1) 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 raw materials, 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 raw materials, 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 and materially 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 the Group's business, financial condition, results of operations and prospects

The baking 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 the 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 baking 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.

Grupo Bimbo competes with large national and transnational companies, local traditional consumer foods producers, smaller regional operators, small family-owned businesses, supermarket chains with their own products and brands, grocery stores with their own in-store bakery departments or private label products and diversified food companies. In particular, competition against private label products could negatively impact the Group's business. In most of our product categories, the Group faces branded and price-based competition. Its products must provide higher value and/or quality to our consumers than alternatives, particularly during periods of economic uncertainty. Consumers may not buy its products if relative differences in value and/or quality between our products and private label products change in favor of the Group's competitors' products or if consumers perceive such a change. If consumer preferences shift to private label products, then the Group could lose market share, experience lower sales volumes or need to shift its product mix to lower margin offerings, which could have a material effect on our business, financial condition, results of operations and prospects.

To varying degrees, its competitors may have strengths in particular product lines and regions as well as greater financial resources. The Group expect that it will continue to face strong competition in all of its markets and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope. The Group 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 its 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, non-compliance with legal and regulatory requirements, safety conditions in the Group's operations, ethical issues, money-laundering, antitrust and other governmental investigations affectinf the Group or its business partners, 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 main 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. In addition, the authorities in certain jurisdictions in which the Group operates may not timely and efficiently recognize and enforce Group's rights in time (which could result in the reputation of its brands being affected). 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, financial condition, results of operations and prospects.

See Section "2. The Company – b) Business Description – iv) Patents, Trademarks, Licenses and other Contracts".

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

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

Existing or future regulations on product labelling

The legislation of some countries in which the Group operates, including the United States, requires the Group's products to include labels with certain warnings and nutritional information. During the third quarter of 2020, rules regarding labelling in Mexico came into force, which establish a front warning labelling system and will apply to practically all the Group's products. The purpose of these rules is to inform the consumer if the products exceed certain maximum nutritional limits. The labelling rules will be implemented in three stages, from October 2020 until October 2025. These rules establish that food products may not include within their labels pictures of characters, drawings, celebrities, gifts, offers, toys or contests that aim to promote their consumption, which could affect sales, financial situation and results of operations of the Group.

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 and 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 Group's products could be impacted by the popularity of trends such as low carbohydrate diets and by concerns regarding the health effects of trans fats, 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 (including current or future regulations related to labeling requirements), weather conditions, concerns over nutritional or food safety aspects or changes in economic conditions. Even though the Group's experience has given it a solid understanding of the markets in which it operates, the Group cannot predict the preferences and needs of its current or potential consumers with absolute certainty. The Group commercializes 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 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 the 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, as well as the effect of the COVID-19 pandemic, 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 new 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 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 those made under traditional and quick service restaurants channels, 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 the Group has long-standing relationships with its customers, however, such customers may stop purchasing the Group's products at any time. The loss of key customers could materially and adversely affect the Group's business, financial condition or operating results.

Grupo Bimbo would be adversely affected by any significant or prolonged disruption to its bakeries and 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 other, 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 early termination by the Group's customers. In such a circumstance, the Group cannot assure that it will be able to negotiate an amendment to the respective contracts or the termination thereof, which could materially or adversely affect the Group's business, financial situation, results of operations and prospects.

Grupo Bimbo is a holding company. The Group doesn't generate revenue itself, and it depends on dividends and, to a lesser extent, royalties, lease payments 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 and certain intellectual property. 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 and, to a lesser extent, pay certan royalties and make certain lease payments 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 subsidiary 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

The Group is exposed to risks generally affecting the food industry, including risks posed by contamination or food spoilage, evolving nutritional and health related concerns, consumer product liability claims, product tampering, the cost and availability of insurance against civil liability and the possible interruption of the business, potential costs and damages for the collection of defective products. 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 resolution against the Group in any of said legal procedures could adversely affect its business, financial situation, results of operations and prospects.

The Group 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. In addition, food safety events involving the Group or its QSR clients could negatively impact its business.

The use of social media to post complaints against companies engaged in the food industry, including the Group, as well as the use of mobile devices to capture any deviation from their processes, products or facilities, could adversely affect the Group's business. As a global consumer food company, the Group depends on consumer confidence in the quality and safety of the Group's products. Any illness or death related to its products, or any deviation or perceived deviation in the Group's processes, products, or faciities, could substantially damage its operations. The spread of food-borne illnesses is often beyond the Group's control and the Group cannot assure that new illnesses will not develop in the future.

Any actual or perceived health risks associated with the Group's products, including any adverse publicity concerning these risks, could cause consumers and clients (including the Group's clients in the foodservice industry) 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. Furthermore, the Group's clients in the foodservice industry may have claims against it if any of the foregoing events materializes, and if the Group is found liable with respect to any such claim, its business, financial condition, results of operations and prospects may be materially and adversely affected.

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

The Group's operations, including its manufacturing facilities and other assets 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 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 demand 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.

The laws and regulations to which the Group is subject, as well as their interpretations, may change, sometimes dramatically, as a result of a multiplicity of factors beyond the Group's control, including political, economic, regulatory or social.

