

Industrias Bachoco S.A.B. de C.V.  
Form 20-F  
April 28, 2015

**UNITED STATES**

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

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2014**

**OR**

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

**OR**

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

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

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

**Commission File Number: 333-7480**

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

**Bachoco Industries**

(Translation of Registrant's name into English)

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

**Avenida Tecnologico 401**

**Ciudad Industrial, 38010**

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

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

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

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

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

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

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

Series B Capital Stock: 600,000,000 Shares

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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## Introduction

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

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

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

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

## Presentation of Information

### *Fiscal Year*

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

### *Currency*

Except as otherwise indicated, all data in the financial statements included below and in Item 18 (which together with the attached notes constitute our “Audited Consolidated Financial Statements”) and the selected financial information included throughout this Form 20-F (this “Annual Report”) have been presented in millions of nominal pesos unless



otherwise indicated. References herein to “pesos” or “\$” are to the lawful currency of Mexico.

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

This Annual Report contains translations of certain peso amounts into dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such dollar amounts have been translated from pesos at an exchange rate of \$14.75 to USD\$1.00 (one dollar), the exchange rate on December 31, 2014, according to the *Banco de Mexico* (or the “Central Bank”).

### *Accounting Practices*

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

Following these amendments, on January 1, 2012, we adopted IFRS, meeting the CNBV requirements. At the same time, our financial statements as of and for the fiscal year ended December 31, 2011, and the opening balance as of January 1, 2011, were converted from Mexican Financial Reporting Standards (MFRS) to IFRS to make them comparable to our financial statements for fiscal year 2012.

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

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

#### *Other References*

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

#### *Non-GAAP Financial Measures*

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

The Company discloses in this Annual Report the so-called non-GAAP financial measures of EBITDA result, EBITDA margin, and Net debt. EBITDA result is defined as profit before income tax expense (benefit), financial income (expense), net and depreciation. EBITDA margin is defined as EBITDA result divided by total net revenues. Net debt is defined as long-term debt (including the current portion) plus short term debt minus cash and cash equivalents, primary financial instruments and derivative financial instruments. The non-GAAP financial measures of

EBITDA result and EBITDA margin are not substitutes for the GAAP measure of net income. Rather, these measures are provided as additional information to complement the GAAP measure of net income by providing further understanding of the Company's results of operations from management's perspective. Additionally, the non-GAAP financial measure of Net debt is not a substitute for the GAAP measure of Total debt. Rather, this measure is provided as additional information to contemplate the GAAP measure of Total debt by providing further understanding of the Company's debt obligations. Accordingly, they should not be considered in isolation or as substitutes for an analysis of the Company's financial performance, liquidity or debt obligations.

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

## Market Data

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

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

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

## Forward-looking Statements

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

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

and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

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

PART I

ITEM 1. Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

A. Selected Financial Data

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

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

**INCOME STATEMENT DATA**

**In millions, for the year ended December 31,**

	2014 USD\$	2014 \$	2013 \$	2012 \$	2011 \$
Net revenues	2,832.5	41,779.1	39,710.7	39,367.4	27,735.0
Cost of sales	2,203.1	32,495.0	33,176.6	33,318.2	24,797.0

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Gross profit	629.4	9,284.1	6,534.1	6,049.2	2,938.0
General, selling and administrative expenses	256.4	3,781.3	3,291.0	3,396.7	2,974.7
Other (expenses) income, net	(10.9 )	(160.9 )	30.7	(23.8 )	1,000.0
Operating income	362.2	5,341.9	3,273.8	2,628.8	963.2
Net finance income	16.7	246.9	118.4	165.0	177.6
Income tax	112.3	1,656.1	1,350.4	602.0	(38.6 )
Controlling interest	266.2	3,926.9	2,038.4	2,184.6	1,177.3
Non-controlling interest	0.4	5.7	3.4	7.2	2.1
Profit for the year	266.6	3,932.7	2,041.8	2,191.8	1,179.4
Basic and diluted earnings per share <sup>(1)</sup>	0.4	6.55	3.40	3.65	1.96
Basic and diluted earnings per ADR <sup>(2)</sup>	5.3	78.54	40.84	43.80	23.52
Dividends per Share <sup>(3)</sup>	0.0	0.00	1.584	0.50	0.50
Weighted average Shares outstanding <sup>(4)</sup>	599,955	599,955	599,993	598,960	599,822

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

(2) Each ADR represents twelve shares.

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

(4)

In thousands of shares.

**STATEMENT OF FINANCIAL POSITION DATA****In millions as of December 31**

	2014 USD\$	2014 \$	2013 \$	2012 \$	2011 \$
Total assets	2,362.2	34,843.1	28,889.7	28,040.2	24,717.3
Cash and cash equivalents	748.2	11,036.1	6,716.9	4,179.5	2,625.7
Primary and derivative financial instruments	63.2	932.3	1,015.8	964.9	420.9
Total liabilities	710.6	10,481.1	8,738.5	8,951.5	7,337.5
Short-term debt <sup>(1)</sup>	54.1	798.0	557.6	1,197.1	1,453.0
Long-term debt	112.0	1,652.5	1,510.2	1,526.6	384.4
Total stockholders' equity	1,651.7	24,362.1	20,151.1	19,088.7	17,379.8
Capital stock	79.6	1,174.4	1,174.4	1,174.4	1,174.4

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

**MARGINS**

In percentage, for the years ended December 31:

	2014	2013	2012	2011
Gross margin	22.2%	16.5%	15.4%	10.6%
Operating margin	12.8%	8.2 %	6.7 %	3.5 %
Margin for the year	9.4 %	5.1 %	5.6 %	4.3 %

***Other Indicators***

The tables set below present key indicators.

**VOLUME SOLD BY BUSINESS LINE**

In thousands of tons, as of December 31,

	2014	2013	2012	2011	2010
Total sales volume:	1,841.4	1,771.1	1,861.6	1,606.3	1,473.3
Poultry	1,495.0	1,429.2	1,485.2	1,205.9	1,125.8
Others	346.4	341.9	376.4	400.4	347.5

***Gross Domestic Product, Inflation Rate and CETES***



The chart below includes Mexican gross domestic product (“GDP”) and inflation rate data from 2010 to 2014, and the average interest rates on 28-day Mexican treasury bills (“CETES”), as provided by the Mexican Central Bank.

***Gross Domestic Product***

Mexico has experienced economic growth in the last five years, but to varying degrees. In 2014, the Mexican GDP was 2.1%, lower than expected, but higher than the growth reached in 2013, which was 1.1%. In 2012 and 2011, Mexican GDP was 3.9% and in 2010 it had a strong year, reaching a growth rate of 5.5%.

***Interest Rates***

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

***Inflation Rates***

Inflation rates in Mexico have remained on the low end for more than a decade. The annual rate of inflation, as measured by changes in the Mexican National Consumer Price Index, or NCPI, was 4.1% in 2014, 3.97% in 2013, 3.6% in 2012, 3.8% in 2011 and 4.4% in 2010, according to the *Banco de Mexico*. An adverse change in the Mexican economy may have a negative impact on price stability and result in higher inflation than its main trading partners, including the United States.

**GDP, INFLATION RATE AND CETES DATA**

Year	GDP	Inflation Rate	CETES
2014	2.1%	4.08%	2.7%
2013	1.1%	3.97%	3.8%
2012	3.9%	3.57%	3.9%
2011	3.9%	3.82%	4.3%
2010	5.5%	4.40%	4.4%

On March 30, 2015, the 28 day CETES rate was 3.02%.

***Exchange Rates***

In 2010, the Mexican peso strengthened its position during the year as compared to the dollar, appreciating approximately 5.3% since the end of 2009, while the inflation rate for 2010 was 4.40%.

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

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

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

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

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

**EXCHANGE RATE FOR THE LAST 5 YEARS****In pesos per one dollar**

	High	Low	Average (1)	Close
	\$	\$	\$	\$
2014	14.79	12.85	13.30	14.751 <sup>(1)</sup>
2013	13.43	11.98	12.76	13.10
2012	14.37	12.63	13.15	12.96
2011	14.25	11.51	12.43	13.95
2010	13.19	12.16	12.62	12.38

**EXCHANGE RATE FOR THE LAST 6 MONTHS**

March 2015	15.63	14.93	15.24	15.26
February 2015	15.10	14.75	14.92	14.94
January 2015	15.00	14.56	14.69	15.00
December 2014	14.79	13.94	14.52	14.751 <sup>(1)</sup>
November 2014	13.92	13.54	13.61	13.92
October 2014	13.57	13.39	13.48	13.48

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

(1) As of December 31, 2014, the exchange rate for the year end for the *Banco de Mexico* was \$14.75 per one dollar.

On March 31, 2015, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was \$15.2450 per one dollar.

**B. Capitalization and Indebtedness**

Not applicable.

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

Not Applicable.

**D. Risk Factors**

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

**Risks Related to Economic, Political and Regulatory Conditions**

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

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

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

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

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

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

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

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

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

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

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

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

Although the U.S. presidential election in 2012 did not result in a change of the nations' leadership, any political or regulatory change in the U.S. regarding Mexico may also affect the economic conditions in Mexico and, as a consequence, affect our financial performance.

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

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

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

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

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

#### **Risks Related to Bachoco and the Poultry Industry**

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

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

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



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

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

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

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

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

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

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

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

Our operations in Mexico and in the U.S. depend on raising animals and meat processing, which are subject to risks such as diseases (like different types of avian flu) and contamination during production, packaging, storage or distribution processes.

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

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

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

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

***We recently identified material weaknesses in our internal controls over financial reporting related to our risk assessment capabilities and physical control over fixed assets.***

Our management and auditors recently identified material weaknesses in our internal control over financial reporting as of December 31, 2014. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses identified are: (i) deficiencies in our risk assessment activities, which may have an effect on our response to mitigate risks associated with our Consolidated Financial Statements and (ii) deficiencies associated with physical control over our fixed assets. See Item 15 for more details on the material weaknesses.

Any failure to implement and maintain improvements in the controls over our financial reporting, or difficulties encountered in the implementation of such improvements, could result in a material misstatement in our annual or interim financial statements that would not be prevented or detected, and/or cause us to fail to meet our reporting obligations under applicable securities laws and could also cause investors to lose confidence in our reported financial information, which could have an adverse impact on the trading price of our shares or the ADRs.

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

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

***Elimination of tariff barriers may adversely affect our performance.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As required by Mexican law, our bylaws provide that non-Mexican stockholders shall be considered as Mexicans with respect to their ownership interests in Bachoco and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican stockholder is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim

against the Mexican government with respect to the stockholder's rights as a stockholder, but is not deemed to have waived any other rights it may have, including any rights under the U.S. federal securities laws, with respect to its investment in Bachoco. If you invoke such governmental protection in violation of this agreement, your Shares could be forfeited to the Mexican government.

***Our bylaws may only be enforced in Mexico.***

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

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

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

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

Under Mexican law and our bylaws, if we issue new Shares for cash as part of a capital increase, we must grant our stockholders the right to purchase a sufficient number of Shares to maintain their existing ownership percentage in the Company (“preemptive rights”). We can allow holders of ADRs in the United States to exercise preemptive rights in any future capital increase only in one of the following two circumstances: (i) we file a registration statement with the SEC with respect to that future issuance of Shares; or (ii) the offering qualifies for an exemption from the registration requirements of the Securities Act of 1933, as amended.

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

#### ITEM 4. Information of the Company

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

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

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



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

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

*Important events in the development of the Company's business*

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

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

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

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

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

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

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

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

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

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

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

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

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

On June 20, 2014, we entered into an option agreement with Morris Hatchery, Inc. that gives us the right to purchase Morris Hatchery Inc.’s hatching egg operations located in Gillsville, Georgia once Morris Hatchery Inc.’s contractual obligations with its current customers have concluded. As of December 31, 2014, Morris Hatchery Inc.’s contractual obligations had not yet concluded. Once the option becomes exercisable, and we choose to exercise it, we expect the purchase to take place prior to December 31, 2015.

See Note 12 of our Audited Consolidated Financial Statements for more detail.

### ***Capital Expenditures***

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

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

Our capital expenditures in 2014 totaled \$1,241.1 million, which was mainly allocated to projects geared towards the alleviation of some bottleneck in our operating processes, thereby increasing production, productivity improvements and the replacement of the transportation fleet used in our operations in Mexico and the U.S.

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

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

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

B.

Business Overview

*General*

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

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

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

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

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

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

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

### ***Principal Markets***

We operate mainly in Mexico and in the U.S. We estimate that we are the biggest producer of chicken products in Mexico. Based on our internal estimates, we currently account for approximately 35.0% of the Mexican chicken production market and are the second largest producer of eggs with an estimated market share of approximately 5.0%. We currently estimate that we have a 2.8% market share in the balanced feed products.

As noted previously, in the U.S. we produce and distribute chicken products only. Based on our internal estimates, we currently account for approximately 2.0% of this market.

The following table sets forth, for each of the periods indicated, our net revenues by main product lines as a percentage of total net revenues, as of December 31, 2014, 2013 and 2012:

### **NET REVENUES BY BUSINESS LINES**

**In millions of pesos, for the year ended December 31,**

	2014		2013		2012	
	\$	%	\$	%	\$	%
Net Revenues	<b>41,779.1</b>	<b>100.0</b>	<b>39,710.7</b>	<b>100.0</b>	39,367.5	100.0
Poultry	37,994.7	90.9	35,943.9	90.5	35,797.2	90.9
Others	3,784.4	9.1	3,766.8	9.5	3,570.3	9.1

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

*Overview of the Chicken Industry in Mexico*

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

Mexico is among the ten main chicken producers worldwide, with an estimated production of 3,025.1 thousand tons of chicken meat in 2014, and a per capita consumption of 25.9 kilograms a year in 2014, an increase of 3.0% when compared to 25.1 kilograms a year in 2013.

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

We estimate that we are Mexico's largest chicken producer with around 35.0% share of the chicken production market, and when combined with our two largest vertically integrated competitors in Mexico, we account for approximately 59.0% of total Mexican poultry production.

According to the USDA, Mexico is a main destination for U.S. chicken exports. Chicken imports from the U.S. have increased from 204.1 thousand tons in 2008 (when restrictions for leg quarters imports were phased out in January 2008) to approximately 416.9 thousand tons in 2014. In particular, in 2014, chicken imports from the U.S. increased 7.9% when compared to 2013. This increase was due to the increase in Mexican demand and lower price levels in the U.S. and other foreign markets.

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

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

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

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

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

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

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



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

## SALES AND VOLUME OF CHICKEN BY CATEGORY

In 2014	Industry /volume <sup>(1)</sup>	Bachoco /volume	Bachoco /sales
Live	n/a	36	% 30 %
Public market	n/a	12	% 12 %
Rotisserie	n/a	26	% 26 %
Supermarket	n/a	4	% 4 %
Chicken parts	n/a	11	% 13 %
Value-added products	n/a	11	% 15 %
In 2013	Industry /volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales
Live	33	% 36	% 29 %
Public market	19	% 13	% 13 %
Rotisserie	26	% 26	% 27 %
Supermarket	12	% 5	% 5 %
Chicken parts	6	% 12	% 15 %
Value-added products	4	% 8	% 11 %
In 2012	Industry /volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales
Live	33	% 36	% 30 %
Public market	19	% 13	% 13 %
Rotisserie	26	% 27	% 28 %
Supermarket	12	% 5	% 5 %
Chicken parts	6	% 10	% 12 %
Value-added products	4	% 8	% 11 %

(1) Industry information for 2014 is not available as of the date of this report.

(2) Source: UNA.

Overview of the Chicken Industry in the U.S.

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

The U.S. is the world's largest producers of chicken. Its annual production is estimated at 17.5 million tons or 38.5 billion pounds in 2014 a 1.9% increase over the 17.2 million tons produced in 2013, and its per capita consumption is also one of the highest worldwide, per annum, estimated at 37.9 kilograms (around 83.4 pounds).

The U.S. chicken industry is more consolidated and vertically integrated. Most producers of chicken use state-of-the-art technology in their processes. It is estimated that the main three chicken producers account for 45.6% of the total chicken production in the U.S.

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

Brazil and the U.S. are the main exporters of chickens worldwide, and their main destinations are Mexico, China, Russia and the Middle East, among other countries. We estimate that our market share is around 2.0% in the U.S.

#### Overview of the Egg Industry in Mexico

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

There is an estimated per capita consumption of around 22.0 kilograms for 2014, a 1.5% increase when compared to 21.7 kilograms in 2013.

Mexico’s 2014 annual egg production is estimated at 2,571.3 million tons, an increase of 2.5% as compared with 2,532.0 million tons produced in 2013.

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

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

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

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

We estimate that we are the second largest producer of table eggs in Mexico. In 2014 and 2013, we produced 4.9% and 5.6%, respectively, of the total eggs produced in Mexico in terms of tons. We sell both brown and white eggs. We estimate that we are the largest producer of brown eggs in Mexico, and the largest marketer of packaged eggs with brand identification.

In 2014, 2013 and 2012, the volume sold in the table eggs category in the Mexican industry and by the Company was:

#### SALES AND VOLUME OF EGG BY CATEGORY

In 2014	Industry /volume <sup>(1)</sup>	Bachoco /volume	Bachoco /sales		
Bulk	n/a	31	%	28	%
Packaged	n/a	69	%	72	%
Processed	n/a	0	%	0	%
In 2013	Industry /volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales		
Bulk	82	% 40	%	36	%
Packaged	14	% 60	%	64	%
Processed	4	% 0	%	0	%
In 2012	Industry /volume <sup>(2)</sup>	Bachoco /volume	Bachoco /sales		
Bulk	80	% 42	%	38	%
Packaged	14	% 58	%	62	%
Processed	6	% 0	%	0	%

(1) Industry information for 2014 is not available as of the date of this report.

(2) Source: UNA.

#### Overview of the Balanced Feed Market in Mexico

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

According to CONAFAB, it is estimated that 29,767 thousand tons of balanced feed were produced in Mexico in 2014, a slight increase from 29,120 thousand tons of balanced feed produced in 2013.

