

CONSOLIDATED

financial statements

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Independent Auditors' Report

The Board of Directors and Stockholders
Industrias Bachoco, S.A.B de C.V.

(Thousands of pesos)

We have audited the accompanying consolidated financial statements of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the Company), which comprise the consolidated statements of financial position as at January 1, 2011 and December 31, 2011 and 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended at December 31, 2011 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Opinion

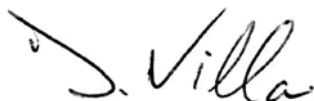
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries as at January 1, 2011 and December 31, 2011 and 2012, and the consolidated results of their operations and the consolidated cash flows for the years ended at December 31, 2011 and 2012, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

As mentioned in note 6 to the consolidated financial statements, on November 1, 2011, the Company acquired 100% percent of the voting stock of OK Industries, Inc. (the "Acquired Entity") which owns five consolidated subsidiaries. OK Industries, Inc. operates and is located in the United States of America (U.S.A.). The results of operations of the Acquired Entity have been included in the consolidated financial statements from such date. The acquisition of this company originated a gain on bargain purchase of \$1,000,565, which was booked in other income in 2011.

As mentioned in note 7 to the consolidated financial statement, on March 2, 2012 Bachoco USA, LLC. was incorporated as a subsidiary of Industrias Bachoco, S.A.B. de C.V., and acquired 100% of the shares of OK Industries. From such date, Bachoco USA, LLC. acts as holding company of OK Industries, Inc. and, therefore, of the operations of the Company in the U.S.A.



Demetrio Villa Michel
KPMG Cárdenas Dosal, S.C.

Querétaro, México 15 de abril de 2013.

Consolidated Statements of Financial Position

January 1, 2011, December 31, 2011 and 2012
(Thousands of pesos)

Assets	Note	January 1, 2011	December 31, 2011	December 31, 2012	Note	January 1, 2011	December 31, 2011	December 31, 2012
Liabilities and equity								
Current assets:								
Cash and cash equivalents	9	\$ 3,967,874	2,625,661	4,179,541	18	-	1,277,750	1,081,496
Primary financial instruments	10	209,348	410,721	961,968	18	139,867	175,243	115,560
Derivative financial instruments	10	12,897	10,208	2,938	19	1,966,014	2,921,441	3,445,245
Accounts receivable, net	11	1,436,501	2,235,152	2,220,638	20	60,873	78,543	88,039
Inventories, net	12	3,211,769	4,562,355	5,829,837		2,166,754	4,452,977	4,730,340
Biological current assets	13	155,993	217,354	266,482				
Prepaid expenses and other current assets	14	505,114	752,150	868,878	18	507,053	384,370	1,526,602
Assets available for sale	15	40,222	95,647	51,507	21	2,016,057	2,400,107	2,597,940
Total current assets		9,537,718	10,909,248	14,381,789	22	2,600,995	2,884,515	4,221,155
Non-current assets:								
Property, plant and equipment, net	16	10,544,031	12,112,945	11,949,516		4,767,749	7,337,492	8,951,495
Biological non-current assets	13	750,288	1,029,642	1,106,120				
Goodwill	3(e)	300,848	300,848	300,848	25	1,174,432	1,174,432	1,174,432
Other non-current assets	17	64,884	364,637	301,911		399,641	399,641	399,641
Total non-current assets		11,660,051	13,808,072	13,658,395		1,174,432	1,744,432	1,744,432
Total assets		\$ 21,197,769	24,717,320	28,040,184		21,197,769	24,717,320	28,040,184
Liabilities and equity								
Current liabilities:								
Short term debt								
Current installments of long-term debt								
Trade payable and other accounts payable								
Related parties								
Total current liabilities								
Long term liabilities:								
Long term debt, excluding current installments								
Deferred income tax								
Employee benefits								
Total long term liabilities								
Total liabilities								
Equity:								
Capital stock								
Share premium								
Reserve for repurchase of shares								
Translation reserve								
Retained earnings								
Equity attributable to owners of the Company								
Non-controlling interest								
Total equity								
Commitments	27							
Contingencies	28							
Subsequent events	32							
Total liabilities and equity								

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Comprehensive Income

Years ended December 31, 2011 and 2012

(Thousands of pesos, except per share amount)

	<u>Note</u>	<u>2011</u>	<u>2012</u>
Net revenues	20 (b)	\$ 27,734,990	39,367,431
Cost of sales	20 (b)	<u>24,797,037</u>	<u>33,318,207</u>
Gross profit		2,937,953	6,049,224
General, selling and administrative expenses	20 (b)	2,974,733	3,396,655
Other income (expenses), net	31	<u>999,965</u>	<u>(23,810)</u>
Operating income		<u>963,185</u>	<u>2,628,759</u>
Finance income	30	248,282	270,032
Finance costs	30	<u>(70,640)</u>	<u>(105,000)</u>
Net finance income		<u>177,642</u>	<u>165,032</u>
Profit before income taxes		1,140,827	2,793,791
Income taxes	21	<u>(38,616)</u>	<u>602,020</u>
Profit for the year		\$ <u>1,179,443</u>	<u>2,191,771</u>
Comprehensive income:			
Currency translation effect		<u>64,387</u>	<u>(186,095)</u>
Comprehensive income for the year		\$ <u>1,243,830</u>	<u>2,005,676</u>
Profit attributable to:			
Controlling interest		\$ 1,177,346	2,184,567
Non-controlling interest		<u>2,097</u>	<u>7,204</u>
Profit for the year		\$ <u>1,179,443</u>	<u>2,191,771</u>
Comprehensive income attributable to:			
Controlling interest		\$ 1,241,733	1,998,472
Non-controlling interest		<u>2,097</u>	<u>7,204</u>
Comprehensive income for the year		\$ <u>1,243,830</u>	<u>2,005,676</u>
Weighted average outstanding shares (thousands)		<u>599,822</u>	<u>598,960</u>
Basic and diluted earnings per share	26	\$ <u>1.96</u>	<u>3.65</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

Years ended December 31, 2011 and 2012

(Thousands of pesos)

		Attributable to owners of the Company						
Note	Capital stock	Share premium	Reserve for repurchase of shares	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
	\$ 1,174,432	399,641	88,690	-	14,737,340	16,400,103	29,917	16,430,020
25 (d)	-	-	-	-	(299,926)	(299,926)	-	(299,926)
	-	-	-	-	-	-	(912)	(912)
25 (c)	-	-	(209)	-	-	(209)	-	(209)
	-	-	-	-	-	-	7,025	7,025
	-	-	-	-	-	-	-	-
	-	-	-	64,387	1,177,346	1,177,346	2,097	1,179,443
	-	-	-	64,387	-	64,387	-	64,387
	-	-	-	64,387	1,177,346	1,241,733	2,097	1,243,830
	1,174,432	399,641	88,481	64,387	15,614,760	17,341,701	38,127	17,379,828
25 (d)	-	-	-	-	(299,175)	(299,175)	-	(299,175)
	-	-	-	-	-	-	(491)	(491)
25 (c)	-	-	10,993	-	-	10,993	-	10,993
	-	-	-	-	-	-	(8,142)	(8,142)
	-	-	-	(91,303)	2,184,567	2,184,567	7,204	2,191,771
	-	-	-	(91,303)	(94,792)	(186,095)	-	(186,095)
	-	-	-	(91,303)	2,089,775	1,998,472	7,204	2,005,676
	\$ 1,174,432	399,641	99,474	(26,916)	17,405,360	19,051,991	36,698	19,088,689

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2012

(Thousands of pesos)

	Note	2011	2012
Cash flows from operating activities:			
Profit for the year	\$	1,179,443	2,191,771
Adjustments for:			
Income tax recognized in profit or loss	21	(108,202)	235,603
Bargain purchase on business combinations		(1,047,245)	-
Depreciation and amortization	16	745,837	837,807
Loss on sale of plant and equipment		46,671	65,323
Interest income	30	(193,777)	(222,063)
Interest expense	30	69,744	105,000
Foreign exchange loss on loans		34,500	(52,687)
		<u>726,971</u>	<u>3,160,754</u>
Cash flows provided by operating activities before changes in working capital and provisions			
		726,971	3,160,754
Derivative financial instruments		2,689	7,270
Accounts receivable, net		(435,320)	14,514
Inventories, net		(387,569)	(1,267,482)
Biological assets current and long term		(342,715)	(125,606)
Prepaid expenses and other current assets		(216,722)	(116,728)
Assets available for sale		(9,075)	44,140
Trade payable and other accounts payable		443,987	532,030
Related parties		17,670	9,496
Employee benefits		22,153	(3,425)
		<u>(177,931)</u>	<u>2,254,963</u>
Cash flows (used in) provided by operating activities			
		(177,931)	2,254,963
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(707,533)	(951,760)
Proceeds from sale of plant and equipment		83,946	81,591
Financial instruments		(201,373)	(551,247)
Other assets		(146,389)	62,726
Interest collected		193,777	222,063
Business acquisitions		(1,326,741)	-
		<u>(2,104,313)</u>	<u>(1,136,627)</u>
Cash flows used in investing activities			
		(2,104,313)	(1,136,627)
Cash flows from financing activities:			
Share premium and reserve for repurchases of shares		(209)	10,993
Dividends paid		(299,926)	(299,175)
Proceeds from borrowings		1,921,609	3,069,787
Interest paid		(60,809)	(105,000)
Dividends paid to non-controlling interest		(912)	(491)
Currency translation effect		33,440	(93,397)
Disposal of non-controlling interest from dissolution	-		(8,142)
Principal payment on loans		(774,601)	(2,130,805)
		<u>818,592</u>	<u>443,770</u>
Cash flows provided by financing activities			
		818,592	443,770
Net (decrease) increase in cash and cash equivalents		(1,463,652)	1,562,106
Cash and cash equivalents at January 1		3,967,874	2,625,661
Effect of exchange rate fluctuations on cash and cash equivalents		121,439	(8,226)
Cash and cash equivalents at December 31	\$	<u>2,625,661</u>	<u>4,179,541</u>

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2011 and 2012

(Thousands of pesos, except per share amounts)

(1) Reporting entity

Industrias Bachoco, S.A.B. de C.V. and subsidiaries (collectively referred to as “Bachoco” or the “Company”) a public stock corporation with variable capital was incorporated on April 17, 1980, as a legal entity. The Company’s registered address is Avenida Tecnológico 401, Ciudad Industrial, Celaya, Guanajuato, México.

The Company is engaged in breeding, processing and marketing of poultry (chicken and eggs), swine and other products (principally balanced animal feed). Bachoco is a holding company that has control over a group of subsidiaries (see note 7).

The shares of the Company are listed on the Mexican Stock Exchange (MSE) under the symbol “Bachoco”; and on the New York Stock Exchange (NYSE), under the symbol “IBA”.

(2) Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (IASB), adopted by public entities in Mexico in accordance with the amendments to Rules for Public Companies and other Entities Trading on the Mexican Stock Exchange Market, established by the National Banking and Securities Commission on January 27, 2009 according to which, beginning in 2012 the Company is required to prepare financial statements in accordance with IFRS as issued by the IASB.

These are the Company’s first consolidated financial statements prepared in accordance with IFRS, and the IFRS 1, “*First-time Adoption of International Financial Reporting Standards*”, has been applied.

On April 19, 2012 Bachoco issued its last consolidated financial statements prepared under Mexican Financial Reporting Standards (“NIF”) as of December 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011.

Note 33 contain an explanation of how the transition to IFRS has affected the financial position, financial performance and cash flows reported by the Company.

On April 15, 2013, the accompanying consolidated financial statements and related notes were authorized by the Company’s Finance Director, C.P. Daniel Salazar Ferrer and Controller Director C.P. Marco Antonio Esparza Serrano, for the Audit Committee, Board of Directors and Stockholders’ approvals. In accordance with the General Corporations Law and the bylaws of the Company, the stockholders are empowered to modify the consolidated financial statements after issuance.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial derivative instruments for trading and hedging purposes attributable to fair value, primary investment securities and equity securities at fair value in gains or losses;
- Non-derivative financial instruments at fair value though profit or loss re measured at fair value.
- Biological assets are measured at fair value less costs to sell;
- The defined benefit plan asset are recognized at fair value;

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of Mexican pesos ("pesos" or "\$"), national currency of México, which is the Company's recording and functional currency, except for the foreign subsidiary that uses the dollar as its recording and functional currency.

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

When it is deemed relevant, certain amounts presented in the notes to the financial statements are included between parentheses as a convenience translation into thousands of dollars, into thousands of pesos, or both, as applicable. These translations are provided as informative data and should not be construed that these amounts should be converted into thousands of pesos or thousands of dollars at the indicated rate.

d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the facts and circumstances that support a change in estimates occur and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 10 – valuation of financial instruments
- Note 11 – allowance for doubtful accounts
- Note 12 – inventories
- Note 13 – biological assets
- Note 15 – assets available for sale
- Note 16 – useful lives of property, plant and equipment
- Note 21 – deferred income tax assets
- Note 22 – measurement defined labor obligation

The information on assumptions and uncertainty of estimates having a significant risk of a material adjustment within the next year is included in the note below:

- Note 28 – contingencies.

(3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries in preparing the opening consolidated IFRS statement of financial position as at January 1, 2011, for the purposes of the transition to IFRS.

(a) Basis of consolidation

i. Business acquisitions

Acquisitions since January 1, 2011

Business acquisitions made since January 1, 2011 are accounted for by the purchase method. For each business acquisition, the non-controlling interest in the acquiree is valued either at fair value or according to the proportionate interest in acquiree's identifiable net assets.

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

Goodwill is originally valued at cost, and represents any excess of the transferred consideration over the net assets acquired and liabilities assumed. When the goodwill is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

Acquisitions prior to January 1, 2011

As part of its transition to IFRS, the Company elected not to restate those business combinations that occurred prior to January 1, 2011. Goodwill in respect of acquisitions prior to this date represents the amount recognized under the accounting criteria previously followed by the Company.

ii. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases (see note 7).

iii. Transactions eliminated in consolidation

Intra-group balances and transactions, and any unrealized gain and loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency

i. Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognized in profit or loss.

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to pesos at exchange rates at the reporting date. The income and expenses of foreign operations are translated to pesos at the average exchange rate of the period of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

Foreign exchange gains or losses arising from an item received from or payable to a foreign operation, whose settlement is neither planned nor likely in the foreseeable future, are considered part of a net investment in a foreign operation and are recognized under "other comprehensive income" account, and presented within equity in the foreign currency translation reserve. At 1 January 2011, as well as at 31 December 2011 and 2012 the Company does not have such operations.

c) Financial instruments

i. Non-derivative financial assets

Non-derivative financial instruments include cash and cash equivalents, trade receivable and other receivables.

The Company initially recognizes accounts receivables and cash equivalents on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

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

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, cash and cash equivalents and accounts receivable.

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

If the Company has the intention and ability to hold debt instruments to maturity quoted on an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are originally recognized at fair value plus any directly attributable transaction costs. Subsequently to initial recognition, held-to-maturity financial assets are measured at their amortized cost by using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two years.