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.

If the Group is found to be out of compliance with applicable laws and regulations, the Group may be subject to civil remedies, including fines, injunctions, termination of necessary licenses or permits, or recalls, as well as potential criminal sanctions, any of which could have an adverse and material effect on the Group's business. Even if a regulatory review of the Group's operations does not result in such outomes, it could potentially create negative publicity or a negative perception of the Group which could damage its business or reputation and might adversely affect the results of the Group's operations.

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 portion of its operating revenues from sales to retailers. Grupo Bimbo sells its products to non-traditional retailers and quick service restaurants, 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.

Additionally, alternative retail channels, such as internet-based retailers, mobile applications, subscription services, discount stores and club stores, have become more prevalent in recent years. This trend, away from retail grocery, and towards such channels, is expected to continue in the future. If the Group is not successful in expanding its channel sales in alternative retailer channels, its business or financial resuts could be affected adversely. In addition, these alternative retail channels may create price deflation to the customer, which could affect retail customer relationships and present additional challenges to its ability to increase prices in response to the increase of product costs. Moreover, if these alternative retail channels had a significant market share away from traditional retailers, it may impact the Group's business and financial results.

Further consolidation in the supermarke and retail food industries and growth of hard discounters may adversely impact the Group

The growth of and 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. In addition, the accelerated growth of hard discount grocers in Europe and the United States is creating a new competitive landscape for traditional supermarkets and large retailers. As a result, the Group and other producers are becoming increasingly dependent on a small number of clients for sales volume and the channels to make its products available to consumers are becoming more limited. As the retail grocery trade continues to grow and consolidate and retailers become larger, the Group's large retail customers have sought, and may continue to seek in the future, to use their position to improve their profitability through improved efficiency, lower pricing, increased promotional programs funded by their suppliers and more favorable terms. Sales to the Group's larger customers on terms less favorable to it could adversely affect its business, financial condition, results of operations and prospects. In addition, to the extent hard discounters continue expanding, price-based competition is likely to put additional pressure on the Group's margins. If the Group is unable to use its scale, marketing expertise, product innovation and category leadership positions to respond, its profitability or volume growth could be negatively affected.

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 its 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, changes in the transport regulations, or other reasons could impair the Group's 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, earthquakes and floods (including those events resulting from climate change and extreme weather) 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 the 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.

The COVID-19 pandemic has had, and will likely continue to have, certain negative impact on the Group's business, revenues, expenses, costs and overall results of operations and financial condition.

The COVID-19 pandemic has had, and will continue to have, certain negative impact on the Group's business, revenues, expenses, costs and overall results of operation and financial condition. Furthermore, the spread of COVID-19 and the resulting regulatory measures implemented by the governments of the countries in which the Group operates has caused the Group to modify its business activities, including changes in distribution and manufacturing procedures, limiting travel, temporarily closing offices and facilities and implementing remote work capabilities. In addition, the impact of COVID-19 in the financial markets has adversely affected the cost of borrowing, hedging activities and access to capital in general which could limit the Group's ability to obtain financing in favorable terms or at all.

The economic effects caused by the COVID-19 pandemic have overcome the initial estimates of the Group. Despite the limited availability of a vaccine, the COVID-19 pandemic may not be fully contained for the foreseeable future and certain regions may be subject to an increase in the number of people infected and deaths. Although Mexico and most of the countries in which the Group operates, have already launched their vaccine campaigns, manufacturing and logistic challenges persist. Therefore, a prolonged health crisis could continue to reduce economic activity in Mexico and the other countries in which the Group operates, resulting in a further decline in employment, as well as in confidence among businesses and consumers. For some sectors uncertainty still prevails and the strong increase in unemployment rates will affect the expected recovery of consumption. Furthermore, it is unclear how the macroeconomic business environment or social norms may be impacted after the pandemic. The post-COVID-19 environment may undergo unexpected developments or changes in financial markets, fiscal, tax, labor and regulatory environments and client and consumer behavior. These developments and changes could have an adverse impact on the Group's results of operations and financial condition. Ongoing business and regulatory uncertainties and changes may make the Group's longer-term business, balance sheet and budget planning more difficult or costly. To the extent that the Group is not able to adapt to the new business environment, it could experience loss of business and its results of operations and financial condition could materially suffer.

The extent to which COVID-19 may impact the Group's operations, liquidity, financial condition, and results of operations will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the disease or treat its impact, and the duration, timing and severity of the impact on financial markets and the financial condition of its clients and consumers and the availability of a vaccine, all of which are highly uncertain and cannot be predicted. The Group will continue to closely monitor and evaluate the nature and extent of the impact of COVID-19 on its operations, liquidity, financial condition, results of operations and prospects. The Group may also take further actions that alter its business operations, as may be required by federal, state or local authorities, of the countries in which the Group operates, or that it determines are in the best interests of its employees, suppliers, clients and consumers.

The operations of the Quick Service Restaurant of the Group are subject to high operating standards, which may require the Group to make significant capital investments.