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

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

In 2014, CONAFAB estimated that the production mix between commercial and integrated was about 38% and 62%, respectively. This mix has not changed much over the past several years.

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

**BALANCED FEED VOLUME SOLD**

Thousands of tons	<b>Production</b> <sup>(1)</sup>	Bachoco's Production	Estimated Market Share	
2014 <sup>(2)</sup>	11,269	320	2.8	%
2013	10,940	316	2.9	%
2012	10,914	351	3.2	%

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

(2) CONAFAB estimates

***Seasonality Effects***

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

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

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

***Pricing for chicken and eggs products***

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

***Main Raw Materials and Sources of Supply***

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

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

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

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

In Mexico, domestic crops are limited, therefore a large percentage of our raw materials are imported from the U.S. In 2014, in terms of volume, we bought approximately 52.6% of our total grain from the domestic market and the remaining 47.4% from the U.S.

### *Marketing Channels Used by the Company*

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

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

We participate and operate in all the following marketing channels:

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

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

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

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



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

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

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

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

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

Marketing and Distribution of Eggs Products in Mexico

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

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

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

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

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

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

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

Marketing and Distribution of Balanced Feed in Mexico

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

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

***Patents, Licenses and Other Contracts***

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

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

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

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

***Import and Export Regulations***

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

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

***Antitrust Regulations***

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

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

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

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

#### Antidumping Regulations

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

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

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

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

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

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

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

#### *Environmental and Sanitary Regulation*

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

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

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

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

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

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

### C. Organizational Structure

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

In 2014, our subsidiary BSACV accounted for 62.1% of consolidated total assets and 71.9% of total consolidated sales and our subsidiary Bachoco USA, accounted for 11.9% of consolidated total assets and 21.4% of total consolidated sales.

All of our subsidiaries are directly owned by us in the percentages listed below. The following table shows our main subsidiaries as of December 31, 2014, 2013 and 2012:

#### PERCENTAGE EQUITY INTEREST

Subsidiary	Country	As of December 31,		
		2014	2013	2012
Aviser, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco Comercial, S.A. de C.V.	Mexico	99.99	99.99	99.99
Campi Alimentos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Operadora de Servicios de Personal, S.A. de C.V.	Mexico	99.99	99.99	99.99
PEC LAB, S.A. de C.V., and subsidiary	Mexico	64.00	64.00	64.00
Secba, S.A. de C.V.	Mexico	99.99	99.99	99.99
Sepetec, S. A. de C.V.	Mexico	99.99	99.99	99.99
Servicios de Personal Administrativo, S.A. de C.V.	Mexico	99.99	99.99	99.99
Induba Pavos, S.A. de C.V.	Mexico	99.99	99.99	99.99
Bachoco USA, LLC. and subsidiary	U.S.	100.00	100.00	100.00



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

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

D. Property, Plant and Equipment

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

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

The following table indicates Bachoco's production facilities and the number of each type of facility both in Mexico and the U.S., as of December 31, 2014:

## BACHOCO'S FACILITIES

Facilities	Number of Facilities:	
	In Mexico	In The U.S.
Chicken breeding farms	160	101
Broiler grow-out farms	508	328
Broiler processing plants	8	2
Hatchery	22	3
Egg production farms	107	0
Swine breeding farms	1	0
Swine grow-out farms	19	0
Feed mills	18	2
Further process plants	4	2

### *Bachoco's facilities in Mexico*

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

Our eight processing plants process around 10.5 million chickens per week and our laying farms produce around 11 thousand tons of commercial eggs each month.

Four of the eighteen feed mill plants are dedicated to the production of balanced feed for sales to third parties and the remaining fourteen are dedicated mainly to internal consumption. We produce around 27 thousand tons of balanced feed per month for sale to third parties.

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

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

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

In 2013, several of our breeder farms located in the state of Guanajuato were affected by an outbreak of avian influenza type H7N3. As a result, the Company experienced a reduction in chicken volume sold of around 4.0% for the year. Once the outbreak was under control, the Company was able to gradually recover its production level. However, in 2014, most of these facilities closed and their production was replaced through our U.S. operations.

In April 2010, our facilities located in Mexicali, B.C. were affected by an earthquake that hit northwestern Mexico, which affected our egg production farm. Our affected farm represented approximately 9.0% of our total egg production. Our other facilities located in that region, including feed mill and distribution centers, were essentially undamaged. Our affected farm recommenced operations at the end of 2010, with pre-earthquake production capacity restored by the end of 2011.

***Bachoco's facilities in the U.S.***

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

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

In July 2013, the Company reached an agreement to acquire the Arkansas breeding assets of Morris Hatchery Inc., comprised mainly of equipment and bird inventory. This facility has a production capacity of around 350 thousand laying hens that produce hatching eggs.

On June 20, 2014, we entered into an option agreement with Morris Hatchery, Inc. that gives us the right to purchase Morris Hatchery Inc.'s hatching egg operations located in Gillsville, Georgia once Morris Hatchery Inc.'s contractual obligations with its current customers have concluded. As of December 31, 2014, Morris Hatchery Inc.'s contractual obligations had not yet concluded. Once the option becomes exercisable, and we choose to exercise it, we expect the purchase to take place prior to December 31, 2015.

See Note 12 of our Audited Consolidated Financial Statements for more detail.

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

**ITEM 4.A. Unresolved Staff Comments**

None

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

A.

**Operating Results**

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

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

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

### *Year 2014 Overview*

In 2014, we posted improvements in our total sales and operating margins, each as compared to previous year.

These improvements were the result of external and internal conditions. Externally, we benefitted from (i) a decrease in corn prices, our main raw material, which in turn resulted primarily from an increase in production both in Mexico and in the U.S., (ii) solid chicken prices and (iii) balanced supply and demand for most of the year.

Internally, as a result of the implementation of several projects, the Company is now in place to be closer to our customers and better understand and attend to their needs. We have now aligned our business units to better run our production process and better serve the needs of our customers.

### *Macroeconomic Conditions in Mexico*

The Mexican economy experienced GDP growth of 2.1% in 2014, which was below expectations but higher than the growth rate reached in 2013. In addition, the inflation rate remained low at 4.08%.

In terms of the Mexican peso-dollar exchange rate, while it remained stable through most of the year, there was an increase in volatility towards the end of the year, leading the Mexican peso-dollar exchange rate to depreciate 11.2% in 2014, with respect to the exchange rate in effect on December 31, 2013.

The Mexican peso-dollar exchange rate depreciation that occurred at the end of 2014 had no material effect on our financial results, primarily, for the following reasons:

a) Approximately 20% of our sales correspond to our U.S. operations and are denominated in dollar terms. Therefore, these sales were positively affected by the Mexican peso-dollar exchange rate depreciation when preparing our results in Mexican peso terms.

b) Only 9% of our total debt for the year ended December 31, 2014 was denominated in U.S. dollars.

c) The increase in the cost of our raw materials purchased in dollars, which occurred as a result of the Mexican peso-dollar exchange rate depreciation, was offset by a decrease in our unit production cost due to the overall decline in the prices of our main raw materials, such as grain and soybean meal.

According to UNA estimates, in 2014, the volume of chicken and eggs produced in Mexico grew approximately 4.0% and 2.5%, respectively, which means the Mexican poultry industry resumed its growth during 2014 after seeing a reduction in production in 2013 due to an outbreak of the avian flu.

Operating Performance

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

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

**INCOME STATEMENT DATA**

**In millions of pesos, for the years ended December 31,**

	2014	2013	2012
	\$	\$	\$
Net revenues	41,779.1	39,710.7	39,367.4
Cost of sales	32,495.0	33,176.6	33,318.2
Gross profit	9,284.1	6,534.1	6,049.2
General, selling and administrative expenses	3,781.3	3,291.0	3,396.7
Other income (expenses), net	(160.9 )	30.7	(23.8 )
Operating income	5,341.9	3,273.8	2,628.8
Net finance income	246.9	118.4	165.0
Income tax	1,656.1	1,350.4	602.0
Controlling interest	3,926.9	2,038.4	2,184.6
Non-controlling interest	5.7	3.4	7.2
Profit for the year	3,932.7	2,041.8	2,191.8
Basic and diluted earnings per share <sup>(1)</sup>	6.55	3.40	3.65
Basic and diluted earnings per ADR <sup>(2)</sup>	78.54	40.84	43.80
Dividends per Share <sup>(3)</sup>	0.00	1.584	0.50
Weighted average Shares outstanding <sup>(4)</sup>	599,955	599,993	598,960

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

(2) Each ADR represents twelve shares.

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

(4) In thousands of shares.

**Operating Results 2014 vs 2013**



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

**NET REVENUES BY BUSINESS LINES**

**In millions of pesos**

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

**NET REVENUES BY GEOGRAPHY****In millions of pesos**

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

***Net Revenues***

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

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

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

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

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

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

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

**COST OF SALES**

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

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

This decrease was mainly driven by a decline in our cost of sales per unit, equivalent to a decline of \$2,025.9 million, in our total cost of sales, mainly due to a reduction in the cost of our main raw materials, which represented \$1,876.2 million or 92.6% of the total decrease. This decrease was partially offset by an increase of 4.0% in volumes sold, which represented a \$1,369.7 million increase in our total cost of sales. The increase in volume was primarily the result of an increase in our sales of chicken products (within our poultry segment), as we did not experience the avian influenza outbreak that affected our chicken production in 2013.

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

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

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

#### **GENERAL, SELLING AND ADMINISTRATIVE EXPENSES**

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

In 2014, general, selling and administrative expenses totaled \$3,781.3 million, compared to \$3,291.0 million in 2013, representing an increase of \$490.3 million or 14.9%. About 25% of this increase was attributed to more volume sold.

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

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

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

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

**OTHER INCOME (EXPENSE) NET**

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

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

In 2014 we recognized other net expenses of \$160.9 million and in 2013 we recorded other net income of \$30.7 million, notably from an extraordinary gain on the sale of the land at one of our farms in the southern region of the country. In 2014, as per our usual results, we had a net expense position resulting from provisions related to (1) sales of unused fixed assets and (2) regulatory fines. See note 29 of our Audited Consolidated Financial Statements for further detail.

**OPERATING INCOME**

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

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

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

**NET FINANCE INCOME**

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

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

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

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

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

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

**TOTAL INCOME TAX**

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

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

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

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

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

## PROFIT FOR THE YEAR

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

<sup>1</sup> in pesos

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



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

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

## EBITDA RESULT

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

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

## Operating Results 2013 vs 2012

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

## NET REVENUES BY BUSINESS LINES

### In millions of pesos

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	<b>39,710.7</b>	<b>100.0</b>	39,367.4	100.0	343.3	0.9
Total Poultry	35,943.9	90.5	35,797.2	90.9	126.7	0.4
Others	3,766.8	9.5	3,570.3	9.1	217.6	6.1

## NET REVENUES BY GEOGRAPHY

### In millions of pesos

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Net Revenues	<b>39,710.7</b>	<b>100.0</b>	39,367.4	100.0	343.3	0.9
In Mexico	31,193.3	78.6	31,195.9	79.2	(2.6 )	0.0
In the U.S.	8,517.4	21.4	8,171.5	20.8	345.9	4.2

### *Net Revenues*

Net sales for fiscal year 2013 totaled \$39,710.7 million; an increase of \$343.3 million; or 0.9%; from the \$39,367.4 million of net sales recorded in 2012.

In 2013 and 2012, poultry represented 90.5% and 90.1% of total sales respectively and the others segment accounted for the remaining 9.5% and 9.1% of total sales.

This increase in 2013 was mainly due to higher prices in our main products within each segment, which was partially offset by lower volume sold during the second and third quarters of 2013, as follows:

In our poultry segment, sales of chicken products decreased 0.3% during 2013 as a result a 4.0% decrease in chicken volume sold, partially offset by a 3.5% increase in prices.

Also within our poultry segment, sales of eggs increased 14.7% during the 2013 fiscal year. This increase is mainly attributed to a 17.0% increase in the price of eggs, partially offset by a 2.0% decrease in volume from 2012.

Within our other business line segment, sales of balanced feed decreased 8.6% in 2013, as a result of a 10.1% decrease in volume sold as a consequence of oversupply conditions in the market, partially offset by a 1.6% of increase in prices.

Our Other segment also includes sales of live swine, sales of value added turkey and beef products, vaccines and other by-products. All of these products, on an individual basis account for less than 1% of our total sales. In 2013, value-added beef products and swine continued experiencing sales growth.

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

#### **COST OF SALES**

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Cost of sales	33,176.6	83.5	33,318.2	84.6	(141.6)	(0.4)
Poultry	29,847.7	75.2	30,210.8	76.7	(363.2)	(1.2)
Others	3,328.9	8.4	3,107.4	7.9	221.6	7.1

Our total cost of sales decreased \$141.6 million or 0.4% for the year ended December 31, 2013 when compared to the year ended December 31, 2012 reached in 2012.

This decrease was mainly driven by a decline of 4.9% in volumes sold, which represented a \$1,628.1 million decrease in our cost of sales. The decrease in volumes sold was primarily the result of a decrease in our sales of chicken products (within our poultry segment), as a consequence of the avian influenza outbreak that affected our chicken production.

The 4.9% decrease was partially offset by an increase of 4.7% in our production cost of sales per unit, which represented a total increase of \$1,429.2 million in our cost of sales. The main factors that contributed to the increase in our production cost per unit were:

23.7% of the total increase, or \$350.8 million, was due to a reduction in our chicken inventory as a result of the avian influenza outbreak.

- 18.8% of the total increase, or \$278.9 million, was due to changes in our product mix.

24.2% of the increase, or \$357.7 million, was due to a higher hatching eggs unit cost. As an integrated company, we normally use our own hatching eggs farms to produce chicken products, but as a result of the outbreak of the avian influenza that affected some of these facilities, we ended up having to buy more hatching eggs from third parties at a higher cost.

- 12.8% of the increase, or \$189.1 million was due to an increase in the number of products bought from third parties.

It is worth nothing that the largest single component of our cost of sales is the cost related to our balanced feed raw materials, which has accounted for approximately 70% of our total cost of sales in the last few years. Within this area, corn, sorghum and soybean meal are the main components of our balance feed production costs. These components are subject to high volatility caused by supply, weather conditions and exchange rates, among others.

Lastly, besides balanced feed production costs, our cost of sales includes other factors such are: salaries and wages and energy costs that have represented approximately 6.5% and 5.0% of our total cost of sales, respectively, in the last few years. There are also many other factors with much smaller contributions to our overall cost of sales. All of these secondary factors individually registered immaterial changes from 2012 to 2013.

#### **GENERAL, SELLING AND ADMINISTRATIVE EXPENSES**

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Total SG&A	3,291.0	8.3	3,396.7	8.6	(105.6)	(3.1)

In 2013, our general, selling and administrative expenses totaled \$3,291.0 million, compared to \$3,396.7 million in 2012, representing a decrease of \$105.6 million or 3.1% that was mainly attributed to:

The reduction was due to actuarial adjustments to our employees benefit plans, mainly actuarial gains recognized in the year. Variations in the rest of the components were minimal.

This decrease is also a result of our strict control of operating expenses. In 2013 and 2012, our General, selling and administrative expenses represented 8.5% and 8.6% of total sales, respectively.

The main components that comprised our SG&A in the past few years are: freights and transportation equipment expenses (about 35%), labor (about 32%) and publicity (about 5%), with no significant variation in these percentages.

#### **OTHER INCOME (EXPENSE) NET**

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Other income (expense) net	30.7	0.1	(23.8)	(0.1)	54.5	129.0

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

In 2013 we recognized other net income of \$30.7 million and in 2012 we recorded other net expenses of \$23.8 million. In 2013, we sold the land at one of our farms, in the southern region of the country, generating a gain on sale.

**OPERATING INCOME**

	2013		2012		Change	
	\$	%/sales	\$	%/sales	\$	%
Operating Income	3,273.8	8.2	2,628.8	6.7	645.0	24.5

Operating income in 2013, totaled \$3,273.8 million, this represented an increase of \$645.0 million or 24.5%, when compared to operating income of \$2,628.8 million reached in 2012, which was mainly attributed to an increase in sales, a reduction in cost of sales and efficiencies in operating expenses.

The operating margin in 2013 and 2012 was 8.2% and 6.7% respectively.

## NET FINANCE INCOME

	For the year ended December 31,					
	2013	% over	2012	% over	Change	
	\$	sales	\$	sales	\$	%
<b>Net Finance Income</b>	<b>118.4</b>	<b>0.3</b>	<b>165.0</b>	<b>0.4</b>	<b>(46.6)</b>	<b>(28.2)</b>
Financial Income	344.8		270.0		74.8	27.7
Financial Expense	226.4		105.0		121.4	115.6

Net financial income in 2013 was \$118.4 million, compared to net financial income of \$165.0 million in 2012. This was mainly due to higher interest expenses.

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

In 2012, we recognized a net financial income of \$270.0 million, of which \$222.1 million was interest income, \$35.2 million was foreign currency exchange gain and \$12.8 million was represented by a gain from the valuation of financial instruments. These gains were partially offset by \$105.0 million of interest expense in 2012.

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

## TOTAL INCOME TAX

	For the year ended December 31,			
	2013	2012	Change	
	\$	\$	\$	%
<b>Total income taxes (benefit) expense,</b>	<b>1,350.4</b>	<b>602.0</b>	<b>748.4</b>	<b>124.3</b>
Current income tax in Mexico	1,227.3	366.4	860.9	235.0



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Deferred income tax in Mexico	147.4		207.1	(59.7 )	(28.8 )
Deferred Income tax in the U.S.	(24.3	)	28.5	(52.8 )	(185.3)

In 2013, total income tax expense was \$1,350.4 million, compared to income tax expense of \$602.0 million in 2012. This increase is mainly attributable to a \$674.8 million charge related to changes in tax rates pursuant to a fiscal reform that was enacted in 2013.

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

In 2013, our effective tax rate and tax expense differed from income tax at the statutory rate of \$712.4 million mainly due to the effect of companies outside of simplified regime, which increased tax expense by approximately \$23.2 million, or 1% of total income tax expense; the net tax effect of inflation of \$(64.4) million, which decreased income tax expense and represents (2.0%) of total income tax expense; and an increase of \$674.8 million related to the aforementioned changes in tax rates from the 2013 tax reform discussed above.

