

Industrias Bachoco S.A.B. de C.V.  
Form 20-F  
June 16, 2011

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

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

For the fiscal year ended December 31, 2010

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 No. 401  
Ciudad Industrial C.P. 38010  
Celaya, Guanajuato, Mexico.  
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
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

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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

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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Industrias Bachoco, S.A.B. de C.V. is a holding company with no operations other than holding the stock of its subsidiaries. Our principal operating subsidiary is Bachoco, S.A. de C.V. (“BSACV”), which owns the principal operating assets of Industrias Bachoco, S.A.B. de C.V. and accounted for 87.5% of consolidated total assets on December 31, 2010. 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.

We are incorporated under the laws of the United Mexican States (“Mexico”), and all of our operations are in Mexico. Our principal executive offices are located at Avenida Tecnológico No. 401, Ciudad Industrial C.P. 38010, Celaya, Guanajuato, Mexico, and our telephone number is +52-461-618-3555.

#### Presentation of Information

We publish our financial statements in Mexican pesos and present our financial statements in accordance with Mexican Financial Reporting Standards (“Mexican FRS”) in effect as of the balance sheet date and include the recognition of the effects of inflation on the financial information through December 31, 2007, based on the Mexican National Consumer Price Index (NCPI) published by Banco de Mexico (the “Central Bank”).

Mexican FRS B-10 supersedes Bulletin B-10 Recognition of the effects of inflation on the financial information and its five amendment documents as well as the related circulars and Interpretation of Financial Reporting Standards. The principal considerations established by this FRS are:

Recognition of the effects of inflation – An entity operates in (a) an inflationary economic environment when cumulative inflation over the immediately preceding 3-year period is equal to or greater than 26.0%; and (b) a non-inflationary economic environment, when inflation over the aforementioned period is less than 26.0%. For more detail, see Note 2-c in our Audited Consolidated Financial Statements.

With respect to (a) above, similarly to the superseded Bulletin B-10, the comprehensive recognition of the effects of inflation is required. For case (b), the effects of inflation are not recognized; however, at the effective date of this FRS and when an entity ceases to operate in an inflationary economic environment, the restatement effects determined through the last period in which the entity operated in an inflationary economic environment (in our case 2007), must be kept and shall be reclassified on the same date and using the same procedure as that of the corresponding assets, liabilities and stockholders' equity. Should the entity once more operate in an inflationary economic environment, the cumulative effects of inflation not recognized in the periods where the environment was deemed to be non-inflationary should be recognized retrospectively.

Except as otherwise indicated, all data in the financial statements included below in Item 18 (which together with the attached notes constitute the “Audited Consolidated Financial Statements”) and the selected financial information included throughout this Form 20-F (this “Annual Report”) have been presented in nominal pesos for the years 2008 to 2010 and in constant pesos as of December 31, 2007 for the years 2006 and 2007.

Mexican FRS differs in certain respects from generally accepted accounting principles in the United States (“U.S. GAAP”). For a discussion of certain significant differences between Mexican FRS and U.S. GAAP as they apply to us, together with a reconciliation of consolidated operating income, consolidated net income, consolidated stockholders' equity to U.S. GAAP, and a consolidated statement of cash flows under U.S. GAAP, see Note 21 to the Audited Consolidated Financial Statements. The effect of price-level restatement under Mexican FRS has not been reversed in the reconciliation to U.S. GAAP. See Note 21 to the Audited Consolidated Financial Statements.



References herein to “U.S. dollars,” “U.S.\$” or “\$” are to the lawful currency of the United States of America. References herein to “pesos” or “Ps.” are to the lawful currency of Mexico. This Annual Report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos at an exchange rate of Ps 12.37 to US \$1.00, the exchange rate on December 31, 2010.

As used herein, the term “tonnes” refers to metric tons of 1,000 kilograms (equal to 2,204.6 pounds) and the term “billion” refers to one thousand million (1,000,000,000). One square meter is equivalent to 10.764 square feet.

### Market Data

This Annual Report contains certain statistical information regarding the Mexican chicken, beef, egg, balanced feed (or “feed”), turkey and swine markets and our market share. We have obtained this information from a variety of sources, including the producers’ associations Union Nacional de Avicultores (the National Poultry Union or the “UNA”), Consejo Nacional Agropecuario (the National Agricultural Council or “CNA”); Consejo Mexicano de Porcicultura (the Mexican Pork Council or “CMP”), as well as Banco de Mexico (the Central Bank), Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentos (“Ministry of Agriculture, Livestock, Rural Development, Fishing and Food” or “SAGARPA”) and publications of the U.S. Department of Agriculture (“USDA”). 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 Securities and Exchange Commission 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,” “guarantee” 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 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 Bachoco's Audited Consolidated Financial Statements, which are included in Item 18.

In preparing the Audited Consolidated Financial Statements, we followed Mexican FRS, which differ in certain respects from U.S. GAAP. Note 21 to the Audited Consolidated Financial Statements provides a description of the main differences between Mexican FRS and U.S. GAAP as they apply to us; a reconciliation from Mexican FRS to U.S. GAAP of total stockholders' equity, net income, and a condensed statement of cash flows under U.S. GAAP as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.

Except as otherwise indicated, all data in the Audited Consolidated Financial Statements included below in Item 18 and the selected financial information included throughout this Form 20-F (this "Annual Report") have been presented in nominal pesos for the years 2010, 2009 and 2008 and in constant pesos as of December 31, 2007 for the years 2006 and 2007. The effects of this price-level restatement under Mexican FRS have not been reversed in the reconciliation of Mexican FRS to U.S. GAAP. See Note 21 to the Audited Consolidated Financial Statements.

As of January 1, 2008, a new financial reporting standard came into effect in Mexico, which eliminates the recognition of inflationary effects in our financial information. Consequently, financial information corresponding to periods prior to December 31, 2007 is expressed in millions of Mexican Pesos with purchasing power as of December 31, 2007, while the financial information for December 31, 2010, 2009 and 2008 included in this Annual Report is stated in millions of nominal Mexican Pesos.

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	As of and for the year ended December 31,					2010(2)
	2006	2007	2008	2009	2010	
	in millions of constant pesos as of December 31, 2007 for years 2006 and 2007					In millions of U.S. dollars(1)
Income Statement Data	and in millions of nominal pesos for years 2008 to 2010(1)					
<b>Mexican FRS:</b>						
Net revenues	Ps. 15,551.0	Ps. 18,219.6	Ps. 20,125.3	Ps. 23,262.9	Ps. 24,715.5	US. \$ 1,998.0
Cost of sales	12,053.0	14,477.9	17,482.5	19,326.8	19,500.7	1,576.4
Gross profit	3,498.0	3,741.8	2,642.9	3,936.1	5,214.8	421.6
Operating income	1,425.4	1,496.3	230.1	1,413.8	2,463.0	199.1
Comprehensive financing income (loss)	61.4	19.1	(1,369.2 )	(133.2 )	122.1	9.9
Net controlling interest income (loss)	906.2	1,270.9	(879.0 )	797.6	1,983.4	160.3
Net consolidated income (loss) per Share(3)	1.5	2.1	(1.5 )	1.3	3.3	0.3
Net consolidated income (loss) per ADS(4)	18.1	25.4	(17.5 )	16.0	39.7	3.2
Dividends per Share(5)	0.61	0.59	0.59	0.42	0.42	0.03
Weighted average Shares outstanding (thousands)	599,571	600,000	600,000	600,000	600,000	600,000
<b>U.S. GAAP:</b>						
Net revenues	Ps. 15,551.0	Ps. 18,219.6	Ps. 20,125.3	Ps. 23,262.9	Ps. 24,715.5	1,998.0
Operating income	1,395.7	1,481.0	185.6	1,391.0	2,400.3	194.0
Net controlling interest income (loss)	895.6	1,261.9	(869.4 )	787.0	1,975.0	159.7
<b>Statement of Financial Position Data</b>						
<b>Mexican FRS:</b>						
Cash and cash equivalents(7)	Ps. 3,583.9	Ps. 3,039.9	Ps. 1,998.2	Ps. 2,399.1	Ps. 3,967.9	320.77
Primary financial instruments	0.0	0.0	0.0	151.8	209.3	16.92
Total assets	17,559.2	19,116.4	19,455.0	19,877.9	21,197.8	1,713.6
Short-term debt(6)	9.8	58.8	234.2	591.9	139.9	11.3
Long-term debt	35.5	50.8	391.7	372.0	507.1	41.0
Total stockholders' equity	14,102.9	15,127.2	14,079.4	14,638.5	16,368.4	1,323.2
Capital Stock	2,294.9	2,294.9	2,294.9	2,294.9	2,294.9	185.5
<b>U.S. GAAP:</b>						
Total controlling interest equity	14,053.2	15,071.7	13,786.7	14,329.2	16,052.8	1,297.7

**Selected Operating  
Data**
**Sales volume**

(thousands of tonnes):

Chicken	773.7	837.2	878.1	918.1	983.9
Eggs	143.4	147.8	143.6	143.4	141.9
Swine and Others	8.9	16.1	18.8	19.0	20.0
Balanced Feed	484.4	438.8	370.7	337.9	327.5

**Margins (Mexican  
FRS)**

Gross margin (%)	22.5	%	20.5	%	13.1	%	16.9	%	21.1	%
Operating margin (%)	9.2	%	8.2	%	1.1	%	6.1	%	10.0	%
Consolidated net margin (%)	5.8	%	7.0	%	(4.4)	%	3.5	%	8.0	%

Total employees	21,035	23,088	23,248	24,065	23,473
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(1) Except per share and per ADS amounts and operating data.

(2) Peso amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of Ps.12.37 per U.S. dollar.

(3) Net income per share has been computed based on the weighted average number of common Shares outstanding.

(4) Net income per ADS has been computed by multiplying net income per share by twelve, to reflect the ratio of twelve Shares per ADS.

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

(6) Includes notes payable to banks and current portion of long-term debt.

(7) For the years 2006, 2007 and 2008, the cash and cash equivalents amount includes primary financial instruments.

## Exchange Rates

During 2006, the Mexican economy showed signs of stability with an annual inflation rate of 4.1%. After showing volatility during the first part of the year, the Mexican peso showed a reasonably stable peso-dollar exchange rate with a final depreciation of 1.6%, compared with the exchange rate at the end of 2005.

In 2007, the Mexican economy was stable overall, with an annual inflation rate of 3.8%, while the peso-dollar exchange rate at year-end depreciated by 1.1% with respect to December 31, 2006.

In 2008, the Mexican economy suffered a sharp slowdown and ended the year with an inflation rate of 6.5%. The exchange rate of the peso against the U.S. dollar was highly volatile. While during the first half of the year, the Mexican peso strengthened its position with respect to the U.S. dollar, the Mexican peso experienced a steep depreciation during the second half of the year and the peso-dollar exchange rate at year-end had depreciated by 21.0% with respect to December 31, 2007.

During 2009, the Mexican economy continued to be affected by the global economic crisis, ending the year with an inflation rate of 3.57%. However, although the Mexican peso-dollar exchange rate depreciated during the first half of 2009, the peso stabilized and strengthened its position in the second half of 2009, leading the Mexican peso-dollar exchange rate to appreciate 5.4% in 2009 with respect to the exchange rate in effect on December 31, 2008.

In 2010, the Mexican economy grew 5.5%, which surpassed expectations made at the beginning of the year. 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%.

The following table sets forth for the periods indicated the high, low, average and year-end exchange rates for the purchase and sale of US dollars (presented in each case as the average between such purchase and sale rates):

Year	Exchange Rate(1) (in current pesos per U.S. dollar)			
	High	Low	Average(2)	Year End
2006	11.46	10.43	10.91	10.80
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.14	13.83
2009	15.41	12.63	13.50	13.08
2010	13.19	12.16	12.62	12.38

(1) The exchange rates are the noon buying rates in New York City for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York (the "noon buying rate").

(2) Average of month-end rates for each period shown.

Period	Exchange Rate(1) (in current pesos per U.S. dollar)	
	High	Low
December 2010	12.47	12.33
January 2011	12.25	12.04
February 2011	12.18	11.97
March 2011	12.11	11.92
April 2011	11.86	11.52
May 2011	11.77	11.51

(1)



The exchange rates are the noon buying rates in New York City for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York.

On June 10, 2011, the exchange rate for cable transfers in pesos as certified for customs purposes by the Federal Reserve Bank of New York was Ps.11.8668 per \$1.00 US dollar.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Risks Relating to Mexico, Other Emerging Market Countries and the U.S. Economy

Mexico has experienced adverse economic conditions

If the Mexican economy experiences decreased output in a recession, or if inflation or interest rates significantly increase, consumers may not be able to purchase our products. These and other effects could have adverse consequences on our business, financial condition and results of operations.

The chart below includes Mexican gross domestic product (“GDP”) and Inflation Rate data from 2006 to 2010, as provided by the Central Bank, and the average interest rates on 28-day Mexican treasury bills (“CETES”), as provided by the Central Bank.

Period	GDP		Inflation Rate		CETES	
2006	4.8	%	4.05	%	7.2	%
2007	3.3	%	3.80	%	7.2	%
2008	1.3	%	6.50	%	7.6	%
2009	-6.5	%	3.57	%	5.4	%
2010	5.5	%	4.40	%	4.4	%

On June 14, 2011, the 28-day Cetes rate was 4.38%. High interest rates in Mexico could adversely affect our costs. Our earnings may also be affected by changes in interest rates due to the impact those changes have on our variable-rate debt instruments and may benefit from the interest we earn on our cash balance.

Depreciation or fluctuation of the peso relative to the U.S. dollar could adversely affect our financial condition and results of operations

The single largest component of our cost of sales is the balanced feed mainly corn and soybean, which is comprised partially of ingredients we purchase from the United States, where prices are denominated in U.S. dollars. In addition, the prices of ingredients we purchase in Mexico may be influenced by U.S. commodity markets. Therefore, should the peso fall relative to the U.S. dollar, the cost of our operations, some accounts payable due and our debt payments would increase. Any future depreciation or devaluation of the peso may result in further net foreign exchange losses.

- In 2006, the Mexican peso was reasonably stable in its peso-dollar exchange rate with a final depreciation of 1.6%, compared to the end of 2005. The average value of the Mexican peso was 0.1% lower than the average of 2005.
- In 2007, the Mexican peso remained reasonably stable in its peso-dollar exchange rate. According to the U.S. Federal Reserve Bank, the peso depreciated with respect to the U.S. dollar by 1.1% at year-end. The average value of the Mexican peso was 0.2% lower than the average of 2006.
- In 2008, the Mexican peso was highly volatile during the year in its peso-dollar exchange rate with a final depreciation of 21.0%, compared to the end of 2007. The average value of the Mexican peso was 1.9% lower than the average in 2007.
- In 2009, the Mexican peso experienced greater stability during the second half of the year in its peso-dollar exchange rate, with a final appreciation of 5.4%, compared to the end of 2008. The average value of the Mexican peso was 17.4% higher than the average in 2008.
- In 2010, the Mexican peso appreciated 5.3% as compared to the end of 2009. The average value of the Mexican peso was 6.5% higher than the average of the previous year.

The Company uses financial instruments to counter financial risks on the exchange rate of the Mexican peso versus the U.S. dollar; a drastic change in the exchange rate could have an adverse impact on the financial position of the Company.

Severe devaluation or depreciation of the peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert pesos into U.S. dollars for the purpose of making timely payments of interest and principal on our indebtedness and some accounts payable. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or to transfer other currencies out of Mexico, the government could institute restrictive exchange rate policies in the future. Currency fluctuations will probably continue to affect our revenues and expenses.

Furthermore, fluctuations in the exchange rate between the peso and the U.S. dollar will also affect the U.S. dollar equivalent of the peso price of our Shares (the “Shares” or “Series B Shares”) in the Mexican Stock Exchange and the price of American Depositary Shares (“ADSs”) on the New York Stock Exchange. Because we pay cash dividends in pesos, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of American Depositary Receipts (“ADRs”) upon conversion of such cash dividends by the Depositary.

Developments in the U.S. economy may adversely affect our business

Economic conditions in Mexico are heavily influenced by the condition of the U.S. economy due to various factors, including commercial trade pursuant to the North American Free Trade Agreement (“NAFTA”), U.S. investment in Mexico and emigration from Mexico to the United States. Events and conditions affecting the U.S. economy may adversely affect our business, results of operations, prospects and financial condition.

## Risks Relating to our Organization

The chicken industry is characterized by long-term price declines and cyclical periods

The Mexican chicken industry, like the chicken industry in other countries, has been characterized by a long-term decline in prices in real terms. The industry has undergone cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability. Real prices for eggs and swine in Mexico have also declined over the long term and have varied cyclically. The market that we serve is subject to volatility with respect to supply, which affects prices. We cannot assure you that future cyclicality, excess supply and downturns in real prices will not adversely affect our results.

The price of feed ingredients is subject to significant volatility

The largest single component of our cost of sales is the cost of ingredients used to prepare feed, including sorghum, soybean meal, corn, fish meal, meat meal and, for certain chicken products, marigold extract. The price of most of our feed ingredients is subject to significant volatility resulting from weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. Given the long-term declining trends in real chicken prices, we may experience difficulty or delays in passing any increase in grain costs to customers. Accordingly, increases in the prices of the main ingredients used in the preparation of feed may have a material adverse effect on our margins and results of operations. Since we purchase many feed ingredients in U.S. dollars, from time to time we may acquire financial instruments to protect us against exchange rate fluctuations that may affect future purchases of feed ingredients.

We can offer no assurance that corn and soybean meal prices will not continue to experience strong volatility in the future. If such prices begin to increase again, our profits could be adversely affected.

The Company uses financial instruments to counter financial risks as protection against adverse fluctuations in the prices of corn and soybean. A drastic change in grain prices could have an adverse impact on the financial position of the Company.

Our operations depend on raising animals and meat processing, which are subject to risks such as diseases, contamination, adverse weather conditions or natural disasters

Our operations involve raising animals and are subject to a variety of risks. Chickens in particular are susceptible to infections by a variety of microbiological agents. In the past, we have experienced limited outbreaks of various diseases that have resulted in higher mortality rates.

Chicken meat and eggs are subject to contamination during processing and distribution. We do not believe that contamination of individual shipments during distribution would have a material adverse effect on our operations. Contamination during processing, however, could affect a larger number of our poultry products and therefore could have a more significant impact on operations.

Hurricanes or other adverse weather conditions could result in additional losses of inventory and damage to our plants and equipment. Our facilities near Mexico's coast are most vulnerable to the risk of severe weather. In 2006, we experienced a loss of chickens in our Norwest Complex due to the effects of Hurricane Lane.

In April 2010, the table eggs operation located in Mexicali, B.C. was affected by an earthquake that hit northwestern Mexico on April 4. The earthquake partially affected almost all of the farms located in this region, including our farm. Our affected farm represents approximately 9.0% of our total egg production. Other facilities, such as feed mill and distribution centers, were essentially undamaged. These farms recommenced operations at the end of 2010, with normal production capacity expected to resume by the end of 2011.

The use of nutritional supplements and the possibility of contamination expose us to risk of loss of consumer confidence in the chicken industry

To reduce contamination, we use specialized feedstock and nutritional supplements that have been approved by the Mexican government and meet international industry standards. We can offer no assurance, however, that in the future we will not be materially adversely affected by claims or consumer concerns arising out of the use of these products in raising our animals.

Our sales are entirely dependent on consumer preferences, and the loss of consumer confidence in the products sold by Mexican meat and egg producers as a result of disease, contamination or other reasons, even if not related to our own products, could have a material adverse effect on the results of our operations.

We face significant competition from other chicken producers in all of our geographic markets and product lines

According to the UNA, we are Mexico's largest chicken producer, but we face competition from other producers in all of the markets in which we sell our products. In 2010, we accounted for approximately 35.0% of total chicken production in Mexico. There are two other major vertically integrated chicken producers in Mexico, which together with Bachoco account for approximately 59.0% of Mexican chicken production, with the balance distributed among 179 small and medium sized integrated and non-integrated producers.

Each of the two other major companies has substantial financial resources and strengths in particular product lines and regions. 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 coverage. Accordingly, we cannot assure you that our performance will not be adversely affected by increased competition.

We face increased competition from U.S. producers

Since 2003, chicken (excluding leg quarters for which the Mexican government imposed some temporary restrictions), eggs and swine import quotas were eliminated through the North America Free Trade Agreement or "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, especially in periods of overcapacity in the United States. As tariff barriers decline under NAFTA, U.S. producers can be expected to increase exports to Mexico, which could have a material adverse effect on our performance.

On January 1, 2008, the restrictions for leg quarters were phased out. At present there are no restrictions on exporting these products to Mexico.