The operations of the QSR channel are subject to extremely high operational quality standards by the Group's customers, which include standards related to cleanliness, product consistency, delivery times, practice of manufacturing recognized worldwide, compliance with food regulations, health and control, at the local level (e.g., a systematic method of product safety that emphasizes prevention within the production plant through analysis, inspection and monitoring). In addition, the approval processes for customers and potential customers in the Group's QSR branch are thorough and lengthy in order to ensure compliance with their high quality standards. The Group may be required to make significant investments to achieve compliance with those standards; however, there is no certainty that the Group will ever become a supplier to such customers, that will develop close relationships with such clients and that will refrain from acquiring competing products.

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 of antitrust, anticorruption, anti-bribery and anti-money laundering laws, and tax and labor disputes) 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 growth opportunities through acquisitions, mergers or joint ventures may be limited by antitrust laws, access to capital resources and other claims related to the integration of significant acquisitions.

The Group may pursue further acquisitions in the future. The Group does not know if it will be able to successfully complete such acquisitions or whether it will be able to successfully integrate any acquired business into its business or retain key personnel, suppliers or distributors. Furthermore, there is no guarantee that no claim will be made regarding antitrust provisions, in connection with its existing operations or any acquisition that the Group may pursue in the future. If any such claim arises, the Group may be required to sell or divest itself of significant assets, or be unable to consummate any 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.

The Group 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 in 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 specific 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, 2020, 80% 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 other currencies against the U.S. dollar affects the Group's results of operations and financial condition. Significant fluctuations of the Mexican peso and 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 depreciated by 5.9% in 2020, appreciated by 3.7% in 2019, 0.04% in 2018, and 4.5% in 2017 while it depreciated by 19.2% in 2016 and by 17.0% in 2015**,** all in nominal terms. The Mexican Central Bank 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.

Currency fluctuations could also affect the Group's ability to import raw materials and finished products denominated in dollars to businesses outside the United States. If such fluctuations were significant without the possibility of implementing economic strategies and effective financial measures, including local manufacturing measures, the Group could be forced to radically change its business model or to suspend or cease its operations in the affected countries.

The Group 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 its 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 persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could establish 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 Mexican 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. For example, its production, distribution and inventory management of the Group uses technologies of the information to increase efficiency and optimize costs. These systems are also fundamental for the management and reporting of the results of its operations. In addition, an important part of the communications between, and storrage of personal data of, its personnel, clients, customers and suppliers depend on information technology.

The information and operational technology systemsof the Group, and the systems of the parties it communicate and collaborate with, may be vulnerable to a variety of interruptions, as a result of updating its enterprise platform or due to events beyond its or their control, including, but not limited to, power, network, software or hardware failures, malicious or disruptive software, unintentional or malicious actions of employees or contractors, cyberattacks by hackers, criminal groups or nation-state organizations or social-activist (hacktivist) organizations, geopolitical events, commercial restrictions, fiscal policy changes, natural or man-made disasters, failures or impairments of telecommunications networks, pandemics (such as de COVID-19 pandemic) or other catastrophic events.

On the other hand, the Group's computer systems have been subject to, and possibly will continue, subject of attacks by viruses, malware, ransomware and other malicious code, social engineering attacks, unauthorized access attempts, theft of passwords, money and information, security system failures, internal errors, attacks and cybernetic crimes of known and unknown natures. Cyber threats are constantly evolving, are becoming more sophisticated and are being made by organizations, groups and/or individuals with a wide range of expertise and motives, which increases the difficulty of detecting and successfully minimizing the impact of these events and/or defending against them. These events have and may continue to compromise the Group’s confidential information, impede or interrupt its business operations, and may result in other negative consequences, including remediation costs, loss of revenue or market share, litigation and reputational damage. Furthermore, if a breach or other breakdown results in disclosure of confidential or personal information, the Group may suffer reputational, competitive and/or business harm. To date, the Group has not experienced a material breach of cybersecurity; however, it may be unable to prevent physical and electronic break-ins, cyber-attacks or other material security breaches to its computer, information or operational systems in the future.

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, the Group must comply with increasingly complex and rigorous regulatory standards issued for the purpose of protecting personal or business information in the European Union, the United States, and other jurisdictions regarding privacy, protection of personal data and data security, including those related to the collection, storage, handling, use, disclosure, transfer and securing of personal data. There may be significant uncertainty regarding compliance with these laws and regulations, including those relating to the General Data Protection Regulations of the European Union ("GDPR") (which impose additional obligations to companies regarding the handling of personal data and grant rights of personal privacy to the persons whose data is stored), thus they evolve constantly and can be interpreted and applied differently in each country, situation that may result in inconsistent and contradictory requirements. In addition, the Group's efforts to comply with these laws, including the GDPR, may result in significant costs and challenges that are likely to increase over time.