In 2012, our effective tax rate and tax expense differed from income tax at the statutory rate of \$586.7 million mainly due to the effect of companies outside of simplified regime, which increased tax expense by approximately \$61.8 million, or 2.0% of total income tax expense; and the net tax effect of inflation, which decreased income tax expense by approximately \$(47.6) million or (2.0%) of total income tax expense.

Our deferred income tax liability in 2013 increased \$103.3 million, as a result of the following movements in temporary differences during the year; an increase of \$512.9 million for property plant and equipment, \$190.1 million for prepaid to suppliers, and \$95.2 million for accounts receivable, partially offset by decreases of \$597.8 in trade payable, and \$80.6 million for tax loss carry forwards.

The charges to deferred income tax in 2012 are represented by a slight increase in deferred tax assets of \$12.9 million when compared with 2011, partially offset by an increase in deferred tax liabilities of \$210.8 million, mainly due to an increase in deferred tax liabilities associated with inventories in 2012.

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

## PROFIT FOR THE YEAR

In millions of pesos	For the years ended December 31,		
	2013	2012	Change
	\$	\$	\$ %
<b>Profit for the year attributable to:</b>	<b>2,041.8</b>	<b>2,191.8</b>	<b>(150.0) (6.8 )</b>
Controlling interest	2,038.4	2,184.6	(146.2) (6.7 )
Non-controlling interest	3.4	7.2	(3.8 ) (52.8)
Basic and diluted earnings per share <sup>1</sup>	3.40	3.65	(0.3 ) (6.8 )
Net income per ADR <sup>1</sup>	40.84	43.80	(3.0 ) (6.8 )

<sup>1</sup> in pesos

As a result of the factors detailed above, our net income for 2013 totaled \$2,041.8 million, or \$3.40 per basic and diluted share (\$40.84 per ADR), a \$150.0 million or 6.8% decrease when compared to \$2,191.8 million in net income or \$3.65 per basic and diluted share (\$43.80 per ADR) reported in 2012.

Our net consolidated net margin in 2013 was 5.1% compared to a consolidated net margin of 5.6% in 2012.

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

**EBITDA RESULT**

	For the years ended December 31,		Change	
	2013	2012	\$	%
	\$	\$	\$	%
<b>Net income</b>	<b>2,041.8</b>	<b>2,191.8</b>	<b>(150.0)</b>	<b>(6.8 )</b>
Income tax expense (benefit)	1,350.4	602.0	748.4	124.3
Net finance income	(118.4 )	(165.0 )	(46.6 )	(28.8 )
Depreciation	816.7	837.8	(21.1 )	(2.5 )
<b>EBITDA result</b>	<b>4,090.5</b>	<b>3,466.6</b>	<b>623.9</b>	<b>18.8</b>
<b>EBITDA margin (%)</b>	<b>10.3</b>	<b>8.8</b>	<b>% -</b>	<b>-</b>

EBITDA in 2013 and 2012 reached \$4,090.5 and \$3,466.6 million respectively, representing an EBITDA margin of 10.3% and 8.8%. These represent historical amounts for the Company, mainly as a result of strong net sales together with decreases in cost of sales and general, administrative and selling expenses.

***Critical Tax and Accounting Policies***

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

**Income Tax, Asset Tax and Flat Rate Business Tax, Year 2014**

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

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

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

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

*Income Tax*

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

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

The income tax rate for OK Foods is 38.79%.

*Recent changes in tax laws*

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

*Flat Rate Business Tax*

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

*Use of Estimates and Judgments in Certain Accounting Policies*

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

***Business combinations or acquisition of assets***

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

***Fair value of biological assets***

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

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

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

***Aggregation of operating segments***

The Company's chicken and egg operating segments are aggregated into one reportable segment (Poultry) because they have similar products and services, production processes, types of customers, distribution methods, and regulatory frameworks.

***Key sources of estimation uncertainty***

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

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

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

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

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

***Measurements and disclosures at fair value***



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

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

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

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

***Employee retirement benefits***

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

***Contingencies***

Due to their nature, contingencies, defined as one or more future uncertain events that are not entirely under the control of the Company, can solely be resolved when they occur. The assessment of such contingencies requires the exercise of judgments to develop estimates on the possible outcomes resulting from such future events. The Company assesses the probability of loss due to lawsuits and other contingencies with the assistance of its legal advisors. These estimates are reconsidered periodically and at least annually.

**B. Liquidity and Capital Resources**

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

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

Credit lines we use from time to time; as of December 31, 2014 and 2013, the unused credit lines of the Company totaled \$5,282.6 and \$5,418.0 million, respectively. The Company did not pay any commission or charge for the unused credits.

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

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

**In millions of pesos**

**As of December 31,**

	<b>2014</b>	<b>2013</b>	<b>Change</b>	
	\$	\$	\$	%
<b>Total cash, cash equivalents, and primary and derivative financial instruments</b>	<b>11,968.3</b>	<b>7,732.7</b>	<b>4,235.6</b>	<b>54.8</b>
Cash and cash equivalents	11,036.1	6,716.9	4,319.2	64.3
Primary financial and derivative financial instruments	932.3	1,015.8	(83.5 )	(8.2 )

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

### ACCOUNTS RECEIVABLE

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

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

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

### ACCOUNTS PAYABLE

In millions of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total accounts payable	3,970.5	3,375.6	594.9	17.6

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

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

### TOTAL DEBT

In million of pesos	As of December 31,			
	2014	2013	Change	
	\$	\$	\$	%
Total debt	2,450.5	2,067.8	382.7	18.5

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Short-term debt <sup>(1)</sup>	798.0	557.6	240.4	43.1
Long-term debt <sup>(2)</sup>	152.5	10.2	142.3	1,395.1
Long-term debt (Local bond issue)	1,500.0	1,500.0	0.0	0.0

- (1) Includes notes payable to banks and current portion of long-term debt.  
(2) Does not include current installments of long-term debt.

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

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

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

## WORKING CAPITAL

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

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

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

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

## CAPITAL EXPENDITURES

In millions of pesos, for the years ended December 31,

2014	2013	2012
------	------	------

	\$	\$	\$
Capital Expenditures	1,241.1	587.4	951.8

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

In 2014, capital expenditures totaled \$1,241.1 million, a significant increase when compared to the \$587.4 million expended in 2013. In 2014, the Company implemented new projects for organic growth, aiming to alleviate certain bottlenecks in various processes, thereby increasing production, and to improve productivity in both of our U.S. and Mexican operations.

In 2013 and 2012, capital expenditures totaled \$587.4 and \$951.8 million respectively, incurred primarily in (i) the replacement of our transportation fleet and other equipment in our facilities, (ii) the completion of certain expansion projects (iii) the implementation of productivity projects in our chicken farms and in some processing plants, (iv) increasing eggs production capacity, and (v) additional IT systems. Our capital expenditures were lower in 2013 as compared with 2012 as we reduced our expansion projects.

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

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

#### OPERATING LEASES

In millions of pesos, for the years ended December 31,

	2014	2013	2012
	\$	\$	\$
Operating Leases expense	311.6	286.0	290.1

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

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

#### ***Financial Instruments***

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

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



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

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

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

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

#### **LIABILITIES IN FOREIGN CURRENCY**

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

(1) The foreign currency is dollars.

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

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

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

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

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

None.

D. Trend Information

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

- We have seen a consistent, gradual increase of supply in both the Mexican and U.S. chicken markets, which might cause oversupply condition towards the second half of 2015.

- The price of corn, which is one of our main raw materials, remains stable with low price estimates. If this trend continues, although it could positively affect our cost of sales, as production costs would decrease, it may force us to have to decrease the prices of our main products, and as a consequence, face a decline in our total revenues.

- We might be affected by more aggressive competition from our Mexican peers, as the second and third largest competitors in Mexico are in the process of a merger that may be consummated in the first half of 2015.

We have observed a sharp increase in the Mexican peso-dollar exchange rate. High volatility or a substantial increase in this exchange rate could adversely affect our results of operations and margins.

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

E. Off-Balance Sheet Arrangements

In 2014, except for our operating lease agreements, we do not have off-balance sheet arrangements that might have current or future effects on the Company's financial condition. Disclosure of operating leases is included in this Annual Report in the Item 5-B.

F. Tabular Disclosure of Contractual Obligations

Our major categories of indebtedness included the following:

As of December 31, 2014 and 2013, we had \$133.7 and \$16.4 million in current portion of long-term debt respectively.

Long-term debt to banks, excluding the current installments of long-term debt, as of December 31, 2014 and 2013 were \$152.5 and \$10.2 million, respectively, plus an additional \$1,500.0 million as a result of our Mexican bond issuance in 2012 and due in 2017.

The weighted average interest rates on long-term debt, excluding the Mexican bond issuance, for years 2014 and 2013 were 3.72% and 4.93%, respectively.

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

The Company has certain leases related to operating assets, including farms and administrative offices. The following table summarizes the Company's contractual obligations as of December 31, 2014. The table does not include current installments of long-term debt, accounts payable or pension liabilities.

CONTRACTUAL OBLIGATIONS

In millions of pesos	Total	2015	2016	2017	2018	2019
		\$	\$	\$	\$	\$
Long-term debt <sup>(1)</sup>	1,652.5	-	4.5	1,648.0	-	-
Operating leases <sup>(2)</sup>	239.6	67.6	44.6	48.0	36.3	43.1

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

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

Operating lease expense for 2014 was \$311.6 and, current installments made under long term debt were \$201.3 million.

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

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

**INTEREST**

In millions of pesos	Total	Less than 1 year	From 1 To 3 years	From 3 to 5 years
Interest	\$305.0	\$ 73.4	\$ 153.3	\$ 78.4

The Company's future minimum rental payments required under its operating leases having an initial or remaining non-cancellable lease term in excess of one year as of December 31, 2014, and for each of the five succeeding years, are as follows:

**MINIMUM PAYMENTS OF OPERATING LEASES**

In millions of pesos	Total	2015	2016	2017	2018	2019
Operating Leases	\$102.3	\$31.9	\$17.6	\$17.6	\$17.6	\$17.6

G.

Safe Harbor

Not applicable.

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

A.

Directors and Senior Management

***Directors***

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

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

At our annual stockholders' meeting held on April 23, 2014, we ratified the membership of our Board of Directors, which is composed of the following members:

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

***Honorary Members of the Board***

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

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

<b>Cousins</b>	<b>in law-related</b>
<u>Brothers:</u>	
· Arturo Bours Griffith	
· Octavio Robinson Bours	
· Jose Francisco Bours Griffith	
<u>Brothers:</u>	
· Jesus Enrique Robinson Bours Muñoz	· Guillermo Pineda Cruz
· Jesus Rodolfo Robinson Bours Muñoz	
<u>Brothers:</u>	
· Francisco Javier R. Bours Castelo	
· Jose Gerardo Robinson Bours Castelo	
· Jose Eduardo Robinson Bours Castelo	· Ricardo Aguirre Borboa
· Juan Salvador Robinson Bours Martinez	· Gustavo Luders Becerril

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

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



Acuicola Boca, S.A. de C.V., and Centro de Servicios Empresariales del Noroeste, S.A. de C.V.

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

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

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

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

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

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

**Juan Salvador Robinson Bours Martinez**, Proprietary Shareholder Director since 1994. He has served Bachoco as Purchasing Manager. Mr. Robinson Bours holds a degree in Industrial Engineering from the ITESM. His other appointments include Chairman of the board of Llantas y Accesorios, S.A. de C.V. and member of the Board of Megacable Holdings, S.A.B. de C.V.

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

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

**Guillermo Pineda Cruz**, Alternate Director of Jesus Enrique Robinson Bours and Mr. Arturo Bours Griffith since 1994. Mr. Pineda holds a degree in Civil Engineering from the ITESM and a master's degree in Business Administration from the Instituto Tecnologico de Sonora. He is also a member of the Board of Directors of Banamex

and was a regional member of the Board of Directors of Grupo Financiero Serfin, Inverlat and InverMexico. He co-founded Edificadora PiBo, S.A. de C.V. and has been its President and CEO since 1983.

**Gustavo Luders Becerril**, Alternate Director of Juan Salvador Robinson Bours Martinez and Mr. Ricardo Aguirre Borboa, was named Alternate Director during the annual general meeting held in April 2011. Mr. Luders holds an Accounting degree from ITESM. He is a vegetable and fruit grower; he has served as Chairman of the Agricultural and Industrial Union Credit of the Yaqui Valley, Chairman of the Company Citricola Yaqui, and as Agent of citrus products in the Sonora state region.

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

**Humberto Schwarzbeck Noriega**, Independent Director, has been a member of the board since 2003. He holds a degree in economics from ITESM. He is currently CEO of Yeso Industrial de Navojoa S.A. de C.V. Mr. Schwarzbeck was elected as President of the Audit and Corporate Practices Committee during the stockholders meeting that took place on April 24, 2013.

**Eduardo Rojas Crespo** was named Secretary of the Board of Directors in 2008. He holds a Law Degree from Universidad Nacional Autonoma de Mexico. He also holds a post-graduate diploma in Environmental Law and Due Diligence, and a Specialty as well as a Master's Degree, both in Corporate Law; these three from the Anahuac University. Mr. Rojas has worked for Bachoco since 2004 as our Chief Legal Officer. Before joining Bachoco, Mr. Rojas worked for 10 years as the Chief Legal Officer of Grupo Fimex.

*Honorary members*

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

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

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

*Executive Officers*

EXECUTIVE OFFICERS

Name	Position	Year of Birth
Rodolfo Ramos Arvizu	Chief Executive Officer	1957
Trent Goins	Chief Executive Officer, U.S. Operations	1978
Daniel Salazar Ferrer	Chief Financial Officer	1964

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Ismael Sanchez Moreno	Director of Human Resources	1965
Ernesto Salmon Castelo	Director of Operations	1962
Andres Morales Astiazaran	Director of Sales	1968
Augusto Franco Gomez	Marketing, Research & Development Director	1974
Alejandro Elias Calles Gutierrez	Director of Purchasing	1956

EXCECUTIVE OFFICERS THAT HAVE LEFT THE COMPANY, OR CHANGED POSITIONS IN THE LAST 12-MONTH

Name	Position	Year of Birth	Date in which they left the position
Paul Fox	Chief Executive Officer, U.S. Operation	1966	February 2014
Marco Antonio Esparza Serrano	Comptroller Director	1955	August 2014

In February 2014, Paul Fox, Chief Executive Officer, in the U.S. Operation left the Company; his position was taken by Trent Goins.

In August 2014, Marco Antonio Serrano Esparza left his position as our Comptroller and was appointed Director of our Central Business Unit. The role of Comptroller was assumed by Daniel Salazar Ferrer, our CFO.

A biography of the Executive Officers is set forth below:

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

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

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

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

**Andres Morales Astiazaran**, Director of Sales and Marketing, assumed this position in January 2014. Previously Mr. Morales was Director of Marketing and Modern Channels since July 2006. Before joining us, Mr. Morales worked for

4 years as Sales and Marketing Vice President in Smithfield Foods, a U.S. Company with offices in Sonora, Mexico. Previously Mr. Morales worked for Bachoco as Marketing Manager, Manager of the Northeast division and then as National Manager of Bachoco. Mr. Morales holds an accounting degree from ITESM and attended marketing courses at Northwestern University, the University of Chicago, ITESM and the IPADE (D1).

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

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

**Augusto Franco Gómez**, Marketing, Research & Development Director, joined us and assumed his current position in September 2014. Mr. France has 15 years of work experience, with strong experience in Latin America, and has worked in foods, food service, HPC products and advertising. He has lived in different countries such as Mexico, Colombia, Bolivia and the U.S.. He has worked for companies such as Unilever, Team Foods, Glaxo, General Mills and Leo Burnett and his last position was Marketing Director for Food Solutions in Unilever for the North Latin American region. Mr. Franco has a bachelor's degree in Business Administration from the Colegio de Estudios Superiores de Administración in Colombia, an International MBA from St. Tomas University in the U.S., and took courses such as New Products Development at the University of Chicago.

**B. Compensation**

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

TOTAL COMPENSATION	<b>As of December</b>		
	<b>31,</b>		
	2014	2013	2012
	\$	\$	\$
Compensation, net (in millions pesos)	39.5	52.8	39.3

**C. Board Practices**

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

***Audit and Corporate Practices Committee***



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

- Submit an annual report to the Board of Directors;

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

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

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

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

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

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

Currently, no member of our audit committee possesses all the characteristics included in the definition of an "audit committee financial expert" within the meaning of this Item 16A.

On April 24 2013, during the shareholders annual meeting, Mr. Humberto Schwarzbeck was elected President of the Audit and Corporate Practices Committee, which is composed of the following members:

#### AUDIT AND CORPORATE PRACTICES COMMITTEE

Name	Position	Member since
Humberto Schwarzbeck Noriega	President	2003
Ricardo Aguirre Borboa	Member	2003
Avelino Fernandez Salido	Member	2003

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

D.

Employees

The Company has employees in Mexico and the United States.

In 2014, around 59.0% of our employees in Mexico were members of labor unions in our operations in Mexico. As of March 2015 and the date of this Annual Report, labor relations with our employees in Mexico are governed by 52 separate collective labor agreements, each relating to a different group of employees and negotiated on behalf of each such group by a different labor union.

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

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

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

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

**WORKFORCE**

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Total employees:</b>	<b>24,736</b>	<b>24,486</b>	<b>25,272</b>	<b>25,326</b>	<b>23,473</b>
in Mexico	21,706	21,404	22,048	22,473	23,473
In the U.S.	3,030	3,082	3,224	2,853	0

E. Share Ownership

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

ITEM 7. Major Stockholders and Related Party Transactions

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

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

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

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

A.

Major Shareholders

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

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

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

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

- (1) All shares B Class with full voting rights.  
 (2) Trading on the BMV and at the NYSE.

According to our Depository Bank, as of March 31, 2015 we had 3,412,464 ADRs outstanding on the NYSE, which represent 6.8% over the total shares and 25.5% over the free float.

