



Bachoco[®]

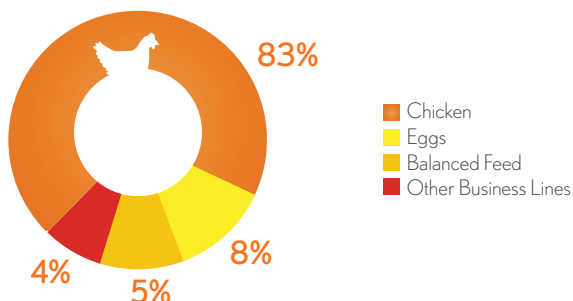
INDUSTRIAS BACHOCOS A.B. DE C.V.



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SALES
2013



FINANCIAL HIGHLIGHTS

NET SALES

	2013	2012	% Var.
Total Net Sales	39,710.7	39,367.4	0.9%
Net Sales from Mexico Operations	30,867.6	31,195.9	-1.1%
Net Sales from U.S. Operation	8,843.1	8,171.5	8.2%

OPERATING RESULTS

	2013	2012	% Var.
Gross Profit	6,534.1	6,049.2	8.0%
Operating Income	3,273.8	2,628.8	24.5%
EBITDA Result	4,090.5	3,466.6	18.0%
Net Income	2,041.8	2,191.8	-6.8%
Net income per Share (pesos)	3.40	3.65	-6.9%
Net Income per ADR (pesos)	40.77	43.77	-6.9%
Dividends Paid per Share	1.58	0.50	216.8%

STATEMENT OF FINANCIAL POSITION DATA

	2013	2012	% Var.
Total Assets	28,781.6	28,040.2	2.6%
Total Liabilities	8,630.4	8,951.5	-3.6%
Total Stockholders' Equity	20,151.1	19,088.7	5.6%
Net Debt	5,664.9	2,420.8	134.0%
Capital Expenditures	575.4	951.8	-39.5%

Figures in million pesos.

■ In December 2013, the free float of the Company increased from 17.25% to 26.75%, due to the founding family's sale of a 9.5% block of shares.

■ In July 2013, the Company acquired a U.S. breeding operation, located in Arkansas.

■ In 2013, the Company achieved record net sales and EBITDA.

EMPLOYEES


2013
24,486


2012
25,281


2011
25,326

MESSAGE TO SHAREHOLDERS

Dear Shareholders of Industrias Bachoco:

Year 2013 was, in general terms, positive for Bachoco; we achieved historical figures in sales and EBITDA while keeping a solid financial position that allowed us to end the fiscal year with more than \$5,600 million of negative net debt.

However, we faced important challenges along the way, in particular the one related to bio-security. Sanitary and bio-security are important issues for both Bachoco and the poultry industry, as these largely impact production efficiency and product quality.

Despite the challenges we faced in 2013, the Company was able to prove that it is a flexible company in its processes, which quickly adapts to current conditions and takes the necessary actions to keep its presence in the marketplace, ensuring that our customer have a constant supply of products with consistent quality.

Some of the actions that took place to face this contingency were: taking advantage of the geographical dispersion we have to redirect our production and distribution processes; coordinating actions with the sanitary authorities and keeping our customers, employees and shareholders informed. All this led us to a prompt recovery of production levels.

Regarding our operations located in the U.S., we reached positive results in terms of EBITDA for the second consecutive year. We have not reached the results we know can achieve in this operation, but we have identified opportunity areas.

We quickly integrated our second acquisition in the U.S., an operation of breeding hens, which timely reinforced our supply of hatching eggs.

We continue the process of reorganization in our structure and aligning functions in our supply chain, in order to remain a flexible company, closer to our markets and customers.

An important factor was the downtrend in the cost of main raw materials, which we observed particularly towards the end of the year; we expect this situation to continue and allow us to capitalize on decreases in our production costs.

Our operating expenses remained practically unchanged with respect to the previous year and below 9% of our total sales. This was mainly due to strict control of expenses; capitalization of improvements in processes, and investments made in information technology. We still have a long way to go in this direction, and we will be focusing on achieving it.

In 2013, we had important changes in the management of the Company. After successful careers in Bachoco and excellent performance of their

duties, José Luis Lopez Lepe and David Gastelum Cazares, Directors of Personnel and Sales, respectively, retired. They have left a legacy of knowledge and experience that will serve as a solid basis for the executives who take those positions. Ismael Sanchez enters the Company to fill the Director of Personnel position, and Andres Morales, who previously served as Director of Marketing, now also takes the responsibility for Sales management.

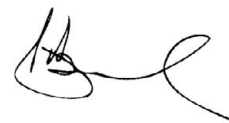
By the end of 2013, one of the two Family Trusts decided to sell a block of shares equivalent to 9.5% of the total shares of the Company, with which our float changed from 17.25% to 26.7% of the total shares outstanding. An increase in the free float of the Company was one of the reiterated requests from current and potential investors and financial analysts; as a result of this decision, we observed an increase in the trading of our shares.

As a result of the solid performance of Bachoco and the trust that the participants of the market have in the Company, our shares had a positive trade in the markets in which it participates, with yields of 46.6% on the Mexican Bolsa and 44.2% on the New York Stock Exchange, when compared with the closing price of 2012.

This year we are celebrating thirty years since the beginning of our successful advertising campaign; during this time we have made a constant effort to achieve branding identification in a generic product like chicken and eggs in Mexico, in order to forge an identity and brand loyalty in our products. We can say that this has been a successful effort; we have a brand with the highest level of recognition in the Mexican poultry industry, and the Company has earned several awards for this achievement.

Year 2014 has started with a good dynamic in the poultry industry. We are prepared to focus on the opportunities that the market offers and to face the challenges that arise; bio-security, the effects of the tax reform, and more aggressive competition are issues that we will monitor closely.

Our goal is to remain as leaders of the poultry industry in Mexico, and to continue strengthening our position globally, while continuing to deliver positive results to our investors who have placed their trust in Bachoco.



Francisco Javier R. Bours Castelo
Chairman of the Board of Directors



EL POLLO MÁS GALLO.



Francisco Javier R. Bours Castelo
Chairman of the Board of Directors

CEO's LETTER

The following financial information for 2013 is presented in millions of pesos unless otherwise indicated, with comparative figures for 2012. It was prepared under IFRS accounting principles. This information should be read in conjunction with our Audited Consolidated Financial Statements, attached to this Annual Report.

It is estimated that in 2013, the Mexican economy grew 1.1%, below expectation, with an inflation rate of 3.97%. The average rate peso-dollar strengthened during the year, ending with 1% depreciation. Moreover there was some uncertainty regarding the fiscal reforms that were approved by the end of the year.

According to the National Poultry Union estimates, for 2013 the chicken volume produced in Mexico slightly decreased, partly as a result of an outbreak of avian flu that affected this industry. This decrease affected the consumption of chicken, which had a reduction of about 1.5%. Meanwhile, egg production showed a growth of about 6.1% and a 5.3% increase in its consumption.

The reduction in poultry production was present mainly during the first half of the year; the lower production, combined with a strong demand, resulted in a good level of prices. This situation changed in the second half when the poultry industry went back to standard levels of production leading to oversupply conditions in the market.

The cost of our main raw materials had a reduction mainly towards the end of the year, after posting historical increases in prices during the two previous years.

For Bachoco, year 2013 was positive; we reached historical sales and EBITDA results, with good control of operating expenses.

In July 2013, we acquired a U.S. breeding asset. This operation has a capacity of around 350 thousand laying hens that produce hatching eggs. Bachoco quickly integrated this new operation with the rest of its facilities and currently is in the process of refining synergies between this operation and the rest of the Company.

In 2013 we continued working hard on our quality systems, an essential factor in providing adequate products to meet the needs of our customers. We also continued to improve our information technology systems, which are an important support in maintaining adequate control of operating expenses and giving flexibility in our operations.

We have committed employees who have vast experience in the poultry industry. It is thanks to their high performance we have achieved important goals.

2013 & 2012 RESULTS

Net sales in 2013 totaled \$39,711 million, an increase of 0.9% from \$39,367 million of net sales recorded in 2012. This increase was primarily due to higher sales prices in our main business lines, offset by lower volume in chicken products during the second and third quarters of 2013.

Sales of chicken products decreased 0.3% during 2013, as a result of an increase of 3.5% in prices, offset by a 4% decrease in volume.

Egg sales increased 14.7% in 2013. This increase was attributable to increases in egg prices, partially offset by a 2% decline in sales volume.

Sales of balanced feed decreased 8.6% in 2013, as a result of a 1.6% increase in prices, partially offset by a 10.1% decline in volume sold. This was a consequence of oversupply conditions in the balanced feed market.

In the "other lines" item for 2013, sales of beef value-added products and swine increased when compared to 2012.

In 2013 the cost of sales totaled \$33,117 million, a 0.4% decrease when compared to \$33,318 million cost of sales in 2012. This decrease is primarily attributable to a 4.9% decrease in sales volume of our main lines of business, partially offset by an increase in the production cost of 4.7%.

Bachoco's gross income for 2013 totaled \$6,534 million and \$6,049 million in 2012; this represented a gross margin of 16.5% and 15.4%, respectively. The decrease in gross income is mainly due to lower sales volume and prices in the second half of 2013.

Total operating expenses were \$3,291 million in 2013, 3.1% lower than expenses in 2012 of \$3,397 million. The Company has kept a strict control over its expenses across all processes. In 2013 and 2012, total expenses represented 8.3% and 8.6% of the total sales of the Company.

In 2013, we achieved a net finance income of \$118 million, a result that compared with a net finance income of \$165 million registered in 2012. This was a result of interest earned in both years due our surplus in cash.

The Company keeps a solid financial structure, with negative net debt and a strong cash position.



**TODOS
JALAMOS
PAREJO.**

Rodolfo Ramos Arvizu
Chief Executive Officer



The EBITDA result in 2013 and 2012 was \$4,091 and \$3,467 million, respectively; this result let the Company reach an EBITDA margin of 10.3% and 8.8% in those periods. The amount reached in 2013 represented a historical amount for the Company.

Total income taxes in 2013 were \$1,350 million, compared to income taxes of \$602 million in 2012; the increase is mainly due a one-time charge of \$668 million as a result of the Mexican Tax Reform approved in 2013.

As a result of all the above, the income for the year was \$2,042 million or 5.1% of net margin. This represented a decrease with respect to net income of 2012 that reached \$2,192 million and 5.6% of net margin.

Net income per Share in 2013 was \$3.40 pesos or \$40.8 pesos per ADR; this result compares to a net income of \$3.65 pesos or \$43.8 pesos per ADR in 2012.

The Company keeps a solid financial structure, with negative net debt and a strong cash position.

Total cash as of December 31, 2013 was \$7,733 million, 50.3% higher when compared to \$5,145 million reached in the same period of 2012.

For 2013 and 2012, total debt for the Company was \$2,068 and \$2,724 million, respectively. Negative net debt as of December 31, 2013 was \$5,665 million, compared to a negative net debt of \$2,421 million in 2012.

The Company's capital expenditures in 2013 were \$575 million, mainly allocated to productivity projects and maintenance. Bachoco will gradually restart its organic growth in Mexico in the following years; therefore an increase in CAPEX is expected.

In 2013, the Company paid cash dividends of \$1.584 pesos per Share, which represented an estimated dividend yield of 3.6% per Share.

MAIN EFFECTS OF THE TAX REFORM

As a result of the Mexican tax reform approved by the end of 2013, Bachoco, SA de CV, our main subsidiary, increased its income tax rate from 21% to 30%, starting in 2014.

Rodolfo Ramos Arvizu
Chief Executive Officer

FROM THE BOARD OF DIRECTORS

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

This Board of Directors reviewed and approved the Chief Executive Officer's report which supports the performance of management for fiscal year ended as of December 31, 2013, and it was based on the independent auditor's Opinion.

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

We believe that policies, accounting, and reporting principles followed by the Company are adequate and consistent with the Audited Financial Statements attached to this Annual Report.

Additionally, this Board instructed the Company to continue to act in strict accordance with IFRS.

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

Lastly, attached to this report, the Board presents in the Annual Ordinary Shareholders' Meeting the report of the Auditing and Corporate Practices Committee, the Chief Executive Officer's report, the report on prompt compliance with tax obligations, and the report on the principal accounting and information policies and criteria followed by the Company in the preparation of its financial statements for fiscal year 2013.



Francisco Javier R. Bours Castelo
Chairman of the Board of Directors

Bachoco[®]

AUDIT AND CORPORATE PRACTICES COMMITTEE

Dear members of the Board of Director and Shareholders,
It is my pleasure to inform you of the activities performed by this Committee during fiscal year 2013:

Regarding Corporate Practices, I hereby report the following:

- We determined that the performance of the Company's Officers was consistent with the work plan and met with expectations and guidelines.
- We reviewed the compensation package granted to the CEO and other senior officers.
- We verified that the Company did not grant any exemptions to its Directors, senior officers or other employees of the Company.
- We meticulously reviewed the transactions carried out with related parties and concluded they were conducted in fair-market terms.
- We reviewed the policies and guidelines for the use of goods that constitute the equity of the Company and its subsidiaries, by any related parties, as well as policies for granting of loans or any type of credit or guarantees.
- The total transactions with related parties represented less than 3.0% of the Company's net sales.

Regarding Audit Practices, I hereby report the following:

- We verified the application of the IFRS, implemented in 2012.
- We issued a recommendation for the appointment and hiring of external auditors to perform the 2013 fiscal year audit, we ensured their independence, and subsequently analyzed the work program proposed by the auditing firm.
- We supervised compliance of the agreement and evaluated their results, as well as evaluated the performance of the external auditor in charge, concluding that the services provided were consistent with the terms of the agreement.
- We reviewed the analyses, processes and observations of the external auditors while ensuring they were made objectively, in order to provide prompt and reliable financial information.
- We analyzed and agreed with the audited financial statements, the auditing report, and the accounting policies used during fiscal year 2013 in the Company and its subsidiaries. Therefore, we recommended its approval.
- We reviewed and discussed the observations of the auditing firm; we concluded these were mainly reclassifications resulting from variations between the auditing information and the non-audited quarterly reports issued by the Company.
- We periodically reviewed the guidelines and the efficiency of internal controls and internal auditing controls and did not detect any material deviations.
- We analyzed and assessed the additional or supplementary services provided by the external auditing firm, as well as those provided by independent experts.

- We reviewed the proposals of unusual or nonrecurring transactions presented during the year 2013, to be held by the Company or its subsidiaries in connection with the acquisition or disposal of goods, and the granting of guarantees or assumption of liabilities by an amount equal or greater than 5% percent of the Company's consolidated assets, except for investments in debt securities or bank instruments, and gave our opinion to the Board of Directors thereon.
- We reviewed and analyzed the report of the Board with respect to the Company's corporate situation and verified follow-up of the resolutions adopted by the Shareholders' Meeting and the Board of Directors.
- We validated the efficiency and continuity of the mechanisms to receive and deal with claims in connection with accounting and internal controls. During fiscal year 2013, no relevant observations were received from shareholders, directors, relevant officers or any third party.

We made proposals to the Board relating to the basis on which to prepare and disclose financial information, general guidelines and the implementation of internal control measures, and the accounting procedures that the Company must follow.

In connection with the CEO's report, this Committee heard the Executive Committee and with the support of the external firm Report, among other elements, we express the following:

We believe that the CEO's report was prepared in accordance with the IFRS and reflects the Company's financial position and its operating results. Therefore, we recommended to the Board of Directors that they approve the audited financial statements to present them in the Annual Ordinary Shareholders' Meeting.