In February 2011, the Mexican Secretariat of Economy initiated an antidumping investigation focusing exclusively on imports of leg and thigh meat for human consumption from the United States of America to Mexico. This investigation was requested by Bachoco and by two other Mexican poultry companies. As of the date of this report, the Company does not have any further information regarding this matter.



We are a holding company with no substantial operations and depend on our subsidiaries for cash flow

We are a holding company with no substantial operations and, consequently, we are dependent on dividends and other payments from subsidiaries for virtually all of our cash flow, including cash flow to pay taxes, service debt, make equity investments, finance the growth of subsidiaries and pay dividends to stockholders. Together with Mexican law, our ability to pay dividends may, in the future, be limited by financial covenants in debt instruments that we, or our subsidiaries, may acquire.

#### Risks Relating to the ADS, and the Shares in the Mexican Market

Developments in other emerging markets countries may adversely affect our business or the market price of our securities

The market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in countries in other emerging markets. 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 effect on the market value of securities of Mexican issuers. Consequently, the market value of our securities may be adversely affected by events elsewhere.

The Robinson Bours family controls our management and their interests may differ from other security holders

Certain members of the Robinson Bours family 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 Robinson Bours family has established two Mexican trusts, which they control ("Control Trust"), that together held 496,500,000 Shares outstanding on December 31, 2007. In November of 2008, the Robinson Bours family created a third trust with 102,000,000 Shares, which were taken from one of the existing trusts. The purpose of this new trust was to serve as collateral for the Company's loan indebtedness. In the second half of 2009, this third trust was eliminated and the Shares were returned to the original trust. The trusts together accounted for 496,500,000 Shares outstanding on December 31, 2009 and there has been no change in the position of each holder.

Future sales of Shares by the controlling stockholders may affect prevailing market prices for the ADS's and the Shares trading at the Mexican Market.

The prevailing market prices for the ADS's and the Shares could decline if the Robinson Bours family sold substantial amounts of their Shares, whether directly, or indirectly, through the Mexican trusts through which they hold their Shares, or if the perception arose that such a sale could occur.

The protection afforded to minority stockholders in Mexico is different from that in the United States

Under Mexican law, the protection afforded to minority stockholders is different from those 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. 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. In addition, all of our assets and their assets are located in Mexico. 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 ADSs 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 Securities and Exchange Commission with respect to that future issuance of Shares; or (ii) the offering qualifies for an exemption from the registration requirements of the Securities Act.

We make no promises that we will file a registration statement with the Securities and Exchange Commission to allow holders of ADSs 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 depository to sell preemptive rights and distribute the proceeds from such sales to ADS holders.

Corporate disclosure and accounting in Mexico may differ from other countries

There may be less, or different, publicly available information about issuers of securities in Mexico than is regularly published by or about issuers of securities in other countries with highly developed capital markets. In addition, due to country-by-country differences in accounting and other reporting principles and standards, our corporate disclosures may differ in content from disclosures made under other principles and standards, such as U.S. GAAP.





ITEM 4. Information on the Company

A. History and Development of the Company

Our legal name is Industrias Bachoco, S.A.B. de C.V., and we frequently refer to ourselves commercially as Bachoco. We were incorporated in Mexico on April 17, 1980. Our headquarters are located at Avenida Tecnológico No. 401, Ciudad Industrial 38010, Celaya, Guanajuato, Mexico, telephone +52-461-618-3500 and +52-461-618-3555. Our main product lines are: chicken, table egg, balanced feed and swine. Currently, all of our production and almost all of our sales are in Mexico. Our investor relations agent in the United States is Grayling, which is located at 405 Lexington Avenue, Seventh Floor in New York, New York. Our contract with Grayling expires on June 30, 2011 and we will not be renewing their services for another term. Starting July 1 our investor relation agent in the United States will be I-advize Corporate Communications, located in 82 Wall Street, Suite 805 in New York, New York. As of the date of this annual report, we are currently in negotiations with other potential investor relations agents in the United States.

According to the UNA, we are the largest poultry producer in Mexico. In 2010, we produced approximately 10.0 million chickens per week and accounted for approximately 35.0% of total chicken production in Mexico. As a vertically integrated producer, we control virtually all aspects of the production and distribution process, which enables us to exercise cost controls and to maintain high standards of quality, service and efficiency. With over 800 production and distribution facilities dispersed throughout Mexico, our operations include the following: preparing balanced feed, breeding, hatching and growing chickens, and processing, packaging and distributing chicken products.

Sales of chicken products accounted for 81.3% of our net revenues in 2010. Please also see the table under Item 5. A. "Operating Results."

We are also a significant producer of commercial balanced feed. We sell our feed both through distributors and directly to small producers. During 2010, we sold 328 thousand tons of balanced feed to external customers, which amounted to 5.6% of our total revenues for that year.

Currently, Bachoco is the second largest producer of table egg products. In 2010, we sold approximately 142 thousand tons. Table egg sales accounted for 8.5% of our net revenues in 2010.

As part of our other product lines, we also sell swine on the hoof to meat packers for pork product production, miscellaneous poultry-related products, and in 2007, we entered into two new business lines: turkey and beef value-added products. In 2010, sales of swine and these other lines accounted for 4.6% of our net revenues.

The following table sets forth, for each of the periods presented, the volume of chicken, balanced feed, table eggs and swine that we sold:

(In thousands of tons)	Year Ended December 31,				
	2006	2007	2008	2009	2010
Chicken	773.7	837.2	878.1	918.1	983.9
Eggs	143.4	147.8	143.6	143.4	141.9
Swine and others(1)	8.9	16.1	18.8	19.0	20.0
Balanced feed	484.4	438.8	370.7	337.9	327.5

(1) Includes swine, turkey and beef products.

In the Mexican poultry industry, few producers operate in multiple regions. We believe we have the broadest geographic market coverage in the Mexican poultry industry and that we are one of the largest poultry suppliers in the Mexico City metropolitan region (which accounts for a significant portion of overall Mexican chicken consumption). We currently compete in every major product category and channel of distribution for poultry products within the regions that we serve. We expect to continue to do so in order to meet growing consumer demand and needs.

#### Background and Ownership Structure

Founded in 1952 by the Robinson Bours family as a small commercial table egg operation in the state of Sonora, we grew by expanding our existing facilities and acquiring additional facilities from other poultry producers. In 1974, we established operations in Celaya, located in the agricultural region of Bajio, to begin serving the Mexico City metropolitan region. Beginning in 1988, our management recognized the potential for growth in Mexican chicken consumption, as well as the advantages of a large, vertically integrated operation. As a result, we began to seek opportunities for geographic expansion and to increase production capacity and market share. We extended our market coverage (particularly in 1993 and 1994) by purchasing fixed assets and inventory from major regional producers that faced financial difficulties. Following each acquisition, we made substantial investments to apply our production and distribution methods and reap the benefits of vertical integration and economies of scale, improving the performance of the acquired facilities.

In April 1995, Robinson Bours stockholders created a trust (the "Control Trust"), the principal purpose of which was to hold a controlling interest in our Series B Shares. Before September 2006, our common stock ("Common Stock") consisted of Series B Shares and Series L Shares of limited voting stock ("Series L Shares") (collectively, the "Old Shares"). The Old Shares were grouped into units. Each unit ("Unit") consisted of one Series B Share and one Series L Share. Each B Unit ("B Unit") consisted of two Series B Shares.

In September 1997, we made an initial public offering of Units representing 17.25% of the outstanding Old Shares. Following such offering, the Control Trust held Units and B Units representing 68.0% of the outstanding Series B Shares.

In September 2006, we separated the units trading on the Mexican Exchange into their component. The Series L Shares was converted into Series B Shares, on a one-to-one basis, thereby creating a single Share class, the Series B Shares, which represent our entire Common Stock. This change did not modify the face value of the Shares. These Shares trade on the Mexican stock market. The ADS still consist of twelve underlying Shares, but they are all Series B Shares, with full rights.



As of December 31, 2010, the Robinson Bours Stockholders owned Shares representing 82.75% of the Series B Shares outstanding. As a result, the Robinson Bours Stockholders continue to have the power to control the Company.

Members of the Robinson Bours family, hold a majority of the seats on our Board of Directors.

In November 1998, we approved a stock repurchase plan (the “Repurchase Plan”), which allows us to repurchase Shares outstanding and trading on the Mexican Stock Exchange (Bolsa Mexicana de Valores or BMV), in accordance with Mexican securities laws. To execute the Repurchase Plan, we created a reserve of Ps. 180.0 million (Ps. \$303.9 million in constant Mexican pesos as of December 31, 2007), which reduced retained earnings on our balance sheet. See Note 15d to the Consolidated Audited Financial Statements for more detail. During 2010, we undertook certain repurchases as disclosed in Item 16-e below. As of June 10, 2011, we had repurchased 187,400 Shares.

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

In February 2007, we reached a business agreement with Grupo Libra, a Company in the Northeast of Mexico, that includes the buying of all their inventories and a long term rent agreement of their facilities to strengthen our presence in that market. See Item 5: “Operating and Financial Review and Prospects - Acquisitions and Dispositions” in this Annual Report for more details on these transactions.

In December 2007, we reached an agreement with “Grupo Agra,” an egg company located in the states of Nuevo Leon and Coahuila in Northeast Mexico. The agreement provides for leasing of their facilities, which include laying hen farms (with a capacity of approximately 1.0 million hens), a processing table eggs plant, distribution centers and the Agra brands. In addition, we acquired their entire inventory.

In July 2009, the Company undertook several measures to improve capacity and efficiency in our Northeast production complex headquartered in Monterrey, N.L. These were: (i) acquiring the assets of a balanced feed mill and a soybean processing plant from Productora de Alimentos Pecuarios de Nuevo Leon, S.A. de C.V. through our Campi subsidiary; (ii) acquiring the assets of a chicken processing plant from Avi Carnes Monterrey, S.A. de C.V. through our Bachoco subsidiary with a production capacity of 9,000 chickens per hour; (iii) entering into agreements to rent breeder farms and egg incubation plants from Reproductoras Asociadas, S.A. de C.V. and one-day-old breeder capacity farms and egg incubation plants from Produccion Avicola Especializada, S.A. de C.V.; and (iv) making arrangements with contract growers to acquire their inventories.

### Business Strategy

Over the past decade, we have substantially increased our chicken production, establishing ourselves in every major product category and distribution channel for chicken and expanding to cover a geographic market in Mexico that is more widespread than any other chicken producer. We have also increased the efficiency of our production process and built a reputation for the freshness of our chicken products and quality of our customer service.

The Mexican poultry industry has experienced considerable consolidation in the last years, in which we have participated. We continue to evaluate possible acquisitions of other poultry producers or production facilities from time to time and may pursue certain opportunities consistent with our business strategy.

The key elements of our business strategy are as follows:

- Increased market penetration through expanded distribution. We have an extensive distribution network, supported by our own transportation fleet, superior knowledge of existing wholesale channels and strategically located cold storage warehouses and facilities. We have substantially increased our distribution routes during the past years. We plan to continue to develop and improve our distribution network and systems in every product category and throughout our expanded geographic coverage in Mexico.
- Increased service and market responsiveness. We seek to remain a leader in the Mexican poultry market by maintaining high standards of customer service and continuing to be responsive to the changing needs of varying market segments. As part of this strategy, we have structured our operations in such a way as to enable us to vary the size, weight, color and presentation of our chicken products, depending upon the particular demands of the market segment. In addition, we have decentralized order and sales services from our headquarters to our cold storage warehouses and facilities, which serve as midpoints in the distribution chain to wholesalers and local customers. This strategy allows us to stay closer to our customer base and to better cultivate growing customer segments, such as food-service operators, supermarkets and food wholesale clubs.
- Low-cost production and operating efficiency. We are among Mexico's lowest-cost producers and distributors of chicken, due in part to economies of scale and vertically integrated operations. We pursue on-going programs to increase operating efficiencies and reduce operating costs.
- Continued brand differentiation. We developed a brand image for premium fresh chicken and table eggs in Mexico. Building on the success of our branded products to date, we seek to continue to promote our brand name through billboards, packaging, special publicity campaigns and through development of brand loyalty among wholesale and retail distributors.

#### Capital Expenditures

Over the last three years, we have financed our capital expenditures with resources generated by our operations. We made the following capital expenditures (in nominal pesos):

- In 2008, we made capital expenditures of Ps. 1.1 billion, with which we:
  - Increased capacity and implemented new technology in the processing plants located in Celaya and Culiacan;
  - Increased chicken capacity in farms located in Merida and Veracruz;
  - Finished the construction of new farms located in Ciudad Obregon and Hermosillo;
  - Began the construction of new farms located in the state of Chiapas; and
  - Updated our transportation fleet.
- In 2009, we made capital expenditures of Ps. 988.2 million, with which we:
  - Entered into a business agreement with a company located at the Northeast of Mexico;
  - Increased capacity in chicken farms in the states of Chiapas, Sonora, and the Peninsula de Yucatan; and



- Updated our transportation fleet.
- In 2010, we made capital expenditures of Ps. 560.6 million, with which we:
  - Increased capacity for live chicken in Merida and Tecamachalco facilities;
  - Increased egg production capacity in the Mexicali facility;
  - Conducted productivity projects in the Tecamachalco and Merida processing plants, as well as adjusted production process to export requirements for the export of chicken claws to Asia; and
  - Updated our transportation fleet.

**B. Business Overview**

**Chicken Market**

Mexican consumers value distinct characteristics in their chicken. Virtually all chicken sold by us and other major chicken producers in Mexico is fresh. Fresh chicken is a central ingredient in many traditional Mexican dishes and it is the leading meat consumed in Mexico according to data from the UNA. Traditionally, value-added chicken products, such as heat-and-serve products, frozen dinners, chicken nuggets and other similar foods, have found limited acceptance among Mexican consumers due to historical consumer preferences for fresh chicken.

The value-added chicken products are a new market in Mexico; we participate significantly in the market and try to lead the supply of these products. According to the UNA, value-added chicken products currently account for approximately 3.0% of the chicken sold in Mexico; which is the same percentage as in the preceding year.

Mexican consumers traditionally prefer chicken with pronounced yellow skin pigmentation, a characteristic found mainly in our public-market and supermarket-broiler chicken products that we attain by including marigold extract in our chicken feed. We have also noticed an increased demand for smaller, whole, fresh chicken from various fast-food outlets, principally chicken roasting shops (rosterias), which have developed rapidly in Mexico.

We believe that changes in Mexican chicken consumption patterns correlate closely with fluctuating chicken prices. According to data obtained from the UNA, total Mexican chicken consumption per capita decreased from 26.8 kilograms in 2008 to 26.0 kilograms in 2010. Chicken is the leading meat consumed in Mexico, and it accounted for approximately 33.7% of the total livestock produced in Mexico in 2010. The following table sets forth total Mexican production of chicken, pork and beef for 2008 to 2010:

Mexican Production of Chicken, Beef and Pork  
(in thousands of tonnes)

	2008	2009	2010
Chicken	2,853	2,781	2,822
Beef	1,673	1,700	1,751
Swine	1,149	1,162	1,165

Source: UNA





The Mexican chicken industry, like chicken industries in other countries, is characterized by a long-term decline in real prices in real terms in conjunction with cyclical periods of higher profitability leading to overproduction followed by periods of lower prices and lower profitability.

In 2008, our chicken prices increased by 4.4% compared to prices in 2007, which was primarily a result of increases in the prices of raw materials, partially offset by (i) excess domestic supply, particularly during the second half of the year, and (ii) decrease in the purchasing power of the average consumer.

In 2009, our chicken prices increased by 12.6% compared to prices in 2008 due to a good balance between supply and demand, mainly during the first half of 2009.

During 2010, our chicken prices increased 3.3% compared to prices reported in 2009, primarily due to a good balance between supply and demand, particularly during the second half of 2010.

### Chicken Products

Six main product categories exist for fresh chicken in Mexico: live, public market, rotisserie, supermarket broiler, chicken parts and value-added products.

Below is a brief description of each chicken product line as well as its respective percentage of the total Mexican chicken production in 2010:

- Live chicken is delivered alive to small independent slaughtering operations or to wholesalers that contract with independent slaughtering operations for processing. The freshly slaughtered chicken is then sold to chicken shops and other specialized retailers for sale to consumers and in some areas is sold directly to consumers by the slaughterhouse. According to the UNA, live chicken accounted for approximately 31.0% by volume of the chicken sold by producers in Mexico.
- Public market chicken is a whole broiler presented either uneviscerated or eviscerated, generally sold within 48 hours after slaughter in public markets throughout Mexico, but primarily concentrated in the Mexico City metropolitan region. According to the UNA, public market chicken accounts for 20.0% by volume of the chicken sold by producers in Mexico.
- Rotisserie chicken is a whole broiler presented eviscerated and ready to cook. Rotisserie chicken is sold by wholesalers and directly by producers to small shops, stands called rosterias and supermarkets, which cook the chicken and sell it whole and freshly cooked to the end-consumer, providing an economical form of fast-food. According to the UNA, rotisserie chicken accounts for 24.0% by volume of the chicken sold by producers in Mexico.
- Supermarket chicken is a fresh whole broiler presented with the edible viscera packed separately. In most cases, it is sold directly by producers to supermarkets and, in some regions, to other independent food shops. Mexican consumers' preference for freshness requires regular deliveries of chicken to supermarkets and other food shops. According to information provided by the UNA, the supermarket broiler chicken accounted by the 15.0% of the volume of the chicken sold by producers in Mexico.
- Chicken parts 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. Producers generally sell directly to the supermarket chains and deliver the chicken directly to the outlet. Sales to the institutional market often require customized cutting and presentation. According to the UNA, chicken parts accounts for 7.0% of the chicken volume

sold by producers in Mexico.

-Value-added Products refers mainly to cut up fresh chicken parts with value-added treatment like marinating, breading and individual quantity frozen, sold mainly wrapped in trays principally to supermarkets and other institutional chains. Producers generally sell directly to the supermarket chains and deliver the chicken directly to the store. Sales to the institutional market often require customized cutting and presentation. According to the UNA, these products accounted for 3.0% of the chicken volume sold by producers in 2010.

We sell value-added chicken products mainly to supermarkets and other retailers. The following table sets forth, for the periods indicated, the sales volume in tonnes and as a percentage of the total volume of chicken sold for each of our principal lines of chicken products:

## Bachoco's chicken volume sold

	2008		2009		2010	
	Tonnes	%	Tonnes	%	Tonnes	%
Public market and rotisserie	402.1	45.8	418.2	45.5	413.0	42.0
Supermarket, chicken parts and others(1)	239.0	27.2	217.1	23.7	235.3	23.9
Live	237.0	27.0	282.8	30.8	335.6	34.1
Total	878.1	100.0 %	918.1	100.0 %	983.9	100.0 %

(1) "Other" comprises sales of value-added poultry products, viscera and other products.

Our product mix varies from region to region in Mexico, reflecting different consumption and distribution patterns. Based on market demand, we believe that fresh, rather than frozen, chicken will continue to dominate the Mexican market. Furthermore, we believe that consumer demand for value-added fresh chicken products, such as rotisserie chicken, supermarket broilers and chicken parts, will increase over time. Accordingly, we continue to focus principally on producing fresh chicken, including value-added fresh chicken products.

## Chicken Marketing, Sales and Distribution

We have developed an extensive distribution system that we believe is the largest and most modern of any chicken or egg producer in Mexico. We use various distribution channels in every major product category to service different market segments. We use our own fleet to transport the majority of rotisserie chickens, supermarket broilers and other chicken products to our customers. 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 located in: Celaya, Culiacan, Tecamachalco, Lagos de Moreno, Coatzacoalcos, Merida, Gomez Palacio, Monterrey and Hermosillo 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 (who in turn deliver to their customers), retailers and transport certain products directly to supermarkets and food-service operations. Our distribution infrastructure includes 60 cold-storage warehouses and facilities and a large fleet of vehicles. The decentralized sales force permits us to remain attuned to developments in the regions we serve and to develop close relationships with customers.

Below is a summary of the expansions we have made to our distribution network (which now covers almost all of Mexico) in the last five years:

- At the end of 2006, we acquired assets of Del Mezquital a private broiler producer located in the state of Sonora.
- At the beginning of 2007, we reached a business agreement with Grupo Libra, a chicken producer located in northeast Mexico. We also started to build a new complex in Hermosillo City.
- In 2008, we finished several projects to expand our facilities in Merida and continued increasing our production in Northern Mexico, specifically in the city of Hermosillo and in the state of Chiapas.
- In 2009, we (i) acquired the assets of a balanced feed mill and a soybean processing plant from Productora de Alimentos Pecuarios de Nuevo Leon, S.A. de C.V. through our Campi subsidiary; (ii) acquired the assets of a chicken processing plant from Avi Carnes Monterrey, S.A. de C.V. through our Bachoco subsidiary with a production capacity of 9,000 chickens per hour; (iii) entered into agreements to rent breeder farms and egg incubation plants from Reproductoras Asociadas, S.A. de C.V. and one-day-old breeder capacity farms and egg incubation plants from Produccion Avicola Especializada, S.A. de C.V.; and (iv) made arrangements with contract growers to acquire their inventories.

