represent other stockholders at any stockholders' meeting.

### Appraisal Rights

Whenever the stockholders approve a change of corporate purpose, a change in our nationality or transformation from one type of corporation form to another, any stockholder entitled to vote on such change or transformation who has voted against it has the right to withdraw from us and receive the amount calculated as specified under Mexican law attributable to its Shares, provided such stockholder exercises its right to withdraw within 15 days following the adjournment of the meeting at which the change or transformation was approved. Under Mexican law, the amount that a withdrawing stockholder is entitled to receive is equal to its proportionate interest in our capital stock according to the most recent balance sheet that has been approved by an ordinary general meeting of stockholders.

### Actions against Directors

Under Mexican law, holders of Shares having voting rights, including limited or restricted voting rights or holders of Shares without voting rights that jointly or individually represent 5.0% (five percent) or more of the capital stock, may directly exercise the action of liability against the members and secretary of the Board of Directors, as well as against the relevant directors or executive officers. The exercise of such action, among others, will be subject to the compliance with the requirements set forth under the Mexican Law.

Audit Committee and Corporate Practices

Under our bylaws, the Board of Directors is required to create an Audit Committee and Corporate Practices under the terms and conditions outlined below:

The Audit Committee and Corporate Practices will consist of members of the Board of Directors. The President of the Audit Committee and Corporate Practices and a majority of the committee members must be independent, as independence is defined under the Mexican Securities Market Law.

The mandate of the audit committee and corporate practices is to establish and monitor procedures and controls in order to ensure that the financial information we distribute is useful, appropriate and reliable, and accurately reflects our financial position.

For more detail or to read more about the Committee's activities please refer to "Audit Committee and Corporate Practices" section in Item 6 to this Annual Report. For additional information, also see Article 35 of the Mexican Securities Market Law.

Related Party Transactions

See "Related Party Transactions" included in Item 7 to this Annual Report.

**C.**

**Material Contracts**

None.

**D. Exchange Controls**

Ownership by foreigners of Mexican companies is regulated by the Foreign Investment Law and by the Foreign Investment Regulations. The Ministry of Commerce and Industrial Development and the Foreign Investment Commission are responsible for the administration of the Foreign Investment Law.

The Foreign Investment Law reserves certain economic activities exclusively for the Mexican Government and certain other activities exclusively for Mexican individuals or Mexican corporations and limits the participation of foreign investors to certain percentages in regard to enterprises engaged in activities specified therein. Foreign investors may own 100% of the capital stock of Mexican companies or entities, except for companies (i) engaged in reserved activities as referred to above or (ii) with assets exceeding an amount to be established annually by the Foreign Investment Commission in which case an approval from the Foreign Investment Commission shall be necessary in order for foreign investment to exceed 49.0% of the capital stock. Mexican and non-Mexican nationals will be entitled to hold and to exercise the rights of holders. The Robinson Bours Stockholders have advised us that they intend to maintain a control position of his shares. Pursuant to our bylaws, foreigners may only own Shares up to 49% of shares.

**E. Taxation**

The following discussion is a general summary of the principal U.S. federal income tax consequences and the principal Mexican federal tax consequences of the acquisition, ownership and disposition of Shares or ADRs. This summary does not purport to address all material tax consequences that may be relevant to holders of Shares or ADRs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for the U.S. alternative minimum tax, investors that own or are treated as owning 10% or more of our voting stock, investors that hold Shares or ADRs as part of a straddle, hedge, conversion transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. In addition, this summary is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed in accordance with its terms.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of Shares or ADRs that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;

- a corporation organized in or under the laws of the United States, any state thereof, or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income tax without regard to its source; or

a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership holds Shares or ADRs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner of a partnership considering the purchase of Shares or ADRs should consult its own independent tax advisor regarding the U.S. federal income tax consequences of investing in Shares or ADRs through a partnership.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. See “U.S. Federal Income Taxation—Passive Foreign Investment Company Rules” below. This discussion is based on the federal income tax laws and regulations of the United States (including the U.S. Internal Revenue Code of 1986, as amended or the “Code”) and Mexico, judicial decisions, published rulings and administrative pronouncements, all as in effect on the date hereof, and all of which are subject to change (possibly with retroactive effect) and different interpretations. Further, this discussion does not address U.S. federal estate and gift tax, U.S. Medicare tax on net investment income or the alternative minimum tax consequences of holding Shares or ADRs or the indirect consequences to holders or equity interests in partnerships (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) that own Shares or ADRs. In addition, this discussion does not address the non-U.S., non-Mexican, state or local tax consequences of holding Shares or ADRs. Prospective purchasers of Shares or ADRs should consult their own tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of Shares or ADRs, including, in particular, the effect of any non-U.S., non-Mexican, state or local tax laws.

A Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and a Protocol thereto, between the United States and Mexico (the “Tax Treaty”) took effect on January 1, 1994. The Tax Treaty was amended by a second Protocol signed September 8, 1994. The second Protocol entered into force on October 2, 2005. The Tax Treaty was amended by a third Protocol signed November 26, 2002, the provisions of which took effect in part on September 1, 2003, and in part on January 1, 2004. The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

In general, for U.S. federal income tax purposes, holders of ADRs evidencing ADRs will be treated as the beneficial owners of the Shares represented by those ADRs. However, see the discussion below under “Taxation of Dividends” regarding certain statements made by the U.S. Treasury concerning depository arrangements.

## U.S. Federal Income Taxation

### U.S. Holders

The following discussion is a summary of the material U.S. federal income tax consequences to holders of Shares or ADRs that are U.S. Holders and that hold those Shares or ADRs as capital assets (generally, for investment purposes).

### Taxation of Dividends

Cash distributions paid with respect to the Shares or ADRs to the extent paid out of our earnings and profits (as determined under U.S. federal income tax principles) will be included in the gross income of a U.S. Holder as ordinary income on the day on which the dividends are received by the U.S. Holder, in the case of Shares, or the Depositary, in the case of ADRs. We do not currently maintain calculations of our earnings and profits under U.S. federal income tax principles. Because these calculations are not made, distributions should be presumed to be taxable dividends for U.S. federal income tax purposes.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), to claim a U.S. foreign tax credit in respect of any Mexican income taxes withheld on dividends received on Shares or ADRs. U.S. Holders who do not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such Mexican income taxes, provided the U.S. Holder elects to deduct (rather than credit) all foreign income taxes for that year. Dividends received with respect to Shares or ADRs will be treated as foreign source income, subject to various classifications and other limitations. For purposes of the U.S. foreign tax credit limitation dividends paid with respect to Shares or ADRs generally will constitute "passive category income" for most of U.S. Holders. The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADRs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of such ADRs. Accordingly, the analysis of the creditability of Mexican income taxes described above could be affected by future actions that may be taken by the U.S. Treasury Department. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own independent tax advisors regarding the availability of foreign tax credits with respect to any Mexican income taxes withheld.

Dividends paid in pesos will be included in the gross income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. Holder, in the case of Shares, or by the Depositary, in the case of ADRs (regardless of whether such pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt by the U.S. Holder or the Depositary, as the case may be, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received which are converted into U.S. dollars on a date subsequent to receipt.

Cash dividends paid to corporate U.S. Holders will not be eligible for the dividends-received deduction allowed to corporations under the Code. Subject to certain exceptions for short term and hedged positions, and provided that we are not a PFIC (as discussed below), dividends received by certain non-corporate U.S. Holders (including individuals) with respect to the Shares or ADRs will be subject to U.S. federal income taxation at preferential rates if such dividends represent “qualified dividend income.” Dividends paid on the Shares or ADRs will be treated as qualified dividend income if (i) we are eligible for the benefits of the Tax Treaty or the Shares or ADRs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. We expect to be eligible for the benefits of the Tax Treaty. In addition, under current guidance issued by the Internal Revenue Service (“IRS”), the ADRs should qualify as readily tradable on an established securities market in the United States so long as they are listed on the New York Stock Exchange, but no assurances can be given that the ADRs will be or remain readily tradable under future guidance.

The U.S. Treasury Department has announced its intention to promulgate rules pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of Shares or ADRs should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

Distributions to U.S. Holders of additional Shares with respect to their Shares or ADRs that are made as part of a pro rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax. If holders of the ADRs are restricted in their ability to participate in the exercise of preemptive rights, the preemptive rights may give rise to a deemed distribution to holders of the Shares under Section 305 of the Code. Any deemed distributions will be taxable as a dividend in accordance with the general rules of the income tax treatment of dividends discussed above.

### Taxation of Capital Gains

Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Shares or ADRs generally will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between such U.S.

Holder's adjusted tax basis in the Shares or ADRs and the amount realized on the disposition. A U.S. Holder generally will have an adjusted tax basis in its Shares or ADRs equal to its U.S. dollar cost for such Shares or ADRs. Gain or loss recognized by a U.S. Holder on the sale or other disposition of Shares or ADRs generally will be long-term gain or loss if, at the time of disposition, the U.S. Holder has held the Shares or ADRs for more than one year.

Certain non-corporate U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deduction of a capital loss is subject to limitations under the Code.

Gain realized by a U.S. Holder on a sale or other disposition of Shares or ADRs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if any Mexican withholding tax is imposed on the sale or disposition of the Shares, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. Alternatively, a U.S. Holder may deduct the Mexican tax withheld from its gross income, provided such U.S. Holder does not claim a foreign tax credit for any foreign income taxes paid or accrued during the taxable year. U.S. Holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, the Shares or ADRs.



In some cases, gain may be treated as foreign source income by holders eligible for the benefits of the Tax Treaty. U.S. Holders should consult their own tax advisors regarding the application of the Tax Treaty to gain or loss recognized on the sale or other taxable disposition of Shares or ADRs.

Deposits and withdrawals of Shares by U.S. Holders in exchange for ADRs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### Passive Foreign Investment Company Rules

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75.0% of its gross income is passive income, or (2) on average at least 50.0% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions. The determination as to whether a non-U.S. corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to different interpretations. In addition, the PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and composition of its income. In determining whether we are a PFIC, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least a 25.0% interest by value is taken into account.

Based on current estimates of our income and assets, we do not believe that we were classified for our most recently-ended taxable year, or will be classified for our current taxable year, as a PFIC for U.S. federal income tax purposes, and we intend to continue our operations in such a manner that we will not become a PFIC in the future, although no assurances can be made regarding determination of our PFIC status in the current or any future taxable year. If we are treated as a PFIC for any taxable year, a U.S. Holder would be subject to special rules (and may be subject to increased tax liability and form filing requirements) with respect to (a) any gain realized on the sale or other disposition of Shares or ADRs, and (b) any "excess distribution" made by us to the U.S. Holder (generally, any distribution during a taxable year in which distributions to the U.S. Holder on the Shares or ADRs exceed 125.0% of the average annual distributions the U.S. Holder received on the Shares or ADRs during the preceding three taxable years or, if shorter, the U.S. Holder's holding period for the Shares or ADRs). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the Shares or ADRs, (b) the amount allocated to the taxable year in which the gain or excess distribution is realized and to taxable years before the first day on which we became a PFIC would be taxable as ordinary income, (c) the amount allocated to each prior year in which the Issuer was a PFIC would be subject to U.S. federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of U.S. federal income tax would be imposed in respect of the tax attributable to each prior year in which we were treated as a PFIC.

In addition, a U.S. Holder generally must file IRS Form 8621 periodically to disclose ownership of an equity interest in a PFIC during any taxable year.

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to Shares or ADRs and the application of recently enacted legislation to their particular situation.

#### Non-U.S. Holders

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of Shares or ADRs that are neither U.S. Holders nor partnerships for U.S. federal income tax purposes (“Non-U.S. Holders”).