Cash and cash equivalents

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

Receivables

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

ii. Non-derivative financial liabilities

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

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

The Company has the following non-derivative financial liabilities: debt, senior bond issuance, trade and other payables.

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

iii. Derivative financial instruments

Derivative financial instruments for fair value hedging or for trading purposes are initially recognized at fair value; any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the derivative financial instruments are measured at fair value, and changes in fair value are immediately recognized in profit or loss.

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

The Company analyzes if the embedded derivatives exist that should be segregated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as those of the embedded derivative meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in fair value of the separable embedded derivatives are immediately recognized in profit or loss. At January 1, 2011, December 31, 2011 and 2012, the Company has not recognized embedded derivatives.

The Company has derivative instruments for accounting fair value hedging for its exposure to commodity price risks resulting from its operating activities. Derivative instruments not meeting the requirements for hedge accounting treatment are accounted for as derivative trading instruments.

On initial designation of the derivative as a hedging instrument, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80 – 125 percent.

Derivatives are recognized initially at fair value; any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as follows:

Fair value hedging

When a derivative is designated as a fair value hedging instrument, the fluctuations of both the derivative and the primary position for the hedged risk(s) are measured at fair value and recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

iv. Capital stock

Ordinary shares

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

Stock repurchase

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

d) Property, plant and equipment

i. Recognition and measurement

Property, plant and equipment, except for land, are measured at the acquisition cost less accumulated depreciation and any accumulated impairment losses. As of the transition date to IFRS, the Company elected the "Deemed Cost" option, thus recognizing the values of property, plant and equipment as determined under Mexican Financial Reporting Standards as of the transition date (see note 33).

The acquisition cost includes the purchase price, as well as any cost directly attributable to the asset acquisition, and all costs directly attributable to bringing the assets to a working condition for their intended use.

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

A component of property, plant and equipment and any significant part initially recognized is retired at the time of disposal or when economic benefits from use or disposal are not expected to be realized in the future. Gains or losses on the sale of a property, plant and equipment item are determined by comparing the proceeds from the sale with the carrying amount of property, plant and equipment, and are recognized net under "other income" in profit or loss for the year.

ii. Subsequent costs

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

iii. Depreciation

Depreciation is computed on the amount subject to depreciation, which is the asset cost, or other amount substituting the cost. The depreciable amount normally does not reduce residual values as they are not representative considering the industry in which the entity operates.

Depreciation is computed by the straight-line method based on the estimated useful life of the assets and recognized in profit or loss beginning in the month following that in which they are available for use. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- | | |
|----------------------------|---------------|
| • Buildings | 20 - 40 years |
| • Machinery and equipment | 7 - 15 years |
| • Transportation equipment | 6 years |
| • Computer equipment | 3 years |
| • Furniture | 3 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Goodwill

Goodwill arises on the acquisition of the entities over which control is obtained. Negative goodwill arises in the business combination at bargain purchase is recognized immediately in profit or loss.

Goodwill is measured at cost less cumulative impairment losses and is subject to annual tests for impairment.

f) Biological assets

Biological assets are measured at fair value less costs to sell, with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets.

The Company's biological assets consist of hens in production, laying and breeder hens incubatable eggs, and breeder pigs.

When the fair value cannot be reliably, verifiably and objectively determined, the assets are valued at production cost less accumulated depreciation and any cumulative impairment loss.

Cumulative impairment loss in productivity of poultry and breeder pigs is estimated based on the future life expected and determined on a straight-line basis.

The agricultural products obtained from biological assets are live chicken, processed chicken, commercial eggs and pigs available for sale, which are recognized as inventories in the statement of financial position.

The Company is exposed to financial risks related to changes in chicken price. The Company does not contemplate a significant drop in chicken price in the future; therefore, it has not entered into any financial derivative or contract for managing the risk related to a decrease in chicken price.

The Company reviews the chicken prices frequently so as to evaluate the need for having a financial instrument to manage the risk.

The biological assets were classified in current and non-current assets, based on their availability and business cycle.

g) Leased assets

Operating leases of the Company as of December 31, 2011 and 2012, are not recognized in the Company's statement of financial position. The rentals paid by the Company for the operating leases are recognized in profit or loss for the year by the straight-line method over the lease term, even though the payments are not made on the same basis.

h) Inventories

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

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

Cost of sales represents cost of inventories at the time of sale, plus, if applicable, by reductions in the net realizable value of inventories during the year.

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

i) Impairment

i. Financial assets

A financial asset that is not recorded at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for financial assets measured at amortized cost (accounts receivables and held-to-maturity investment securities) at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any

impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount of the asset, and the present value of the estimated future cash flows discounted at the effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables or held-to-maturity investment securities. Interest on the impaired asset continues being recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, biological assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment on the same dates.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets that cannot be tested on an individual basis are grouped together into the smallest group of assets that generates cash inflows from continuing use that are independent of the cash inflows of other assets CGU. For the purpose of impairment testing of the goodwill, CGU to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of CGU that are expected to benefit from the synergies of the combination.

In regards to goodwill, the Company identifies the CGU related to balanced animal feed plants, chicken processing plants and some chicken farms for the Peninsula and Itsmo divisions in which such Goodwill was generated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

j) Available-for-sale assets

Assets available for sale mainly consist of foreclosed assets as well as an aircraft included with the acquisition of OK Industries, Inc. (note 6a). Management sold this aircraft in 2012.

Immediately before classification as available-for-sale, the assets are remeasured according to the Company's accounting policies. Subsequently, available-for-sale assets are generally recorded at the lower of carrying amount and fair value less cost to sell the assets. Impairment losses on initial classification of available-for-sale assets and subsequent revaluation gains or losses are recognized in profit or loss. Gains exceeding any cumulative impairment loss are not recognized.

k) Other assets

Other long-term assets primarily include prepayments for the purchase of property, plant and equipment, investments in insurance policies and investment in an associate company.

At December 31, 2011 y 2012, Bachoco USA (foreign subsidiary) holds a minority investment in Southern Hens, Inc. The Company does not exercise significant influence over the entity and therefore the investment is recorded at original cost which is similar to fair value at the acquisition date (see note 17).

Bachoco USA, (foreign subsidiary) owns life insurance policies of some of the previous shareholders. The Company records these policies to net cash surrender (see note 17).

l) Employee benefits

Benefit plan in Mexican operation

Bachoco has a retirement plan in which non-union workers in México participate. Pension benefits are determined based on the salary of workers in their final three years of service, the number of years worked in the Company and their age at retirement. This plan includes:

i Defined contribution plan

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

ii Defined benefit plan

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

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on investment grade bonds that have maturity dates approximating the terms of the Company's and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes the surplus that is outside the 10% margin of the actuarial gains and losses arising from defined benefit plans in the previous reporting date divided by the expected average life of the employees participating in the plan.

iii Short-term benefits

Short-term employee benefits are valued on a non-discounted basis and are recognized in profit or loss as respective services are rendered.

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

iv Termination benefits from constructive obligation

The Company recognized as a defined benefit plan, a constructive obligation from practices typically done. This constructive obligation is associated with the period of time that an employee rendered services to the Company. Payment of this benefit is made in one installment at the time that the employee voluntarily stops working for the Company.

Benefit plan in the foreign operation

Bachoco USA (foreign subsidiary) maintains a 401(k) defined contribution retirement plan covering all employees meeting certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's compensation.

m) Provisions

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

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

n) Revenue

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

The Company's products are sold to a large number of customers, with no significant concentration with any specific customer.

o) Finance income and costs

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

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

Foreign currency gains and losses are reported on a net basis.

p) Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the fiscal year, using tax rates enacted or substantively enacted in each jurisdiction at the of the statement of financial position. Any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

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

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- differences related to investments in subsidiaries to the extent that it is probable that the Company is able to control the timing of the reversal, and the reversion is not expected to take place in the foreseeable future.
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the legislations enacted or substantively enacted at the date of the statement of financial position.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for the tax liabilities are adequate for all open tax years based on its assessment of many factors, including the interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each date of statement of financial position and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

q) Earnings per share

The Company presents information on the basic and diluted earnings per share (EPS) for their ordinary shares. The basic EPS is computed by dividing the profit or loss attributable to the holders of the Company's common shares by the weighted average number of ordinary shares outstanding during the period, adjusted for the own shares held. The diluted EPS is determined by adjusting the profit or loss attributable to the holders of the ordinary shares and the weighted average number of ordinary shares outstanding, adjusted by the own shares held, for the effects of potential dilution of all ordinary shares, including the convertible instruments and options on share granted to employees. At December 31, 2011 and 2012, the Company has no dilutive potential ordinary shares.

r) Segment information

An operating segment is a component of the company that is engaged in business activities from which revenues and expenses may be obtained and incurred, respectively, including revenues and expenses related to transactions with other components of the Company. The transactions between segments are determined on an arm's-length basis.

The financial information by segments is prepared based on the management approach, as a segment represents the operating components of a company that are subject to risks and benefits and are different from other business segments. As a result of the acquisition of OK Industries, company located in the United States (see note 6a), beginning in 2011, geographical operating segments are also taken into consideration.

(4) New standards and interpretations not yet adopted

The following new Standards, modifications to Standards and Interpretations that are not in force as of December 31, 2012, have not been applied in preparing these consolidated financial statements.

- IFRS 9 *Financial Instruments* will come into force for annual periods beginning on or after January 1, 2015; early adoption is permitted. The new Standard will be issued in various stages, and is intended to supersede IAS 39 *Financial Instruments: Recognition and Measurement*. The Company acknowledges that such adoption will affect the classification and measurement of financial instruments. The magnitude of the effect of adoption of this IFRS has not been determined. The Company acknowledges that the new standard introduces many changes to the accounting treatment of financial instruments, and is likely to have a significant effect on the Company's consolidated financial statements. The effect of such changes will be analyzed in the course of the project as additional stages of the standard are issued.
- In May 2011, the IASB issued the IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of interest in other entities*, and NIIF 13 *Fair Value Measurement*. All of these standards are effective beginning on January 1, 2013, early adoption permitted. The Company does not expect a significant impact on the application of these standards.

- On June 16, 2011, the IASB issued modifications to IAS 19 *Employee Benefits*. The amendments improve the recognition and the requirements for dissemination of defined benefit plans. The new requirements are effective for annual periods beginning on or after January 1, 2013; early application is permitted. Among other changes, the amendments require a) the use of a single rate for determining the expected return on plan assets and the present value of the benefit liability discount (in overall "net finance costs"), b) the recognition of net finance cost over net pension liability (liabilities minus plan assets), rather than a finance cost over the liabilities and an expected return on assets separately; and c) the recognition of actuarial gains or losses for the period within comprehensive income or loss. The option of postponing the gains and losses, known as the "corridor method", is eliminated. Company does not anticipate that the impact will be material.
- In December 2011, the IASB modified IFRS 32, to incorporate compensation disclosures regarding assets and liabilities in the statement of financial position. The modified standard requires entities to disclose both amounts gross and offset, on eligible instruments and transactions to offset in the statement of financial position, as well as instruments and transactions subject to a offsetting agreement. The scope includes derivative instruments, purchase and sale agreements and purchase, sale and leaseback agreements and securities lending agreements. The amendments to IFRS 32 are effective from January 1, 2014 and retrospective application is required. The Company is currently evaluating the impact of adopting modified IFRS 32, however, the Company does not expect that the adoption of this modified IFRS will result a significant impact on its consolidated financial statements.

(5) Financial risk management

The Company is exposed to the following risks related to the use of financial instruments to which risk management is applied:

- credit risk
- liquidity risk
- market risk

This note presents information on the Company's exposure to each of the aforementioned risks, and the Company's objectives, policies and procedures for risk measurement and management. Further quantitative disclosures are included in various sections of these consolidated financial statements.

Risk management framework

The risk philosophy adopted by the Company seeks to minimize the risk and, therefore, to enhance its business stability, by opting for a sound relationship between the levels of risk assumed and its operating capabilities, for ensuring a better decision-making that will enable an optimal combination of products and assets leading to a risk-return ratio more in line with the stockholders' risk profile.

Risk will mean the level of uncertainty associated with the Company's future losses.

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

General Objectives

- Promoting the development and application of a Risk Management culture, establishing guidelines that will ensure the efficient application of relevant Risk Management policies and procedures.
- Having sound Risk Management practices in place, consistent with relevant criteria and international recommendations.
- Implementing an efficient Risk Management that will allow performing the entity's activities and ensuring levels of risk exposure consistent with the operating capability.

Organizational structure

In order to create a clear and optimum Risk Management, the Company established the Risk Committee, which is the specialized body in terms of managing risks. At the Committee, objectives, policies, procedures, methodologies and strategies as well as maximum risk exposure limits and contingency plans are defined, proposed, approved and implemented.

Management by type of risk.

a) Credit risk

Credit risk is defined as the potential loss of an accounts receivable portfolio due to lack of payment by a debtor or for the nonperformance of a counterparty with which transactions with derivative or primary instruments are conducted.

The Credit Risk Management process begins with the execution of transactions with derivative and primary instruments, which are plainly exposed to a market risk but also to a counterparty risk.

Measurement and monitoring of counterparty risks

Currently, in terms of derivative and primary instruments, the Company has decided to measure and monitor its counterparty risk by calculating and identifying the Counterparty Valuation Adjustment (CVA).

Measurement and monitoring of accounts receivable

There is a policy whereby an allowance for doubtful accounts is established for balances of accounts which are likely not to be recovered. For defining the required reserve, the entity considers historical losses in evaluating the current market conditions as well as the financial condition of customers, accounts receivable in dispute, price differences, the aging of the portfolio and present payment patterns.

Risk reporting structure

This part of the report considers the change in the market value of the portfolio of derivative and primary instruments after the credit risk factor (CVA) has been applied to valuations.

The ratings of counterparties with which the entity has contracted derivatives are circumscribed.

CVA (Counterparty Valuation Adjustment)

In the case of investments in primary financial instruments in local currency, the valuation models for financial instruments used by price vendors are validated annually by the National Banking and Securities Commission (CNBV) and incorporate market movements and the credit quality of the issuers; therefore, it is implicitly included in the determination of the fair value of the transaction's CVA. For this reason, the position in primary financial instruments includes the CVA and no other related study and/or adjustment will be performed. Price Vendor's provided securities pricing, are released at *mid* prices.

Financial instruments denominated in foreign currencies and not listed in Mexico are valued with the prices included in the broker statements of accounts, which are taken from Bloomberg, the world's largest price vendor. Furthermore, the entity validates such market prices in Bloomberg. Market prices included in Bloomberg incorporate market movements and the credit quality of issuers; therefore, it is implicitly included in the determination of the fair value of the transaction's CVA. For this reason, the position in primary financial instruments includes the CVA and no other related study and/or adjustment will be performed. Price Vendor's provided securities pricing, are released at *mid* prices.