We believe that policies, accounting, and reporting principles followed by the Company are adequate and sufficient, taking into account the particular circumstances of the Company, and that such policies and criteria have been applied consistently to the information submitted by the CEO, as detailed in the Audited Financial Statements attached to this Annual Report, and suggest that the Board instruct the Company to continue to act in strict accordance with these principles.



Humberto Schwarzbeck Noriega
President of the Audit and Corporate Practices Committee



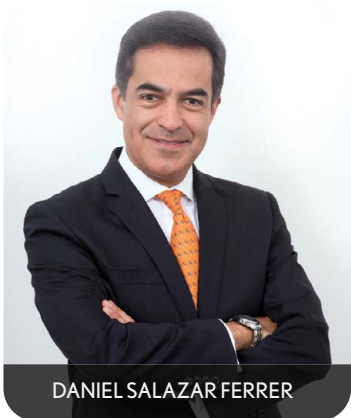
ERNESTO SALMON CASTELO



RODOLFO RAMOS ARVIZU



ANDRES MORALES ASTIAZARAN



DANIEL SALAZAR FERRER



TRENT GOINS



MARCO A. ESPARZA SERRANO



ISMAEL SANCHEZ MORENO

RODOLFO RAMOS ARVIZU
Chief Executive Officer

TRENT GOINS
Chief Executive Officer, U.S. Operations

DANIEL SALAZAR FERRER
Chief Financial Officer

ERNESTO SALMON CASTELO
Director of Operations

ANDRÉS MORALES ASTIAZARAN
Director of Sales and Marketing

MARCO ANTONIO ESPARZA SERRANO
Comptroller Director

ISMAEL SANCHEZ MORENO
Director of Human Resources

ALEJANDRO ELIAS CALLES GUTIERREZ
Director of Purchasing



ALEJANDRO ELIAS CALLES G.

SENIOR MANAGEMENT TEAM

BOARD OF DIRECTORS

Bachoco's Board of Directors is comprised of eight Proprietary Shareholders Directors, four Alternate Shareholders Directors, and two Independent Proprietary Directors. This board was last ratified on April 24, 2013. The Board's main duties include the following:

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

■ PROPRIETY SHAREHOLDERS DIRECTORS

Francisco Javier R. Bours Castelo, Chairman of the Board
José Gerardo Robinson Bours Castelo
Jesús Enrique Robinson Bours Muñoz
Jesús Rodolfo Robinson Bours Muñoz
Arturo Bours Griffith
Octavio Robinson Bours
Ricardo Aguirre Borboa
Juan Salvador Robinson Bours Martínez

■ INDEPENDENT PROPRIETARY DIRECTORS

Avelino Fernández Salido
Humberto Schwarzbeck Noriega

■ ALTERNATE SHAREHOLDERS DIRECTORS

José Eduardo Robinson Bours Castelo
Alternate of: Francisco Javier R. Bours Castelo y/o José Gerardo Robinson Bours Castelo
José Francisco Robinson Bours Griffith
Alternate of: Octavio Robinson Bours y/o Arturo Bours Griffith
Guillermo Pineda Cruz
Alternate of: Jesús Enrique Robinson Bours Muñoz y/o Jesús Rodolfo Robinson Bours Muñoz
Gustavo Luders Becerril
Alternate of: Juan Salvador Robinson Bours Martínez y/o Ricardo Aguirre Borboa

■ HONORARY MEMBERS OF THE BOARD

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

■ SECRETARY OF THE BOARD

Eduardo Rojas Crespo



AUDIT COMMITTEE AND CORPORATE PRACTICES

Bachoco has an Auditing and Corporate Practices Committee to support the Board of Directors, which is composed of two Independent Directors and one Property Shareholder Director. This Committee was last ratified on April 24, 2013 and its main duties include:

- Evaluate the performance of the independent auditing firm, as well as analyze their opinion, recommendations, reports and other information.
- Prepare and present to the Board an opinion about the CEO's report, and advise the Board of Directors in the preparation of reports regarding policies and accounting principles and other criteria followed in the preparation of financial statements, as well as on the operations and activities it has participated.
- Provide an opinion regarding the transactions with related persons.
- Ensure that relevant or unusual transactions have followed the Company's authorized policies.
- Propose the hiring of independent specialists in the cases it deems advisable.

■ AUDIT COMMITTEE AND CORPORATE PRACTICES

Humberto Schwarzbeck Noriega, President
Avelino Fernández Salido
Ricardo Aguirre Borboa



KEY INFORMATION TO INVESTORS

BACHOCO STRENGTHS

- More than 60 years in the poultry industry.
- Wide brand recognition.
- National coverage in Mexico.
- Large distribution network.
- Strong balance sheet.
- Wide expertise in purchasing of raw material.
- Focused on productivity and controlling expenses.
- Product diversification to other proteins: beef and turkey.

MAIN CHARACTERISTICS OF SHARES


- Total shares in the Company: 600 million
- One single class of Shares with full rights: Class B
- One ADR is equal to 12 common shares
- Free float: 26.75%
- Market Cap: \$2.8 billion pesos
- In 2013, the Company's shares and ADRs reached a yield of 46.6% and 44.2%, respectively.


DIVIDENDS	2013	2012
Total Dividends Paid (in million pesos)	950.4	299.2
Dividends per Share (in pesos)	1.584	0.500
Dividends per ADR (in pesos)	19,000	6,000
Yield	3.6%	1.6%

In December 2013, the free float of the Company increased from 17.25% to 26.75%, as a result of the selling of a block of 57 million shares, from the founding family.

The founding family still holds control of the Company with the 73.25% of total shares, by two Trusts: the Control Trust with 52% of total shares and the Underwriting Trust with 21.25% of total shares.

SHARE PRICES

 Mexican Bolsa in nominal pesos per share			
Year	High	Low	Close
2013	45.25	28.80	44.16
2012	30.13	20.59	30.13
2011	27.86	20.30	22.30

The New York Stock Exchange in U.S. dollar per ADR 			
Year	High	Low	Close
2013	43.08	27.02	40.27
2012	27.97	18.86	27.92
2011	28.75	17.40	19.07



BACHOCO: 30 YEARS OF BUILDING A SUCCESSFUL BRAND

In Mexico during the 80's, no one thought that eggs or chicken needed to have a brand. It can be said that there was no consumer preference when purchasing these products. In the case of eggs, they were sold in bulk, had no advertising and no brand identification.

At that time, the growth of Bachoco depended mainly on its production capacity and the scope of its distribution.

Given this fact, Bachoco initiated a dialogue with the consumers, presenting a different point of view and generating brand recognition. This was achieved by communicating the main characteristics of our products: freshness, quality and nationalism (Mexican).

BACHOCO was the first "branded commodity" in the Mexican poultry industry, a great communication effort that began in 1984 in Mexico City and then later was extended to the whole country. A successful and well-recognized advertising campaign, based mainly on creative, fun and current issues billboards, acquainted the consumer with our brand and our products.

Over these 30 years we have constantly worked on building the BACHOCO brand, which has competed with strongly-established local producers, successfully achieving a preference for our brand.



WHAT HAVE WE REACHED?

- Being present in the daily diet of Mexican consumers.
- Placed an affective and emotive relationship with our brand BACHOCO .
- The BACHOCO brand has a perception of quality in the market.
- BACHOCO is perceived as an original, innovative, intelligent, honest, surprising, and dynamic brand.

During these years, we have integrated other brands into our portfolio that, little by little, have gained the same recognition as our leading brand in their own markets.



This is a continuous effort. We continue to work to position our brands in new markets.

UN HUEVO DE ALTA COCINA.



BACHOCO

UN POLLO MUY MEXICANO.



BACHOCO

UN HUEVO ORIGINAL.



BACHOCO

UN HUEVO MUY MEXICANO.



BACHOCO

TACOS DE POLLO.



BACHOCO

UN HUEVO JEFE.



BACHOCO

DOS HUEVOS AL DÍA.



BACHOCO

PONTE LA PILA CADA MAÑANA.



BACHOCO

EL POLLO DE MEXICO.



BACHOCO

SUPER FRESCO.



BACHOCO

EL POLLO QUE VUELA.



BACHOCO

UN HUEVO DE BUENA CASCARITA.



BACHOCO

EL POLLO QUE SI SABE.



BACHOCO

UN POLLO DE BUENA PIERNA.



BACHOCO

EL POLLO DE MEXICO



BACHOCO

EL MAÑANERO.



BACHOCO

UN HUEVO CON RELLENO DELICIOSO.



BACHOCO

UN POLLO PARA CELEBRAR.



BACHOCO

YA LLEGÓ EL PAVO BACHOCO.



BACHOCO

Contigo, todos los días. BACHOCO



BACHOCO

Contigo, todos los días. BACHOCO



BACHOCO

Contigo, todos los días. BACHOCO



BACHOCO

Por consentido BACHOCO, todos los días.



BACHOCO

En el bicentenario BACHOCO, todos los días.



BACHOCO

HUEVO CON EJOTE.



Por sabroso BACHOCO, todos los días.

HUEVO COCIDO.



Por nutritivo BACHOCO, todos los días.

hay Pavo. y también hay Pavo.



Por actual BACHOCO, todos los días.

hay Pollo.



Por actual BACHOCO, todos los días.

MEXICAN IDOL.



Por actual BACHOCO, todos los días.

POLLO TERIYAKI.



Por original BACHOCO, todos los días.

HECHO EN MÉXICO.



En el bicentenario BACHOCO, todos los días.

POLLO EMPAPELADO.



En el bicentenario BACHOCO, todos los días.

POLLO A LA NARANJA.



Por delicioso BACHOCO, todos los días.

HUEVES RELUEVTOS.



Por clásico BACHOCO, todos los días.

POLLO A LAS BRASAS.



Por jugoso BACHOCO, todos los días.

ESTAMOS DE FIESTA.



Celebramos todos los días BACHOCO, Contigo contigo.

UN HUEVO MUY MEXICANO



BACHOCO

LOS SABORES DE MEXICO.



BACHOCO

UN HUEVO RANCHERO.



BACHOCO

UN HUEVO PARA TODA LA VIDA.



BACHOCO

EL POLLO.



BACHOCO

UN HUEVO CON SABOR MEXICANO.



BACHOCO

TIRO AL BLANCO.



En los Juegos 2012 BACHOCO, todos los días.

SINCRONIZADAS DE POLLO.



En los Juegos 2012 BACHOCO, todos los días.

SINCRONIZADAS DE POLLO.



En los Juegos 2012 BACHOCO, todos los días.

¿QUÉ FUE PRIMERO?



En los Juegos 2012 BACHOCO, todos los días.

MEDALLONES DE POLLO.



En los Juegos 2012 BACHOCO, todos los días.

HUEVO DURO.



Por primero BACHOCO, todos los días.

EL POLLO PREFERIDO POR LAS AMAS DE CASA.



BACHOCO

EL SABOR QUE TE DEJA PICADO.



BACHOCO

UN HUEVO ESTRELLADO.



BACHOCO

UN HUEVO RE-FRESCO.



BACHOCO

EL COLOR MAS BUSCADO.



BACHOCO

EL HUEVO QUE DOMINA.



En el mundial BACHOCO, todos los días.

POLLO ROSTIZADO.



BACHOCO

LA MARCA.



BACHOCO

POLLO A TODA HORA.



BACHOCO

SABOR QUE TE ENCANTA.



BACHOCO

CASA LLENA.



BACHOCO

UN HUEVO MUY FRESCO.



BACHOCO

EL POLLO QUE LE VA A MEXICO.



BACHOCO

UN POLLO CON MUCHA PECHUGA.



BACHOCO

UN POLLO CON BUEN COLOR.



BACHOCO

EL POLLO MAS CERCA DE TI.



BACHOCO

UN FENOMENO NATURAL.



BACHOCO

UN HUEVO CLASICO.



BACHOCO

CONSOLIDATED FINANCIAL STATEMENTS

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**Report of Independent Registered Public Accounting Firm to the Board of Directors and
Stockholders of Industrias Bachoco, S.A.B. de C.V.**

We have audited the accompanying consolidated statement of financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for the year ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

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

/s/ Abel García Santaella

C.P.C. Abel García Santaella
Querétaro, Qro., Mexico
April 28, 2014



**Report of Independent Registered Public Accounting Firm to the Board of Directors and
Section 1.01 Stockholders of Industrias Bachoco, S.A.B. de C.V.**

We have audited the internal control over financial reporting of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated April 28, 2014 expressed an unqualified opinion on those financial statements.

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

A handwritten signature in black ink, appearing to read 'Abel García Santaella', written over a set of horizontal lines.

C.P.C. Abel García Santaella
Querétaro, Qro., Mexico
April 28, 2014



Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial position of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2012 and January 1, 2012, and the related consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As mentioned in note 4 to the 2013 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, (thousands of Mexican pesos) which was booked in other income in 2011.

As mentioned in note 5 to the 2013 consolidated financial statements, 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 the holding company of OK Industries, Inc. and, therefore, of the operations of the Company in the U.S.A.

KPMG Cárdenas Dosal, S.C.

/s/ Demetrio Villa Michel

Demetrio Villa Michel
Querétaro, México

April 30, 2013, except as to note 2 b) to the 2013 consolidated financial statements, which is as of April 14, 2014.

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

Consolidated Statements of Financial Position

December 31, 2013 and 2012, and January 1, 2012

(Thousands of pesos)

	Note	December 31, 2013	December 31, 2012	January 1, 2012
Assets				
Current assets:				
Cash and cash equivalents	7	\$ 6,716,894	4,179,541	2,625,661
Primary financial instruments	8	100,4106	96,1968	410,721
Derivative financial instruments	8	11,735	29,38	10,208
Accounts receivable, net	9	2,227,802	2,220,638	2,235,152
Inventories, net	10	2,738,222	4,599,355	3,230,987
Current biological assets	11	1,420,174	1,496,964	1,548,722
Prepaid expenses and other current assets	12	1,156,362	868,878	752,150
Assets available for sale	13	49,053	51,507	95,647
Total current assets		15,324,348	14,381,789	10,909,248
Non-current assets:				
Property, plant and equipment, net	14	11,652,449	11,949,516	12,112,945
Non-current biological assets	11	1,099,936	1,106,120	1,029,642
Goodwill	15	344,259	300,848	300,848
Other non-current assets	16	350,599	301,911	364,637
Total non-current assets		13,447,243	13,658,395	13,808,072
Total assets		\$ 28,781,591	28,040,184	24,717,320
Liabilities and equity				
Current liabilities:				
Short term debt	17	\$ 541,200	1,081,496	1,277,750
Current installments of long-term debt	17	16,392	115,600	175,243
Trade payable and other accounts payable	18	3,799,712	3,445,245	2,921,441
Related parties	19	54,095	880,390	78,543
Total current liabilities		4,370,799	4,730,340	4,452,977
Long term liabilities:				
Long term debt, excluding current installments	17	1,500,270	1,526,602	384,370
Deferred income tax	20, 21	2,701,191	2,597,940	2,400,107
Employee benefits	21	48,245	96,613	100,038
Total long term liabilities		4,259,646	4,221,155	2,884,515
Total liabilities		8,630,445	8,951,495	7,337,492
Equity:				
Capital stock	25	1,174,432	1,174,432	1,174,432
Share premium		399,641	399,641	399,641
Reserve for repurchase of shares		99,601	99,474	88,481
Foreign currency translation reserve		(87,090)	(26,916)	64,387
Actuarial remeasurements, net		18,586,228	17,405,360	15,614,760
Retained earnings	21	20,118,445	19,051,991	17,341,701
Equity attributable to controlling interest		20,118,445	19,051,991	17,341,701
Non-controlling interest		39,301	36,698	38,127
Total equity		20,157,746	19,088,689	17,379,828
Commitments	27			
Contingencies	28			
Total liabilities and equity		\$ 28,781,591	28,040,184	24,717,320