In addition, should confidential information belonging to the Group or its associates, 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

Most of the Group's workforce is represented by labor unions. While, as a result of the Group's policies and strict compliance with the law, Grupo Bimbo has enjoyed satisfactory relationships with all of the labor organizations that represent its associates and believes they will continue to be satisfactory, labor-related disputes may still arise. The Group cannot assure that it or its subsidiaries will not experience labor disruptions or strikes in the future, which could result in a material adverse effect on its business and returns. The Group also cannot assure that it will be able to negotiate new collective bargaining agreements on the same terms as those currently in force or that it will not be subject to strikes or labor interruptions before or during the negotiation process of such agreements. 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. For example, in 2017 the Group suffered two separate strikes each in different plants located in Canada, which resulted in the interruption of its operations in such plants for several weeks. The Group cannot assure that similar strikes will not occur in the future and any such strikes may have a material negative impact on its operations. In addition, if any significant differences arise during the Group's 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 labour 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 in the United States and Canada. The Group make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. Grupo Bimbo required contributions to these funds could increase because of a shrinking contribution base as a result of the insolvency or withdrawal of other companies that currently contribute to these funds, inability or failure of withdrawing companies to pay their withdrawal liability, lower than expected returns on pension fund assets or other funding deficiencies. In addition, the annual cost of benefits and MEPP provisions 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 material adjustments in the MEPP sponsors. For example, a minor decrease in reference interest rates would result in a lower weighted-average discount rate used to determine the net present value of future obligations under MEPPs and therefore the amount of the provisions.

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

The Group participates in transactions with individuals and companies affiliated or related to the Group. Even when its Audit and Corporate Practices Committee is in charge of analyzing these operations, operations with related parties could create potential conflicts of interest that could result in less favorable terms for the Group than those obtained from an unaffiliated third party.

See Section "4. GOVERNANCE - b) Operations with Related Parties and Conflicts of Interest ".

The Group depends on the expertise and capability of its senior management and associates, 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 its strategic direction and manage its business and believes that their involvement in it is crucial for its 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 associates 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 associates 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 associates.

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, Grupo 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 associates. If the Group's officers or associates fails 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 has not 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 Group was notified of twelve class actions initiated by groups of consumers and/or consumer associations against all the parties allegedly involved in Canada's Competition Bureau investigation. The Group cannot guarantee that the result of this investigation or the class action will not have an adverse effect on its business, financial situation, results of operations and prospects.

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, associates, directors, officers, partners, agents and service providers or that any such persons 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 recoverable value of goodwill or intangibles could 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 acquired intangibles that 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 recoverable value, the intangible asset is considered impaired and is reduced to recoverable 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 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 in additional debt.

The global market and economic conditions are unpredictable and may continue to be so in the future. Debt capital markets have been affected in the past 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 case that 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 working capital or (iv) fund required debt payments, 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 which 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 on 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, such as limitations on our ability to incur liens, consummate mergers, sell substantially all of our assets and enter into similar transactions, and requirements to maintain certain financial ratios. 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 overcome existing or future downturns in its business.

In the future, the Group may from time to time incur in 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.

Applicable law could adversely affect the Group.

The Group is subject to regulation in each of the countries where it operates. The main areas in which Grupo Bimbo is subject to regulation are water, environment (including regulation relating to single use plastic), labor, transportation, 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 or requirements for the packaging that the Group uses for its products, 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. Grupo Bimbo may also be affected by labeling requirements for its products in order to comply with such health, food safety and nutritional standards. The Group's compliance with such standards may require it to incur in 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.

In addition, the governments of the countries where the Group operates, particularly in Mexico and the United States, may approve amendments to tax regulations, including changes in tax rates. As a result of such amendments, the Group would not be able to predict with certainty the magnitude of the impact on its business, financial condition or results of operations.

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

The Group is involved in litigation arising from the ordinary course of its business or for other causes, which could lead to unfavorable decisions or financial sanctions against it. Such litigation could include class actions involving consumers, shareholders, associates or affected persons, as well as lawsuits related to commercial, labor, economic competition, administrative, intellectual property, liability for damages, contractual, fiscal 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 the Group 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 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 that the outcomes of this investigation will not have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group will continue to be subject to legal proceedings and investigations. The Group cannot assure 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 the confidence of the Group's customers and reduce long-term demand for the Group's products, even if the regulatory or legal action is unfounded or not material to the Group's operations.

Recent amendments to Mexican tax regulation.

In December 2019, the Mexican government published several amendments to the Income Tax Law, the Value Added Tax Law, the Excise Tax Law and the Federal Tax Code, most of which became effective on January 1, 2020. This set of tax reforms is one of the most important in recent years and its main objective is to address tax evasion by strengthening the control mechanisms available to the tax authorities. Among the principal modifications contemplated by the tax reforms that could affect the Group's results of operations are strict restrictions on the deductibility of certain expenses, such as a new limitation on the deduction of net interest that exceeds 30% of taxpayers' adjusted income, the non-deductibility of certain payments to related parties or through structured agreements with respect to income that is considered subject to preferential tax regimes, or that is subject to hybrid mechanisms. Likewise, important amendments were introduced with respect to the tax regime applicable to foreign entities or legal entities that are transparent for tax purposes, as well as to foreign entities or legal entities whose income is considered subject to preferential tax regimes.

The 2020 tax reform also introduced a new mandatory disclosure regime for transactions that are considered reportable transactions in terms of the provisions of Title VI, Sole Chapter of the Federal Tax Code, mainly directed to tax advisors of taxpayers.