ADRs Outstanding

As of December 31:	2014	2013	2012
Total ADRs Outstanding	3,449,735	4,593,364	4,560,699
Percentage Over Total Shares	6.9 %	9.2 %	9.1 %

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

According to information providing by BNY Mellon as of December 31, 2014, and March 31, 2015, from the 100.0% of the total Shares of the Company, there were approximately 118 and 119 shareholders in the NYSE, respectively.

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

The following table sets forth the Company's main shareholders, which held 1.0% or more of the total shares of the Company, as of December 31, 2014.

Shares <sup>(1)</sup>	Position	Country
-----------------------	----------	---------

Control Trust	312,000,000	52.00	% Mexico
Underwriting Trust	127,500,000	21.25	% Mexico
Royce & Associates LLC	9,419,520	1.6	% U.S.

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

As of April 5, 2015 there have been no significant changes in the composition of the Company's main shareholders.

## B. Related Party Transactions

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

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

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

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

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

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

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

Neither we nor our subsidiaries have loaned any money to any of our directors or officers, controlling shareholders or entities controlled by these parties.

#### REVENUES FROM RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2014	2013	2012
	\$	\$	\$
Feed and packaging materials	32.2	42.7	38.7
Vehicles and related equipment	1.3	0.0	0.5
Air Transportation Services	0.0	0.0	0.0

#### EXPENSES INCURRED IN RELATED PARTY TRANSACTIONS

In millions of Pesos	As of December 31,		
	2014	2013	2012
	\$	\$	\$
Feed and packaging materials	535.4	523.2	608.5



Vehicles and related equipment	160.8	157.5	129.8
Air Transportation Services	2.0	7.4	10.1

**BALANCES WITH RELATED PARTIES**

In millions of Pesos	As of December 31,		
	2014	2013	2012
	\$	\$	\$
Feed and packaging materials	106.7	40.2	65.6
Vehicles and related equipment	19.9	13.9	22.4
Air Transportation Services	0.5	0.0	0.0

As of December 31, 2014 and 2013, the balances due to related parties are the balances owed denominated in pesos, which do not accrue interest, payable in cash in the short-term, for which there are no guarantees.

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

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. Financial Information

A. Consolidated Statements and Other Financial Information

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

***The Auditors***

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

***Legal Proceedings***

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

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

*Dividends Policy*

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

## DIVIDENDS

	As of December 31,		
	2014	2013	2012
Total dividends paid (in million pesos)	0.0	950.4	299.2
Dividend paid per Share (in pesos)	0.000	1.584	0.500
Dividends paid per ADR (in pesos)	0.000	19.000	6.000

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

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

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

## B. Significant Changes

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

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

## ITEM 9. The Offer and Listing

### A. Offer and Listing Details

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

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

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



Mexican Stock Exchange Ticker Symbol: Bachoco In nominal pesos per Share						The New York Stock Exchange Ticker Symbol: IBA In U.S. Dollar per ADR				
Year	High	Low	Average	Close	Volume <sup>1</sup>	High	Low	Average	Close	Volume
2014	68.50	44.71	56.62	61.94	91,033,100	61.24	40.37	50.84	49.88	4,937,600
2013	45.25	28.80	38.27	44.16	99,113,100	43.08	27.02	35.92	40.27	4,332,600
2012	30.13	20.59	24.62	30.13	44,787,100	27.97	18.86	22.41	27.92	4,525,400
2011	27.86	20.30	24.71	22.3	31,333,000	28.75	17.40	24.04	19.07	3,338,300
2010	26.99	18.40	22.07	25.55	14,527,900	26.1	17.01	20.91	24.19	2,174,700
Quarter	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
4Q-2014	68.50	60.59	65.01	61.94	21,459,900	61.15	49.75	56.18	49.88	1,288,900
3Q-2014	66.91	57.84	61.97	66.91	25,221,200	61.24	53.00	56.61	59.74	1,250,100
2Q-2014	57.99	47.43	51.64	57.99	19,502,700	53.77	42.60	47.44	53.77	1,336,700
1Q-2014	49.85	45.49	47.42	47.79	24,447,800	46.00	40.64	42.76	43.67	1,034,300
4Q-2013	45.25	42.00	43.80	44.16	70,033,300	41.84	38.43	40.30	40.27	1,188,300
3Q-2013	45.13	37.30	42.76	43.02	8,791,500	43.08	34.39	39.87	39.47	1,222,900
2Q-2013	37.20	32.60	34.97	37.08	10,389,900	35.30	31.14	33.63	34.70	950,000
1Q-2013	34.27	28.95	31.08	32.92	9,811,800	33.89	27.02	29.55	32.12	954,400
Month	High	Low	Average	Close	Volume	High	Low	Average	Close	Volume
Mar-15	67.40	63.33	64.87	63.36	5,996,800	53.78	48.84	51.12	49.85	204,663
Feb-15	64.00	60.20	63.03	63.26	6,568,221	51.58	48.97	50.67	51.02	209,623
Jan-15	54.76	49.75	51.38	49.88	10,060,822	51.55	47.97	49.60	48.84	332,700
Dec-14	64.27	60.59	62.44	61.94	6,071,300	54.76	49.75	51.38	49.88	429,500
Nov-14	68.22	64.74	66.36	65.00	4,666,300	60.32	56.58	58.45	56.58	347,800
Oct-14	68.50	64.87	66.24	68.50	10,722,300	61.15	57.35	58.88	61.15	511,600

Source: Yahoo

### Market Maker

Currently the Company does not have any market maker program.

### B.

### Plan of Distribution

Not applicable.

### C.

### Markets

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

As of March 31, 2015 there were 3,412,464 ADRs outstanding at the NYSE. They represented 6.8% of the total Shares of the Company or 25.5% of the free float.

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

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

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



in its entirety by reference to the bylaws and the applicable provisions of Mexican law.

*General*

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

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

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

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

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

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

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

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

### ***Registration and Transfer***

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

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

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

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

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

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

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

### ***Voting Rights and Stockholders’ Meetings***

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

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

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

General meetings called to consider all other matters, including election of the directors, are ordinary meetings. An ordinary general meeting of the Company must be held at least annually during the four months following the end of the preceding fiscal year to consider certain matters specified in Article 181 and 182 of the Mexican Corporations Law, including, principally, the election of directors, the approval of the report of the Board of Directors regarding their company's performance, the Company's financial statements for the preceding fiscal year and the allocation of the profits and losses of the preceding year, and to approve the transactions that the Company or the entities that the Company controls intend to carry out, in terms of Article 47 of the Securities Market Law, in one fiscal year, when such transactions represent 20.0% (twenty percent) or more of the consolidated assets of the Company, based on the figures corresponding to the closing of the immediately preceding quarter, independently of the manner in which such transactions are carried out, whether simultaneously or successively, but which due to their characteristics, may be considered as a single transaction. Holders of Shares may vote at such meetings.

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

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

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

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

Moreover, holders of shares having voting rights, including limited or restricted voting rights or holders of Shares without voting rights that jointly or individually represent 5% or more of the capital stock, may directly exercise the action of liability against the members and secretary of the Board of Directors, as well as against the relevant directors

or executive officers. The exercise of such action will not be subject to the compliance with the requirements set forth under articles 161 and 163 of the General Law of Business Entities.

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

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

From the moment that a call for a stockholders’ meeting is made public, all the information related to the meeting must be available to the stockholders. In order to attend a stockholders’ meeting, a stockholder must request and obtain an admission card by furnishing, at least 24 hours before the time set for holding the stockholders’ meeting, appropriate evidence of ownership of Shares in us and depositing such Shares with our corporate secretary or with an institution authorized to accept such deposit. If so entitled to attend the meeting, a stockholder may be represented by proxy signed before two witnesses. Additionally, the stockholder may be represented at the stockholders’ meetings by a person named by proxy, on a printed form that we issue, which, under Mexican law, must identify our Company and indicate clearly the matters to be addressed in the meeting, with enough space for the instructions that the stockholder specifies. We are obliged to make information on the upcoming meeting available to the intermediaries in the stock market, for the time specified in Article 173 of the Mexican Law, in order to give the intermediaries time to send it to the stockholders they represent. The Secretary of the Board of Directors must verify that this requirement is met and report on this matter at the stockholders’ meeting. See “—Registration and Transfer.”

### ***Members of the Board***

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

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

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

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

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



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

### *Dividends and Distributions*

At the annual ordinary general stockholders' meeting, the Board of Directors submits our financial statements for the previous fiscal year, together with a report thereon by the board, to the holders of Shares for their consideration. The holders of Shares, once they have approved the financial statements, determine the allocation of our net profits, if any, for the preceding year. As of December 31, 2014, our legal reserve fund was equal to at least 20% of our paid-in capital stock. Amounts in excess of those allocated to the legal reserve fund may be allocated to other reserve funds as the stockholders determine, including a reserve for the repurchase of our Shares. The remaining balance of net profits, if any, is available for distribution as dividends. No dividends may be paid, however, unless losses for prior fiscal years have been paid or absorbed.

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

### *Changes in Capital Stock*

An increase of capital stock may generally be affected through the issuance of new shares for payment in cash or in kind, by capitalization of indebtedness or by capitalization of certain items of stockholders' equity. An increase of capital stock generally may not be realized until all previously issued and subscribed Shares of capital stock have been fully paid. Generally, a reduction of capital stock may be effected to absorb losses, to redeem Shares, or to release stockholders from payments not made. A reduction of capital stock to redeem Shares is effected by reimbursing holders of Shares pro rata or by lot. Stockholders may also approve the redemption of fully paid Shares with retained earnings. Such redemption would be affected by a repurchase of Shares on the Mexican Stock Exchange (in the case of Shares listed thereon).

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

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

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

### ***Preemptive Rights***

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

### ***Foreign Investment Legislation***

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

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

### ***Other Provisions***

Fixed and variable capital

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

Repurchase in the event of delisting

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

Forfeiture of Shares

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

Exclusive Jurisdiction

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

Duration

The duration of our existence under our bylaws is indefinite.

Repurchase of our own Shares

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

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

*Non-Subscribed Shares*

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

*Stockholder Conflicts of Interest*

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

*Board Member Conflicts of Interest*

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

*Appraisal Rights*

Whenever the stockholders approve a change of corporate purpose, a change in our nationality or transformation from one type of corporation form to another, any stockholder entitled to vote on such change or transformation who has voted against it has the right to withdraw from us and receive the amount calculated as specified under Mexican law



attributable to its Shares, provided such stockholder exercises its right to withdraw within 15 days following the adjournment of the meeting at which the change or transformation was approved. Under Mexican law, the amount that a withdrawing stockholder is entitled to receive is equal to its proportionate interest in our capital stock according to the most recent balance sheet that has been approved by an ordinary general meeting of stockholders.

*Actions against Directors*

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

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Audit Committee and Corporate Practices

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

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

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

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

Related Party Transactions

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

C. Material Contracts

None.

D. Exchange Controls

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

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

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Taxation

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

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

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

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any state thereof, or the District of Columbia;

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

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

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

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

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

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

## *U.S. Federal Income Taxation*

### *U.S. Holders*

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

### *Taxation of Dividends*

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

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

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

of the dividends. U.S. Holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received which are converted into U.S. dollars on a date subsequent to receipt.

Cash dividends to corporate U.S. Holders will not be eligible for the dividends-received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain exceptions for short term and hedged positions, and provided that we are not a PFIC (as discussed below), dividends received by certain U.S. Holders (including individuals) with respect to the Shares or ADRs will be subject to U.S. federal income taxation at preferential rates if such dividends represent "qualified dividend income." Dividends paid on the Shares or ADRs will be treated as qualified dividend income if (i) we are eligible for the benefits of the Tax Treaty or the Shares or ADRs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC. We expect to be eligible for the benefits of the Tax Treaty. In addition, under current guidance issued by the Internal Revenue Service ("IRS"), the ADRs should qualify as readily tradable on an established securities market in the United States so long as they are listed on the New York Stock Exchange, but no assurances can be given that the ADRs will be or remain readily tradable under future guidance.

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

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

#### Taxation of Capital Gains

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

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

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

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



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

Passive Foreign Investment Company Rules

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

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

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

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

Non-U.S. Holders

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

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

### ***U.S. Backup Withholding and Information Reporting***

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

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

In addition, U.S. Holders should be aware that legislation enacted in 2010 imposes reporting requirements with respect to the holding of foreign financial assets, including stock of foreign issuers, if the aggregate value of all of such assets exceeds \$50,000, subject to certain exceptions. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our common Shares and the application of these reporting requirements to their particular situation.

### ***Mexican Taxation***

#### ***Taxation of Dividends***

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

*Taxation of Capital Gains*

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

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

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

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

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

#### Other Mexican Taxes

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H.

Documents on Display

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

I.

Subsidiary Information

Not applicable.

ITEM 11. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

***Risk management framework***

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



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

### *Currency Fluctuation*

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

In 2014, 2013 and 2012 we recognized foreign exchange gains of \$19.9, \$28.1 and \$35.2 million, respectively. These gains are mainly attributed to positive results in our investments of cash.

As of December 31, 2014, a hypothetical increase of \$0.5 pesos in the exchange rate, would have resulted in a decrease in the foreign currency position of \$54.0 million, which represents a loss from foreign currency exchange rates. On the other hand, a decrease of \$0.5 pesos in the exchange rate would have resulted in an increase in our foreign currency position of \$54.0 million, which represents a gain from foreign currency exchange rates.

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

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

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

As of December 31, 2014 and 2013, we did not have derivative positions related to exchange rates.

### ***Interest Rates***

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

As of December 31, 2014, we had borrowings of approximately \$2,450.5 million pursuant to variable rate debt instruments, representing approximately 7.0% of our total assets.

Based on our debt position on December 31, 2014, we estimate that a hypothetical increase in the interest rate of 50 basis points would increase our interest expense by \$12.1 million, negatively impacting our net income by the same. Whereas, we estimate that a hypothetical decrease in the interest rate of 50 basis points, would decrease our interest expense by \$12.1 million, positively impacting our net income by the same.

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

***Feed Ingredients***

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

Based on our results for 2014, we estimate that a hypothetical increase in the price of corn bushel and short-ton of soybean meal of 7.5% would decrease the loss in our overall derivative position instruments to \$5.0 million, negatively affecting our results. Whereas, we estimate that a hypothetical decrease in the price of corn bushel and short-ton soybean meal of 7.5%, would increase the loss in our overall derivative position instruments to \$12.4 million, positively affecting our results.

ITEM 12. Description of Securities Other Than Equity Securities

A. Debt Securities

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

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

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

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

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

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

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D.

American Depositary Receipts

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

**Shareholder Services**

P.O. Box 30170  
College Station, TX 77842-3170  
T. US: 888 BNY ADRS  
T.: 201 680 6825  
E: shrrelations@cpushareownerservices.com

**Proxy Services**

P.O. Box 43102  
Providence RI 02940-5068  
Toll free: 888 269 2377  
T. 212 815 3700  
E: shareowner@bankofny.com

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

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

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

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

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

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

\$.02 (or less) per ADR

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

Registration or transfer fees

**For:**

- Issuance of ADRs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADRs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADR registered holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR registered holders
- Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Expenses of the depositary

· Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes

· Converting foreign currency to U.S. dollars

· As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

· As necessary

We will pay all other charges and expenses of the Depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the Depositary. The fees described above may be amended from time to time.

***Fees and other direct and indirect payments made by the Depositary and us***

The Depositary has agreed to reimburse us for expenses we incur that are related to establishment and maintenance expenses of the ADR program. The Depositary has agreed to reimburse us for our continuing annual stock exchange listing fees. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the Depositary has agreed to provide additional payments to the Company based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

Pursuant to our letter agreement with our Depositary, in 2013 we received a payment of US \$92,800 (less fees), as payment for expenses we incurred related to the maintenance of our ADR program, including investor relations expenses and exchange application and listing fees. In 2014, we did not receive any such payment given that we renegotiated our contract with BNY Mellon in August 2014 and will not be able to request this benefit until one year from the contract renewal date.

**PART II**

**ITEM 13. Default, Dividend Arrearages and Delinquencies**

None.

**ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.



ITEM 15. Controls and Procedures

*Disclosure Controls and Procedures*

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, as of December 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are not effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure because of the material weaknesses in our internal control over financial reporting, as further described below.

*Management's Annual Report on Internal Control over Financial Reporting*

The Company's management is responsible for establishing and maintaining internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its original 1992 Internal Control—Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2014, the Company did not maintain effective internal control over financial reporting, based on those criteria and the material weaknesses described below.

*Material Weaknesses*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following material weaknesses have been identified:

- (i) deficiencies in our risk assessment activities, which may have an effect on our response to mitigate risks associated with our Consolidated Financial Statements, mainly:
  - a. we have not implemented a plan for alleviating certain of the significant deficiencies identified in the past, including the lack of a financial expert on our Audit Committee and
  - b. we have identified deficiencies in our control procedures relating to risk prevention in our information technology systems; such as an incomplete segregation of activities; and

- (ii) deficiencies associated with physical control over our fixed assets.

*Remediation Plan*

We are implementing a number of steps to remediate the material weaknesses described above and improve our internal control over financial reporting. Specifically,

- (i) we are establishing a specific group to (a) analyze each of the deficiencies in our risk assessment activities, (b) present an integrated plan of remediation to our audit committee in the first half of 2015, and (c) remediate each deficiency as soon as possible by searching for a financial expert for our Audit Committee and implementing a formal control process for our information technology systems and

in the first half of 2015, we will document the procedures and criteria we use to assess our fixed assets, including, (ii) among others, the timing of assessment, the type of assets included in each assessment cycle, and where the assessment is done.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014, has been audited by Deloitte, an independent registered public accounting firm, as stated in their report which appears herein.

### ***Changes in Internal Control Over Financial Reporting***

There has been no change in our internal control over financial reporting in the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### ***Attestation Report of the Independent Registered Public Accounting Firm***

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

We have audited the internal control over financial reporting of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2014, 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment: (i) deficiencies in the Company's risk assessment activities, which may have an effect on its response to mitigate risks associated with its consolidated financial statements and (ii) deficiencies associated with the physical control over the Company's fixed assets. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Company did not maintain effective internal control over financial reporting as of December 31, 2014, 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, 2014 of the Company and our report dated April 27, 2015 expressed an unqualified opinion on those financial statements.