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Profit and Loss and Other Comprehensive Income

Years ended December 31, 2013, 2012 and 2011

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

	<u>Note</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net revenues	\$	39,710,726	39,367,431	27,734,990
Cost of sales		<u>(33,176,599)</u>	<u>(33,318,207)</u>	<u>(24,797,037)</u>
Gross profit		6,534,127	6,049,224	2,937,953
General, selling and administrative expenses		3,291,006	3,396,655	2,974,733
Other income (expenses), net	30	<u>30,704</u>	<u>(23,810)</u>	<u>999,965</u>
Operating income		<u>3,273,825</u>	<u>2,628,759</u>	<u>963,185</u>
Finance income	29	344,785	270,032	248,282
Finance costs	29	<u>(226,366)</u>	<u>(105,000)</u>	<u>(70,640)</u>
Net finance income		<u>118,419</u>	<u>165,032</u>	<u>177,642</u>
Profit before income taxes		3,392,244	2,793,791	1,140,827
Income taxes	20	<u>1,350,439</u>	<u>602,020</u>	<u>(38,616)</u>
Profit for the year	\$	<u>2,041,805</u>	<u>2,191,771</u>	<u>1,179,443</u>
Other comprehensive income (loss) items:				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		<u>32,672</u>	<u>(186,095)</u>	<u>64,387</u>
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements		(61,057)	-	-
Taxes from actuarial remeasurements		<u>18,317</u>	<u>-</u>	<u>-</u>
Other comprehensive (loss) income items		<u>(10,068)</u>	<u>(186,095)</u>	<u>64,387</u>
Comprehensive income for the year	\$	<u>2,031,737</u>	<u>2,005,676</u>	<u>1,243,830</u>
Profit attributable to:				
Controlling interest	\$	2,038,422	2,184,567	1,177,346
Non-controlling interest		<u>3,383</u>	<u>7,204</u>	<u>2,097</u>
Profit for the year	\$	<u>2,041,805</u>	<u>2,191,771</u>	<u>1,179,443</u>
Comprehensive income attributable to:				
Controlling interest	\$	2,028,354	1,998,472	1,241,733
Non-controlling interest		<u>3,383</u>	<u>7,204</u>	<u>2,097</u>
Comprehensive income for the year	\$	<u>2,031,737</u>	<u>2,005,676</u>	<u>1,243,830</u>
Weighted average outstanding shares		<u>599,992,952</u>	<u>598,959,882</u>	<u>599,822,448</u>
Basic and diluted earnings per share	26 \$	<u>3.40</u>	<u>3.65</u>	<u>1.96</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2013, 2012 and 2011

(Thousands of pesos)

Note	Attributable to owners of the Company							Non-controlling interest	Total equity	
	Capital stock	Share premium	Reserve for repurchase of shares	Foreign currency transition reserve	Actuarial remeasurements net	Retained earnings	Total			
	\$	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)	(912)
25 (c)		-	-	(209)	-	-	-	(209)	-	(209)
		-	-	-	-	-	-	-	7,025	7,025
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	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)
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	2,184,567	2,184,567	7,204	2,191,771
		-	-	-	(91,303)	-	(94,792)	(186,095)	-	(186,095)
		-	-	-	(91,303)	-	-	-	-	-
		-	-	-	(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
25 (d)		-	-	-	-	-	(950,400)	(950,400)	-	(950,400)
		-	-	-	-	-	-	-	(780)	(780)
25 (c)		-	-	127	-	-	-	127	-	127
21 (a)		-	-	-	-	-	(18,227)	(18,227)	-	(18,227)
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	2,038,422	2,038,422	3,383	2,041,805
		-	-	-	(60,174)	-	92,846	(10,068)	-	(10,068)
		-	-	-	(60,174)	-	(42,740)	-	-	-
		-	-	-	(60,174)	-	2,131,268	2,028,354	3,383	2,031,737
		1,174,432	399,641	99,601	(87,090)	(60,967)	18,586,228	20,111,845	39,301	20,151,146

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, 2013, 2012 and 2011

(Thousands of pesos)

	Note	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:				
Profit for the year	\$	2,041,805	2,191,771	1,179,443
Adjustments for:				
Deferred income tax recognized in profit or loss	20	123,022	235,603	(108,202)
Current income tax recognized in profit or loss		1,227,417	-	-
Bargain purchase on business combinations		-	-	(1,047,245)
Depreciation	14	816,673	837,807	745,837
Loss on sale of plant and equipment		14,958	65,323	46,671
Interest income	30	(314,245)	(222,063)	(193,777)
Interest expense	30	226,366	105,000	69,744
Unrealized foreign currency exchange		17,950	-	-
Foreign exchange loss on loans		11,865	(52,687)	34,500
		<u>4,165,811</u>	<u>3,160,754</u>	<u>726,971</u>
Subtotal				
Derivative financial instruments		(8,797)	7,270	2,689
Accounts receivable, net		(8,091)	14,514	(435,320)
Inventories, net		1,871,404	(1,368,368)	126,624
Current and non-current biological assets		151,010	(24,720)	(856,908)
Prepaid expenses and other current assets		(287,478)	(116,728)	(216,722)
Assets available for sale		2,454	44,140	(9,075)
Trade payable and other accounts payable		(70,540)	532,030	443,987
Related parties		(33,944)	9,496	17,670
Income taxes paid		(843,906)	-	-
Employee benefits		(84,110)	(3,425)	22,153
		<u>4,853,813</u>	<u>2,254,963</u>	<u>(177,931)</u>
Cash flows (used in) provided by operating activities				
		<u>4,853,813</u>	<u>2,254,963</u>	<u>(177,931)</u>
Cash flows from investing activities:				
Acquisition of property, plant and equipment		(575,411)	(951,760)	(707,533)
Proceeds from sale of plant and equipment		57,795	81,591	83,946
Financial instruments		(42,138)	(551,247)	(201,373)
Other assets		(48,210)	62,726	(146,389)
Interest collected		314,245	222,063	193,777
Business acquisitions		(135,450)	-	(1,326,741)
		<u>(429,168)</u>	<u>(1,136,627)</u>	<u>(2,104,313)</u>
Cash flows used in investing activities				
		<u>(429,168)</u>	<u>(1,136,627)</u>	<u>(2,104,313)</u>
Cash flows from financing activities:				
Payment for repurchase of shares		(3,071)	(85,545)	(6,153)
Proceeds for repurchase of shares		3,198	96,538	5,944
Dividends paid		(950,400)	(299,175)	(299,926)
Proceeds from borrowings		1,507,700	3,069,787	1,921,609
Interest paid		(226,366)	(105,000)	(60,809)
Dividends paid to non-controlling interest		(780)	(491)	(912)
Currency translation effect		-	(93,397)	33,440
Disposal of non-controlling interest from dissolution		-	(8,142)	-
Principal payment on loans		(2,181,166)	(2,130,805)	(774,601)
		<u>(1,850,885)</u>	<u>443,770</u>	<u>818,592</u>
Cash flows (used in) provided by financing activities				
		<u>(1,850,885)</u>	<u>443,770</u>	<u>818,592</u>
Net (decrease) increase in cash and cash equivalents				
		2,573,760	1,562,106	(1,463,652)
Cash and cash equivalents at January 1		4,179,541	2,625,661	3,967,874
Effect of exchange rate fluctuations on cash and cash equivalents		(36,407)	(8,226)	121,439
		<u>6,716,894</u>	<u>4,179,541</u>	<u>2,625,661</u>
Cash and cash equivalents at December 31	\$	<u><u>6,716,894</u></u>	<u><u>4,179,541</u></u>	<u><u>2,625,661</u></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, 2013, 2012 and 2011

(Thousands of Mexican pesos, except amounts per share)

(1) Reporting entity

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

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

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

Significant event

During 2013, the Company informed the National Service of Sanitary, Safety and Food Quality (SENASICA, by its Spanish acronym) the presence of a H7N3 avian flu outbreak in some of the Company's farms located in the state of Guanajuato and in the limits of the Jalisco and Guanajuato states. The financial effects derived from the outbreak were a charge to cost of sales in 2013 for \$350,821 related to the destruction of birds and eggs inventory. As of the date of the issuance of the consolidated financial statements, the National Agriculture, Husbandry, Rural Development, Fishing and Food Agency maintains a monitoring process of the outbreak in both states.

(2) Basis of preparation

a) Statement of compliance

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

On April 28, 2014, the accompanying consolidated financial statements and related notes were authorized for issuance by the Company's Finance Director, Mr. Daniel Salazar Ferrer and the Company's Controller Director, Mr. Marco Antonio Esparza Serrano, for the Audit Committee, Board of Directors and Stockholders' approvals. In accordance with the Mexican General Corporate Law and the bylaws of the Company, the stockholders are empowered to modify the consolidated financial statements after their issuance.

b) Reclassifications

(a) Criteria for classification of inventory and biological assets

During 2013, the Company decided to reclassify live poultry, formerly presented within inventory, to current biological assets in order to provide a more accurate presentation based on the nature of the assets. Prior year financial information was adjusted for such reclassification, for which reason the accompanying consolidated financial statements include a consolidated statement of financial position as of January 1, 2012.

The following table shows the impact of the reclassifications of inventories to biological assets on the consolidated statement of financial position:

	December 31, 2012 originally reported	Increase or (decrease) from reclassification	December 31, 2012 retrospectively reclassified
Inventories, net	\$ 5,829,837	(1,230,482)	4,599,355
Current biological assets	266,482	1,230,482	1,496,964
	<u>\$ 6,096,319</u>		<u>6,096,319</u>
	January 1, 2012 originally reported	Increase or (decrease) from reclassification	January 1, 2012 retrospectively reclassified
Inventories, net	\$ 4,562,355	(1,331,368)	3,230,987
Current biological assets	217,354	1,331,368	1,548,722
	<u>\$ 4,779,709</u>		<u>4,779,709</u>

The reclassification also resulted in changes to the consolidated statement of cash flows with respect to the amounts reported for inventories and biological assets, as follows:

	December 31, 2012 originally reported	Increase or (decrease) from reclassification	December 31, 2012 retrospectively reclassified
Inventories, net	\$ (1,267,482)	(100,886)	(1,368,368)
Current and non-current biological assets	(125,606)	100,886	(24,720)
	<u>\$ (1,393,088)</u>		<u>(1,393,088)</u>
	December 31, 2011 originally reported	Increase or (decrease) from reclassification	December 31, 2011 retrospectively reclassified
Inventories, net	\$ (387,569)	514,193	126,624
Current and non-current biological assets	(342,715)	(514,193)	(856,908)
	<u>\$ (730,284)</u>		<u>(730,284)</u>

c) Basis of measurement

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

i. Fair value

- Derivative financial instruments for trading and hedging, and the investments in primary debt and equity instruments at fair value through profit or loss
- Biological assets
- Defined benefit plan assets

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

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

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

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

Level 3 inputs are unobservable inputs.

ii. Present value

- Defined benefit obligation

The present value discounts future cash flows to a present day amount using a discount rate.

d) Functional and presentation currency

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

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

When deemed relevant, certain amounts are included between parentheses as a translation into thousands of dollars, into thousands of Mexican pesos, or both, as applicable. These translations are performed for the convenience of the reader at the closing exchange rate, which is \$13.09, as of December 31, 2013.

e) Use of estimates and judgments

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

Estimates and significant assumptions are reviewed on an ongoing basis. Changes arising from these reviews are recognized in the period in which they are reviewed and in any future periods affected.

Critical accounting judgments and key sources of estimation uncertainty

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

i. Fair value of biological assets

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

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

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

ii. Business combinations or acquisition of assets

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

Key sources of estimation uncertainty

The following are the key assumptions which are source of estimation uncertainty at the end of the reference reporting period which may have a significant risk of causing a material adjustment to and do not have significant effects on the recorded amounts in the consolidated financial statements.

iii. Assessments to determine the recoverability of deferred tax assets

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

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

Useful lives and residual values of property, plant and equipment are used to determine depreciation expense of such assets and are defined according to the analysis by internal and external specialists. Useful lives and residual values are reviewed periodically at least once a year, based on the current conditions of the assets and the estimate of the period during which

they will continue to generate economic benefits to the Company. If there are changes in the estimate, measurement of the net carrying amount of assets and the corresponding depreciation expense are prospectively affected.

v. Measurements and disclosures at fair value

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

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

vi. Impairment of long-lived assets and goodwill

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

vii. Contingencies

Due to their nature, contingencies can solely be resolved when they occur or one or more future events or one or more uncertain events that are not entirely under the control of the Company. The assessment of such contingencies significantly requires the exercise of judgments and estimates on the possible outcome of those future events. The Company assesses the probability of loss of lawsuits and contingencies according to the estimates made by its legal advisors. These estimates are reconsidered periodically.

viii. Other non-significant estimates

- Allowance for doubtful accounts (Note 9).

f) Basis of presentation

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

In the current year, the Company adopted a series of new and amended IFRS issued by the IASB which are binding and go into effect from fiscal years beginning on or after January 1, 2013.

Amendments to IFRS 7 Disclosures - Offset of financial assets and liabilities

The Company applied the amendments to IFRS 7 *Disclosures- Offsetting of financial assets and liabilities* for the first time in the current year. Amendments to IFRS 7 require companies to disclose information about offsetting rights and related agreements for recognized financial instruments that are subject to a master close-out netting agreement or similar agreement.

Amendments to IFRS 7 apply retroactively. As the Company does not have any close-out netting agreement, the adoption of the amendments had no significant effect in disclosures or in balances recognized in the consolidated financial statements.

Modified standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures standards that comprise IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosure of interests in other entities*, IAS 27 (as revised in 2011) *Separate financial statements* and IAS 28 (as revised in 2011) *Investments in associates and joint ventures*, were issued. Subsequent to the issuance of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has applied these standards for the first time, together with the amendments to IFRS 10, IFRS 11, and IFRS 12 regarding the transitional guidance. Both IAS 27 and IAS 28 do not apply to the Company's consolidated financial statements, since these financial statements are not separate financial statements, nor does it have investments on which it has significant influence or joint control that result in the application of the equity method. As of the issuance date of the consolidated financial statement, separate financial statements were issued in order to comply with statutory requirements for the Company as legal entity and IAS 27 was applied for its preparation.

The impact of these standards is shown below:

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and separate financial statements* that deal with consolidated financial statements and SIC-12 *Consolidation - special purpose entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Company.

Specifically, the Company, through its subsidiary Bachoco, S.A. de C.V., has a 51% equity interest in four entities engaged in breeding and marketing poultry. As the Company has substantive rights over such entities, which grant it the power over the relevant activities that affect its variable returns arising from its interests, it has concluded that it has control over such entities.

In addition, the Company has an equity interest of 64.00% in PEC LAB, S.A. de C.V., which also grants the Company substantive rights in the entity, providing it the power over the relevant activities that affect its variable returns arising from its interests, for which reason it has concluded that it has control over the entity.

Due to the application of IFRS 10, there were no changes to the consolidation of entities on which control thereon was determined in prior periods.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in joint ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly controlled entities - non-monetary contributions by venturers*, has been incorporated in IAS 28 (as revised in 2011).

IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements - joint operations and joint ventures.

The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement.

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method. Investments in joint operations are accounted for such that each joint operator recognizes and records its assets, its liabilities, its revenues, and its expenses, relating to its interest in the joint operation in accordance with the applicable standards.