In case of derivative financial instruments traded in "Over the Counter" markets, the CVA is calculated in Bloomberg. For accounting purposes, the CVA is part of the fair value of derivative financial instruments.

Trade and other accounts receivable

The assessment of accounts receivable impairment is made on a collective basis because there are no accounts with significant balances individually and due to their short term. The Company's products are traded among a large number of customers without significant concentration with any of them. Among objective evidence of an impaired accounts receivable portfolio we may include the Company's past experience as to collections, increase in the number of overdue payments that exceed the average credit period as well as observable changes in the national and local economic conditions that correlate with default on payments.

The Risk Management Committee has implemented a credit policy whereby each new customer is analyzed individually as to creditworthiness prior to extending it the payment terms and conditions. The Company's review includes internal and external assessments and, in certain instances, bank references and looking up assets in the Public Registry. Purchase limits are set for each customer, which represent the maximum outstanding amount. Customers who fail to meet the Company's credit references may only engage in cash or advance payment transaction with the Company.

The allowance for doubtful accounts includes impaired trade accounts receivable, which at December 31, 2011 and 2012 amounted to \$38,537 and \$46,681, respectively. Such allowance is determined based on the historical experience of accounts receivable, guarantees obtained, etc.

i. Guarantees on loans granted

The Company receives guarantees on loans granted, which consist of personal and real property such as plots of land, buildings, houses, transportation units, letters of credit and cash deposits. At December 31, 2011 and 2012, the fair value of guarantees, at appraisal value at the time of granting the loan amounted to \$484,771 and \$517,269, respectively.

ii. Fair value

The fair value and amortized cost of trade accounts receivable is the same since those are short term nature, with no significant financial component.

Investments

The Company limits its exposure to credit risk by investing only in liquid securities and with counterparties with a credit rating of at least A1 and A granted by Standard & Poor's and Moody's, respectively. Management continuously monitors credit ratings and since the Company has only invested in highly rated securities, management does not anticipate any counterparty default, except as disclosed in note 10.

Eventually, the debt and equity investments with the credit rating lower than those mentioned in the previous paragraph, are authorized by the Risk Committee and the Board of Directors.

Guarantees

It is the Company's policy to grant financial guarantees only to wholly-owned subsidiaries.

b) Liquidity risk

Liquidity risk is defined as the potential loss due to the inability to renew liabilities or contract others in normal conditions, from the advance or compulsory sale of assets or unusual discounts in meeting its obligations, or, for the fact that a position may not be timely sold, acquired or covered by establishing an equivalent opposite position.

The Liquidity Risk Management process considers asset and liability management (ALM).

Its objective is:

- Anticipating funding difficulties due to extreme events.

Follow-up

Liquidity risks associated with ALM are measured, monitored and reported and authorization, application and operation limits are set as well as contingent action in case of liquidity requirements.

Liquidity risk due to differences between current cash flows and cash flows projected at various dates are measured and monitored, considering the totality of the entity's asset and liability positions denominated in domestic and foreign currencies. Furthermore, the Company's funding diversification and sources are evaluated.

The Company quantifies the potential loss due to the advanced or forced sale of assets at unusual discounts to timely face its obligations as well as for the fact that a position may not be timely sold, acquired or covered by establishing an equivalent opposite position.

This part of the report is deemed in the analysis of liquidity gaps, scenarios on insufficient liquidity and use of alternative sources of financing.

c) Market risk

Market risk is defined as: "The potential loss of a portfolio of derivative instruments and primary instruments for trading (speculation) purposes, due to changes in risk factors that impinge on the valuation of long or short positions. In this regard, uncertainty is detected if future losses resulting from changes in market conditions (interest rates, exchange rates, price of commodities, etc.) that have a direct impact on price changes both of assets and liabilities.

The Company measures, monitors and reports all financial instruments subject to market risks, using to such end the sensitivity measurement models for measuring potential losses associated to changes in risk variables, in accordance with the various interest and exchange rate scenarios over a period of time.

Follow up

Sensitivities are reported at least monthly. These values are compared to the limits and any excesses are immediately reported as stipulated in the Risk Manual.

Stress testing

Stress tests are performed on a quarterly or more regular basis, based on the following assumptions. To this end, the value of portfolios is calculated considering the changes in risk factors observed in historical financial stress dates, including, among others:

- Changes in the exchange rates, interest rates, commodities prices; scenarios: +5%, -5%, +25%, -25%, +50%, -50%
- 2008 (+25% in the MXN/USD exchange rate)

i) *Exchange Risk*

The Company is exposed to an exchange risk on sales, purchases and borrowings denominated in a currency other than its functional currency, which is the peso. The foreign currency in which such transaction is denominated is primarily the US dollar.

The Company protects by derivative instruments for hedging a percentage of its estimated exposure to variance in exchange rate in regards to the projected sales and purchases during the year and months, as required. Maturities of all the aforementioned instruments as hedges for its exchange risks are less than one year from the date of contracting. At December 31, 2012 the Company have not financial derivatives instruments about tax rate (see note 10d).

The Company is exposed to exchange rate risk (Peso/USD denominated instruments) within the assets and liabilities as: primary instruments (investments), financial liabilities and commodity derivatives that are denominated in a other currency than its functional currency. In this regard the Company does not perform sensitivity analysis in order to measure the impact of exchange rate fluctuations in the asset an liabilities described.

ii) *Interest rate risk*

The Company is exposed to interest rate risk in the assets and liabilities as: primary instruments (with floating rates), financial liabilities (loans and debt issuance) and interest rate derivatives (e.g Interest Rate Swaps (IRS)). The Company performs a sensitivity analysis to measure the effect of changes in interest rates in derivative instruments as of December 31, 2012, while for the other instruments described, no sensitivity analysis is performed. The Company's Risk Policy does not restrict exposure to different interest rates, neither establishes limits for fixed or floating rates.

d) Quantitative measurements of sensitivity

Main quantitative sensitivities of the current derivative financial instruments at December 31, 2012 related to commodities prices and rates, as well as the impact of different scenarios based on the established limits, are as follows:

Sensitivity report of Financial Derivative Instruments (FDI's) to different market scenarios

Scenarios	Rates	Commodities		Total	Effect %	Limit		Effect %	Limit	
		Mex	USA			Prev.	Max		Prev.	Max.
-50%	\$ (1,040)	(19,532)	(71,377)	(91,949)	-2.9%	-2.5%	-5.0%	-2.0%	-1.25%	2.50%
-25%	(444)	(10,572)	(35,917)	(46,934)	-1.5%	-2.5%	-5.0%	-1.0%	-1.25%	-2.50%
-5%	32	(3,404)	(7,549)	(10,922)	-0.3%	-2.5%	-5.0%	-0.2%	-1.25%	-2.50%
0.00%	151	(1,612)	(457)	(1,919)	-0.1%	-2.5%	-5.0%	0.0%	-1.25%	-2.50%
5%	270	180	6,634	7,084	0.2%	-2.5%	-5.0%	0.2%	-1.25%	-2.50%
25%	746	7,348	35,002	43,096	1.4%	-2.5%	-5.0%	0.9%	-1.25%	-2.50%
50%	1,342	16,308	70,462	88,112	2.8%	-2.5%	-5.0%	1.9%	-1.25%	-2.50%

For FX (\$12.87), Rate (TIIE 28 days 4.8475%) and commodities (corn and soybean meal), the effect of the current position is a loss of \$1,919, mainly originated by losses on commodity programs in Mex of \$1,612. The exposure of current positions is below of the preventive and maximum limits approved by the and Risk Committee.

In market stress scenarios where all hedging programs managed by the Company would be affected by a decline of 50% and 25%, the effect of total exposure would be a loss of \$91,949 and \$46,934, respectively.

Such amounts represent a negative effect of 2.9% and 1.5% respectively, compared to EBITDA of the last 12 months. On the other hand, the total amount of cash would have a negative impact on EBITDA of 2.0% and 1.0%, respectively.

Consumption report of risk market limits

Scenario	Rates	Commodities		
		Mexico	USA	Total
-50.00%	\$ (1,040)	(19,532)	(71,377)	(91,949)
-25.00%	(444)	(10,572)	(35,917)	(46,933)
-5.00%	32	(3,404)	(7,549)	(10,921)
0.00%	151	(1,612)	(457)	(1,918)
5.00%	270	180	6,634	7,084
25.00%	746	7,348	35,002	43,096
50.00%	1,342	16,308	70,462	88,112

Current market levels	FX	Rates	Commodities		
			Mexico	USA	Total
Preventive limit	\$ (25,740)	(3,000)	(25,740)	(25,740)	(80,220)
Consumption	0%	-5%	6%	2%	2%
Maximum limit	(64,350)	(10,000)	(64,350)	(64,350)	203,050
Consumption	\$ 0%	-2%	3%	1%	1%

Current stress levels (-25%)	FX	Rates	Commodities		
			Mexico	USA	Total
Preventive limit	(25,740) \$	(3,000)	(25,740)	(25,740)	(80,220)
Consumption	0%	15%	41%	140%	59%
Maximum limit	(64,350) \$	(10,000)	(64,350)	(64,350)	(203,050)
Consumption	0%	4%	16%	56%	23%

A negative consumption means that the overall position presents valuation gain, while positive consumption means valuation loss.

At market levels of the ended year, the preventive consumption limit of all programs is 2% due to the fact that current position is negative. Moreover, the consumption of the maximum acceptable limit is 1%, as a result of the mentioned above.

At stress levels of -25% of current market prices, the preventive limits of consumption of total hedging programs is 59%. On the other hand, the maximum acceptable limit of consumption is 23%.

The current sensitivities of the Interest Rate Swap (IRS) at year end considering different scenarios and its impact in pesos, is as follows:

Current positions

Debt levels and natural currency effects

December 31, 2012					
Scenarios	Rates	Average debt	Effect MXN	Current debt	% of exposure
-50.00%	2.4238%	\$ 151,910	\$ (1,040)	\$ 2,741,250	5.5%
-25.00%	3.6356%	151,910	(444)	2,741,250	5.5%
-5.00%	4.6051%	151,910	32	2,741,250	5.5%
0.00%	4.8475%	151,910	151	2,741,250	5.5%
5.00%	5.0899%	151,910	270	2,741,250	5.5%
25.00%	6.0594%	151,910	746	2,741,250	5.5%
50.00%	7.2713%	151,910	1,342	2,741,250	5.5%

At current levels of 28-days TIIE of 4.8475%, the effect of the current secured debt represents \$151 of profit and accounts for 5.5% of the total debt of the Company.

If the 28-day TIIE moves in ranges of -5%, +5%, +25% and +50%, current hedge gain exposure levels would be \$32, \$270, \$746 and \$1,342 in each one of the levels, respectively.

In market stress scenarios with fluctuations of -50% and -25%, the loss exposure levels for current hedge would be \$1,040 and \$444, respectively.

Sensitivity of derivative financial instruments related to commodity prices under various scenarios in Mexico, is as follows:

Current position of commodities

December 31, 2012 (Exchange rate: \$12.87)

Corn + Soybean				
Closing variation base	B/TC* Comp	Effect (thousand USD)		Effect (thousand MXN)
-50.0%	282,000	(1,518)	\$	(19,532)
-25.0%	282,000	(821)		(10,572)
-5.0%	282,000	(265)		(3,404)
0.0%	282,000	(125)		(1,612)
5.0%	282,000	14		180
25.0%	282,000	571		7,348
50.0%	282,000	1,267		16,305

*Bushels/Short Tons

At price levels or the year-end the corn and soybean agreements would be a loss of 125 USD or \$1,612.

At price sensitivity levels of, +5%, +25% and +5% in the corn and soybean agreements, the obtained result in the current position of IFDs of would be gain of \$180, \$7,348 and \$16,305 profit of at each level, respectively.

At price sensitivity levels of, -50%, -25% and -50% in the corn and soybean agreements, the obtained result in the current position of IFDs of would be loss of \$19,352, \$10,572 and \$3,404 of at each level, respectively.

Sensitivity of derivative financial instruments related to commodity prices of Bachoco USA under various scenarios is as follows:

Corn + Soybean			
Variation Closing base	B/TC* Comp	Effect (thousand of USD)	Effect (thousand of MXN)
-50.0%	1,270,600	(5,546)	\$ (71,377)
-25.0%	1,270,600	(2,791)	(35,917)
-5.0%	1,270,600	(587)	(7,549)
0.0%	1,270,600	(36)	(457)
5.0%	1,270,600	515	6,634
25.0%	1,270,600	2,720	35,002
50.0%	1,270,600	5,475	70,462

*Bushels/Short Tons

Note: This sensitivity analysis considers up and down variations based on the closing price of each corn and soybean agreements.

At prices levels of the year end, the corn and soybean agreements would be a loss of 36 USD or \$ 457.

At price sensitivity levels of -5%, +5% in corn and soybeans agreements, the result in the current position of IFDs of Bachoco USA would be (\$7,549), and \$ 6,634 of loss and profit, respectively.

At price sensitivity levels of -50%, -25%, +25% and +50%, the result in the current position of IFDs would be \$71,377 and \$35,917 of loss, and \$ 35,002 and \$70,462 of profit, respectively.

e) *Capital Management*

The Company lacks a formal policy for managing capital; however, management seeks maintaining an adequate capital base for satisfying the Company's operational and strategic needs and maintaining the confidence of market participants. This is attained through effective cash management, monitoring the Company's revenues and profit as well as the long-term investment plans that mainly finance the Company's operating cash flows. These measures allow the Company attains constant profit growth.

(6) Business and assets acquisitions

a) OK Industries acquisition

On November 1, 2011, the Company acquired 100% percent of the voting stock of OK Industries, Inc. and subsidiaries (Acquired Entity). Income of the Acquired Entity has been included in the consolidated financial statements from such date. The Acquired Entity is engaged in breeding, processing and marketing of poultry (chicken) to supplier autoservices networks, fast food networks and others in the U.S and foreign markets. The aggregate purchase price that was paid in cash amounted \$1,269,306 (93.4 million USD).

On March 2, 2012 Bachoco USA, LLC. was incorporated as a subsidiary of Industrias Bachoco, S.A.B. de C.V., Bachoco USA, LLC acquired 100% of the shares of OK Industries.

The consolidated financial statements of Bachoco as of December 31, 2011 include the balance sheet of OK Industries, Inc. and subsidiaries, as of such date, based on the best estimate of its net asset's fair value as of the acquisition date, and its results of operations for the two-month period ended December 31, 2011. The fair values of these assets acquired were determined using the cost and market approaches.

The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was utilized primarily for plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized primarily for real estate. The market approach indicates value based on financial multiples available for similar entities and adjustments for the lack of control or lack of marketability that market participants would consider in determining fair value.

Due to their short-term maturities, the Company believes the carrying amounts of cash equivalents, accounts receivables, other current assets, accounts payable and other current liabilities approximate their fair value at the acquisition date. At the acquisition date, inventories are stated at their net realizable value. The Company's investment in an unconsolidated entity is recorded at its historical cost and the investment in insurance contracts is recorded at its aggregate net cash surrender value, both of which approximate fair value at the acquisition date.