Subject to the discussion below under “U.S. Backup Withholding and Information Reporting,” a Non-U.S. Holder of Shares or ADRs will not be subject to dividend or U.S. federal income or withholding tax on a dividend paid by us or gain realized on the sale of Shares or ADRs, unless (i) such dividend or gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder) or (ii) in the case of gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

## U.S. Backup Withholding and Information Reporting

In general, dividends on Shares or ADRs, and payments of the proceeds of a sale or other taxable disposition of Shares or ADRs, paid within the United States, by the U.S. payor or through certain U.S.-related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding at a current rate of 28%, unless the U.S. Holder (i) establishes that it is an exempt recipient or (ii) with respect to backup withholding, provides an accurate taxpayer identification number and certifies that it is a U.S. person and that no loss of exemption from backup withholding has occurred. Payments made within the United States, by a U.S. payor or through certain U.S.-related financial intermediaries to a Non-U.S. Holder will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the Non-U.S. Holder to the payor or intermediary and the pay or intermediary does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding is not an additional tax. The amount of any backup withholding withheld from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed its U.S. federal income tax liability by filing a timely refund claim with the IRS.

In addition, U.S. Holders should be aware of annual reporting requirements with respect to the holding of foreign financial assets, including stock of foreign issuers that are not held in an account maintained by certain types of financial institutions, if the aggregate value of all of such assets exceeds \$50,000, subject to certain exceptions. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our common Shares and the application of these reporting requirements to their particular situation.

## Mexican Taxation

### Taxation of Dividends

Through December 31, 2013, dividends, either in cash or in any other form, paid with respect to the Shares constituting the Shares or the ADRs were not subject to Mexican withholding tax. However, as a result of changes to the income tax law described in note 20(a) of our Audited Consolidated Financial Statements, beginning on January 1, 2014, a new withholding tax of 10% was established for Mexican individuals resident in Mexico and for all residents in foreign countries who receive dividends from entities. Such tax is considered a withholding tax by the entity that pays the dividends.

Taxation of Capital Gains

Gain on the sale or other disposition of ADRs by holders who are not Mexican Residents (as defined below) will not be subject to Mexican income tax. Deposits of Shares in exchange for ADRs and withdrawals of Shares in exchange for ADRs will not give rise to Mexican income tax.

Gain on the sale of Shares by a holder who is not a Mexican Resident (as defined below) will not be subject to Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other securities markets approved by the Mexican Ministry of Finance, and provided certain requirements set forth by the Mexican Income Tax Law are complied with. Sales or other dispositions of Shares made in other circumstances generally would be subject to Mexican tax, except to the extent that a holder is eligible for benefits under an income tax treaty to which Mexico is a party of. Under the Tax Treaty, gain on the sale or other disposition of Shares by a U.S. resident (if eligible for benefits under the Tax Treaty) who is a holder of less than 25% of our capital stock during the twelve-month period preceding such sale or disposition will not be subject to Mexican tax, unless (i) 50% or more of the fair market value of our assets consist of “immovable property” (as defined in the Tax Treaty) situated in Mexico, or (ii) such gains are attributable to a permanent establishment or fixed base of such U.S. resident in Mexico.

For a holder that is not a Mexican Resident and that does not meet the requirements referred to above, gross income realized on the sale of Shares will be subject to a 5% Mexican withholding tax if the transaction is carried out through the Mexican Stock Exchange. Alternatively, a holder that is not a Mexican Resident can choose to be subject to a 20% withholding rate on the net gain obtained, as calculated pursuant to Mexican Income Tax Law provisions.

The Mexican tax rules governing the taxation of gains of holders who are not Mexican Residents on dispositions of their Shares or ADRs were amended during 2002. Holders who are not Mexican Residents who disposed of their Shares or ADRs during 2003 should consult their own Mexican tax advisors on the Mexican tax treatment of such dispositions.

For purposes of Mexican taxation (*Ley del Impuesto sobre la Renta*), an individual is a resident of Mexico (a “Mexican Resident”) if he or she has established his or her home in Mexico, unless he or she has resided in another country for more than 183 days, whether consecutive or not, during a calendar year and can demonstrate that he or she has become a resident of that country for tax purposes. A legal entity is a Mexican Resident if it has been incorporated under Mexican law. A company is also considered to be a Mexican Resident if its headquarters are located in Mexico. A Mexican citizen is presumed to be a resident of Mexico for tax purposes unless such person can demonstrate otherwise. If a person is deemed to have a permanent establishment or fixed base in Mexico for tax purposes, such permanent person shall be required to pay taxes in Mexico on income attributable to such permanent establishment or fixed base, in accordance with applicable tax laws.

#### Other Mexican Taxes

There are no Mexican inheritance, succession or similar taxes applicable to the ownership, transfer or disposition of ADRs or Shares by holders that are not Mexican Residents; provided, however, that gratuitous transfers of Shares may in certain circumstances cause a Mexican federal tax to be imposed on the recipient. There is no Mexican stamp, issue, registration or similar taxes or duties payable by holders of ADRs or Shares. Brokerage fees on securities transactions carried out through the Mexican Stock Exchange are subject to a 16%, valued added tax.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

The documents concerning us which are referred to in this document are available in our company headquarters, located at Avenida Tecnológico No. 401, Ciudad Industrial, Celaya, Guanajuato, zip code 38010, Mexico, for any inspection required. Part of this information is available on our website, at [www.bachoco.com.mx/inversionistas](http://www.bachoco.com.mx/inversionistas).

**I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of our business, we hold or issue various financial instruments that expose us to financial risks involving fluctuations in currency exchange rates and interest rates. Also, we are exposed to commodity price risk in connection with fluctuations in the prices for our feed ingredients.

The Company is exposed to several risks related to the use of financial instruments to which risk management is applied, including credit risk, liquidity risk, market risk, and operational risk.

Note 8 of our Audited Consolidated Financial Statements presents information on the Company's exposure to each of the aforementioned risks, and the Company's objectives, policies and procedures for risk measurement and management. Further quantitative disclosures are included in various sections of these Audited Consolidated Financial Statements included in this Annual Report.

## Risk management framework

The risk philosophy adopted by the Company seeks to minimize the risk and, therefore, to enhance its business stability, by opting for a sound relationship between the levels of risk assumed and its operating capabilities, for ensuring better decision-making.

Risk Management means the “Set of objectives, policies, procedures and actions implemented to identify measure, monitor, limit, control, report and disclose the various types of risks to which the entity is exposed.”

## Currency Fluctuation

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to cost and expenses which are denominated in U.S. dollars. See Risk Factors under Item 3.

In 2015, 2014 and 2013 we recognized foreign exchange gains of \$95.4, \$19.9 and \$28.1 million, respectively. These gains are mainly attributed to positive results in our investments of cash.

As of December 31, 2015, a hypothetical increase of 10% in the exchange rate, would have resulted in a decrease in the foreign currency position of \$225.6 million, which represents a loss from foreign currency exchange rates. On the other hand, a decrease of 10% in the exchange rate would have resulted in an increase in our foreign currency position of \$225.6 million, which represents a gain from foreign currency exchange rates.

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

The main risk that the Company faces with the use of these derivative instruments is the volatility in the exchange rate of the peso against the U.S. dollar. Our risk committee approves any change in policies and reviews the application of current policies.

No assurance can be given as to the future valuation of the Mexican peso and how further movements in the peso could affect our future earnings. In order to mitigate our foreign exchange risk, we have established a Risk Committee which meets at least once a quarter and approves the guidelines and policies for entering into these operations. We also work with independent consultants who make evaluations of our positions and provide us with consulting services. Said companies do not sell any financial instruments to us.

#### Interest Rates

Our earnings may also be affected by changes in interest rates due to the impact those changes have on our variable rate debt instruments.

As of December 31, 2015, we had borrowings of approximately \$4,127.0 million pursuant to variable rate debt instruments, representing approximately 10.2% of our total assets.

Based on our debt position on December 31, 2015, we estimate that a hypothetical increase in the interest rate of 50 basis points would increase our interest expense by \$17.4 million, negatively impacting our net income by the same. Whereas, we estimate that a hypothetical decrease in the interest rate of 50 basis points, would decrease our interest expense by \$17.4 million, positively impacting our net income by the same.

Any such increase would likely be partially offset by an increase in interest income due to our strong cash and cash equivalent position.



## Feed Ingredients

The price of sorghum, soy meal, and corn is subject to significant volatility resulting from many external factors like weather conditions, the size of harvests, transportation and storage costs, among others. In order to reduce the potential adverse effect of grain price fluctuations, we vary the composition of our feed to take advantage of current market prices for the various types of ingredients used.

Based on our results for 2015, we estimate that a hypothetical increase in the price of corn bushel and short-ton of soybean meal of 15% would decrease the loss in our overall derivative position instruments to \$44.6 million, negatively affecting our results. Whereas, we estimate that a hypothetical decrease in the price of corn bushel and short-ton soybean meal of 15%, would increase the loss in our overall derivative position instruments to \$56.8 million, positively affecting our results.

## Item 12. Description of Securities Other Than Equity Securities

### A. Debt Securities

On August 29, 2012, we issued bonds for \$1,500 million through a public issuance of local bonds (“Certificados Bursátiles” or “CBs”) in the local debt capital markets for a tenor of 5 years, maturing in 2017.

The bonds issued have a 28-day TIE interest rate plus + 0.60%. The principal of the bonds will be amortized at face value, in one payment, on the date of maturity.

This represented our first bond offering, which was distributed among a wide range of local investors. The funds obtained were utilized in accordance with the Company’s financial requirements.

This first \$1,500 million bonds issuance is part of a bond issuance program for up to \$5,000 million that the Company has available for issuance within the next five years, in accordance with its financial needs.

The CBs do not provide restrictions of payment of cash dividends.

For more detail, see Note 17 of our Audited Consolidated Financial Statements.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Receipts**

BNY Mellon has been our Depositary Bank since the day of our initial public offering of shares and continues to act in that capacity as of the date of this document. BNY Mellon is located at Church Street Station, in New York, N.Y. 10286. Below is their contact information for shareholder and proxy services:

**Shareholder Services**

P.O. Box 30170

College Station, TX 77842-3170

US: 888 BNY ADRS

T.: 201 680 6825

E: shrrelations@cpushareownerservices.com

**Proxy Services**

P.O. Box 43102

Providence RI 02940-5068

Toll free: 888 269 2377

T. 212 815 3700

E: shareowner@bankofny.com

Fees and charges that a Holder of our ADRs may have to pay, either directly or indirectly

Our Depositary may charge each person to whom ADRs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADRs or deposited securities, and each person surrendering ADRs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADRs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, the case may be. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The Depositary collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADRs), whichever is applicable:

**Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADRs (or portion of 100 ADRs)

\$.02 (or less) per ADR

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADRs

Registration or transfer fees

**For:**

Issuance of ADRs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADRs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADR registered holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR registered holders

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

We will pay all other charges and expenses of the Depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the Depositary. The fees described above may be amended from time to time.

Fees and other direct and indirect payments made by the Depositary and us

The Depositary has agreed to reimburse us for expenses we incur that are related to establishment and maintenance expenses of the ADR program. The Depositary has agreed to reimburse us for our continuing annual stock exchange listing fees. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the Depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

Pursuant to our letter agreement with our Depositary, in 2014 we did not receive any such payment because we renegotiated our contract with BNY Mellon in August 2014 and were not be able to request this benefit until one year from the contract renewal date. In 2015, we received a payment of US \$67,765.28 (less fees), as payment for expenses we incurred related to the maintenance of our ADR program, including investor relations expenses and exchange application and listing fees.

