RISK FACTORS

The following risks factors described may adversely affect the Company's development, financial status and/or operating results, as well as affect the price of any securities of the Company.

Risks Related to the Business, Industry and Supply

Increases in prices and shortages of raw materials, fuels and utilities could cause costs to increase

Grupo Bimbo purchases large quantities of commodities, including wheat flour, edible oils and fats, sugar, eggs and plastic to package its products, the prices of which are volatile. The Group is also exposed to changes in oil prices, which impact both its packaging and transportation costs. Prices for commodities, other supplies and energy fluctuate due to conditions that are difficult to predict, including global competition for resources, currency fluctuations, severe weather conditions (including the effects of global climate change), consumer, industrial or commodity investment demand, changes in governmental regulation and trade, alternative energy sources and government-sponsored agricultural programs. The prices of the Group's raw materials normally fluctuate due to market conditions and currency fluctuations. Grupo Bimbo cannot assure that these fluctuations will not have an adverse effect on its financial performance or that it will be able to pass along the effect of increased costs to consumers.

The Group also relies on fuels and utilities to operate its business. For example, its bakeries and other facilities use natural gas, liquefied petroleum gas and electricity to operate. In addition, its distribution operations use gasoline and diesel fuel and electricity to deliver the products. These fuels and utilities are subject to price volatility. For these reasons, substantial future increases in prices for, or shortages of, these fuels or electricity could adversely affect Grupo Bimbo. Rising commodity, energy and other input costs could materially and adversely affect the Group's cost of operations, including the production, transportation, and distribution of its products, which could adversely affect its business, financial condition, results of operations and prospects.

To ensure the supply, Grupo Bimbo enters into wheat, natural gas and other hedging arrangements to mitigate its exposure against price volatility. These contracts could cause the Group to pay higher prices for raw materials than those available in the spot markets, materially and adversely affecting it.

The Group may not achieve its targeted cost savings and efficiencies from cost reduction initiatives

The Group's success depends in part on its ability to be a low-cost producer in a highly competitive industry. Grupo Bimbo periodically makes investments in its operations to improve its production facilities and reduce operating costs. The Group may experience operational issues when carrying out major production, procurement, or logistic changes and these, as well as any failure to achieve its planned cost savings and efficiencies, could have a material adverse effect on the business, financial condition, results of operations and prospects.

Competition could adversely affect our business, financial condition, results of operations and prospects

The baked goods industry is highly competitive and increased competition could reduce the Group's market share or force it to reduce prices or increase promotional spending in response to competitive pressures, all of which would adversely affect its business, financial condition, results of operations and prospects. Competitive pressures may also restrict the Group's ability to increase prices, including in response to commodity and other cost increases. Competition is based on product quality, price, customer service, brand recognition and loyalty, effective promotional activities, access to retail outlets and sufficient shelf space and the ability to identify and satisfy consumer preferences.

Any reduction in sales revenue as a result of competitive pressures would negatively affect profit margins and, if the Group's sales volumes fail to offset any reduction in margins, it will be materially and adversely affected.

Grupo Bimbo competes with large national and transnational companies, local traditional bakeries, smaller regional operators, small family-owned bakeries, supermarket chains with their own bakeries and brands, grocery stores with their own in-store bakery departments or private label products and diversified food companies. To varying degrees, the Group's competitors may have strengths in particular product lines and regions as well as greater financial resources. Grupo Bimbo expects that it will continue to face strong competition in all of the markets and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope. Grupo Bimbo may not be able to successfully compete with these companies.

In particular, from time to time, the Group experiences price pressure in certain of its markets as a result of its competitors' promotional pricing practices, which could be exacerbated by excess industry capacity. As a result, the Group may need to reduce the prices for some of its products to respond to competitive and customer pressures and to maintain market share. Such pressures also may restrict its ability to increase prices in response to raw material and other cost increases. The Group's competitors may also improve their competitive position by introducing competing or new products, improving production processes or expanding the capacity of production facilities. If Grupo Bimbo is unable to maintain its pricing structure and keep pace with its competitors' initiatives, its business, financial condition, results of operations and prospects could be materially adversely affected.

The reputation of the Group's brands and its intellectual property rights are key to its business

Most of Grupo Bimbo net sales derive from sales of products offered under brands that the Group owns. Its brand names and other intellectual property rights are key assets of its business. Maintaining the reputation of its brands is essential to the Group's ability to attract and retain retailers, consumers and associates and is critical to the Group's future success. Failure to maintain the reputation of its brands could materially and adversely affect its business, financial condition, results of operations and prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, safety conditions in the Group's operations, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in its business.

Grupo Bimbo principal trademarks are registered in the countries in which the Group uses such trademarks. While Grupo Bimbo intends to enforce its trademark rights against infringement by third parties, its actions to establish and protect its trademark rights may not be adequate to prevent imitation of its products by others or to prevent others from seeking to block sales of the Group's products on grounds that its products violate their trademarks and proprietary rights. Furthermore, authorities in certain jurisdictions in which Grupo Bimbo operates, may not be as efficient in timely and efficiently recognizing and enforcing the Group's right (which may, in turn, affect the reputation of its brands). If a competitor were to infringe on the Group's trademarks, enforcing its rights would likely be costly and would divert resources that would otherwise be used to operate and develop the business. Although Grupo Bimbo intends to actively defend its brands and trademark rights, it may not be successful in enforcing its intellectual property rights, which could materially and adversely affect the Group's business, financial condition, results of operations and prospects. The Group's failure to obtain or adequately protect its intellectual property rights, or any change in law or other changes that serve to lessen or remove the current legal protections of its intellectual property, may diminish the Group's competitiveness and could materially harm its business.

Grupo Bimbo must leverage its brand value to compete against lower-priced alternative brands

In nearly all of the Group's product categories, Grupo Bimbo competes with lower-priced alternative products. The Group's products must provide higher value and/or quality to its consumers than alternatives, particularly during periods of economic uncertainty. Consumers may not buy the Group's products if relative differences in value and/or quality between its products and retailer or other economy brands change in favor of competitors' products or if consumers perceive this type of change. If consumers choose the lower-priced brands, then Grupo Bimbo could lose market share or sales volumes, which could materially and adversely affect its product sales, financial condition, and operating results.

Inability to anticipate changes in consumer preferences or enhance the Group's product portfolio may result in decreased demand for its products

Consumer preferences change over time and Grupo Bimbo success depends on its ability to maintain consumer demand for its products by identifying and satisfying the evolving needs, tastes, trends and health habits of consumers in order to respond in a timely manner to offer products that appeal to these needs, tastes, trends and habits. Changes in consumer preferences combined with the Group's failure to anticipate, identify or react to these changes could result in reduced demand for its products, which could in turn adversely affect its business, financial condition, results of operations and prospects. In particular, demand for the Gropu's products could be impacted by the popularity of trends such as low carbohydrate diets and by concerns regarding the health effects of transfats, sugar content and processed wheat. Furthermore, Grupo Bimbo may not be able to quickly introduce substitute products, as a means to satisfy consumer demands. Consumer preferences may shift in the future due to several factors that are difficult to predict such as changes in demographic trends, governmental regulations, weather conditions, health concerns or changes in economic conditions. While the Group's experience and expertise provide him with a solid understanding of its markets, Grupo Bimbo cannot predict the preferences and needs of current or potential consumers with absolute certainty. The Group markets its products in several different countries and the consumers in each country have their own tastes and preferences (which the Group may be unable to rapidly identify).