Identifiable assets acquired and liabilities assumed

A summary follows of the main classes of consideration transferred and the recognized amounts of acquired assets and assumed liabilities at the acquisition date. The following summarizes the acquired condensed balance sheet of OK Industries, Inc., including the application of purchase accounting adjustments to record the best estimate fair value of assets and liabilities at the date of acquisition (November 1, 2011), as well as additional adjustments to the balance of certain items. Such adjustments arose from additional information obtained during the measurement period and were recognized retroactively at the date of acquisition in accordance with IFRS 3:

	Previously recognized value	Measurement period adjustment	Adjusted balance
Current assets	\$ 1,332,762	-	1,332,762
Property, plant and equipment	1,693,980	(53,531)	1,640,449
Other assets	153,364	-	153,364
Total assets	<u>3,180,106</u>	<u>(53,531)</u>	<u>3,126,575</u>
Current liabilities	(390,001)	-	(390,001)
Deferred income tax	(519,189)	59,511	(459,678)
Non-controlling interest	(7,025)	-	(7,025)
Net acquired assts	<u>2,263,891</u>	<u>5,980</u>	<u>2,269,871</u>
Consideration paid	<u>1,269,306</u>		<u>1,269,306</u>
Gain on bargain purchase (note 31)	<u>\$ 994,585</u>		<u>1,000,565</u>

This gain was derived due that the former strategies resulted in high cost structure and limited opportunity to improve profitability; as a consequence the fair value of the enterprise was found lower than the respective fair values of its components. Therefore, after reviewing if all the acquired assets and assumed liabilities had been properly identified and recognizing any additional assets identified in this review, a gain was recognized as bargain purchase price in the consolidated statement of comprehensive income.

Had the acquisition occurred on January 1, 2011, management estimates that consolidated revenues and consolidated profits for the period would have totaled \$34,809,853 and \$911,952, respectively. In determining these amounts, management has assumed that adjustments to fair value determined temporarily, originating on the acquisition date would have been the same had the acquisition occurred on January 1, 2011.

b) Trosi de Carne acquisition

On August 20, 2011, Induba Pavos, S.A. de C.V. (subsidiary) acquired certain assets of Trosi de Carne, S.A. de C.V. In accordance with IFRS 3, such net assets qualify as business combination. With the acquisition of the net assets, the Company will be dedicated to the production of high value added products from beef and pork. Below is a summary of the assets acquired at their fair value (determined within the measurement period and recorded at the acquisition date in accordance with IFRS 3) and the purchase price paid in cash.

Property, plant and equipment	\$	98,385
Working capital		24,232
Deferred income tax		(18,170)
		<hr/>
		104,447
		<hr/>
Consideration paid		57,723
		<hr/>
Gain on bargain purchase (note 31)	\$	46,724
		<hr/>

c) Costs related to OK industries acquisition.

During 2011, the Company incurred costs related to OK Industries acquisition of \$11,426 corresponding to external legal fees and due diligence costs. The external legal fees and due diligence costs have been included in other expenses in the Company's consolidated statement of comprehensive income for the year ended December 31, 2011 (see note 31).

d) Acquisition of fixed assets Mercantil Agropecuario Coromuel, S.A. de C.V. ("MACSA")

On December 16, 2011, Bachoco, S.A. de C.V. (subsidiary) acquired certain assets from MACSA located in the state of Baja California. The transaction consisted of the acquisition of property, plant and equipment, for an amount of \$55,522. The acquisition intend increase the brand commercial presence and improve the distribution channels in that region.

(7) Subsidiaries of the Company

Subsidiaries and Company's stockownership interest percentage over such entities as of January 1, 2011, December 31, 2011 and 2012, are listed below:

Name	Ownership interest percentage in Subsidiaries			
	Country	January 1, 2011	December 31 2011	2012
Bachoco, S.A. de C.V.	Mexico	99.99	99.99	99.99
OK Industries Inc., and Subsidiaries	U.S.	-	100.00	-
Bachoco USA, LLC. & Sub.	U.S.	-	-	100.00
Campi Alimentos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	Mexico	99.99	99.99	99.99
Pecuaris Laboratorios, S.A. de C.V.	Mexico	63.57	63.57	63.57
Aviser, S.A. de C.V.	Mexico	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	Mexico	99.99	99.99	99.99
Secba, S.A. de C.V.	Mexico	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	Mexico	99.99	99.99	99.99
Sepetec, S. A. de C.V.	Mexico	99.99	99.99	99.99

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

- Bachoco, S.A. de C.V. ("BSACV") (includes four subsidiaries which are 50% owned, and for which BSACV has control). BSACV is engaged in breeding, processing and marketing of poultry (chicken and eggs).

- On March 2, 2012, Bachoco USA, LLC. was incorporated in the State of Delaware, United States ("U.S.") as a wholly owned subsidiary of Industrias Bachoco, S.A.B. de C.V. From then onwards, Bachoco USA, LLC. acts as holding company for the shares of OK Industries, Inc. and, therefore, of the operations of Bachoco in the United States of America. OK Industries, Inc. (acquired in November 2011) comprises five controlled subsidiaries. Four of these subsidiaries, OK Industries, Inc. has a 100% shareholding while it only holds 85% of the shares of the remaining subsidiary through its dissolution in 2012. Its principal activity includes the production of chicken products, mostly marketed in the U.S. and, to a lesser extent, in other foreign markets.

- Campi Alimentos, S.A. de C.V. (Campi), is engaged in producing and marketing of balanced animal feed.

- Aviser, S.A. de C.V., Operadora de Servicios de Personal, S.A. de C.V., Secba, S.A. de C.V., Servicios de Personal Administrativo, S.A. de C.V. y Sepetec, S.A de C.V., These companies are engaged in providing administrative and operative services to their related parties.

(8) Operating segments

Reporting segments have a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of the chicken and egg operations and has been added due to its risks and benefits similarities. The information included in the "Others" column corresponds to pigs, balanced feed for animal consumption and other non-significant sub-products.

Inter-segment pricing is determined on an arms – length basis. The accounting policies of operating segments are the same as those described in note 3.

The next pages includes information on the results of each segment by line of business. Performance is measured based on each segment's income before taxes, in the same manner as included in management reports that are reviewed by the Company's General Director. Each segment profits are used in measuring performance since management believes such information is most appropriate for assessing the results of certain segments, as compared with other entities that operate in the same businesses as the Company.

a) *Operating segment information*

Year ended December 31, 2011

		<u>Poultry</u>	<u>Others</u>	<u>Total</u>
Net revenues	\$	24,697,212	3,037,778	27,734,990
Cost of sales		22,058,417	2,738,620	24,797,037
Gross profit		2,638,795	299,158	2,937,953
Income tax		(20,135)	(18,481)	(38,616)
Net controlling interest income		1,093,861	83,485	1,177,346
Property, plant and equipment, net		11,652,108	460,837	12,112,945
Goodwill		212,833	88,015	300,848
Total assets		23,335,598	1,381,722	24,717,320
Total liabilities		(6,779,658)	(557,834)	(7,337,492)
Capital expenditures		662,009	45,524	707,533
Business acquisitions		2,269,871	104,447	2,374,318
Expenses not requiring cash disbursements:				
Depreciation and amortization		(722,286)	(23,551)	(745,837)

Year ended December 31, 2012

		<u>Poultry</u>	<u>Others</u>	<u>Total</u>
Net revenues	\$	35,797,169	3,570,262	39,367,431
Cost of sales		30,210,843	3,107,364	33,318,207
Gross profit		5,586,326	462,898	6,049,224
Income tax		486,251	115,769	602,020
Net controlling interest income		1,939,733	244,834	2,184,567
Property, plant and equipment, net		10,363,200	1,586,316	11,949,516
Goodwill		212,833	88,015	300,848
Total assets		25,224,900	2,815,284	28,040,184
Total liabilities		(8,093,729)	(857,766)	(8,951,495)
Capital expenditures		942,351	9,409	951,760
Expenses not requiring cash disbursements:				
Depreciation and amortization		(752,492)	(85,315)	(837,807)

Revenue of the Poultry segment is analyzed as follows:

	As of December 31, 2011		
	<u>Chicken</u>	<u>Egg</u>	<u>Total</u>
Net revenues	\$ 22,611,264	2,085,948	24,697,212

	As of December 31, 2012		
	<u>Chicken</u>	<u>Egg</u>	<u>Total</u>
Net revenues	\$ 32,989,481	2,807,688	35,797,169

b) Geographic information

Since 2011, with the acquisition of the US operation, a new segment is included in the managerial approach called "foreign" to identify (segment) domestic and foreign operations. When submitting information by geographic area, revenue is classified based on the geographic location of customers. Segment assets are classified in accordance with their geographic location.

	Year ended December 31, 2011		
	<u>Domestic poultry</u>	<u>Foreign poultry (two- months operations)</u>	<u>Total</u>
Net revenues	\$ 23,318,433	1,378,779	24,697,212
Cost of sales	20,755,753	1,302,664	22,058,417
Gross profit	2,562,680	76,115	2,638,795
Income tax	(12,240)	(7,895)	(20,135)
Net controlling interest income	1,096,519	(2,658)	1,093,861
Property, plant and equipment, net	10,011,659	1,640,449	11,652,108
Goodwill	212,833	-	212,833
Total assets	19,983,780	3,351,818	23,335,598
Total liabilities	(6,240,308)	(539,350)	(6,779,658)
Capital expenditures	662,009	-	662,009
Expenses not requiring cash disbursements:			
Depreciation and amortization	(703,606)	(18,680)	(722,286)

Year ended December 31, 2012			
	Domestic poultry	Foreign poultry	Total
Net revenues	\$ 27,625,702	8,171,467	35,797,169
Cost of sales	22,574,463	7,636,380	30,210,843
Gross profit	5,051,239	535,087	5,586,326
Income tax	457,727	(28,524)	486,251
Net controlling interest income	1,939,733	-	1,939,733
Property, plant and equipment, net	8,863,652	1,499,548	10,363,200
Goodwill	212,833	-	212,833
Total assets	21,783,895	3,441,005	25,224,900
Total liabilities	(6,637,159)	(1,456,570)	(8,093,729)
Capital expenditures	889,081	53,270	942,351
Expenses not requiring cash disbursements:			
Depreciation and amortization	(578,977)	(173,515)	(752,492)

The following table details revenue for chicken in the poultry segment, by geographic area:

As of December 31, 2011			
	Domestic chicken	Foreign chicken (two months operation)	Total
Net revenues	\$ 21,232,485	1,378,779	22,611,264

As of December 31, 2012			
	Domestic chicken	Foreign chicken	Total
Net revenues	\$ 24,818,014	8,171,467	32,989,481

c) Major Customers

In Mexico, the Company's products are traded among a large number of customers, without significant concentration with any specific customer. Therefore, in 2011 and 2012, no customer accounted for over 10% of the Company's total revenue.

The foreign subsidiary held sales transactions representing the 12% of total sales with the entity Ozark Mountain Poultry.

(9) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of January 1, 2011, December 31, 2011 and 2012, are as follows:

		January 1,	December 31	
		2011	2011	2012
Cash and banks	\$	<u>513,076</u>	<u>472,318</u>	<u>1,592,555</u>
Available on demand investments (note 10)		<u>3,445,899</u>	<u>2,151,702</u>	<u>2,586,471</u>
Unrestricted cash and cash equivalents		3,958,975	2,624,020	4,179,026
Restricted investments		<u>8,899</u>	<u>1,641</u>	<u>515</u>
Total cash and equivalents	\$	<u>3,967,874</u>	<u>2,625,661</u>	<u>4,179,541</u>

Restricted investments corresponds to the minimum margin requirement made by the financial instruments intermediary to meet future commitments due to adverse market movements affecting prices on the open positions as of January 1, 2011 and December 31, 2011 and 2012.

Available on demand investments includes cash of \$38,431 included in the investment portfolio.

(10) Financial instruments and risk management

(a) Credit risk

i. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. At the report date, the maximum exposure to credit risk is as follows:

	Carrying amount		
	January 1,	December 31,	
	2011	2011	2012
Held-to-maturity investments	\$ 36,725	42,352	38,958
Investments designated at fair value through profit or loss	3,618,522	2,520,071	3,509,995
Exchange rate derivative instruments held for trading	262	1,344	-
Interest rate derivative instruments held for trading	-	-	152
Commodities derivative instruments held for trading	7,114	1,803	2,549
Commodities derivative instruments held for hedging	5,801	7,829	-
Accounts receivable	963,273	1,507,095	1,741,639
	<u>\$ 4,631,697</u>	<u>4,080,494</u>	<u>5,293,293</u>

Investments designated at fair value through profit or loss includes cash of \$38,431 included in the investment portfolio.

The maximum exposure to credit risk for trade receivables at the end of the reporting period by geographic region was as follows:

	Carrying amount		
	January 1,	December 31,	
	2011	2011	2012
National	\$ 963,273	1,115,238	1,287,686
United States	-	391,857	453,953
	<u>\$ 963,273</u>	<u>1,507,095</u>	<u>1,741,639</u>

The maximum exposure to credit risk for trade receivables at the end of the reporting period by type of counterparty was as follows:

	Carrying amount		
	January 1,	December 31,	
	2011	2011	2012
Receivables	\$ 916,139	1,457,617	1,682,729
Legal receivables (Lawyers held)	47,134	49,478	58,910
	<u>\$ 963,273</u>	<u>1,507,095</u>	<u>1,741,639</u>

Impairment analysis

The aging of trade receivables at the end of the reporting period was as follows:

	Carrying amount		
	January 1,	December 31,	
	2011	2011	2012
Current	\$ 776,066	1,233,249	1,455,915
Past due 0-60 days	127,412	209,127	208,704
Past due greater than 60 days	12,661	15,241	18,110
	<u>\$ 916,139</u>	<u>1,457,617</u>	<u>1,682,729</u>

The Company considers that the unimpaired amounts that are past due by more than 60 days are still collectible, based on historic payment behavior and extensive analysis of customer credit risk.