Part II

**Item 13. Default, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

*Disclosure Controls and Procedures*

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance, that information required to be disclosed in the reports we file and submit under the Securities Exchange Act are recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### ***Management's Annual Report on Internal Control over Financial Reporting***

The Company's management is responsible for establishing and maintaining internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its original 1992 Internal Control—Integrated Framework.

Based on this assessment, management concluded that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria. It is important to highlight that as of December 31, 2014, we did find material weaknesses (described below), which we had remediated as of December 31, 2015.

### *Material Weaknesses*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely manner.

The following material weaknesses were identified in our internal controls over financial reporting as of December 31, 2014:

- (i) deficiencies in our risk assessment activities, which may have an effect on our response to address risks associated with our Consolidated Financial Statements, primarily:
  - a) we have not implemented a plan for remediating certain of the significant deficiencies identified in the past, including the lack of a financial expert on our Audit Committee and
  - b) we have identified deficiencies in our control procedures relating to risk prevention in our information technology systems; such as an incomplete segregation of duties; and
    - (ii) deficiencies associated with physical control over our fixed assets.

### *Remediation Plan*

We implemented a number of steps to remediate the material weaknesses we identified as of December 31, 2014 and improve our internal control over financial reporting. As a result of this plan, we:

- analyzed each of the deficiencies in our risk assessment process and presented an integrated remediation plan to our audit committee in the first half of 2015;
- conducted a search for a new board member and as a result of such search recruited Mr. Guillermo Ochoa Maciel to our board of directors and audit committee where he has been named the audit committee financial expert;
- established a formal control process for our information technology system by installing governance risk control software; and
- improve the procedures and criteria we use to control the existence of fixed assets, including, among others, the timing and the type of assets included in each physical count cycle and where the count is done and enhanced our

documentation of such procedures.

As a result of this plan, we remedied the material weaknesses we identified as of December 31, 2014 and no new material weaknesses were identified as of December 31, 2015.

The Company decided to prioritize the remediation of the identified material weaknesses to eliminate these weaknesses and to strengthen its internal control procedures. For this reason, the Company continued using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its original 1992 Internal Control—Integrated Framework. In 2016, the Company will adopt the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 2013 Internal Control—Integrated Framework by implementing a plan. This plan will be presented to the Company's audit committee during the second quarter of 2016 for its approval.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by Deloitte, an independent registered public accounting firm, as stated in their report which appears herein.



### Changes in Internal Control Over Financial Reporting

We implemented the processes and procedures mentioned above in connection with our efforts to remediate the material weaknesses reported in our 2014 annual report on Form 20-F.

There have otherwise been no changes in our internal control over financial reporting in the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Attestation Report of the Independent Registered Public Accounting Firm**

Report of Independent Registered Public Accounting Firm to the Board of Directors and Stockholders of Industrias Bachoco, S.A.B. de C.V.

We have audited the internal control over financial reporting of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the “Company”) as of December 31, 2015, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the

reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2015 of the Company and our report dated April 29, 2016 expressed an unqualified opinion on those financial statements.

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

By: /s/ C.P.C. Francisco Javier Robles Mújica  
Querétaro, Qro., Mexico

April 29, 2016

#### **Item 16. [Reserved]**

#### **ITEM 16.A. Audit Committee Financial Expert**

During our ordinary stockholders' meeting that took place on November 3, 2015, Guillermo Ochoa Maciel was elected as President of the Audit and Corporate Practices Committee. Mr. Ochoa Maciel possesses all the characteristics included in the definition of an "audit committee financial expert" within the meaning of this Item 16A.

#### **ITEM 16.B. Code of Ethics**

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, as well as to other officers and employees. Our code of ethics is available free of charge upon request through our investor relations website [www.bachoco.com.mx](http://www.bachoco.com.mx). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver upon request on our website at the same address.

ITEM 16.C. Principal Accountant Fees and Services

On September 3, 2013, we announced that the Company's Board of Directors, as per the Audit Committee's recommendation, approved the selection of Deloitte as the Company's independent registered public accountant, effective as of September 30, 2013.

*Audit and Non-Audit Fees*

The following table sets forth the fees billed by Deloitte our independent registered public accounting firms, and paid by us. All amounts are in nominal thousands of pesos, no taxes are included.

AUDIT FEES OF DELOITTE

	As of December 31,	
In thousands of pesos,	2015	2014
Total Fees:	\$ 10,334	\$ 9,135
Audit fees	8,904	6,743
Audit related fees	1,430	2,392
Other	-	-

Deloitte's audit related fees in the table above are fees related to the review of the Annual Reports to be released to the Mexican and New York stock exchanges, as well as fees billed by Deloitte related to out of packet expenses they incurred in connection with the performance of their audit, such as lodging and traveling.

Total 2015 audit fees agreed to be paid to Deloitte is \$7.0 million.

#### Audit Committee Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

#### ITEM 16.D. Exemptions from the Listing Standards for Audit Committees

According to the New York Stock Exchange's Listing Standards for Audit Committees of a Foreign Private Issuer, Ricardo Aguirre, a member of our audit committee, currently does not meet the independence standards set forth in Rule 10A-3b(1)(ii)(B) of the Exchange Act. Therefore, with respect to Mr. Aguirre, we rely on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act because Mr. Aguirre (i) represents the Company's controlling shareholders, (ii) only has observer status on, and is not a voting member or the chair of, the Company's audit committee and (iii) is not an executive officer of the Company. Our reliance on such exemption does not materially adversely affect the ability of our audit committee to act independently and to satisfy the other requirements of Rule 10A-3(b).

#### ITEM 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Every year during the annual ordinary stockholder meeting, the Board proposes the approval of an amount to be used in a repurchase plan of our shares. The repurchase plan is approved for a period of one year. All the shares set in the table below were repurchased pursuant to the repurchase plan in force at the date of the purchase.

The table set below sets forth the information regarding the purchase plan approved by the Board of Directors in the three recent fiscal years.

REPURCHASE PLAN APPROVED

Year	Announced date	Expiration date	Amount	Estimate number of shares that may be purchase under the plan	
2015	April 22, 2015	April 26, 2016	\$778,320,000	12,000,000	(1)
2014	April 23, 2014	April 22, 2015	\$576,600,000	12,000,000	
2013	April 24, 2013	April 23, 2014	\$391,560,000	12,000,000	

(1) The amount includes current shares in the repurchase plan.

The table below sets forth information about the repurchase of our shares on the BMV:

#### REPURCHASE OF SHARES IN 2015

Monthly operation of the repurchase plan in 2015	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchase as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	0	\$ 0.00	0	12,000,000
January	667,013	59.84	667,013	11,332,987
February	0	0.00	0	11,332,987
March	0	0.00	0	11,332,987
April	0	0.00	0	11,332,987
May	0	0.00	0	11,332,987
June	0	0.00	0	11,332,987
July	0	0.00	0	11,332,987
August	0	0.00	0	11,332,987
September	0	0.00	0	11,332,987
October	0	0.00	0	11,332,987
November	0	0.00	0	11,332,987
December	10,000	69.89	10,000	11,322,987
Total 2015	677,013	59.98	667,013	11,322,987

#### REPURCHASED OF SHARES IN 2016

Monthly operation of the repurchase plan in 2015	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchased as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	10,000	\$ 69.89	10,000	11,322,987
January 2016	50,000	68.00	50,000	11,272,987
February 2016	10,157	70.60	10,157	11,262,830
March 2016	0	0.00	0	11,262,830
Total as of March 31, 2016:	70,157	69.50	70,157	11,262,830

REPURCHASE PLAN BALANCE

	Number of Shares
Total shares in the repurchase plan as of December 31, 2014	0
(+) Total shares purchased in 2015	677,01
(-) Total shares sold in 2015	667,013
Total shares in the repurchase plan as of December 31, 2015	10,000
(+) Total shares purchased as of March 31, 2016	60,157
(-) Total shares sold as of March 31, 2016	8,000
Total shares in the repurchase plan as of March 31, 2016	62,157

ITEM 16.F. Changes in Registrant's Certifying Accountant

Not applicable.

ITEM 16.G. Corporate Governance

Comparison of our Corporate Governance Rules and the Rules of the NYSE Applicable to U.S. Registered Companies



On November 4, 2003, the SEC approved final corporate governance standards for companies listed on the NYSE (“NYSE Corporate Governance Standards”). According to such standards, foreign private issuers are subject to a more limited set of requirements regarding corporate governance than those imposed on U.S. domestic issuers. As a foreign private issuer, we must comply with four NYSE Corporate Governance Standards:

- prior to July 31, 2005, we must comply with the requirements set forth by the SEC concerning audit committees;

we must submit an annual Written Affirmation to the NYSE and an Interim Written Annual Affirmation each time a change occurs in the Board of Directors or the Audit Committee;

our CEO must promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any of the applicable NYSE corporate governance rules; and

we must provide a brief description disclosing any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE listing standards.

Pursuant to Section 303A.11 of the NYSE Corporate Governance Standards, we are required to disclose any significant ways in which our corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standards. A brief description disclosing the significant ways in which our corporate governance practices differ from those followed by U.S. companies under the NYSE listing standards is set forth below:

#### **NYSE Corporate Governance Rules for Domestic Issuers**

**Director Independence.** Majority of board of directors must be independent.” Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from this requirement.

A director is not independent if such director is:

- (i) a person who the board determines has a material direct or indirect relationship with the company, its parent or a consolidated subsidiary;
- (ii) an employee, or an immediate family member of an executive officer, of the company, its parent or

#### **Our Corporate Governance Practices**

Pursuant to the Mexican Securities Market Law and our bylaws, our stockholders are required to appoint a board of directors of between five and 20 members, 25% of whom must be independent. Our board of directors is not required to make a determination as to the independence of our directors.

Under Article 14 Bis of the Mexican Securities Market Law, a director is not independent if such director is:

- (i) an employee or officer of the company (one-year cooling off period);
- (ii) a stockholder that, without being an employee or officer of the company, has influence or authority over the company’s

a consolidated subsidiary, other than employment as officers;  
interim chairman or CEO;

### **NYSE Corporate Governance Rules for Domestic Issuers**

- (iii) a person who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the company, its parent or a consolidated subsidiary, other than director and committee fees or deferred compensation for prior services only (and other than compensation for service as interim chairman or CEO or received by an immediate family member for service as a non-executive employee);
  
- (iv) a person who is affiliated with or employed, or whose immediate family member is affiliated with or employed in a professional capacity, by a present or former internal or external auditor of the company, its parent or a consolidated subsidiary;
  
- (v) an executive officer, or an immediate family member of an executive officer, of another company whose compensation committee's membership includes an executive officer of the listed company, its parent or a consolidated subsidiary; or
  
- (vi) an executive officer or employee of a company, or an immediate family member of an executive officer of a company, that makes payments to, or receives payments from, the listed company, its parent or a consolidated subsidiary for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues (charities are not included, but any such payments must be disclosed in the company's proxy (or, if no proxy is prepared, its Form 10-K / Annual Report)).