In the following paragraphs, we provide a description of our marketing, sales and distribution strategies for each of our major chicken products.

- Live chicken – We sell live chicken primarily to wholesalers, which contract out the processing to independent slaughterhouses and then resell the processed product as public market chicken. To a lesser extent, we sell to small, independent slaughterhouses in the southeast, where live chicken continues to be the standard for consumption. Additionally, customers can purchase live chicken directly from us on our farms. However, we believe that the market as a whole is moving slowly away from live chicken.
- Public market chicken – We believe that we are the largest producer of public market chicken in Mexico. Most of our wholesale customers rely primarily on us for public market chicken, although we have no exclusive supply agreements. Our principal focus in this market has been to provide superior distribution and service to selected wholesalers in order to maintain and further develop loyalty. Public market chicken is ordinarily sold to consumers without any packaging or other identification of the producer, but our distribution system encourages wholesalers to sell to retailers in containers from our own “Bachoco” trailers, reinforcing our reputation for freshness and efficiency of service and fostering brand loyalty among retailers. We believe we have developed excellent relationships with the wholesalers we serve.
- Rotisserie chicken – We sell rotisserie chicken directly to rosterias and supermarkets. We attribute the growth in our sales of rotisserie chicken in large part to the rapid growth of the market for freshly cooked chicken sold by these stores and in the rotisserie sections of supermarkets. We believe this market will continue to grow, as in the past, because of an ever-increasing consumer demand for convenient, low-priced products and high-quality fast food. Success in supplying rotisserie chicken depends on consistency and good service, and only larger producers with more modern processing facilities and distribution capacity can compete in this market.

- Supermarket chicken – We sell supermarket broilers, chicken parts and eggs, directly to the principal supermarkets, convenience store chains and wholesale clubs in Mexico. In order to build consumer loyalty for our supermarket broiler chicken, we emphasize our brand image as well as our superior service, reinforced by frequent delivery to ensure freshness. Each chain negotiates purchases centrally, but we deliver directly to many points of sale, ordinarily at least once every 48 hours. We believe that we lead the market in frequency of deliveries to supermarkets.
- Chicken parts – We sell chicken parts principally to supermarkets, using the same marketing strategy that we use for supermarket broiler chicken. We are also an important supplier of chicken parts to the growing franchise fast-food and institutional food-service industries. We continue to develop custom-cutting processes to help meet demand from fast-food and institutional customers for a wider variety of chicken parts.
- Value-added products – Mexican consumers have a greater preference for fresh chicken than their U.S. counterparts. Frozen, heat and serve and other further processed poultry products make up only a small proportion of total Mexican poultry consumption today. Demand for these kinds of fresh products is growing rapidly. The potential for substantial growth in this market is large and we believe that our distribution network, our large market share for supermarket chicken sales, our brand name and our experience in a wide range of existing Mexican distribution channels will be important competitive strengths in this area. Even though sales of value-added products have increased during recent years, fresh chicken still dominates the industry and its growth rate will depend on the purchasing power of consumers. The Company is constantly developing new, convenient value-added products.

#### Table Eggs

According to the UNA, Mexico has one of the largest per capita consumption of table eggs in the world with 22.8 kilograms per capita consumed in 2010, compared with 22.2 kilograms per capita consumed in 2009. This high level of consumption is due in part to the fact that eggs are among the cheapest sources of protein in Mexico.

The Mexican table egg industry is more fragmented than the chicken industry but has experienced some degree of consolidation in recent years, including acquisitions made by us. According to the UNA, the nine largest producers of table eggs in Mexico now account for approximately 44.0% of the market.

Eggs in Mexico have traditionally been distributed in large 360-egg cases through wholesalers to retailers. The retailers, which are typically small grocery shops, sell the eggs by weight to consumers. At present, the 14.0% of the eggs sold in Mexico are sold in packaged form, 6.0% are sold in processed form and approximately 80.0% are sold in bulk to wholesalers.

We estimate that we are the second largest producer of table eggs in Mexico with approximately 10.0% of the market. We sell both brown and white eggs. We are the largest producer of brown eggs in Mexico. Our marketing efforts for egg products focus on increasing our brand recognition.

The branded carton of brown eggs is a premium product in the Mexican market. We believe that brown eggs are less vulnerable to price fluctuations than white or unbranded eggs, 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.



In December 2007, we reached an agreement with Grupo Agra, located in the states of Nuevo Leon and Coahuila in Northeast Mexico. The agreement provides for leasing of their facilities, which include laying hens farms with a capacity of approximately 1.0 million hens, a processing table eggs plant, distribution centers and the Agra brands. In addition, we acquired all of their working capital.

In 2007, we began to enter into foreign markets. We are testing our brand by selling table eggs in the southern U.S. states with products produced in the U.S. This test will allow us to see how our brand is received and identify opportunities and strategies going forward.

In 2008 and 2009, our table egg production remained stable with a slight reduction in production capacity due to some adjustments we made in production.

In April 2010, the table eggs operation located in Mexicali, was affected by an earthquake that hit northwestern Mexico on April 4. The earthquake partially affected almost all of the farms located in this region, including our farm. Our affected farm represents approximately 9.0% of our total egg production. These farms recommenced operations at the end of 2010, with normal production capacity expected to resume by the end of 2011.

We have designed our egg distribution system to transport eggs from our laying farms at Celaya, Los Mochis, Obregon, Mexicali, Tecamachalco, Merida, Saltillo and La Laguna regions to customers in all sales regions. We sell packaged eggs directly to all of the principal supermarket chains in Mexico, with daily deliveries directly to their outlets.

#### Seasonality

Our sales are moderately seasonal, with the highest levels of sales, in general, in the second and fourth quarter due to higher chicken consumption during the holiday season.

#### Balanced Feed

According to the The Consejo Nacional de Fabricantes de Alimento Balanceado y de la Nutricion Animal, A.C. ("CONAFAB") Mexico is among the ten biggest producers of balanced feed worldwide. In 2010, total production of balanced feed in Mexico was 28.1 million tonnes. CONAFAB estimates that Mexican production of balanced feed for 2011 will be 29.4 million tonnes, and Mexico will account with 420 feed mill plants and a production capacity of 35 million tonnes.

Local production is composed of commercial and integrated manufacturers. Commercial manufacturers produce for the market, while integrated manufacturers mostly produce for themselves and occasionally for other producers. In 2010, integrated producers accounted for approximately 63.0% of total production. Imports of feed come almost entirely from the United States.

We have benefited from economies of scale and synergies derived from producing feed both for our own internal consumption and for sale to third parties, we sell 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.

We estimate that our balanced feed business currently comprises approximately 3.1% of the market share of the commercial (non-integrated) balanced feed business in Mexico, a small reduction from the 3.4% market share in 2009. The decrease in our balanced feed sales volume is due to a reduction in our production levels as we improve our sales mix.





## Swine

We purchase breeder swine live from the United States and breed them at facilities in the state of Sonora. We then raise swine to maturity at our farms in Celaya and three other locations in Mexico. Mature swine is sold on the hoof to Mexican swine meat packers for the production of pork products.

In 2008, our swine prices increased by 19.6% as a result of a better balance in the commercial market. During 2009, swine business remained generally stable as prices increased 10.7% for the whole year. Swine prices for 2010 were strong and increased 16.0% over 2009. Traditionally, Mexicans consume fewer swine products than chicken and egg products.

## Turkey and Prepared Beef Products

In 2007, as a result of the “Del Mezquital” and “Grupo Libra” agreements, we introduced two new product lines: turkey and value-added beef and pork products. We do not raise either turkey or cattle; we only process these products. See Item 5: “Operating and Financial Review and Prospects - Acquisitions & Dispositions” in this Annual Report for more details on the “Del Mezquital” and “Grupo Libra” agreements. In 2008, we integrated these business lines with the rest of our Company.

In 2009 and 2010, these product lines represented less than 1.0% of our total sales. However, we see opportunities to grow these businesses by taking advantage of our distribution network. During 2010, sales of these products increased 4.4% over the previous year.

## Raw Materials

We purchase our breeding stock for broilers and layers from high-quality suppliers. All of our breeder swine currently come from one supplier, but we have changed suppliers from time to time and have numerous alternative sources of supply.

The largest single component of our cost of sales is the cost of ingredients used in the preparation of feed including, principally, corn and soybean meal. The price of these ingredients is subject to significant volatility resulting from weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. 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.

Under NAFTA, corn tariffs were eliminated on January 1, 2008. This new condition has been positive for the Company, allowing us more flexibility in our cost of production as the cost of our ingredients more closely tracks prices in the international commodity markets.

During most of 2008, prices of corn and soybean meal have experienced high volatility and have demonstrated historically high prices worldwide. By the end of 2008, prices of corn and soybean meal started to decrease and have continued their downward trend into the year 2009, where we observed more stable prices for these ingredients. In 2010 grain prices were stable with an upward trend by the year end.

To mitigate the effects of increases in grain prices, we are always watchful to take advantage of lower-cost feed ingredients from Mexican sources, when available. In 2010, we obtained approximately 54% of our total grain from the domestic market. We believe that the quality of local feed ingredients, particularly sorghum, is superior to that of imported feed ingredients. In addition, the use of local feed ingredients allows us to save on transportation costs and import duties. However, in southern Mexico domestic crops and feed ingredients are limited. As such, our complexes use mainly imported grain. The Company engages in hedging of its feed costs in order to assure more stable cost of grains.

## Competition

### Chicken

According to the UNA, we are Mexico's largest chicken producer. We face significant competition from other producers in all of the markets in which we sell our products. When combined with our two largest vertically integrated competitors, we account for approximately 59.0% of total Mexican poultry production; the remaining 41% is distributed among approximately 179 small and medium-sized integrated and non-integrated producers. The major producers, including Bachoco, have substantial cost advantages over smaller, non-integrated producers arising from economies of scale and control of feed preparation. To varying degrees, each of these companies has substantial financial resources and strengths in particular product lines and regions. We believe, however, that we have substantial competitive strengths over our competitors, including a broader range of chicken products and broader geographic coverage.

Furthermore, there are considerable barriers to entry into large-scale chicken production and distribution in Mexico, including, among others, the consumer preference for fresh chicken, the weaknesses of transportation infrastructure and varying regional consumer preferences among the various product categories. The channels for distribution of chicken products, in particular, are highly specialized and varied, and they call for in-depth experience in market practices.

Nonetheless, we expect that we will continue to face strong competition in every market and that existing or new competitors are likely to broaden their product lines and to extend their geographic coverage.

Poultry producers in the United States have developed low-cost production techniques and have been successful in exporting primarily frozen and value-added poultry to other countries, especially in periods of overcapacity in the United States. As tariff barriers have declined under NAFTA, we have experienced increased competition from U.S. poultry producers. According to the UNA, in 2010, total imports of chicken products increased 20.2% in volume over imports in 2009. 86.3% of the total imports were chicken leg-quarter, representing an increase of 27.0% compared to leg-quarter imports in the previous year. This increase was due to lower price levels in the U.S. and other foreign markets.

We expect that competition from U.S. exporters could increase. However, Mexican consumer acceptance of frozen poultry products is still low.

### Table Eggs

We are one of the largest producers of table eggs in Mexico, with approximately 10.0% of total Mexican egg production at the end of 2010. The Mexican table egg industry is very fragmented and the principal 9 companies only account for 44.0% of total table egg production in Mexico.



## Balanced Feed

The CONAFAB estimates that the balanced feed production in Mexico recorded a cumulative increase of 5.8% from 2007 to 2010, where the integrated firms produce approximately 63.0% of total production for their internal use, and the remaining 37.0% is produced for sale to third parties. We estimate a market share of approximately 3.1% in our balanced feed product line.

## Swine

The Mexican swine industry is highly fragmented, and no producer has more than 15.0% of the market. On December 31, 2010, we had less than 1.0% of the Mexican market share in swine. U.S. producers compete in this market in Mexico.

## Mexican Regulation

### Mexican Import Regulation and Price Controls

As required by NAFTA, the Mexican government eliminated all permanent quotas and tariffs on poultry, table eggs and swine in January 2003. With certain specific exceptions described below, there are now no quotas or tariffs on imports of poultry, eggs and swine from the United States. We expect the elimination of these trade protections to stabilize the level of imports over time and to permit improved private control over imports, which may result in increased competition from importers.

### Import Status

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 leg quarters free of tariffs to Mexico.

In addition to NAFTA, Mexico has entered into free trade agreements with several other countries including Chile, Bolivia, Colombia, Venezuela and Japan and the European Union. Although such agreements may result in lower tariffs over our own products, we believe that imports from such countries will not increase substantially in the future due to high transportation and distribution costs.

### Antitrust Regulations

The Ley Federal de Competencia Economica ("Mexican Economic Competition Law"), which took effect on June 22, 1993, regulates monopolies and monopolistic practices. Under this law, all companies (including Bachoco) are required to notify the Comision Federal de Competencia ("Federal Competition Commission") of all proposed transactions exceeding specified threshold amounts as set forth in the Mexican Economic Competition Law. The Federal Competition Commission can impose conditions on, and prevent or unwind, any such transactions by Mexican companies. We have complied with all requirements under this law.

On December 2009, Mexico's Federal Commission of Economic Competition published a notice announcing an investigation of the Mexican poultry sector regarding possible monopolistic business practices. No specific companies have been cited as conducting business in this manner. We, along with other companies, were required to provide information to the commission. During 2010 the Federal Commission of Economic Competition continued with the investigation and requested information from several poultry companies. We anticipate the investigation will continue for approximately one more year.



## Environmental and Sanitary Regulation

Our operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment. The principal laws are Ley General de Equilibrio Ecologico y Proteccion Ambiental (General Law of Ecological Balance and Environmental Protection—the “Environmental Law”) and Ley de Aguas Nacionales (“National Waters Law”). The Secretaria del Medio Ambiente y Recursos Naturales (Ministry of Environment and Natural Resources, or “Semarnat”) administers the Environmental Law, and Comision Nacional del Agua (“National Water Commission”) administers the National Waters Law.

The Environmental Law regulates water pollution, air pollution, noise control and hazardous substances. Semarnat can bring administrative and criminal proceedings against companies that violate environmental laws, and after certain administrative procedures, it also has the power to close non-complying facilities. Every company in Mexico is required to provide Semarnat with periodic reports regarding compliance with the Environmental Law and the regulations thereunder.

The level of environmental regulation in Mexico has increased in recent years, and enforcement of the law is improving. We expect this trend to continue and to intensify with international agreements between Mexico and the United States.

In particular, Mexican environmental laws set forth standards for water discharge that are applicable to poultry processing operations. Our processing plants have water treatment facilities that comply with Mexican environmental standards. We are implementing other investment projects in anticipation of stricter environmental requirements in the future. We do not expect that compliance with those Mexican federal environmental laws or Mexican state environmental laws will have a material effect on our financial condition or performance.

The production, distribution and sale of chicken, eggs and swine are subject to Mexican federal and state sanitary regulations. The principal legislation is Ley General de Salud (“General Health Law”) and Ley Federal de Sanidad Animal (“Federal Animal Health Law”). The Federal Animal Health Law was enacted in 1993, and, since then, we have been working closely with Mexican authorities to develop regulatory standards and inspection methods for chicken processing. Currently, Mexican authorities do not monitor production or inspect products to the same degree as sanitary authorities in other countries, such as the USDA in the United States. However, we believe that we are in compliance with all applicable sanitary regulations.

## C. Organizational Structure

We are a holding company with no operations other than holding the stock of our subsidiaries, all of which are incorporated in Mexico, and engaging in transactions with our subsidiaries. Our principal operating subsidiary is BSACV, which owns our principal operating assets, and which accounted for 87.5% of consolidated total assets as of December 31, 2010, and 93.0% of our consolidated revenues for the year ended December 31, 2010. All of our subsidiaries are directly owned by us in the percentage listed below.

The following table shows our main subsidiaries as of December 31, 2008, 2009 and 2010:

	Percentage Equity Interest		
	2008	2009	2010
Acuicola Bachoco, S.A. de C.V.	100	-	-
Aviser, S.A. de C.V.	100	100	100
Bachoco, S.A. de C.V.	100	100	100
Bachoco Comercial, S.A. de C.V.	100	100	100
Campi Alimentos, S.A. de C.V.	100	100	100
Huevo y Derivados, S.A. de C.V.	97	97	-
Operadora de Servicios de Personal, S.A. de C.V.	100	100	100
Pecuaris Laboratorios, S.A. de C.V.	64	64	64
Secba, S.A. de C.V.	100	100	100
Sepetec, S. A. de C.V.	100	100	100
Servicios de Personal Administrativo, S.A. de C.V.	100	100	100
Induba Pavos, S.A. de C.V.	100	100	100

In December 2006 and July 2007, we created Induba Pavos, S.A. de C.V. and Bachoco Comercial, S.A. de C.V. respectively. They are both 100.0% owned subsidiaries of Industrias Bachoco.

In 2009, Acuicola Bachoco, S.A. de C.V. merged with Campi Alimentos, S.A. de C.V.

At an extraordinary stockholders' meeting of Huevos y Derivados, S.A. de C.V. held on March 31, 2010, its stockholders approved its Balance Sheet as of December 31, 2009 and agreed to proceed with the liquidation of the company starting on January 1st, 2010.

#### D. Property, Plant and Equipment

Our production and storage facilities are located throughout the regions we serve in order to ensure freshness and minimize transportation time and costs. The most extensive facilities are grouped in nine complexes that include farms and processing plants. The largest of our complexes is in Celaya, where we have broiler grow-out farms, a broiler processing plant and egg production farms. The complex at Culiacan includes broiler grow-out farms and a broiler processing plant, as do the complexes located in Puebla, Lagos de Moreno, Coatzacoalcos, Merida, Hermosillo and Monterrey. There are smaller egg production farms at Los Mochis, Ciudad Obregon, Puebla and Mexicali. In Gomez Palacio and Saltillo, we have a complex which consists of broiler grow-out farms, and egg production farms representing nearly half of our total egg production capacity.

The following table summarizes the types and number of each type of our production facilities as of March 2011:

Bachoco Production Facilities	Number
Chicken breeding farms	171
Broiler grow-out farms	518
Broiler processing plants	9
Egg incubation plants	21
Egg production farms	91
Swine breeding farms	1
Swine grow-out farms	10



Feed mills	18
Further process plants	3

On April 13, 2008, our processing plant in Monterrey caught fire. While the fire destroyed the entire further processing area, our broiler production processing did not suffer any damage and continued operating under nearly normal conditions until 2009. In 2009, the Company closed this facility and moved the broiler production processing to a new facility in Monterrey.

In April 2010, the table eggs operation located in Mexicali, B.C. was affected by an earthquake that hit northwestern Mexico on April 4. The earthquake partially affected almost all of the farms located in this region, including our farm. Our affected farm represents approximately 9.0% of our total egg production. Other facilities, such as feed mill and distribution centers, were essentially undamaged. This farm recommenced operations at the end of 2010, with normal production capacity expected to resume by the end of 2011.

We operate 18 feed mills for our own chickens, feed sales to third parties and egg and swine operations. The total production capacity of our feed plants is approximately 397,500 tons per month. We estimate that we are the largest producer of animal feed in Mexico.

Our other facilities include two poultry manure-processing plants. We also own a laboratory that produces vaccines for the poultry industry, which we mainly use for internal purposes. Our headquarters are located in Celaya Guanajuato, Mexico, and we have 60 sales centers throughout the regions we serve.

We own most of our facilities. We lease a limited number of farms and sales centers, all of which we do not consider material. We also employ a network of contract growers.

Our fleet of trucks carries part of the feed from feed mills to farms, live chickens from farms to processing plants, day-old chickens from egg incubation plants to farms, eggs from farms to distribution centers and, ultimately, products from distribution centers to customers.

ITEM4.A. Unresolved Staff Comments

None

ITEM 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with our Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with Mexican FRS, which differs in certain respects from U.S. GAAP. Note 21 to the Audited Consolidated Financial Statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of consolidated stockholders' equity, net income, a consolidated statement of stockholders' equity and a consolidated statement of cash flows under U.S. GAAP as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.