The Group's success also depends in part on its ability to enhance its product portfolio by adding innovative new products in fast growing, profitable categories as well as increasing market share in its existing product categories. Introduction of new products and product extensions requires significant research and development as well as marketing initiatives. If the Group's new products fail to meet consumers' preferences, the return on its investment in such new product will be less than anticipated and the Group's strategy to grow net sales and profits may not be successful, which could in turn materially and adversely affect the Group's business, financial condition, results of operations and prospects.

A decrease in consumer confidence and changes in consumer habits may adversely affect the Group's business, financial condition, results of operations and prospects

Grupo Bimbo is exposed to certain political, economic and social factors in Mexico and in the other countries where it operates that are beyond its control and could adversely impact the confidence and habits of consumers. Changes in employment and salary levels, interest rates and other economic indicators, among other factors, have a direct impact on consumers' income and their purchasing power and an indirect impact on their confidence and consumption habits, which could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Grupo Bimbo may be unable to drive revenue growth in its key products or add products that are faster-growing and more profitable

The Group's future results will depend, in part, on its ability to drive revenue growth in its key products. Because a significant portion of the Group's operations are concentrated in North America, where growth in the sweet baked goods industry has been moderate in recent years, the Group's success also depends in part on its ability to enhance its portfolio by adding innovative new products and rapidly responding to new consumer demands. There can be no assurance that new products will find widespread acceptance among consumers. The Group's failure to drive revenue growth in its key products or develop innovative new products could materially and adversely affect its profitability, financial condition and operating results.

Grupo Bimbo relies on a limited number of customers for sales through certain of its distribution channels

Sales under certain of the Group's distribution channels, in particular sales under its quick service restaurant channel, rely on a limited number of customers with whom the Group does not have written contracts in place, instead, purchases and sales are made on a purchase order basis. Usually Grupo Bimbo has long-standing relationships with such customers, however, any such customer may cease to buy the Group's products at any time. The loss of key customers could materially and adversely affect the Group's profitability, financial condition and operating results.

Grupo Bimbo would be adversely affected by any significant or prolonged disruption to its production facilities

Any prolonged and/or significant disruption to the Group's production facilities, whether due to repair, maintenance or servicing, industrial accidents, mechanical equipment failure, human error, authority supervision, natural disaster or otherwise, would disrupt and adversely affect the Group's operations. In particular, any major disruption to its production facilities may have an adverse impact on its ability to comply with its obligations under its contracts with its customers, which could result in sanctions or penalties under such contracts, including the termination thereof by the Group's customers. In such a circumstance, Grupo Bimbo cannot assure that it would be able to negotiate the termination to the applicable contract, or a replacement thereof, which would have a material and adverse effect on its business, financial condition, results of operations and prospects.

Grupo Bimbo is a holding company. The Group doesn't generate revenue itself, and it depends on dividends and other financial resources from its subsidiaries to fund its operations and pay dividends, should the Group determine to do so

Grupo Bimbo is a holding company and conduct all of its operations through its subsidiaries. Grupo Bimbo has no independent operations or material assets other than the shares of its subsidiaries. Consequently, the Group's ability to fund its operations, pay interest on its debt and, to the extent that the Group decides to do so, pay dividends, primarily depends on its subsidiaries' ability to generate revenue and pay dividends to the Group. The Group's subsidiaries are separate and distinct legal entities. Any dividend payment, distribution, credit or advance from its subsidiaries is limited by the general provisions of Mexican legislation regarding the distribution of corporate earnings, including those regarding legally required employee profit sharing payments and, in certain circumstances, contractual restrictions, such as those derived from financing contracts of its subsidiaries, which could limit the Group's capacity to obtain dividends from its subsidiaries. In addition, under Mexican law, the Group's Mexican subsidiaries may only pay dividends (i) out of retained earnings included in financial statements that have been approved by their respective shareholders' meetings, (ii) after all losses from prior fiscal years have been satisfied and (iii) if the corresponding entity has allocated 5.0% of its net profit for such fiscal year to its legal reserve, which allocation must be made on an annual basis until its legal reserve represents at least 20.0% of such entity's capital stock. If a shareholder initiates legal action against Grupo Bimbo, the enforcement of any judgment would be limited to the Group's subsidiaries' available assets. The payment of dividends by the Group's subsidiaries also depends on their earnings and business considerations. In addition, the Group's right to receive any assets from any subsidiary upon its reorganization or liquidation, in its capacity as a shareholder of such subsidiary, will be effectively subordinated to the rights of such subsidiary's creditors, including trade creditors. Any adverse change in the financial situation or in the result of operations of the Group's subsidiaries could affect its business, financial condition, results of operations and prospects.

Health and product liability risks related to the food industry could adversely affect the Group's business, financial condition, results of operations and prospects

Grupo Bimbo is subject to risks affecting the food industry generally, including risks posed by contamination or food spoilage, evolving nutritional and health-related concerns, consumer product liability claims, product tampering, the availability and expense of liability insurance and the potential cost and disruption of product recalls. The Group may also become involved in lawsuits and legal proceedings if it is alleged that the consumption of any of its products causes injury, illness or death. A product recall or an adverse result in any such litigation could adversely affect its business, financial condition, results of operations and prospects.

Any actual or perceived health risks associated with the Group's products, including any adverse publicity concerning these risks, could cause customers to lose confidence in the safety and quality of its products. In recent years, governments in many jurisdictions have negatively referred to products in the industries in which Grupo Bimbo participates and have threatened or imposed taxes that may negatively impact demand for its products. Even if the Group's own products are not affected by contamination, its industry may face adverse publicity if the products of other producers become contaminated, which could result in reduced consumer demand for the Group's products in the affected category. In addition, adverse publicity about the safety and quality of certain food products, such as the publicity about foods containing genetically modified ingredients, whether or not true, may discourage consumers from buying the Group's products or cause production and delivery disruptions.

Grupo Bimbo maintains systems and internal policies designed to monitor food safety risks throughout all stages of the production process. However, the Group's systems and internal policies may not be fully effective in mitigating risks related to food safety. Any product contamination could have a material adverse impact on the business, financial condition, results of operations and prospects of the Group.

The Group's operations are subject to extensive food quality and safety regulations

The Group's operations, including its manufacturing facilities, transportation vehicles and products, are subject to extensive regional and national laws, rules, regulations and standards of hygiene and quality regulation in the food safety area and oversight by authorities in each of the countries where the Group operates regarding the processing, packaging, labeling, storage, distribution and advertising of its products. These authorities enact and enforce regulations with respect to the Group's operations by, among other things, licensing its plants, enforcing federal and state standards for selected food products, grading food products, inspecting plants and warehouses. Consequently, Grupo Bimbo is required to maintain various registries, licenses and permits in order to operate its business.

The Group's operations in Mexico are subject to extensive laws, rules, regulations and standards of hygiene and quality regulation and oversight by designated authorities such as the Mexican Ministry of Health (*Secretaría de Salud*), the Ministry of Agriculture, Farming, Rural Growth, Fish and Food (*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*), the Federal Commission for Protection from Sanitary Risks (*Comisión Federal para la Protección contra Riesgos Sanitarios*) and the Ministry of Economy (*Secretaría de Economía*) and other authorities regarding the processing, packaging, labeling, storage, distribution and advertising of the Group's products.