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

/s/ Abel Garcia Santaella

C.P.C. Abel García Santaella  
Querétaro, Qro., Mexico

April 27, 2015



ITEM 16. [Reserved]

ITEM 16.A. Audit Committee Financial Expert

Currently, no member of our audit committee possesses all the characteristics included in the definition of an “audit committee financial expert” within the meaning of this Item 16A. We consider that the combined financial expertise of the members of our audit committee meet much of this requirement. Our audit committee has the authority and appropriate funding to obtain outside advice, as it deems necessary, to carry out its duties.

ITEM 16.B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, as well as to other officers and employees. Our code of ethics is available free of charge upon request through our investor relations website [www.bachoco.com.mx](http://www.bachoco.com.mx). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer, controller and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver upon request on our website at the same address.

ITEM 16.C. Principal Accountant Fees and Services

On September 3, 2013, we announced that the Company’s Board of Directors, as per the Audit Committee’s recommendation, approved the selection of Deloitte as the Company’s independent registered public accountant, effective as of September 30, 2013. Therefore in 2013 and 2014 we incurred in expenses related to audit services with two firms.

*Audit and Non-Audit Fees*

The following table sets forth the fees billed by Deloitte and KPMG, our successor and predecessor independent registered public accounting firms, and paid by us. All amounts are in nominal thousands of pesos, no taxes are included.

**AUDIT FEES OF DELOITTE**



In thousands of pesos,	As of	
	2014	2013
Total Fees:	\$9,135	\$2,417
Audit fees	6,743	0
Audit related fees	2,392	0
Other	-	-

Total 2014 audit fees agreed to be paid to Deloitte is \$7.3 million.

Deloitte's audit related fees in the table above are fees related to the review of the Annual Reports to be released to the Mexican and New York stock exchanges, as well as fees billed by Deloitte related to expenses they incurred in connection with the performance of their audit, such as lodging and traveling.

## AUDIT FEES OF KPMG

In thousands of pesos,	As of	
	2014	2013
Total Fees:	\$722	\$7,384
Audit fees	722	6,590
Audit related fees	-	689
Other	-	105

*Audit Committee Approval Policies and Procedures*

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

## ITEM 16.D. Exemptions from the Listing Standards for Audit Committees

According to the New York Stock Exchange's Listing Standards for Audit Committees of a Foreign Private Issuer, Ricardo Aguirre, a member of our audit committee, currently does not meet the independence standards set forth in Rule 10A-3b(1)(ii)(B) of the Exchange Act. Therefore, with respect to Mr. Aguirre, we rely on the exemption provided in Rule 10A-3(b)(1)(iv)(D) of the Exchange Act because Mr. Aguirre (i) represents the Company's controlling shareholders, (ii) only has observer status on, and is not a voting member or the chair of, the Company's audit committee and (iii) is not an executive officer of the Company. Our reliance on such exemption does not materially adversely affect the ability of our audit committee to act independently and to satisfy the other requirements of Rule 10A-3(b).

## ITEM 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Every year during the annual ordinary stockholder meeting, the Board proposes the approval of an amount to be used in a repurchase plan of our shares. The repurchase plan is approved for a period of one year. All the shares set in the table below were repurchased pursuant to the repurchase plan in force at the date of the purchase.

The table set below sets forth the information regarding the purchase plan approved by the Board of Directors in the three recent fiscal years.

REPURCHASE PLAN APPROVED

Year	Announced date	Expiration date	Amount	Estimate number of shares that may be purchase under the plan
2014	April 23, 2014	April 22, 2015	\$576,600,000	12,000,000 <sup>(1)</sup>
2013	April 24, 2013	April 23, 2014	\$391,560,000	12,000,000
2012	April 25, 2012	April 24, 2013	\$195,770,700	12,000,000

(1) The amount includes current shares in the repurchase plan.

The table below sets forth information about the repurchase of our shares on the BMV:

#### REPURCHASE OF SHARES IN 2014

Monthly operation of the repurchase plan in 2014	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchase as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	0	\$ 0.00	0	12,000,000
January	0	0.00	0	12,000,000
February	145,084	46.96	145,084	11,854,916
March	4,391	47.12	4,391	11,850,525
April	0	0.00	0	11,850,525
May	0	0.00	0	11,850,525
June	0	0.00	0	11,850,525
July	0	0.00	0	11,850,525
August	0	0.00	0	11,850,525
September	0	0.00	0	11,850,525
October	0	0.00	0	11,850,525
November	0	0.00	0	11,850,525
December	0	0.00	0	11,850,525
Total 2014	149,475	46.95	149,475	11,850,525

#### REPURCHASED OF SHARES IN 2015

Monthly operation of the repurchase plan in 2014	Total number of shares purchased	Average price paid per share (in pesos)	Total number of shares purchased as part of the publicly announced plan	Estimate maximum number of shares that may yet be purchased under the plan
Opening balance	0	\$ 0.00	0	12,000,000
January 2015	667,013	59.84	667,013	11,332,987
February 2015	0	0.00	0	11,332,987
March 2015	0	0.00	0	11,332,987
Total as of March 31, 2015:	0	0.00	0	11,332,987

#### REPURCHASE PLAN BALANCE

	Number of Shares
Total shares in the repurchase plan as of December 31, 2013	0
(+) Total shares purchased in 2014	149,475
(-) Total shares sold in 2014	149,475
Total shares in the repurchase plan as of December 31, 2014	0
(+) Total shares purchased as of March 31, 2015	667,013
(-) Total shares sold as of March 31, 2015	108,648
Total shares in the repurchase plan as of March 31, 2015	558,365

ITEM 16.F. Changes in Registrant's Certifying Accountant

Not applicable, as the information on the change in our external auditing firm on August 27, 2013 from KPMG Cardenas Dosal, S.C. to Galaz, Yamazaki, Ruiz, Urquiza, S.C., Member of Deloitte Touche Tohmatsu Limited, was reported in our annual report on form 20-F for the year ended December 31, 2013.

## ITEM 16.G. Corporate Governance

### Comparison of our Corporate Governance Rules and the Rules of the NYSE Applicable to U.S. Registered Companies

On November 4, 2003, the SEC approved final corporate governance standards for companies listed on the NYSE (“NYSE Corporate Governance Standards”). According to such standards, foreign private issuers are subject to a more limited set of requirements regarding corporate governance than those imposed on U.S. domestic issuers. As a foreign private issuer, we must comply with four NYSE Corporate Governance Standards:

- prior to July 31, 2005, we must comply with the requirements set forth by the SEC concerning audit committees;

- we must submit an annual Written Affirmation to the NYSE and an Interim Written Annual Affirmation each time a change occurs in the Board of Directors or the Audit Committee;

- our CEO must promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with any of the applicable NYSE corporate governance rules; and

- we must provide a brief description disclosing any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE listing standards.

Pursuant to Section 303A.11 of the NYSE Corporate Governance Standards, we are required to disclose any significant ways in which our corporate governance practices differ from those required to be followed by domestic companies under NYSE listing standards. A brief description disclosing the significant ways in which our corporate governance practices differ from those followed by U.S. companies under the NYSE listing standards is set forth below:

#### **NYSE Corporate Governance Rules for Domestic Issuers**

**Director Independence.** Majority of board of directors must be independent. “Controlled companies,” which would include our company if it were a U.S. issuer, are exempt from this requirement.

A director is not independent if such director is:

#### **Our Corporate Governance Practices**

Pursuant to the Mexican Securities Market Law and our bylaws, our stockholders are required to appoint a board of directors of between five and 20 members, 25% of whom must be independent. Our board of directors is not required to make a determination as to the independence of our directors.

Under Article 14 Bis of the Mexican Securities Market Law, a director is not independent if such director is:

- (i) a person who the board determines has a material direct or indirect relationship with the company, its parent or a consolidated subsidiary;
- (ii) an employee, or an immediate family member of an executive officer, of the company, its parent or a consolidated subsidiary, other than employment as interim chairman or CEO;
- (i) an employee or officer of the company (one-year cooling off period);
- (ii) a stockholder that, without being an employee or officer of the company, has influence or authority over the company's officers;

## NYSE Corporate Governance Rules for Domestic Issuers

- (iii) a person who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the company, its parent or a consolidated subsidiary, other than director and committee fees or deferred compensation for prior services only (and other than compensation for service as interim chairman or CEO or received by an immediate family member for service as a non-executive employee);
- (iv) a person who is affiliated with or employed, or whose immediate family member is affiliated with or employed in a professional capacity, by a present or former internal or external auditor of the company, its parent or a consolidated subsidiary;
- (v) an executive officer, or an immediate family member of an executive officer, of another company whose compensation committee's membership includes an executive officer of the listed company, its parent or a consolidated subsidiary; or
- (vi) an executive officer or employee of a company, or an immediate family member of an executive officer of a company, that makes payments to, or receives payments from, the listed company, its parent or a consolidated subsidiary for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues (charities are not included, but any such payments must be disclosed in the company's proxy (or, if no proxy is prepared, its Form 10-K / Annual Report)).

## Our Corporate Governance Practices

- (iii) a consultant, or partner or employee of a consultant, to the company or its affiliates, where the income from the company represents 10% or more of the overall income of such consultant;
- (iv) an important client, supplier, debtor or creditor (or a partner, director or employee thereof). A client and supplier is considered important where its sales to or purchases from the company represent more than 10% of the client's or supplier's total sales or purchases. A debtor or creditor is considered important whenever its sales to or purchases from to the company represent more than 15% of the debtor's or creditor's total sales or purchases;
- (v) an employee of a non-profit entity that receives contributions from the company that represent more than 15% of the total contributions received;
- (vi) a CEO or other high ranking officer of another company in which the issuer's CEO or other high ranking officer is a member of the board of directors; or



### **NYSE Corporate Governance Rules for Domestic Issuers**

(vii) “Immediate family member” includes a person’s spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law and anyone (other than domestic employees) who shares the person’s home. Individuals who are no longer immediate family members due to legal separation, divorce or death (or incapacity) are excluded. §303A.02(b)

**Executive Sessions.** Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03

**Audit committee.** Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07

### **Our Corporate Governance Practices**

(vii) a “family member” related to any of the persons mentioned above in (i) through (vi). “Family member” includes a person’s spouse, concubine or other relative of up to three degrees of consanguinity and affinity, in the case of (i) and (ii) above, and a spouse, concubine or other relative of up to one degree of consanguinity or affinity in the case of (iii) through (vi) above.

There is no similar requirement under our bylaws or applicable Mexican law.

The members of our audit committee are independent as independence is defined by Rule 10A-3.

Our audit committee complies with the requirements of the Mexican Securities Market Law and has the following attributes:

- We have a three-member audit committee, which is composed of one proprietary director and two proprietary independent directors.
- The president of the audit committee and one additional member are independent. Under the Mexican Securities Market Law, the president and the majority of the members of the audit committee must be independent.
- Our audit committee operates pursuant to a written charter adopted by our board of directors. See Item 6 for a detailed description of the duties of our audit committee.
- Pursuant to our bylaws and Mexican law, our audit committee submits an annual report regarding its activities to our board of directors.

**NYSE Corporate Governance Rules for Domestic Issuers**

**Our Corporate Governance Practices**

**Nominating/corporate governance committee.**

Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies," which would include our company if it were a U.S. issuer, are exempt from these requirements. §303A.04

We are not required to have a nominating/corporate governance committee, and it is not expressly recommended by the Mexican Code of Best Corporate Practices.

**Compensation committee.** Compensation committee of independent directors is required, which must approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies," which would include our company if it were a U.S. issuer, are exempt from this requirement. §303A.05

We are not required to have a compensation committee. As recommended by the Mexican Code of Best Corporate Practices, we have an evaluation mechanism for assisting the board of directors in approving executive officer compensation.

**Equity compensation plans.** Equity compensation plans require stockholder approval, subject to limited exemptions. §303A.08

Stockholder approval is not expressly required under Mexican law or our bylaws for the adoption and amendment of an equity-compensation plan. However, regulations of the Mexican Banking and Securities Commission require stockholder approval under certain circumstances. We currently do not have any equity-compensation plans in place.

**Code of Ethics.** Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. §303A.10

We have adopted a code of ethics, which has been accepted by to our chief executive officer, chief financial officer, controller and persons performing similar functions, as well as to other officers and employees. We are required by Item 16B of Form 20-F to disclose any waivers granted to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions. We have no such waivers in place.

ITEM 16.H. Mine Safety Disclosure

Not applicable.

PART III

ITEM 17. Financial Statements

Not applicable.

ITEM 18. Financial Statements

See the Audited Consolidated Financial Statements including Notes, incorporated herein by reference.

ITEM 19. Exhibits

Index of Exhibits

Documents filed as exhibits to this Annual Report:

**Exhibit No.** **Description**

1.1 An English translation of the Bylaws (*estatutos sociales*) of Industrias Bachoco, S.A. de C.V. dated June 29, 2007 (incorporated by reference to Exhibit 1.1 on Form 20-F filed with the U.S. Securities and Exchange Commission on June 29, 2007 (File No. 333-07950)).

2.1 Form of Amended and Restated Deposit Agreement, among Industrias Bachoco, S.A. de C.V., the Depository and each Owner and Beneficial Owner from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to Exhibit 1.1 on Form F-6 filed with the U.S. Securities and Exchange Commission on August 18, 2006 (File No. 333-07480)).

2.2

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Trust Agreement, dated April 1, 1995, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Prime Internacional, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).

2.3 Trust Agreement, dated August 20, 1997, among Banco Internacional, S.A., Institucion de Banca Multiple, Grupo Financiero Bital, as trustee, and the stockholders of the Company named therein, together with an English translation, (incorporated by reference on our registration statement on Form F-1 filed with the U.S. Securities and Exchange Commission on August 22, 1997 (File No. 333-7472)).

8.1 Subsidiaries of Industrias Bachoco S.A. de C.V.

12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

INDUSTRIAS BACHOCO,  
S.A.B de C.V.

By: /s/ Daniel Salazar Ferrer  
Daniel Salazar Ferrer  
Chief Financial Officer

Date: April 28, 2015

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

Consolidated Financial Statements

Years ended December 31, 2014, 2013 and 2012

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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, 2014 and 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2014 and 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2014 and 2013 and the results of their operations and their cash flows for the years ended December 31, 2014 and 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, 2014, 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 27, 2015 expressed an adverse 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 27, 2015

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## **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 profit and loss and other comprehensive income, changes in stockholders' equity and cash flows of Industrias Bachoco, S.A.B. de C.V. and subsidiaries (the "Company") for the year ended December 31, 2012. 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 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 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 results of operations and cash flows of Industrias Bachoco, S.A.B. de C.V. and subsidiaries for the year ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Cárdenas Dosal, S.C.

/s/ Demetrio Villa Michel

Demetrio Villa Michel

Querétaro, México

April 30, 2013

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

## Consolidated Statements of Financial Position

December 31, 2014 and 2013

(Thousands of pesos)

<b>Assets</b>	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Current assets:</b>			
Cash and cash equivalents	7	\$ 11,036,062	6,716,894
Primary financial instruments	8	925,584	1,004,106
Derivative financial instruments	8	6,669	11,735
Accounts receivable, net	9	2,976,507	2,321,771
Inventories	10	2,968,061	2,738,222
Current biological assets	11	1,501,428	1,420,174
Prepaid expenses and other current assets	12	1,379,077	1,135,539
Assets available for sale	13	58,583	49,053
<b>Total currents assets</b>		<b>20,851,971</b>	<b>15,397,494</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	14	12,054,754	11,652,449
Non-current biological assets	11	1,109,233	1,109,936
Deferred income tax	20 d)	49,378	34,940
Goodwill	15	349,764	344,259
Other non-current assets	16	428,028	350,599
<b>Total non-currents assets</b>		<b>13,991,157</b>	<b>13,492,183</b>
<b>Total assets</b>		<b>\$ 34,843,128</b>	<b>28,889,677</b>
<b>Liabilities and equity</b>			
<b>Current liabilities:</b>			
Short term debt	17	\$ 664,250	541,200
Current installments of long-term debt	17	133,732	16,392
Trade payable and other accounts payable	18	3,970,515	3,375,601

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Income tax payable	20	759,982	456,657
Related parties	19	127,033	54,095
<b>Total current liabilities</b>		<b>5,655,512</b>	<b>4,443,945</b>
<b>Long term liabilities:</b>			
Long term debt, excluding current installments	17	1,652,470	1,510,210
Deferred income tax	20 d)	3,082,197	2,736,131
Employee benefits	21	90,899	48,245
<b>Total long term liabilities</b>		<b>4,825,566</b>	<b>4,294,586</b>
<b>Total liabilities</b>		<b>10,481,078</b>	<b>8,738,531</b>
<b>Equity:</b>			
Capital stock	24	1,174,432	1,174,432
Share premium		399,641	399,641
Reserve for repurchase of shares		101,105	99,601
Retained earnings		22,513,154	18,586,228
Foreign currency translation reserve		208,107	(87,090 )
Actuarial remeasurements, net	21	(79,035 )	(60,967 )
<b>Equity attributable to controlling interest</b>		<b>24,317,404</b>	<b>20,111,845</b>
<b>Non-controlling interest</b>		<b>44,646</b>	<b>39,301</b>
<b>Total equity</b>		<b>24,362,050</b>	<b>20,151,146</b>
Commitments	26		
Contingencies	27		
<b>Total liabilities and equity</b>		<b>\$ 34,843,128</b>	<b>28,889,677</b>

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, 2014, 2013 and 2012

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

	<b>Note</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net revenues		\$41,779,087	39,710,726	39,367,431
Cost of sales	22	(32,494,974 )	(33,176,599 )	(33,318,207 )
<b>Gross profit</b>		9,284,113	6,534,127	6,049,224
General, selling and administrative expenses	22	(3,781,326 )	(3,291,006 )	(3,396,655 )
Other income (expenses), net	29	(160,919 )	30,704	(23,810 )
<b>Operating income</b>		5,341,868	3,273,825	2,628,759
Finance income	28	367,227	344,785	270,032
Finance costs	28	(120,319 )	(226,366 )	(105,000 )
<b>Net finance income</b>		246,908	118,419	165,032
<b>Profit before income taxes</b>		5,588,776	3,392,244	2,793,791
Income taxes	20	1,656,110	1,350,439	602,020
<b>Profit for the year</b>		<b>\$3,932,666</b>	<b>2,041,805</b>	<b>2,191,771</b>
<b>Other comprehensive income (loss) items:</b>				
Items that may be reclassified subsequently to profit or loss:				
Currency translation effect		295,197	32,672	(186,095 )
Items that will not be reclassified subsequently to profit or loss:				
Actuarial remeasurements	21	(25,812 )	(61,057 )	-
Taxes from actuarial remeasurements		7,744	18,317	-
Other comprehensive (loss) income items		277,129	(10,068 )	(186,095 )
<b>Comprehensive income for the year</b>		<b>\$4,209,795</b>	<b>2,031,737</b>	<b>2,005,676</b>

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Profit attributable to:			
Controlling interest	\$3,926,926	2,038,422	2,184,567
Non-controlling interest	5,740	3,383	7,204
Profit for the year	<b>\$3,932,666</b>	<b>2,041,805</b>	<b>2,191,771</b>
Comprehensive income attributable to:			
Controlling interest	\$4,204,055	2,028,354	1,998,472
Non-controlling interest	5,740	3,383	7,204
Comprehensive income for the year	<b>\$4,209,795</b>	<b>2,031,737</b>	<b>2,005,676</b>
Weighted average outstanding shares	599,955,240	599,992,952	598,959,882
Basic and diluted earnings per share	25 \$6.55	3.40	3.65

See accompanying notes to consolidated financial statements.