As mentioned in the analysis of impact for the adoption of IFRS 10, Company's management examined and assessed the classification of the investments it has through its subsidiary Bachoco, S.A. de C.V., where it has equity interest of 51% to determine whether or not it had control or joint control. Management concluded that such investments should be classified as subsidiaries and not as joint arrangements. The Company also analyzed certain agreements it has entered into with respect to broiler operations and determined that such arrangements constitute joint operations. The accounting for these joint operations under IFRS 11 is consistent with the treatment previously applied by the Company and therefore no impact of adoption has been reflected in the consolidated financial statements.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have equity interests in subsidiaries, associates, joint arrangements and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements, in relation to significant judgments made by the Company to determine the nature of its equity interests in other entities, as well as the equity interest that the non-controlling entity has in the Company's activities and in its cash flows.

IFRS 13 Fair value measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not to apply the disclosure requirements set out in the Standard in comparative information provided for prior periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of items of other comprehensive income

The Company applied the amendments to IAS 1 *Presentation of items of other comprehensive income* for the first time in the current year. The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will be reclassified to profit and loss and (b) items that will not be reclassified to profit and loss. Income tax on items of other comprehensive income is required to be allocated on the same basis and the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. In addition to the aforementioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit and loss, other comprehensive income or total comprehensive income.

IAS 19 Employee benefits - (revised in 2011)

In the current year, the Company applied IAS 19, *Employee benefits* (revised in 2011) and its consequential amendments for the first time.

Amendments to IAS 19 change the accounting treatment of defined benefit plans and benefits for termination of the employment relationship. The most important change refers to the accounting treatment for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and the fair value of the plan assets when they occur and, therefore, eliminate the "corridor approach" allowed under the previous version of IAS 19 and accelerate the recognition of prior service costs. The amendments require that all actuarial gains and losses are recognized immediately through other comprehensive income, for the net asset or liability recognized in the consolidated statement of financial position to reflect the total value of the deficit or surplus of the plan. Additionally, the interest cost and the expected return on plan assets used in the previous version of IAS 19 are replaced with the amount of net interest, which is calculated by applying the same discount rate to the net defined benefit asset or liability. In summary, IAS 19 (revised in 2011) introduces certain changes in the presentation of the cost of defined benefits, including more extensive disclosures.

Beginning January 1, 2013, the Company applied the new accounting, presentation and disclosure requirements established in IAS 19 (revised in 2011). However, given that the adoption of this standard did not have a significant impact on the Company's consolidated statements of financial position, the corresponding comparative amounts were not retrospectively adjusted. The effect of the adoption of this standard as of January 1, 2013 was \$25,315.

(c) *ii. New standards and interpretations not yet adopted*

The Company has not applied the following new and revised IFRS that have been issued, but that they have not gone into effect yet at December 31, 2013.

- IFRS 9 *Financial instruments*, issued in November 2009 and amended in October 2010, introduced new requirements for the classification and measurement of financial liabilities and derecognition.

All recognized financial assets that are within the scope of IAS 39 *Financial instruments: recognition and measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

The most significant effect of IFRS 9 with respect to the reclassification and measurement of financial liabilities is related to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit and loss), attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities designated at fair value through profit and loss, the amount of change in fair value of the financial liability attributable to changes in credit risk of that liability is recognized in items of other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in items of other comprehensive income would create or enlarge an accounting mismatch in profit and loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit and loss is presented in profit and loss.

IFRS 9 *Financial instruments*, issued in November 2013, introduces a new chapter for the accounting for hedges, establishing a new hedge accounting model that is designed to be more adhered to how entities assume risk management activities when they cover both financial and non-financial risk exposures. Similarly, it allows an entity to apply solely the requirements introduced in IFRS 9 (2010) for the presentation of profits and losses on financial liabilities designated at fair value through profit and loss, without applying the other requirements of IFRS 9, which means that the portion of the change in fair value related to changes in the own entity's credit risk can be presented in items of other comprehensive income rather than in profit and loss.

As IFRS 9 (2013) eliminates the effective date of mandatory application of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), as well as the required disclosures of IFRS 7 derived from the adoption of IFRS 9, leaving the effective date open to the end of the impairment, classification and measurement requirements. The Company has decided not to adopt it until the effective date, and it is not practical to quantify the effect unless the aforementioned stages are concluded definitively, and the final versions are issued.

- Amendments to IFRS 10, IFRS 12 and IAS 27, provide investment entities with an exemption to consolidate certain subsidiaries and, rather, they require that an investment entity measures the investment of each one of the eligible subsidiaries at fair value through profit and loss under IFRS 9 or IAS 39. In addition, these amendments require disclosures about the reasons for which an entity is deemed an investment entity, entity's unconsolidated subsidiaries' details, and nature of the relationship and certain transactions between the investment entity and its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2014. The amendments to these standards have not been early adopted, and their adoption is not expected to have an effect on the Company's financial information, as it is not classified as an investing entity.
- Amendments to IAS 19 (2011) *Employee benefits*, in regards to employee contributions on defined benefit plans, clarify the requirements relating to how contributions from employees or third parties that are linked to the service should be attributed to periods of service. In addition, it allows a practical resource if the amount of the contributions is independent from the number of years of service in which contributions can be, but are not required to be recognized as a reduction in the service cost in the period in which the related service is rendered. These amendments are effective for annual periods beginning on or after July 1, 2014. The amendments to this standard have not been early adopted by the Company and no material effects are expected due to their adoption since employees do not make contributions to the defined benefit plan.
- Amendments to IAS 32 *Offsetting financial assets and financial liabilities*, with respect to offsetting financial assets and financial liabilities and the related disclosures clarify existing application issues related to offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally recognized right to offsetting" and "simultaneous realization and offsetting." Amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, applied retroactively. This standard has not been early adopted by the Company, and no material effects on its consolidated financial statements are expected since the Company does not have offsetting agreements.
- Amendments to IAS 36 *Impairment of assets*, reduce the circumstances in which the recoverable amount of assets or cash generating units are required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. Amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The amendments to this standard have not been early adopted by the Company and no material on the amounts recognized in the consolidated financial statements since the Company has included the majority of the disclosures required by this amended IAS.
- Amendments to IAS 39 *Financial instruments, recognition and measurement*, clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more settling counterparties replace their original counterparty to become a new counterparty to any of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction thereof. Amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The amendments to this standard have not been early adopted by the Company and no material effects are expected on the consolidated financial statements due to their adoption, since the Company does not have novation agreements.
- Annual Improvements to 2010-2012 Cycle make amendments to: IFRS 2, *Share-Based Payment*, by amending the definitions for consolidation (irrevocability) of concessions and market conditions, and adding definitions for performance condition and service condition; IFRS 3, *Business Combinations*, which require that contingent considerations classified as an asset or liability are measured at fair value at the reporting date; IFRS 8, *Operating*

segments, requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifying that reconciliations of segment assets are required solely if assets are reported regularly; IFRS 13, *Fair Value Measurement*, clarifies that the issuance of IFRS 13 and the amendments to IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amendment to conclusion bases solely); IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*, clarifying that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and IAS 24, *Related Party Disclosures*, clarifying how payments to entities providing management services are to be disclosed. These improvements are applicable to annual periods beginning on or after 1 July 2014. The Company has yet to complete its evaluation of whether these improvements will have a significant impact on its consolidated financial statements.

- Annual Improvements to 2011-2013 Cycle makes amendments to the following standards: IFRS 1 *First-time adoption of IFRS*, clarifying which versions of IFRSs can be used on initial adoption (amendments to conclusion bases solely); IFRS 3, clarifying that the standard excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; IFRS 13, clarifying the scope of the portfolio exception of paragraph 52 of the standard, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received for selling a net long position or at which a net short position would be transferred, both for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions; IAS 40 *Investment property*, clarifying the interrelationship of IFRS 3 and IAS 40 when classifying a property as an investment property or as an owner-occupied property. These improvements are applicable to annual periods beginning on or after 1 July 2014. The Company has yet to completed its evaluation of whether these improvements will have a significant impact on its consolidated financial statements, except for improvements to IFRS 1, which is a standard applicable solely to first-time adopters, and therefore no impacts are expected at a consolidated level for the Company.
- Interpretation of the International Financial Reporting Standards (IFRIC) 21 *Levies*, provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets*, and those where the timing and amount of the levy is certain. The interpretation identifies the binding event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. In addition, it provides the following guidance in the recognition of a levy payment liability, where the liability is recognized progressively if the binding event occurs over a period of time, and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This interpretation is effective for periods beginning on or after January 1, 2014, with early adoption permitted. The Company has not early adopted this IFRIC. The Company has yet to complete its evaluation of whether this interpretation will have a material impact on its consolidated financial statements.

(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.

a) Basis of consolidation

i. Subsidiaries

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

ii. Transactions eliminated in consolidation

Profits and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of profit and loss and other comprehensive income from the acquisition date to the selling date, as the case may be.

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

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

iii. Business acquisitions

Business acquisitions are accounted for using the acquisition method. For each business acquisition, 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 assets acquired and the liabilities assumed for proper classification and designation according to the contractual terms, economic circumstances and relevant conditions at the acquisition date.

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

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

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

b) Foreign currency

i. Foreign currency transactions

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

ii. Translation of foreign operations

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

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

Foreign exchange gains and losses arising from an item received from or payable to a foreign transaction, whose settlement is neither planned nor likely in the foreseeable future, are considered part of a net investment in a foreign transaction and are recognized under the "other comprehensive income" account, and presented within stockholders' equity in the foreign currency translation reserve. For the years ended December 31, 2013, 2012 and 2011 the Company did not enter into such operations.

c) **Financial instruments**

i. Non-derivative financial assets

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

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

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

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

Financial assets valued at fair value through profit and loss

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

Held-to-maturity financial assets

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

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

Cash and cash equivalents

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

Receivables

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

ii. Non-derivative financial liabilities

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

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

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

The Company has the following non-derivative financial liabilities: short-term and long-term debt, and trade and other payables.

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

iii. Derivative financial instruments

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

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

The Company analyzes if there are embedded derivatives that should be segregated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as those of the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through profit and loss. Changes in fair value of the separable embedded derivatives are immediately recognized in profit and loss. At December 31, 2013, 2012 and 2011, the Company has not recognized embedded derivatives.

The Company has derivative financial instruments designated as fair value hedged for its exposure to commodity price risks resulting from its operating activities. Derivative financial instruments that do not meet the requirements for hedge accounting treatment are accounted for as trading derivative financial instruments.

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

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

iv. Capital stock

Ordinary shares

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

Stock repurchase

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

d) Property, plant and equipment

i. Recognition and measurement

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

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

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

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

ii. Subsequent costs

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

iii. Depreciation

During 2013, based on the analysis performed by the Company, a change to the estimate of residual values of certain fixed assets occurred, which resulted in a decrease to depreciation expense of \$49,061, recorded in the consolidated statement of profit and loss and other comprehensive income for the year.

Depreciation is calculated on the cost of the asset less its residual value, using the straight line method, based on the estimated useful life of the assets. Depreciation is recognized in profit and loss beginning from the time when the assets are available for use. Land is not depreciated.

Below are the estimated useful lives for 2013, 2012 and 2011:

	<u>Average useful Life</u>
Buildings	46
Machinery and Equipment	19
Vehicles	11
Computers	8
Furniture	<u>11</u>

The Company has estimated the following residual values, including the aforementioned change from the Company's current year analysis, described on note 2 (e) iv:

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

e) Goodwill

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

f) Biological assets

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

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

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

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

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

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

g) Leased assets

Operating leases entered into by the Company as of December 31, 2013, 2012 and 2011 are not recognized in the Company's statement of financial position. Operating lease rentals paid by the Company are recognized in profit and loss using the straight-line method over the lease term, even though payments may not be made on the same basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease term, assets are depreciated over the shorter of the lease term or their useful lives. As of December 31, 2013, 2012, and 2011 the Company has not entered into any finance lease agreements.

h) Inventories

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

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

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

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

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

i) Impairment

i. Financial assets

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

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

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

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

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

ii. Non-financial assets

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

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

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

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

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

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

j) 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. (see note 4a). The Company sold this aircraft in 2012.

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

Foreclosed assets are recorded at the lower of fair value less cost of sale or net carrying amount of the related account receivable.

k) Other assets

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

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

l) Employee benefits

Benefit plan in Mexican operation

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

i. Defined contribution plan

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

ii. Defined benefit plan

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

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

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

The Company presents the first two components of defined benefit cost in profit or loss. Gains and losses for reduction of service are accounted for as past service costs.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

When the benefits of a plan are modified or improved, the portion of the improved benefits related to past services by employees is recognized in profit and loss on the earlier of the following dates: when there is a modification or reduction to the plan, or when the Company recognizes the related restructuring costs or termination benefits.

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

iii. Short-term benefits

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

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

iv. Termination benefits from constructive obligation

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

Benefit plan in foreign subsidiary

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

n) Interests in joint operations

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

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

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

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

o) Revenues

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

p) Financial income and costs

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

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

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

Exchange gains and losses are reported on a net basis.

q) Income taxes

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

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

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

- the initial recognition of assets or liabilities in a transaction that is not a business combination and did not affect neither accounting or taxable profit or loss;
- differences related to investments in subsidiaries to the extent that it is probable that the Company is able to control the reversal date, and the reversion is not expected to take place in the near future.
- taxable temporary differences arising from the initial recognition of goodwill.

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

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

In determining the amount of current and deferred 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 balance for the tax liabilities are adequate for all open tax years based on its assessment of several factors, including the interpretation of the tax law and prior experience.

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 reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

r) Earnings per share

The Company presents information on basic and diluted earnings per share (EPS) related to its ordinary shares. Basic EPS is computed by dividing the profit and loss attributable to the holders of the Company's common shares by the weighted average number of outstanding ordinary shares during the period, adjusted for treasury shares held. Diluted EPS is determined by adjusting the profit and loss attributable to the holders of the ordinary shares and the outstanding weighted average number of ordinary shares, adjusted for treasury shares held, for the potential dilutive effects of all ordinary shares, including convertible instruments and options on shares granted to employees. At December 31, 2013, 2012 and 2011, the Company has no dilutive potential ordinary shares, for which reason basic and diluted EPS is the same.

s) Segment information

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

The Company discloses reportable segments based on operating segments whose revenues exceed 10% of the combined revenues from all segments, whose absolute value of profit or loss exceeds 10% of the combined absolute value of profit or loss from all segments, whose assets exceed 10% of the combined assets from all segments, or that result from the aggregation of two or more operating segments when they have similar economic characteristics and meet the aggregation criteria in IFRS.

t) Costs and expenses by function

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

u) Statement of cash flows

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

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

(4) **Business and asset acquisitions**

a) ***OK Industries acquisition***

On November 1, 2011, the Company acquired 100% percent of the voting stock of OK Industries, Inc. and subsidiaries. OK Industries, Inc. is engaged in breeding, processing and marketing of poultry (chicken) to supplier autoservices networks, fast food networks and others in the United States of America and foreign markets. The aggregate purchase price that was paid in cash amounted \$1,269,306 (93.4 million dollars). The acquisition was accounted for as a business combination in accordance with the requirements of IFRS 3 *Business Combinations*.

On March 2, 2012 Bachoco USA, LLC. was incorporated as a subsidiary of the Company and Bachoco USA, LLC acquired 100% of the shares of OK Industries, Inc.