The Group's U.S. products and packaging materials are regulated by the U.S. Food and Drug Administration, or FDA. This agency enacts and enforces regulations relating to the production, distribution and labeling of food products in the United States. In addition, various states regulate the Group's U.S. operations by licensing plants, enforcing federal and state standards for selected food products, grading food products, inspecting plants and warehouses, regulating trade practices related to the sale of food products and imposing their own labeling requirements on food products.

The Group's operations in Europe are subject to extensive food safety regulations and are subject to governmental food processing controls in each of the European countries in which Grupo Bimbo conducts its business. Regulation EC/178/2002, as amended, provides the framework for a unified approach to food safety in the European Union and all member states have implemented the requirements into law. Among the other major requirements of Regulation EC/178/2002 are Article 17, which imposes on food business operators a general obligation to ensure that the operations under their control satisfy the relevant food law requirements and an obligation to verify that such requirements are met, and Article 18, which imposes a mandatory traceability requirement along the food chain. In addition to the general requirements of Regulation EC/178/2002, Grupo Bimbo is subject to specific food hygiene legislation. Further, the Group is regularly inspected by various national and local regulatory authorities. In addition, Grupo Bimbo is subject to extensive consumer-protection and product liability regulations.

Grupo Bimbo is subject to comparable health, hygiene and quality-related local laws and regulations in other countries where it operates. Government policies and regulations in the United States, Mexico and its other markets may adversely affect the supply of, demand for, and prices of, its products, restrict its ability to do business in existing and target local and export markets and could adversely affect its business, financial condition, results of operations and prospects. In addition, if the Group is required to comply with future material changes in food safety or health-related regulations, it could be subject to material increases in operating costs and also be required to implement regulatory changes on schedules that cannot be met without interruptions in its operations. Increased governmental regulation of the food industry, such as proposed requirements designed to enhance food safety, impose health-related requirements or to regulate imported ingredients, could increase the Group's costs and adversely affect its business, financial condition, results of operations and prospects.

The Group relies on third parties to sell its products to its consumers, and if they perform poorly or give preference to competing products, Grupo Bimbo could be negatively affected

Grupo Bimbo derives a significant portion of its operating revenues from sales to retailers. Grupo Bimbo sells its products to non-traditional retailers, such as supermarkets, hypermarkets and hard discounters, and to traditional retailers, such as small convenience stores and small family-owned stores. These third parties, in turn, sell the Group's products to final consumers. A portion of its revenues comes from the foodservice distribution channel which includes operators such as restaurants and the on-the-go channel including vending machines. Any significant deterioration in the business performance of the Group's customers could adversely affect the performance of its products. In addition, shelf and retail space for sweet baked goods is limited and subject to a competitive environment and other industry pressures. Therefore, traditional and non-traditional retailers also carry products that directly compete with the Group's products for consumer purchases, retail space and marketing efforts. There is a risk that such retailers may give preference to products of, or form alliances with, the Group's competitors or their own private labels other than with respect to products that Grupo Bimbo produces for such private labels, or put pressure on the Group's margins. Private label products represent an alternative for value-conscious consumers. These products allow retailers to increase their sales and margins, which incentivizes retailers to take advantage of their platform to give preference to such private label products at the expense of branded products. There can be no assurance that retailers will provide the Group sufficient shelf space for its products to enable Grupo Bimbo to meet its growth objectives. If retailers put pressure on its margins, fail to purchase its products or fail to provide its products with adequate marketing efforts, the Group's business, financial condition, results of operations and prospects could be adversely affected.

Further consolidation in the supermarket, baking and retail food industries may adversely impact the Group

Consolidation in the supermarket industry has changed the grocery retail landscape in recent years. Originally, supermarkets rose to prominence by selling numerous types of goods under one roof, largely replacing small grocery stores and other retailers that only sold one particular type of product. In order to increase efficiency and maintain competitiveness, supermarket chains have begun consolidating, a trend that has led to a reduction in the number of retailers. Grupo Bimbo and other producers are becoming increasingly dependent on a small number of retailers for sales volume, which gives these retailers significant leverage to bargain for lower prices in their purchases of the Group's products, requires additional spending on marketing programs by producers or specifically tailored products. Sales to the Group's larger customers on terms less favorable to the Group could adversely affect its business, financial condition, results of operations and prospects.

In addition, consolidation among the Group's competitors in the baked goods and retail food industry may cause its competitors to gain in size and competitive strength, adversely affecting the Group's business, financial condition, results of operations and prospects.

Disruption of the Group's supply chain and distribution network could adversely affect its business, financial condition, results of operations and prospects

The Group's operations depend on the continuous operation of its supply chain and distribution network. Damage or disruption to the Group's production or distribution capabilities due to weather, natural disaster, fire, electricity shortages, terrorism, pandemics, strikes, disputes with, or the financial and/or operational instability of, key suppliers, distributors, warehousing and transportation providers, or other reasons could impair our ability to manufacture or distribute the Group's products or to timely comply with its commitments.

To the extent that Grupo Bimbo is unable, or it is not financially feasible for it, to mitigate interruptions in its supply chain, whether through insurance arrangements or otherwise, or their potential consequences, there could be an adverse effect on its business, financial condition, results of operations and prospects, and additional resources could be required to restore the Group's supply chain. These events could materially and adversely affect its business, financial condition, results of operations and prospects.

Natural disasters and other events could adversely affect the Group's operations

Natural disasters, such as storms, hurricanes and earthquakes, could disrupt operations, damage infrastructure or adversely affect the Group's production plants and distribution processes. Any of these events could increase its expenses or investments, result in a *force majeure* event under certain of our contracts and/or impact the economies of the markets affected by such disasters or events and consequently affect the business, financial condition, results of operations and prospects of the Group.

Grupo Bimbo operations could be adversely affected if its suppliers fail to perform in a satisfactory manner

The Group's production depends on the availability of raw materials such as wheat flour, edible oils and fats, sugar and eggs, which the Group obtains from several third party suppliers in different countries. Although Grupo Bimbo believes any of its suppliers could be replaced, if for any reason any of its major suppliers is unable or unwilling to continue providing the Group with raw materials due to production delays, increased competition for their products, failure to meet its quality or hygienic standards or any other reason, the Group may face delays in obtaining alternate suppliers, and such suppliers may be unwilling to supply its raw material needs on terms as favorable, or by satisfying the same quality, as those provided by the Group's current suppliers. In addition, in the event of severe shortages, the Group's suppliers may be directed by government agencies to supply certain consumers directly, with preference over Grupo Bimbo. Any such event could result in delays in the Group's operations, deterioration of its brands (and, as a result, reduced demand for its products) and diminished financial results.

Grupo Bimbo may be subject to unknown or contingent liabilities related to its recent and future acquisitions

The Group's recent and future acquisitions of assets and entities may be subject to unknown or contingent liabilities (including violations to antitrust, anticorruption, anti-bribery and anti-money laundering laws) or breaches of representations and warranties for which the Group may have no recourse, or only limited recourse, against the former owners. In some of the Group's acquisitions the former owners agreed, or may agree, to indemnify the Group for certain of these matters. However, such indemnification obligations are often subject to materiality thresholds and guaranty limits, and such obligations are generally time limited. For certain acquisitions, Grupo Bimbo may not be able to successfully negotiate for such indemnification obligations. As a result, the Group may not recover any amounts with respect to losses due to unknown or contingent liabilities or breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with the acquired assets and entities may exceed the Group's expectations, and the Group may experience other unanticipated adverse effects, all of which may adversely affect its business, financial condition, results of operations and prospects.