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

## Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2014, 2013 and 2012

(Thousands of pesos)

	Note	Attributable to owners of the Company			Other comprehensive items		Non-controlling interest	Total equity	
		Capital stock	Share premium	Retained earnings	Foreign currency translation reserve	Actuarial remeasurements net			
		Capital stock	Share premium	Reserve for repurchase of shares	Retained earnings		Total		
<b>Balance at January 1, 2012</b>		\$ 1,174,432	399,641	88,481	15,614,760	64,387	17,341,701	38,127	17,379,828
Dividends paid	24 (e)	-	-	-	(299,175 )	-	(299,175 )	-	(299,175 )
Dividends paid to non-controlling interest		-	-	-	-	-	-	(491 )	(491 )
Repurchase and sale of shares	24 (d)	-	-	10,993	-	-	10,993	-	10,993
Disposal of non-controlling interest from dissolution		-	-	-	-	-	-	(8,142 )	(8,142 )
Comprehensive income for the year:									
Profit for the year		-	-	-	2,184,567	-	2,184,567	7,204	2,191,771

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Other comprehensive income	-	-	-	(94,792 )	(91,303 )	-	(186,095 )	-	(186,095 )
<b>Total comprehensive income for the year</b>	-	-	-	2,089,775	(91,303 )	-	1,998,472	7,204	2,005,375
<b>Balance at December 31, 2012</b>	1,174,432	399,641	99,474	17,405,360	(26,916 )	-	19,051,991	36,698	19,088,689
Dividends paid	24 (e)	-	-	(950,400 )	-	-	(950,400 )	-	(950,400 )
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(780 )	(780 )
Repurchase and sale of shares, net	24 (d)	-	127	-	-	-	127	-	127
IAS 19 R adoption effect	21 (a)	-	-	-	-	(18,227 )	(18,227 )	-	(18,227 )
Comprehensive income for the year:									
Profit for the year	-	-	-	2,038,422	-	-	2,038,422	3,383	2,041,805
Other comprehensive income	-	-	-	92,846	(60,174 )	(42,740 )	(10,068 )	-	(10,068 )
<b>Total comprehensive income for the year</b>	-	-	-	2,131,268	(60,174 )	(42,740 )	2,028,354	3,383	2,031,001
<b>Balance at December 31, 2013</b>	1,174,432	399,641	99,601	18,586,228	(87,090 )	(60,967 )	20,111,845	39,301	20,150,728
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(845 )	(845 )
Repurchase and sale of shares, net	24 (d)	-	1,504	-	-	-	1,504	-	1,504
Disposal of non-controlling interest	-	-	-	-	-	-	-	450	450



interest from  
disolution

Comprehensive  
income for the  
year:

Profit for the  
year

-	-	-	3,926,926	-	-	3,926,926	5,740	3,932
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Other  
comprehensive  
income

-	-	-	-	295,197	(18,068)	277,129	-	277,1
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**Total  
comprehensive  
income for the  
year**

-	-	-	3,926,926	295,197	(18,068)	4,204,055	5,740	4,209
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**Balance at  
December 31,  
2014**

\$1,174,432	399,641	101,105	22,513,154	208,107	(79,035)	24,317,404	44,646	24,36
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See accompanying notes to consolidated financial statements.

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

## Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013 and 2012

(Thousands of pesos)

	Note	2014	2013	2012
<b>Cash flows from operating activities:</b>				
Profit for the year		\$3,932,666	2,041,805	2,191,771
Adjustments for:				
Deferred income tax recognized in profit or loss	20	280,070	123,022	235,603
Current income tax recognized in profit or loss	20	1,376,040	1,227,417	-
Depreciation	14	805,650	816,673	837,807
Loss on sale and derecognized of plant and equipment		152,830	14,958	65,323
Interest income	28	(347,364 )	(314,245 )	(222,063 )
Interest expense	28	118,090	226,366	105,000
Unrealized foreign currency exchange		-	17,950	-
Foreign exchange loss on loans		82,148	11,865	(52,687 )
Subtotal		6,400,130	4,165,811	3,160,754
Derivative financial instruments		5,066	(8,797 )	7,270
Accounts receivable, net		(665,742 )	(8,091 )	14,514
Inventories		(246,515 )	1,871,404	(1,368,368)
Current and non-current biological assets		(83,023 )	151,010	(24,720 )
Prepaid expenses and other current assets		(76,149 )	(287,478 )	(116,728 )
Assets available for sale		(9,530 )	2,454	44,140
Trade payable and other accounts payable		602,297	(70,540 )	532,030
Related parties		72,938	(33,944 )	9,496
Income taxes paid		(1,056,082 )	(843,906 )	-
Employee benefits		42,654	(84,110 )	(3,425 )
<b>Cash flows provided by operating activities</b>		<b>4,986,044</b>	<b>4,853,813</b>	<b>2,254,963</b>
<b>Cash flows from investing activities:</b>				
Payments for acquisition of property, plant and equipment		(1,288,520 )	(575,411 )	(951,760 )
Proceeds from sale of plant and equipment		62,342	57,795	81,591

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Restricted cash	(8,008 )	-	-
Financial instruments	78,522	(42,138 )	(551,247 )
Other assets	(42,087 )	(48,210 )	62,726
Interest collected	347,364	314,245	222,063
Business acquisitions	-	(135,450 )	-
Option agreement on potential acquisition	12	(139,655 )	-
<b>Cash flows used in investing activities</b>		(990,042 )	(429,168 ) (1,136,627)
<b>Cash flows from financing activities:</b>			
Payment for repurchase of shares	(7,019 )	(3,071 )	(85,545 )
Proceeds for repurchase of shares	8,523	3,198	96,538
Dividends paid	-	(950,400 )	(299,175 )
Dividends paid to non-controlling interest	(845 )	(780 )	(491 )
Currency translation effect	-	-	(93,397 )
Disposal of non-controlling interest from dissolution	450	-	(8,142 )
Proceeds from borrowings	1,454,050	1,507,700	3,069,787
Principal payment on loans	(1,098,575 )	(2,181,166)	(2,130,805)
Interest paid	(118,090 )	(226,366 )	(105,000 )
<b>Cash flows provided (used in) by financing activities</b>		238,494	(1,850,885) 443,770
<b>Net increase in cash and cash equivalents</b>		4,234,496	2,573,760 1,562,106
Cash and cash equivalents at January 1		6,716,894	4,179,541 2,625,661
Effect of exchange rate fluctuations on cash and cash equivalents		76,664	(36,407 ) (8,226 )
<b>Cash and cash equivalents at December 31</b>		\$11,028,054	6,716,894 4,179,541

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, 2014, 2013 and 2012

(Thousands of Mexican pesos, except amounts per share)

(1)

Reporting entity

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

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

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

(2)

Basis of preparation

a)

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB), 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 14, 2015, the accompanying consolidated financial statements and related notes were authorized for issuance by the Company's Chief Financial Officer, Mr. Daniel Salazar Ferrer, 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 should they deem it necessary.

**b) Basis of measurement**

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

(Continued)

i. Fair value

Derivative financial instruments for trading and hedging, and the related primary investments measured 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.

c) **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 issued by Bank of Mexico, which is of \$14.75 and \$13.09, as of December 31, 2014 and 2013 respectively.

**d) Use of estimates and judgments**

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

(Continued)

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Estimates and significant assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period in which they occur and in any future periods affected.

The following are the critical accounting estimates and assumptions used by management in the application of the Company's accounting policies, which are significant to the amounts recognized in the consolidated financial statements.

**Critical accounting judgments**

i. Fair value of biological assets

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

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

Non-current biological assets are valued at production cost less accumulated depreciation or accumulated impairment losses, as there is no observable or reliable market for such assets. Additionally, the Company 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 estimated selling expenses.

ii. Business combinations or acquisition of assets

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



iii. Aggregation of operating segments

The Company's chicken and egg operating segments are aggregated to present one reportable segment (Poultry) as they have similar products and services, production processes, classes of customers, methods used for distribution, and the nature of the regulatory environment in which they operate.

**Key sources of estimation uncertainty**

i. Assessments to determine the recoverability of deferred tax assets

On an annual basis the Company prepares projections to determine if it will generate sufficient taxable income to utilize its deferred tax assets associated with deductible temporary differences, including tax losses and other tax credits.

(Continued)

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

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

iii. Measurements and disclosures at fair value

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

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

iv. Impairment of long-lived assets and goodwill

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

v. Employee retirement benefits

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

(Continued)

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vi.

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 other contingencies with the assistance of its legal advisors. These estimates are reconsidered periodically and at least annually.

e)

**Basis of presentation**

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 went into effect on January 1, 2014 as it relates to its consolidated financial statements.

Amendments to IFRS 10, IFRS 12 y IAS 27 (revised 2011), Consolidated Financial Statements, Disclosures of Interest in Other Entities and Separate Financial Statements

Amendments to IFRS 10, IFRS 12 and IAS 27, provide 'investment entities' an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 or IAS 39. In addition, the amendments also require disclosures about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries. Since the Company does not qualify as an investment entity, the adoption of these amendments does not generate an impact in its consolidated financial statements.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities*, clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. The Company adopted these amendments and did not have any significant impacts in those financial instruments subject to offsetting in the consolidated statement of financial position, mainly because such instruments meet the definition of having a legal right recognized to be offset and intention is to settle them on a net basis. Additionally, no financial instruments were identified as not

previously offset and for which the amendments to the standard have represented offsetting in the reporting period.

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Amendments to IAS 36, Impairment of assets

Amendments to IAS 36 *Impairment of Assets*, reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals of impairment) where recoverable amount (based on the fair value less costs of disposal) is determined using a present value technique. The adoption of these amendments did not have impacts in the Company's consolidated financial statements because there were not indicators of impairment in the reporting periods. Additionally, with regards to the impairment test of goodwill, the Company has determined that the value in use of its cash generating units represented the recoverable amount of the corresponding cash generating units, in accordance with the accounting policy described in note 3 i) ii.

Amendments to IAS 39, Financial Instruments: Recognition and Measurement

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 clearing counterparties replace their original counterparty to become the new counterparty to each 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 of laws or regulations. There was no impact in the Company's consolidated financial statements since it does not have derivative financial instrument for purposes of hedging that are novated.

IFRIC 21, Levies

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 obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides guidance on recognition of a liability for the payment of levies, where the liability is recognized progressively if the obligating 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. There was no impact in the Company's consolidated financial statements, since the levies to which it is subject, other than income taxes and consumption taxes, are recognized at the time the obligating event to settle the obligation arises, which already coincides with the principles of this interpretation.

Additionally, the Company early adopted a series of new and amended IFRS issued by the IASB in the current year:

(Continued)

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### Amendments to IAS 19, Employee benefits

Amendments to IAS 19 (2011) *Employee Benefits*, in regards to employee contributions on defined benefit plans, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. If the amount of the contributions is independent of the number of years of service, they can be recognized as a reduction in the service cost in the period in which the related service is rendered or be attributed to the periods of service by using the projected unit credit method. There was no impact in the Company's consolidated financial statements as employees do not make contributions to its defined benefit plans.

### Annual Improvements 2010-2012 Cycle

Annual Improvements 2010-2012 Cycle makes amendments to: IFRS 2 *Share-based payment*, by amending the definitions of vesting condition and market condition, and adding definitions for performance condition and service condition; IFRS 3 *Business combinations*, which require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date; IFRS 8 *Operating segments*, requiring disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifying that reconciliations of segment assets are only required if segment assets are reported regularly; IFRS 13 *Fair value measurement*, clarifies that issuing of IFRS 13 and the amendments of IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only); IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* clarifying that the gross amount 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. The adoption of these improvements did not represent any impacts in the consolidated financial statements of the Company, except for the inclusion of the disclosures related to the judgment made by the management in the application of the aggregation criteria of its poultry reportable segment.

### Annual Improvements 2011-2013 Cycle

Annual Improvements 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 (amends basis for conclusions only); IFRS 3 *Business combinations*, 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 *Fair value measurement*, clarifying the scope of the portfolio exception of paragraph 52, which permits 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 to sell a net long position for a particular risk exposure or to transfer a net short position 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 property as investment property or owner-occupied property. There was no impact in the Company's consolidated financial statements as a result of early



adopting these amendments.

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Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle makes amendments to the following standards: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which adds specific guidance for cases in which (1) an entity reclassifies an asset from “held for sale” to “held for distribution” or vice versa and (2) cases in which held-for-distribution accounting is discontinued; IFRS 7 *Financial Instruments: Disclosures* clarifying (1) whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and (2) the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements; IAS 19 *Employee Benefits* indicating that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid; and IAS 34 *Interim Financial Reporting* clarifying the meaning of 'elsewhere in the interim report' and requires a cross-reference in such reports. There was no impact in the Company’s consolidated financial statements as a result of early adopting these amendments.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, clarify that “the use of revenue-based methods to calculate the depreciation or amortization of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset”. There was no impact in the Company’s consolidated financial statements as it does not use a revenue-based method to calculate either depreciation or amortization of its assets.

Amendments to IAS 16, Property, plant and equipment and IAS 41, Agriculture

The amendments clarify that bearer plants that were previously considered as biological assets will be included in the scope of IAS 16 instead of IAS 41, to be accounted for in the same manner as property, plant and equipment items. There was no impact in the Company’s consolidated financial statements as it does not hold living plants as biological assets.

Amendments to IFRS 10, Consolidated financial statements and IAS 28, Investments in associates and joint ventures

Amendments to IAS 28 require that gains and losses resulting from transactions between an entity and its associate or joint venture relate only to assets that do not constitute a business. As well, a new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its

associate or joint venture must be recognized in full in the investor's financial statements. Additionally an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

On the other hand, for consolidated financial statements, an exception from the general requirement of full gain or loss recognition has been introduced into IFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

(Continued)

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There was no impact in the Company's consolidated financial statements as it does not have investments in associates nor joint ventures.

#### Amendments to IFRS 11, Joint Arrangements

Amendments to IFRS 11 *Joint Arrangements*, issued in May 2014, require the acquirer of an interest in a joint operation whose activity constitutes a business as defined in IFRS 3 *Business combinations*, to apply all accounting principles on the basis of the business combinations guidance in IFRS 3 and other IFRSs, except for those who conflict with IFRS 11 guidance. Additionally, they require disclosing information applicable to business combinations and apply to initial acquisition as well as to the acquisition of an additional interest in a joint operation. Recognized amounts from acquisitions of interests in joint operations from previous periods are not subject to adjustments. There was no impact in the Company's consolidated financial statements as it has not acquired interests nor holds joint operations that constitute a business.

#### IFRS 14, Regulatory Deferral Accounts

IFRS 14, *Regulatory Deferral Accounts*, issued in January 2014, specifies the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. It permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP. There was no impact in the Company's consolidated financial statements as it does not operate in a regulated environment nor is it a first-time adopter of IFRS.

#### Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, the amendments considers that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. On the other hand, they consider that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Finally, an investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12. The early adoption of these amendments did not cause an impact in the consolidated financial statements of the Company because it does not qualify as an investment entity.

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Amendments to IAS 1, Disclosure Initiative

The amendments include changes regarding materiality, clarifying that information should not be obscured by aggregating or by providing immaterial information. Also, materiality considerations apply to all the parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply. Regarding the statement of financial position and statement of profit and loss and other comprehensive income, the amendments introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements. Additionally, they clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. As well, regarding the notes to the financial statements, the amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes in the financial statements.

The early adoption of these amendments did not cause significant impacts in the consolidated financial statements of the Company

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 are not yet effective for periods beginning on January 1, 2014.

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments* issued in July 2014, is the replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018, with early adoption being permitted. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses

rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

The Company is in the process of assessing the potential impacts from the adoption of this standard in its financial statements.

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IFRS 15, Revenue from Contracts with Customers

IFRS 15 *Revenue from contracts with customers*, was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2017, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer ; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company is in the process of assessing the potential impacts from the adoption of this standard in its consolidated financial statements.

(3) Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) **Basis of consolidation**

i. Subsidiaries

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

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's consolidated accounting policies.

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

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iii. Business combinations

Business combinations are accounted for using the acquisition method. For each business combination, any non-controlling interest in the acquiree is valued either at fair value or according to the proportionate interest in the acquiree's identifiable net assets.