### **Our Corporate Governance Practices**

- (iii) a consultant, or partner or employee of a consultant, to the company or its affiliates, where the income from the company represents 10% or more of the overall income of such consultant;
  
- (iv) an important client, supplier, debtor or creditor (or a partner, director or employee thereof). A client and supplier is considered important where its sales to or purchases from the company represent more than 10% of the client's or supplier's total sales or purchases. A debtor or creditor is considered important whenever its sales to or purchases from to the company represent more than 15% of the debtor's or creditor's total sales or purchases;
  
- (v) an employee of a non-profit entity that receives contributions from the company that represent more than 15% of the total contributions received;
  
- (vi) a CEO or other high ranking officer of another company in which the issuer's CEO or other high ranking officer is a member of the board of directors; or

### **NYSE Corporate Governance Rules for Domestic Issuers**

(vii) "Immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law and anyone (other than domestic employees) who shares the person's home. Individuals who are no longer immediate family members due to legal separation, divorce or death (or incapacity) are excluded. §303A.02(b)

**Executive Sessions.** Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03

**Audit committee.** Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07

### **Our Corporate Governance Practices**

(vii) a "family member" related to any of the persons mentioned above in (i) through (vi). "Family member" includes a person's spouse, concubine or other relative of up to three degrees of consanguinity and affinity, in the case of (i) and (ii) above, and a spouse, concubine or other relative of up to one degree of consanguinity or affinity in the case of (iii) through (vi) above.

There is no similar requirement under our bylaws or applicable Mexican law.

The members of our audit committee are independent as independence is defined by Rule 10A-3.

Our audit committee complies with the requirements of the Mexican Securities Market Law and has the following attributes:

We have a three-member audit committee, which is composed of one proprietary director and two proprietary independent directors.

The president of the audit committee and one additional member are independent. Under the Mexican Securities Market Law, the president and the majority of the members of the audit committee must be independent.

Our audit committee operates pursuant to a written charter adopted by our board of directors. See Item 6 for a detailed description of the duties of our audit committee.

Pursuant to our bylaws and Mexican law, our audit committee submits an annual report regarding its activities to our board of directors.

**NYSE Corporate Governance Rules for Domestic Issuers**

**Nominating/corporate governance**

**committee.** Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. “Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04

**Compensation committee.** Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. “Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05

**Equity compensation plans.** Equity compensation plans require stockholder approval, subject to limited exemptions. §303A.08

**Code of Ethics.** Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10

**Our Corporate Governance Practices**

We are not required to have a nominating/corporate governance committee, and it is not expressly recommended by the Mexican Code of Best Corporate Practices.

We are not required to have a compensation committee. As recommended by the Mexican Code of Best Corporate Practices, we have an evaluation mechanism for assisting the board of directors in approving executive officer compensation.

Stockholder approval is not expressly required under Mexican law or our bylaws for the adoption and amendment of an equity-compensation plan. However, regulations of the Mexican Banking and Securities Commission require stockholder approval under certain circumstances. We currently do not have any equity-compensation plans in place.

We have adopted a code of ethics, which has been accepted by to our chief executive officer, chief financial officer, controller and persons performing similar functions, as well as to other officers and employees. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. We have no such waivers in place.

ITEM 16.H. Mine Safety Disclosure

Not applicable.

Part III

**Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

See the Audited Consolidated Financial Statements including Notes, incorporated herein by reference.

**Item 19. Exhibits**

**Index of Exhibits**

Documents filed as exhibits to this Annual Report:

<b>Exhibit No.</b>	<b>Description</b>
1.1	An English translation of the Bylaws ( <i>estatutos sociales</i> ) of Industrias Bachoco, S.A. de C.V. dated June 29, 2007 (incorporated by reference to Exhibit 1.1 on Form 20-F filed with the U.S. Securities and Exchange Commission on June 29, 2007 (File No. 333-07950)).
2.1	Form of Amended and Restated Deposit Agreement, among Industrias Bachoco, S.A. de C.V., the Depository and each Owner and Beneficial Owner from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit 1.1 on Form F-6 filed with the U.S. Securities and Exchange Commission on August 18, 2006 (File No. 333-07480)).
2.2	Trust Agreement, dated April 1, 1995, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Prime Internacional, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).
2.3	

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Trust Agreement, dated August 20, 1997, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Bital, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).

- 8.1 Subsidiaries of Industrias Bachoco S.A. de C.V.
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

INDUSTRIAS BACHOCO,  
S.A.B de C.V.

By: /s/ Daniel Salazar Ferrer  
Daniel Salazar Ferrer  
Chief Financial Officer

Date: April 29, 2016



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

Consolidated Financial Statements

Years ended December 31, 2015, 2014 and 2013

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**Report of Independent Registered Public Accounting Firm to the Board of Directors and Stockholders of Industrias Bachoco, S.A.B. de C.V.**

We have audited the accompanying consolidated statements of financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2015, 2014 and 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries as of December 31, 2015, 2014 and 2013 and the results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 29, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

Galaz, Yamazaki, Ruiz Urquiza, S. C.

Member of Deloitte Touche Tohmatsu Limited

By: /s/ C.P.C. Francisco Javier Robles Mújica

Querétaro, Qro., Mexico

April 29, 2016

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

## Consolidated Statements of Financial Position

December 31, 2015, 2014 and 2013

(Thousands of pesos)

Assets	Note	2015	2014	2013
Current assets:				
Cash and cash equivalents	7	\$14,046,262	11,036,062	6,716,894
Investment in securities at fair value through profit or loss	8	1,242,614	925,584	1,004,106
Derivative financial instruments	8	1,244	6,669	11,735
Accounts receivable, net	9	2,533,427	2,974,578	2,318,093
Due from related parties	19	194,522	1,929	3,678
Inventories	10	3,404,269	2,968,061	2,738,222
Current biological assets	11	1,651,794	1,501,428	1,420,174
Prepaid expenses and other current assets	12	1,587,808	1,379,077	1,135,539
Assets held for sale	13	60,048	58,583	49,053
Total currents assets		24,721,988	20,851,971	15,397,494
Non-current assets:				
Property, plant and equipment, net	14	13,188,131	12,054,754	11,652,449
Non-current biological assets	11	1,434,131	1,109,233	1,109,936
Deferred income tax	20	54,127	49,378	34,940
Goodwill	15	454,295	349,764	344,259
Other non-current assets	16	593,906	428,028	350,599
Total non-currents assets		15,724,590	13,991,157	13,492,183
Total assets		\$40,446,578	34,843,128	28,889,677
Liabilities and equity	Note	2015	2014	2013
Current liabilities:				
Short term debt	17	\$1,622,850	664,250	541,200
Current portion of long-term debt	17	9,033	133,732	16,392
Trade payable and other accounts payable	18	4,597,103	3,970,515	3,375,601

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Income tax payable	20	248,205	759,982	456,657
Due to related parties	19	165,628	127,033	54,095
Total current liabilities		6,642,819	5,655,512	4,443,945
Long term liabilities:				
Long term debt, excluding current installments	17	2,495,127	1,652,470	1,510,210
Deferred income tax	20	3,369,036	3,082,197	2,736,131
Employee benefits	21	160,218	90,899	48,245
Total long term liabilities		6,024,381	4,825,566	4,294,586
Total liabilities		12,667,200	10,481,078	8,738,531
Equity:				
Capital stock	24	1,174,432	1,174,432	1,174,432
Share premium		414,017	399,641	399,641
Reserve for repurchase of shares		777,622	101,105	99,601
Retained earnings		24,749,616	22,513,154	18,586,228
Foreign currency translation reserve		710,439	208,107	(87,090 )
Actuarial remeasurements, net	21	(97,196 )	(79,035 )	(60,967 )
Equity attributable to controlling interest		27,728,930	24,317,404	20,111,845
Non-controlling interest		50,448	44,646	39,301
Total equity		27,779,378	24,362,050	20,151,146
Commitments	26			
Contingencies	27			
Total liabilities and equity		\$40,446,578	34,843,128	28,889,677

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, 2015, 2014 and 2013

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

	Note	2015	2014	2013
Net revenues		\$46,229,049	41,779,087	39,710,726
Cost of sales	22	(36,847,508 )	(32,494,974 )	(33,176,599 )
Gross profit		9,381,541	9,284,113	6,534,127
General, selling and administrative expenses	22	(4,323,374 )	(3,781,326 )	(3,291,006 )
Other (expenses) income, net	29	(4,640 )	(160,919 )	30,704
Operating income		5,053,527	5,341,868	3,273,825
Finance income	28	593,845	367,227	344,785
Finance costs	28	(147,292 )	(120,319 )	(226,366 )
Net finance income		446,553	246,908	118,419
Profit before income taxes		5,500,080	5,588,776	3,392,244
Income taxes	20	1,680,560	1,656,110	1,350,439
Profit for the year		\$3,819,520	3,932,666	2,041,805
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		502,332	295,197	32,672
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	21	(25,944 )	(25,812 )	(61,057 )
Income taxes related to actuarial remeasurements		7,783	7,744	18,317
Other comprehensive (loss) income		484,171	277,129	(10,068 )
Comprehensive income for the year		\$4,303,691	4,209,795	2,031,737

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Profit attributable to:			
Controlling interest		\$3,812,840	3,926,926
Non-controlling interest		6,680	5,740
			2,038,422
			3,383
Profit for the year		\$3,819,520	3,932,666
			2,041,805
Comprehensive income attributable to:			
Controlling interest		\$4,297,011	4,204,055
Non-controlling interest		6,680	5,740
			2,028,354
			3,383
Comprehensive income for the year		\$4,303,691	4,209,795
			2,031,737
Weighted average outstanding shares		599,631,383	599,955,240
			599,992,952
Basic and diluted earnings per share	25	\$6.36	6.55
			3.40

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, 2015, 2014 and 2013

(Thousands of pesos)

	Attributable to controlling interest				Other comprehensive items			Non-controlling interest	Total equity	
	Capital stock		Reserve for repurchase of shares	Retained earnings	Foreign currency translation reserve	Actuarial remeasurements net	Total			
	Capital stock	Share premium								
Note	Capital stock	Share premium	Reserve for repurchase of shares	Retained earnings	Foreign currency translation reserve	Actuarial remeasurements net	Total	Non-controlling interest	Total equity	
Balance at January 1, 2013		\$1,174,432	399,641	99,474	17,405,360	(26,916)	-	19,051,991	36,698	19,088,689
Dividends paid	24	-	-	-	(950,400)	-	-	(950,400)	-	(950,400)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(780)	(780)
Repurchase and sale of shares, net	24	-	-	127	-	-	-	127	-	127
IAS 19 R adoption effect	21	-	-	-	-	-	(18,227)	(18,227)	-	(18,227)
Comprehensive income for the year:										
Profit for the year		-	-	-	2,038,422	-	-	2,038,422	3,383	2,041,805
		-	-	-	92,846	(60,174)	(42,740)	(10,068)	-	(10,068)



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Other comprehensive income									
Total comprehensive income for the year	-	-	-	2,131,268	(60,174 )	(42,740)	2,028,354	3,383	2,031,7
Balance at December 31, 2013	1,174,432	399,641	99,601	18,586,228	(87,090 )	(60,967)	20,111,845	39,301	20,151,
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:									
Profit for the year	-	-	-	3,926,926	-	-	3,926,926	5,740	3,932,6
Other comprehensive income	-	-	-	-	295,197	(18,068)	277,129	-	277,129
Total comprehensive income for the year	-	-	-	3,926,926	295,197	(18,068)	4,204,055	5,740	4,209,7
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,
Dividends paid	24	-	-	(899,162 )	-	-	(899,162 )	-	(899,16
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(878 )	(878
Reserve for repurchase of shares	-	-	677,216	(677,216 )	-	-	-	-	-

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Repurchase and sale of shares	24	-	14,376	(699 )	-	-	-	13,677	-	13,677
Comprehensive income for the year:										
Profit for the year		-	-	-	3,812,840	-	-	3,812,840	6,680	3,819,5
Other comprehensive income		-	-	-	-	502,332	(18,161)	484,171	-	484,171
Total comprehensive income for the year		-	-	-	3,812,840	502,332	(18,161)	4,297,011	6,680	4,303,6
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,

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, 2015, 2014 and 2013

(Thousands of pesos)