The Group's future growth opportunities through mergers, acquisitions or joint ventures may be impacted by antitrust laws and other challenges in integrating significant acquisitions

Grupo Bimbo may pursue further acquisitions in the future. The Group does not know if it will be able to successfully complete any such acquisitions or whether it will be able to successfully integrate any acquired business into its business or retain key personnel, suppliers or distributors. Also, there can be no assurance that a challenge on antitrust grounds, in connection with the Group's existing operations or any acquisition that the Group may pursue in the future, will not be made. If any such challenge is made, the Group may be required to sell or divest a significant portion of its business or it may be prevented from consummating a specific acquisition. The Group's ability to successfully grow through acquisitions depends upon its ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain the required financing on terms acceptable to Grupo Bimbo. These efforts could be expensive and time consuming, disrupt its ongoing business and distract management. If Grupo Bimbo is unable to integrate any acquired businesses effectively, its business, financial condition, results of operations and prospects could be materially adversely affected.

Grupo Bimbo may be unable to successfully expand its operations into new markets

If the opportunity arises, The Group may expand its operations into new markets. Each of the risks applicable to the Group's ability to successfully operate in its current markets is also applicable to its ability to successfully operate into new markets. In addition to these risks, the Group may not possess the same level of familiarity with the dynamics and market conditions of any new markets that it may enter, which could adversely affect its ability to expand into or operate in those markets. Grupo Bimbo may be unable to create similar demand for its products in these new markets, which could adversely affect its profitability. If Grupo Bimbo is unsuccessful in expanding its operations into new markets, its business, financial condition, results of operations and prospects could be materially and adversely affected.

Currency fluctuations may adversely affect the Group

Grupo Bimbo generates revenues and incur operating expenses and indebtedness in local currencies in the countries where it operates. The amount of its revenues denominated in a particular currency in a particular country typically varies from the amount of expenses or indebtedness incurred by its operations in that country given that certain costs may be incurred in a currency different from the local currency of that country, such as the U.S. dollar. This situation exposes the Group to potential losses and reductions in its margins resulting from currency fluctuations, which may materially and adversely affect its business, financial condition, results of operations and prospects.

As of December 31, 2018, 78.0% of its consolidated debt and a significant portion of its income, operating costs and taxes were denominated in U.S. dollars. However, other significant portions of the Group's income, operating costs and taxes were denominated in Mexican pesos and certain other currencies. As a result, the appreciation or depreciation of the Mexican peso and such other currencies against the U.S. dollar affects the Group's results of operations and financial condition. Significant fluctuations of the Mexican peso and such other currencies relative to the U.S. dollar have occurred in the past, negatively affecting the Group's results. For example, according to the Mexican Central Bank, the Mexican peso appreciated by 0.04% in 2018, and appreciated by 4.5% in 2017 and depreciated by 19.2% in 2016, and by 17.0% in 2015, while the currency appreciated 12.6% in 2014, against the U.S. dollar, all in nominal terms. Banco de México may from time to time participate in the foreign exchange market to minimize volatility and support an orderly market. Banco de México and the Mexican government have also promoted market-based mechanisms for stabilizing foreign exchange rates and providing liquidity to the exchange market. However, the peso is currently subject to significant fluctuations against the U.S. dollar and may be subject to such fluctuations in the future.

Grupo Bimbo selectively hedges its exposure to the U.S. dollar with respect to the Mexican peso and other currencies, its U.S. dollar-denominated debt obligations and the purchase of certain U.S. dollar-denominated raw materials. A severe depreciation of the Mexican peso or any currency of the countries where the Group operates may result in a disruption of the international foreign exchange markets and may limit its ability to transfer or to convert Mexican pesos or such other currencies into U.S. dollars for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign people or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future. Any change in the monetary policy, policies related to the transferability of funds, the exchange rate regime or in the exchange rate itself, as a result of market conditions over which the Group has no control, could have an adverse effect on its business, financial condition, results of operations and prospects. Restrictions on the Group's right to convert pesos into U.S. dollars or make payments outside of Mexico could affect its ability to make timely payment of its obligations due to be paid outside Mexico or in a currency other than pesos. Furthermore, there can be no guarantee that any hedging transactions Grupo Bimbo enters into will sufficiently protect it against any such impacts.

The Group's business operations could be disrupted due to interruptions or failures in its information technology systems

Grupo Bimbo relies on sophisticated information technology systems and infrastructure to support its business, including process control technology. Confidentiality and integrity of information may be jeopardized by deliberate or unintentional misuse, manipulation or disclosure of information; physical theft; or cybersecurity data breaches by its employees, suppliers, hackers, criminal groups, nation-state organizations, social-activist organizations or other third parties. Although the Group does not transact e-commerce directly to consumers as the merchant, it has implemented procedures, controls and technology to address cybersecurity and regulatory compliance. Grupo Bimbo currently utilizes third party e-commerce providers and request that they have the appropriate cybersecurity controls and meet regulatory requirements. However, the cybersecurity and compliance controls the Group or its third party providers implement might not be effective. In particular, continuity of business applications and services may be disrupted by errors in systems' maintenance, migration of applications to the cloud, power outages, hardware or software failures, viruses or malware, denial of service and other cyber security attacks, telecommunication failures, natural disasters, terrorist attacks and other catastrophic events.

Should any of these risks materialize, the need to coordinate with various third party service providers might complicate the Group's efforts to resolve the related issues. If the Group's controls, disaster recovery and business continuity plans do not effectively resolve the issues in a timely manner, its business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, should confidential information belonging to the Group or its employees, customers, consumers, partners, suppliers, or governmental or regulatory authorities be misused or breached, the Group may suffer financial losses relating to remediation, damage to its reputation or brands, loss of intellectual property, or penalties or litigation related to violation of data privacy laws and regulations.

Failure to maintain the Group's relationships with labor unions may have an adverse effect on its business, financial condition, results of operations and prospects

The majority of the Group's workforce is represented by labor unions. While Gurpo Bimbo has enjoyed satisfactory relationships with all of the labor organizations that represent its associates and the Group believes its relationships with labor organizations will continue to be satisfactory, labor-related disputes may still arise. These labor disputes may be motivated by changing social and economic conditions in the countries in which the Group operates. Labor disputes that result in strikes or other disruptions could also cause increases in operating costs, which could damage the Group's relationships with its customers and adversely affect its business, financial condition, results of operations and prospects. In addition, if any significant differences arise during its negotiations with labor unions or employees, or any other significant conflicts arise, its business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, increases in labor costs may materially and adversely impact the Group's business, financial condition, results of operations and prospects. A shortage in the labor pool or other general inflationary pressures or changes in applicable laws and regulations could increase labor cost, which could have a material adverse effect on Grupo Bimbo.