As of January 1, 2008, we have adopted the new standard related to "Inflationary Effects" in accordance with Mexican FRS (Mexican FRS B-10). Due to the relatively low inflation that the country has consistently achieved during the past several years, a new financial reporting standard came into effect on January 1, 2008, which terminates the recognition of inflationary effects in our financial information. Consequently, financial information corresponding to periods prior to December 31, 2007 is expressed in thousands of Mexican Pesos with purchasing power as of December 31, 2007, while the financial information for periods after December 31, 2007 is stated in thousands of nominal Mexican Pesos, except as otherwise indicated. The effects of this price-level restatement in accordance with Mexican FRS have not been reversed in the reconciliation from Mexican FRS to U.S. GAAP. See the Audited Consolidated Financial Statements for more detail.



## General

In the following discussions we describe various trends and how they affected our results of operations for the years ended December 31, 2008, 2009 and 2010.

### Mexican Economic Conditions

During 2008, the Mexican economy was very volatile. In the first half of the year, the Mexican economy showed little signs of volatility. However, as a result of the global economic slowdown and particularly the financial crisis in the U.S., the Mexican economy experienced a drastic downturn in the second half of the year. In particular, the Mexican peso experienced a sharp depreciation; the Mexican economy had a general slowdown and economic forecasts deteriorated.

In 2008, the annual inflation rate was 6.5% and the final dollar-peso depreciation rate of the peso against the U.S. dollar was approximately 21.0%, as compared to the end of 2007. The rate on 28 day Cetes had an average of 7.6% for the year.

During 2009, the Mexican economy continued to show signs of volatility as a result of the global economic slowdown and particularly the financial crisis in the United States. In particular, the Mexican peso experienced significant volatility during the first half of the year but tended to appreciate against the U.S. dollar towards the end of the year.

In 2009, the annual inflation rate was 3.57%. The Mexican peso appreciated 5.4% against the U.S. dollar as compared with the end of 2008.

In 2010, Mexico's economy displayed a healthy recovery from 2009, exceeding expectations made at the beginning of the year. The annual inflation rate was 4.4% and the Mexican peso-U.S. dollar exchange rate appreciated by 5.3% over the average exchange rate in 2009.

### Effects of Economic Conditions on the Industry and the Company

A contraction of the purchasing power of Mexican consumers may adversely affect demand for our products and, as a result, our net revenues and profitability. Inflation and changing prices affect our ability to raise prices as well as consumer demand, supplier prices and other costs and expenses, consumer purchasing power and competitive factors, all of which in turn affect our net revenues and operating results. Peso devaluations and high inflation levels could further adversely affect our operations and financial position.

Mexican economic conditions have had an important impact on Mexico's chicken market, especially in the feed costs and the exchange rate as we noted above. Balanced feed constitutes a substantial portion of our cost and is priced mostly in U.S. dollars.

We use financial instruments to mitigate the cost of goods sold in currencies other than Mexican pesos. See Note 2q and 10a of the Audited Consolidated Financial Statements.

During 2008, average Mexican producer prices increased by approximately 0.2% mainly due to increases in the cost of raw materials, partially offset by oversupply conditions primarily in the second part of the year.

In 2009, average Mexican producer prices increased by approximately 18.8%. This increase is mainly attributable to (i) the adequate balance between supply and demand present during the first half of the year, and (ii) the general increase in the cost of raw materials throughout the year.

In 2010, average Mexican producer prices increased by 3.5%, mainly due to stable supply and cost of raw materials for most of the year, as well as slight increases in the purchasing power of Mexican consumers.

Our outstanding total debt, including our current installments of long-term debt, at the end of 2010 decreased to Ps. 646.9 million as compared to the Ps. 963.8 million in 2009, as we reduced our short-term debt.

In 2010, we had a foreign exchange gain of Ps. 11.1 million due to the positive effect of the revaluation of the peso against the U.S. dollar; as compared to a foreign exchange loss Ps. 37.9 million in 2009 and a foreign exchange gain of Ps. 160.2 million in 2008.

Our valuation effects of financial instruments were a gain of Ps. 18.9 million in 2010, compared to a loss of Ps. 174.6 million in 2009, and a loss of Ps. 1.7 billion in 2008, as a result of a decrease in our financial instruments activity. See note 10-a in our Audited Consolidated Financial Statements.

#### Volume of Chicken Sold

In 2008, the Company reported an increase in volume of chicken sold of 4.9%, compared to 2007. This increase is due mainly to new farms in Hermosillo and an expansion in capacity at our Merida and Coatzacoalcos complexes.

In 2009, the Company increased its volume of chicken sold by 4.6%, compared to 2008, mainly due to the business agreement reached with producers in the Northeast, as mentioned above in Item 4: "Information on the Company – History and Development of the Company – Background and Ownership Structure."

In 2010, the Company's volume of chicken sold increased by 7.2% compared to 2009, mainly driven by the full integration of the business agreement reached with a producer in the Northeast, and the completion of our growing project in the Merida facility.

#### Trends in Product Prices for Bachoco

Our results of operations may also be significantly affected by the cyclical and volatile nature of Mexican prices for chicken, feed, eggs and swine. In general, we believe that, among other factors, industry price competition may continue to exert downward pressure on chicken prices, and that prices for chicken, feed, eggs and swine are also likely to remain volatile and subject to cyclical variation, due to the time needed to complete the chicken growth cycle. Chicken producers generally cannot adjust production to respond immediately to cyclical variations, and, accordingly, in times of oversupply, prices may decline due to overproduction.

Below we present trends in the prices of the key segments in which we operate.

#### Chicken Prices

In 2008, our chicken prices increased 4.4% as a result of increases in our costs of sales, partially offset by oversupply conditions, which were present throughout the year.



During 2009, our chicken prices increased 12.6% as a result of increases in our cost of sales and a more stable supply-demand balance during the first half of the year.

In 2010, our chicken prices increased 3.3% over prices in 2009, as a result of a proper balance between supply and demand primarily during the second half of the year and a stable cost of grain for most of the year.

#### Egg Prices

In 2008, our egg business was strong and egg prices increased by 23.9% as a result of a better balance between the demand and supply in the market and improvements in our mix of products sold.

During 2009, our egg business continued its strong performance as prices increased 12.0% over the previous year as a result of strong demand in the Mexican market.

In 2010, our egg business line was largely affected by oversupply conditions. As a result, prices decreased by 9.9%, compared with prices in 2009.

#### Balanced Feed Prices

In 2008, our balanced feed prices increased by 19.4% over the 2007, however such increase did not fully reflect the worldwide increase of feed ingredient costs and oversupply conditions which resulted principally from the global economic slowdown.

During 2009, our balanced feed prices increased by 9.3% as a result of an increase in the cost of feed ingredients. See "Trends in Prices of Feed Ingredients" below.

In 2010, our balanced feed prices decreased by 2.8% from year 2009, as a result of a more stable cost of grains mainly during first half of the year as compared to 2009 where there was a lot of volatility in the cost of grain with an upward trend thereof.

#### Swine Prices

During 2008, our demand and supply were stable for most of the year and swine prices increased by 19.6% as compared to 2007.

In 2009, our swine prices increased 10.7% over the previous year as a result of a stable supply of swine.

In 2010, our swine prices increased 16.0% over the previous year as a result of strong demand for this product.

#### Trends in Prices of Feed Ingredients

The single largest component of our cost of sales is the cost of ingredients used to prepare feed, including mainly soybean meal and corn. The prices of these feed ingredients are subject to significant volatility due to a number of variables, including, among other factors, weather, harvest size, transportation and storage costs, government agricultural policies and currency exchange rates. The price at which we may obtain feed ingredients from Mexican producers relative to U.S. producers is also subject to volatility depending on these variables.





At present, Mexican feed prices tend to parallel U.S. and international prices. In 2008, the percentage of grain purchased from domestic markets was approximately 48.0%, in 2009 it was approximately 50.0% and in 2010 it was approximately 54.0%.

In most of 2008, international grain prices increased drastically reaching new historically high prices worldwide and exceeding the corn prices reached in 2004, due to strong demand and lower inventories worldwide. These price increases put strong pressure on our production costs.

Restrictions on importing grain under NAFTA have been phased out as of the beginning of 2008. We expect this development to benefit the Company and result in a reduction of the costs associated with importing our feed ingredients.

In 2009, international corn prices showed more stability and were in fact lower when compared with previous years. However, the high level of inventories and exchange rate volatility did not result in a net decrease in our cost of sales. In 2010 we observed stable grain prices, with an upward trend by year end.

#### Acquisitions & Dispositions

Our operations have been affected during the periods we discuss herein, by a series of acquisitions and production arrangements that we have made in recent years:

- On April 13, 2008, our processing plant in Monterrey caught fire. While the fire destroyed the entire further processing area, our broiler production processing did not suffer any damage and continued operating under nearly normal conditions until 2009. In 2009, the Company closed this facility and moved the broiler production processing to a new facility in Monterrey.
- In July 2009, the Company made several asset acquisitions and reached a series of agreements to improve productivity and efficiency in the Northeast production complex headquartered in Monterrey. The specific acquisitions and agreements made were:
  - a) The acquisition of the assets of a balanced feed mill from Productora de Alimentos Pecuarios de Nuevo Leon, S.A. de C.V. through our Campi subsidiary. The purpose of this acquisition was to improve the quality and production capacity of balanced feed. The mill's production capacity is about 3,000 tons of pellet feed per week.
  - b) The acquisition of the assets of a chicken processing plant from Avi Carnes Monterrey, S.A. de C.V., through our Bachoco subsidiary, with a production capacity of 9,000 chickens per hour. The goal of this acquisition was to reduce production costs, replace the Monterrey processing plant and to increase production capacity and diversify the chicken business in that region.
  - c) An agreement to rent breeder farms and egg incubation plants from Reproductoras Asociadas, S.A. de C.V. and one-day-old breeder capacity farms and egg incubation plants from Produccion Avicola Especializada, S.A. de C.V.
    - d) The Company also made arrangements with contract growers to acquire their inventories.

After analyzing these transactions for 2009, and the terms of the agreements, we did not acquire any of their employees, customer base, and debt or production techniques. As a result, we concluded that the transactions did not qualify as a business in accordance with ASC topic 805 "Business Combination" before SFAS 141R (EITF98-3) "Determining Whether a non-monetary transaction Involves Receipt of Productive Assets or of a Business" (paragraph 6) and therefore were not deemed to be business combinations, in accordance with FAS 141R.



In 2010, we did not carry out any material asset acquisitions or business combinations.

## A. Operating Results

### Summary

The following table sets forth selected components of our results of operations as a percentage of net revenues for each of the periods indicated:

	Year Ended December 31,					
	2008		2009		2010	
	(percentage of net revenues)					
Net revenues	100.0	%	100.0	%	100.0	%
Cost of sales	(86.9	)	(83.1	)	(78.9	)
Gross profit	13.1		16.9		21.1	
Selling, general and administrative expenses	(12.0	)	(10.8	)	(11.1	)
Operating income	1.1		6.1		10.0	
Comprehensive financing income (loss)	(6.8	)	(0.6	)	0.5	
Taxes	1.4		(1.7	)	2.0	
Net income (loss)	(4.4	)	3.5		8.0	

The following table sets forth, for each of the periods indicated, our net revenues of chicken, feed, eggs, swine and other products as a percentage of total net revenues in each period:

	Year Ended December 31,					
	2008		2009		2010	
	(percentage of net revenues)					
Chicken	76.9	%	78.3	%	81.3	%
Feed	7.3	%	6.3	%	5.6	%
Eggs	10.5	%	10.1	%	8.5	%
Swine and Others	5.3	%	5.3	%	4.6	%
Total	100.0	%	100.0	%	100.0	%

### Results of Operations for the Years ended December 31, 2009 and 2010

#### General

After posting negative growth in 2009, Mexico's economy grew 5.5% in 2010, surpassing expectations made at the beginning to the year. This growth was beneficial to the Mexican poultry industry in general. The inflation rate was 4.4% during 2010.

In 2010, the exchange rate of the peso against the U.S. dollar appreciated 5.3% as compared to 2009.

According to the UNA, the production volume of the Mexican chicken industry increased by 1.5% in 2010, as demand for chicken products increased during this year as the Mexican economy grew.

In the egg segment, after two consecutive years of positive growth in both volume and prices, there was an oversupply in the eggs market during most of 2010, which negatively affected egg prices. Despite this, total production of eggs in

Mexico increased by 3.9% over the year 2009, mainly due the fact that egg is a low-cost protein option in Mexico.

Bachoco achieved solid results in 2010, recording the highest sales volume in the history of the Company. We achieved this through the proper planning of our production, coupled with improvements in our production indicators and an adequate balance between supply and demand in Mexico's poultry industry.

In particular, value-added products such as marinated, breaded and fully cooked products are growing in the domestic market.

The business agreement relating to the new operation in Monterrey was executed at the end of 2009. During 2010, it was successfully integrated with the rest of the Company and has been reflected in a positive synergy that supports Bachoco's strategies of growth and national presence.

#### Net Revenues

In 2010, we recorded net sales of Ps. 24,715.5 million, a 6.2% increase with respect to the Ps. 23,262.9 million sales reported in 2009. A detail of sales by segment follows.

Sales in our chicken segment totaled Ps. 20,127.7 million during 2010, an increase of 10.7% as compared to 2009. This result is due to an increase of 3.3% in chicken prices and a 7.2% increase in volume sold, which is a record for the Company. Chicken sales accounted for 81.3% of overall sales.

Throughout 2010, the egg business line in our Company faced oversupply conditions, which increased pressure on egg prices. Sales of these products totaled Ps. 2,101.8 million pesos in 2010, 10.8% lower than the Ps. 2,356.8 million recorded in 2009. This reduction in sales is mainly due to a fall of 9.9% in egg prices and 1.0% decrease in volume sold. Egg sales accounted for 8.5% of overall sales.

The Company sells balanced feed for livestock and pet industry. This segment was affected in 2010 by the contraction in demand during most of the year, with a slight recovery by the fourth quarter. Sales of these products were Ps. 1,380.8 million, 5.8% below the recorded sales of Ps. 1,465.6 million in 2009. In 2010, this business line accounted for 5.6% of total sales.

During 2010, results in our swine business were very favorable primarily because of a healthy balance between supply and demand. Sales totaled Ps. 297.1 million, 26.8% higher than sales in 2009, which were Ps. 234.3 million. This is due to an increase of 16.0% in prices and 9.3% in sales volume. Sales of this product represent almost 1% of total sales of the Company.

The Company's other business segments are: by-products, and value-added products of turkey and beef, which together represent approximately 3.5% of total sales. During 2010, sales of other lines decreased 13.0% due mainly to a decline in the sales of by-products.

#### Cost of sales and gross profit

In 2010, cost of sales was Ps. 19,500.7 million compared to Ps. 19,326.8 million in 2009, this represents a decrease of 2.9% in the cost of sales per unit, and was mainly due to increased efficiencies in our production indicators and an adequate administration of our grain hedging.

As a result of the reduction in our cost of sales per unit and increases in the volume of chicken and swine sold, the Company registered a gross profit for 2010 of Ps. 5,214.8 million with a margin of 21.2%, up from a margin of 16.9% in 2009.



### Operating income and expenses

Total operating expenses in 2010 were Ps. 2,751.8 million in 2010, compared with Ps. 2,522.3 million in 2009, which primarily reflects the increase in our distribution and administrative expenses, leading to operating income of Ps. 2,463.0 million, or a margin of 10.0%. This figure is higher than the operating income reached in 2009 of Ps. 1,413.8 million, or a margin of 6.1%.

### Other Income (expense) net

In 2010, our other expenses, net amounted to Ps. 95.3 million, as compared to other expenses, net of Ps. 65.2 million in 2009. The increase was mainly attributable to a loss associated with sales of waste animals, raw materials and by products. See Note 17 to our Audited Consolidated Financial Statements for more detail.

### Comprehensive financial results

In 2010, we recorded comprehensive financial income of Ps. 122.1 million, compared with a loss of Ps. 133.2 million in 2009. The result is mainly attributable to a gain in valuation effects of financial instruments and net interest of Ps. 111.0 million in 2010, while in 2009 we registered a valuation effect of financial instruments and net interest loss of Ps. 95.3 million. In 2010 we recorded an exchange gain of Ps. 11.1 million, compared to an exchange loss of Ps. 37.9 million in 2009.

### Taxes

Total taxes recognized by the Company in 2010 amounted to Ps. 503.4 million, compared to Ps. 406.4 million reported in 2009. This represents an income tax of Ps. 495.8 million and deferred income tax of Ps. 7.6 million in 2010, comparable to income tax of Ps. 103.9 million and deferred income tax of Ps. 302.5 million in 2009. The decrease in deferred income tax is mainly due to an extraordinary charge of Ps. 188.8 million of deferred taxes recognized in 2009 as a result of a tax reform by which, as of 2010, 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 (the Company's principal subsidiary, Bachoco, being subject to the simplified regime). The Company did not recognize a similar charge in 2010.

### Net income

Net controlling interest income for year 2010 was Ps. 1,983.4 million, or Ps. 3.31 per share (US. \$3.21 per ADS), compared to a net controlling interest income of Ps. 797.6 million, or Ps. 1.33 per share in 2009 (US. \$1.29 per ADS). In terms of margin, the Company reached a net controlling margin of 8.0%, significantly higher than the 3.5% net margin reported in the previous year.

### Liquidity and Capital Resources

In 2010, our financial position remained sound. In 2010, cash and cash equivalents and primary financial instruments increased to Ps. 4,177.2 million, which compares positively to the Ps. 2,551.0 million reported in 2009.

During recent years we have maintained a low debt level and 2010 was no exception: short- and long-term debt totaled Ps. 646.9 million, lower than the Ps. 963.8 million reported at the end of 2009.

Total assets as of December 2010, were Ps. 21,197.8 million, a 6.6% increase over the Ps. 19,877.9 million reported in the previous year. The increase is mainly due to higher cash and cash equivalents during 2010.

Inventories and biological current assets in 2010 were Ps. 3,731.9 million, similar to the inventories and biological current assets of Ps. 3,769.7 million reported at the end of 2009.

Total shareholders' equity of the Company was Ps. 16,368.4 million, 11.8% more than the shareholders' equity reported in 2009 of Ps. 14,638.5 million.

#### Workforce

The company's workforce totaled 23,473 as of December 31, 2010, a reduction of 2.5% compared with the 24,065 employed at the end of 2009. This reduction is the result of efficiency and productivity gains.

#### Results of Operations for the Years ended December 31, 2008 and 2009

##### General

The global financial crisis affected the Mexican economy as the inflation rate for 2009 increased by 3.57%, while national GDP experienced a sharp contraction of 6.5%, according to information provided by the Central Bank.

In 2009, the exchange rate of the peso against the U.S. dollar appreciated 5.4% when compared to the year-end exchange rate for 2008.

According to the UNA, the production volume of the Mexican chicken industry decreased by 2.5% in 2009 due to lower demand for these products and lower purchasing power, which resulted from the economic crisis in Mexico.

On the other hand, the table egg industry, which is a low-cost protein option in Mexico, increased by 3.3% in terms of domestic production when compared to fiscal year 2008, as a result of a better balance between supply and demand in this market.

Additionally, Bachoco achieved good operating results in several of its productive and commercial operations of the Company as a result of adequate logistics, cost controls, efficiency efforts and the continuous improvement in all our processes.

##### Net revenues

Bachoco's net sales during 2009 were Ps. 23.3 billion, 15.6% higher than the Ps. 20.1 billion reported in 2008. This was as a result of higher net sales in our main business lines. For more detail see the table included in Item 5: "Operating and Financial Review and Prospects - Summary" above.

Chicken sales increased 17.6% compared to 2008, resulting from an increase in the price of chicken of 12.6% and an increase in volume sold of 4.6%.

Table egg sales rose 11.8%, as compared to 2008, mainly due to increases in selling prices of 12.0%, partially offset by a decrease in volume sold of 0.2%. The increase was also a result of the strong demand for this product throughout 2009.





Balanced feed sales decreased 0.4% from the previous year and volume sold fell 8.9% as a result of a decrease in demand, and was mainly attributed to high raw materials costs. In 2009, prices for balanced feed rose 9.3%, as compared with 2008 as a result of the increase in the costs of raw materials.

The Company sells live swine to local processors. Swine sales increased 11.7% as a result of a 10.7% increase in the price of swine and a 0.9% increase in the volume of sales, as compared to 2008.

Sales of our other business lines (including turkey and beef processed products) increased by 16.2% as compared to 2008. This increase was mainly driven by an increase in sales of turkey and by-products, such as poultry manure.

In 2008 and 2009, we recognized an increase of Ps. 16.4 million and decrease of Ps. 7.2 million, respectively, in revenue as a result of the fair valuing of the Company's biological assets and agricultural products. See Note 2-g, and Note 6-b in our Audited Consolidated Financial Statements for more detail.