	Note	2015	2014	2013
Cash flows from operating activities:				
Profit for the year		\$3,819,520	3,932,666	2,041,805
Adjustments for:				
Deferred income tax recognized in profit or loss	20	192,070	280,070	123,022
Current income tax recognized in profit or loss	20	1,488,490	1,376,040	1,227,417
Depreciation	14	769,270	805,650	816,673
Goodwill impairment loss	15	38,619	-	-
Loss on disposal of plant and equipment		90,279	152,830	14,958
Interest income	28	(489,934 )	(347,364 )	(314,245 )
Interest expense	28	147,292	118,090	226,366
Unrealized foreign currency exchange		-	-	17,950
Foreign exchange loss on loans		33,300	82,148	11,865
Subtotal		6,088,906	6,400,130	4,165,811
Derivative financial instruments				
Accounts receivable, net		5,425	5,066	(8,797 )
Due from related parties		521,603	(663,813 )	(8,091 )
Inventories		(3,518 )	(1,929 )	-
Current and non-current biological assets		(448,404 )	(246,515 )	1,871,404
Prepaid expenses and other current assets		(256,969 )	(83,023 )	151,010
Assets held for sale		(401,711 )	(76,149 )	(287,478 )
Trade payable and other accounts payable		(1,465 )	(9,530 )	2,454
Due to related parties		629,631	602,297	(70,540 )
Income taxes paid		38,595	72,938	(33,944 )
Employee benefits		(2,087,286 )	(1,056,082 )	(843,906 )
		43,375	42,654	(84,110 )
Net cash provided by operating activities		4,128,182	4,986,044	4,853,813

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Cash flows from investing activities:			
Payments for acquisition of property, plant and equipment	(1,909,771 )	(1,288,520 )	(575,411 )
Proceeds from sale of plant and equipment	71,427	62,342	57,795
Restricted cash	(25,771 )	(8,008 )	-
Investment in securities	(317,030 )	78,522	(42,138 )
Other assets	(55,698 )	(42,087 )	(48,210 )
Interest collected	489,934	347,364	314,245
Business acquisition including option agreement	(190,595 )	(139,655 )	(135,450 )
Loans granted to related parties	(189,075 )	-	-
Net cash used in investing activities	(2,126,579 )	(990,042 )	(429,168 )
Cash flows from financing activities:			
Payment for repurchase of shares	(40,612 )	(7,019 )	(3,071 )
Proceeds from issuance of repurchased shares	54,289	8,523	3,198
Dividends paid	(899,162 )	-	(950,400 )
Dividends paid to non-controlling interest	(878 )	(845 )	(780 )
Disposal of non-controlling interest from dissolution	-	450	-
Proceeds from borrowings	3,903,200	1,454,050	1,507,700
Principal payment on loans	(2,231,596 )	(1,098,575 )	(2,181,166 )
Interest paid	(147,292 )	(118,090 )	(226,366 )
Net cash provided by (used in) financing activities	637,949	238,494	(1,850,885)
Net increase in cash and cash equivalents	2,639,552	4,234,496	2,573,760
Cash and cash equivalents at January 1	11,028,054	6,716,894	4,179,541
Effect of exchange rate fluctuations on cash and cash equivalents	352,885	76,664	(36,407 )
Cash and cash equivalents at December 31	\$ 14,020,491	11,028,054	6,716,894

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, 2015, 2014 and 2013

(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 symbol “Bachoco,” and in the New York Stock Exchange (NYSE), under the symbol “IBA”.

(2) Basis of preparation

a) **Statement of compliance**

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

On April 8, 2016, 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.

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**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 currency in which accounting records and maintained and functional currency.

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 \$17.21, \$14.75 and \$13.09 pesos to one U.S. dollar as of December 31, 2015, 2014 and 2013 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.

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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, 2015 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, 2015.

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.

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The Company is in the process of assessing the potential impacts from the adoption of this standard 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 1 January 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.

(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.

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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.

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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, 2015, 2014 and 2013 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.

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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.

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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, are recorded at acquisition cost less accumulated depreciation, except for land, 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.

F-18

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. Land is not depreciated.

Below are the estimated useful lives for 2015, 2014 and 2013:

	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, 2015, 2014 and 2013:

	Residual Value	
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.

F-19

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

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

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

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

**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, 2015, 2014 and 2013, 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 asses are processed chickens and commercial eggs.

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

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

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

F-20



**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.

F-21

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).

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**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.

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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.

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**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.

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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 adequate 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.

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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, 2015, 2014 and 2013, the Company has no potentially dilutive shares, for which reason basic and diluted EPS is 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 when they have similar economic characteristics and meet the aggregation criteria in 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.

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(4)

Business and asset acquisitions

**Acquisition of assets from breeding farms from Morris Hatchery, Inc. 2013y 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, 2015, 2014 and 2013 are presented below:

Name	Shareholding percentage in subsidiaries			
		December 31,		
	Country	2015	2014	2013
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

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, of the operations of the Company in the United States of America. OK Industries, Inc. (acquired in November 2011) comprises five controlled subsidiaries. Their primary activity includes 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 selling 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.

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

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(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 pigs, 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. 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 chief operating decision maker.

a)

*Operating segment information*

	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

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	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

As of December 31, 2014	Poultry revenues	Other revenues
Total revenue	\$37,995,157	4,433,379
Intersegments	(503 )	(648,946 )
Net revenues	\$37,994,654	3,784,433

	Year ended December 31, 2013		
	Poultry	Other	Total
Net revenues	\$35,943,862	3,766,864	39,710,726
Cost of sales	29,847,653	3,328,946	33,176,599
Gross profit	6,096,209	437,918	6,534,127
Income before taxes	3,164,288	227,956	3,392,244
Income taxes	1,252,784	97,655	1,350,439
Net income attributable to controlling interest	1,890,572	147,850	2,038,422
Property, plant and equipment, net	10,425,139	1,227,310	11,652,449
Goodwill	256,244	88,015	344,259
Total assets	26,129,798	2,759,879	28,889,677
Total liabilities	7,943,868	794,663	8,738,531
Purchases of property, plant and equipment	531,465	56,128	587,593
Depreciation and amortization	731,797	84,876	816,673

As of December 31, 2013	Poultry revenues	Other revenues
Total revenue	\$35,943,862	4,012,486
Intersegments	-	(245,622 )
Net revenues	\$35,943,862	3,766,864

**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, 2015			Total
	Domestic poultry	Foreign poultry	Operations 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			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
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

	Year ended December 31, 2013			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$27,426,465	8,943,090	(425,693 )	35,943,862
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	840,622	269,314	-	1,109,936
Property, plant and equipment, net	8,936,020	1,489,119	-	10,425,139
Goodwill	212,833	43,411	-	256,244

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 2015, 2014 and 2013, no customer represented over 10% of the Company's total revenues.

In the United States of America, the Company has transactions with Ozark Mountain Poultry, Inc. representing 19%, 24% and 14% of total sales outside of Mexico during the years ended December 31, 2015, 2014 and 2013, respectively.

(7)

**Cash and cash equivalents**

The consolidated balances of cash and cash equivalents as of December 31, 2015, 2014 and 2013 are as follows:

	December 31,		
	2015	2014	2013
Cash and banks	\$4,774,420	3,282,730	594,183
Investments with maturities less than three months	9,246,071	7,745,324	6,121,330
Cash and cash equivalents	14,020,491	11,028,054	6,715,513
Restricted cash	25,771	8,008	1,381
Total cash and cash equivalents and restricted cash	\$ 14,046,262	11,036,062	6,716,894

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, 2015, 2014 and 2013.

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(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, 2015, 2014 and 2013, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2015, 2014 and 2013, 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,		
	2015	2014	2013
Financial assets			
Cash and cash equivalents	\$14,046,262	11,036,062	6,716,894
Investments in securities at fair value through profit and loss	1,242,614	910,519	972,641
Investments held to maturity	52,572	56,252	67,219
Accounts receivable	1,862,250	1,952,039	1,652,484
Due from related parties	194,522	1,929	3,678
Long-term receivables	128,169	104,495	87,927
Derivative financial instruments	1,244	6,669	11,735
Financial liabilities			
Financial debt	\$(4,127,010)	(2,450,452)	(2,067,802)
Trade payables, sundry creditors and expenses payable	(4,088,989)	(3,530,546)	(3,068,249)
Due to related parties	(165,628)	(127,033)	(54,095)

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**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, 2015, 2014 and 2013, the balance of held to maturity investments is \$52,572, \$56,252 and \$67,219, 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.

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The impairment assessment of accounts receivable is performed on a collective basis, as there are no accounts with significant balances, and in the short-term. 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 \$103,057, \$110,462 and \$86,564 as of December 31, 2015, 2014 and 2013, 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, 2015, 2014 and 2013, the fair value of such credit enhancements, determined by an appraisal at the time the credit lines were granted, is \$563,012, \$589,430 and \$497,490 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.

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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,		
	2015	2014	2013
Cash and cash equivalents	\$ 14,046,262	11,036,062	6,716,894
Investments designated at fair value through profit and loss	1,242,614	910,519	972,641
Investments held to maturity	52,572	56,252	67,219
Accounts receivable net of guarantees received	1,621,929	1,469,033	1,246,599
Derivative financial instruments	1,244	6,669	11,735
	\$ 16,964,621	13,478,535	9,015,088

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.

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*Maturity table*

	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

	December 31, 2013		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$3,068,250	-	-
Variable-rate maturities			
In U.S. dollars	392,700	-	-
In Mexican pesos	164,892	10,210	1,500,000
Interest	89,554	179,108	48,704
Total financial liabilities	\$3,715,396	189,318	1,548,704

At least on a monthly basis, management evaluates and advises the Board of Directors on its liquidity. As of December 31, 2015, 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

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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 very 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, 2015, 2014 and 2013, the Company has economic hedging positions comprised of corn long "puts" with ASERCA, maturing in March, July, September and December 2016 and 2015. The gain on valuation of these instruments is \$5,601, \$5,518 and \$120,560, in 2015, 2014 and 2013, respectively, recorded within cost of sales.

The Company maintains a contractual agreement with ASERCA in which the Company will pay 80% (2014 and 2013 was 55%) of the option premium and ASERCA will pay the remaining 20% (2014 and 2013 was 45%). In case the option is In the Money (Strike>Forward), the Company will recover the 80% portion paid (2014 and 2013 recovery rate was 55%) and an additional 10% (2014 and 2013 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 an 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, 2015, 2014 and 2013 is \$57,051 (3,315 thousand dollars), \$280,058 (18,987 thousand dollars) and \$193,981 (14,819 thousand dollars), respectively.

As of December 31, 2015 and 2013, 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 it 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, 2015, 2014 and 2013 was \$0, \$5,281 (358 thousand dollars) and \$0, respectively.

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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, 2015, 2014 and 2013 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, 2015 the Company entered into derivative financial instrument positions as economic hedges to cover exchange rate risks. As of December 31, 2014 and 2013, 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, 2015, 2014 and 2013.

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	December 31, 2015		2014		2013	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos	Dollars	Mexican Pesos
<b>Assets</b>						
Cash and cash equivalents	\$66,929	1,151,844	1,866	27,526	39,843	521,546
Investment in securities at fair value through profit and loss	28,549	491,325	24,849	366,527	29,284	383,333
Accounts receivable	245	4,210	810	11,948	727	9,518
Total assets	95,722	1,647,379	27,525	406,001	69,855	914,397
<b>Liabilities</b>						
Trade accounts payable	(141,819)	(2,440,708)	(126,655)	(1,868,163)	(106,626)	(1,395,730)
Financial debt	(85,000 )	(1,462,850)	(15,000 )	(221,250 )	(30,000 )	(392,700 )
Total Liabilities	(226,819)	(3,903,558)	(141,655)	(2,089,413)	(136,626)	(1,788,430)
Net liability position	\$(131,097)	(2,256,179)	(114,130)	(1,683,412)	(66,771 )	(874,033 )

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,		
	2015	2014	2013	2015	2014	2013
Dollars	\$15.87	13.30	12.76	17.21	14.75	13.09

The exchange rate at the date of issuance of the consolidated financial statements is \$17.90.