The Group's labor costs include the cost of providing benefits for associates. Grupo Bimbo sponsors a number of defined benefit plans for associates in most of the regions where it operates, including pension, retiree health and welfare, active health care, severance and other post-employment benefits. Grupo Bimbo also participates in a number of MEPPs for certain production facilities. The annual cost of benefits can vary significantly from year to year and is materially affected by such factors as changes in the weighted-average discount rate used to measure obligations, the rate or trend of health care cost inflation, the provisions of collectively bargained wage and benefit agreements or by material adjustments in the MEPP sponsors.

The Group enters into significant transactions with affiliates and related parties, whether individuals or legal entities, and this may create potential conflicts of interest and result in less favorable terms for the Group

Grupo Bimbo participates in transactions with individuals and legal entities affiliated with or related to it. These transactions could create potential conflicts of interest and result in less favorable terms for the Group than would be obtainable from a non-related third party.

The Group depends on the expertise of its senior management and skilled personnel, and its business may be disrupted if it loses their services

The Group's senior management team possesses extensive operating experience and industry knowledge. Grupo Bimbo depends on its senior management to set our strategic direction and manage its business and the Group believes that their involvement in it is crucial to the Group's success. Furthermore, its continued success also depends upon its ability to attract, hire or retain experienced and talented professionals. The loss of the services of its senior management or its inability to recruit, train or retain a sufficient number of experienced and talented personnel could have an adverse effect on the Group's business, financial condition, results of operations and prospects. Grupo Bimbo does not maintain any key person insurance on any of its senior management or associates for these purposes. Its ability to retain senior management as well as experienced and talented personnel will in part depend on the Group having in place appropriate staff remuneration and incentive schemes. The remuneration and incentive schemes Grupo Bimbo has in place may not be sufficient in retaining the services of its experienced and talented personnel.

Compliance with environmental and other governmental laws and regulations could result in added expenditures or liabilities

The Group's operations are subject to federal, state and municipal laws, rules, regulations and official standards, relating to the protection of the environment and natural resources in all the markets in which it operates. In general, environmental laws impose liability and clean-up responsibility for releases of hazardous substances into the environment and set out the requirements to obtain and maintain environmental permits for the Group's facilities.

In the United States, Gupo Bimbo is subject to federal, state and local laws and regulations relating to the protection of the environment. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA or Superfund).

In Mexico, the Group is subject to various Mexican federal, state and municipal environmental laws and regulations that govern discharges into the environment, as well as the handling and disposal of hazardous substances and wastes. Grupo Bimbo is subject to strict regulation in Mexico by, among other agencies, the Environmental and National Resources Ministry (*Secretaría de Medio Ambiente y Recursos Naturales*), the

Labor and Social Security Ministry (*Secretaría del Trabajo y Previsión Social*), the Federal Environmental Protection Bureau (*Procuraduría Federal de Protección al Ambiente*) and the National Water Commission (*Comisión Nacional del Agua*). These agencies may initiate administrative proceedings for violations of environmental and safety ordinances and impose economic penalties on violators.

Although the Group has specific programs across its business units designed to meet applicable environmental compliance requirements, modifications of existing environmental laws and regulations or the adoption of more stringent environmental laws and regulations in the jurisdictions in which the Group operates may result in the need for investments that are not currently provided for in its capital expenditures program and may otherwise result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to anti-trust, anti-corruption and anti-money laundering laws in different countries where it has operations. Failure to comply with these laws could result in penalties, which could harm the Group's reputation and have an adverse effect on its business

The Group operates in multiple jurisdictions and is subject to complex regulatory frameworks with increased enforcement activities worldwide. Grupo Bimbo is subject to anti-trust, anti-corruption and anti-money laundering laws. Although the Group maintains policies and processes intended to comply with these laws, including a review of its internal control over financial reporting, the Group cannot ensure that these compliance policies and processes will prevent intentional, reckless or negligent acts committed by its officers or employees. If the Group's officers or employees fail to comply with any applicable anti-trust, anti-corruption, anti-bribery or anti-money laundering laws, they may be subject to criminal, administrative or civil penalties and other remedial measures, which could have material adverse effects on the business, financial condition, results of operations and prospects of the Group. Furthermore, the entities or businesses the Group acquires may not comply with the same control standards and procedures as Grupo Bimbo. Any investigation of potential violations of anti-trust, anti-corruption, anti-bribery or anti-money laundering laws by governmental authorities in any jurisdiction where the Group operates could materially and adversely affect its business, financial condition, results of operations and prospects. This could also adversely impact the Group's reputation and ability to, when applicable, obtain contracts, assignments, permits and other government authorizations.

In 2017 Canada's Competition Bureau commenced an investigation over allegations relating to an industry collusion among several bread suppliers, including Canada Bread from 2001 to 2017. As of the date of this report investigations by Canada's Competition Bureau are ongoing and certain parties involved have admitted to inappropriate conduct. Canada Bread hasnot been charged with any offenses. Both the Group and Canada Bread are fully cooperating with Canada's Competition Bureau as it conducts its inquiry. In addition, the Gruop was notified of certain class actions initiated by groups of consumers and/or consumer associations against all the parties allegedly involved in Canada's Competition Bureau investigation.

In addition, Grupo Bimbo is subject to economic sanctions regulations that restrict its dealings with certain sanctioned countries, individuals and entities. There can be no assurance that the Group's internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by its affiliates, employees, directors, officers, partners, agents and service providers or that any such people will not take actions in violation of Group's policies and procedures. Any violations by Grupo Bimbo of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

An impairment in the carrying value of goodwill or intangibles could negatively affect the Group's consolidated operating results and net worth

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and assumed liabilities as of the acquisition date. The carrying value of the intangibles represents the fair value of trademarks, trade names, and the acquired intangibles as of the acquisition date. Goodwill and the acquired intangibles are expected to contribute indefinitely to the Group's cash flows are not amortized, but must be evaluated by management at least annually for impairment. If carrying value exceeds current fair value, the intangible is considered impaired and is reduced to fair value via a charge to earnings. Events and conditions which could result in an impairment include changes in the industries in which Grupo Bimbo operates, including competition and advances in technology; a significant product liability or intellectual property claim; or other factors leading to reduction in expected sales or profitability. Should the value of one or more of the acquired intangibles become impaired, the Group's consolidated operating results and net worth may be materially and adversely affected.

Financing to meet the Group's future capital needs may not be available or sufficient on terms acceptable to it and/or at all

Grupo Bimbo may need additional financing to build new facilities, expand existing ones, undertake mergers and acquisitions, refinance its debt or for other purposes. Some of the financing agreements entered into by the Group and by its subsidiaries contain financial ratios and other customary covenants for transactions of this type which may limit its ability to incur additional debt.

The global market and economic conditions are unpredictable and may continue to be so in the future. Debt capital markets have in the past been affected by significant losses in the international financial services industry and economic events in certain countries, among other factors. In the future, the cost of fundraising in debt capital markets may increase significantly, while funds available from these markets may materially decrease. The Group's growth strategy may require financing by public or commercial banks and loans from other public or private financial institutions. In the event there are no funds available from public or private banks, or if such funds are provided on less favorable terms, the Group may not be able to meet its capital needs, or these needs may be limited or hampered, and the Group may not be able to (i) take advantage of certain business opportunities, (ii) respond to competitive pressures, (iii) fund needed capital expenditures or (iv) fund required margin calls or margin deposits in connection with hedging transactions, which may adversely affect its business, financial condition, results of operations and prospects.