On November 12, 2020, the Executive presented to the Congress of the Union an initiative on subcontracting (outsourcing) in order to amend various provisions of the Federal Labor Law, Social Security Law, Law of the National Fund Institute of Housing for Workers, Federal Tax Code, Income Tax Law and Value Added Tax Law. In the event that said initiative is approved by the Congress of the Union, certain tax and labor provisions could come into force that could materially affect the Group's operating results. These amendments impose penalties to outsourcing schemes related to workers that perform activities contemplated in the corporate purpose of the contracting party, require registration of outsourcing services providers with the Mexican Ministry of Labor, deem payments made under non-permitted outsourcing schemes as non-deductible and significantly increase the statutory profit sharing payments (PTU) that employers are required to pay to employees.

Recent amendments to Mexico's labor legislation, and the eventual incapacity of the Group maintaining its relationships with labor unions can have an adverse effect in its business, financial condition and results of operations and prospects

In May 2019, the Federal Labor Law and other related regulations were reformed and abolished in the area of labor justice and workers' rights to organize and carry out the negotiation of collective agreements. At the same time as these reforms, among other things, new labor authorities and courts, new labor and conciliation processes, provisions relating to the freedoms of association and organization of workers were created, and negotiation of collective agreements and the rules against employment discrimination were issued or reformed. The Group cannot ensure that these changes will not adversely affect its business, financial situation, and results of the operation and prospects.

The approval of the amendments introduced by the Federal Executive regarding subcontracting, with labor, social security and tax scope, could result in a modification of our hiring scheme.

On November 12, 2020, the Federal Executive introduced an initiative to amend several labor, social security and tax laws to the House of Representatives (*Cámara de Diputados*), with the purpose of, among others (i) prohibit the subcontracting of personnel, both through outsourcing and insourcing schemes, except in the case of specialized services or the execution of specialized work, which are not part of the corporate purpose or the main economic activity of the contracting beneficiary, (ii) establish the records that companies providing specialized services must obtain for the rendering of such services, and (iii) establish labor and tax penalties for companies that use or benefit from the subcontracting of personnel in breach of law, with tax implications in terms of deductibility and transfer of certain taxes.

Furthermore, on April 5, 2021, the Federal Government, after months of negotiations, union leaders and the private sector announced the agreements reached between the several sectors regarding the subcontracting amendment, announcing, among others, (i) the cap on the employee profit sharing of three months' salary or the average of the employee profit sharing received in the last three years, whichever is greater, (ii) to recognize and allow the figure of specialized subcontracting and the subcontracting of shared services between companies of the same economic group, and (iii) to establish a term of three months for companies to carry out modifications to their contracting scheme in terms of the labor amendments that, if applicable, are approved by the Mexican Congress.

The initiative introduced by the Federal Executive last November, as well as the agreements mentioned above, were approved by decree on April 20, 2021 and entered into force the day after its publication. In general terms, the Group's associates are hired through authorized and regulated service providers, where appropriate, in accordance with the special legislation in force. As a consequence of the approval of the aforementioned initiative, the Group is evaluating the possible modifications that its contracting scheme may require. Notwithstanding the foregoing, it is currently not possible to predict with certainty the magnitude of the impact that the approval of this amendment initiative may have on the Group in Mexico, on its business, financial condition or results of operations.

The approval of the amendments proposed by the Federal Executive relating to subcontracting, with a labor, social security and tax scope, may have as a consequence the modification of the Group's contracting scheme

On November 12, 2020, the Federal Executive presented before the Chamber of Deputies (*Cámara de Diputados*) an initiative to amend different laws on labor, social security and tax matters, in order to, among others (i) prohibit the subcontracting of personnel, both through outsourcing and insourcing schemes, except in the case of specialized services or the execution of specialized works, which are not part of the corporate purpose or the preponderant economic activity of the contracting beneficiary, (ii) establish the records that the providers of specialized services companies must obtain for the provision of such services, and (iii) establish labor and tax penalties for companies that use or benefit from the subcontracting of personnel in contravention of the law, with tax implications in terms of deductibility and transfer of certain taxes.

On the other hand, on April 5, 2021, the Federal Government, union leaders and private initiative announced the agreements reached between the various sectors, after months of negotiations in relation to the amedment in the field of subcontracting, announcing, among others, (i) the cap of the participation of employees' statutory profits shareing of the companies (PTU) in three months of salary or the average of the participation received by the worker in the last 3 years, whichever is greater, (ii) recognize and allow the figure of specialized subcontracting and subcontracting of shared services between companies of the same economic group, and (iii) establish a period of three months for companies to carry out modifications to their contracting scheme in terms of labor reforms that, where appropriate, are approved by the Congress.

The initiative presented by the Federal Executive last November, as well as the agreements mentioned above, were approved by decree on April 20, 2021 and entered into force the day after its publication. In general terms, the Group's collaborators are hired through authorized and regulated service providers, where appropriate, in accordance with the special legislation in force. As a consequence of the approval of the aforementioned initiative, the Group is evaluating the possible modifications that its contracting scheme may require. That said, it is currently not possible to predict with certainty the magnitude of the impact that the approval of this reform initiative may have on the Group in Mexico, on its business, financial condition or results of operations.