#### Cost of sales

The costs of our raw materials were stable, but continued to remain high, especially for soybean meal during the first half of the year. The high prices of raw materials, coupled with higher costs associated with the increase in the volume sold of chicken, lead us to a 10.5% increase in the cost of sales during 2009, as our costs of sales amounted to Ps. 19.3 billion compared to the Ps. 17.5 billion reported in 2008.

#### Gross profit

Gross margin for 2009 was 16.9% in 2009, compared to the 13.1% reported in 2008, this as a result of the sales increase of chicken and egg products.

#### Selling, general and administrative expenses

Total operating expenses in 2009 were Ps. 2.5 million, an increase of 4.5%, as compared to 2008, which resulted primarily from the increase in our distribution expenses. Total expenses accounted for 10.8% of the Company's total net revenues, a decrease when compared with the 12.0% reported for year 2008.

#### Operating income

The consolidated operating result for 2009 was a profit of Ps. 1.4 billion, representing an increase from the Ps. 230.0 million reported in 2008. The operating margin for 2009 was 6.1%, as compared to the 1.1% reported in 2008.

#### Other expense, net

In 2009, we had other expenses, net of Ps. 65.2 million, as compared to other expenses, net of Ps. 21.0 million in 2008, mainly due to lower income attributable to sales of waste animals, raw materials and by products and lower tax incentives. See Note 17 to our Audited Consolidated Financial Statements for more detail.

#### Comprehensive financial results

During 2009, we recorded a comprehensive financing cost of Ps. 133.2 million, compared with a cost of Ps. 1.4 billion in 2008, which resulted from a reduction in the valuation of financial instruments. Net interest position and the impact on the valuation of our financial instruments was a loss of Ps. 95.3 million in 2009, much lower than the loss of Ps. 1.5 billion reported in 2008. See Note 10-a to our Audited Consolidated Financial Statements for more detail.



#### Income (loss) before income taxes and non-controlling interest

Income before income taxes and non-controlling interest was Ps. 1.2 billion 2009 as compared to a loss of Ps. 1.2 billion in 2008. This increase is mainly attributable to an increase in gross profit and a decrease in our comprehensive financing cost.

The total taxes recognized by the Company at 2009 year end totaled Ps. 406.4 million; this amount includes a one-time charge of Ps. 188.8 million based on the recognition of a deferred income taxes relating to a change in the tax rate for 2010 following the Mexican tax reforms and does not affect the Company's cash flow. See Note 16-d of the Audited Consolidated Financial Statements for more details.

#### Net (loss) income

Net income for 2009 was Ps. 809.0 million, representing a net income per share outstanding of Ps. 1.35 pesos (or U.S. \$1.24 per ADS), compared with a net loss in 2008 of Ps. 886.0 million, or a loss of \$1.48 per share (loss of U.S. \$1.35 per ADS). This reversal was largely a result of our positive operating and financial results, partially offset by the increase in our total taxes.

#### Income Tax, Asset Tax and Flat Rate Business Tax, Year 2010

Industrias Bachoco and all of its subsidiaries file separate income tax returns. Bachoco, the Company's main subsidiary, is subject to the simplified regime. This simplified regime is applicable to agriculture, cattle-raising and fishing, among others.

#### Income Tax

In 2009, a tax reform was authorized by which, as of 2010, 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. The Company recognized the result of this change in 2009, in a charge to results of Ps. 188.8 million, which is reflected in deferred taxes under the line item "Adjustment to deferred tax assets and liabilities for enacted changes in tax law and rates." See Note 16-a of the Consolidated Financial Statements for more information.

#### Flat Rate Business Tax (IETU)

On October 1, 2007, new laws were published and a number of tax laws were revised relating to the Flat Rate Business Tax (IETU). These laws came into effect on January 1, 2008. The IETU rate was set at 16.5% for 2008, 17.0% for 2009 and 17.5% for 2010 and thereafter, based on cash flows, and limits certain deductions. The IETU is required to be paid only when it is greater than the income tax to be paid in any given year. To determine the IETU base in a given year, gross income tax (before subtracting deductions) is subtracted from the net income tax (after subtracting deductions), with the difference being the IETU base. If a negative IETU base is determined because deductions exceed income tax, there will be no IETU payable. Instead, the amount of the negative IETU payable base multiplied by the IETU rate results in an IETU credit, which may be applied against the income tax due for the same year or, if applicable, against any IETU payable in the next ten years. See Note 16-b of the Consolidated Financial Statements for more information.

## Asset Tax (AT)

In 2007, a new law was enacted that resulted in the derogation of the asset tax law beginning on January 1, 2008. In 2007, the asset tax rate was payable at 1.25% and liabilities were no longer deductible from the asset tax base. At December 31, 2010, the Company had Ps. 4.9 million in asset tax credits. See Note 16-c to the Audited Consolidated Financial Statements for more detail.

Base Year	Asset tax restated at Year of December 31, 2010 expiration	
2005	1.6	2015
2006	3.3	2016
Million of Ps.	4.9	

## Reconciliation to U.S. GAAP

The Company's Audited Consolidated Financial Statements are prepared in accordance with Mexican Financial Reporting Standards ("MexFRS"), which differ in certain respects from U.S. GAAP.

The principal differences between MexFRS and U.S. GAAP, as they relate to us, with an explanation, where appropriate, of the method used to determine the adjustments that affect income and stockholders' equity, and any additional applicable disclosures as applicable are described in the Note 21 of our Audited Consolidated Financial Statements. Our consolidated net income under U.S. GAAP was a net loss of Ps. 869.4 million in 2008, a net income of Ps. 787.0 million in 2009 and a net income of Ps. 1,975.0 million in 2010, compared to a net loss of Ps. 886.0 million, a net income of Ps. 809.0 million and a net income of Ps. 1,986.3 million, respectively, under Mexican FRS.

Bachoco has applied Statement of Financial Accounting Standards (included in FASB ASC Subtopic 740-10- Income taxes – Overall) (FIN 48.) Accounting for Income Taxes, for all periods presented. The deferred tax adjustment included in the net income (loss) and stockholders' equity reconciliations includes the effect of deferred taxes on all U.S. GAAP adjustments reflected in the reconciliation from Mexican FRS to U.S. GAAP. Under U.S. GAAP, the Company recognizes a deferred tax liability associated with profits originated during the simplified regime that have not paid income tax previously, but would be subject to taxation upon future distributions under the Mexican tax law. Due to the accounting change in Mexican FRS in 2008, this concept generates a reconciling difference to U.S. GAAP. The deferred tax liability under this concept amounted Ps. 275.0 and Ps. 309.1 million as of December 31, 2009 and 2010, respectively.

For U.S. GAAP purposes, goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB ASC Topic 350, Intangibles – Goodwill and Other. Up to December 31, 2004, we recognized an accumulated effect (increase in equity) of Ps. 58.7 million for the non amortization of goodwill, under U.S. GAAP. The Company performs its annual impairment review of goodwill at December 31, and when a triggering event occurs between annual impairment tests. In 2008, 2009 and 2010, no triggering events occurred and the annual impairment test did not reflect any impairment concern.

The fair value of financial instruments is the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation. When possible, we use quoted market prices to determine fair value. Where quoted market prices are not available, the fair value is internally derived based upon appropriate valuation methodologies with respect to the amount and timing of future cash flows and estimated discount rates for both counterparty and entity's own risk. However, considerable judgment is required in interpreting market data to develop estimates of fair value, so the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. The effect of using different market assumptions or

estimation methodologies could be material to the estimated fair values.

Fair value information presented in Note 21 to our Audited Consolidated Financial Statements is based on information available at December 31, 2010 and 2009. Although we are not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been updated since those dates; therefore, the current estimates of fair value at dates after December 31, 2010 and 2009, could differ from these amounts.

#### Use of Estimates in Certain Accounting Policies

In preparing our Audited Consolidated Financial Statements, we make estimates concerning a variety of matters. Some of these matters are highly uncertain, and the estimates involve judgments based on the information available to us. The discussion below identifies matters for which the financial presentation would be materially affected (a) if we relied on different estimates that we could reasonably use, or (b) if in the future we change our estimates in response to changes that are reasonably likely to occur.

The discussion below addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates would not be material to our financial results.

#### Estimated Useful Lives of Property, Plant and Equipment

We estimate the useful lives of our property, plant and equipment in order to determine the amount of depreciation expense to be recorded in each period. The current estimates of useful lives are based on estimates made by an independent appraiser in 1996. Those estimates have been adjusted when applicable, based on historical experience with similar assets that we own.

Accumulated depreciation expense for property, plant and equipment in 2010 amounted to Ps. 8.2 billion. As applied to our 2010 financial results, the depreciation and amortization was Ps. 692.6 million, or 2.8% of our net revenues. For further explanation, see Notes 2-h and 7 to the Audited Consolidated Financial Statements.

#### Allowance for Productivity Declines

The allowance for decline in productivity of our breeder chickens and swine is estimated based on expected future life under straight line method. See Note 2g in our Audited Consolidated Financial Statements for more detail.

#### Inventory Valuation

##### Inventories

At December 31, 2009 and 2010, our inventories are stated at the lower of historical cost determined by the average cost method or market (replacement cost), provided that replacement cost is not less than net realizable value.

## Agriculture

Our Audited Consolidated Financial Statements recognize the requirements of Mexican FRS E-1, "Agriculture," which establishes the rules for recognizing, measuring, presenting and disclosing biological assets and agricultural products.

Mexican FRS E-1 requires biological assets and agricultural products (the latter at the time of harvesting) to be valued at their fair value, net of the estimated costs at the point of sale. Bulletin E-1 also establishes that whenever the fair value cannot be determined in a reliable, verifiable and objective manner, the assets are to be valued at their production cost, net of impairment loss.

Agricultural products are live chickens, processed chickens, commercial eggs and pigs available for sale. The Company's biological assets are comprised of poultry in their different stages, incubatable eggs and breeder pigs.

Broiler chicks less than six and a half weeks old, incubatable eggs, breeder pigs and laying hens are valued at production cost since it is not possible to determine their fair value in a reliable, verifiable and objective manner.

Broilers more than six and a half weeks old through their date of sale are valued at fair value net of estimated point-of-sale costs, considering the price per kilogram of processed chicken at the valuation date.

Processed chicken and commercial eggs are valued at fair value net of estimated point-of-sale costs, considering the price per kilogram of processed chicken and commercial eggs at the time such items are considered as agricultural products. From such date through the date of sale, the fair value is considered to be the cost of processed chicken or commercial eggs, not in excess of net realizable value.

We are exposed to financial risks due to changes in the price of chicken. We estimate that the price of chicken will not fall sharply or significantly in the near future; consequently, we have not entered into any derivative agreement or any other type of agreement to offset the risk of a drop in the price of chicken.

For more details, see "Inventories and biological assets" in Note 6 of the Audited Consolidated Financial Statements.

## Allowance for Doubtful Accounts

The Company's policy is to record an allowance for doubtful accounts for balances which are not likely to be recovered. In establishing the required allowance, management considers historical losses, current market conditions, and our customers' financial condition, the amount of receivables in dispute originated by price differences and the aging of our current receivable and current payment patterns.

## Pension Plan

We have a retirement plan in which all non-union workers participate. Pension benefits are based on the salary of workers in their final three years of service, the number of years worked and their age at retirement. See Note 2-m and Note 14 to our Audited Consolidated Financial Statements.



This plan includes:

- Defined contribution plan: This fund consists of employee and Company contributions. The employee contribution percentage ranges from 1.0% to 5.0%. The Company contribution ranges from 1.0% to 2.0% in the case of employees with less than 10 years' seniority, and the same contribution percentage as the employee (up to 5.0%) when the employee has more than 10 years' seniority.
- Defined benefit plan: This fund consists solely of Company contributions and covers the Company's labor obligations with each employee.

Seniority premiums and severance payments are paid to workers as required by Mexican labor law.

We recognize the liability for pension benefits, seniority premiums and termination benefits (severance payments), based on independent actuarial computations using the projected unit-credit method and financial assumptions net of inflation.

#### Valuation Allowance for Deferred Tax Assets

In assessing our ability to realize deferred tax assets, management considers whether it is more likely than not that part or all of the deferred tax assets will not be realized taking into account, that the final of our deferred tax assets is dependent upon the generation of future taxable income during the periods in which such assets become deductible. We also consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The valuation allowance for deferred tax assets as of January 1, 2009 and 2010 amounted to Ps. 28.0 million and Ps. 36.1 million, respectively. See note 16-e to our Audited Consolidated Financial Statements.

#### B. Liquidity and Capital Resources

Our working capital (current assets less current liabilities) increased year over year from Ps. 5.2 billion on December 31, 2009 to Ps. 7.4 billion on December 31, 2010. Such increase was mainly due to an increase in the cash and investments and a decrease in derivative financial instruments as current liabilities accounts. The ratio of current assets to current liabilities on December 31, 2010 was 4.4.

Cash and cash equivalents and primary financial instruments were Ps. 4.2 billion on December 31, 2010, representing an increase of Ps. 1.6 billion or 63.8% from the previous year. The increase was primarily due to our positive operating results.

Inventories and biological current assets were Ps. 3.7 billion as of December 31, 2010, representing a slight decrease of Ps. 37.8 million or 1.0% from the previous year, due mainly to a decrease in our inventories in raw materials.

Total debt, including the current portion of long-term debt, equaled Ps. 646.9 million as of December 31, 2010, lower than Ps. 963.8 million reported as of December 31, 2009. This 32.9% of decrease primarily reflects the payment of our short term debt or some of notes payable to banks.

Total Stockholders' equity increased by 11.8%, to Ps. 16.4 billion on December 31, 2010 from Ps. 14.6 billion on December 31, 2009.

In 2010, capital investments amounted to Ps. 560.6 million, most of which were financed with resources generated from our own operations. These capital investments were used mainly to finance, productivity projects, production

growing capabilities and infrastructure improvements to keep facilities in good operating conditions. See Item 4: “Capital Expenditures” for more detail.

We are a holding company with no significant operations of our own. We principally engage in transactions with our subsidiaries. We will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries, principally BSACV. The amount of dividends payable by our subsidiaries and us is also subject to general limitations under Mexican corporate law.

See our Consolidated Statements of Cash Flow in our Audited Consolidated Financial Statements for more details.

We consider our current level of working capital to be sufficient for our operations.

We expect to finance our capital expenditures, additional working capital, and debt service obligations from our current liquidity and capital resources, cash flows and from additional borrowings from our existing sources of debt financing, although we will also consider other sources of debt financing if they are available on advantageous terms. For a discussion of our use of hedging instruments, please see Note 10-a and 10-b of our Audited Consolidated Financial Statements.

We entered into operating leases for certain offices, production sites, computer equipment, and automobiles. These agreements have terms ranging between one and five year periods and some of them contain renewal options. Rental expenses under these leases for 2008, 2009 and 2010 were Ps. 167.9 million, Ps. 177.3 million and Ps. 197.5, respectively. See Note 11 to our Audited Consolidated Financial Statements for more detail.

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

None

D. Trend Information

For a description of trends in our product lines, see Item 5: “General – Trends in Product Prices for Bachoco” above.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements of the type that we are required to disclose under this Item.

F. Tabular Disclosure of Contractual Obligations

Our major categories of indebtedness included the following:

- As of December 31, 2010, we had Ps. 139.9 million in current installments of long-term debt.
- Long-term debt to banks, as of December 31, 2010, was Ps. 507.1 million outstanding (excluding current portion), which is more than the Ps. 372.0 million outstanding on December 31, 2009. The weighted average interest rates on long-term debt for 2009 and 2010 were 6.8% and 6.3%, respectively. See Note 9 of the Audited Consolidated Financial Statements for more detail.

The following table summarizes long-term debt as of December 31, 2010. The table does not include current installments of long-term debt, accounts payable or pension liabilities.

Contractual Obligations	Payments Due by Period				
	(millions of constant pesos as of December 31, 2010)				
	Total	2012	2013	2014	2015
Long-term debt	Ps. 507.1	153.0	148.3	129.1	76.6
Operating leases	Ps. 617.3	181.3	159.4	140.5	136.2

The Company has certain leases related to operating assets, including farms and administrative offices.

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.

In order to fully comply with current Mexican Corporate and Securities Market Laws governing the market for Bachoco's Shares, we ratified and named several new members of our Board of Directors during our annual stockholders' meeting held on April 27, 2011. The changes to the composition of the Board of Directors are as follows:

Juan Bautista Salvador Robinson Bours Almada, co-founder and Proprietary Shareholder Director retired after 57 years as member of the Board of Directors and was named as Life Honorary Shareholder Director. On the same date, the Board named Mr. Juan Salvador Robinson Bours Martinez as a Proprietary Shareholder Director in the place of Mr. Juan Bautista S. Robinson Bours Almada, Mr. Felizardo Gastelum Felix, was named as Independent Proprietary Director and Cristobal Gustavo Mondragon Fragoso as Related Proprietary Director. Additionally, Mr. Gustavo Luders Becerril was named as the Alternate Director for Messrs. Juan Salvador Robinson Bours Martinez and Ricardo Aguirre Borboa. The rest of the Board members were also re-elected.

As of June 2011, our Board of Directors is composed of the following members:

Name	Position	Years as a Member of the Board of Directors
Francisco Javier R. Bours Castelo	Chairman of the Board and Proprietary Shareholder Director	29
Eduardo Rojas Crespo	Secretary of the Board	3
Jose Gerardo Robinson Bours Castelo	Proprietary Shareholder Director	3
Jesus Enrique Robinson Bours Muñoz	Proprietary Shareholder Director	17
Jesus Rodolfo Robinson Bours Muñoz	Proprietary Shareholder Director	9
Arturo Bours Griffith	Proprietary Shareholder Director	17
Octavio Robinson Bours	Proprietary Shareholder Director	14
Ricardo Aguirre Borboa	Proprietary Shareholder Director	17
Juan Salvador Robinson Bours Martinez	Proprietary Shareholder Director	17
Jose Eduardo Robinson Bours Castelo	Alternate Director	17
Jose Francisco Bours Griffith	Alternate Director	17
Guillermo Pineda Cruz	Alternate Director	17
Gustavo Luders Becerril	Alternate Director	-
Avelino Fernandez Salido	Independent Director	8
Felizardo Gastelum Felix	Independent Director	-
Humberto Schwarzbeck Noriega	Independent Director	8
Cristobal Gustavo Mondragon Fragoso	Related Proprietary Director	-
Enrique Robinson Bours Almada	Honorary Chairman of the board	57
Mario Javier Robinson Bours Almada	Life Honorary Shareholder Director	57
Juan Bautista Salvador Robinson Bours	Life Honorary Shareholder Director	57

The following table identifies the relationships among the Bours family members:

Brothers and Co-Founders	Sons	Nephews	Son in Law
Enrique Robinson Bours Almada	· Jesus Enrique Robinson Bours Muñoz · Jesus Rodolfo Robinson Bours Muñoz	· Arturo Bours Griffith	Gillermo Pineda Cruz
Mario Javier Robinson Bours Almada	· Francisco Javier R. Bours Castelo · Jose Gerardo Robinson Bours Castelo · Jose Eduardo Robinson Bours Castelo	· Jose Francisco Bours Griffith	
Juan Bautista Salvador Robinson Bours Almada	Juan Salvador Robinson Bours Martinez	· Octavio Robinson Bours	Ricardo Aguirre Borboa

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.

Francisco 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

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Directors of the following companies: Megacable Holdings, S.A.B. de C.V., Congeladora Horticola, S.A. de C.V., Inmobiliaria of Trento S.A. de C.V., Agriexport S.A. de C.V., Acuicola Boca, S.A. de C.V., Industrias Boca, S.A. de C.V., and Centro de Servicios Empresariales del Noreste, S.A. de C.V.

Eduardo Rojas Crespo, was named Secretary of the Board of Directors in 2008. 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. He holds a law degree from the Universidad Nacional Autonoma de Mexico (UNAM) and a post-graduate diploma in Environmental Law and Due Diligence and a master's degree in Corporate Law, both from the Anahuac University.

Jose Gerardo Robinson Bours Castelo, Proprietary Shareholder Director, has been a member of the board since April 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., Acuicola Boca, S.A. de C.V., Industrias Boca, S.A. de C.V. and Centro de Servicios Empresariales del Noreste, 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, 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, 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. and Ganadera Cocoreña S.P.R. de R.L.

Arturo Bours Griffith, Proprietary Shareholder Director, Mr. Bours Griffith completed professional studies at the University of Arizona. He is also Chairman of the board of Qualyplast, 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, 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 Granos Santa Fe, S.A. de C.V.