Grupo Bimbo may incur additional indebtedness in the future that could adversely affect its financial condition and its ability to satisfy its total outstanding debt obligations from its cash flow

In the future, the Group could incur in additional debt, situation ehich could have the following effects:

- limit its ability to pay its debt;
- limit its ability to pay dividends;
- increase its vulnerability to adverse general economic and industry conditions;
- require the Group to dedicate a portion of its cash flow from operations to servicing and repaying its indebtedness, which may place the Group at a competitive disadvantage with respect to its competitors with less debt;
- limit its flexibility in planning for or reacting to changes in its business and the industry in which it operates;
- limit, along with the financial and other restrictive covenants of its indebtedness, its ability to borrow additional funds; and
- increase the cost of additional financing.

The Group's ability to generate sufficient cash to satisfy its outstanding and future debt obligations will depend upon its future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are not controlled by the Group. If the Group is unable to service its indebtedness, it will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditure, selling assets, restructuring or refinancing its indebtedness, or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of the Group's financing arrangements impose operating and financial restrictions on its business. These provisions may negatively affect its ability to react to changes in market conditions, take advantage of business opportunities the Group believes to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in its business.

In the future, the Group may from time to time incur substantial additional indebtedness. If the Group or its subsidiaries incur additional debt, the risks that it faces as a result of its existing indebtedness could further intensify.

Legal and regulatory developments may adversely affect the Group's business, financial condition, results of operations and prospects

The Group is subject to regulation in each of the countries where it operates. The principal areas in which Grupo Bimbo is subject to regulation are water, environment, labor, taxation, health and antitrust. The adoption of new laws or regulations or a stricter interpretation or enforcement thereof in the countries where the Group operates, including the imposition of taxes directed to products that the Group sells, may increase its operating costs or impose restrictions on its operations which, in turn, may adversely affect its business, financial condition, results of operations and prospects. In particular, environmental standards are becoming more stringent in several of the countries where the Group operates, and the Group is in the process of complying with these standards, although it cannot assure that it will be able to meet the timelines for compliance established by the relevant regulatory authorities. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on the Group's future results or financial condition.

The Group is affected by governmental regulations and guidelines imposing health, food safety and nutritional standards. The Group's compliance with such standards may require it to incur substantial costs for research and development and use costlier ingredients in its products. Grupo Bimbo may not be able to make corresponding increases in the prices it charges consumers for its products, which would adversely affect the business, financial condition, results of operations and prospects of the Group.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where the Group operates. Currently, price controls on the Group's products exist in certain of the territories in which it has operations. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on its business, financial condition, results of operations and prospects. Grupo Bimbo cannot assure that governmental authorities in any country where it operates will not impose statutory price controls or that it will not need to implement voluntary price restraints in the future.

The Group's operations are subject to the general risks of litigation

Grupo Bimbo is involved, on an ongoing basis, in litigation arising in the ordinary course of business or otherwise, which could result in unfavorable decisions or financial penalties against it. Litigation may include class actions involving consumers, shareholders, employees or injured people, and claims related to commercial, labor, employment, antitrust, tax, administrative, intellectual property, torts, contract securities or environmental matters. Class actions were recently recognized in Mexico. Moreover, the process of litigating requires substantial time, which may distract the Group's management. Even if the Group is successful, any litigation may be costly, and may approximate the cost of damages sought. Furthermore, there may be claims or expenses which are denied insurance coverage by the Group's insurance carriers, not fully covered by its insurance, in excess of the amount of its insurance coverage or not insurable at all. Litigation trends and expenses and the outcomes of litigation cannot be predicted with certainty and adverse litigations, trends, expenses and outcomes could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the Group's operations have from time to time been subject to investigations and proceedings by antitrust authorities and litigation relating to alleged anticompetitive practices (including related class actions and other proceedings). During the period from 2001 to 2017, Canada's Competition Bureau commenced an investigation over allegations relating to an industry wide conspiracy among several bread suppliers (including the business we acquired from by Maple Leaf Foods in Canada in 2014) and retailers in connection with pricing conduct dating back to 2001. As of the date of this report investigations by Canada's Competition Bureau are ongoing and certain parties involved, have admitted to inappropriate conduct. Neither Grupo Bimbo nor any of its associates have been charged with any offenses as of the date of this report. The group is cooperating fully with Canada's Competition Bureau as it conducts its inquiry. In addition, shortly after the commencement of such investigation, Grupo Bimbo was notified of certain class actions in most of canadian provinces initiated by groups of consumers and/or consumer associations filed against all the parties allegedly involved in Canada's Competition Bureau investigation relating to the facts and subject matter of such investigation. The Group cannot assure you that the outcomes of this investigation will not have a material adverse effect on its business, financial condition, results of operations and prospects.

Grupo Bimbo will continue to be subject to legal proceedings and investigations. The Group cannot assure you that these investigations and proceedings will not have an adverse effect on its business, financial condition, results of operations and prospects. Moreover, adverse publicity about regulatory or legal actions or investigations and allegations by other parties involved in regulatory or legal actions against the Group could damage its reputation and brand image, undermine our customers’ confidence and reduce long-term demand for its products, even if the regulatory or legal action is unfounded or not material to our operations.

The Group is subject to different disclosure and accounting standards than companies in other countries

A principal objective of the securities laws of Mexico and other countries is to promote full and fair disclosure of all material corporate information, including the financial information of the issuers. However, it is possible that issuers of securities in Mexico do not disclose the same information or disclose different information from what would be mandatory for them to disclose in other countries.

A decrease in consumer confidence and changes in consumer habits may adversely affect the business, financial condition or results of operations of the Group

The Group is exposed to certain political, economic and social factors in Mexico and in the other countries in which it operates that are beyond its control and could adversely impact the confidence and habits of consumers. Changes in employment and salary levels, interest rates and other economic indicators, among other factors, have a direct impact on consumers' incomes and their purchasing power and an indirect impact on their confidence and consumption habits, which could have an adverse effect on the sales and results of operations of Grupo Bimbo.

It may be difficult to enforce civil liabilities against the Group or its directors, executive officers and controlling people

Grupo Bimbo is a listed variable stock corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico, with its registered address in Mexico, and most of its directors, executive officers, and controlling people are residents in Mexico. Moreover, a significant portion of its assets and a significant portion or all of the assets of such resident people are located in Mexico.

As a result, it may be difficult for foreign investors to bring legal processes outside Mexico against such people or the Group, or to enforce judgments against them or the Group in courts of any jurisdiction outside of Mexico, including any judgment predicated upon the civil liability provisions of such people in those countries. There is doubt as to the enforceability in Mexican courts of civil liabilities arising under the federal laws of the United States, by means of judgments carried out in Mexico or enforcement processes of judgments from US courts.