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

A main 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. The Group is subject to obligations consisting of the submission of periodic reports with respect to shares listed on the Mexican Stock Exchange. The disclosure standards imposed by the CNBV and the Mexican Stock Exchange could be different than those required in other countries or regions. In addition, the standards of accounting and disclosure requirements of Mexican public bodies are different from those of the United States of America. In particular, the financial statements are prepared in accordance with IFRS, which differ from US GAAP by several aspects. Items in a company's financial statements prepared in accordance with IFRS may not reflect its financial position or results of operations in the way they should be reflected if such financial statements had been prepared in accordance with US GAAP.

A decrease in consumer confidence and changes in consumer habits may adversely affect the business, financial condition or Income Statement 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 Income Statement of the Group.

It may be difficult to enforce civil liabilities against the Group's directors, executive officers and controlling shareholders

The Company 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 shareholders are residents in Mexico. Moreover, a significant portion of its assets and a significant portion or all of the assets of such resident persons are located in Mexico.

As a result, it may be difficult for foreign investors to bring legal processes outside Mexico against such persons 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 persons 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. There is currently no treaty between the United States and Mexico covering the reciprocal enforcement of the judgements of the foreign country. In the past, Mexican judges have executed sentences handed down in United States for reasons of reciprocity and courtesy. The above, consisting of the review of decisions issued outside of Mexico to verify compliance with the principles of due process and public order of Mexican law, without entering into a subjective analysis of each individual case.

Increased electricity and fuel expenses

The Group's operations consume significant amounts of electricity and fuel. Although the Group has taken several measures to mitigate the volatility of energy costs, such measures may not be sufficient. Increases in energy and fuel expenses that the Group is unable to transfer to the price of its products would have an adverse effect on its financial condition and results of operations.

In Mexico, the Federal Government issued several regulatory amendments in the electric energy sector in order to (i) increase the costs for transmission service for holders of legacy interconnection agreements with renewable or efficient cogeneration sources, as well as conventional sources, (ii) establish certain restrictions on the modification of self-supply and cogeneration permits to incorporate new partners and load centers to such self-supply and cogeneration schemes, and (iii) propose the modification of rules on the granting and modification of electricity generation permits, interconnection and dispatch processes (especially for intermittent renewable power plants), among others. In addition, the Mexican Congress recently approved an amendment of several provisions of the Electricity Industry Law of which the following stand out: (i) rules were established for the revocation of self-supply permits that have been granted for a purpose other than the production of electricity for own consumption (i.e., provision for the needs of third parties); and (ii) amendments to the order of dispatch of power plants interconnected to the National Electric System, specifically, assigning dispatch priority (without being subject to economic efficiency criteria) to power plants owned by or at the service of the Federal Electricity Commission for the provision of basic supply.

Grupo Bimbo has entered into electricity supply agreements with several suppliers. In the event that, as a result of such amendment, the corresponding generators are unable to comply with their obligations under such agreements, the Group would have to pay, at least temporarily, the regulated rate for basic supply determined by the Energy Regulatory Commission, which could represent a significant increase in its electricity costs and, therefore, affect its results of operations. Currently the Group is unable to predict with certainty the magnitude of the impact that the approval of this initiative could have on its business, financial condition or results of operations.

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

Grupo 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, Kazakhstan, 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 tariffs, 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 the Group operates, or may operate in the future, could take actions that affect the Group materially and adversely, 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 final markets for the Group's products may experience declines, and the Group 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 the Group's 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, a 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, which triggered a two-year negotiation to define the terms of the relationship between the United Kingdom and the European Union. The referendum agreement to which the European Union and the United Kingdom arrived was rejected three times by the Parliament of the United Kingdom, and a new deadline was set for the ratification of the treaty by which the United Kingdom would leave the European Union on 31 October 2019. On July 23, 2019, Boris Johnson, who had openly supported the United Kingdom's exit from the European Union and swore to leave on 31 October of the same year, was elected as Prime Minister of the United Kingdom. On January 31, 2020, the withdrawal agreement became effective, subject to a transition period until the end of 2020. During such transition period, the United Kingdom and European Union's commercial agreement remained the same, allowing the European Union and the United Kingdom to agree upon and implement a new commercial agreement. As of January 1, 2021, the United Kingdom and the European Union's commercial relations are regulated by the EU-UK Trade and Cooperation Agreement, which brings upon a significant change for the citizens, companies and governments of the European Union and the United Kingdom. The potential impact of the terms and conditions of the EU-UK Trade and Cooperation Agreement as a consequence of Brexit on the results of the Group's operations is unclear. Depending on the results of the EU-UK Trade and Cooperation Agreement, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by volatility and reduced growth. The continued uncertainty related to Brexit could also have a negative operational or economic impact and increase volatility in the financial 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 the business, financial condition, results of operations and prospects of the Group.

Adverse economic conditions in North America in particular may negatively 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, 2020, 85% and 93% of its 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 the conditions of the U.S. economy or in the U.S.-Mexico relationships 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.