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 through derivative financial instruments such as interest rate swaps or others, 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.

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e) **Financial instruments at fair value**

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

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

Liabilities recorded at amortized cost	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	2015		2014		2013	
Financial debt	\$4,127,010	4,141,473	2,450,452	2,501,299	2,067,802	2,086,843

f) **Fair value hierarchy**

The fair value of the assets (mainly equity, debt and corporate bonds) have standard terms and conditions and are traded in active liquid markets, which are determined by reference to quoted market prices.

The following table summarizes financial instruments carried at fair value:

	Level 1	Level 2	Level 3	Total
As of December 31, 2015				
Investments in securities at fair value through profit and loss	\$1,242,614	-	-	1,242,614
Interest rate derivative financial instruments	-	195	-	195
Derivative financial instruments	-	1,244	-	1,244
	\$1,242,614	1,439	-	1,244,053
As of December 31, 2014				
Investments in securities at fair value through profit and loss	\$910,519	-	-	910,519
Derivative financial instruments	-	6,669	-	6,669
	\$910,519	6,669	-	917,188

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	Level 1	Level 2	Level 3	Total
As of December 31, 2013				
Investments in securities at fair value through profit and loss	\$972,641	-	-	972,641
Derivative financial instruments on commodities	-	11,735	-	11,735
	\$972,641	11,735	-	984,376

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:

	Level 1	Level 2	Level 3	Total
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)
	\$(1,515,146)	(2,626,327)	-	(4,141,473)

	Level 1	Level 2	Level 3	Total
As of December 31, 2014				
Financial debt - bank institutions	\$	(987,094)	-	(987,094 )
Financial debt – debt securities	(1,514,205)	-	-	(1,514,205)
	\$(1,514,205)	(987,094)	-	(2,501,299)

	Level 1	Level 2	Level 3	Total
As of December 31, 2013				
Financial debt - bank institutions	\$-	(567,778)	-	(567,778 )
Financial debt – debt securities	(1,519,065)	-	-	(1,519,065)
	\$(1,519,065)	(567,778)	-	(2,086,843)

**g) Quantitative sensitivity measurements**

Following are sensitivity analyses for the most significant risks to which the Company is exposed as of December 31, 2015, 2014 and 2013. 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, 2015, 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 2015 would have had a net effect of \$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 period of \$10,575. As of December 31, 2014 and 2013, the Company did not have any such positions

The following table shows the Company's sensitivity of an increase and decrease of 15% for 2015 and 7.5% for 2014 and 2013 in the "bushell" price of corn and short ton price of soybeans.

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	Effect of Increase			Effect of Decrease		
	2015	2014	2013	2015	2014	2013
Loss (profit) for the year	\$(44,589)	(4,966)	1,630	\$56,753	12,377	(666)

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 TIEE and LIBOR, respectively.

The following table shows the Company's sensitivity of an increase and decrease of 50 basis points for 2015 and 2014 and 25 basis points for 2013, in the variable rates to which the Company is exposed.

	Effect of Increase			Effect of Decrease		
	2015	2014	2013	2015	2014	2013
Loss (profit) for the year	\$17,375	12,111	4,896	\$(17,375)	(12,111)	(4,896)

iii. Exchange risk

As of December 31, 2015, the Company's net monetary liability position in foreign currency was \$2,256,179.

The following table shows the Company's sensitivity of an increase and decrease of 10% for 2015 and \$0.50 for 2014 and 2013, in exchange rate, which would have an effect in the result from foreign currency position.

	Effect of Increase			Effect of Decrease		
	2015	2014	2013	2015	2014	2013
Loss (profit) for the year	\$225,618	57,065	33,386	\$(225,618)	(57,065)	(33,386)

(9) Accounts receivable, net

As of December 31, 2015, 2014 and 2013, accounts receivable are as follows:

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	December 31,		
	2015	2014	2013
Trade receivables	\$1,867,104	1,688,308	1,700,905
Allowance for doubtful accounts	(81,641 )	(76,793 )	(69,245 )
Other receivables	76,787	340,524	20,824
Government grant	40	-	-
Income tax receivable	143,517	56,512	73,146
Recoverable value-added tax and other recoverable taxes	527,620	966,027	592,463
	\$2,533,427	2,974,578	2,318,093

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**Past-due but not impaired portfolio**

Below is a classification of trade accounts receivable according to their aging as of the reporting date, excluding receivables that are in a legal process, which has not been subject to impairment:

	December 31,		
	2015	2014	2013
Past due 0 to 60 days	129,315	185,291	120,258
Past due by more than 60 days	3,443	9,438	27,467
	\$132,758	194,729	147,725

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**

	2015	2014	2013
Balance as of January 1	\$(76,793)	(69,245)	(46,681)
Increase in allowance	(17,179)	(16,164)	(29,801)
Applications	12,454	9,529	7,416
Currency translation effect	(123 )	(913 )	(179 )
Balance as of December 31,	\$(81,641)	(76,793)	(69,245)

As of December 31, 2015, 2014 and 2013 the Company has receivables in a legal process (receivables for which legal counsel is seeking recoverability) of \$103,057, 110,462 and \$86,564, 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, 2015, 2014 and 2013, inventories are as follows:

	December 31,		
	2015	2014	2013
Raw materials and by-products	\$1,155,841	1,226,778	1,100,971
Medicine, materials and spare parts	772,226	656,618	633,829
Balanced feed	241,473	218,951	209,082
Processed chicken	1,112,068	777,734	689,102
Commercial eggs	38,683	35,957	43,213
Processed beef	38,533	23,008	23,013
Processed turkey	34,251	17,561	25,090
Other processed products	11,194	11,454	13,922
Total	\$3,404,269	2,968,061	2,738,222

Inventory consumption for the years ended December 31, 2015, 2014 and 2013 was \$28,877,468, \$24,873,999 and \$26,041,102 respectively.

(11)

## Biological assets

For the years ended December 31, 2015, 2014 and 2013, biological assets are as follows:

	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	\$1,651,794	1,434,131	3,085,925



	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	\$1,501,428	1,109,233	2,610,661

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2013	\$1,496,964	1,106,120	2,603,084
Increase due to purchases	227,864	328,059	555,923
Sales	-	(178,543 )	(178,543 )
Net increase due to births	283,175	1,242,535	1,525,710
Production cost	24,683,964	1,073,261	25,757,225
Depreciation	-	(1,221,754 )	(1,221,754 )
Transfers to inventories	(25,270,795)	(1,242,535 )	(26,513,330)
Other	(998 )	2,793	1,795
Balance as at December 31, 2013	\$1,420,174	1,109,936	2,530,110

The “Other” category includes the change in fair value of biological assets that resulted in an increase of \$13,020 in 2015, and decreases of \$23,096 and \$7,857 in 2014 and 2013, 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.

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## (12) Prepaid expenses and other current assets

As of December 31, 2015, 2014 and 2013, prepaid expenses and other current assets are as follows:

	December 31,		
	2015	2014	2013
Advances to suppliers of inventories	\$1,224,454	866,119	801,390
Prepaid expenses of services	130,086	145,849	184,001
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	82,238	64,979	58,764
Other current assets	151,030	134,755	91,383
Total	\$1,587,808	1,379,077	1,135,539

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, 2015, 2014 and 2013, assets held for sale are as follows:

	December 31,		
	2015	2014	2013
Buildings	\$24,430	22,965	18,242
Land	32,779	32,779	28,168
Other	2,839	2,839	2,643
Total	\$60,048	58,583	49,053

The Company recognized a loss from the sale of these assets in 2015 of \$24, a gain of \$5 during 2014 and a loss of \$24 in 2013.

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## (14) Property, plant and equipment

As of December 31, 2015, 2014 and 2013, property, plant and equipment are comprised as follows:

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

Disposals

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	Balance as at January 1 2014	Depreciation for the year		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 )

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Cost	Balance as at January 1, 2013	Additions	Disposals	Currency translation effect	Balance as at December 31, 2013
Land	\$ 1,056,145	770	(59 )	326	1,057,182
Buildings and construction	9,397,122	153,685	(19,482 )	17,521	9,548,846
Machinery and equipment	9,081,660	462,988	(25,267 )	5,114	9,524,495
Transportation equipment	1,170,321	167,324	(133,483)	164	1,204,326
Computer equipment	138,172	3,151	(130 )	59	141,252
Furniture	145,669	5,778	(1,760 )	54	149,741
Leasehold improvements	38,841	-	(11,989 )	-	26,852
Construction in progress	562,750	(206,303)	-	-	356,447
Total	\$ 21,590,680	587,393	(192,170)	23,238	22,009,141

Accumulated depreciation	Balance as at January 1 2013	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2013
Buildings and construction	\$ (4,420,885 )	(199,952 )	15,844	(2,278 )	(4,607,271 )
Machinery and equipment	(4,223,450 )	(515,833 )	15,088	(768 )	(4,724,963 )
Transportation equipment	(773,826 )	(86,936 )	71,640	(32 )	(789,154 )
Computer equipment	(121,753 )	(5,232 )	130	(42 )	(126,897 )
Furniture	(101,250 )	(8,720 )	1,570	(7 )	(108,407 )
Total	\$ (9,641,164 )	(816,673 )	104,272	(3,127 )	(10,356,692 )

Carrying amounts, net	December 31,		
	2015	2014	2013
Land	\$ 1,160,809	1,094,182	1,057,182
Buildings and construction	5,074,336	4,915,328	4,941,575
Machinery and equipment	5,078,940	4,605,836	4,799,532
Transportation equipment	534,673	375,405	415,172
Computer equipment	25,644	11,318	14,355
Furniture	36,442	39,377	41,334
Leasehold improvements	8,742	21,442	26,852
Construction in progress	1,268,545	991,866	356,447
Total	\$ 13,188,131	12,054,754	11,652,449

Additions of property, plant and equipment in 2013 include assets acquired through business combinations of \$11,982 that consist of buildings for \$7,095, machinery and equipment for \$461, furniture for \$77 and transportation equipment for \$4,349. 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, 2015, 2014 and 2013 was \$769,270, \$805,650 and \$816,673, respectively, which were charged to cost of sales and operating expenses.