Ricardo Aguirre Borboa, Proprietary Shareholder Director, was also an Independent Director until April 2007. Mr. Aguirre has been a member of the board for 16 years. He is also a member of the Board of Directors of the newspaper El Debate and he holds a degree in Agricultural Engineering from the ITESM. He has experience in agriculture and pork production. Mr. Aguirre Borboa is also member of the board of Gasolinera Servicios del Valle del Fuerte S.A. de C.V., Periodico el Debate de los Mochis, and Tepeyac Produce, Inc.

Juan Salvador Robinson Bours Martinez, Proprietary Shareholder Director, 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 and CEO 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, Alternate Director of 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. He was previously Commercial Director of Industrias Bachoco, a Senator of the Mexican Congress and was governor of the state of Sonora.

Jose Francisco Bours Griffith, Alternate Director of Mr. Octavio Robinson Bours and Mr. Arturo Bours Griffith. 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. 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. 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 co-founded Edificadora PiBo, S.A. de C.V. in 1983 and is its President and CEO.

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 is a farmer, 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. Mr. Luders holds an Accounting degree from the ITESM.

Avelino Fernandez Salido, Independent Director, is member of the board since 2003. He is also a member of the board of Banco Nacional de Mexico, BBVA Bancomer, and Banca Serfin. His business experience is in the marketing of grains.

Felizardo Gastelum Felix, Independent Director and Chairman of the Audit Committee and Corporate Practices, was elected during the annual general meeting held on April 2011. Mr. Gastelum has worked for Mancera, S.C. and as a member of Ernst and Young Global since 1969. He assumed several positions in Mancera S.C. until being named as Professional Practice Director. Presently he is member of the Technical Consulting Committee of the CINIF (Mexican Counsel for the development and investigation of Accounting Principles). Mr. Gastelum holds a degree in Arts of Accounting from Guadalajara University and a masters degree in Sciences by the University of Southern Mississippi.

Humberto Schwarzbeck Noriega, Independent Director, is member of the board since 2003. He holds a degree in economics from the ITESM. He is currently CEO of Yeso Industrial de Navojoa S.A. de C.V. and Chairman of the Board of Promotora de Manufacturas S.A. de C.V.

Cristobal Mondragon Fragoso, was named Related Proprietary Director during the annual general ordinary meeting held on April 2011. Mr. Mondragon joined Bachoco in 1982 and was Chief Executive Officer since 2001 to October 2010. Previously, Mr. Mondragon served in Bachoco as Administration Manager, as Manager of Corporate Finance and as Chief Financial Officer. Before joining us, Mr. Mondragon worked as an accountant for three years. Later he joined La Hacienda, S.A. de C.V., where he held the positions of Auditor, Accountant, Head of Processing Systems, Audit Manager, Administration Manager and Comptroller. Mr. Mondragon holds an Accounting degree from the UNAM.



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 got retired in April 2011 and 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

In November 2011, we announced the retirement of Cristobal Mondragon as our Chief Executive Officer and named Rodolfo Ramos Arvizu as his replacement.

Our executive officers as of June 2011 are set forth in the table below:

Name	Position	Year of Birth
Rodolfo Ramos Arvizu	Chief Executive Officer	1957
Daniel Salazar Ferrer	Chief Financial Officer	1964
David Gastelum Cazares	Director of Sales	1951
Jose Luis Lopez Lepe	Director of Personnel	1947
Ernesto Salmon Castelo	Director of Operations	1962
Andres Morales Astiazaran	Director of Marketing and Value-added Products	1968
Marco Antonio Esparza Serrano	Comptroller Director	1955
Alejandro Elias Calles Gutierrez	Director of Purchasing	1956

Rodolfo Ramos Arvizu, Mr. Ramos joined us in 1980 and, he was named as Chief Executive Officer in November 2010. Previously, Mr. Ramos 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. Ramos holds a degree in Agricultural Engineering from the ITESM.

Daniel Salazar Ferrer, Chief Financial Officer, 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 and a master's degree in Business Administration from the ITESM, and Diploma from the IPADE (D1).

David Gastelum Cazares, Director of Sales, joining us in 1979 and assumed his current position in 1992. Previously, Mr. Gastelum served as a pullet salesman in the states of Sonora and Sinaloa, National Sales Manager of Live Animals and Eggs, Manager of the Northwest Division, Manager of the Mexico City Division and National Sales Manager. Before joining us, Mr. Gastelum worked at La Hacienda, S.A. de C.V. as Technical Advisor and as Area Officer for the Southeast Division. Mr. Gastelum holds a degree in Veterinary Medicine from the school of Veterinary Medicine of the UNAM.

Jose Luis Lopez Lepe, Director of Personnel since 1993. Before joining us Mr. Lopez worked as a teacher in several institutions as well as with Grupo Condumex, where he was Director of Personnel. Mr. Lopez holds a degree in Physics and Chemistry from the Escuela Normal Superior and a degree in Business Administration from Instituto Tecnologico Autonomo de Mexico.

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 Instituto Tecnologico de Sonora and a master's degree in Business Administration from the ITESM.

Andres Morales Astiazaran, Director of Marketing and Value-added Products 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 the ITESM and attended marketing courses at Northwestern University, the University of Chicago, the ITESM and the IPADE (D1).

Marco Antonio Esparza Serrano, Comptroller Director since March 2009. Before joining Bachoco, Mr. Esparza worked for more than 25 years in the pharmaceutical industry for three multinational companies, two American companies and one German company. During that time, Mr. Esparza managed and directed every area within Finance and Administration as Accounting Manager, Tax Manager Comptroller, Financial Planning Director and Finance Director. Mr. Esparza holds a degree in public accounting and several post-graduate diplomas in Business Administration, Economics and Direction of Enterprises from universities such as Instituto Politecnico Nacional, University of California at Berkeley, the ITESM, University of Almeria Spain and the IPADE.

Alejandro Elias Calles Gutierrez, was named purchasing Director in November 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.

#### Audit Committee

The mandate of the Audit 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 Committee must do the following:

- (a) Submit an annual report to the Board of Directors;

- (b) Provide the Board of Directors with its opinion on the matters that pertain to the Auditing Committee, in accordance with the Securities Market Law;
- (c) 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;
- (d) 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;
- (e) 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;
- (f) 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;
- (g) Call Shareholders Meetings and cause the items it deems pertinent to be inserted into the agendas of such Shareholders' Meetings; and
  - (h) 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.

Mr. Francisco Javier R. Bours Castelo was Chairman of the Audit Committee and of Corporate Practices until April 2007, when Mr. Avellino Fernandez assumed that position. In April 2011 we had subsequent changes, with Mr. Fernandez leaving the Audit Committee and Corporate Practices and, currently serving only as a member of the Board. Mr. Felizardo Gastelum Felix is an independent director and was named as President of the Audit Committee and Corporate Practices of the Company, and will provide his expertise as a financial expert.

The Audit and Corporate Practices Committee is now comprised of the following members: Felizardo Gastelum Felix (President), Humberto Schwarzbeck Noriega, Ricardo Aguirre Borboa. Mr. Ricardo Aguirre Borboa represents the controlling shareholders and has no voting rights in the audit committee.

#### B. Compensation

For the year ended December 31, 2010, we paid approximately Ps. 44.5 million in aggregate compensation to our directors and executive officers, for services they rendered in their respective capacities.

#### 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.

D. Employees

As of December 31, 2008, 2009 and 2010 we had 23,248, 24,065 and 23,473 employees, respectively.

In 2010, approximately 52.3% of our employees were members of labor unions. As of March 2011 and the date of this annual report, labor relations with our employees are governed by 53 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.

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 a pension and savings plan.

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

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 Stock 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 ADS 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 consisted of 600,000,000 Series B Shares with full voting rights.

A. Major Shareholders

Control Trust

After the conversion of L Shares to B Shares in 2006, the Control Trust and the Family Trust own the same number of Shares (496,500,000 Shares or 82.75% of outstanding Shares). However, these Shares are all now Series B Shares.



The Control Trust and the Family Trust own the same number of Shares (496,500,000 Shares or 82.75% of outstanding Shares).

In November 2008, the Robinson Bours family created a third trust with 102,000,000 Shares, which were taken from one of the existing trusts. The purpose of this new trust is to serve as collateral for the Company's loan indebtedness. The three trusts together accounted for 496,500,000 Shares outstanding on December 31, 2008 and there has been no change in the position of each holder.

In the second half of 2009, the third trust was eliminated and the Shares returned to the original trust.

Apart from the ownership set forth above, at the end of April 2011, Fidelity Management & Research Co. owned 3.7% of our Common Stock, equal to a total of 1,851,936 ADS's.

#### Repurchase of Shares

In November 1998, in accordance with rules established by the CNBV, we established a reserve in the amount of Ps. 180.0 million in nominal pesos, for the repurchase of Shares.

At the end of 2010, the Company repurchased 200,000 Shares. We estimate that such shares will be sold during 2011.

During our stockholders' meeting of April 27, 2011, the share repurchase program for 2011 was capped at a maximum amount of Ps. 335.6 million (equivalent to approximately 12 million shares).

The following table sets forth the estimated percentages of the Shares held in Mexico and other Countries as of April 30, 2011.

Year	Percentage	
Mexico	87.80	%
Other Countries	12.20.	%

As of April 30, 2011, from the 100.0% of the total Shares of the Company, we accounted for approximately 42 shareholders in the NYSE and 247 in the BMV.

#### 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. All of these transactions are described below. See Note 5 to the Audited Consolidated Financial Statements. We expect to engage in similar transactions in the future.

We regularly purchase vehicles and related equipment from distributors owned by various members of the Robinson Bours family. The total amount spent on such purchases was Ps. 157 million, Ps. 139 million and Ps. 136.1 for the years ended December 31, 2008, 2009 and 2010, respectively. 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 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. We paid Ps. 2 million, Ps. 10 million and Ps. 9 million for the years ended December 31, 2008, 2009 and 2010, respectively, for such transportation.

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. The cost of such purchases was Ps. 428 million, Ps. 415 million and Ps. 340 million for the years ended December 31, 2008, 2009 and 2010, respectively.

Our accounts payable to related parties totaled Ps. 68 million and Ps. 61 million as of December 31, 2009 and 2010, respectively. These transactions took place among companies owned by the same set of stockholders. See Note 5 to the Audited Consolidated Financial Statements.

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

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. The financial statements were audited by independent registered public accounting firms and are accompanied by their audit reports.

On August 28, 2008, we announced that the Company's Board of Directors, as per the Audit Committee's recommendation, approved the selection of KPMG Cardenas Dosal, S.C. as the Company's independent auditor, effective as of August 27, 2008.

The Audited Consolidated Financial Statements have been prepared in accordance with Mexican FRS, which differ in certain respects from U.S. GAAP. Note 21 to the Audited Consolidated Financial Statements provides a description of the principal differences between Mexican FRS and U.S. GAAP as they relate to us and a reconciliation to U.S. GAAP of Consolidated stockholders' equity, consolidated net income, a consolidated statement of stockholders' equity and a consolidated cash flow statements under U.S. GAAP as of December 31, 2009 and 2010, and for the years ended December 31, 2008, 2009 and 2010.

## 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.

In 2008, 2009 and 2010, we declared and paid cash dividends at nominal values of Ps. 353.8, Ps. 250.0 and Ps. 250.1 million, respectively. At the Company's annual shareholder's meeting held on April 27, 2011, the Board of Directors approved a cash dividend payment of Ps. 0.50 per share or Ps. 6.00 per ADS to be paid during 2011.

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 (after profit sharing and other deductions required by Mexican law) 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 level of earnings available for the payment of dividends is determined under Mexican FRS.

## B. Significant Changes

There have not been any significant changes since the date of our Audited Consolidated Financial Statements for the year ended December 31, 2010.



## ITEM 9.

## The Offer and Listing

## A.

## Offer and Listing Details

On September 19, 1997, Bachoco commenced trading on the Mexican Stock Exchange, and on the New York Stock Exchange through ADSs (each comprised of six Units). The Bank of New York is our Depository Bank.

As of April 30, 2011, there were 6,101,079 ADSs outstanding, representing 12.2% of the total Shares outstanding, which were held by approximately 42 holders.

The following tables set forth for each year from 2006 to 2010, for each quarter from 2009 and 2010 and for each complete month from December 2010 to May 2011, the high, low and close prices of the Shares on the Mexican Stock as reported by the Mexican Stock Exchange and the high, low and close price of the ADSs on the NYSE as reported by the New York Stock Exchange.

Year	Mexican Stock Exchange (Nominal pesos per Share)			The New York Stock Exchange (U.S.\$ per ADS)		
	High	Low	Close	High	Low	Close
2006	23.70	15.70	23.66	29.00	16.33	29.00
2007	30.96	20.00	28.60	35.11	24.10	31.81
2008	30.15	14.21	15.99	33.34	12.75	14.50
2009	26.00	11.85	25.00	23.16	9.03	23.00
2010	26.99	18.40	25.55	26.10	17.01	24.19

Period	Mexican Stock Exchange (Nominal pesos per Share)			The New York Stock Exchange (U.S.\$ per ADS)		
	High	Low	Close	High	Low	Close
First Quarter 2009	18.00	11.85	13.80	15.30	9.03	11.35
Second Quarter 2009	25.00	13.00	23.84	22.57	11.60	21.30
Third Quarter 2009	24.92	21.99	22.90	22.40	20.00	21.00
Fourth Quarter 2009	26.00	21.00	25.00	23.16	18.90	23.00
First Quarter 2010	25.45	21.00	22.79	23.99	19.70	22.15
Second Quarter 2010	24.50	18.50	18.50	22.74	17.01	17.01
Third Quarter 2010	21.50	18.40	20.53	19.67	17.16	18.95
Fourth Quarter 2010	26.99	20.50	25.55	26.10	19.07	24.19

Period	Mexican Stock Exchange (Nominal pesos per Share)			The New York Stock Exchange (U.S.\$ per ADS)		
	High	Low	Close	High	Low	Close
December 2010	26.70	24.50	25.55	26.10	23.61	24.19
January 2011	26.25	25.01	25.58	26.20	24.20	25.15
February 2011	27.70	25.00	26.48	27.44	24.82	26.13
March 2011	27.84	26.69	27.53	28.00	26.45	27.97
April 2011	27.86	27.30	27.30	28.75	27.98	28.51
May 2011	27.25	25.00	27.25	28.26	25.84	25.84

## B.

## Plan of Distribution

Not applicable.



C. Markets

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange (the “Exchange”), founded in 1894 and located in Mexico City, is the only stock exchange in Mexico. Since 2008, the Mexican Stock Exchange has been a public company. The brokerage houses are currently the only entities authorized to trade on the floor of the Mexican Stock Exchange.

Trading on the Mexican Stock Exchange takes place principally through an automated inter-dealer quotation system known as SENTRA, which is open for trading between the hours of 8:30 a.m. and 3:00 p.m., Mexico City time, each business day. Each trading day is divided into six trading sessions with ten-minute periods separating each session. Trades in securities listed on the Mexican Stock Exchange can, subject to certain requirements, also be realized off the Exchange. Due primarily to Mexican tax considerations, however, most transactions in listed securities are effected through the Exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in Shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations, this system does not apply to securities such as the Units that are directly or indirectly (for example, through ADSs) quoted on a stock exchange outside Mexico.

Settlement is effected two business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the CNBV. Most securities traded on the Mexican Stock Exchange are on deposit with S.D. Ineval Institucion para el Deposito de Valores, S.A. de C.V., (Central Securities Depository for the Mexican Securities Market, or “Ineval”), a privately owned central securities depository that acts as a clearing house, depository, custodian and registrar for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities.

Market Regulation

The predecessor of the CNBV was established in 1946 to regulate stock market activity. The Ley del Mercado de Valores (“Securities Market Law”) of 1975, as amended, regulates the securities markets and brokerage houses and sets standards for the registration of brokers in the Intermediaries section of the Registro Nacional de Valores e Intermediarios (National Registry of Securities and Intermediaries, or “RNVI”), such registration being a prerequisite to becoming a member of the Mexican Stock Exchange. Prior to registration in the RNVI, a brokerage house must be authorized by the Ministry of Finance upon the recommendation of the CNBV. Legislative provisions under NAFTA allow foreign securities firms in a NAFTA country to establish and control brokerage firms in Mexico. There are several foreign brokerage houses authorized to operate in Mexico. In addition, a number of other foreign brokerage firms have submitted preliminary applications to be authorized to operate on the Mexican Stock Exchange. The Securities Market Law also empowers the CNBV to regulate the public offering and trading of securities. The governing committee of the CNBV is composed of representatives of the Ministry of Finance, the Central Bank, the Comision Nacional de Seguros y Fianzas (“National Insurance and Bonding Commission”), the Comision Nacional del Sistema de Ahorro para el Retiro (“National Retirement Savings Fund Commission”) and the CNBV.

Under the Mexican Securities Market Law, the CNBV must be notified before stockholders of a company listed on the Mexican Stock Exchange effect one or more simultaneous or successive transactions resulting in the transfer of 10.0% or more of such company’s capital stock. The holders of the Shares being transferred in the transactions are also obligated to inform the CNBV of the results of the transactions within three days of completion of the last transaction, or that the transactions have not been completed. The CNBV will notify the Mexican Stock Exchange of such transactions, without specifying the names of the parties involved.



The CNBV and the Mexican Stock Exchange must also be notified in the event of any of the following contingencies:

- on the following day of operation, if any stockholder of a company listed on the Mexican Stock Exchange effects one or more transactions resulting in the ownership of more than 10.0% and less of 30.0% of capital stock;
- on the following day of operation, if any Related Person increases his ownership of the stock of a company; and
- at least 15 days before the operation becomes effective, if any stockholder of a company listed on the Mexican Stock Exchange undertakes in a Public Offering of one or more transactions resulting in the ownership of more than 30.0% but less than 50.0% of capital stock.

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 was included in the Initial Registration Form F-1, submitted in September 1997. In April 2002, we made changes to our bylaws, which were reported in our annual report for year 2002. In December 2003, January 2007 and in 2011 we made further changes, the most important of which are summarized below. An English translation of our bylaws was submitted with our annual report for year 2006 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 (sociedad anonima de capital variable) 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. (sociedad anonima bursatil de capital variable) 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

Produce, transform, adapt, import, export, purchase and sell, under any title, machinery, parts, materials, raw materials, industrial products, goods and merchandise of any kind

### Current language

“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”

## 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. Our board was reformed during our ordinary shareholders meeting held on April 23, 2007, and now consists of eight Proprietary Shareholder Directors and two independent Directors. 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 50.0%. 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 75.0% 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 50.0% 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 95.0% 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 ADSs 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 20.0% 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 5.0% (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 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 10.0% (ten percent) 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 10.0% (ten percent) 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 100.0% 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:

- (i) The Board of Directors will be integrated by a minimum of 5 (five) and a maximum of 21 (twenty-one) principal members.
- (ii) At least 25.0% (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.
- (iii) 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 25.0% 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, 2010, our legal reserve fund was equal to at least 20.0% 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 ADSs 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 ADSs being offered in the Global Offering. Holders of ADSs 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 ADSs) 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 depository 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.





## Audit Committee

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

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

The mandate of the audit 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 Committee must do the following:

- Submit an annual report to the Board of Directors;
- Provide the Board of Directors with its opinion on the matters that pertain to the Auditing Committee, in accordance with the Securities Market Law;
- 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 his 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 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 Shareholder's 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.

See Article 35 of the Mexican Securities Market Law for more detail.

## 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 100.0% 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 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 49.0% of such Series.

E. 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 ADSs. This summary does not purport to address all material tax consequences that may be relevant to holders of Shares or ADSs, 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 10.0% or more of our voting stock, investors that hold Shares or ADSs 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 ADSs 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 ADSs, 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 ADSs should consult its own independent tax advisor regarding the U.S. federal income tax consequences of investing in Shares or ADSs 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 “—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 or the alternative minimum tax consequences of holding Shares or ADSs 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 ADSs. In addition, this discussion does not address the non-U.S., non-Mexican, state or local tax consequences of holding Shares or ADSs. Prospective purchasers of Shares or ADSs 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 ADSs, 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 ADSs will be treated as the beneficial owners of the Shares represented by those ADSs. 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 our Shares and of ADSs that are U.S. Holders and that hold those Shares or ADSs as capital assets (generally, for investment purposes).