To a certain degree, the market value of the securities of Mexican companies are 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 relationship between economic conditions in Mexico and the United States has narrowed in other years as a result of the North America Free Trade Agreement and the increase in economic activity between the two countries. On October 1, 2018, the United States, Canada and Mexico announced that they had reached an agreement, the T-MEC, aimed to modernize and update their free trade relationship and replace NAFTA. The T-MEC was signed by the three countries on 30 November 2018. On June 19, 2019, Mexico became the first country to ratify the treaty. On December 13, 2019, the protocol was approved modifying the T-MEC, which includes relevant modifications in labor, steel, pharmaceutical, intellectual and environmental property. As a result, on January 16, 2020, the United States Senate approved the T-MEC, which was ratified on January 29, by President Donald Trump, granting certainty and promoting trade and relations between Mexico, the United States and Canada. Furthermore, on the same January 29, 2020, the Prime Minister of Canada presented to the Canadian House of Commons the final text of the T-MEC for approval, which was approved by the Canadian Senate on March 13 2020. The T-MEC became effective on July 1, 2020, for all parties. Any revisions to the USMCA in terms less favorable for Mexico with respect to imports and exports, o in any other terms that could hinder commercial activity between the three countries, could adversely affect our existing production operations in Mexico and the current and our future levels of sales and earnings in all three countries.

On November 3, 2020, the United States held a presidential election in which Joseph R. Biden, Jr. was elected president of the United States. In the months leading to the inauguration of Mr. Biden's administration there was political instability and civil unrest associated with the transition of the United States administration. If such social unrest continues or worsens, it could have a negative impact on economic growth and the business environment overall, which could have an adverse effect on the United States, which has an indirect impact on Mexico. In addition, Mr. Biden took office on January 20, 2021, and the full extent of Mr. Biden's legislative agenda, the relationship between the executive and legislative powers and future U.S. policies with respect to matters of importance to Mexico and its economy, particularly trade and migration, remain uncertain and will start developing in the coming months.

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 circumstances in Mexico may significantly affect Mexican economic policies which could have an effect on the Group's operations. Mexico's presidential, federal and local elections were held on July 1, 2018 with a majority result (in the presidential, federal and local elections) in favor of the left-wing political party Morena. Mr. López Obrador, president of Mexico since December 1, 2018, and the designated public officials of Morena, acting within their corresponding positions, have the ability to direct the policies of the public administration and to present and approve modifications to the regulations issued by the Executive Power, which could negatively affect economic, political and social conditions in Mexico. Furthermore, as a result of the majority in both houses of Congress obtained by Morena, Mr. López Obrador has considerable power to pass new laws, amend existing laws, and determine government policies and actions that relate to the Mexican economy and, consequently, affect the operations and financial performance of businesses in Mexico, such as the Group's business. Furthermore, the Group cannot predict the outcome of the next elections for deputies in the chambers of Congress. The outcome of these elections, including which political party will constitute the majority in Congress, will also affect Mexico's political environment in the coming years and, consequently, the operations and financial performance of companies in Mexico.

The Mexican federal government occasionally makes significant changes in policies and regulations and may do it again in the future. The Mexican federal government drastically decreased the 2019 expenditure budget and could continue decreasing it in the future. On July 2, 2019, the new Federal Republican Austerity Law was approved by the Mexican Senate and it was published in the Official Gazette of the Federation on November 19, 2019. 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. The Group's business, financial situation and results of operations could be affected by changes in govern policies and regulations involving its administration, operations and tax regime. 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. In particular, tax legislation in Mexico is subject to constant change, and the Group cannot assure that the government will maintain the social, economic, or other existing policies, nor that those changes will not adversely affect the business, financial position, results of operation or prospects.

The administration of Mr. López Obrador has taken actions that have significantly undermined investors' confidence in private ventures following the results of public referendums, such as the cancellation of public and private projects authorized by the previous administration, including the construction of the new Mexican airport, which immediately prompted the revision of Mexico's sovereign rating and the cancellation of the construction of a brewing facility of "Constellation Brands" in Baja California, Mexico. The Group cannot assure that similar measures will not be taken in the future, which could have a negative effect on Mexico's economy.

The Group cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, the Group cannot provide any assurances that political, economic or social developments in Mexico, over which the Group has no control, will not have an adverse effect on its business, financial condition, results of operations and prospects.

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 2020, Banco de México decreased its reference rate by 309 basis points, from 7.34% to 4.25%. 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 4.83% in 2018, 2.83% in 2019 and 3.15% in 2020. High inflation means higher costs that the Group could not be able to transfer to consumers affecting its margins. 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 the Group's capital expenditures and adversely affect its ability to obtain financing in the future, adversely affecting its financial condition and its ability to make payments on the notes, business, operating results. If Mexico experiences high levels of inflation as it has in the past, this may also impact the Group's costs and may adversely affect its business, financial condition, results of operations and prospects.

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 2.0% as of December 31, 2020. 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. 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 Argentinian 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 Group'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. In particular, the accumulated inflation rate in Argentina in the three years prior to 30 June 2018, exceeded 100%, with no significant reduction expected in the short-term deadline. Therefore, Argentine companies using IFRS, including subsidiaries of the Group in Argentina, are required to implement IAS 29 to their financial statements for the periods subsequent to July 1, 2018, and recognize cumulative inflation adjustments in the Group's financial statements. 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 the Group's 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.