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

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

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

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

**b)**

**Foreign currency**

i. Foreign currency transactions

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

(Continued)

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ii. Translation of foreign operations

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

Foreign currency differences associated with translating foreign operations into the reporting currency (Mexican peso) are recognized in other comprehensive income, and presented in the foreign currency translation reserve in stockholders' equity.

Foreign exchange gains and losses arising from 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, 2014, 2013 and 2012 the Company did not enter into such transactions.

c)

**Financial instruments**

i. Non-derivative financial assets

Non-derivative financial assets of the Company include cash and cash equivalents, 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 measured at fair value through profit and loss) are initially recognized on the trading date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

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

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Financial assets valued at fair value through profit and loss

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

Held-to-maturity financial assets

Held-to-maturity financial assets are 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 instrument liabilities

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

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

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

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

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

iii. Derivative financial instruments

Derivative financial instruments entered into for fair value hedging or for trading purposes are initially recognized at fair value; any attributable transaction costs are recognized in profit and loss as incurred. 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.

The Company enters into derivative financial instruments, which are designated as fair value hedges 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.

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

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.

(Continued)

iii. Depreciation

During 2013, based on the analysis performed by the Company, a change was made to the estimate of residual values of certain items of property, plant and equipment, 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 2014, 2013 and 2012:

	Average useful Life
Buildings	46
Machinery and Equipment	19
Vehicles	11
Computers	8
Furniture	11

The Company has estimated the following residual values as of December 31, 2014 and 2013:

	Residual Value	
Buildings	9	%
Machinery and Equipment	8	%
Vehicles	5	%
Computers	0	%
Furniture	2	%

e)

**Goodwill**

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

f)

**Biological assets**

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

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

(Continued)

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

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

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

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

**g) Leased assets**

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease term, assets are depreciated over the shorter of the lease term or their useful lives. As of December 31, 2014 and 2013, the Company has not entered into any significant finance lease agreements.

**h) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on average cost, and includes 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 asses are processed chickens and commercial eggs.

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

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

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

(Continued)

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i)

**Impairment**

i. Financial assets

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

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

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

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

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

ii. Non-financial assets



The carrying amounts of the Company's non-financial assets, other than inventories, biological assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated or cash generating units, as the lowest between its value in use and the fair value less cost of sale. Goodwill and indefinite-lived intangible assets are tested annually for impairment on the same dates.

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

(Continued)

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

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

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

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

**j) Available-for-sale assets**

Available for sale assets mainly consist of foreclosed assets. 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.

(Continued)

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The Company owns life insurance policies of some of the former stockholders of Bachoco USA, LLC and Subsidiaries (foreign subsidiary). The Company records these policies at net cash surrender value which approximates its fair value (see note 16).

## **1) Employee benefits**

The Company grants to its employees in Mexico and abroad, different types of benefits as described below and detailed in note 21:

### **i. Defined contribution plan**

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

### **ii. Defined benefit plan**

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

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

Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)

Net interest expense or income

The Company presents service cost as part of operating income in the consolidated statements of profit or loss and other comprehensive income (loss). Gains and losses for reduction of service are accounted for as past service costs.

(Continued)

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The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. When the benefits of a plan are modified or improved, the portion of the improved benefits related to past services by employees is recognized in profit and loss on the earlier of the following dates: when there is a modification or curtailment to the plan, or when the Company recognizes the related restructuring costs or termination benefits.

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

iii. Short-term benefits

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

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

iv. Termination benefits from constructive obligations

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

**m) Provisions**

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

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

(Continued)

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**n) Interests in joint operations**

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

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

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

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

**o) Revenues**

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

**p) Financial income and costs and dividend income**

Financial income comprises interest income from funds invested, fair value changes on financial assets at fair value through profit or loss and foreign currency exchange gains. Interest income is recognized in profit and loss, using the



effective interest method. Dividend income is recognized in profit and loss on the date that the Company's right to receive the payment is established.

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

(Continued)

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

Exchange gains and losses are reported on a net basis.

#### **q) Income taxes**

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

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

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

the initial recognition of assets or liabilities in a transaction that is not a business combination and did not affect 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; or

taxable temporary differences arising from the initial recognition of goodwill.

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

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

In determining the amount of current and deferred income tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that the balance for its income tax liabilities are adequate for all tax years subject to be reviewed by the tax authorities based on its assessment of several factors, including the interpretation of the tax laws and prior experience.

(Continued)

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A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

#### **r) Earnings per share**

The Company presents information on basic and diluted earnings per share (EPS) related to its ordinary shares. Basic EPS is computed by dividing the profit and loss attributable to the holders of the Company's common shares by the weighted average number of outstanding ordinary shares during the period, adjusted for treasury shares held. Diluted EPS is determined by adjusting the profit and loss attributable to the holders of the ordinary shares and the outstanding weighted average number of ordinary shares, adjusted for treasury shares held, for the potential dilutive effects of all ordinary shares, including convertible instruments and options on shares granted to employees. At December 31, 2014 and 2013, the Company has no potentially dilutive shares, for which reason basic and diluted EPS is the same.

#### **s) Segment information**

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

The Company discloses reportable segments based on operating segments whose revenues exceed 10% of the combined revenues from all segments, whose absolute value of profit or loss exceeds 10% of the combined absolute value of profit or loss from all segments, whose assets exceed 10% of the combined assets from all segments, or that result from the aggregation of two or more operating segments when they have similar economic characteristics and meet the aggregation criteria in IFRS (note 2 d).

#### **t) Costs and expenses by function**

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

#### **u) Statement of cash flows**

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

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

(Continued)

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(4)

## Business and asset acquisitions

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 in accordance with IFRS 3.

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

**Acquired assets and identifiable assumed liabilities**

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

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

(Continued)

## (5) Subsidiaries of the Company

Subsidiaries and Company's shareholding percentage in such subsidiaries as of December 31, 2014 and 2013 are listed below:

Name	Shareholding percentage in subsidiaries		
	Country	December 31,	
		2014	2013
Bachoco, S.A. de C.V.	México	99.99	99.99
Bachoco USA, LLC. & Subsidiary	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).

- Bachoco USA, LLC. holds the shares of OK Industries, Inc. and, therefore, of the operations of the Company in the United States of America. OK Industries, Inc. (acquired in November 2011) comprises five controlled subsidiaries. Their primary activity includes the production of chicken products and hatching eggs, mostly marketed in the United States of America and, to a lesser extent, in other foreign markets.

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

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

- PEC LAB, S.A. de C.V. is the holding of the shares of Pecuaris Laboratorios, S.A. de C.V. Its main activity consists of the production and distribution of medicines and vaccines for animal consumption.

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

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

(Continued)

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(6)

## Operating segments

Reportable segments have been determined based on a line of product approach. Intersegment transactions have been eliminated. The poultry segment consists of chicken and egg operations. The information included in the "Others" segment corresponds to operations of pigs, balanced feed for animal consumption and other by-products that do not meet the quantitative thresholds to be considered as reportable segments.

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

Below is the information related to each reportable segment. Performance is measured based on each segment's income before taxes, in the same manner as it is included in management reports that are regularly reviewed by the Company's chief operating decision maker.

a)

*Operating segment information*

	Year ended December 31, 2014		
	Poultry	Other	Total
Net revenues	\$37,994,654	3,784,433	41,779,087
Cost of sales	29,329,056	3,165,918	32,494,974
Gross profit	8,665,598	618,515	9,284,113
Income before taxes	5,214,590	374,186	5,588,776
Income taxes	1,546,518	109,592	1,656,110
Net income attributable to controlling interest	3,662,769	264,157	3,926,926
Property, plant and equipment, net	11,017,198	1,037,556	12,054,754
Goodwill	261,749	88,015	349,764
Total assets	31,786,586	3,056,542	34,843,128
Total liabilities	9,578,370	902,708	10,481,078
Purchases of property, plant and equipment	1,128,331	112,785	1,241,116
Depreciation and amortization	738,663	66,987	805,650

As of December 31, 2014	Poultry revenues	Others revenues
Total revenue	\$37,995,157	4,433,379
Intersegments	503	648,946
Net revenues	\$37,994,654	3,784,433

(Continued)

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	Year ended December 31, 2013		
	Poultry	Others	Total
Net revenues	\$35,943,862	3,766,864	39,710,726
Cost of sales	29,847,653	3,328,946	33,176,599
Gross profit	6,096,209	437,918	6,534,127
Income before taxes	3,164,288	227,956	3,392,244
Income taxes	1,252,784	97,655	1,350,439
Net income attributable to controlling interest	1,890,572	147,850	2,038,422
Property, plant and equipment, net	10,425,139	1,227,310	11,652,449
Goodwill	256,244	88,015	344,259
Total assets	26,129,798	2,759,879	28,889,677
Total liabilities	7,943,868	794,663	8,738,531
Purchases of property, plant and equipment	531,465	56,128	587,593
Depreciation and amortization	731,797	84,876	816,673

As of December 31, 2013	Poultry revenues	Others revenues
Total revenue	\$35,943,862	4,012,486
Intersegments	0	245,622
Net revenues	\$35,943,862	3,766,864

	Year ended December 31, 2012		
	Poultry	Others	Total
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
Purchases of property, plant and equipment, net	942,351	9,409	951,760
Depreciation and amortization	752,492	85,315	837,807

As of December 31, 2012	Poultry revenues	Other revenues
Total revenue	\$35,797,169	3,713,375
Intersegments	-	143,113
Net revenues	\$35,797,169	3,570,262

(Continued)

**b) Geographical information**

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

	Year ended December 31, 2014			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$29,556,202	8,955,964	(517,512 )	37,994,654
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	791,256	317,977	-	1,109,233
Property, plant and equipment, net	9,386,883	1,630,315	-	11,017,198
Goodwill	212,833	48,916	-	261,749

	Year ended December 31, 2013			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$27,426,465	8,943,090	(425,693 )	35,943,862
Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and investments in insurance policies				
Non-current biological assets	840,622	269,314	-	1,109,936
Property, plant and equipment, net	8,936,020	1,489,119	-	10,425,139
Goodwill	212,833	43,411	-	256,244

	Year ended December 31, 2012			Total
	Domestic poultry	Foreign poultry	Operations between geographical segments	
Net revenues	\$27,625,702	8,223,808	(52,341 )	35,797,169

(Continued)

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*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 2014, 2013 and 2012, no customer represented over 10% of the Company's total revenues.

In the United States of America, the Company has transactions with Ozark Mountain Poultry, Inc. representing 24%, 14% and 12% of total sales outside of Mexico during the years ended December 31, 2014, 2013 and 2012, respectively.

## (7) Cash and cash equivalents

The consolidated balances of cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

	December 31	
	2014	2013
Cash and banks	\$3,282,730	594,183
Investments with maturities less than three months	7,745,324	6,121,330
Cash and cash equivalents	11,028,054	6,715,513
Restricted cash	8,008	1,381
Total cash and cash equivalents and restricted cash	\$11,036,062	6,716,894

Restricted cash corresponds to the minimum margin required by the intermediary related to the Company's derivative financial instruments, in order to meet future commitments that may stem from adverse market movements affecting prices on the open positions as of December 31, 2014 and 2013.

## (8) Financial instruments and risk management

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

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

*Risk management framework*

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

(Continued)

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

At December 31, 2014 and 2013, the Company has not identified embedded derivatives.

The Company's derivative financial instruments as of December 31, 2014 and 2013, don't meet the requirements to be treated as a hedges for accounting purposes.

### *Management by type or risk*

#### **a) Categories of financial assets and liabilities**

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

	December 31,	
	2014	2013
Financial assets		
Cash and cash equivalents	\$ 11,036,062	6,716,894
Investments designated at fair value through profit and loss (correspond to investments held for sale)	910,519	972,641
Investments held to maturity	56,252	67,219
Accounts receivable	1,953,968	1,656,162
Long-term receivables	104,495	87,927
Derivative financial instruments	6,669	11,735
Financial liabilities		
Measured at fair value through profit and loss	(797,982 )	(557,592 )
Measured at amortized cost	(1,652,470 )	(1,510,210)
Trade payables, sundry creditors and expenses payable	\$(3,530,546 )	(3,068,249)

#### **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

In terms of valuation and monitoring of derivative financial instruments and primary financial instruments Over the Counter (OTC), the Company currently measures its counterparty risk by identifying the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA).

(Continued)

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, 2014 and 2013, the balance of held to maturity investments is \$56,252 and \$67,219, respectively.

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

#### Trade accounts receivable and other accounts receivable measurement and monitoring

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

The impairment assessment of accounts receivable is performed on a collective basis, as there are no accounts with significant balances, and in the short-term. The Company's products are marketed to a large number of customers without, except as described in note 6 c, any significant concentration with a specific customer. As part of the objective evidence that an account receivable portfolio is impaired, the Company considers past experiences with respect to collection, increases in the number of overdue payments in the portfolio exceeding the average loan period, as well as observable changes in national and local economic conditions that correlate to defaults.

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

The allowance for doubtful accounts includes trade accounts receivable that are impaired, which amount to \$110,462 and \$86,564 as of December 31, 2014 and 2013, respectively. The reconciliation of movements of the allowance for doubtful accounts, and the analysis of past-due accounts receivable but not impaired, are presented in note 9.

The Company receives 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, 2014 and 2013, the guarantees fair value, determined through an appraisal at the time the loan is granted, is \$589,430 and \$497,490 respectively.

(Continued)

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

### Investments

The Company limits its exposure to credit risk 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.

### Financial guarantees granted

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

### 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,	
	2014	2013
Cash and cash equivalents	\$11,036,062	6,716,894
Investments designated at fair value through profit and loss (correspond to investments held for sale)	910,519	972,641
Investments held to maturity	56,252	67,219
Accounts receivable net of guarantees received	1,469,033	1,246,599
Derivative financial instruments	6,669	11,735
	\$13,478,535	9,015,088

### **c) Liquidity risk**

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

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

(Continued)

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***Monitoring***

The Company's areas of risk management and financial planning measure, monitor and report to the Risk Management 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, 2014		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$3,530,546	-	-
Variable-rate maturities			
In U.S. dollars	221,250	-	-
In pesos	576,732	152,470	1,500,000
Interest	73,377	153,300	78,353
Total financial liabilities	\$4,401,905	305,770	1,578,353

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	December 31, 2013		
	Less than 1 year	1 to 3 years	3 to 5 years
Trade payables, sundry creditors and expenses payable	\$3,068,250	-	-
Variable-rate maturities			
In U.S. dollars	392,700	-	-
In Mexican pesos	164,892	10,210	1,500,000
Interest	89,554	179,108	48,704
Total financial liabilities	\$3,715,396	189,318	1,548,704

(Continued)

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At least on a monthly basis, management evaluates and advises the Board of Directors on its liquidity. As of December 31, 2014, 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, among others), which directly affects movements in the price of both assets and liabilities, is detected.

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

**Monitoring**

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

(Continued)

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

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

Spring-summer Cycle - The registration window period is at the discretion of ASERCA; the spring-summer cycle usually takes place during the July and August and the harvest depends on each state of the country and is very variable.

For contracts entered into through the commercialization support scheme with Fideicomisos Instituidos en la Relacion con la Agricultura (FIRA), there are no purchase periods established as this program is focused on selling excess crops that weren't sold through the contract agriculture program. Normally these purchases are made at the end of each harvest cycle.

As of December 31, 2014 and 2013, the Company has effective hedging positions of corn long "puts" with ASERCA, maturing in March, July, September and December 2015 and 2014. The gain on valuation of these instruments is \$5,518, \$120,560 and \$0, in 2014, 2013 and 2012 respectively, recorded within cost of sales.

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, 2014 and 2013 is 18,987 thousand dollars (\$280,058) and 14,819 thousand dollars (\$193,981), respectively.

Moreover, as of December 31, 2014, the Company has outstanding hedge positions of long puts of sorghum with FIRA expiring in March 2015. The gain on valuation of these instruments is \$2,028 and was recorded in cost of sales. As of December 31, 2013, the Company did not have outstanding hedging positions of long puts with FIRA.

Due to the above, the Company has a contractual agreement with FIRA in which it will absorb 50% of the premium payment option and FIRA the remaining 50%. Because of its nature and as established by IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the portion paid by FIRA should be recognized as income over the periods the related costs are incurred, on a systematic basis. The effect of such benefit as of December 31, 2014 and 2013 was 358 thousand dollars (\$5,281) and \$0, respectively.

(Continued)

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

ii. Chicken price risk

The Company is exposed to financial risks mainly related to changes in the chicken price. The Company does not contemplate a significant drop in chicken price in the future; therefore, as of December 31, 2014 and 2013 it has not entered into any derivative financial instrument or other agreement for managing the risk related to a decrease in chicken price.

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

iii. Exchange risk

The Company is exposed to fluctuations in the exchange rate mainly on MXP/US dollar 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 the 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 the foreign exchange risk are less than one year from the contracting date.

As of December 31, 2014 and 2013, 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, 2014 and 2013.

(Continued)

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	December 31, 2014		2013	
	Dollars	Mexican Pesos	Dollars	Mexican Pesos
<b>Assets</b>				
Cash and cash equivalents	1,866	27,526	39,843	521,546
Primary financial instruments	24,849	366,527	29,284	383,333
Accounts receivable	35,061	517,154	38,810	508,017
Other accounts receivable	12,598	185,824	12,170	159,305
Total assets	74,375	1,097,031	120,107	1,572,201
<b>Liabilities</b>				
Trade accounts payable	(157,336)	(2,320,708)	(142,124)	(1,860,405)
Other accounts payable	(10,110 )	(149,118 )	(17,156 )	(224,568 )
Financial debt	(15,000 )	(221,250 )	(30,000 )	(392,700 )
Total Liabilities	(182,446)	(2,691,076)	(189,280)	(2,477,673)
Net liability position	(108,071)	(1,594,045)	(69,173 )	(905,472 )

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 could occur at the end of the year.

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

	Average exchange rate		Spot exchange rate at December 31,	
	2014	2013	2014	2013
Dollars \$	13.30	12.76	14.75	13.09

The exchange rate at the date of issuance of the consolidated financial statements is \$14.90.

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 Management 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.