The consolidated financial statements of the Company as of December 31, 2011 include the consolidated statement of financial position of OK Industries, Inc. and subsidiaries, as of such date, based on the best estimate of the fair value of net asset 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 fair 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 fair value for a subject asset based on available market pricing for comparable assets, was utilized primarily for property. The market approach calculates fair 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 recorded at their fair value less selling expenses. The investment in insurance policies 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 of the fair value of the main classes of consideration transferred and the recognized amounts of acquired assumed assets and assumed liabilities at the date of acquisition (November 1, 2011) is included below, as well as measurement period adjustments made 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)
Acquired assets, net	<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	<u>\$ 994,585</u>		<u>1,000,565</u>

The gain on bargain purchase was generated given that the fair value of the net assets acquired as of the acquisition date exceeded the consideration transferred. The bargain purchase gain stemmed from the fact that former strategies resulted in a high cost structure with limited opportunity to improve profitability for the entity. As a consequence, the fair value of the enterprise as a whole was determined to be less than fair value of the assets that comprise the entity. Thus, a bargain purchase gain was recognized as bargain purchase price in the consolidated statements of profit and loss and other comprehensive income, within other income (expenses), net (see note 30).

Had the acquisition occurred on January 1, 2011, management estimates that consolidated revenues and consolidated profits for the year ended December 31, 2011 would have totaled \$34,809,853 and \$911,952, respectively.

The consolidated revenue of the acquired business for the year ended on December 31, 2011 is disclosed in note 6b.

Costs related to OK industries acquisition.

During 2011, the Company incurred costs related to the acquisition of OK Industries, Inc. 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 profit and loss and other comprehensive income for the year ended December 31, 2011 (note 29).

b) Trosi de Carne, S.A. de C.V. 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. The net assets acquired are used to the production of high processed products from beef and pork.

Below is a summary of the net 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)
Acquired assets, net		<u>104,447</u>
Consideration paid		<u>57,723</u>
Gain on bargain purchase	\$	<u>46,724</u>

A gain on bargain purchase was recognized in the consolidated statement of profit and loss and other comprehensive income, on the other income (expenses), net (see note 29).

c) Acquisition of property, plant and equipment of Mercantil Agropecuario Coromuel, S.A. de C.V.

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

d) Acquisition of Morris Hatchery, Inc.

On July 9, 2013, the Company reached an agreement to acquire assets from the breeding farms of Morris Hatchery Inc., located in Arkansas, United States of America. This acquisition mainly consists of poultry equipment and inventory, and has a capacity of breeding birds that produce hatching eggs. The hatching eggs will ultimately be used internally by the Company, benefitting the United States of America operations given that they did not previously have the capacity of breeding birds that produce hatching eggs. The Company concluded that the transaction represented the acquisition of a business.

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

Acquired assets and identifiable assumed liabilities

		Previously Recognized Value
Current and non-current biological assets	\$	77,237
Inventories		3,257
Property, plant and equipment		11,982
Other assets		194
Acquired assets, net		<u>92,670</u>
Cash consideration paid		<u>135,450</u>
Goodwill	\$	<u>(42,780)</u>

Third party acquisition costs paid by the Company were not material, given that it utilized mostly its own resources in the acquisition. Given that the acquisition was for the benefit of the Company's own internal operations, it is impracticable to determine the amount of revenues generated by Morris Hatchery since its acquisition.

(5) Subsidiaries of the Company

Subsidiaries and Company's shareholding percentage in such subsidiaries as of December 31, 2013 and 2012 are listed below:

Name	Country	Shareholding percentage in subsidiaries	
		December 31,	
		2013	2012
Bachoco, S.A. de C.V.	México	99.99	99.99
Bachoco USA, LLC. & Sub.	U.S.	100.00	100.00
Campi Alimentos, S.A. de C.V.	México	99.99	99.99
Induba Pavos, S.A. de C.V.	México	99.99	99.99
Bachoco Comercial, S.A. de C.V.	México	99.99	99.99
PEC LAB, S.A. de C.V.	México	64.00	64.00
Aviser, S.A. de C.V.	México	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	México	99.99	99.99
Secba, S.A. de C.V.	México	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	México	99.99	99.99
Sepetec, S. A. de C.V.	México	99.99	99.99

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

- Bachoco, S.A. de C.V. (BSACV) (includes four subsidiaries which are 51% owned, and over which BSACV has control). BSACV is engaged in breeding, processing and marketing poultry goods (chicken and eggs).

- On March 2, 2012, Bachoco USA, LLC was incorporated in the State of Delaware, United States of America as a wholly owned subsidiary of the Company with 100% of the shareholding. From that date, Bachoco USA, LLC holds the shares of OK Industries, Inc. and, therefore, of the operations of the Company in the United States of America. OK Industries, Inc. (acquired in November 2011) comprises five controlled subsidiaries. OK Industries, Inc. owns 100% of the shares of four of these subsidiaries, and 85% of the shares of the remaining subsidiary as a result of a dissolution of shares in 2012. Their primary activity includes the production of chicken products mostly marketed in the United States of America and, to a lesser extent, in other foreign markets.

- Campi Alimentos, S.A. de C.V., is engaged in producing and marketing balanced animal feed, mainly for selling to third parties.

- The main activity of Bachoco Comercial, S.A. de C.V. and Induba Pavos, S.A. de C.V. is the distribution of chicken, turkey and beef value-added products.

- On January 4, 2012 PEC LAB, S.A. de C.V. was constituted. As of such date PEC LAB, S.A. de C.V. is the holding of the shares of Pecuaris Laboratorios, S.A. de C.V., previously owned by the Company and other shareholders. Its main activity consists of the production and distribution of medicines and vaccines for animal consumption.

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

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

(6) **Operating segments**

Reportable segments have been determined based on a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of chicken and egg operations. The information included in the "Others" segment corresponds to pigs, balanced feed for animal consumption and other insignificant by-products.

Inter-segment pricing is determined on an arm's length basis. The accounting policies of operating segments are as those described in note 3 s).

Below is the information related to each reportable segment. Performance is measured based on each segment's income before taxes, in the same manner as it is included in management reports that are reviewed by the Company's General Director. Each segment's profits are used in measuring performance as management believes such information is the most appropriate for assessing the results of certain segments.

a) *Operating segment information*

	Year ended December 31, 2013		
	<u>Poultry</u>	<u>Others</u>	<u>Total</u>
Net revenues	\$ 35,943,862	3,766,864	39,710,726
Cost of sales	29,847,653	3,328,946	33,176,599
Gross profit	6,096,209	437,918	6,534,127
Income before taxes	3,164,288	227,956	3,392,244
Income taxes	1,252,784	97,655	1,350,439
Net income attributable to controlling interest	1,890,572	147,850	2,038,422
Property, plant and equipment, net	10,425,139	1,227,310	11,652,449
Goodwill	256,244	88,015	344,259
Total assets	25,725,596	3,055,995	28,781,591
Total liabilities	(7,759,814)	(870,631)	(8,630,445)
Purchases of property, plant and equipment, net	514,466	60,945	575,411
Depreciation and amortization	(731,797)	(84,876)	(816,673)

	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 before taxes	2,580,005	213,786	2,793,791
Income taxes	486,251	115,769	602,020
Net income attributable to controlling interest	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)
Purchases of property, plant and equipment, net	942,351	9,409	951,760
Depreciation and amortization	(752,492)	(85,315)	(837,807)

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 before taxes	1,024,662	116,165	1,140,827
Income taxes	(20,135)	(18,481)	(38,616)
Net income attributable to controlling interest	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)
Purchases of property, plant and equipment, net	662,009	45,524	707,533
Depreciation and amortization	(722,286)	(23,551)	(745,837)

b) Geographical information

When submitting information by geographic area, revenue is classified based on the geographic location where the Company's customers are located. Segment assets are classified in accordance with their geographic location. Geographical information for the Others segment is not included below as it is all generated domestically in Mexico.

Year ended December 31, 2013

	<u>Domestic poultry</u>	<u>Foreign poultry</u>	<u>Total</u>
Net revenues	\$ 27,426,465	8,517,397	35,943,862
<i>Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts</i>			
Non-current biological assets	840,622	269,314	1,109,936
Property, plant and equipment, net	8,936,020	1,489,119	10,425,139
Goodwill	212,833	43,411	256,244

Year ended December 31, 2012

	<u>Domestic poultry</u>	<u>Foreign poultry</u>	<u>Total</u>
Net revenues	\$ 27,625,702	8,171,467	35,797,169
<i>Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts</i>			
Non-current biological assets	942,781	163,339	1,106,120
Property, plant and equipment, net	8,863,652	1,499,548	10,363,200
Goodwill	212,833	-	212,833

	Year ended December 31, 2011		
	Domestic poultry	Foreign poultry (two-months operations)	Total
Net revenues	\$ 23,318,433	1,378,779	24,697,212
<i>Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts</i>			
Non-current biological assets	877,059	152,583	1,029,642
Property, plant and equipment, net	10,011,659	1,640,449	11,652,108
Goodwill	212,833	-	212,833

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 2013, 2012 and 2011, no customer represented over 10% of the Company's total revenues.

The Company has transactions with Ozark Mountain Poultry, Inc. representing 14%, 12% and 4% of total sales outside of Mexico during the years ended December 31, 2013, 2012 and 2011, respectively.

(7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2013 and 2012 are as follows:

	December 31	
	2013	2012
Cash and banks	\$ 594,183	1,592,555
Investments with maturities less than three months	6,121,330	2,586,471
Cash and cash equivalents	6,715,513	4,179,026
Restricted cash	1,381	515
Total cash and cash equivalents and restricted cash	\$ 6,716,894	4,179,541

Restricted cash corresponds to the minimum margin required by the intermediary related to the Company's derivative financial instruments, in order to meet future commitments that may stem from adverse market movements affecting prices on the open positions as of December 31, 2013 and 2012.

Investments with maturities less than three months include cash of \$29,858 and \$38,431, related to high-liquidity investments for 2013 and 2012, respectively (see Note 8).

(8) Financial instruments and risk management

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

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

Risk management framework

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

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

Management by type or risk

a) Categories of financial assets and liabilities

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

	December 31,	
	2013	2012
Financial assets		
Cash and cash equivalents	\$ 6,716,894	4,179,541
Investments designated at fair value through profit and loss	972,641	923,010
Investments held to maturity	31,465	38,958
Accounts receivable	1,635,338	1,741,639
Financial assets for trading purposes	-	2,701
Financial liabilities		
Measured at fair value through profit and loss	(557,592)	(1,197,056)
Measured at amortized cost	(1,510,210)	(1,526,602)
Trade payables and sundry creditors	\$ (2,970,090)	(3,094,632)

b) Credit risk

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

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

Measurement and monitoring of counterparty risk

The Company, in terms of valuation and monitoring of derivative financial instruments and primary financial instruments, measures its counterparty risk by identifying the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA).

For investments in primary financial instruments in national currency, the financial instruments valuation models used by price suppliers incorporate market movements and credit quality of issuers, thereby implicitly including the counterparty risk of the transaction in the fair value determination; therefore, the position in primary financial instruments includes the

counterparty risk and no other study and/or related study is carried out. The price of the instruments obtained from the price supplier is mid prices, which is the mid-price between the buying price and the selling price. As of December 31, 2013 and 2012, the balance of held to maturity investments is \$31,465 and \$38,958, respectively.

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

For derivative financial instruments traded in over the counter markets, CVA and/or DVA is calculated in Bloomberg for risk monitoring purposes, but it is not reflected in the Company's books as part of the derivative instruments fair value. As of December 31, 2013 and 2012, the credit risk not reflected in derivative financial instruments is not considered material.

Trade accounts receivable and other accounts receivable measurement and monitoring

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

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

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

The allowance for doubtful accounts includes trade accounts receivable that are impaired, which amount to \$86,564 and \$58,910 as of December 31, 2013 and 2012, respectively. The reconciliation of movements the allowance for doubtful accounts, and the analysis of past-due accounts receivable but not impaired, are presented in note 9.

The Company receives guarantees on credit lines granted to its clients, which consist of real and personal property, such as land, buildings, houses, vehicles, credit cards, cash deposits and others. As of December 31, 2013 and 2012, the guarantees fair value, determined through an appraisal at the time the loan is granted, is \$497,490 and \$517,269 respectively.

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

(d) Investments

The Company limits its exposure to credit risk with respect to derivative and primary financial instruments by investing solely in liquid securities and solely with counterparties that have a credit rating scale or investing grade. Management constantly monitors credit ratings, and as it invests solely in securities with high credit ratings, it is not expected that any counterparty fails to fulfill its obligations.

Investments in debt and equity instruments with a credit rating less than those referred to in the preceding paragraph are authorized by the Risk Committee and the Board of Directors.

(e) Financial guarantees granted

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

(f) Exposure to credit risk

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

	December 31,	
	2013	2012
Investments held to maturity	\$ 31,465	38,958
Cash and cash equivalents	6,716,894	4,179,541
Investments designated at fair value through profit and loss	972,641	923,010
Interest-rate derivative financial instruments for trading purposes	-	152
Derivative financial instruments on commodities for trading purposes	-	2,549
Accounts receivable net of guarantees received	1,120,529	1,212,141
	<u>\$ 8,841,529</u>	<u>6,356,351</u>

Investments designated at fair value through profit and loss include \$29,858 and \$38,431 in highly liquid of investments for 2013 and 2012, respectively.

c) Liquidity risk

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

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

Monitoring

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

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

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

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

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

Maturity table

	December 31, 2013		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables and sundry creditors	\$ 2,970,090	-	-
Variable-rate maturities			
In U.S. dollars	392,700	-	-
In Mexican pesos	164,892	10,210	1,500,000
Interest	89,554	179,108	48,704
Total financial liabilities	\$ 3,617,236	189,318	1,548,704

As of December 31, 2012 (pesos and dollars)	Carrying amount	Current contractual cash flows	Non-current contractual cash flows
Financial liabilities			
Financial debt (pesos)	\$ 580,158	437,996	142,162
Financial debt (payable in dollars)	643,500	643,500	-
Debt securities	1,500,000	-	1,500,000
Derivative financial instruments on commodities at fair value through profit or loss	1,332	1,332	-
Trade payable and other accounts payable	3,445,245	3,445,245	-
	\$ 6,170,236	4,528,075	1,642,161

The Company, at a minimum on a monthly basis, evaluates and advises the Board of Directors on the Company's liquidity. As of December 31, 2013, the Company has evaluated that it has sufficient resources to meet its obligations in the short and long term; therefore, it does not consider having liquidity gaps in the future and it will not be necessary to sell assets to pay its debts at unusual discounts or at out-of-market prices.

d) Market risk

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

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

Monitoring

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

Stress tests

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

i. Commodities price risk

The Company seeks to protect itself against variations in the agreed-upon price of primary commodities used in its operations, making use of derivative financial instruments that are designated as either accounting hedges or economic hedges.

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

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

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

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

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

The Company carries out prospective effectiveness tests at the beginning of each hedge and, at least on a quarterly basis, retrospective effectiveness tests. The hedges are and will be highly effective since they are between the 80%-125% range.

As of December 31, 2013, the Company has effective hedging positions of corn long puts with ASERCA, maturing in March, July, September and December 2014. The gain on valuation of these instruments is \$120,560, recorded within cost of sales. At December 31, 2012, there were no open positions of long put hedge options with ASERCA.

The Company maintains a contractual agreement with ASERCA in which the Company will pay 55% of the option premium and ASERCA will pay the remaining 45%. In case the option is In the Money (Strike>Forward), the Company will recover the 55% portion paid and an additional 22.5% which is equivalent to 50% of the portion paid by ASERCA. Due to its nature and according to the established by IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the portion paid by ASERCA must be recognized as an income over the term of the instrument in order to match it against the costs it is intended to offset, on a systematic basis. The effect of such benefit as of December 31, 2013 and 2012 is \$14,819 and \$0, respectively.

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

ii. Chicken price risk

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

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

iii. Exchange risk

The Company is exposed to fluctuations in the exchange rate mainly on MXP/dollars parity in the Company's assets and liabilities, such as: primary financial instruments (investments), derivative financial instruments hedging commodities, which are denominated in a currency other than the Company's functional currency. In this regard, the Company has implemented a sensitivity analysis to measure the effects that currency risk may have over the assets and liabilities described.