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(15)

Goodwill

	2015	2014	2013
Balances at beginning of the year	\$349,764	344,259	300,848
Business combinations (Note 4)	123,933	-	42,780
Goodwill impairment loss	(38,619)	-	-
Foreign currency effects	19,217	5,505	631
Balances at end of year	\$454,295	349,764	344,259

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:

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	%
	\$ 454,295					

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	%
	\$ 349,764					

2013

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	10.33	%	2.70	%
Campi	88,015	5	10.33	%	2.10	%
Ok Farms- Morris Hatchery Inc. Arkansas	43,411	5	8.74	%	0.00	%
	\$ 344,259					

(16)

Other non-current assets

Other non-current assets consist of the following:

	December 31,		
	2015	2014	2013
Advances for purchase of property, plant and equipment	\$277,277	167,935	133,214
Investments in life insurance (note 3 (k))	52,572	41,187	35,754
Security deposits	13,574	17,341	15,956
Other long-term receivable	128,169	104,495	87,927
Intangible assets in process	73,125	54,512	37,955
Other	49,189	42,558	39,793
Total non-current assets	\$593,906	428,028	350,599

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(17)

Financial debt

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

	December 31,		
	2015	2014	2013
Loan of USD\$30,000 thousand dollars denominated in USD, maturing in June 2014, at LIBOR (3) rate plus 1.20 percentage points.	\$-	-	392,700
Loan of USD\$85,000 thousand dollars denominated in USD, maturing in June 2016, at LIBOR (3) rate plus 0.48 percentage points	1,462,850	-	-
Denominated in pesos, maturing in January, October, December 2014, at TIIE (1) FIRA (2) less 0.70 percentage points.	-	-	148,500
Loan in the amount of USD\$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	-
Denominated in pesos, maturing in January 2016, at TIIE (1) FIRA (2) rate plus 0.85 percentage points	160,000	-	-
Total short-term debt	\$1,622,850	664,250	541,200

Annual weighted average interest rate of short-term loans denominated in pesos for 2015, 2014 and 2013 was 3.13%, 2.78% and 3.72%, respectively. Average interest rate for short-term loans existing as of December 31, 2015, 2014 and 2013, was 4.17%, 3.68% and 3.10%, respectively.

Annual weighted average interest rate of short-term loans denominated in dollars for the years 2015, 2014 and 2013 was 1.05%, 1.10% and 1.49%, respectively. Average interest rate for loans existing as of December 31, 2015, 2014 and 2013 was 0.83%, 1.24% and 1.37%, 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,		
	2015	2014	2013
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 percentage points.	\$2,489	10,209	22,329
Denominated in pesos, maturing in January 2014, at TIIE (1) FIRA (2) rates less 0.55 percentage points.	-	-	4,273
Denominated in pesos, maturing in September 2017, at TIIE (1) rates plus 0.63 percentage points.	100,000	102,000	-
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	-
Denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.25 percentage points.	603,871	-	-
Denominated in pesos, maturing in 2018, at TIIE (1) FIRA (2) rates less 0.60 percentage points.	297,800	-	-
Debt securities (subsection (d))	1,500,000	1,500,000	1,500,000
Total	2,504,160	1,786,202	1,526,602
Less current maturities	(9,033 )	(133,732 )	(16,392 )
Long-term debt, excluding current maturities	\$2,495,127	1,652,470	1,510,210

Long-term annual weighted average interest rate for 2015, 2014 and 2013 was 3.07%, 3.72% and 4.93%, respectively. Average rate for current loans as of December 31, 2015, 2014 and 2013 was 3.56%, 3.68% and 4.40%, 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 2015 the Company did not make early payments on its long-term debt, in 2014 and 2013, the Company made early payments on its long-term debt of \$201,300 and \$11,833 respectively, without payment of fees for early termination.

As of December 31, 2015, 2014 and 2013, total unused lines of credit, totaled \$6,156,229, \$5,282,600 and \$5,418,099, respectively. In both years, the Company did not pay any fee for undrawn balances.

**c) Maturities of long-term debt, excluding current maturities, as of December 31, 2015, are as follows:**

Year	Amount
2017	\$1,652,500
2018	842,627
	\$2,495,127

Interest expense on total loans during the years ended December 31, 2015, 2014 and 2013, amounted to \$93,964, \$87,624 and \$97,025, respectively.

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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, 2015, 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.

Not to merge, consolidate, separate, settle or dissolve except for those mergers in which the Company or surety are the merging company and do not constitute a change 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 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 TIIE, and in the event the 28-day TIIE 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, 2015.

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## (18) Trade accounts and other accounts payable

	December 31,		
	2015	2014	2013
Trade payables	\$3,800,407	3,257,291	2,764,766
Sundry creditors and expenses payable	288,582	273,255	303,483
Provisions	202,303	215,003	133,103
Statutory employee profit sharing	31,730	19,939	29,140
Retained payroll taxes and other local taxes	197,806	167,205	129,122
Direct employee benefits	72,898	33,894	5,504
Interest payable	3,306	1,920	3,275
Government grant	-	1,947	-
Others	71	61	7,208
	\$4,597,103	3,970,515	3,375,601

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 consider that the interposed legal processes are well sustained and attended, a provision that is considered adequate has been recognized.

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, 2015, 2014 and 2013, the Company has recorded provisions of \$51,630 (3,000 thousand dollars), \$22,125 (1,500 thousand dollars) and \$19,635 (1,500 thousand dollars) for the amount that it expects to be probable to pay.



## (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, 2015, 2014 and 2013:

	December 31,		
	2015	2014	2013
Compensation	\$42,295	39,538	52,805

**(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. <u>Revenues</u>					
	Transaction value			Balance as of		
	December 31,			December 31,		
	2015	2014	2013	2015	2014	2013
Sales of products to:						
Vimifos, S.A. de C.V.	\$32,827	32,202	42,719	\$5,447	109	3,665
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.	-	-	13	-	1,801	13
Taxis Aereos del Noroeste, S.A. de C.V.	135	19	18	189,075	-	-
	\$33,381	33,523	42,750	\$194,522	1,929	3,678

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

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ii. Expenses and balances payable to related parties

	Transaction value			Balance as of		
	December 31, 2015	2014	2013	December 31, 2015	2014	2013
Purchases of food, raw materials and packing supplies						
Vimifos, S.A. de C.V.	\$477,920	359,258	361,497	\$91,982	76,482	21,813
Frescopack, S.A. de C.V.	181,802	153,891	147,192	37,827	23,267	18,151
Pulmex 2000, S.A. de C.V.	42,263	21,283	13,766	16,181	6,858	-
Qualyplast, S.A. de C.V.	237	925	753	158	97	242
Purchases of vehicles, tires and spare parts						
Maquinaria Agrícola, S.A. de C.V.	\$41,947	55,166	57,100	4,074	4,315	8,415
Llantas y Accesorios, S.A. de C.V.	29,269	31,423	29,421	2,732	4,688	4,458
Autos y Accesorios, S.A. de C.V.	29,510	21,397	22,525	3,364	6,454	253
Autos y Tractores de Culiacán, S.A. de C.V.	54,853	19,140	21,967	3,100	1,971	610
Camiones y Tractocamiones de Sonora, S.A. de C.V.	69,779	33,227	23,649	5,815	2,384	5
Agencia MX-5, S.A de C.V.	1	2	2,294	-	2	1
Alfonso R. Bours, S.A. de C.V.	526	452	590	93	63	147
Cajeme Motors S.A. de C.V.	6,632	-	-	2	-	-
Airplane leasing expenses						
Taxis Aereos del Noroeste, S.A. de C.V.	\$7,874	1,964	7,375	300	452	-
				\$165,628	127,033	54,095

As of December 31, 2015, 2014 and 2013, 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, 2015, 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).

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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, 2015, 2014 and 2013, 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).

Until December 31, 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. Up to December 31, 2013, BSACV was subject to the simplified tax regime applicable to entities with agriculture, cattle-raising, forestry and fishing operations. Under such simplified regime, BSCAV calculated income taxes on a cash basis measure of net profit and a rate of 21%.

b)

**Tax charged to profit and loss**

For the years ended December 31, 2015, 2014 and 2013, the income tax (benefit) expense included in profit and loss is as follows:

	December 31		
	2015	2014	2013
Operation in Mexico:			
Current ISR	\$1,291,536	1,211,006	1,227,189
Current IETU	-	-	228
Deferred ISR	146,595	230,255	(527,449 )
Deferred ISR from tax rate change	-	-	674,810
	1,438,131	1,441,261	1,374,778
Foreign operation:			
Current ISR	196,954	165,034	-
Deferred ISR	45,475	49,815	(24,339 )
Total ISR expense	\$1,680,560	1,656,110	1,350,439

## 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 2015 and 2014, and 21% in 2013 as a result of the items listed below:

	December 31, 2015		2014		2013			
	ISR	Percentage	ISR	Percentage	ISR	Percentage		
Expected expense	\$ 1,650,025	30 %	\$ 1,676,633	30 %	\$ 712,371	21 %		
Increase (decrease) resulting from:								
Net effects of inflation	(87,322 )	(2 )%	(112,388 )	(2 )%	(64,401 )	(2 )%		
(Non-taxable income) Non-deductible expenses	(4,882 )	(0 )%	(7,101 )	(0 )%	(9,213 )	(0 )%		
Effect of rate of the general regime	-	-	-	-	33,384	1 %		
Effect of rate difference of foreign subsidiary	57,103	1 %	26,712	1 %	(10,196 )	0 %		
Effect from non-deductible employee benefits	74,173	1 %	73,038	1 %	13,872	0 %		
Effect from change on tax rate in the new ISR Law	-	-	-	-	674,810	20 %		
Other	(8,537 )	0 %	(784 )	(0 )%	(188 )	0 %		
Income tax expense	\$ 1,680,560	30 %	\$ 1,656,110	30 %	\$ 1,350,439	39 %		

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 agricultural 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, 2015, 2014 and 2013 are detailed below:

	December 31,		
	2015	2014	2013
Deferred tax assets			
Accounts payable	\$764	5,019	2,218
Employee benefits	32,572	14,071	17,121
PTU payable	9,516	6,376	8,595
Accounts receivable	404	6,376	8,595
Tax loss carryforwards	10,236	21,383	3,858
Property, plant and equipment	490	6,376	8,595
Prepaid expenses	-	245	3,148
Other provisions	239	2,284	-
Total deferred tax assets	54,221	49,378	34,940
Deferred tax liabilities			
Prepaid expenses	94	-	-
Total deferred tax liabilities	94	-	-
Net deferred tax assets	54,127	49,378	34,940

	December 31,		
	2015	2014	2013
Deferred tax assets			
Accounts payable	\$1,093,145	1,120,240	1,350,373
Employee benefits	-	7,445	-
PTU payable	-	423	262
Tax loss carryforwards	1,081	4,073	86,779
Goodwill	22,326	-	-
Other provisions	6,606	13,817	-
Derivative financial instruments	859	-	-
Total deferred tax assets	1,124,017	1,145,998	1,437,414
Deferred tax liabilities			
Inventories	1,400,793	1,188,259	1,235,848
Employee benefits	-	-	786
Accounts receivable	382,585	411,312	316,374
Property, plant and equipment	2,356,509	2,365,619	2,407,779
Prepaid expenses	353,166	257,133	22,615
Derivative financial instruments	-	5,872	190,143
Total deferred tax liabilities	4,493,053	4,228,195	4,173,545
Net deferred tax liability	\$3,369,036	3,082,197	2,736,131

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**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,		
	2015	2014	2013
Recoverable tax on assets	1,774	2,586	3,324
Total	\$1,774	2,586	3,324

**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.

**f) Movement in temporary differences during the fiscal year**

	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	\$2,701,191	280,070	51,558	3,032,819

	January 1, 2013	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2013
Accounts payable	\$(754,765 )	(597,826 )	-	(1,352,591)
Employee benefits	(40,401 )	60,696	(25,405 )	(5,110 )
PTU payable	(9,254 )	397	-	(8,857 )
Effects on derivative financial instruments	(858 )	858	-	-
Tax loss carryforwards	(10,043 )	(80,594 )	-	(90,637 )
Inventories	1,284,699	(48,851 )	-	1,235,848
Accounts receivable	221,133	95,241	-	316,374
Property, plant and equipment	1,871,086	512,889	5,634	2,389,609
Prepaid expenses	36,343	180,212	-	216,555
Net deferred tax liability	\$2,597,940	123,022	(19,771 )	2,701,191

**g) Tax on assets and tax loss carryforwards**

As at December 31, 2015, tax loss carryforwards, and recoverable tax on assets (IMPAC, for its Spanish acronym) expires as shown below. Amounts are indexed for inflation as permitted by Mexican income tax law:

Year	Amount as of December 31, 2015		Year of expiration / maturity
	Tax loss carryforwards	Recoverable IMPAC	
2006	\$-	1,774	2016
2013	-	-	2023
2014	36,370	-	2024
2015	2,101	-	2025
	\$38,471	1,774	

**h) Impacts on the tax reform for changes beginning 2014**

As discussed above, the Mexican Congress approved a new ISR Law that was enacted in 2013 but will go into effect beginning January 1, 2014. Due to this tax reform, the Company recognized in its consolidated financial statements a charge to 2013 results in the amount of \$674,810 of deferred income tax mainly arising from the measurement of deferred assets and liabilities determined based on the new agriculture, cattle-raising, forestry and fishing regime, for the change in the general income tax rate to 30% and for the limitation to the deductible amount of certain employee benefit expenses provisioned.