(Continued)

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To monitor 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 presents the fair value of the financial instruments that are recognized at amortized cost, together with the carrying amount included in the consolidated statement of financial position:

Liabilities recorded at amortized cost	Carrying amount 2014	Fair value	Carrying amount 2013	Fair value
Debt securities	\$ 1,500,000	1,514,205	1,500,000	1,519,065

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

	Level 1	Level 2	Level 3	Total
As of December 31, 2014				
Investments in primary instruments at fair value through profit and loss (corresponds only to assets held for sale)	\$ 302,464	608,055	-	910,519
Derivative financial instruments	-	6,669	-	6,669
Debt securities (measured at amortized cost)	-	(1,514,205)	-	(1,514,205)
	\$ 302,464	(899,481 )	-	(597,017 )



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	Level 1	Level 2	Level 3	Total
As of December 31, 2013				
Investments in primary instruments at fair value through profit and loss (corresponds only to assets held for sale)	\$253,125	719,516	-	972,641
Derivative financial instruments on commodities	-	11,735	-	11,735
Debt securities (measured at amortized cost)	-	(1,519,065)	-	(1,519,065)
	\$253,125	(787,814 )	-	(534,689 )

(Continued)

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**g) Quantitative sensitivity measurements**

Following are sensitivity analyses for the most significant risks to which the Company is exposed as of December 31, 2014. These analyses represent the scenarios that Management considers reasonably possible that could have occurred at the end of such fiscal year.

i. Derivative Financial Instruments (DFIs)

As of December 31, 2014, the Company's position on derivative financial instruments was only comprised by instruments to hedge commodity risk only.

If at the end of the fiscal year 2014, 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 \$4,966, affecting the profit and loss of the period by 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 \$12,377.

ii. Interest rate risk

As described in note 17, the company has a financial debt denominated in pesos and dollars, which pays interest at a variable rate based on THIE and LIBOR, respectively.

If, as of the 2014 closing date, variable rates to which the Company is exposed had been higher by 50 basis points, the amount of interest paid would increase to \$12,111 reducing the income of the year. If on the other hand, these rates decreased by 50 basis points, then the effect would be the opposite; i.e., a benefit in the income of the year of \$12,111.

iii. Exchange risk

As of December 31, 2014, the Company's net monetary liability position in foreign currency was \$1,594,045.

If, as of the 2014 closing date, the exchange rate increased \$0.50 cents, the result from foreign currency position, which in 2014 resulted in a net exchange gain, would decrease by \$54,035, reducing 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 decreased by \$0.50, then the effect would be the opposite; that is, an increase in profit and loss and stockholders' equity of \$54,035 with a gain from foreign currency exchange effects.

(Continued)

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(9) Accounts receivable, net

As of December 31, 2014 and 2013, accounts receivable are as follows:

	December 31,	
	2014	2013
Trade receivables	\$1,690,237	1,704,583
Allowance for doubtful accounts	(76,793 )	(69,245 )
Other receivables	340,524	20,824
Income tax receivable	56,512	73,146
Recoverable value-added tax and other recoverable taxes	966,027	592,463
	\$2,976,507	2,321,771

#### Past-due but not impaired portfolio

Below is a classification of trade accounts receivable according to their aging as of the reporting date, excluding receivables that are in a legal process, which has not been subject to impairment:

	December 31,	
	2014	2013
Current	\$925,872	1,470,294
Overdue 0 to 60 days	644,465	120,258
Overdue over 60 days	9,438	27,467
	\$1,579,775	1,618,019

As of December 31, 2014 and 2013 the Company has receivables in a legal process (receivables for which legal counsel is seeking recoverability) of \$110,462 and \$86,564, 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

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	2014	2013
Balance as of January 1	\$(69,245)	(46,681)
Increase in allowance	(16,163)	(29,801)
Applications	9,529	7,416
Currency translation effect	(913 )	(179 )
Balance as of December 31,	\$(76,793)	(69,245)

(Continued)

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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, 2014 and 2013, inventories are as follows:

	December 31,	
	2014	2013
Raw materials and by-products	\$1,226,778	\$1,100,971
Medicine, materials and spare parts	656,618	633,829
Balanced feed	218,951	209,082
Processed chicken	777,734	689,102
Commercial eggs	35,957	43,213
Processed beef	23,008	23,013
Processed turkey	17,561	25,090
Other processed products	11,454	13,922
Total	\$2,968,061	\$2,738,222

Inventory consumption for the years ended December 31, 2014, 2013 and 2012 was \$24,873,999, \$26,041,102 and \$26,452,636 respectively.

(11) Biological assets

As of December 31, 2014 and 2013, biological assets are as follows:

	Current biological assets	Non-current biological assets	Total
Balance as at January 1, 2014	\$1,420,174	1,109,936	2,530,110
Increase due to purchases	301,516	296,846	598,362
Sales	-	(222,283 )	(222,283 )
Net increase due to births	227,892	1,426,359	1,654,251
Production cost	24,324,638	1,088,254	25,412,892

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Depreciation	-	(1,194,779 )	(1,194,779 )
Transfers to inventories	(24,789,388)	(1,426,359 )	(26,215,747)
Other	16,596	31,259	47,855
Balance as at December 31, 2014	\$1,501,428	1,109,233	2,610,661

(Continued)

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

The "Other" category includes the change in fair value of biological assets that resulted in decreases of \$23,096 and \$7,857 in 2014 and 2013, an increase of \$11,010 in 2012.

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.

(Continued)



## (12) Prepaid expenses and other current assets

As of December 31, 2014 and 2013, prepaid expenses and other current assets are as follows:

	December 31,	
	2014	2013
Advances to suppliers of inventories	\$866,119	801,390
Prepaid expenses of services	145,849	184,001
Option agreement on potential acquisition	154,875	-
Prepaid expenses for purchase of property, plant and equipment to related parties	12,500	-
Prepaid expenses of insurance and bonds	64,979	58,764
Other receivables	134,755	91,383
Total	\$1,379,077	1,135,539

Effective June 20, 2014, the Company executed an option agreement with Morris Hatchery, Inc. that gives the Company the right to purchase its hatching egg operations located in Gillsville, Georgia once the contractual obligations made by Morris Hatchery Inc. with its customers have concluded, which wasn't completed by December 31, 2014. As consideration for this right, the Company made a nonrefundable payment of \$10,500 thousand dollars (\$154,875) which will be credited against the aggregate purchase price upon closing. The aggregate purchase price for the hatching egg operations is \$25,000 thousand dollars upon closing. If the Company chooses to exercise this option, once it is exercisable, then management expects the closing of the purchase to be prior to December 31, 2015.

## (13) Assets available for sale

As of December 31, 2014 and 2013, assets available for sale are as follows:

	December 31,	
	2014	2013
Buildings	\$22,965	18,242
Land	32,779	28,168
Other	2,839	2,643
Total	\$58,583	49,053

The Company recognized a gain from the sale of these assets as of December 31, 2014 of \$5, a loss of \$24 during 2013 and a gain of \$1,427 in 2012.

(Continued)

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## (14) Property, plant and equipment

As of December 31, 2014 and 2013, property, plant and equipment are comprised as follows.

Cost	Balance as at January 1, 2014	Additions	Disposals	Currency translation effect	Balance as at December 31, 2014
Land	\$1,057,182	30,833	(29 )	6,196	1,094,182
Buildings and construction	9,548,846	101,388	(87,755 )	107,511	9,669,990
Machinery and equipment	9,524,495	298,248	(113,567)	107,546	9,816,722
Transportation equipment	1,204,326	114,453	(149,487)	1,738	1,171,030
Computer equipment	141,252	8,178	(82,768 )	1,118	67,780
Furniture	149,741	8,512	(6,410 )	1,172	153,015
Leasehold improvements	26,852	-	(5,410 )	-	21,442
Construction in progress	356,447	679,504	(44,085 )	-	991,866
Total	\$22,009,141	1,241,116	(489,511)	225,281	22,986,027

Accumulated depreciation	Balance as at January 1 2014	Depreciation for the year	Disposals	Currency translation effect	Balance as at December 31, 2014
Buildings and construction	\$(4,607,271 )	(188,909 )	52,135	(10,617 )	(4,754,662 )
Machinery and equipment	(4,724,963 )	(513,983 )	58,514	(30,454 )	(5,210,886 )
Transportation equipment	(789,154 )	(87,375 )	81,874	(970 )	(795,625 )
Computer equipment	(126,897 )	(5,954 )	77,317	(928 )	(56,462 )
Furniture	(108,407 )	(9,429 )	4,499	(301 )	(113,638 )
Total	\$(10,356,692)	(805,650 )	274,339	(43,270 )	(10,931,273 )

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	Depreciation for the year	Disposals	Currency translation	Balance as at December 31,
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	2013			effect	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 )

(Continued)

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Carrying amounts, net	Balance as at December 31, 2014	Balance as at December 31, 2013
Land	\$ 1,094,182	1,057,182
Buildings and construction	4,915,328	4,941,575
Machinery and equipment	4,605,836	4,799,532
Transportation equipment	375,405	415,172
Computer equipment	11,318	14,355
Furniture	39,377	41,334
Leasehold improvements	21,442	26,852
Construction in progress	991,866	356,447
Total	\$ 12,054,754	11,652,449

Additions of property, plant and equipment in 2013 include assets acquired through business combinations of \$11,982 that consist of buildings for \$7,095, machinery and equipment for \$461, furniture for \$77 and transportation equipment for \$4,349. During the year ended December 31, 2014 no assets were acquired through business combinations.

Depreciation expense during the years ended December 31, 2014, 2013 and 2012 was \$805,650, \$816,673 and \$837,807, respectively, which were charged to cost of sales and operating expenses.

	(15)	Goodwill
	2014	2013
Balances at beginning of the year	\$344,259	300,848
Business combinations (Note 4)	-	42,780
Foreign currency effects	5,505	631
Balances at end of year	\$349,764	344,259

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.

(Continued)

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

2014

Cash-generating unit	Final balance of the year	Projection period (years)	Annual discount rate (%)	Annual growth rate (%)		
Bachoco - Istmo and Peninsula regions	\$ 212,833	5	9.93	%	2.70	%
Campi	88,015	5	9.93	%	2.10	%
Ok Farms- Morris Hatchery Inc.	48,916	5	8.24	%	0.00	%
	\$ 349,764					

2013

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

(16)

Other non-current assets

Other non-current assets consist of the following:

	December 31,	
	2014	2013
Advances for purchase of property, plant and equipment	\$ 167,935	133,214
Investments in life insurance (note 3 (k))	41,187	35,754
Guarantee deposits	17,341	15,956
Other long-term receivable	104,495	87,927
Intangible assets in process	54,512	37,955
Other	42,558	39,793
Total non-current assets	\$ 428,028	350,599

(Continued)

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(17)

Financial debt

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

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

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

	December 31,	
	2014	2013
Loan of USD\$30,000 thousand dollars 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
Loan in the amount of USD\$15,000 thousand dollars, maturing in January 2015, at LIBOR (3) rate plus 1.04 percentage points.	\$ 221,250	-
Denominated in pesos, maturing in January 2015, at TIIE (1) FIRA (2) less 0.70 percentage points.	193,000	-
Denominated in pesos, maturing in January 2015, at TIIE (1) FIRA (2) rate plus 1.25 percentage points	250,000	-
Total short-term debt	\$ 664,250	541,200

Annual weighted average interest rate of short-term loans denominated in pesos for 2014, 2013 and 2012 was 2.78%, 3.72% and 4.97%, respectively. Average interest rate for short-term loans existing as of December 31, 2014 and 2013, was 3.68% and 3.10%, respectively.

Annual weighted average interest rate of short-term loans denominated in dollars for the years 2014, 2013 and 2012 was 1.10%, 1.49% and 1.06%, respectively. Average interest rate for loans existing as of December 31, 2014 and 2013 was 1.24% and 1.37%, 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

(Continued)

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**b) Long-term debt consists of the following:**

	December 31,	
	2014	2013
Denominated in pesos, maturing in 2015 and 2016, at TIIE (1) plus 1.00 percentage points.	10,209	22,329
Denominated in pesos, maturing in January 2014, at TIIE (1) FIRA (2) rates less 0.55 percentage points.	-	4,273
Denominated in pesos, maturing in September 2017, at TIIE (1) rates plus 0.63 percentage points.	102,000	-
Denominated in pesos, maturing in August 2015, at TIIE (1) FIRA (2) rates less 0.90 percentage points.	124,000	-
Denominated in pesos, maturing in April 2017, at TIIE (1) rates plus 0.25 percentage points.	49,993	-
Debt securities (subsection (d))	1,500,000	1,500,000
	1,786,202	1,526,602
Less current maturities	(133,732 )	(16,392 )
Long-term debt, excluding current maturities	\$1,652,470	1,510,210

Long-term annual weighted average interest rate for 2014, 2013 and 2012 was 3.72%, 4.93% and 5.40%, respectively. Average rate for current loans as of December 31, 2014 and 2013 was 3.68% and 4.40%, respectively.

(1) TIIE (for its acronym in Spanish) = Interbank Equilibrium Rate

(2) FIRA (for its acronym in Spanish) = Trust Established in Relation to Agriculture

During 2014 and 2013, the Company made early payments on its long-term debt of \$201,300 and \$11,833 respectively, without payment of fees for early termination.

As of December 31, 2014 and 2013, total unused lines of credit, totaled \$5,282,600 and \$5,418,099, respectively. In both years, the Company did not pay any fee for undrawn balances.

**c) Maturities of long-term debt, excluding current maturities, as of December 31, 2014, are as follows:**

Year	Amount
2016	\$4,502

2017 1,647,968  
\$1,652,470

Interest expense on total loans during the years ended December 31, 2014, 2013 and 2012, amounted to \$87,624, \$97,025 and \$71,005, 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, 2014, among which are:

(Continued)

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- a) Provide financial information at request from the bank.
- b) Not to contract liabilities with financial cost or grant loans that may affect payment obligations.
- c) Notify the bank regarding the existence of legal issues that could substantially affect the financial situation of the Company.
- d) Not to perform substantial changes to the nature of the business, or the administrative structure.

Not to merge, consolidate, separate, settle or dissolve except for those mergers in which the Company or surety are e) 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) Issuance of debt securities**

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

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

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

(1)UDIS = Investment units

Derived from the issuance of the Debt securities, the Company is subject to certain requirements, affirmative and negative covenants, with which they comply as of December 31, 2014.

(Continued)

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## (18) Trade accounts and other accounts payable

	December 31,	
	2014	2013
Trade payables	\$3,257,291	2,764,766
Sundry creditors and expenses payable	273,255	303,483
Provisions	215,003	133,103
Statutory employee profit sharing	19,939	29,140
Retained payroll taxes and other local taxes	167,205	129,122
Direct employee benefits	33,894	5,504
Interest payable	1,920	3,275
Government grant	1,947	-
Others	61	7,208
	\$3,970,515	3,375,601

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

On December 2009, the Mexican Federal Competition Agency (CFC, for its Spanish acronym) released a news report in which it announced an investigation on the Mexican poultry industry in reference to possible monopolistic practices. As a result of this investigation, CFC imposed several fines to the Company for supposedly having certain practices where the price of chicken was manipulated. Although the Company and its legal advisors consider that the interposed legal processes are well sustained and attended, a provision that is considered adequate has been recognized.

Additionally, the National Water Commission (CNA, for its Spanish acronym) imposed credits and fines to the Company for supposed infractions made by the Company in water administration for exploitation of livestock. The Company has recognized a provision for the amount that it expects to be probable to pay.

Bachoco USA, LLC. is involved in claims with the United States of America Department of Labor and the United State Immigration and Customs Enforcement, and various other matters related to its business, including workers' payment claims and environmental issues. As of December 31, 2014 and 2013, the Company has recorded provisions of \$22,125 (US\$1,500 thousand) and \$19,635 (US\$1,500 thousand) for the amount that it expects to be probable to pay.

(19)

Transactions and balances with related parties

**(a) Transactions with management**

Compensation

The following table shows the compensation paid to the directors and executives for services provided in their respective positions for the years ended December 31, 2014, 2013 and 2012:

(Continued)

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	December 31,		
	2014	2013	2012
Compensation	\$39,538	52,805	39,288

**(b) Transactions with other related parties**

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

**i. Revenues**

	Transaction value December 31,		
	2014	2013	2012
Sales of products to:			
Vimifos S.A de C.V.	\$32,202	42,719	38,664
Frescopack S.A de C.V	-	-	20
Llantas y Accesorios, S.A. de C.V.	-	-	50
Autos y Accesorios, S.A. de C.V.	1,302	-	448
Alfonso R. Bours, S.A. de C.V.	-	13	29
Taxis Aéreos del Noroeste, S.A. de C.V.	19	18	19
	\$33,523	42,750	39,230

**ii. Expenses and balances payable to related parties**

	Transaction value December 31,			Balance as of December 31,	
	2014	2013	2012	2014	2013
Purchases of food, raw materials and packing supplies					
Vimifos, S.A. de C.V.	\$359,258	361,497	467,499	\$76,482	21,813
Frescopack, S.A. de C.V.	153,891	147,192	129,119	23,267	18,151
Pulmex 2000, S.A. de C.V.	21,283	13,766	11,844	6,858	-
Qualyplast, S.A. de C.V.	925	753	44	97	242
Purchases of vehicles, tires and spare parts					
Maquinaria Agrícola, S.A. de C.V.	\$55,166	57,100	62,035	4,315	8,415
Llantas y Accesorios, S.A. de C.V.	31,423	29,421	27,282	4,688	4,458
Autos y Accesorios, S.A. de C.V.	21,397	22,525	19,815	6,454	253
Autos y Tractores de Culiacán, S.A. de C.V.	19,140	21,967	18,026	1,971	610
Camiones y Tractocamiones de Sonora, S.A. de C.V.	33,227	23,649	1,647	2,384	5
Agencia MX-5 S.A de C.V.	2	2,294	397	2	1
Alfonso R. Bours, S.A. de C.V.	452	590	568	63	147
Airplane leasing expenses					

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Taxis Aéreos del Noroeste, S.A. de C.V.	\$1,964	7,375	10,137	452	-
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