The Company protects itself through economic hedging with derivative financial instruments, a percentage of its estimated exposure to exchange rate variations in relation to sales and purchases projected during the year and in the months needed. Maturities of all instruments referred to as hedges for foreign exchange risk are less than one year from the contracting date.

As of December 31, 2013 and 2012, the Company does not have derivative financial instrument positions to hedge exchange rate risks.

iv. Foreign currency position

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

Below is the foreign currency position that the Company has as of December 31, 2013 and 2012.

	December 31,			
	2013		2012	
	Dollars	MXP	Dollars	MXP
Assets				
Cash and cash equivalents	39,843	521,546	28,198	362,905
Primary financial instruments	29,284	383,333	29,529	380,036
Accounts receivable	38,810	508,017	36,771	473,245
Other accounts receivable	12,170	159,305	11,696	150,529
Prepaid expenses	62,564	818,967	39,051	502,585
Total assets	182,671	2,391,168	145,245	1,869,300
Liabilities				
Trade accounts payable	(142,124)	(1,860,405)	(133,325)	(1,715,893)
Other accounts payable	(17,156)	(224,568)	(14,846)	(191,071)
Financial debt	(30,000)	(392,700)	(50,000)	(643,500)
Total Liabilities	(189,280)	(2,477,673)	(198,171)	(2,550,464)
Net liability position	(6,608)	(86,505)	(52,926)	(681,164)

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

	Average exchange rate		Spot exchange rate at	
	for the year ended December 31,		December 31,	
	2013	2012	2013	2012
Dollars	\$ 12.76	13.16	13.09	12.87

The exchange rate at April 28, 2014 is \$13.13.

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

v. Interest rate risk

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

Interest rate fluctuations impacted mainly bank loans by changing either their fair value (fixed rate debt) or its future cash flows (variable rate debt). Management does not have a formal policy to determine how much of the Company's exposure should be at fixed or variable rate. However, at the time of obtaining new loans, Management uses its judgment to decide whether it considers that a fixed or variable rate would be more favorable during the period foreseen to maturity.

As a follow-up to this risk, the Company performs, at least monthly, sensitivity tests to measure the effect of the change in interest rates in the instruments described in the preceding paragraph, which are listed in subsection g) of this note.

e) Financial instruments at fair value

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

The following table details the fair value of financial instruments at amortized cost included in the consolidated statement of financial position:

Liabilities recorded at amortized cost	Carrying amount	Fair value	Carrying amount	Fair value
	2013		2012	
Debt securities	\$ 1,500,000	1,519,065	1,500,000	1,507,562

f) Fair value hierarchy

The following table presents financial assets and financial liabilities measured at fair value and those that are not measured at fair value, but whose fair value disclosure is required, in accordance with its category within the fair value hierarchy.

Measurements of financial assets and liabilities in Level 2 of the fair value hierarchy have been determined in accordance with a market approach for identical instruments.

	Level 1	Level 2	Level 3	Total
As of December 31, 2013				
Investments in primary instruments at fair value through profit and loss	\$ 253,125	719,516	-	972,641
Current and non-current biological assets	2,530,110	-	-	2,530,110
Debt securities (measured at amortized cost)	-	(1,519,065)	-	(1,519,065)
Derivative financial instruments on commodities	-	11,735	-	11,735
	\$ 2,783,235	(787,814)	-	1,995,421

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2012				
Investments in primary instruments at fair value through profit and loss	\$ -	923,010	-	923,010
Current and non-current biological assets	2,603,084	-	-	2,603,084
Interest rate derivative financial instruments	-	152	-	152
Debt securities (measured at amortized cost)	-	(1,507,562)	-	(1,507,562)
Derivative financial instruments on commodities at fair value through profit and loss	2,549	(1,332)	-	1,217
	<u>\$ 2,605,633</u>	<u>(585,732)</u>	<u>-</u>	<u>2,019,901</u>

g) Quantitative sensitivity measurements

Following are sensitivity analyses for the more significant risks to which the Company is exposed as of December 31, 2013. These analyses represent the scenarios that Management considers reasonably possible that could have occurred at the end of fiscal year 2013.

i. Derivative Financial Instruments (DFIs)

As of December 31, 2013, the Company's derivative financial instruments were comprised of instruments to hedge commodity risk only. At year-end levels, the level of exposure of the existing instruments is a loss of \$372.

If at the end of the fiscal year 2013, the bullish price of corn and of short ton of soybean increased 7.5%, the amount of loss related to the Company's derivative financial instruments would increase to \$1,630, affecting the profit and loss of the period to a greater loss on derivative financial instruments. If on the other hand, the aforementioned prices decreased 7.5%, then the effect would be the opposite; i.e., the Company would have experienced a benefit in the profit and loss of the period of \$666.

ii. Interest rate risk

As of December 31, 2013, the total position of primary financial instruments by financial debt and debt securities demonstrates a level of annual exposure to losses of \$7,113.

If, as of the 2013 closing date, variable rates to which the Company is exposed had been higher by 25 basis points, the amount of interest paid would increase to \$4,896 affecting the income of the year. If on the other hand, these rates decreased by 25 basis points, then the effect would be the opposite; i.e., a benefit in the income of the year of \$4,896.

iii. Exchange risk

As of December 31, 2013, the Company's net monetary liability position in foreign currency was \$86,505.

If, as of the 2013 closing date, the exchange rate increased \$0.50 cents, the gain (loss) from foreign currency position would decrease by \$2,341, affecting the Company's profit and loss and stockholders' equity with a loss from foreign currency exchange effects. If, on the other hand, the exchange rate increased by \$0.50, then the effect would be the opposite; that is, an increase in profit and loss and stockholders' equity of \$2,341 for a financial position gain.

(9) **Accounts receivable, net**

As of December 31, 2013 and 2012, accounts receivable are as follows:

	December 31,	
	2013	2012
Trade receivables	\$ 1,704,583	1,788,320
Allowance for doubtful accounts	(69,245)	(46,681)
Creditable value-added tax and other recoverable taxes	592,464	478,999
	<u>\$ 2,227,802</u>	<u>2,220,638</u>

Past-due but not impaired portfolio

Below is a classification of trade accounts receivable according to their aging as of the reporting date, excluding receivables that are in a legal process:

	December 31,	
	2013	2012
Current	\$ 1,470,294	1,502,596
Overdue 0 to 60 days	120,258	208,704
Overdue over 60 days	27,467	18,110
	<u>\$ 1,618,019</u>	<u>1,729,410</u>

As of December 31, 2013 and 2012 the Company has receivables in a legal process (receivables for which legal counsel is seeking recoverability) of \$86,564 and \$58,910, respectively.

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

Reconciliation of movements in allowance for doubtful accounts

	2013	2012
Balance as of January 1	\$ (46,681)	(38,537)
Increase in allowance	(29,980)	(13,501)
Amounts written off during the year	7,416	5,357
Balance as of December 31,	<u>\$ (69,245)</u>	<u>(46,681)</u>

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

(10) Inventories

As of December 31, 2013 and 2012, and January 1, 2012, inventories are as follows:

	December 31,		January 1,
	2013	2012	2012
Raw materials and by-products	\$ 1,100,971	\$ 2,751,718	\$ 1,883,163
Medicine, materials and spare parts	633,829	640,953	487,178
Finished feed	209,082	292,056	83,601
Processed chicken (net of value allowance of \$30,203 as at January 1, 2012)	689,102	784,329	717,572
Commercial eggs	43,213	67,533	33,217
Beef	23,013	17,090	13,658
Turkey	25,090	37,812	12,598
Processed products	13,922	7,864	-
Total	\$ 2,738,222	\$ 4,599,355	\$ 3,230,987

Inventory consumption for the years ended December 31, 2013, 2012 and 2011 was \$26,041,102, \$26,452,636 and \$18,033,819 respectively.

(11) Biological assets

As of December 31, 2013 and 2012, and January 1, 2012, biological assets are as follows:

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2013	\$ 1,496,964	1,106,120	2,603,084
Increase due to purchases	227,864	328,059	555,923
Sales	-	(178,543)	(178,543)
Net increase due to births	283,175	1,242,535	1,525,710
Production cost	24,683,964	1,073,261	25,757,225
Depreciation	-	(1,221,754)	(1,221,754)
Transfers to inventories	(25,270,795)	(1,242,535)	(26,513,330)
Other	(998)	2,793	1,795
Balance as at December 31, 2013	\$ 1,420,174	1,109,936	2,530,110

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2012	\$ 1,548,722	1,029,642	2,578,364
Increase due to purchases	38,123	207,230	245,353
Sales	(7,166)	(325,116)	(332,282)
Increase due to births	257,261	1,222,906	1,480,167
Production cost	25,407,628	1,067,717	26,475,345
Depreciation	-	(861,339)	(861,339)
Transfers to inventories	(25,735,178)	(1,222,906)	(26,958,084)
Other	(12,426)	(12,014)	(24,440)
Balance as at December 31, 2012	\$ 1,496,964	1,106,120	2,603,084

The balance of current biological assets is comprised of hatching eggs, growing pigs and growing poultry; while noncurrent biological assets are comprised of breeder poultry in its different stages of production and breeder pigs.

The change fair value of biological resulted in a decrease of \$7,857 in 2013, an increase of \$11,010 in 2012 and a decrease of \$12,984 in 2011.

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

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

(12) Prepaid expenses and other current assets

As of December 31, 2013 and 2012, prepaid expenses and other current assets are as follows:

		<u>December 31,</u>	
		<u>2013</u>	<u>2012</u>
Advances to suppliers of inventories	\$	801,390	505,667
Prepaid expenses of services		184,001	240,706
Other receivables		112,207	79,999
Prepaid expenses of insurance and bonds		58,764	42,506
Total	\$	<u>1,156,362</u>	<u>868,878</u>

(13) Assets available for sale

As of December 31, 2013 and 2012, assets available for sale are as follows:

		<u>December 31,</u>	
		<u>2013</u>	<u>2012</u>
Buildings	\$	18,242	18,502
Land		28,168	30,361
Other		2,643	2,644
Total	\$	<u>49,053</u>	<u>51,507</u>

(14) Property, plant and equipment

As of December 31, 2013 and 2012, property, plant and equipment are comprised as follows.

Cost	Balance as at January 1, 2013	Additions	Disposals	Currency translation effect	Balance as at December 31, 2013
Land	\$ 1,056,145	770	(59)	326	1,057,182
Buildings and construction	9,397,122	153,685	(19,482)	17,521	9,548,846
Machinery and equipment	9,081,660	462,988	(25,267)	5,114	9,524,495
Transportation equipment	1,170,321	167,324	(133,483)	164	1,204,326
Computer equipment	138,172	3,151	(130)	59	141,252
Furniture	145,669	5,778	(1,760)	54	149,741
Leasehold improvements	38,841	-	(11,989)	-	26,852
Construction in progress	562,750	(206,303)	-	-	356,447
Total	\$ 21,590,680	587,393	(192,170)	23,238	22,009,141

Accumulated depreciation	Balance as at January 1 2013	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2013
Buildings and construction	\$ (4,420,885)	(199,952)	15,844	(2,278)	(4,607,271)
Machinery and equipment	(4,223,450)	(515,833)	15,088	(768)	(4,724,963)
Transportation equipment	(773,826)	(86,936)	71,640	(32)	(789,154)
Computer equipment	(121,753)	(5,232)	130	(42)	(126,897)
Furniture	(101,250)	(8,720)	1,570	(7)	(108,407)
Total	\$ (9,641,164)	(816,673)	104,272	(3,127)	(10,356,692)

Cost	Balance as at January 1, 2012	Additions	Disposals	Currency translation effect	Balance as at December 31, 2012
Land	\$ 1,034,339	25,722	-	(3,916)	1,056,145
Buildings and construction	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 as at January 1, 2012	Depreciation for the year	Disposals	Balance as at December 31, 2012
Buildings and construction	\$ (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, net	Balance as at December 31, 2013	Balance at December 31, 2012
Land	\$ 1,057,182	1,056,145
Buildings and construction	4,941,575	4,976,237
Machinery and equipment	4,799,532	4,858,210
Transportation equipment	415,172	396,495
Computer equipment	14,355	16,419
Furniture	41,334	44,419
Leasehold improvements	26,852	38,841
Construction in progress	356,447	562,750
Total	\$ 11,652,449	11,949,516

Depreciation expense during the fiscal years ended December 31, 2013, 2012 and 2011 was \$816,673, \$837,807 and \$745,837, respectively, which were charged to cost of sales and operating expenses.

(15) **Goodwill**

	2013	2012
Balances at beginning of the year	\$ 300,848	300,848
Business combination additional amounts recognized during the year (Note 4)	42,780	-
Effect of difference in foreign currency exchange rate	631	-
Balances at end of year	\$ 344,259	300,848

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

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

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

Cash-generating unit	2013			
	Final balance of the year (thousands of pesos)	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and península regions	\$ 212,833	5	10.33%	2.70%
Campi	88,015	5	10.33%	2.10%
Ok Farms- Morris Hatchery Inc.	43,411	5	8.74%	0.00%
	\$ 344,259			

Cash-generating unit	2012			
	Final balance of the year (thousands of pesos)	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)
Bachoco - Istmo and península regions	\$ 212,833	5	9.97%	3.80%
Campi	88,015	5	9.97%	2.50%
	<u>\$ 300,848</u>			

(16) Other non-current assets

Other non-current assets consist of the following:

	December 31,	
	2013	2012
Advances for purchase of property, plant and equipment	\$ 133,214	131,561
Investments in life insurance (note 3 (k))	35,754	33,659
Guarantee deposits	15,956	15,589
Other long-term receivable	87,927	81,843
Intangible assets in process	37,955	-
Other	39,793	39,259
Total non-current assets	<u>\$ 350,599</u>	<u>301,911</u>

(17) Financial debt

Major borrowings are secured by guaranties, according to the terms of the borrowing agreements.

Note 8 discloses the carrying amount and fair value of borrowings.

a) Short-term financial debt is as follows:

	December 31,	
	2013	2012
Loan in the amount of USD\$20,000, maturing in April 2013, at LIBOR (3) rate plus 0.84 percentage points.	\$ -	257,400
Denominated in pesos, maturing in January 2013, at TIIE (1) plus 0.60 percentage points.	-	200,000
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) less 0.88 percentage points.	-	59,368
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) less 0.89 percentage points.	-	82,628
Denominated in pesos, maturing in November 2013, at TIIE (1) FIRA (2) less 0.70 percentage points.	-	96,000
Loan of USD\$30,000 denominated in USD, maturing in June 2013, at LIBOR (3) rate plus 1.62 points.	-	386,100
Loan of USD\$30,000 denominated in USD, maturing in June 2014, at LIBOR (3) rate plus 1.20 points.	392,700	-
Denominated in pesos, maturing in January, October, December 2014, at TIIE (1) FIRA (2) less 0.70 percentage points.	148,500	-
Total short-term debt	<u>\$ 541,200</u>	<u>1,081,496</u>

Annual weighted average interest rate of short-term loans denominated in pesos for 2013, 2012 and 2011 was 3.72%, 4.97% and 5.53%, respectively. Average interest rate for short-term loans existing as of December 31, 2013 and 2012, was 3.10% and 4.68%, respectively.

Annual weighted average interest rate of short-term loans denominated in dollars for the years 2013, 2012 and 2011 was 1.49%, 1.06% and 0.8702%, respectively. Average interest rate for loans existing as of December 31, 2013 and 2012 was 1.37% and 1.38%, respectively.