Based on historical trends of the probability of default, the Company considers that no impairment allowance is necessary in respect of current trade receivables.

b) Liquidity risk

Following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

As of January 1, 2011 (pesos and dollars)

	<u>Book value</u>	<u>Current contractual cash flows</u>	<u>Non-current contractual cash flows</u>
Financial liabilities			
Bank loans (pesos)	\$ 646,920	-	646,920
Exchange rate derivative instruments held for trading	280	280	-
Trade and other payables	1,966,014	1,966,014	-
	<u>\$ 2,613,214</u>	<u>1,966,294</u>	<u>646,920</u>

As of December 31, 2011 (pesos and dollars):

	<u>Book Value</u>	<u>Current contractual cash flows</u>	<u>Non-current contractual cash flows</u>
Financial liabilities			
Bank loans (pesos)	\$ 789,613	230,000	559,613
Bank loans (valued dollars)	1,047,750	1,047,750	-
Derivative financial instruments on commodities at fair value through profit or loss	769	769	-
Trade and other payables	2,921,441	2,921,441	-
	<u>\$ 4,759,573</u>	<u>4,199,960</u>	<u>559,613</u>

As of December 31, 2012 (pesos and dollars):

	<u>Book value</u>	<u>Current contractual cash flows</u>	<u>Non-current contractual cash flows</u>
Financial liabilities			
Bank loans (pesos)	\$ 580,158	437,996	142,162
Bank loans (valued dollars)	643,500	643,500	-
Senior bond issuance	1,500,000	-	1,500,000
Derivative financial instruments on commodities at fair value through profit or loss	1,332	1,332	-
Trade and other payables	3,445,245	3,445,245	-
	<u>\$ 6,170,235</u>	<u>4,528,073</u>	<u>1,642,162</u>

At least on a monthly basis the Company evaluates and reports to the Board of Directors the liquidity status of the Company. As of December 31, 2012, the Company has determined that has sufficient resources to meet its short and long term obligations and; therefore, it does not expect to have liquidity gaps in the future and will not necessary to sell assets to settle their debts at unusual or off market prices.

c) Market risk

Price risk of generic commodities

The Company seeks protection against declines in the agreed-upon price of corn and/or sorghum after the producer issues the respective invoice that may result in not ceasing an opportunity cost for lower prices in the commodity market against a higher agreed-upon price and once they become part of the inventory to hedge a risk if the price declines prior to their consumption.

In other words, if the price on the physical delivery of the agreed-upon commodities is lower than the agreed-upon prices, the entity does not benefit from lower market prices and purchases are made at higher prices, resulting in a loss for the Company.

Corn and/or sorghum purchases are formalized through a forward sales agreement, which stipulate the following:

- Date of execution;
- Number of tons sold;
- Harvest, State and the harvest's agricultural cycle;
- Price per ton plus quality premium or penalty based on the following formula:

Agricultural agreements that lead to firm commitments are related to two corn and/or sorghum cycles and to the contracting of purchases; both cycles and contracting dates are detailed below:

- Fall / Winter Cycle – ASERCA, at its discretion, determines the registration desk period, which normally runs from December to March, while the harvest period for the Fall / Winter cycle occurs in the months of May through July. However, the corn and/or sorghum harvest period may extend from one to several months, depending on the climatic conditions such as droughts and frosts.
- Spring / Summer Cycle – ASERCA, at its discretion, determines the registration desk period, which normally runs from July to August while the harvest time varies depending on the specific State.

The risk being hedged is for exposure from changes in the fair value by fixing the price of corn and/or sorghum purchases that may cause potential losses by not taking advantage, as applicable, of lower corn and/or sorghum prices at the date of purchase of the physical product.

The Company conducts effectiveness tests at the beginning and at least on a quarterly basis using a specific methodology for each test. Effectiveness tests are conducted for hedging relationships for put options the Company acquires from ASERCA. These methodologies are described below. Each only distinguishes changes in the price of corn below the strike price agreed in the put option.

Prospective effectiveness tests

For this test, it is proven that the hedging relationship being set operates properly prior to it being established. Basically, the test consists of performing a linear regression on the put option profits that would be obtained at the expiration date (explanatory or independent variable) against the losses sustained from the primary position, which are defined as losses arising from the fall of the corn spot price.

The test is deemed highly effective and therefore, the implementation of the hedging relationship is feasible, where:

- The R2 of the linear regression is equal to or greater than 0.8
- The correlation in the linear regression is 0.8 or greater
- The slope m lies within the $[0.8, 1.25]$ interval.

Failure to meet any these conditions indicates that the test is not effective and the hedging relationship may not be established.

The retrospective effectiveness test is performed at least quarterly and only after the hedging relationship has been established, not at the beginning. The test is performed following the methodology known as “Dollar Offset”, which changes in the value of the put option are compared to changes in the value of the accumulated primary position through an index. This index is computed as follows:

The absolute value of the “Dollar Offset” (DO) index should always fall within the $[0.8, 1.25]$ range. In this case, the test and, therefore, the hedging relationship, are deemed effective and so the latter may continue.

In cases where the absolute value is not within such range, the test is not deemed effective and the hedging relationship designated in that moment.

At December 31, 2012, there were no open positions of long put hedge options with ASERCA.

Regarding commodity price risk, for derivative instruments that are not designated in a hedging relationship, the Company performs sensitivity analysis on the corn and soybean future contracts, considering different scenarios (bullish and bearish). These results are shown in Note 5 b). In case of structured commodity derivatives, that contains options (traded with Cargill), the Company does not perform a sensitivity analysis on the volatility factor.

d) Currency risk

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily pesos, but also euro and dollars. This provides an economic hedge without derivatives.

Exposure to currency risk

Below is the company's exposure to currency risk, based on notional amounts:

		January 1, 2011	December 31, 2011	2012
Assets				
Cash and cash equivalents	\$	357,933	232,211	362,905
Primary financial instruments		106,466	375,648	380,036
Accounts receivables		-	391,857	473,245
Other accounts		6,926	315,037	191,071
Advances to suppliers		170,170	602,912	502,585
		<u>641,495</u>	<u>1,917,665</u>	<u>1,909,842</u>
Liabilities				
Accounts payables		(770,931)	(1,668,025)	(1,715,893)
Other accounts		-	(157,110)	(150,529)
Short term debt		-	(1,047,750)	(643,000)
Net liability position	\$	<u>(129,436)</u>	<u>(955,220)</u>	<u>(599,580)</u>

The following significant exchange rates applied during the year:

		Average exchange rate		Spot exchange rate as the date of the consolidated financial statements		
		2011	2012	January 1, 2011	2011	2012
USD	\$	<u>12.43</u>	<u>13.16</u>	<u>12.37</u>	<u>13.97</u>	<u>12.87</u>

The exchange rate as of reporting date is \$12.08.

In this regard the Company does not perform sensitivity analysis in order to measure the impact of exchange rate fluctuations in the asset an liabilities described.

e) Interest rate risk

Fluctuations in interest rates mainly impact loans by changing either their fair value (fixed-rate debt) or their future cash flows (variable-interest debt). Management lacks a formal policy for determining how much of the Company's exposure should be at fixed or variable rate. However, on getting new loans, management uses its judgment for deciding if a fixed or a variable rate would be more favorable for the Company, considering the original term of the loan, through its maturity.

The Company only made sensibility's analysis.

f) Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31,					
	Carrying amount January 1, 2011	Fair value January 1, 2011	Carrying amount 2011	Fair value 2011	Carrying amount 2012	Fair Value 2012
Assets recorded at fair value						
Investments designated at fair value through profit or loss	\$ 3,618,522	3,618,522	2,520,071	2,520,071	3,509,995	3,509,995
Exchange rate derivative instruments at fair value through profit or loss	(18)	(18)	1,344	1,344	-	-
Interest rate derivative instruments classified held-for-trading	-	-	-	-	152	152
Commodities derivative instruments at fair value through profit or loss	7,114	7,114	1,034	1,034	2,786	2,786
Commodities derivative instruments held-for-hedging	5,801	5,801	7,829	7,829	-	-
	<u>\$ 3,631,419</u>	<u>3,631,419</u>	<u>2,530,278</u>	<u>2,530,278</u>	<u>3,512,993</u>	<u>3,512,993</u>

	Carrying amount January 1, 2011	Fair value January 1, 2011	December 31,			
			Carrying amount 2011	Fair value 2011	Carrying amount 2012	Fair value 2012
Assets recorded at amortized cost						
Held-to maturity investments	\$ 36,725	36,725	42,352	42,352	38,958	38,958
	<u>\$ 36,725</u>	<u>36,725</u>	<u>42,352</u>	<u>42,352</u>	<u>38,958</u>	<u>38,958</u>
Liabilities recorded at fair value						
Commodities derivative instruments at fair value through profit or loss	\$ -	-	(769)	(769)	(1,332)	(1,332)
	<u>\$ -</u>	<u>-</u>	<u>(769)</u>	<u>(769)</u>	<u>(1,332)</u>	<u>(1,332)</u>
Liabilities recorded at amortized cost						
Secured bank loans	\$ 646,920	646,920	1,837,363	1,837,363	1,223,658	1,223,658
Senior bonds issuance	-	-	-	-	1,500,000	1,507,562
Trade payable and other accounts payable	1,966,014	1,966,014	2,921,441	2,921,441	3,445,247	3,445,247
	<u>\$ 2,612,934</u>	<u>2,612,934</u>	<u>4,758,804</u>	<u>4,758,804</u>	<u>6,168,905</u>	<u>6,176,639</u>

Investments designated at fair value through profit or loss includes cash of \$38,431 included in the investment portfolio.

g) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The Company adopted the early exemption of IFRS 1, which exempts the entity from providing comparative information.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
At December 31, 2012				
Investments in primary instruments at fair value through profit or loss	\$ -	3,509,995	-	3,509,995
Exchange rate derivative instruments at fair value through profit or loss	-	-	-	-
Interest rate derivative instruments	-	152	-	152
Commodities derivative instruments at fair value through profit or loss	2,549	-	-	2,549
Commodities derivative instruments at fair value through profit or loss	-	(1,332)	-	(1,332)
	<u>\$ 2,549</u>	<u>3,508,815</u>	<u>-</u>	<u>3,511,364</u>

Investments designated at fair value through profit or loss includes cash of \$38,431 included in the investment portfolio.

(11) Account receivables, net

As of January 1, 2011, December 31, 2011 and 2012, trade and other receivables breakdown is as follows:

	<u>January 1, 2011</u>	<u>December 31,</u>	
		<u>2011</u>	<u>2012</u>
Trade receivables	\$ 996,263	1,545,632	1,788,320
Allowance for doubtful accounts	(32,990)	(38,537)	(46,681)
Other receivables (Value added tax and other recoverable taxes)	473,228	728,057	478,999
	<u>\$ 1,436,501</u>	<u>2,235,152</u>	<u>2,220,638</u>

Note 10 disclose the Company's exposure to credit and exchange risks related to trade and other accounts receivable.

(12) Inventories

As of January 1, 2011, December 31, 2011 and 2012, inventories breakdown is as follows:

	<u>January 1, 2011</u>	<u>December 31,</u>	
		<u>2011</u>	<u>2012</u>
Raw materials and sub-products (net of \$27,940 and \$25,740 reserve as at December 31, 2011 and 2012)	\$ 1,523,690	1,883,163	2,751,718
Medicine, materials and spare parts	452,373	487,178	640,953
Finished feed	60,405	83,601	292,056
	<u>2,036,468</u>	<u>2,453,942</u>	<u>3,684,727</u>
Inventories:			
Live chicken	877,654	1,383,769	1,307,744
Processed chicken (net of \$30,203 reserve as at December 31, 2011)	250,904	670,890	728,258
Commercial eggs	22,094	27,498	46,341
Beef	4,463	13,658	17,090
Turkey	20,186	12,598	37,812
Value added products	-	-	7,865
	<u>1,175,301</u>	<u>2,108,413</u>	<u>2,145,110</u>
Total	<u>\$ 3,211,769</u>	<u>4,562,355</u>	<u>5,829,837</u>

The change in the historical cost of biological assets measured at fair value corresponded to an increase of \$2,558 and \$19,331 in 2011 and 2012, respectively.

(13) Biological assets

As of January 1, 2011, December 31, 2011 and 2012, biological assets breakdown is as follows:

	Current Biological Assets	Non-current Biological Assets	Total
Balance at January 1, 2011	\$ 153,993	750,288	904,281
Increase due to purchases	66,460	262,479	328,939
Decrease for sales	(888)	(20,561)	(21,449)
Increase due to births	186,176	-	186,176
Manufacturing cost	1,754,845	808,698	2,563,543
Depreciation	-	(771,262)	(771,262)
Transferred to inventories	(1,943,232)	-	(1,943,232)
Balance at December 31, 2011	\$ <u>217,354</u>	<u>1,029,642</u>	<u>1,246,996</u>
Balance at January 1, 2012	\$ 217,354	1,029,642	1,246,996
Increase due to purchases	38,123	207,230	245,353
Decrease for sales	(7,166)	(325,116)	(332,282)
Increase due to births	257,261	-	257,261
Manufacturing cost	2,546,129	1,067,717	3,613,846
Depreciation	-	(861,339)	(861,339)
Transferred to inventories	(2,782,841)	-	(2,782,841)
Other	(2,378)	(12,014)	(14,392)
Balance at December 31, 2012	\$ <u>266,482</u>	<u>1,106,120</u>	<u>1,372,602</u>

Biological assets (current) are comprised of incubatable eggs and breeder pigs; while biological assets (non-current) are comprised of hens in production, laying and breeder hens and pigs breeding stock.

The Company is exposed to the following risks relating to its biological assets:

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

(14) Prepaid expenses and other current assets

As of January 1, 2011, December 31, 2011 and 2012, prepaid expenses and other current assets breakdown is as follows:

	January 1, 2011	December 31,	
		2011	2012
Advances to suppliers of inventories	\$ 366,160	515,672	505,667
Prepayments – Services	43,240	125,158	240,706
Other receivables	77,753	72,043	79,999
Prepayments- Insurance and financial guarantee	17,961	39,277	42,506
Total	\$ 505,114	752,150	868,878

(15) Assets available for sale

As of January 1, 2011, December 31, 2011 and 2012, assets available for sale breakdown is as follows:

The balance of non-current assets available for sale is mainly comprised of assets foreclosed by the Company when certain accounts receivable are not settled by the customers, as well as an aircraft that was included in the acquisition of OK Industries in 2011 and sold in 2012. This caption includes a wide variety of assets, which are recorded based on the fair value of the asset in question, supported by appraisals made of such assets. If the asset cannot be measured reliably, the acquisition cost is measured at the net carrying amount of the related asset.

	<u>January 1, 2011</u>	<u>December 31,</u>	
		<u>2011</u>	<u>2012</u>
Buildings	\$ 17,731	19,508	18,502
Land	20,621	25,904	30,361
Aircraft	-	48,895	-
Others	1,870	1,340	2,644
Total	\$ <u>40,222</u>	<u>95,647</u>	<u>51,507</u>

(16) Property, plant and equipment-

As of January 1, 2011, December 31, 2011 and 2012, property, plant and equipment is comprised as follows.