Risks Related to Countries in Which the Group Operates

The Group’s business and financial performance may be adversely affected by risks inherent in international operations

Grup Bimbo currently maintains production facilities and operations in Mexico, the United States, Argentina, Brazil, Canada, Chile, China, Colombia, Costa Rica, Ecuador, El Salvador, France, Honduras, Guatemala, India, Italy, Morocco, Nicaragua, Panama, Paraguay, Peru, Portugal, Russia, Spain, South Africa, South Korea, Switzerland, Ukraine, Uruguay, Turkey, the United Kingdom and Venezuela. The Group’s ability to conduct and expand its business and its financial performance is subject to the risks inherent in international operations. The Group’s liquidity, results of operations and financial condition may be adversely affected by trade barriers, currency fluctuations and exchange controls, political unrest, high levels of inflation and increases in duties, taxes and governmental royalties, as well as changes in local laws and policies of the countries in which the Group conducts business, including changes to environmental laws that could affect its production facilities or to health safety laws that could affect its products. The governments of the countries where Grupo Bimbo operates, or may operate in the future, could take actions that materially adversely affect it, including the taking, expropriation or condemnation of its assets or subsidiaries.

Any limitation on foreign trade in any of the countries where the Group operates could affect its business, financial condition, results of operations and prospects. Individual governments could impose trade restrictions for a variety of reasons, either tariff or non-tariff, restricting, limiting or prohibiting international trade of goods. Such measures would adversely affect the Group’s business, financial condition, results of operations and prospects since Grupo Bimbo imports a significant portion of its raw materials.

Global economic conditions may adversely affect the Group's business and financial performance

The Group's business, financial condition, results of operations and prospects may be affected by the general conditions of the economies, rates of inflation, interest rates or exchange rates for the currencies of the countries where Grupo Bimbo operates. These conditions vary by region and may not be correlated to conditions in the Group's operations in other regions. Decreases in the growth rate of these countries' economies, periods of negative growth and/or increases in inflation or interest rates in these countries may result in lower demand for the Group's products, lower real pricing of its products or a shift to lower margin products.

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries where the Group operates. When economic conditions deteriorate, the end markets for the Group's products may experience declines, and we may suffer reductions in the Group's sales and profitability. In addition, the financial stability of the Group's customers and suppliers may be affected, which could result in decreased, delayed or canceled purchases of our products, increases in uncollectable accounts receivable or non-performance by suppliers.

The global economy may continue to experience periods of slowdown and volatility which in turn may further diminish expectations and consumer spending in the economies in which the Group operates and may be adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, currency fluctuations, disruptions in the credit markets, difficulty in obtaining financing, reduced business activity, rising unemployment, uncertainty in the level of interest rates, erosion of consumer confidence and reduced consumer spending. Although the Group's strategy is targeted at offsetting or taking advantage of market trends as appropriate, worsening of the global economic downturn in general has had, and may continue to have, a negative impact on the business, financial condition, results of operations and prospects of Grupo Bimbo.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union, or "Brexit." On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. A process of negotiation, which is expected to be completed within the next two years, will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on the Group results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by volatility and reduced growth. The uncertainty before, during and after the period of negotiation could also have a negative operational or economic impact and increase volatility in the markets, particularly in Europe. Such volatility and negative economic impact could, in turn, adversely affect the Group's business.

Political or social developments in any of the countries in which Grupo Bimbo has operations, over which it has no control, may have an adverse effect on the global market or on our business, financial condition, results of operations and prospects.

Adverse economic conditions in North America in particular may adversely affect the Group's business, financial condition, results of operations and prospects

Grupo Bimbo is a company incorporated in Mexico, and a significant portion of its operations are conducted in Mexico, the United States and Canada. For the year ended December 31, 2018, 81% and 97% of its total net sales and Adjusted EBITDA (giving effect to the amortization of losses from its operations in Europe), respectively, were attributable to its operations in Mexico, the United States and Canada. As a result, the Group's business, financial condition, results of operations and prospects may be affected by the general condition of the economies in the United States, Canada and Mexico, including price instability, inflation, interest rates, regulation, taxation, increasing crime rates and other political, social and economic developments over which Grupo Bimbo has no control. In addition, 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. In the past, Mexico has also experienced prolonged periods of economic crisis caused by internal and external factors over which the Group has no control. These periods have been characterized by exchange rate instability, high inflation, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. Such conditions may return and could have a material and adverse effect on the Group's business, financial condition, results of operations and prospects.

The market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers, including Grupo Bimbo.

In addition, the direct correlation between economic conditions in Mexico and the United States has sharpened in recent years as a result of the North American Free Trade Agreement and increased economic activity between the two countries. Thereof, the adverse general economic conditions in the United States, the termination of the North American Free Trade Agreement or "NAFTA" or other related events could adversely affect the Group's business, financial condition, results of operations and prospects. In addition, due to the unpredictable dynamics of the international credit markets, capital availability and cost could be significantly affected and could restrict the Group's ability to obtain financing or refinance its existing indebtedness on favorable terms, if at all, materially adversely affecting the Group's business, financial condition, results of operations and prospects.

Negotiators from Mexico, the United States and Canada announced the renewal of the treaty in September 2018, where certain aspects of NAFTA were modified. NAFTA updates are still subject to the approval of each countries' respective legislation. It is expected that a 16-year "sunset" clause will be included, which means that the terms of the treaty will expire on the termination of such period, and are subject to review every 6 years, in which case the United States, Mexico and Canada can decide on the extension of the treaty or not. It is difficult to predict the extent of the effects of such termination or modifications, however, such changes could have an adverse impact on our business, financial condition, results of operations and cash flows. Political, economic and social conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, the Group's business, financial condition, results of operations and prospects

Political events in Mexico may significantly affect Mexican economic policy and, consequently, the Group's operations. The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican government actions concerning the economy and regulation of certain industries, including the energy sector, could have a significant effect on the Group and on market conditions in Mexico. The Mexican president influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect the Group's business, financial condition, results of operations and prospects. The Mexican federal government occasionally makes significant changes in policies and regulations and may do so again in the future. Actions to control inflation and other regulations and policies have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations and capital controls and limits on imports. Tax legislation, in particular, in Mexico is subject to continuous change, and Grupo Bimbo cannot assure that the Mexican government will maintain existing political, social, economic or other policies or that such changes would not have a material adverse effect on its business, financial condition, results of operations and prospects.

Grupo Bimbo cannot predict the impact that political developments in Mexico will have on the Mexican economy nor can provide any assurances that these events, over which we have no control, will not have an adverse effect on its business, financial condition, results of operations and prospects. In addition, government forecasts of Mexico's economic growth may affect rating agencies' perception of the country, which may have a negative effect on Mexico's credit ratings issued by international rating agencies, which may, in turn, adversely affect the Group's business, financial condition and results of operations.

In the past, Mexico has experienced several periods of slow or negative economic growth, high inflation, high interest rates, currency devaluation (in particular with respect to the Mexican peso-U.S. dollar exchange rate), convertibility restrictions and other economic problems. These problems may worsen or reemerge, as applicable, in the future and could adversely affect the Group's business and ability to service its debt. During 2018, Banco de México increased its reference rate by 100 basis points, from 7.25% to 8.25%. Future increases in interest rates may adversely affect the Group's results of operations by increasing its financing cost. In addition, a worsening of international financial or economic conditions, such as a slowdown in growth or recessionary conditions in Mexico's trading partners, including the United States, or the emergence of a new financial crisis, could have adverse effects on the Mexican economy, the Group's financial condition and its ability to service its debt.