- (1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate
- (2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture
- (3) LIBOR= London Interbank Offered Rate

b) Long-term debt consists of the following:

	December 31,	
	2013	2012
Denominated in pesos, maturing in 2013, at TIIE (1) rate plus 0.60 percentage points.	\$ -	37,500
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 percentage points.	22,329	34,449
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) rates less 1.00 percentage point.	-	14,667
Denominated in pesos, maturing in January 2014, at TIIE (1) FIRA (2) rates less 0.55 percentage points.	4,273	55,546
Debt securities (subsection (d))	1,500,000	1,500,000
	<u>1,526,602</u>	<u>1,642,162</u>
Less current maturities	(16,392)	(115,560)
Long-term debt, excluding current maturities	\$ <u>1,510,210</u>	<u>1,526,602</u>

Long-term annual weighted average interest rate for 2013, 2012 and 2011 was 4.93%, 5.40% and 5.58%, respectively. Average rate for current loans as of December 31, 2013 and 2012 was 4.40% and 5.43%, respectively.

- (1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate
- (2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture

During 2013 and 2012, the Company made early payments on its long-term debt of \$11,833 and \$398,134 respectively, without payment of fees for early termination.

As at December 31, 2013 and 2012, total unused lines of credit in pesos totaled \$5,418,099 and \$2,664,911, respectively. In both fiscal years, the Company did not pay any fee for undrawn balances.

c) Maturities of long-term debt, excluding current maturities, as of December 31, 2013, are as follows:

Year	Amount
2015	\$ 7,720
2016	2,490
2017	1,500,000
	<u>\$ 1,510,210</u>

Interest expense on total loans during the years ended December 31, 2013, 2012 and 2011, amounted to \$97,025, \$71,005 and \$40,688, respectively.

Certain bank loans establish certain affirmative and negative covenants, as well as the requirement to maintain certain financial ratios, which have been met as of December 31, 2013, among which are:

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

d) Debt for issuing debt securities

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

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

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

(1) UDIS = Investment units

Derived from the issuance of the Debt securities, the Company is subject to certain requirements, affirmative and negative covenants, with which they comply as of December 31, 2013.

(18) Trade accounts and other accounts payable

	December 31,	
	2013	2012
Trade payables	\$ 2,764,765	2,838,500
Sundry creditors	205,324	256,132
Expenses payable	194,159	142,799
Statutory employee profit sharing	29,140	30,849
Retained payroll taxes and other local taxes	129,122	110,737
Direct employee benefits	5,504	10,755
Current ISR liability	383,511	-
Interest payable	3,275	883
Others	44,312	54,590
	<u>\$ 3,759,112</u>	<u>3,445,245</u>

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

(19) Transactions and balances with related parties

(a) Transactions with management

(g) *Management payment*

The following table shows the total payment to our directors and executives for services provided in their respective positions for the years ended December 31, 2013, 2012 and 2011, which is included in employee costs (see note 23):

	December 31,		
	2013	2012	2011
Net payment	\$ 52,805	39,288	44,472

(b) Transactions with related parties

Below is a summary of the Company's transactions and balances with other related parties:

i. *Revenues*

	Transaction value		
	December 31,		
	2013	2012	2011
Sales of products to:			
Vimifos S.A de C.V.	\$ 42,719	38,664	24,314
Frescopack S.A de C.V.	-	20	8
Maquinaria Agrícola, S.A. de C.V.	-	-	21
Llantas y Accesorios, S.A. de C.V.	-	50	125
Autos y Accesorios, S.A. de C.V.	-	448	500
Alfonso R. Bours, S.A. de C.V.	13	29	29
Taxis Aéreos del Noroeste, S.A. de C.V.	18	19	28
	<u>\$ 42,750</u>	<u>39,230</u>	<u>25,025</u>

ii. *Expenses and balances payable to related parties*

	Transaction value			Balance as of	
	December 31,			December 31,	
	2013	2012	2011	2013	2012
Purchases of food, raw materials and packing supplies					
Vimifos, S.A. de C.V.	\$ 361,497	467,499	347,062	\$ 21,813	42,855
Frescopack, S.A. de C.V.	147,192	129,119	119,950	18,151	22,766
Pulmex 2000, S.A. de C.V.	13,766	11,844	10,302	-	-
Qualyplast, S.A. de C.V.	753	44	6	242	-
Purchases of vehicles, tires and spare parts					
Maquinaria Agrícola, S.A. de C.V.	\$ 57,100	62,035	69,205	8,415	8,529
Llantas y Accesorios, S.A. de C.V.	29,421	27,282	21,640	4,458	4,724
Autos y Accesorios, S.A. de C.V.	22,525	19,815	24,995	253	4,055
Autos y Tractores de Culiacán, S.A. de C.V.	21,967	18,026	23,207	610	5,026
Camiones y Tractocamiones de Sonora, S.A. de C.V.	23,649	1,647	3,333	5	15
Agencia MX-5 S.A. de C.V.	2,294	397	-	1	-
Alfonso R. Bours, S.A. de C.V.	590	568	767	147	69
Distribuidora Automotriz de los Mochis, S.A. de C.V.	-	-	2,135	-	-
Airplane leasing expenses					
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 7,375	10,137	10,063	-	-
				\$ 54,095	88,039

As at December 31, 2013 and 2012, balances payable to related parties correspond to current accounts denominated in pesos that bear no interest and are payable in a short-term basis.

(20) **Income Tax**

Under the tax legislation in Mexico in effect through December 31, 2013, companies must pay the greater of Income Tax (ISR, by its Spanish acronym) or Flat Income Tax (IETU, by its Spanish acronym). If IETU is payable, the payment will be considered final, not subject to recovery in subsequent years. The Mexican Congress approved tax reforms that were enacted in 2013 but will be in effect beginning January 1, 2014, which include a new ISR Law and the elimination of IETU.

a) **ISR**

The Company and each of its subsidiaries file separate income tax returns (including its foreign subsidiary, which files income tax returns in the United States of America, based on its fiscal year ending in April of every year). For the years ended December 31, 2013 and 2012 the applicable rate under the general tax regime in Mexico is 30%; this rate will be applicable in future years as well. The applicable rate for the foreign subsidiary is 38.79%. Until December 31, 2013 BSACV, the Company's primary operating subsidiary, was subject to ISR under the provisions of a simplified regime, which is applicable to companies engaged exclusively in agriculture, cattle-raising, fishing, forestry and other activities. The ISR Law establishes that the aforementioned activities are exclusive activities when no more than 10% of an entity's total revenues are generated from something other than those activities or otherwise from the production of processed products. BSACV has complied with such provision. The simplified regime established that the taxable income for ISR is determined over collected income less paid deductions. The tax rate for this regime was 21%.

As a result of the new ISR law, which was enacted in 2013 and is effective as of January 1, 2014, the simplified regime was eliminated and is substituted with the an agriculture, cattle-raising, forestry and fishing regime, which is applicable for entities exclusively dedicated to such activities. The ISR Law establishes that such activities are exclusive when no more than 10% of the entities' total revenues are generated from something other than those activities or from industrialized products. In order to determine ISR, under the agricultural, cattle-raising, forestry and fishing regime, taxable income is calculated by adding collected revenue and subtracting paid deductions; the tax rate will be 21% on annual taxable income up to 10 million pesos, and for taxable income in excess of that amount, the tax rate will be 30%.

b) IETU

Through December 31, 2013, IETU was calculated applying the rate of 17.5% to profit determined based on cash flows less some authorized tax credits.

IETU credits were derived mainly from the unamortized negative IETU basis, taxable salaries for ISR purposes and social security contributions, as well as credits derived from deductions of certain assets such as inventories and property, plant and equipment.

IETU was required to be paid when it was greater than ISR for the same fiscal year. To determine the IETU payable, the income tax paid for the same period was subtracted from the current IETU.

If a negative IETU base was determined because authorized deductions exceeded taxable income, no current IETU was payable. The amount of the negative base multiplied by the IETU rate resulted in an IETU credit, which may be applied against ISR for the same year or, if applicable, against IETU payable in the next ten years. According to the Income Tax Law, crediting IETU against ISR of the same fiscal year was not applicable for fiscal years 2013, 2012 and 2011.

As discussed above, the Mexican Congress eliminated the IETU Law, beginning January 1, 2014.

c) Tax charged to profit and loss

For the years ended December 31, 2013, 2012 and 2011, the income tax expense (benefit) included in profit and loss is as follows:

	December 31		
	2013	2012	2011
Operation in Mexico:			
Current ISR	\$ 1,227,189	366,417	69,578
Current IETU	228	-	8
Deferred ISR	(527,449)	207,079	(100,307)
Deferred ISR from tax rate change	674,810	-	-
	<u>1,374,778</u>	<u>573,496</u>	<u>(30,721)</u>
Foreign operation:			
Deferred ISR	(24,339)	28,524	(7,895)
Total ISR expense (benefit)	<u>\$ 1,350,439</u>	<u>602,020</u>	<u>(38,616)</u>

Total income tax expense (benefit)

The income tax expense (benefit) attributable to income before income taxes, was different from the amount computed by applying the ISR rate of 21% in 2013, 2012 and 2011 as a result of the items listed below:

	December 31,					
	2013		2012		2011	
	ISR	Percentage	ISR	Percentage	ISR	Percentage
Expected expense	\$ 712,371	21%	\$ 586,696	21%	\$ 239,574	21%
Increase (decrease) resulting from:						
Net effects of inflation	(64,401)	(2%)	(47,627)	(2%)	(67,883)	(6%)
(Non-taxable income) Non-deductible expenses	(9,213)	(0%)	1,740	0%	870	0%
Gain on purchase of foreign subsidiary	-	-	-	-	(219,931)	(19%)
Effect of general regime rate	23,188	1%	61,777	2%	27,021	2%
Effect of recognition of deferred assets not recognized previously	-	-	(453)	(0%)	(18,112)	(1%)
Effect from non-deductible employee benefits	13,872	0%	-	-	-	-
Effect from change on tax rate in the new ISR Law	674,810	20%	-	-	-	-
Other	(188)	0%	(113)	(0%)	(155)	0%
Expense (benefit) for income taxes	\$ <u>1,350,439</u>	<u>39%</u>	\$ <u>602,020</u>	<u>21%</u>	\$ <u>(38,616)</u>	<u>(3%)</u>

d) Deferred income tax

Through December 31, 2012, based on its financial projections, the Company considered it would pay ISR in future years. In addition, as a result of the elimination of IETU in 2014, the Company will only pay ISR in the future and considered this tax as the base for the determination of deferred tax effects.

The tax effects of temporary differences and tax credits that give rise to significant portions of deferred tax assets and liabilities as at December 31, 2013 and 2012 are detailed below:

	December 31,	
	2013	2012
Deferred tax assets		
Accounts payable	\$ 1,352,591	754,765
Employee benefits	5,110	40,401
PTU payable	8,857	9,254
Effect from derivative financial instruments	-	858
Tax loss carryforwards	90,637	10,043
Total deferred tax assets	<u>1,457,195</u>	<u>815,321</u>
Deferred tax liabilities		
Inventories	1,235,848	1,284,699
Accounts receivable	316,374	221,133
Property, plant and equipment	2,389,609	1,871,086
Prepaid expenses	26,412	36,343
Advances to suppliers	190,143	-
Total deferred tax liabilities	<u>4,158,386</u>	<u>3,413,261</u>
Net deferred tax liability	\$ <u>2,701,191</u>	<u>2,597,940</u>

e) **Unrecognized deferred tax assets**

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

	December 31,	
	2013	2012
Recoverable tax on assets	3,324	3,992
Total	\$ 3,324	3,992

f) **Unrecognized deferred tax liabilities**

Deferred taxes related to investments in subsidiaries have not been recognized as the Company is able to control the moment of the reversal of the difference, and the reversal is not expected to take place in the near future.

g) **Movement in temporary differences during the fiscal year**

	January 1, 2013	Recognized in profit and loss	Acquired or/ Recognized directly in equity	December 31, 2013
Accounts payable	\$ (754,765)	(597,826)	-	(1,352,591)
Employee benefits	(40,401)	60,696	(25,405)	(5,110)
PTU payable	(9,254)	397	-	(8,857)
Effects on derivative financial instruments	(858)	858	-	-
Tax loss carryforwards	(10,043)	(80,594)	-	(90,637)
Inventories	1,284,699	(48,851)	-	1,235,848
Accounts receivable	221,133	95,241	-	316,374
Property, plant and equipment	1,871,086	512,889	5,634	2,389,609
Advanced deductions	36,343	(9,931)	-	26,412
Advances to suppliers	-	190,143	-	190,143
Net deferred tax liability	\$ <u>2,597,940</u>	<u>123,022</u>	<u>(19,771)</u>	<u>2,701,191</u>

	January 1, 2012	Recognized in profit and loss	Recognized directly in equity	December 31, 2012
Accounts payable	\$ (649,678)	(105,087)	-	(754,765)
Employee benefits	(46,889)	6,488	-	(40,401)
PTU payable	(9,002)	(252)	-	(9,254)
Effects on derivative financial instruments	1,704	(2,562)	-	(858)
Tax loss carryforwards	(96,772)	86,729	-	(10,043)
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	\$ <u>2,400,107</u>	<u>235,603</u>	<u>(37,770)</u>	<u>2,597,940</u>

h) Tax on assets and tax loss carryforwards-

As at December 31, 2013, tax loss carryforwards, and recoverable tax on assets (IMPAC) expires as shown below. Amounts are indexed for inflation as permitted by Mexican income tax law:

Year	Amount as at December 31, 2013		
	Tax loss carryforwards	Recoverable IMPAC	Year of expiration
2006	\$ -	3,324	2016
2011	10,153	-	2021/2032
2012	15,678	-	2022
2013	209,835	-	2032/2033
	\$ 235,666	3,324	

i) Impacts on the tax reform for changes beginning 2014

As discussed above, the Mexican Congress approved a new ISR Law that was enacted in 2013 but will go into effect beginning January 1, 2014. Due to this tax reform, the Company has recognized in its financial statements a charge to 2013 results in the amount of \$674,810 of deferred income tax mainly arising from the measurement of deferred assets and liabilities determined based on the new agriculture, cattle-raising, forestry and fishing regime, for the change in the general income tax rate to 30% and for the limitation to the deductible amount of certain employee benefit expenses provisioned.

The main income tax impact to the Company is related to the increase from 21% to 30% in the tax rate of BSACV, the Company's primary operating subsidiary, and to the deductible limitation of 53% of wage expenses that are tax exempt income for workers.

(21) Employee benefits

a) Employee benefits in Mexico

Defined contribution plans

The Company has a defined contribution plan which receives contributions from both the employees and the Company. Employees can make contributions from 1% to 5% of their wage and the Company is obligated to make contributions as follows: i) from the first to the fifth year of service of 1% of the wage, ii) from the sixth year of services of the employee the contribution of the Company is increased by 1% until it reaches 5%, and iii) for the subsequent years the Company contribution will be the same as the employee's. When an employee retires from the Company he/she has the right to receive the contribution he/she has made to the plan, and i) if the employee retires between the first and the fourth year of services, he/she does not have the right to receive the contribution made by the Company, ii) if he/she retires on the fifth year of services he/she has the right to receive 50% of the contributions made by the Company and, for each additional service year, the employee has the right to receive an additional 10% of the contributions made by the Company.

The Company makes payments equivalent to 2% of the integrated wage of its workers to the defined contribution plan for the retirement saving fund system established by the Mexican law. The expense for this concept was \$40,023, \$39,681 and \$38,699, in 2013, 2012 and 2011, respectively.