Deemed cost	Balance at January 1, 2011	Additions	Business combinations	Disposals	Currency translation effect	Balance at December 31, 2011
Land	\$ 948,036	13,582	74,647	(3,204)	1,278	1,034,339
Buildings and constructions	8,353,164	184,845	803,776	(1,147)	22,186	9,362,824
Machinery and equipment	7,687,734	379,330	743,474	(23,035)	19,897	8,807,400
Transportation equipment	1,158,660	93,576	55,603	(44,829)	1,580	1,264,590
Computer equipment	120,108	26,472	8,258	(22,341)	235	132,732
Furniture	126,241	9,728	6,726	(8,081)	175	134,789
Leasehold improvements	27,856	-	-	-	-	27,856
Construction in progress	279,604	-	-	(27,979)	-	251,625
Total	\$ 18,701,403	707,533	1,692,484	(130,616)	45,351	21,016,155

Accumulated depreciation	Balance at January 1 2011	Depreciation for the year	Balance at December 31, 2011
Buildings and constructions	\$ (3,906,771)	(270,113)	(4,176,884)
Machinery and equipment	(3,417,695)	(355,386)	(3,773,081)
Transportation equipment	(638,109)	(109,580)	(747,689)
Computer equipment	(109,103)	(3,349)	(112,452)
Furniture	(85,694)	(7,410)	(93,104)
Total	\$ (8,157,372)	(745,837)	(8,903,210)

Deemed cost	Balance at January 1, 2012	Additions	Disposals	Currency translation effect	Balance at December 31, 2012
Land	\$ 1,034,339	25,722	-	(3,916)	1,056,145
Buildings and constructions	9,362,824	103,998	(1,727)	(67,973)	9,397,122
Machinery and equipment	8,807,400	415,116	(84,521)	(56,335)	9,081,660
Transportation equipment	1,264,590	66,565	(159,845)	(989)	1,170,321
Computer equipment	132,732	6,226	(67)	(719)	138,172
Furniture	134,789	12,023	(607)	(536)	145,669
Leasehold improvements	27,856	10,985	-	-	38,841
Construction in progress	251,625	311,125	-	-	562,750
Total	\$ 21,016,155	951,760	(246,767)	(130,468)	21,590,680

Accumulated depreciation	Balance at January 1, 2012	Depreciation for the year	Disposals	Balance at December 31, 2012
Buildings and constructions	\$ (4,176,884)	(256,796)	12,795	(4,420,885)
Machinery and equipment	(3,773,081)	(469,250)	18,881	(4,223,450)
Transportation equipment	(747,689)	(93,734)	67,597	(773,826)
Computer equipment	(112,452)	(9,430)	129	(121,753)
Furniture	(93,104)	(8,602)	456	(101,250)
Total	\$ (8,903,210)	(837,807)	99,858	(9,641,164)

Carrying amounts	Balance at January 1, 2011	Balance at December 31, 2011	Balance at December 31, 2012
Land	\$ 948,036	1,034,339	1,056,145
Buildings and constructions	4,446,393	5,185,940	4,976,237
Machinery and equipment	4,270,039	5,034,319	4,858,210
Transportation equipment	520,551	516,901	396,495
Computer equipment	11,005	20,280	16,419
Furniture	40,547	41,685	44,419
Leasehold improvements	27,856	27,856	38,841
Construction in progress	279,604	251,625	562,750
Total	\$ 10,544,031	12,112,945	11,949,516

Depreciation expense at December 31, 2011 and 2012 was for \$745,837 and \$837,807 respectively, which were charged to cost of sales and operating expenses.

(17) Other non-current assets

The other non-current assets consist of the following:

	January 1, 2011	December 31,	
		2011	2012
Advances for purchase of fixed assets	\$ 43,290	185,091	131,561
Investments in life insurance (note 3 (k))	-	119,792	115,502
Investment in associate company (note 3 (k))	-	38,020	35,026
Others	<u>21,594</u>	<u>21,734</u>	<u>19,822</u>
Total of other non-current assets	<u>\$ 64,884</u>	<u>364,637</u>	<u>301,911</u>

(18) Financial debt

Major borrowings are secured by guaranties, according to contractual obligations incurred.

Note 10 discloses the carrying amount and the fair value of loan borrowings.

a) Short-term financial debt breakdown is as follows:

	<u>January, 1</u>	<u>December 31,</u>	
	<u>2011</u>	<u>2011</u>	<u>2012</u>
Denominated in USD for an amount of 75,000 USD, maturing in October 2012, at LIBOR (3) rate plus 0.60 points. Bachoco is guarantor of this debt.	\$ -	1,047,750	-
Denominated in USD for an amount of 20,000 USD, maturing in April 2013, at LIBOR (3) rate plus 0.84 points. Bachoco is guarantor of this debt.	-	-	257,400
Denominated in pesos, maturing in January 2012, at TIIE (1) plus 0.85 points.	-	200,000	-
Denominated in pesos, maturing in January 2013, at TIIE (1) plus 0.60 points.	-	-	200,000
Denominated in pesos, maturing in August 2012, at TIIE (1) FIRA (2) plus 0.50 points.	-	30,000	-
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) plus 0.88 points.	-	-	59,368
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) plus 0.89 points.	-	-	82,628
Denominated in pesos, maturing in November 2013, at TIIE (1) FIRA (2) plus 0.70 points.	-	-	96,000
Credit denominated in USD for an amount of 30,000 USD, maturing in June 2013, at LIBOR (3) rate plus 1.62 points.	-	-	386,100
Total short term debt	\$ -	1,277,750	1,081,496

Weighted average interest rate on short-term debt for the years ended December 31, 2011 and 2012 was 5.53 % and 4.97%, respectively.

The average interest rate on short-term bank loans for the years ended December 31, 2011 and 2012, was 5.48% and 4.68%, respectively.

The weighted average interest rate on dollars short-term for the years ended December 31, 2011 and 2012, was 0.8702% and 1.06%, respectively.

- (1) TIIE= Interbank Equilibrium Rate (by its Spanish acronym)
- (2) FIRA= Agriculture trust (Fideicomiso Instituido en Relación con la Agricultura by its Spanish acronym)
- (3) Libor= London InterBank Offered Rate

b) Long-term debt, consist of the following:

	January 1,	December 31,	
	2011	2011	2012
Denominated in pesos, maturing in June 2016, at TIIE (1) rate plus 1 points (3).	\$ -	360,000	-
Denominated in pesos, maturing in 2013, at TIIE (1) rate plus 0.60 points.	-	87,500	37,500
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 points.	-	47,579	34,449
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) rates less 1.00 point.	38,133	26,400	14,667
Denominated in pesos, maturing in April 2015, at TIIE (1) rate plus 0.95 points (3).	23,617	18,621	-
Denominated in pesos, maturing in April 2012 and June 2013, at TIIE (1) FIRA (2) rates less 1.10 points and 0.875 points (3).	30,720	17,390	-
Denominated in pesos, maturing in March 2014, at TIIE (1) rate plus 2 points (3).	2,957	2,123	-
Denominated in pesos, maturing in July 2015, at TIIE (1) plus 1.50 points (3).	250,000	-	-
Denominated in pesos, maturing in April 2015, at TIIE (1) FIRA (2) rates plus 1.90 points (3).	250,000	-	-
Denominated in pesos, maturing in June 2015, at TIIE (1) rate plus 2.50 points (3).	38,993	-	-
Denominated in pesos, maturing in June 2011, at TIIE (1) FIRA (2) rates plus 2 points.	12,500	-	-
Denominated in pesos, maturing in January 2014, at TIIE (1) FIRA (2) rates minus 0.55 points.	-	-	55,546
Total	<u>646,920</u>	<u>559,613</u>	<u>142,162</u>
Senior bonds issuance (subsection (d) of this note)	-	-	1,500,000
Less current installments	<u>(139,867)</u>	<u>(175,243)</u>	<u>(115,560)</u>
Long-term debt, excluding current installments	<u>\$ 507,053</u>	<u>384,370</u>	<u>1,526,602</u>

Weighted average interest rate on long-term debt, excluding the issuance of senior bonds for the years ended December 31, 2011 and 2012 was 5.58% and 5.40%, respectively.

The average interest rate of the long-term debt, excluding the issuance of senior bonds, for the years ended December 31, 2011 and 2012 was 6.17%, and 5.43%, respectively.

(1) TIIE = Interbank Equilibrium Rate (by Spanish acronym)

(2) FIRA = Agriculture trust (Fideicomiso Instituido en Relación con la Agricultura by its Spanish acronym)

(3) In 2011 and 2012, the Company made prepayments of long-term debt of \$538,993 and \$398,134 respectively, without being required to pay early termination fee.

At December 31, 2011 and 2012, unused lines of credit amounted to \$2,257,870 and \$2,664,911, respectively. In 2011 and 2012, the Company did not pay any fee for unused lines of credit.

- c) Maturities of long-term debt, excluding current maturities, as of December 31, 2012, are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 16,392
2015	7,720
2016	2,490
2017	<u>1,500,000</u>
	<u>\$ 1,526,602</u>

Interest expense on loans during the years ended December 31, 2011 and 2012, amounted to \$40,687 and \$71,005, respectively.

Bank loans establish certain affirmative and negative covenants. As of December 31, 2012 and the date of the consolidated financial statements, the Company was in compliance with all these covenants, for which the most important are the following:

- a) Deliver of financial information at the bank requirement.
 - b) Not contracting liabilities with financial cost or granting loans that could affect payment obligations.
 - c) Notify the bank regarding the existence of legal issues that could substantially affect the financial situation of the Company.
 - d) Substantial changes to the nature of the business, or the administrative structure are not permitted.
 - e) Reductions of capital stock in excess to a 10% of the assets is not permitted.
- d) Debt by issuing Securities Certificates

On August 28, 2012, the Company was authorized to make an issue of senior bonds for a total authorized amount of the program of \$5,000,000 pesos or its equivalent in UDIS, on a revolving program period of five years from the date of authorization letter of the CNBV. The initial issue dated August 31, 2012 was for \$1,500,000 pesos with ticker: "BACHOCO 12" for a period of 1,820 days, equivalent to 65 periods of 28 days, approximately five years. For a total senior bonds of 15,000,000, and a face value of \$100 pesos each.

From the date of issue, and while the senior bonds have not been amortized, will accrue annual gross interest on their face value, at a yearly interest rate, which is calculated by adding 0.60 (zero point sixty) percentage points to the TIIE to within 28 days and in case of non-publication TIIE 28-day TIIE be used to nearer term, released by the Bank of Mexico. The Common Representative will calculate two business days prior to the beginning of each interest period of 28 days, according to the payment schedule, computed from the date of issue or at the beginning of each interest period and governed precisely during this period of interest.

Amortization of senior bonds will be at the deadline for the term of issue.

Senior bonds-related cost are capitalized to the debt and amortized through earnings by using the effective interest method through the maturity of each transaction. Such related cost includes commissions and professional fees.

(19) Trade payable and other accounts payable

	January 1,	December 31,	
	2011	2011	2012
Trade payable	\$ 1,572,292	2,326,779	2,838,500
Sundry creditors	35,963	218,458	256,132
Expense payable	148,357	158,461	142,799
Advance from costumers	66,189	71,212	54,590
IMSS (1)	35,073	35,453	36,419
INFONAVIT (2)	30,743	32,552	34,459
Employee statutory profit sharing	37,921	26,234	30,849
Employment taxes	21,277	24,044	25,897
Salaries payable	4,924	9,168	10,755
SAR (3)	6,266	6,416	6,434
Tax payable	6,520	6,349	7,528
Interest payable	489	6,315	883
	<u>\$ 1,966,014</u>	<u>2,921,441</u>	<u>3,445,245</u>

(1) IMSS (Instituto Mexicano del Seguro Social by its Spanish acronym): Contributions are made by the Company and employees in accordance with applicable regulations. The Company is required to pay a monthly contribution.

(2) INFONAVIT (Instituto del Fondo Nacional de la Vivienda para los Trabajadores by its Spanish acronym): The Company is required to make contributions to this entity based on the 5% of the salaries of employees, subject to certain limits. The Company has a duty to pay this contribution every two months.

(3) SAR (Sistema de Ahorro para el Retiro by its Spanish acronym): Contributions are made by the Company based on the regulations as a percentage of the worker's salary. The Company has a duty to pay this contribution to the government every two months.

Note 10 discloses the Company's exposure to exchange and liquidity risks related to trade accounts payable and other accounts payable.

(20) Related party transactions and balances

(a) Transactions with management

Management remuneration

The following table shows total remuneration paid to our directors and executives for services provided in their respective positions, for the years ended December 31, 2011 and 2012, which is included in employee costs (see note 23):

		<u>2011</u>	<u>2012</u>
Net compensation	\$	<u>44,472</u>	<u>39,288</u>

(b) Transactions with related parties

A summary of related party balance and transactions as of December 31, 2011 and 2012 is as follows:

(i) Revenue

		<u>Transaction value</u>	
		<u>2011</u>	<u>2012</u>
Sells products to:			
Vimifos S.A de C.V.	\$	24,314	38,664
Frescopack S.A de C.V		8	20
Maquinaria Agrícola, S.A. de C.V.		21	-
Llantas y Accesorios, S.A. de C.V.		125	50
Autos y Accesorios, S.A. de C.V.		500	448
Alfonso R. Bours, S.A. de C.V.		29	29
Taxis Aéreos del Noroeste, S.A. de C.V.		28	19
	\$	<u>25,025</u>	<u>39,230</u>

(ii) Expenses and payables to related parties

	Transaction value year ended December 31,		Balance at		
	2011	2012	January 1, 2011	December 31,	
				2011	2012
Purchases of feed, raw materials and packing supplies					
Vimifos, S.A. de C.V.	\$ 347,062	\$ 467,499	\$ 43,051	\$ 47,564	\$ 42,855
Frescopack, S.A. de C.V.	119,950	129,119	6,670	18,609	22,766
Pulmex 2000, S.A. de C.V.	10,302	11,844	-	-	-
Qualyplast, S.A. de C.V.	6	44	-	-	-
Purchases of vehicles, tires and spare parts					
Maquinaria Agrícola, S.A. de C.V.	\$ 69,205	\$ 62,035	7,973	8,566	8,529
Llantas y Accesorios, S.A. de C.V.	21,640	27,282	1,144	3,270	4,724
Autos y Accesorios, S.A. de C.V.	24,995	19,815	678	422	4,055
Autos y Tractores de Culiacán, S.A. de C.V.	23,207	18,026	1,025	41	5,026
Camiones y Tractocamiones de Sonora, S.A. de C.V.	3,333	1,647	67	37	15
Agencia MX-5 S.A de C.V.	-	397	-	-	-
Alfonso R. Bours, S.A. de C.V.	767	568	52	34	69
Distribuidora Automotriz de los Mochis, S.A. de C. V.	2,135	-	213	-	-
Airplane leasing expenses					
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 10,063	10,137	-	-	-
			\$ 60,873	\$ 78,543	\$ 88,039

At January 1, 2011, December 31, 2011 and 2012, balances due to related parties correspond to unsecured current accounts denominated in pesos that bear no interest and are payable in short-term basis without warranties.

(21) Income Tax (IT), Asset Tax (AT), and Flat Rate Business Tax (IETU)

Under the current tax legislation in Mexico, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final, not subject to recovery in subsequent years.

a) Income tax (IT)-

The Company and each of its subsidiaries file separate income tax returns (including its foreign subsidiary, that files income tax returns in the U.S. based on its existing tax year end of April). Bachoco, S.A. de C.V. ("BSACV"), the Company's principal operating subsidiary, is subject to corporate income tax under the provisions of the simplified regime, which is applicable to companies engaged exclusively in agriculture, cattle-raising, fishing, forestry and other activities. The income tax law establishes that such regime is only for companies that obtain no more than 10% of their total revenues from the production of processed products; BSACV has complied with this criteria.