The main income tax impact to the Company 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

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 fourth year of services, he/she does not have the right to receive the contribution made by the Company, ii) if he/she retires on the fifth year of services he/she has the right to receive 50% of the contributions made by the Company and, for each additional service year, the employee has the right to receive an additional 10% of the contributions made by the Company. The expenses for paid contributions to defined contribution plans, other than those mandated by Mexican law, were \$1,481, \$7,973 and \$11,708, in 2015, 2014 and 2013, respectively.

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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 \$46,670, \$42,742 and \$40,023, in 2015, 2014 and 2013, 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,		
	2015	2014	2013
Present value of unfunded obligations	\$ 160,218	90,899	48,245
Present value of funded obligations	286,881	314,804	312,170
Total present value of benefit obligations (PBO)	447,099	405,703	360,415
Plan assets at fair value	(286,881)	(314,804)	(312,170)
Projected liability, net	\$ 160,218	90,899	48,245

i. Composition and return of plan assets

	Actual return of the plan's assets			Composition of the plan's assets		
	2015	2014	2013	2015	2014	2013
Fixed income securities	1.25 %	5.99 %	3.83 %	60 %	63 %	68 %
Variable income securities	4.87 %	7.69 %	9.81 %	40 %	37 %	32 %
Total				100 %	100 %	100 %

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

	2015	2014	2013
PBO as at January 1	\$ 405,703	360,415	385,178
Benefits paid by the plan	(25,244 )	(31,091 )	(19,213 )
Service cost	26,836	24,438	26,680
Interest cost	31,603	29,768	28,138
Actuarial (gains) losses recognized in other comprehensive income	8,201	22,173	(60,368 )
PBO as at December 31	\$ 447,099	405,703	360,415

iii. Movements in the fair value of plan assets

	2015	2014	2013
Plan assets at fair value as at January 1	\$ 314,804	312,170	263,250
Plan contributions	-	-	36,626
Transfer of assets to fund defined contribution benefit plan	(24,187 )	-	-
Benefits paid by the plan	(10,894 )	(20,011 )	(8,482 )
Expected return on plan assets	24,901	26,283	20,087
Actuarial losses (gains) in other comprehensive income	(17,743 )	(3,638 )	689
Fair value of plan assets as at December 31	\$ 286,881	314,804	312,170

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iv. Expense recognized in profit and loss

	2015	2014	2013
Current service cost	\$26,836	24,438	26,680
Interest cost, net	6,702	3,485	8,051
	\$33,538	27,923	34,731

v. Actuarial gains and losses

	2015	2014	2013
Amount accumulated as at January, 1	\$(112,184)	(86,372 )	(25,315)
Recognized during the year	(25,944 )	(25,812 )	(61,057)
Amount accumulated as at December, 31	\$(138,128)	(112,184)	(86,372)

vi. Actuarial assumptions

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

	2015	2014	2013
Discount rate as at December, 31	8.00%	8.00%	8.50%
Rate for future salary increases	4.50%	4.50%	4.50%
Social security wage increase rate	3.50%	3.50%	4.25%

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,		
	2015	2014	2013
Present value of defined benefit obligation	\$447,099	405,703	360,415
Plan assets at fair value	(286,881)	(314,804)	(312,170)
Plan deficit	\$160,218	90,899	48,245
Experience adjustments arising from plan liabilities	\$8,201	22,173	(60,368 )



Experience adjustments arising from plan assets      \$(17,743 ) (3,638 ) (689 )

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viii. Sensitivity analysis of the defined benefits obligations as of December 31, 2015, 2014 and 2013

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)

2013	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 8.00%	(225,650)	(86,880 )	(47,885 )	(360,415)
Rate increase (+ 1%)	(186,196)	(79,508 )	(44,936 )	(310,640)
Rate decrease (- 1%)	(277,487)	(92,373 )	(51,223 )	(421,083)

ix.

Expected cash flows

Total  
2016-2026 \$404,558

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 \$8,014, \$6,597 and \$5,681 for the year ended December 31, 2015, 2014 and 2013, respectively.

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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, 38,000, 38,000 and 38,500 units were outstanding as of December 31, 2015, 2014 and 2013, respectively, all of which were fully vested. The total liability under this plan totaled \$4,195, \$3,516 and \$3,503 as at December 31, 2015, 2014 and 2013, respectively. No expense was recognized for this plan for the year ended December 31, 2015, 2014, and 2013.

c)

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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, 2015, 2014 and 2013 is shown in note 18, Trade payable and other accounts payable.

(22)

Costs and expenses by nature

	2015	2014	2013
Cost of sales	\$36,847,508	32,494,974	33,176,599
General, selling and administrative expenses	4,323,374	3,781,326	3,291,006
Total costs and expenses	\$41,170,882	36,276,300	36,467,605
Inventory consumption	\$28,877,468	24,873,999	26,041,102
Wages and salaries	5,127,750	4,451,457	3,028,830
Freight	3,394,780	2,948,439	2,495,673
Maintenance	1,166,326	1,077,940	1,028,511
Other utility expenses	1,020,610	1,193,449	1,119,094
Depreciation	769,270	805,650	816,673
Leases	359,749	311,585	286,022
Other	454,929	613,781	1,651,700
Total	\$41,170,882	36,276,300	36,467,605

During 2013, the Company informed the National Service of Sanitary, Safety and Food Quality (SENASICA, by its Spanish acronym) the presence of a H7N3 avian flu outbreak in some of the Company's farms located in the state of Guanajuato and in the limits of the Jalisco and Guanajuato states. The financial effects derived from the outbreak were a charge to cost of sales in 2013 for \$350,821 related to the destruction of birds and eggs inventory.

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(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.

	2015	2014	2013
Lease expenses	\$359,749	311,585	328,656

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

2016	\$91,812
2017	78,481
2018	46,835
2019	57,234
2020	34,417

(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 2015, 2014 and 2013 these ratios were below the thresholds established by the Company's Risk Committee.

**b)**

**Common stock and premiums**

As of December 31, 2015, 2014 and 2013, 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.

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

	Before the Transaction		After the Transaction	
	Shares <sup>(1)</sup>	Position	Shares <sup>(1)</sup>	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 %
<b>Floating Position <sup>(2)</sup></b>	<b>103,500,000</b>	<b>17.25 %</b>	<b>160,500,000</b>	<b>26.75 %</b>

(1) All Series B shares with voting power.

(2) Operating at the BMV and the NYSE.

Based on the information provided to the Company, as of December 31, 2015, there are no stockholders with 1% or more interest in the Company, in addition to the family trusts.

**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.

**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 22, 2015, pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$778,321 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, 2015, 2014 and 2013:

	2015	2014	2013
Balance as at January 1	-	-	-
(+) Total shares purchased	677,013	149,475	100,000
(-) Total shares sold	(667,013)	(149,475)	(100,000)
Balance as at December 31	10,000	-	-

The net amount of repurchase and treasury share sale transactions gave rise to additional paid in capital of \$14,376, \$1,504 and \$127 during the years ended December 31, 2015, 2014 and 2013, respectively, recognized within equity.

As at December 31, 2015, the Company has 10,000 treasury shares.

e)

### **Dividends**

During the years ended December 31, 2015, 2014 and 2013, the Company has declared and paid the following dividends:

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.

In 2013, the Company declared dividends as follows:

On April 24th, the Company declared a payment of dividends in cash at nominal value of \$350,400 or \$0.584 pesos per outstanding share. The payment was made in two even installments of \$0.292 pesos per outstanding share, in May and July, 2013.

On December 6th, the Company declared a second payment of dividends in cash in the amount at nominal value of \$600,000 or \$1.00 peso per outstanding share, which was paid on December 23, 2013.

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 2015, 2014 and 2013, net income of BSACV, accounted for 67%, 72% and 71% 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.

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f) **Capital stock**

CUFIN	Balance as 2013	Balance from 2014	Total
IBSA individual	\$8,175,229	2,441,137	10,616,366
IBSA Consolidado	8,871,825	5,399,598	14,271,423

The restated amount as of December 31, 2015 on tax bases of the contributions made by stockholders (CUCA), totaling \$2,568,809, 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, 2015, 2014 and 2013 are \$6.36, \$6.55 and \$3.40, respectively. The calculation of earnings per share was based on income attributable to ordinary stockholders of \$3,812,840, \$3,926,926 and \$2,038,422 for the years ended December 31, 2015, 2014 and 2013, respectively.

The average weighted number of common outstanding in 2015, 2014 and 2013 was 599,631,383, 599,955,240 and 599,992,952 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 \$6,024 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$17,210 (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 \$69,718 (4,051 thousand dollars), \$50,342 (3,413 thousand dollars) and \$48,472 (3,703 thousand dollars) as at December 31, 2015, 2014 and 2013, respectively. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$108,360 (6,828 thousand dollars), \$101,293 (7,616 thousand dollars) and \$85,006 (6,494 thousand dollars) for the years ended December 31, 2015, 2014 and 2013, respectively. The Company is required to maintain letters of credit on behalf of the subsidiary of \$58,514, \$50,150 and \$44,506 (3,400 thousand dollars) as at December 31, 2015, 2014 and 2013, 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.

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## (27) Contingencies

**a) Insurance**

The Company has not contracted full coverage insurance for its facilities, interruption of activities or corporate civil liability in respect of property and environmental damage resulting from accidents in the Company's property or that relate to Company operations. Until appropriate insurance coverage is obtained, 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

	2015	2014	2013
Interest income	\$482,442	337,769	298,141
Income from interest in accounts receivable	7,492	9,595	16,104
Foreign exchange gain, net	95,447	19,863	28,085
Effects of valuation of derivative financial instruments	8,464	-	2,455
Financial income	593,845	367,227	344,785
Effects of valuation of derivative financial instruments	-	(2,229 )	-
Interest expense and financial expenses on financial debt	(93,964 )	(87,624 )	(97,025 )
Commissions and other financial expenses	(53,328 )	(30,466 )	(129,341 )
Financial costs	(147,292 )	(120,319 )	(226,366 )

Financial income, net	\$446,553	246,908	118,419
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## (29) Other income (expenses)

	2015	2014	2013
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$636,386	722,653	332,623
Total other income	636,386	722,653	332,623
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(507,196)	(623,148)	(244,054)
Other	(133,830)	(260,424)	(57,865 )
Total other expenses	(641,026)	(883,572)	(301,919)
Total other income (expenses), net	\$(4,640 )	(160,919)	30,704

## (30) Subsequent events

**Merger of subsidiaries** - 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., which is wholly-owned by Bachoco USA, LLC.

**Acquisition of assets** - On February 22, 2016, the Company reached an agreement to acquire a plant that produces fully cooked chicken products for 7.9 thousand US dollars, located in Oklahoma City, OK. The objective of the Company is to use these facilities for value-added chicken products. Additional investments for that purpose will be made.