The proposed amendments to the outsourcing regulations may adversely affect the Group's business, financial condition and results of operations

In November 2020, President López Obrador introduced an initiative that seeks to amend certain regulations related to outsourcing services in Mexico. As proposed, the initiative would effectively eliminate the ability of entities to contract professional services through outsourcing companies, except for a limited type of specialized services. In December 2020, President López Obrador announced an agreement between the Mexican government, the business sector and the labor sector to postpone discussion and legislative action on the initative until February 2021. As a result, the details of the amendment are still pending. They are not clear, but the Group expects to make a final evaluation of the impact on its business, financial situation and results of operations once all the details of the amendment are known. The Group cannot guarantee that the initiative, when and if it is approved, will not have an adverse effect on its business, financial situation and results of operations.

Grupo Bimbo is exposed to the risk of potential expropriation or nationalization of its 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, such as Venezuela, and other countries that have been subject to volatile political conditions in the recent past; therefore, the Group cannot assure that the local governments will not impose retroactive changes that could affect the Group's business, or that would force the Group to renegotiate the 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

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 and political inestability 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 that for financial purposes, from May 2017, the Group no longer consolidates its subsidiaries in Venezuela, Grupo Bimbo chose to classify its financial investments in equity 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 perception of higher risk in other countries, especially in emerging economies, may adversely affect the economy, the business, financial situation, results of operation and prospects of the Group

The Group's growth strategy depends, in part, on its ability to increase its operations in emerging market countries. However, the 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 Mexico. 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. The Group cannot ensure that the value of its financial products will not be adversely affected by events in other emerging markets or the global economy in general.

In many countries, particularly those in emerging economies, there is a perception of a greater possibility that third parties, including the Group's suppliers, its customers, and other related parties, engage in business practices prohibited by law and regulation with extraterritorial reach, such as laws relating to anti-corruption sanctions and money laundering. The fact that these non-Group persons incur in these prohibitions could subject the Group to civil and criminal sanctions that could adversely affect its reputation, financial condition and results of operations.

Political and social events in Mexico and in the countries where the Group 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 other countries in which the Group operates may adversely impact the market conditions and the price of its raw materials or products, which may affect its financial situation.

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

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 persons and experts named in this Annual Report are residents in Mexico, and a significant portion of the assets of these shareholders and of Grupo Bimbo are located in Mexico. As a result, it may be difficult for foreigns to bring legal processes in any jurisdiction outside of Mexico against such persons or the Group, or to enforce judgments against them or the Group in courts of any jurisdiction outside of Mexico. It is possible that those sentences arising from the application of foreign laws may not be enforceable in Mexico.

Sanitary emergencies with worldwide effects or affecting any of the countries in which the Group operates

A sanitary emergency due to the origination and dissemination of diseases may be declared internationally or in any country in which the Group operates, such as the sanitary emergency declared with respect to the SARS-CoV-2 virus (commonly known as “coronavirus”) and the disease it causes (“COVID-19”), which may bring commercial and social activity to a halt, and cause the closing of factories and places of work, convenience stores, places of study, among others, as well as future confinement of the general population. In addition, such sanitary emergency may cause volatility or falls within the capital markets and economic recessions. The Group cannot anticipate the actions that may be required from the governments, companies or private citizens to face such sanitary and health emergency.

The Group’s ability to produce, distribute and sell its products is critical for its operations and any sanitary and health emergency, whether international or in any country in which the Group sell or distribute its products, may have an adverse effect on its operations, as well as on market conditions and prices of materials, which may materially affect its product sales, financial condition and results of operation.

Uncertainties regarding the transition away from or possible discontinuance of the London Inter-Bank Offered Rate (LIBOR) could have adverse consequences on the Group.

LIBOR is extensively used as a “benchmark” or “reference rate” across financial products and markets globally. The UK Financial Conduct Authority (FCA) has raised questions about the future sustainability of LIBOR, and, as a result, the FCA obtained voluntary panel bank support to sustain LIBOR only until 2021, and LIBOR is expected to be discontinued as early as January 1, 2022. In addition, following guidance provided by the Financial Stability Board, other regulators have suggested reforming or replacing other benchmark rates with alternative reference rates. Accordingly, the transition away from and discontinuance of LIBOR or any other benchmark rate presents various uncertainties, risks and challenges to financial markets and institutions. These include, among others, the pricing, liquidity, value of, return on and market for financial instruments and contracts that reference LIBOR or any other applicable benchmark rate.

Certain of the Group’s agreements denominated in U.S. dollars are referenced to LIBOR. The transition away from and discontinuation of LIBOR could present significant operational, legal, financial and other risks. While all of the Group’s LIBOR-referenced agreements and instruments provide for alternative benchmark rates, the new benchmark rates may significantly differ from the prior rates. As a result, the Group may need to proactively address any rate differences in such instruments and contracts, which could be time consuming and costly. In addition, the transition away from and discontinuance of LIBOR could result in disputes, including litigation, involving contracts that reference LIBOR, whether or not the underlying documentation provides for alternative benchmark rates.