The simplified regime establishes that the taxable base for income tax is determined on revenues collected net of deductions paid (cash basis). The tax rate for this regime is 21%.

The income tax rate of the general regime for fiscal years 2011 to 2013 is 30%, for 2014 the rate shall be 29% and for 2015 and thereafter is 28%.

The income tax rate of the foreign subsidiary is 38.79%.

b) Flat rate business tax (IETU)-

IETU is calculated applying the rate of 17.5% to profit determined based on cash flows less authorized tax credits.

IETU credits are derived mainly from the unamortized negative IETU base, and taxable salaries for IT purposes and social security contributions, as well as credits derived from the deduction of certain investments, such as inventories and fixed assets.

The IETU is required to be paid only when it is greater than the IT. To determine the IETU payable, income tax paid in a given period shall be subtracted from the current IT of the same period.

If negative IETU base is determined because deductions exceed income, there will be no current IETU. The amount of negative base multiplied by the IETU rate results in a IETU credit, which may be applied against IT for the same year or, if applicable, against IETU payable in the next ten years. According to the tax law, the IETU credit cannot be applied against IT for 2011 and 2012.

c) Tax charged to profit or loss

For the years ended December 31, 2011 and 2012, the income tax charged (credited) to profit or loss is as follows:

	<u>2011</u>	<u>2012</u>
Operation in Mexico:		
Current IT	\$ 69,578	366,417
Current IETU	8	-
Deferred IT	<u>(100,307)</u>	<u>207,079</u>
	<u>(30,721)</u>	<u>573,496</u>
Foreign operation:		
Deferred IT	\$ <u>(7,895)</u>	<u>28,524</u>
IT (benefit) expense	\$ <u><u>(38,616)</u></u>	<u><u>602,020</u></u>

Total (benefit) expense for income taxes

The (benefit) expense tax attributable to income before income taxes, was different from the amount computed by applying the IT rate of 21% in 2011 and 2012 as a result of the items listed below:

	<u>2011</u>		<u>2012</u>	
	<u>IT</u>	<u>Percentage</u>	<u>IT</u>	<u>Percentage</u>
Expected expense	\$ 239,574	21%	\$ 586,696	21%
Increase resulting from:				
Tax effect of inflation, net	(67,883)	(6%)	(47,627)	(2%)
Non-deductible expenses	870	0%	1,740	0%
Gain on purchase of foreign subsidiary	(219,931)	(19%)	-	-
Effect of companies outside of simplified regime	27,021	2%	61,777	2%
Unrecognized deferred assets effect	(18,112)	(1%)	(453)	0%
Others	(155)	0%	(113)	0%
(Benefit) expense for income taxes	\$ <u><u>(38,616)</u></u>	<u><u>(3%)</u></u>	\$ <u><u>602,020</u></u>	<u><u>21%</u></u>

d) Deferred income tax

Based on the financial projections of taxable income, the Company estimated that it will pay IT; therefore, deferred tax effects have been determined and recorded reflecting the IT basis.

The tax effects of temporary differences that lead to significant portions of deferred tax assets and liabilities at January 1, 2011, December 31, 2011 and 2012 are detailed below:

	January 1,	December 31,	
	2011	2011	2012
Deferred tax assets			
Trade payable	\$ 493,645	649,678	754,765
Employee benefits	15,748	46,889	40,401
Employee statutory profit sharing	11,311	9,002	9,254
Effect on derivative financial instruments	1,635	-	858
Tax loss carryforwards	-	96,772	10,043
Others	1,006	-	-
Deferred tax assets	\$ 523,345	802,341	815,321
Deferred tax liabilities			
Inventories	\$ 842,767	1,056,327	1,284,699
Accounts receivable	190,082	204,213	221,133
Property, plant and equipment	1,490,183	1,919,994	1,871,086
Advanced deduction	16,370	20,210	36,343
Effects on derivative financial instruments	-	1,704	-
Total deferred tax liabilities	2,539,402	3,202,448	3,413,261
Net deferred tax liability	\$ 2,016,057	2,400,107	2,597,940

e) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in the Company's financial statements in respect of the following items:

	January 1, 2011	2011	2012
Tax loss carryforwards	\$ 17,698	-	-
Recoverable AT	4,859	4,445	3,992
Total	\$ 22,557	4,445	3,992

f) Unrecognized deferred tax liabilities

Deferred tax related to investments in subsidiaries has not been recognized since the Company is able to control the timing of the reversal of the temporary difference, and it is probable that they will not reverse in the foreseeable future.

g) Movement in temporary differences during the year

	January 1, 2011	Recognized in profit or loss	Acquired or/ Recognized directly in equity	December 31, 2011
Trade payable	\$ (493,645)	(156,033)	-	(649,678)
Employee benefits	(15,748)	(31,141)	-	(46,889)
ESPS payable	(11,311)	2,309	-	(9,002)
Recoverable IT	(1,635)	1,635	-	-
Tax loss carryforwards	-	(96,772)	-	(96,772)
Effects on derivative financial instruments	(1,006)	2,710	-	1,704
Inventories	842,767	213,560	-	1,056,327
Accounts receivable	190,082	14,131	-	204,213
Property, plant and equipment	1,490,183	(62,441)	477,848	1,905,590
Currency translation effect	-	-	14,404	14,404
Advanced deductions	16,370	3,840	-	20,210
Net deferred tax liability	\$ 2,016,057	(108,202)	492,252	2,400,107

	January 1, 2012	Recognized in profit or loss	Recognized directly in equity	December 31, 2012
Trade payable	\$ (649,678)	(105,087)	-	(754,765)
Employee benefits	(46,889)	6,488	-	(40,401)
ESPS payable	(9,002)	(252)	-	(9,254)
Tax loss carryforwards	(96,772)	86,729	-	(10,043)
Effects on derivative financial instruments	1,704	(2,562)	-	(858)
Inventories	1,056,327	228,372	-	1,284,699
Accounts receivable	204,213	16,920	-	221,133
Property, plant and equipment	1,905,590	(11,138)	-	1,894,452
Currency translation effect	14,404	-	(37,770)	(23,366)
Advanced deductions	20,210	16,133	-	36,343
Net deferred tax liability	\$ 2,400,107	235,603	(37,770)	2,597,940

h) Asset tax (AT) and Tax loss carryforwards-

At December 31, 2012, tax loss carryforwards, and recoverable AT expires as shown below:

Base year	Amount remeasured by inflation at December 31, 2012		
	Tax loss carryforwards	Recoverable AT	Year of expiration
2005	\$ -	192	2015
2006	-	3,800	2016
2010	863	-	2020
2011	10,157	-	2021/2032
2012	15,678	-	2033
	\$ 26,698	3,992	

(22) Employee benefits

a) Employee benefits in Mexico

The Company has a defined benefit pension plan covering non unionized personnel in México. The benefits are based on years of service and the employee's compensation. The Company's policy in order to fund pension plan is to make contributions up to the maximum amount that can be deducted for income tax purposes based on the projected unit credit method.

	January 1,	December 31,	
	2011	2011	2012
Present value of unfunded obligations	\$ 57,098	70,415	121,928
Present value of funded obligations	256,382	250,856	263,250
Total present value of obligations	313,480	321,270	385,178
Plan assets at fair value	(256,382)	(250,856)	(263,250)
Unamortized (gains) losses	-	29,624	(25,315)
Unamortized past service	20,787	-	-
Projected liability, net	\$ 77,885	100,038	96,613

i. Composition of plan assets

	January 1,	December 31,	
	2011	2011	2012
Fixed rate investment	70%	70%	70%
Variable rate investment	30%	30%	30%
Total	100%	100%	100%

ii. Movement in the present value of the defined benefit obligations (DBO)

	2011	2012
DBO at January 1	\$ 313,480	321,270
Benefits paid by the plan	(36,414)	(31,513)
Current service costs and interest cost	51,116	48,514
Past service cost	41,724	-
Actuarial (gains) and losses recognized in the statement of comprehensive income	(48,636)	46,907
DBO at December 31	\$ 321,270	385,178

iii. Movement in the fair value of plan assets

		2011	2012
Fair value of plan assets at January 1	\$	256,382	250,856
Plan contributions		15,100	15,125
Benefits paid by the plan		(27,429)	(19,877)
Expected return on plan assets		25,815	24,522
Actuarial gains in the statement of comprehensive income		(19,012)	(7,376)
Fair value of plan assets at December 31	\$	<u>250,856</u>	<u>263,250</u>

iv. Expense recognized in profit or loss

		2011	2012
Current service costs	\$	26,620	21,876
Interest on obligation		24,496	26,638
Curtailement gain		-	(657)
Prior service cost		20,937	-
Expected return on plan assets		(25,815)	(24,522)
	\$	<u>46,238</u>	<u>23,335</u>

v. Actuarial gains and losses recognized in the statements of comprehensive income

		2011	2012
Amount accumulated at 1 January	\$	-	29,624
Recognized during the year		29,624	(54,939)
Amount accumulated at 31 December	\$	<u>29,624</u>	<u>(25,315)</u>

vi. Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	<u>2011</u>	<u>2012</u>
Discount rate at 31 December	8.50%	7.50%
Expected return on plan assets at 1 January	9.50%	7.50%
Future salary increases	4.50%	4.50%
Future pension increases	4.25%	4.25%

vii. Historical information

	<u>January 1,</u>	<u>December 31,</u>	
	<u>2011</u>	<u>2011</u>	<u>2012</u>
Present value of the defined benefit obligation	\$ 313,480	321,270	385,178
Fair value of plan assets	(256,382)	(250,856)	(263,250)
Plan deficit	\$ 57,098	70,414	121,928
Experience adjustments arising on plan liabilities	\$ -	(48,636)	46,907
Experience adjustments arising on plan assets	\$ -	19,012	7,376

b) Employee benefits foreign

Bachoco USA, LLC. (foreign subsidiary) maintains a 401(k) retirement plan (defined contribution plan) covering all employees meeting certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's compensation. The cumulative contribution expense for this plan was approximately \$471 y \$4,131 for the period and year ended December 31, 2011 and 2012, respectively.

Bachoco USA, LLC. (foreign subsidiary) maintains a deferred compensation arrangement with certain key employees. Amounts payable under this plan vest 10 years from the date of the agreement. The benefit value of each unit is equal to the increase in initial book value from the date of the agreement to the conclusion of the vesting period. Under the agreement, 275,000 and 38,500 units were outstanding on December 31, 2011 and 2012, respectively all of which were fully vested. Amounts expected to be paid within the next year of are included in other current liabilities. The total liability under this plan totaled \$14,942 and \$3,449 at December 31, 2011 and 2012, respectively. The compensation expense for the year ended December 31, 2012 was for \$9,318. There was no compensation expense for the two-month period ending December 31, 2011.

c) Employee statutory profit sharing (ESPS)

Industrias Bachoco, S.A.B de C.V. and BSACV have no employees, but each of the subsidiaries of the Company in Mexico that has employees is required under Mexican law to pay employees, in addition to their compensation and benefits, statutory profit sharing in an aggregate amount equal to 10% of such subsidiary's taxable income.

(23) Employee costs

	<u>2011</u>	<u>2012</u>
Wages and salaries	\$ 2,903,073	2,922,160
Contributions to the pension fund	15,100	15,125
Expenses related to defined benefit plans	28,223	4,481
Termination expenses	48,534	40,040
	<u>\$ 2,994,930</u>	<u>2,981,806</u>

The employee cost is presented in the line items of cost of sales and general, selling and administrative expenses.

(24) Operating leases

Leases as lessee

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

	<u>2011</u>	<u>2012</u>
Incurred expenses	\$ <u>188,244</u>	<u>194,094</u>

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

2013	\$ 67,767
2014	56,115
2015	38,783
2016	22,071
2017	18,666
	<u> </u>

(25) Equity and reserves

a) Share capital and share premium

As of December 31, 2011 and 2012, the Company's capital stock is represented by 600,000,000 "B" shares with a par value of \$1 peso each.

The Robinson Bours family owns 82.75% of the total outstanding shares through two trusts (control trust and family trust) that together held 496,500,000 shares outstanding.

The major shareholders of the Company as of December 31, 2012 are listed below:

<u>Shareholders</u>	<u>Shares</u>	<u>%</u>
Control Trust	312,000,000	52.00%
Family Trust	184,500,000	30.75%
Royce & Associates, LLC	20,868,816	3.50%
River Road Asset Management, LLC	8,551,572	1.40%

Total shares (issued and outstanding) are paid up and have total voting rights and the right to receive dividends when declared.

b) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

c) Reserve for repurchase of shares

The Company approved a stock repurchase plan in 1998, in conformity with the Mexican Securities Trading Act, providing a stock repurchase reserve for that purpose of \$180,000 through the appropriation of retained earnings in 1998.

The table below shows the movements of the repurchase of shares during the years ended December 31, 2011 and 2012:

Reconciliation of treasury shares	Number of Shares
Total shares at January 1, 2011	200,000
(+) Total shares purchased in 2011	257,400
(-) Total shares sold in 2011	230,000
Balance at December 31, 2011	227,400
Total shares at January 1, 2012	227,400
(+) Total shares purchased in 2012	3,704,731
(-) Total shares sold in 2012	3,932,131
Balance at December 31, 2012	-

Net effect of repurchase and sales of shares was a loss of \$209 and a gain of \$10,993 at December 31, 2011 and 2012, respectively.

At December 31, 2012, the Company has no treasury shares.

d) Dividends

The following dividends were declared and paid by the Company at the reporting date:

In 2011 y 2012, the Company declared and paid cash dividends at nominal values of \$299,926 and \$299,175 respectively, or \$0.50 per share in nominal pesos.

Dividends paid to shareholders of the Company, are subject to IT only insofar as such dividends exceed the net tax profit account "CUFIN" consisting of profits in which the IT is already paid. The income tax paid on the dividend corresponds to a tax payable by corporations and not by individuals.

The Company derives most of its revenue and net income of Bachoco, S.A. de C.V. ("BSACV"). For the years 2011 and 2012, net income of BSACV, accounted for 86% and 79% respectively, of consolidated net income. Dividends which BSACV pay income tax will be credited to the account of the Company CUFIN, and accordingly, any future liabilities arising from income taxes arise when such amounts are distributed as dividends by the Company to the shareholders.

From 1999 to 2001, according to IT law, had the option of deferring a portion of the annual corporate income tax until the rate represented 30%. The deferral of such income tax and the related profits are controlled through the "net tax profit account reinvested" (CUFINRE).

Given that some subsidiaries opted to defer a portion of the income tax, the distributed profits will be treated as paid first from the CUFINRE and any excess will be paid from the CUFIN balance in order to pay the 5% of the deferred income tax. The option of deferring a portion of the annual income tax was eliminated as of January 1, 2002.