High inflation rates may adversely affect the Group's financial condition, results of operations and prospects

Mexico has a history of high levels of inflation and may experience high inflation in the future. Historically, inflation in Mexico has led to higher interest rates, depreciation of the peso and the imposition of substantial government controls over exchange rates and prices. As provided and published by Mexican National Institute for Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, or INEGI), the annual rate of inflation for the last three years was 3.44% in 2016, 6.77% in 2017 and 4.83% in 2018. Grupo Bimbo cannot assure that Mexico will not experience high inflation in the future, including in the event of a substantial increase in inflation in the United States, any of which could increase our capital expenditures and adversely affect its ability to obtain financing in the future, adversely affecting the Group's financial condition and its ability to make payments on the notes.

Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm the Group's business

Brazil has in the past experienced extremely high rates of inflation and, as a result, has adopted monetary policies that have resulted in one of the highest real interest rates in the world. The Central Bank of Brazil sets the base interest rates generally available to the Brazilian banking system, based on the expansion or contraction of the Brazilian economy, inflation rates and other economic indicators. The trend of periodic reductions of the base interest rate (*Sistema Especial de Liquidação e Custódia*, or "SELIC" rate) that the Central Bank of Brazil had implemented since 2005 was temporarily reversed during 2008, and the SELIC rate reached 13.67% as of December 31, 2008, compared to 6.5% as of December 31, 2018. However, in response to the effects of the global financial crisis on the Brazilian economy, in 2009 the Central Bank of Brazil significantly reduced the SELIC rate, which reached 8.65% as of December 31, 2009. The SELIC rate was gradually raised to 12.42% through July 2011, after which the Central Bank of Brazil lowered the SELIC rate to 7.39% in August 2012. To control inflation during 2013, the Central Bank of Brazil gradually raised the SELIC rate to 9.90% in December. As of March 22, 2018, the SELIC rate stands at 6.5%. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank of Brazil, have had and may have significant effects on the Brazilian economy and businesses. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient policies of the government and the Central Bank of Brazil and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect the Group's business in Brazil.

The impact on the Group's operating costs due to inflation in Argentina could have a material adverse effect on the Group's results in Argentina

Historically, inflation has materially weakened Argentina's economy and the Argentinian government's ability to create conditions for growth. In recent years, Argentina has experienced high rates of inflation. The Argentinian government continues to implement measures to monitor and control the prices of the most relevant goods and services. Despite these measures, the Argentinian economy continues to experience high levels of inflation.

High rates of inflation affect Argentina's external competitiveness, social and economic inequality, and negatively affect employment, consumption, the level of economic activity and weakens confidence in the Argentinan banking system. Given its persistent nature in recent years, inflation continues to be a challenge for Argentina, so this could lead to a significant increase in the Group's operating costs, particularly in labor force costs, and result in a negative impact of the results of the Gropu´s operation in Argentina. For financial purposes, beginning in July 2018, the operation in Argentina qualifies as a hyperinflationary economy; therefore, the subsidiaries of Grupo Bimbo in that country recognized the accumulated inflation adjustments. Future impairments in the Argentinian economy, regulation, business or politics could lead to the recognition of impairment charges for some of the Group's assets in Argentina.

Violence in Mexico has adversely impacted, and may continue to adversely impact, the Mexican economy and may have a negative effect on the Group's business, financial condition, results of operations and prospects

Mexico has recently experienced a significant increase in violence relating to illegal drug trafficking and organized crime, particularly in Mexico's northern states near the United States border. This increase in violence has had an adverse impact on the economic activity in Mexico. In addition, social instability in Mexico and adverse social or political developments in or affecting Mexico could adversely affect the Group and its financial performance. Also, violent crime may increase our insurance and security costs. Grupo Bimbo cannot assure that the levels of violent crime in Mexico or its expansion to a larger portion of Mexico, over which it has no control, will not increase. Corruption and links between criminal organizations and government authorities also create conditions that affect the Group's business operations, as well as extortion and other acts of intimidation, which may have the effect of limiting the level of action taken by federal and local governments in response to such criminal activity. An increase in violent crime could adversely affect the Group's business, financial condition, results of operations and prospects.

Grupo Bimbo is exposed to the risk of potential expropriation or nationalization of our assets in some of the countries where it operates

Grupo Bimbo is exposed to the risk of potential expropriation and nationalization of its assets that are located in the various countries in which the Group operates (like Venezuela), some of the countries in which Grupo Bimbo operates have been subject to volatile political conditions in the recent past, and we cannot assure that the local governments will not impose changes retroactively that could affect the Group's business, or that would force us to renegotiate our current agreements with such governments. The occurrence of such events could materially affect its financial condition, results of operations and prospects.

The Group's operations in Venezuela are subject to risk due to political instability in Venezuela as well as recent sanctions against it by the United States

In Venezuela, the Group continues to face adverse economic conditions, including restrictive exchange rate policies, lower per capita income, pricing elasticity, high operating costs as a percentage of revenues and scarcity of and restrictions on importing raw materials. These adverse economic conditions have had in the past and will continue to have an adverse effect on the revenues, sales volume and profitability of the Group's Venezuelan operations. Even though for financial purposes, from May 2017, the Group no longer consolidates its subsidiaries in Venezuela, Grupo Bimbo chose to classify its financial investments in equilty in its subsidiaries in Venezuela as equity and alternative financial instruments designated at fair value, as it intends to maintain these investments for the foreseeable future.

The United States imposed financial sanctions against Venezuela. These sanctions could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Political conditions in the U.S. may affect Grupo Bimbo adversely

The results of the 2016 U.S. presidential and congressional elections have generated volatility in the global capital markets and have created uncertainty about the relationship between the United States and Mexico. This volatility and uncertainty, as well as changes in policies implemented by the new administration, may affect the Mexican economy and may materially harm the Group's business, financial condition, results of operations and prospects. In addition, the recent enactment of the Tax Cuts and Jobs Act by the United States, which, among other things, reduces the maximum U.S. federal corporate income tax rate, may result in a decrease in investments by U.S. corporations in Mexico and negatively impact the Mexican economy and financial markets.

Furthermore, the plans of the new United States administration to build a wall between the United States and Mexico, as well as the implementation of a deportation plan against illegal immigrants of which the high majority are Mexicans, may have an negative impact on the relationship between the two countries and may result in increased commercial tariffs or other material consequences that may have a direct effect on the Mexican economy and, consequently, on the results of the Group's operations, cash flows, perspectives and/or stock price.

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Mexican economy

Emerging markets such as Mexico are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in. Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. Any increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Mexico and adversely affect the Mexican economy in general.

Political and social events in Mexico and in the countries where it operates

The social, political, economic and other developments in Mexico and in the other countries in which the Group operates may adversely impact its operations and results.

Governmental action as well as any other social or political developments in Mexico and in the other countries in which the Group operates may adversely impact the market conditions and the price of its raw materials or of its products, which may affect its financial situation.

It may be difficult to enforce civil liabilities against the Group or its directors, executive officers and controlling people

Grupo Bimbo is a listed variable stock corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico. Most of its directors, executive officers, controlling people and experts named in this Annual Report are residents in Mexico, and a significant portion of the assets of such people and a significant portion of all the assets of Grupo Bimbo are located in Mexico. As a result, it may be difficult for investors to bring legal processes in any other jurisdiction outside of Mexico against such people or Grupo Bimbo, or to enforce judgments against them or Grupo Bimbo in courts of any jurisdiction outside of Mexico predicated upon the laws of any such jurisdiction. It is possible that those sentences arising from the application of foreign laws may not be enforceable in Mexico.