### Taxation of Dividends

Cash distributions paid with respect to the Shares or ADSs 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 Depository, in the case of ADSs. 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 ADSs. 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 ADSs 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 ADSs generally will constitute “passive category income” for most U.S. holders. The U.S. Treasury Department has expressed concerns that parties to whom depositary shares such as the ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of such ADSs. 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 ADSs (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 passive foreign investment company (as discussed below), dividends received by certain U.S. Holders (including individuals) prior to January 1, 2013 with respect to the Shares or ADSs will be subject to U.S. federal income taxation at a maximum rate of 15.0% if such dividends represent “qualified dividend income.” Dividends paid on the ADSs will be treated as qualified dividend income if (i) we are eligible for the benefits of the United States-Mexico income tax treaty or the ADSs are readily tradable on an established securities market in the United States, (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 and (iii) certain holding period requirements are met. We expect to be eligible for the benefits of the United States-Mexico income tax treaty. In addition, under current guidance recently issued by the Internal Revenue Service (“IRS”), the ADSs 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 ADSs will be or remain readily tradable under future guidance.

Based on existing guidance, it is not entirely clear whether dividends received with respect to Shares will be treated as qualified dividend income, because the Shares are not themselves listed on a U.S. exchange. In addition, 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 ADSs 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 ADSs 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 ADSs 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 ADSs 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 ADSs and the amount realized on the disposition. A U.S. Holder generally will have an adjusted tax basis in its Shares or ADSs equal to its U.S. dollar cost for such shares or ADSs. Gain or loss recognized by a U.S. Holder on the sale or other disposition of Shares or ADSs will generally be long-term gain or loss if, at the time of disposition, the U.S. Holder has held the Shares or ADSs 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 ADSs 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 ADSs.

Deposits and withdrawals of Shares by U.S. Holders in exchange for ADSs 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 suffering from 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 ADSs, 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 ADSs exceed 125.0% of the average annual distributions the U.S. Holder received on the ADSs during the preceding three taxable years or, if shorter, the U.S. Holder’s holding period for the Shares or ADSs). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the ADSs, (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. U.S. Holders should also be aware that recently enacted legislation may broaden the current IRS Form 8621 filing requirements or impose an additional annual filing requirement for U.S. persons owning shares of a PFIC. The legislation does not describe what information would be required to be included in either situation, but grants the Secretary of the U.S. Treasury Department power to make this determination. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above for qualified dividend income if we are a PFIC either in the taxable year of the distribution or the preceding taxable year (and instead will be taxable at rates applicable to ordinary income).

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to Shares or ADSs 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 ADSs 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 ADSs will not be subject to U.S. federal income or withholding tax on a dividend paid by us or gain realized on the sale of Shares or ADSs, 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 ADSs, and payments of the proceeds of a sale or other taxable disposition of Shares or ADSs, 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 28.0%, 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 recently enacted legislation imposes new 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 the recently enacted legislation to their particular situation.

## Mexican Taxation

### Taxation of Dividends

Dividends, either in cash or in any other form, paid with respect to the Shares constituting the Shares or the ADSs will not be subject to Mexican withholding tax.

### Taxation of Capital Gains

Gain on the sale or other disposition of ADSs by holders who are not Mexican Residents (as defined below) will not be subject to Mexican income tax. Deposits of Shares in exchange for ADSs and withdrawals of Shares in exchange for ADSs 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 25.0% of our capital stock during the twelve-month period preceding such sale or disposition will not be subject to Mexican tax, unless (i) 50.0% 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 5.0.0% 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 20.0% 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 ADSs were amended during 2002. Holders who are not Mexican Residents who disposed of their Shares or ADSs 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 ADSs 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 ADSs or Shares. Brokerage fees on securities transactions carried out through the Mexican Stock Exchange are subject to a 15.0% for 2008 and 2009 and 16.0% for 2010, 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 at the our company headquarters, located at Ave. Tecnológico No.401, Ciudad Industrial, Celaya, Guanajuato, 38010, Mexico, for any inspection required. Part of this information is available on our web page, at [www.bachoco.com.mx](http://www.bachoco.com.mx).

#### 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.

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.

During 2008, we experienced a loss of Ps. 1.5 billion in our net interest position and the impact on the valuation of our financial instruments, mainly due to negative results in our exchange rate derivative instruments and grain hedge positions. This loss was partially offset by our foreign exchange gain of Ps.160 million.

In 2009, we had a foreign exchange loss of Ps. 38 million because of the slightly decreased volatility of the Mexican peso. The net interest expense and the valuation effects of our financial instrument totaled Ps. 95 million as of December 31, 2009.

In 2010, we had a foreign exchange gain of Ps. 11.1 million because of the stronger and more stable peso due to the growth of the Mexican economy in 2010. The net interest income and the valuation effects of our financial instrument totaled Ps. 111.0 million as of December 31, 2010.

We manage our exchange rate exposure primarily through management of our financial structure, specifically by maintaining most of our debt through long-term debt instruments. As part of our normal operations, we purchase financial derivative instruments in order to ensure greater certainty in our purchases of U.S. dollars. 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.

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.

Since 2008, we have followed different strategies with respect to derivatives which involved call and put options in U.S. dollars. In 2009 and 2010, we did not have bank debt denominated in U.S. dollars. For details, please see Note 10 to our Audited Consolidated Financial Statements.

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 month 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.

Based on our derivatives position in March 2011, we estimate that a hypothetical 2.5% devaluation of the Mexican peso against the U.S. dollar would result in gains of Ps. 0.8 million, while a 5.0% appreciation would result in a gain Ps. 23.8 million.

## 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 March 2011, we had borrowings of approximately Ps. 609.9 million pursuant to variable rate debt instruments, representing approximately 2.9% of our total assets.

Based on our position on December 31, 2010, we estimate that a hypothetical interest rate variation of 0.5% on our Mexican peso denominated debt would result in increased interest expenses of approximately Ps. 3.2 million per annum. Any such increase would likely be partially offset by an increase in interest income due to our cash and cash equivalent position.

## Feed Ingredients

The largest single component of our cost of sales is the cost of ingredients used to prepare feed, including principally, sorghum, soy meal, and corn. The price of these ingredients is subject to significant volatility resulting, among other factors, from weather, the size of harvests, transportation and storage costs, governmental agricultural policies and currency exchange rates. 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.

The percentage of grain purchased from domestic markets was 36.4%, 48.0% and 54.0% in 2008, 2009 and 2010 respectively. In 2010, grain prices were stable with an upward trend by year-end.

Based on results for 2010, we estimate that a hypothetical variation of 10.0% in the cost of our feed ingredients would have an impact of 6.4% on total cost of sales.

## ITEM 12. Description of Securities Other Than Equity Securities

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depository Receipts

Fees and charges that a holder of our ADSs may have to pay, either directly or indirectly

Our Depositary may charge each person to whom ADSs 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 ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement or whose ADSs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (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 ADSs directly from investors depositing shares or surrendering ADSs 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 ADS holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

<p>Persons depositing or withdrawing shares must pay:</p> <p>\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p> <p>\$0.02 (or less) per ADS</p> <p>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 ADSs</p> <p>\$0.02 (or less) per ADSs per calendar year</p> <p>Registration or transfer fees</p> <p>Expenses of the depositary</p> <p>Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</p> <p>Any charges incurred by the depositary or its agents for servicing the deposited securities</p>	<p>For:</p> <ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> <li>• Any cash distribution to ADS registered holders</li> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders</li> <li>• Depositary services</li> <li>• 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</li> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li> <li>• Converting foreign currency to U.S. dollars</li> <li>• As necessary</li> <li>• As necessary</li> </ul>
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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 ADS 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 ADSs, 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 ADS 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, as of June 18, 2010 we recorded an account receivable in 2010 amounting to US\$100,000 for expenses we incurred related to the maintenance of our ADS program, including investor relations expenses and exchange application and listing fees. We anticipate this amount to be paid by our Depositary during the first half of 2011.

Furthermore, in 2010, we paid to our Depositary the amount of US\$4,153 dollars relating to their distribution of material in connection with our annual general shareholder's meeting held on April 28, 2010.

## 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, 2010. 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 and as of the date of our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are 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 as and when required.





## 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) 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 Mexican FRS.

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 effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010, has been audited by KPMG Cardenas Dosal S.C., an independent registered public accounting firm, as stated in their report which appears herein.

## Changes in Internal Controls

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

The Board of Directors and Stockholders

Industrias Bachoco, S. A. B. de C. V.:

We have audited Industrias Bachoco, S.A.B. de C.V.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Industrias Bachoco, S.A.B. de C.V.'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 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of 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.

In our opinion, Industrias Bachoco, S.A.B. de C.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and with auditing standards generally accepted in Mexico, the consolidated balance sheets of Industrias Bachoco, S.A.B. de C.V. and subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010 and our report dated June 16, 2011 expressed an unqualified opinion on those consolidated financial statements.

Queretaro, Mexico, June 16, 2011.

Demetrio Villa Michel  
KPMG Cardenas Dosal, S.C.

ITEM 16.

[Reserved]

#### ITEM 16.A. Audit Committee Financial Expert

In April 2011, Mr. Felizardo Gastelum Felix, Independent Director, was named as President of the Audit Committee and Corporate Practices. Mr. Felizardo meets the requirements included in the definition of an "audit committee financial expert" within the meaning of this Item 16A. Additionally, 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 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 on our website at the same address.

## ITEM 16.C.Principal Accountant Fees and Services

## Audit and Non-Audit Fees

The following table sets forth the fees billed by our independent auditors, Mancera S.C. and KPMG Cardenas Dosal, S.C. independent registered public accounting firm and aid by us. All amounts are in nominal thousand pesos, prior to taxes.

	Mancera, S.C.	
	2009	2010
Audit fees	Ps. 488	Ps. 353
Audit related fees		
Tax fees	50	58
All other fees	—	—
Total fees	Ps. 538	Ps. 411

  

	KPMG Cardenas Dosal, S.C.	
	2009	2010
Audit fees	Ps. 4,275	Ps. 7,184
Audit related fees		1,602
Tax fees	—	—
All other fees	50	713
Total fees	Ps. 4,325	Ps. 9,499

Audit fees in the above table are the aggregate fees billed by Mancera, S.C., and KPMG Cardenas Dosal, S.C. and paid by us in connection with the audit of our annual financial statements and statutory and regulatory audits for the years 2009 and 2010. The total 2009 and 2010 audit fees paid to KPMG Cardenas Dosal, S.C. amounted to Ps. 6,100 and Ps. 5,400 respectively.

Audit related fees in the table above for 2010 are fees billed by KPMG Cardenas Dosal, S.C. related to expenses they incurred in connection with the performance of their audit, such as lodging and traveling.

All other fees in the table above for 2009 and 2010 are fees related to services such as due diligence services and services related to the Company's transition to International Financial Reporting Standards.

#### 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

The table below sets forth information about the repurchase of our Shares on the Mexican Stock Exchange:

Month of 2010	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Repurchase Plan	Maximum Number of Shares (Estimate) that May Yet Be Purchased under the Plan I
November	134,900	Ps. 25.38	134,900	11,865,100
December	65,100	Ps. 25.92	65,100	11,800,000
<b>Total</b>	<b>200,000</b>	<b>Ps. 25.62</b>	<b>200,000</b>	<b>11,800,000</b>

2. All of the Shares set forth in this table were repurchased pursuant to the repurchase plan approved during our annual general stockholders meeting held on April 28, 2010. Pursuant thereto, the reserve approved for repurchases amounted to Ps. 273,120,000 million, equivalent to 12,000,000 shares. The plan remained in effect until April 27, 2011.

The total shares purchased in 2010 were 200,000 shares. As of May 31, 2011, we had sold 130,000 of those shares.

During our annual stockholders' meeting on April 27, 2011 a new repurchase plan was approved. Pursuant thereto, the reserve approved for repurchases amounts to Ps. 335,640 million (equivalent to approximately 12,000,000 shares).

ITEM 16.F.Changes in Registrant's Certifying Accountant

Not applicable.

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:

- (i) a person who the board determines has a material direct or indirect relationship with the company, its parent or a consolidated subsidiary;

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) an employee or officer of the company (one-year cooling off period);





NYSE Corporate Governance Rules for Domestic Issuers

- (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;
- (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

- (ii) a stockholder that, without being an employee or officer of the company, has influence or authority over the company's officers;
- (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 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.

PART III

ITEM 17. Financial Statements

Not applicable.

ITEM 18. Financial Statements

See the Consolidated Audited 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 Depository Receipts issued thereunder, including the form of American Depository 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	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.

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: June 16, 2011

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

Consolidated Financial Statements

At December 31, 2009 and 2010 and for the years  
ended December 31, 2008, 2009 and 2010

(with Independent Registered Public Accounting Firm)

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

Consolidated Financial Statements

As of December 31, 2008, 2009 and 2010

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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 balance sheets of Industrias Bachoco, S. A. B. de C. V. and subsidiaries (the Company) as of December 31, 2009 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Industrias Bachoco, S. A. B. de C. V. and subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with Mexican Financial Reporting Standards.

As disclosed in note 2(w) to the consolidated financial statements, new and revised Mexican Financial Reporting Standards were adopted in 2010, with retrospective application.

(Continued)



The accompanying consolidated balance sheet as of December 31, 2010 and the related consolidated statements of operations and cash flows for the year then ended, have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such consolidated financial statements expressed in thousands of pesos, have been translated into thousands of United States dollars on the basis set forth in note 2v to the consolidated financial statements. Such translation should not be construed as a representation that the peso amounts could have been or could be converted into United States dollars at such rate.

Mexican Financial Reporting Standards vary in certain significant respects from generally accepted accounting principles in the United States of America. Information relating to the nature and effect of such differences is presented in note 21 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Industrias Bachoco, S. A. B. de C. V.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 16, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG CARDENAS DOSAL, S. C.

Demetrio Villa Michel

Queretaro, Mexico  
June 16, 2011

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

## Consolidated Balance Sheets

December 31, 2009 and 2010

(Thousands of pesos)

	2009	2010	(Thousands of U.S. dollars) (note 2v) 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (note 3)	\$2,399,127	3,967,874	320,765
Primary financial instruments (note 10b)	151,841	209,348	16,924
Accounts receivable:			
Trade, net (note 4)	903,609	963,273	77,872
Value added and other recoverable taxes	482,469	473,228	38,256
<b>Total accounts receivable</b>	<b>1,386,078</b>	<b>1,436,501</b>	<b>116,128</b>
Inventories, net (note 6a)	3,613,212	3,577,929	289,241
Biological current assets (note 6b)	156,460	153,993	12,449
Derivative financial instruments (note 10a)	11,272	12,897	1,043
Prepaid expenses and other current assets	155,219	138,954	11,233
Property, plant and equipment available for sale	29,991	40,222	3,252
<b>Total currents assets</b>	<b>7,903,200</b>	<b>9,537,718</b>	<b>771,035</b>
Property, plant and equipment, net (note 7)	10,910,126	10,587,321	855,887
Biological non-current assets (note 6b)	743,609	750,288	60,654
Goodwill, net (note 8)	300,848	300,848	24,321
Other assets	20,096	21,593	1,746
<b>Total assets</b>	<b>\$19,877,879</b>	<b>21,197,768</b>	<b>1,713,643</b>
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Notes payable to banks (note 9a)	\$234,296	-	-
Current installments of long-term debt (note 9b)	357,569	139,867	11,307
Accounts payable	1,653,988	1,572,292	127,105
Related parties (note 5)	67,613	60,873	4,921
Other taxes payable and other accruals (note 12)	437,770	393,722	31,828

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Total current liabilities	2,751,236	2,166,754	175,161
Long term liabilities:			
Long term debt, excluding current installments (note 9b)	371,970	507,053	40,991
Deferred income tax (note 16e)	2,021,581	2,029,150	164,038
Labor obligations (note 14)	94,629	126,457	10,223
Total liabilities	5,239,416	4,829,414	390,413
Commitments and contingencies (note 11)			
Stockholders' equity (note 15):			
Controlling interest:			
Capital stock	2,294,927	2,294,927	185,523
Additional paid-in capital	744,753	744,753	60,206
Reserve for repurchase of shares	159,455	154,288	12,473
Retained earnings	10,591,519	11,139,037	900,488
Net controlling interest income of the year	797,600	1,983,350	160,336
Total controlling interest	14,588,254	16,316,355	1,319,026
Non-controlling interest	50,209	51,999	4,204
Total stockholders' equity	14,638,463	16,368,354	1,323,230
Total liabilities and stockholders' equity	\$ 19,877,879	21,197,768	1,713,643

See accompanying notes to consolidated financial statements.

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

## Consolidated Statements of Operations

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos, except per share amount)

	2008	2009	2010	(Thousands of U.S. dollars) (note 2v) 2010
Net revenues	\$20,125,321	23,262,850	24,715,456	1,998,016
Cost of sales (note 5b)	(17,482,468)	(19,326,759)	(19,500,677)	(1,576,449 )
Gross profit	2,642,853	3,936,091	5,214,779	421,567
Selling, general and administrative expenses (note 5b)	2,412,788	2,522,291	2,751,782	222,457
Operating income	230,065	1,413,800	2,462,997	199,110
Other expense, net (note 17)	(20,958 )	(65,189 )	(95,315 )	(7,705 )
<b>Comprehensive financial results:</b>				
Interest income	173,694	170,655	165,646	13,391
Valuation effects of financial instruments (note 10)	(1,666,821 )	(174,603 )	18,850	1,524
Interest and financial expenses	(36,202 )	(91,326 )	(73,519 )	(5,943 )
Net interest income and valuation effects of financial instruments	(1,529,329 )	(95,274 )	110,977	8,972
Foreign exchange gain (loss), net	160,166	(37,934 )	11,082	896
Comprehensive financial results, net	(1,369,163 )	(133,208 )	122,059	9,868
(Loss) income before income taxes, and non-controlling interest	(1,160,056 )	1,215,403	2,489,741	201,273
Income tax (benefit) expense (note 16d)	(274,019 )	406,358	503,415	40,696
Net consolidated (loss) income	(886,037 )	809,045	1,986,326	160,577
Net controlling interest (loss) income	(879,048 )	797,600	1,983,350	160,336
Non-controlling interest	(6,989 )	11,445	2,976	241
Consolidated net (loss) income	\$(886,037 )	809,045	1,986,326	160,577
Weighted average outstanding (shares in thousands)	600,000	600,000	600,000	600,000
Net controlling interest (loss) income per share	\$(1.46 )	1.33	3.31	0.27

See accompanying notes to consolidated financial statements.

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

## Consolidated Statements of Stockholders' Equity

Years ended December 31, 2008, 2009 and 2010

(Thousand of pesos, except per number of shares)

	Number of shares of capital stock (thousands)	Capital stock	Additional paid-in capital	Reserve for purchase of shares	Retained earnings	Net controlling interest (loss) of the year	Minimum adjustment of labor obligations	Deficit from restatement of stockholders' equity	Derivative financial ins- truments effects
Balances as of December 31, 2007	600,000	\$2,294,927	743,674	159,455	14,250,225	1,270,941	(2,512)	(3,735,254)	98,922
Transfer of prior year's net income based on stockholders' meeting held on April 2008	-	-	-	-	1,270,941	(1,270,941)	-	-	-
Cash dividends paid (note 15b)	-	-	-	-	(353,880)	-	-	-	-
Write-off of additional deferred tax liability (note 16e)	-	-	-	-	288,580	-	-	-	-
Reclassification of deficit from restatement of stockholders' equity (note 2c)	-	-	-	-	(3,735,254)	-	-	3,735,254	-
Comprehensive loss, net of taxes (note 2o)	-	-	-	-	-	(879,048)	2,512	-	(98,922)
Balances as of December 31, 2008	600,000	2,294,927	743,674	159,455	11,720,612	(879,048)	-	-	-
Transfer of prior year's net loss based on stockholders' meeting held on April 2009	-	-	-	-	(879,048)	879,048	-	-	-

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Cash dividends paid (note 15b)	-	-	-	-	(250,045 )	-	-	-	-
Cash dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-
Repurchase of shares (note 15d)	-	-	1,079	-	-	-	-	-	-
Comprehensive income, net of taxes (note 2o)	-	-	-	-	-	797,600	-	-	-
Balances as of December 31, 2009	600,000	2,294,927	744,753	159,455	10,591,519	797,600	-	-	-
Transfer of prior year's net income based on stockholders' meeting held on April 2010	-	-	-	-	797,600	(797,600 )	-	-	-
Cash dividends paid (note 15b)	-	-	-	-	(250,082 )	-	-	-	-
Cash dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-
Repurchase of shares (note 15d)	-	-	-	(5,167 )	-	-	-	-	-
Comprehensive income, net of taxes (note 2o)	-	-	-	-	-	1,983,350	-	-	-
Balances as of December 31, 2010	600,000	\$ 2,294,927	744,753	154,288	11,139,037	1,983,350	-	-	-

See accompanying notes to consolidated financial statements.