The updated amount on tax bases, of the contributions made by shareholders (CUCA), totaling \$2,324,358, may be refunded to them tax-free, to the extent that such amount is the same or higher than equity.

(26) Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on profit attributable to ordinary shareholders of \$2,184,567 (\$1,177,346 in 2011), and a weighted average number of ordinary shares outstanding of 598,959,882 (599,822,448 in 2011). The Company has no potential ordinary shares with dilutive effects.

(27) Commitments

- Bachoco USA, LLC (foreign subsidiary) maintains self-insurance programs for health care costs and workers' compensation. The subsidiary is liable for health care claims up to \$4,504 (350 USD) each year per plan participant and workers' compensation claims up to \$12,870 (1,000 USD) per occurrence. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The allowance for this concept is booked into the accompanying consolidated statement of financial position within current liabilities and amounting to \$47,644 (3,702 USD) at December 31, 2012. Likewise, the consolidated statement of income includes expenses relating to self-insurance plans of approximately \$85,160 (6,617 USD) for the year ended December 31, 2012. Bachoco is required to maintain letters of credit on behalf of the subsidiary of \$43,758 (3,400 USD) to secure self-insured workers compensation payments.
- The Company has agreed contracts to supply grain from third parties as part of the normal course of operations.

(28) Contingencies

a) Insurance

The Company has not contracted full coverage insurance for its facilities, interruption of activities or corporate civil liability in respect of property and environmental damage resulting from accidents in the Company's property or that relate to company operations. Until appropriate insurance coverage is provided, there is a risk that the loss or destruction of certain assets may have a significant adverse effect on the Company's operations and financial situation.

b) Litigation

- The Company is involved in a number of lawsuits and claims arising in the normal course of business. In the opinion of management, it is expected that the final outcome of these matters will not have significant adverse effects on the Company's consolidated financial position and results of income.
- Bachoco USA, LLC (foreign subsidiary) is involved in claims with the U.S. Department of Labor and the U.S. Immigration and Customs Enforcement, and various other matters incidental to its business, including workers' compensation claims and environmental issues. At December 31, 2012, the subsidiary has accrued reserves for potential claims of \$25,740 (2,000 USD) which are included within other current liabilities.

c) Tax contingencies

- In accordance with tax laws, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.
- In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arms-length transactions.

Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest in addition to penalties of up to 100% of the omitted taxes.

d) Other contingencies

There is a contingent liability arising from employee benefits mentioned in note 3(l).

(29) Expenses by nature

	<u>2011</u>	<u>2012</u>
Expenses for employee benefits	\$ 2,994,930	2,981,806
Depreciation expense	726,061	814,587
Distribution cost	<u>920,011</u>	<u>949,562</u>

(30) Financial income and costs

	<u>2011</u>	<u>2012</u>
Interest income	\$ 182,274	209,170
Income from interest in accounts receivable	11,503	12,893
Foreign exchange gain, net	54,505	35,212
Effects of financial instruments valuation	-	12,757
Financial income	<u>\$ 248,282</u>	<u>270,032</u>
Effects of financial instruments valuation	\$ (896)	-
Interest cost and financial expenses on loans	(40,688)	(71,006)
Commissions and financial costs	(29,056)	(33,994)
Financial costs	<u>\$ (70,640)</u>	<u>(105,000)</u>
Financial income, net	<u>\$ 177,642</u>	<u>165,032</u>

(31) Other income (expense)

	<u>2011</u>	<u>2012</u>
Other income		
Sale of scrap of biological assets, raw materials, sub-products and other	\$ 202,780	271,385
Domestic business acquisition (note 6b)	46,724	-
Foreign business acquisition (note 6a)	1,000,565	-
Total other income	<u>1,250,069</u>	<u>271,385</u>
Other expenses		-
Cost of disposal of biological assets, raw materials, sub-products and other	(193,707)	(257,182)
Business acquisition-related costs	(11,426)	-
Others	(44,971)	(38,013)
Total other expenses	<u>(250,104)</u>	<u>(295,195)</u>
Total other income (expenses), net	<u>\$ 999,965</u>	<u>(23,810)</u>

(32) Subsequent events

On February 14, 2013, the Company announced the detection of a possible outbreak of H7N3 avian influenza in five of its poultry breeding farms located in the state of Guanajuato. Subsequently, on February 18, 2013, the Company reported that the National Service of Sanitary and Food Quality (SENASICA, by its Spanish acronym) confirmed the presence of the avian influenza in some farms of the Company, all located in the same region of the state of Guanajuato.

At the date of issuance of the consolidated financial statements, the Company has been affected in several of its farms in the state of Guanajuato, as well as in the boundaries of the state of Jalisco and Guanajuato. The Company believes that the outbreak is under control, but not yet eradicated. The Company is in the process of quantifying the financial impact arose from this contingency thereof will be recognized in income for the year 2013.

(33) Explanation of transition to IFRS

As mentioned in note 2(a), these are the first Company's consolidated financial statements prepared in accordance with IFRS.

The accounting policies referred to in note 3 have been applied in the preparation of the consolidated financial statements for the year ended December 31, 2012, in the comparative information presented in these consolidated financial statements for the year ended December 31, 2011 and in the preparation of the initial consolidated statement of financial position in accordance with IFRS at January 1, 2011 (date of the Company's transition).

In preparing its initial consolidated statement of financial position in accordance with IFRS, the Company has adjusted the amounts reported previously in the consolidated financial statements prepared in accordance with Mexican FRS. In the following tables and notes thereto, an explanation is provided of how the transition from Mexican FRS to IFRS has affected the Company's consolidated financial position, consolidated financial performance and consolidated cash flows.

The Company has not prepared consolidated financial statements in accordance with Mexican FRS for any period subsequent to December 31, 2011.

There are no material differences between the statements of cash flows presented under IFRS and the statements of cash flows presented under Mexican FRS; except that under IFRS the starting point was profit for the year, whereas under Mexican FRS was profit before income taxes, as well as for the effects derived from the adoption of IFRS further described below.

	Note	January 1, 2011			December 31, 2011		
		Mexican FRS	Effect of transition to IFRS	IFRS	Mexican FRS	Effect of transition to IFRS	IFRS
ASSETS							
Current assets		\$ 9,497,496	-	9,497,496	10,813,600	-	10,813,600
Property, plant and equipment, net	a, d	10,544,031	-	10,544,031	10,440,253	1,672,692	12,112,945
Current assets available for sale	d	40,222	-	40,222	46,752	48,895	95,647
Other non-current assets	e	1,116,020	-	1,116,020	1,869,269	(174,141)	1,695,128
Total assets		\$ 21,197,769	-	21,197,769	23,169,874	1,547,446	24,717,320
LIABILITIES							
Current liabilities		\$ 2,166,754	-	2,166,754	4,452,977	-	4,452,977
Long-term debt		507,053	-	507,053	384,370	-	384,370
Employee benefits	c	126,458	(48,573)	77,885	142,087	(42,049)	100,038
Deferred tax liabilities	e	2,029,150	(13,093)	2,016,057	1,921,334	478,773	2,400,107
Total liabilities		\$ 4,829,415	(61,666)	4,767,749	6,900,768	436,724	7,337,492
EQUITY							
Capital stock	b	\$ 2,294,927	(1,120,495)	1,174,432	2,294,927	(1,120,495)	1,174,432
Share premium	b	744,753	(345,112)	399,641	744,753	(345,112)	399,641
Reserve for repurchase of shares	b	154,288	(65,598)	88,690	154,079	(65,598)	88,481
Translation reserve	d	-	-	-	35,636	28,751	64,387
Retained earnings	f	13,122,387	1,614,953	14,737,340	12,979,502	2,635,259	15,614,761
Total equity attributable to shareholders of the Company		\$ 16,316,355	83,748	16,400,103	16,208,897	1,132,805	17,341,701
Non-controlling interest	b	51,999	(22,082)	29,917	60,209	(22,082)	38,127
Total equity		\$ 16,368,354	61,666	16,430,020	16,269,106	1,110,722	17,379,828
Total equity and liabilities		\$ 21,197,769	-	21,197,769	23,169,874	1,547,446	24,717,320

Reconciliation of comprehensive income for the year ended December 31, 2011

	Note	Effect of transition to		
		Mexican FRS	IFRS	IFRS
Net income		\$ 27,734,990	-	27,734,990
Cost of sales	c	(24,773,216)	(23,821)	(24,797,037)
Gross profit		2,961,774	(23,821)	2,937,953
General selling and administrative expenses	a, c, g	(2,951,887)	(22,846)	(2,974,733)
Other income (expenses), net	d, g	(68,921)	1,068,886	999,965
Operating profit		(59,034)	1,022,219	963,185
Financial income		248,282	-	248,282
Financial costs		(70,640)	-	(70,640)
Financial income, net		177,642	-	177,642
Profit before income taxes		118,608	-	1,140,827
Income tax expense	e	(40,530)	1,914	(38,616)
Net income		\$ 159,138	1,020,305	1,179,443
Other comprehensive income:				
Currency translation effect	d	35,636	28,751	64,387
Total comprehensive income		\$ 194,774	1,049,056	1,243,830
Profit attributable to:				
Controlling interest		157,041	1,020,305	1,177,346
Non-controlling interest		2,097	-	2,097
Profit for the year		\$ 159,138	1,020,305	1,179,443
Comprehensive income attributable to:				
Controlling interest		192,677	1,049,056	1,241,733
Non-controlling interest		2,097	-	2,097
Total comprehensive income for the year		\$ 194,774	1,049,056	1,243,830

a) Deemed cost of property, plant and equipment

According to Mexican FRS, the Company initially recorded the property, plant and equipment at acquisition cost, and through December 31, 2007, adjusted for inflation by using factors derived from National Consumer Price Index (NCPI).

At transition date to IFRS, the Company initially opted to apply the "Fair Value" option through appraisals performed by independent appraisers. This option remained during 2012 interim periods; however, after detailed analysis, management decided to change its accounting policy to recognize the carrying amount of property, plant and equipment under Mexican FRS as "Deemed Cost" at the date of transition to IFRS. Because of this, there are no reconciling effects in this caption.

b) Effects of inflation

IAS 29 "Financial reporting in hyperinflationary economies" requires the recognition of the effects of inflation on the financial information when the entity operates in a hyperinflationary economy, being one of the characteristics when the cumulative inflation rate over three years approaches, or exceeds, 100%.

The last three-year period where Mexico was a hyperinflationary economy was from 1995 to 1997. Therefore, the Company eliminated the effects of inflation, recognized under Mexican FRS, in equity accounts, from January 1, 1998 to December 31, 2007 (last period in which inflation effects were recognized under Mexican FRS).

The following table summarizes the impact of such change:

Consolidated statement of financial position	January 1, 2011	December 31, 2011
Share capital	\$ 1,120,495	1,120,495
Additional paid-in capital	345,112	345,112
Stock repurchase reserve	65,598	65,598
Non-controlling interest	22,082	22,082
Adjustment to retained earnings	\$ (1,553,287)	(1,553,287)

c) Employee benefits

In making its transition to IFRS, the Company eliminated the termination benefits liability which does not comply with the guidelines established by the IAS 19 "Employee Benefits", recognizing in addition, the corresponding effect on deferred income taxes.

The impact from such change is summarized below:

Consolidated statement of comprehensive income		2011	
Cost of sales		\$	5,275
General expense, selling and administrative			1,248
Income tax			8,913
Adjustment to the year's net income		\$	15,436
Consolidated statement of financial position		January 1, 2011	December 31, 2011
Employee benefits	\$	48,573	42,049
Adjustment to the year's net income		-	15,436
Deferred income tax liability		13,093	4,180
Adjustment to retained earnings	\$	(61,666)	(61,666)

d) Acquisition of a foreign business

During 2011, derived from the business combinations disclosed in note 6, under IFRS the Company recognized under IFRS an increase in the value of property, plant and equipment in order to recognize such assets at fair value, based on the guidelines provided by the IFRS 3 "Business Combinations".

Under Mexican FRS, when there is a gain from bargain purchase price, the fair values of non-monetary assets are reduced to compensate the resulting gain from the business combinations.

Such business combinations were performed at a bargain purchase price originating, the effects detailed below:

Consolidated statement of financial position	December 31, 2011
Property, plant and equipment	\$ 1,672,692
Assets available for sale	48,895
Translation reserve	(28,751)
Deferred income tax liability	(657,094)
Gain on bargain purchase	\$ (1,035,742)

Consolidated statement of comprehensive income:	2011
Cost of sales	18,546
Other income (expense), net	\$ (1,047,288)
Income taxes	(7,000)
Increase to the year's net income	\$ 1,035,742

e) Income tax

Derived from the effects that the Company recognized at the date of transition to IFRS on the items described above, the following effects were recognized on the deferred income tax:

Consolidated statement of comprehensive income	Note	2011
Deferred tax of employee benefits	(c)	\$ 8,913
Deferred tax of business combination	(d)	(7,000)
Adjustment to the year's net income		\$ 1,913

Consolidated statements of financial position	Note	January 1, 2011	December 31, 2011
Employee benefits	(c)	\$ 13,093	4,180
Business combination	(d)	-	(657,094)
Asset reclassification of deferred income tax		-	174,141
Decrease (increase) in deferred tax liabilities		\$ 13,093	(478,773)

f) Retained earnings

The net effects that the Company recognized at transition date to IFRS in the items mentioned above, were recognized in retained earnings as follows:

Consolidated statements of financial position	Note	January 1, 2011	December 31, 2011
Inflation effects	(b)	\$ (1,553,287)	(1,553,287)
Employee benefits	(c)	(61,666)	(61,666)
Effects in year's net income	See below	-	(1,020,305)
Increase in retained earnings		\$ (1,614,953)	(2,635,258)

Changes arising from the adoption of IFRS increased the 2011 year's net income as shown below:

Consolidated statement of comprehensive income	Note	2011
Employee benefits	(c)	\$ 6,524
Deferred taxes – employee benefits	(c)	8,913
Gain on bargain purchase	(d)	(1,035,742)
Increase to the year's net income		\$ (1,020,306)

g) Reclassification

For IFRS purposes the ESPS expense is presented in general, selling and administrative expenses, as opposed to Mexican FRS which is presented in other expenses. Therefore, the ESPS expense for the year ended December 31, 2011 for an amount of \$21,598 was reclassified accordingly.

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Enrique Robinson Bours Almada
Life Honorary Chairman of the Board and Co-Founder

COMPANY DESCRIPTION

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

The Company was founded in 1952, and became a public company in 1997, via a public offering of shares on the Mexican and The New York Stock Exchange. Bachoco is a vertically-integrated company headquartered in Celaya, Guanajuato located in Central Mexico. Its main business lines are: chicken, eggs, balanced feed, swine, and turkey and beef value-added products. Bachoco owns and manages more than a thousand facilities, organized in nine production complexes and 64 distribution centers in Mexico, and a production complex in the United States. Currently the Company employs more than 25,000 people. In 2012, the Company reported net sales of Ps.39.3 billion.



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