Defined benefits plan

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

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

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

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

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

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

	December 31,	
	2013	2012
Present value of unfunded obligations	\$ 48,245	121,928
Present value of funded obligations	312,170	263,250
Total present value of benefit obligations (PBO)	360,415	385,178
Plan assets at fair value	(312,170)	(263,250)
Unrecognized actuarial losses	-	(25,315)
Projected liability, net	\$ 48,245	96,613

i. Composition and return of plan assets

	Actual return of the plan's assets		Composition of the plan's assets	
	2013	2012	2013	2012
Fixed income securities	5.52%	5.31%	70%	70%
Variable income securities	2.37%	3.44%	30%	30%
Total	7.89%	8.75%	100%	100%

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

	2013	2012
PBO as at January 1	\$ 385,178	321,270
Benefits paid by the plan	(19,213)	(31,513)
Service cost	26,680	21,876
Interest cost	28,138	26,638
Actuarial (gains) losses recognized in the statement of comprehensive income	(60,368)	46,907
PBO as at December 31	\$ 360,415	385,178

iii. *Movements in the fair value of plan assets*

	<u>2013</u>	<u>2012</u>
Plan assets at fair value as at January 1	\$ 263,250	250,856
Plan contributions	36,626	15,125
Benefits paid by the plan	(8,482)	(19,877)
Expected return on plan assets	20,087	24,522
Actuarial losses (gains) in the statement of comprehensive income	689	(7,376)
Fair value of plan assets as at December 31	\$ <u>312,170</u>	<u>263,250</u>

iv. *Expense recognized in profit and loss*

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current service cost	\$ 26,680	21,876	26,620
Interest cost, net	8,051	-	-
Interest cost on obligation	-	26,638	24,496
Curtailment gain	-	(657)	-
Prior service cost	-	-	20,937
Actual return on plan assets	-	(24,522)	(25,815)
	\$ <u>34,731</u>	<u>23,335</u>	<u>46,238</u>

v. *Actuarial gains and losses*

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Amount accumulated as at 1 January	\$ (25,315)	29,624	-
Recognized during the year	(61,057)	(54,939)	29,624
Amount accumulated as at 31 December	\$ <u>(86,372)</u>	<u>(25,315)</u>	<u>29,624</u>

vi. *Actuarial assumptions*

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

	<u>2013</u>	<u>2012</u>
Discount rate as at 31 December	8.50%	7.50%
Expected return on plan assets at 1 January	N/A	7.50%
Future salary increases	4.50%	4.50%
Future pension increases	<u>4.25%</u>	<u>4.25%</u>

The assumptions related to mortality are based on statistics and experiences over the Mexican population. The average expected life of an individual that retires at 65 years of age is 10.85 years for men and 6.72 years for women (Experience Chart of Demographic Mortality for Active EMSSA 1997).

vii. *Historical information*

	December 31, _	
	2013	2012
Present value of defined benefit obligation	\$ 360,415	385,178
Plan assets at fair value	(312,170)	(263,250)
Plan deficit	\$ 48,245	121,928
Experience adjustments arising from plan liabilities	\$ (60,368)	46,907
Experience adjustments arising from plan assets	\$ (689)	7,376

viii. *Sensitivity analysis of the defined benefits obligations as of December 31, 2013*

	Pension plan	Seniority premium	Constructive obligation	Total PBO
Discount rate 8.50%	(225,650)	(86,880)	(47,885)	(360,415)
Rate increase (+ 1%)	(186,196)	(79,508)	(44,936)	(310,640)
Rate decrease (- 1%)	(277,487)	(92,373)	(51,223)	(421,083)

ix. *Expected cash flow for each benefit*

	Pension plan	Seniority premium	Constructive obligation	Total
2014-2023	\$ 225,650	86,880	47,885	360,415

x. *Future contributions to the defined benefits plan*

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

b) **Foreign employee benefits**

Bachoco USA, LLC. (foreign subsidiary) has a defined contribution retirement plan of 401(k), covering all employees who meet certain eligibility requirements. The Company contributes to the plan at the rate of 50% of employee's contributions up to a maximum of 2% of the individual employee's payment. The cumulative contribution expense for this plan was \$5,681, \$4,131 and \$471 for the year ended December 31, 2013, 2012 and 2011, respectively.

Bachoco USA, LLC. Also has a deferred payment agreement with certain key employees. Amounts payable under this plan are vested after 10 years from the date of the agreement. The benefit value of each unit is equal to the increase in the initial book value from the date of the agreement to the conclusion of the vesting period. Under the agreement, 38,500 units were outstanding as of December 31, 2013 and 2012, respectively, all of which were fully vested. The total liability under this plan totaled \$3,503 and \$3,449 as at December 31, 2013 and 2012, respectively. The expense for this plan for the year ended December 31, 2013, 2012, and 2011 was of \$0, \$9,319, and \$0, respectively.

c) **PTU**

Industrias Bachoco, S.A.B de C.V. and BSACV have no employees. Each of the subsidiaries of the Company that has employees in Mexico is required under Mexican laws to pay employees, in addition to their payment and benefits, statutory employee profit sharing in an aggregate amount equal to 10% of each subsidiary's taxable income. The accrued liability as of December 31, 2013 and 2012 is shown in note 18, Trade payable and other accounts payable.

(22) Costs and expenses by nature

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cost of sales	\$ 33,176,599	33,318,207	24,797,037
General, selling and administrative expenses	3,291,006	3,396,655	2,974,733
Total costs and expenses	<u>\$ 36,467,605</u>	<u>36,714,862</u>	<u>27,771,770</u>
Leases	\$ 286,022	290,066	188,244
Inventory consumption	26,041,102	26,452,636	18,033,819
Depreciation	816,673	837,807	745,837
Freight	2,495,673	2,412,771	1,995,055
Maintenance	1,028,511	1,037,982	1,152,297
Other	1,651,700	1,641,126	1,731,140
Other utility expenses	1,119,094	1,120,314	1,022,305
Wages and salaries	3,028,830	2,922,160	2,903,073
Total	<u>\$ 36,467,605</u>	<u>36,714,862</u>	<u>27,771,770</u>

(23) Employee costs

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Wages and salaries	\$ 3,028,830	2,922,160	2,903,073
Contributions to pension fund	36,625	15,125	15,100
Expenses related to defined benefit plans	12,885	4,481	28,223
Payments for severance expenses	31,518	40,040	48,534
	<u>\$ 3,109,858</u>	<u>2,981,806</u>	<u>2,994,930</u>

The employee cost is presented in cost of sales and general administrative and sale expenses line items.

(24) Operating leases

Company as lessee

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Lease expenses	\$ 286,022	290,066	188,244

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

2014	\$ 58,109
2015	40,480
2016	38,053
2017	36,174
2018	21,928

(25) Stockholders' equity and reserves

a) Common stock and premiums

As of December 31, 2013, 2012 and 2011, the Company's capital stock is represented by 600,000,000 Series "B" registered shares with a par value of \$1 peso per share.

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

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

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

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

(1) All Series B shares with voting power.

(2) Operating at the BMV and the NYSE.

Based on the information provided to the Company, as of December 31, 2013, stockholders with 1% or more interest in the Company, in addition to the family trusts, are as follows:

	As of December 31, 2013	
	Shares	Position
Royce & Associates LLC	17,885,652	3.0%
River Road Asset Management LLC	6,777,060	1.1%

b) Other comprehensive income items

i. Foreign currency translation reserve

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

ii. Actuarial remeasurements

Actuarial remeasurements are recognized as other components of comprehensive income and are related to variations in actuarial assumptions that generate actuarial gains or losses as well as adjust the actual yields from plan assets from the net interest cost calculated over the net defined benefits liability balance. Actuarial remeasurements are presented net of income tax within other comprehensive income in the consolidated statement of changes in stockholders' equity.

c) Reserve for repurchase of shares

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

Pursuant to a resolution at the General Ordinary Stockholders' Meeting, an amount of \$391,560 was approved to be used in the reserve for acquisition own shares.

The following table shows the movements of the reserve for acquisition of shares during the years ended December 31, 2013, 2012 and 2011:

Reconciliation of treasury shares	Number of shares
Total shares as at December 31, 2012	-
(+) Total shares purchased in 2013	100,000
(-) Total shares sold in 2013	(100,000)
Balance as at December 31, 2013	-
Total shares as at December 31, 2011	227,400
(+) Total shares purchased in 2012	3,704,731
(-) Total shares sold in 2012	(3,932,131)
Balance as at December 31, 2012	-
Total shares at January 1, 2011	200,000
(+) Total shares purchased in 2011	257,400
(-) Total shares sold in 2011	(230,000)
Balance as at December 31, 2011	227,400

The net amount of repurchase and treasury share sale transactions gave rise to a gain of \$127 and \$10,993 during the years ended December 31, 2013 and 2012, respectively, and a loss of \$209 as at December 31, 2011, recognized within equity.

As at December 31, 2013, the Company has no treasury shares.

d) Dividends

During the years ended December 31, 2013, 2012 and 2011, the Company has declared and paid the following dividends:

In 2013, the Company declared dividends on April and December as follows:

- On April 24th, the Company declared a payment of dividends in cash at nominal value of \$350,400 or \$0.584 pesos per outstanding share. The payment was made in two even installments of \$0.292 pesos in May and July, 2013.
- On December 6th, the Company declared a second payment of dividends in cash in the amount at nominal value of \$600,000 or \$1.00 peso per outstanding share, which was paid on December 23, 2013.

In 2012 and 2011 the Company declared and paid dividends to its shareholders for a nominal value amount of \$299,175 and \$299,926 respectively, or \$0.50 per outstanding share in nominal pesos.

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

The Company obtains most of its revenue and net income from BSACV. For fiscal years 2013, 2012 and 2011, net income of BSACV, accounted for 71%, 79% and 86% respectively, of consolidated net income. Dividends for which BSACV pays ISR will be credited to the Company's CUFIN account, and accordingly, any future liabilities arising from ISR will arise when such amounts are distributed as dividends by the Company to the stockholders.

The restated amount on tax bases of the contributions made by stockholders (CUCA), totaling \$2,416,635, may be refunded to them tax-free, to the extent that such amount is the same or higher than equity.

(26) Earnings per share

Earnings per share for the years ended December 31, 2013, 2012 and 2011 are \$3.40, \$3.65 and \$1.96, respectively. The calculation of basic earnings per share was based on income attributable to ordinary stockholders of \$2,038,422, \$2,184,567 and \$1,177,346 for the years ended December 31, 2013, 2012 and 2011, respectively.

The average weighted number of common outstanding in 2013, 2012 and 2011 was 599,992,952, 598,959,882 and 599,822,448 shares, respectively.

The Company has no ordinary shares with potential dilutive effects.

(27) Commitments

- Bachoco USA, LLC (foreign subsidiary) has self-insurance programs for health care costs and workers' payments. The subsidiary is liable for health care claims up to \$4,582 (350 thousand dollars) each year per plan participant and workers' payments claims up to \$13,090 (1,000 thousand dollars) per event. Self-insurance costs are recorded based on the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported. The provision for this concept is recorded in the accompanying consolidated statement of financial position within current liabilities amounting to \$48,472 (3,703 thousand dollars) as at December 31, 2013. Likewise, the consolidated statement of comprehensive income includes expenses relating to self-insurance plans of \$85,006 (6,494 thousand dollars) for the year ended December 31, 2013. The Company is required to maintain letters of credit on behalf of the subsidiary of \$44,506 (3,400 thousand dollars) to secure self-insured workers' payments.
- The Company has entered into grain supply agreements with third parties as part of the regular course of its operations.

(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 obtained, there is a risk that the loss or destruction of certain assets may have a significant adverse effect on the Company's operations and financial situation.

b) Lawsuits

- The Company is involved in a number of lawsuits and claims arising from the regular course of business. In the opinion of the Company's management, they are not expected to have significant effects on the Company's financial position, operating results and future consolidated statements of cash flows.
- Bachoco USA, LLC. is involved in claims with the United States of America Department of Labor and the United States Immigration and Customs Enforcement, and various other matters related to its business, including workers' payment claims and environmental issues. As at December 31, 2013 and 2012, the Company has recorded provisions for potential claims of \$19,635 (1,500 thousand dollars) and \$25,740 (2,000 thousand dollars), which are included within current liabilities.
- On December 2009, the Mexican Federal Competition Agency (CFC, for its Spanish acronym) released a news report in which it announced an investigation on the Mexican poultry industry in reference to possible monopolistic practices. The accusation was not referenced to a specific entity. The Company, as well as other producers and distributors, was required to provide information to the CFC during the subsequent years. As a result the CFC determined the following:

- On November 2012, the CFC imposed a fine of \$1.4 million pesos to Bachoco, arguing Bachoco conspired with local producers to manipulate the chicken price in Chetumal, Quintana Roo. Price manipulation is a prohibited practice under Mexican law.

- On January 2013, the CFC released a new announcement with a new fine of \$1.6 million pesos, arguing Bachoco conspired with local producers to manipulate the chicken price in Cancún, Quintana Roo.

In all cases, the Company disagreed with the CFC's resolution and appealed all of the resolutions according to the provisions of Mexican law, to assert its rights as a company that contributes to the development of the country and to a free market. The Company and its attorneys do not believe that it is probable that it will receive an unfavorable outcome for which reason it has not provisioned any amounts.

c) Tax contingencies

In accordance with tax laws, Mexican authorities are empowered to review transactions carried out during the five years prior to the most recent ISR return filed. For the operations in the United States of America, the authorities of that country are empowered to review transactions carried out during the three years prior to the due date of the most recent annual tax return. Although the Company is under review by tax authorities, nothing has come to its attention as a result of those reviews that would indicate that a contingency exists.

(29) Financial income and costs

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest income	\$ 298,141	209,170	182,274
Income from interest in accounts receivable	16,104	12,893	11,503
Foreign exchange gain, net	28,085	35,212	54,505
Effects of valuation of financial instruments	2,455	12,757	-
Financial income	<u>344,785</u>	<u>270,032</u>	<u>248,282</u>
Effects of valuation of financial instruments	-	-	(896)
Interest expense and financial expenses on financial debt	(97,025)	(71,005)	(40,688)
Commissions and other financial expenses	(129,341)	(33,995)	(29,056)
Financial costs	<u>(226,366)</u>	<u>(105,000)</u>	<u>(70,640)</u>
Financial income, net	<u>\$ 118,419</u>	<u>165,032</u>	<u>177,642</u>

(30) Other income (expenses)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Other income			
Sale of scrap of biological assets, raw materials, by-products and other	\$ 332,623	271,385	202,780
Bargain purchase gain - domestic business acquisition (note 4b)	-	-	46,724
Bargain purchase gain - foreign business acquisition (note 4a)	-	-	1,000,565
Total other income	<u>332,623</u>	<u>271,385</u>	<u>1,250,069</u>
Other expenses			
Cost of disposal of biological assets, raw materials, by-products and other	(244,054)	(257,182)	(193,707)
Business acquisition-related costs (note 4a)	-	-	(11,426)
Other	(57,865)	(38,013)	(44,971)
Total other expenses	<u>(301,919)</u>	<u>(295,195)</u>	<u>(250,104)</u>
Total other income (expenses), net	<u>\$ 30,704</u>	<u>(23,810)</u>	<u>999,965</u>

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 production complexes in México and in the U.S. Currently the Company employs more than 24,000 people.

The Company is rated AA+ (MEX), representing high credit quality by Fitch Mexico, S.A. de C.V., and HR AA+ which signals that the Company and the offering both have high credit quality by HR Ratings de Mexico S.A. de C.V.



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

HEADQUARTERS

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STOCK INFORMATION

Share in the BMV: BACHOCO
Bonds in the BMV: BACHOCO12
ADRs in the NYSE: IBA





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