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

## Consolidated Statement of Cash Flows

Year ended December 31, 2008, 2009 and 2010

(Thousand of pesos)

	2008	2009	2010	Thousands of U.S. dollars (note 2v) 2010
<b>Cash flows from operating activities:</b>				
(Loss) income before income taxes and non-controlling interest	\$ (1,160,056)	1,215,403	2,489,741	201,273
<b>Items relating to investing activities:</b>				
Depreciation and amortization	616,358	662,630	692,640	55,992
Loss on sale of plant and equipment	49,485	88,187	148,572	12,010
Interest income	(173,694 )	(170,655 )	(165,646 )	(13,391 )
<b>Item relating to financing activities:</b>				
Interest expense	36,202	91,326	73,519	5,943
<b>Subtotal</b>	<b>(631,705 )</b>	<b>1,886,891</b>	<b>3,238,826</b>	<b>261,827</b>
Derivative financial instruments	919,026	(804,134 )	(1,625 )	(131 )
Accounts receivable, net	(151,635 )	(11,402 )	(59,664 )	(4,823 )
Recoverable taxes	52,972	(22,432 )	9,241	747
Inventories and biological assets	(784,442 )	281,755	31,071	2,512
Prepaid expenses and other current assets	(24,703 )	(934 )	16,265	1,315
Trade accounts payable, taxes payable and other accruals	596,229	110,092	(125,744 )	(10,165 )
Income taxes paid	(147,426 )	(107,158 )	(495,846 )	(40,084 )
Accounts payable to related parties	23,517	17,277	(6,740 )	(545 )
Net periodic cost from termination and retirement benefits	56,975	54,391	75,174	6,077
Contributions to plan assets for termination and retirement benefits	-	(20,634 )	(26,373 )	(2,132 )
Payments for termination and retirement benefits	(41,805 )	(19,818 )	(16,973 )	(1,372 )
Derivative financial instruments in stockholders' equity	(122,126 )	-	-	-
Assets available for sale	2,159	(7,220 )	(10,231 )	(827 )
<b>Net cash (used in) provided by operating activities</b>	<b>(252,964)</b>	<b>1,356,674</b>	<b>2,627,381</b>	<b>212,399</b>
<b>Cash flows from investing activities:</b>				
Acquisition of property, plant and equipment	(1,156,168)	(988,250 )	(560,586 )	(45,318 )
Proceeds from sale of plant and equipment	57,329	16,542	42,179	3,410
Primary financial instruments	(61,998 )	316,162	(57,507 )	(4,649 )
Increase in other non-current assets	(1,113 )	(650 )	(1,497 )	(121 )
Interest collected	173,694	170,655	165,646	13,391
<b>Net cash used in investing activities</b>	<b>(988,256 )</b>	<b>(485,541 )</b>	<b>(411,765 )</b>	<b>(33,287 )</b>



(Cash to be obtained from financing activities) Cash surplus to be applied in financing activities	(1,241,220)	871,133	2,215,616	179,112
Cash flows from financing activities:				
Additional paid-in capital and reserve for repurchases of shares	-	1,079	(5,167 )	(418 )
Dividends paid	(353,880 )	(250,045 )	(250,082 )	(20,217 )
Dividends paid to non-controlling interest	-	(1,035 )	(1,186 )	(96 )
Proceeds from loans	535,100	1,044,611	778,955	62,971
Interest paid	(33,339 )	(90,192 )	(73,519 )	(5,943 )
Asset tax recovery	8,521	-	-	-
Principal payments on loans	(18,809 )	(706,668 )	(1,095,870)	(88,591 )
Net cash provided by (used in) financing activities	137,593	(2,250 )	(646,869 )	(52,294 )
Net (decrease) increase in cash and cash equivalents	(1,103,627)	868,883	1,568,747	126,818
Cash and cash equivalents:				
At beginning of year	2,633,871	1,530,244	2,399,127	193,947
At end of year (note 2w and 3)	\$ 1,530,244	2,399,127	3,967,874	320,765

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, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

(1) Organization, business activity and significant transactions-

Organization and business activity-

Industrias Bachoco, S.A.B. de C.V. and subsidiaries (collectively referred to as “Bachoco” or the “Company”) was incorporated on February 8, 1980 and it is engaged in breeding, processing and marketing of poultry (chicken and eggs), swine and other products (principally balanced animal feed). Bachoco is the controlling company of a group of subsidiaries.

On March 28, 2011, Bachoco’s Finance Director and Controller Director authorized the issuance of the consolidated Mexican Financial Reporting Standards (Mexican FRS) financial statements and notes at December 31, 2009 and 2010 and each of the two years then ended. The accompanying consolidated financial statements consist of those Mexican FRS consolidated financial statements and notes, as supplemented by the accompanying US GAAP disclosures presented in Note 21. These final consolidated financial statements were authorized for issuance herein by Bachoco’s Financial Director and Controller Director on June 16, 2011 with consideration of subsequent events through that date.

Significant transactions-

In July 2009, Bachoco, S.A. de C.V. (subsidiary) acquired a poultry processing plant located in the state of Nuevo Leon, with a production capacity of 9,000 chickens per hour. The transaction consisted of the acquisition of property, plant and equipment for an amount of \$321,984 and inventory in stock for an amount of \$142,537. In addition to reducing costs, the goal of this acquisition, is to increase the production capacity and diversifying.

In September 2009, Campi Alimentos, S.A. de C.V. (subsidiary) acquired a poultry feed processing plant also located in the state of Nuevo Leon, with a production capacity of 12,000 tons per month. The transaction consisted of the acquisition of property, plant and equipment, for an amount of \$114,904. As in the aforementioned July 2009 acquisition, the Company expanded its animal balanced feed production capacity for internal consumption.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

(2) Accounting Policies and Practices-

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, the carrying amount of property, plant and equipment, and goodwill; valuation allowances for receivables, inventories and deferred income tax assets; valuation of primary investment securities and financial instruments; and assets and labor obligations related to employee benefits. Actual results could differ from those estimates and assumptions.

The aforementioned financial statements are presented in Mexican pesos (reporting currency), which is the same as the recording currency and the functional currency.

For disclosure purposes, “thousands pesos” or “\$” means thousands of Mexican pesos, and “thousands dollars” or “US dollars” means thousands of U.S. dollars.

The Company’s consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS) in effect as of the balance sheet date. The significant accounting policies and practices followed by the Company in the preparation of the accompanying consolidated financial statements are described below:

a) Consolidation-

The consolidated financial statements include the financial statements of the Company and all of its majority-owned and controlled subsidiaries.

The ownership interests of other stockholders in such subsidiaries are shown as non-controlling interest.

Intercompany balances, investments and significant transactions between consolidated entities have been eliminated in consolidation.

The results of operations of the subsidiaries were included in the Company’s consolidated financial statements as at the acquisition or inception month.

The consolidation was based on the audited financial statements of the issuing companies as of December 31, 2008, 2009 and 2010, which have been prepared in accordance with Mexican FRS.

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

The accompanying consolidated financial statements include the following subsidiaries as of December 31, 2008, 2009 and 2010:

	Percentage equity interest		
	2008	2009	2010
Acuícola Bachoco, S.A. de C.V. (1)	100	-	-
Aviser, S.A. de C.V.	100	100	100
Bachoco, S.A. de C.V. (“BSACV”)	100	100	100
Bachoco Comercial, S.A. de C.V.	100	100	100
Campi Alimentos, S.A. de C.V. (1)	100	100	100
Huevo y Derivados, S.A. de C.V. (2)	97	97	-
Operadora de Servicios de Personal, S.A. de C.V.	100	100	100
Pecuarius Laboratorios, S.A. de C.V.	64	64	64
Secba, S.A. de C.V.	100	100	100
Sepetec, S.A. de C.V.	100	100	100
Servicios de Personal Administrativo, S.A. de C.V.	100	100	100
Induba Pavos, S.A. de C.V.	100	100	100

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

- Bachoco, S.A. de C.V. (“BSACV”) (includes four subsidiaries which are 50% owned, and for which BSACV has control). BSACV is engaged in breeding, processing and marketing of poultry (chicken and eggs).
- Campi Alimentos, S.A. de C.V. (Campi) (1)
- Acuícola Bachoco S.A. de C.V. (Acuícola) (1)

Campi and Acuícola are engaged in producing and marketing of balanced animal feed.

(1) At the ordinary and extraordinary general stockholders’ meeting held on March 20, 2009, the shareholders agreed to the merger through incorporation of Acuícola Bachoco, S.A. de C.V. (the acquiree entity) with Campi Alimentos, S.A. de C.V. (the acquiror entity). The merger became effective as of March 31, 2009, so that as of that date, Acuícola, as the acquired corporation, no longer exists. Pursuant to the Ley General de Sociedades Mercantiles (General Corporation and Partnership Law) when the merger became effective, total assets and liabilities, rights, obligations and responsibilities of the merged corporation became part of the acquiring corporation without reservation or limitation.

(Continued)



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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

- Aviser, S.A. de C.V.
- Operadora de Servicios de Personal, S.A. de C.V.
- Secba, S.A. de C.V.
- Sepetec, S.A. de C.V.
- Servicios de Personal Administrativo, S.A. de C.V.

These companies are engaged in providing administrative and operative services to their related parties.

(2) At the extraordinary stockholders' meeting held on March 31, 2010, the stockholders agreed the liquidation of the balance sheet as of December 31, 2009. The aforementioned liquidation was effective on January 1, 2010.

b) Revenue recognition-

Revenues are recognized when each of the following criteria is met:

- There is evidence of an arrangement.
- Delivery of goods has occurred.
- The seller fixes or determines the prices with the buyer.
- Collectability is reasonably certain.

The Company's products are sold to a large number of customers without significant concentrations with any of them.

Based on management analysis and estimates, the Company provides for doubtful receivables (reported under selling, general and administrative expenses).

c) Recognition of the effects of inflation-

The accompanying consolidated financial statements have been prepared in accordance with Mexican FRS in effect as of the balance sheet date and include the recognition of the effects of inflation on financial information through December 31, 2007, based on the Mexican National Consumer Price Index (NCPI) published by Banco de México (central bank).

(Continued)

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
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Cumulative inflation indexes and percentages of the current and three preceding years are as follows:

December 31	NCPI	Yearly	Inflation	Cumulative
2010	144.639	4.40	%	15.19 %
2009	138.541	3.57	%	14.48 %
2008	133.761	6.52	%	15.01 %
2007	125.564	3.75	%	11.56 %

A summary of the key inflation accounting concepts and procedures is as follows:

## - Property, plant and equipment

Property, plant and equipment were carried at replacement cost, determined annually by an independent appraiser, through 1996. The fifth amendment to Bulletin B-10 "Accounting Recognition of the Effects of Inflation on Financial Information" (as modified), which is applicable to financial statements for periods beginning on or after January 1, 1997, disallows the use of appraisals on fixed assets. Based on such amendment, the Company restated the appraised value at December 31, 1996, and the acquisitions of property, plant and equipment since January 1, 1997, until December 31, 2007, by applying factors derived from the NCPI.

## - Stockholders' equity

Until December 31, 2007, the date on which the economic environment turned to a non-inflationary environment in conformity with FRS B-10 "Effects of Inflation", capital stock, additional paid-in capital, reserve for repurchase of shares of Company's own shares, retained earnings and other capital accounts were restated using adjustment factors derived from the NCPI. The amounts thus obtained in this manner represented the constant value of the stockholders' equity.

(Continued)



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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

- Deficit from restatement of stockholders' equity

Until December 31, 2007, the deficit from restatement of stockholders' equity comprises the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied and the subsequent gain or loss from holding nonmonetary assets. Deficit from restatement of stockholders' equity is originated when the replacement cost of these assets is lower than the cost of these assets restated by the NCPI. In 2008, such amount was reclassified to retained earnings.

d) Cash and cash equivalents-

Cash and cash equivalents consist primarily of bank deposits and checking accounts in foreign currencies and other highly liquid instruments. At the date of the consolidated financial statements, interest income and foreign exchange gains and losses are included in the statements of operations, under comprehensive financial results.

e) Available on-demand investments and primary investment securities-

All rights and obligations arising from treasury primary investment securities are recognized on the balance sheet and the Company classifies its investment securities depending on the purpose for which the securities were acquired: (i) held-to-maturity, (ii) trading or (iii) available for sale. Investments in these instruments with maturity of three months or less at the time of investment are included on the line-item "available on-demand investments" within cash and cash equivalents (see note 3). Furthermore, primary investment securities with maturity over three months are included under current assets. In turn, the balance of debt securities with due dates less than one year is reported under current liabilities.

Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt securities are securities in which the Company has the solvency, ability and intent to hold the security until maturity. All securities not included in trading or held or held-to-maturity are classified as available-for sale.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

Trading securities, except held-to-maturity securities, are recorded at fair value, where peso-denominated debt securities are taken from the bank statements which are based on the information of the local price vendors, while US-denominated debt securities are based on diversified sources. Held-to-maturity securities are recorded at amortized cost. Changes in the carrying amounts of trading securities, including the related costs and yields are included under comprehensive financial results. Gains or losses arising from changes in the fair value of available-for-sale securities (less the corresponding yield) non functional currency denominated and foreign exchange gain or loss, in the case of equity securities, as well as the related monetary position gain or loss, as applicable, are reported as a comprehensive income (loss) item within stockholders' equity.

Furthermore, where evidence exists that a financial asset held-to-maturity shall not be recovered in full, the expected loss (impairment) is recognized in the statement of operations.

f) Accounts receivable and allowance for doubtful accounts-

Accounts receivable as of December 31, 2010 are reported at fair value, net of the allowance for doubtful accounts.

The Company's policy is to record an allowance for doubtful accounts for balances which are not likely to be recovered. In establishing the required allowance, management considers historical losses, current market conditions, customers' financial condition, the amount of receivables in dispute, price differences and the current receivable aging and current payment patterns.

g) Inventories, agricultural products and biological assets-

- Inventories

At December 31, 2009 and 2010, inventories are stated at the lower of historical cost determined by the average cost method or market, provided that replacement cost is not less than net realizable value.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

-Agriculture

The financial statements recognize the requirements of Bulletin E-1, "Agriculture", which establishes the rules for recognizing, measuring, presenting and disclosing biological assets and agricultural products.

Bulletin E-1 requires biological assets and agricultural products (the latter at the time of harvesting) to be valued at their fair value, net of the estimated costs at the point of sale. Bulletin E-1 also establishes that whenever the fair value cannot be determined in a reliable, verifiable and objective manner, the assets are to be valued at their production cost, less any impairment loss.

The allowance for decline in the productivity of breeder chickens and pigs is estimated based on their expected future life, under the straight-line method.

Agricultural products are live chickens, processed chickens, commercial eggs and pigs available for sale. The Company's biological assets are comprised of poultry in their different stages, incubatable eggs and breeder pigs.

Broiler chicks less than six and a half weeks old, incubatable eggs, breeder pigs and laying hens are valued at production cost since it is not possible to determine their fair value in a reliable, verifiable and objective manner.

Broilers more than six and a half weeks old through their date of sale are valued at fair value less of estimated point-of-sale costs, considering the price per kilogram of processed chicken at the valuation date.

Processed chicken and commercial eggs are valued at fair value less estimated point-of-sale costs, considering the price per kilogram of processed chicken and commercial eggs at the time such items are considered as agricultural products. From such date through the date of sale, the fair value is considered to be the cost of processed chicken or commercial eggs, not in excess of net realizable value.

The Company is exposed to financial risks due to changes in the price of chicken. The Company estimates that the price of chicken will not fall significantly in the future; consequently, the Company has not entered into any derivative agreement or any other type of agreement to offset the risk of a drop in the price of chicken.

The Company reviews periodically the price of chicken so as to evaluate the need for a financial instrument to offset such risk.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

In conformity with Bulletin E-1, biological assets and agricultural products were classified as either current or non-current assets based on their availability for sale and the business operating cycle.

Cost of sales represents the replacement cost of inventories at the time of sale, increased, as applicable, for reductions in the net realizable value of inventories during the year.

The Company records the necessary allowances for inventory impairment arising from damaged, obsolete or slow-moving inventories or any other reason indicating that the carrying amount will exceed the future revenues expected from use or realization of the inventory items.

h) Property, plant and equipment-

Property, plant and equipment are initially recorded at acquisition cost and through December 31, 2007, adjusted for inflation by using factors derived from the NCPI (see note 2c).

From January 1, 2007, acquisitions of assets under construction or installation include the related comprehensive financial results as part of the value of assets. During 2008, 2009 and 2010, no comprehensive financing costs have been capitalized, as result of Mexican FRS D-6 criteria not being met.

Depreciation of property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets, determined by management (see note 7).

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Minor repairs and maintenance costs are expensed as incurred.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

i) Impairment of property, plant and equipment-

The Company periodically evaluates the values of long-lived assets of property, plant and equipment, to determine whether there is an indication of potential impairment. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset against future cash flows expected to be generated by the asset. If the net carrying amount of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of, are reported in the balance sheets at the lower of net carrying amount or realizable value. The assets and liabilities of a group classified as available-for sale are presented separately on the consolidated balance sheet.

j) Leases-

Leased property, plant and equipment arrangements are recognized as capital leases if: a) the ownership of the leased asset is transferred to the lessee upon termination of the lease; b) the agreement includes an option to purchase the asset at a reduced price; c) the term of the lease is substantially the same as the remaining useful life of the leased asset; or d) the present value of minimum lease payments is substantially the same as the market value of the leased asset, net of any benefit or scrap value.

When the risks and benefits inherent to the ownership of the leased asset remain mostly with the lessor, such leases are classified as operating leases, and the lease expense is charged to results of operations as incurred.

The Company classified its leases as operating leases at December 31, 2008, 2009 and 2010.

k) Goodwill-

Goodwill represents the difference between the purchase price and the fair value of the identifiable assets acquired in a business combination at the purchase date.

Goodwill is recorded initially at acquisition cost and through December 31, 2007, was restated using adjustment factors derived from the NCPI. Goodwill is subject to annual impairment testing.

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

At December 31, 2009 and 2010, there was no impairment loss in the value of goodwill shown in the consolidated balance sheets.

l) Liabilities, provisions, contingent liabilities and commitments-

Liability provisions are recognized when the following three conditions are met: (i) the Company has current obligations (legal or assumed) derived from past events, (ii) it is probable that the liability will give rise to a future cash disbursement for its settlement and (iii) the liability can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

m) Employee benefits-

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

- Defined contribution plan: This fund consists of employee and Company contributions. The employee contribution percentage ranges from 1% to 5%. The Company contribution ranges from 1% to 2% in the case of employees with less than 10 years' seniority, and the same contribution percentage as the employee (up to 5%) when the employee has more than 10 years' seniority.

- Defined benefit plan: This fund consists solely of the Company's contributions and covers the Company's labor obligations with each employee.

Seniority premiums and severance payments are paid to workers as required by Mexican labor law.

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

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Termination benefits for reasons other than restructuring and retirement to which employees are entitled are charged to operations for each year, based on actuarial computations using the projected unit credit method and projected salaries. At December 31, 2010 and for purposes of recognizing benefits upon retirement, the remaining average service life of employees entitled to plan benefits approximates 19.06 years (see note 14).

In 2008, as a result of the adoption of this Mexican FRS D-3, the labor obligation minimum liability adjustment of \$2,512 reflected in consolidated statements of stockholders' equity as of December 31, 2007, was eliminated against the consolidated statement of operations. Furthermore, for 2008, amortization of unamortized items resulted in an approximate gain of \$845.

The actuarial profit or loss is recognized directly in the consolidated statement of operations for the period as it is accrued (benefits due to termination) and is amortized based on the remaining labor life of the employees that are expected to receive benefits from the plan (retirement benefits).

n) Comprehensive financial results (CFR)-

The CFR includes interest income and expense, foreign exchange gains and losses and valuation of financial instruments, including derivatives.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Foreign currency assets and liabilities are translated at the exchange rate in force at the consolidated balance sheet date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported in the consolidated statements of operations for the year.

o) Comprehensive (loss) income-

Comprehensive loss in 2008 consists of the net income or loss for the year, the effective portion of the unrealized gain or loss on cash flow hedges, the minimum liability adjustment of labor obligations and the minority interest as required by Bulletin B-4 "Comprehensive Income". Comprehensive Income in 2009 and 2010 only consists of the net income for the year.

(Continued)

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p) Derivative financial instruments-

Irrespective of their use and either issuance or holding purpose, the Company recognizes all derivative instruments as either assets or liabilities on the balance sheet at their respective fair values. Fair values are determined based on known market prices such as Chicago Board of Trade (CBOT) and, when not listed in a market, based on valuation techniques and inputs usually accepted in the financial sector.

Changes in the fair value of financial instruments not designated and/or not qualifying under strict hedge accounting criteria are recognized within earnings for the year in which such changes occur, as derivatives effects under comprehensive financial results.

In the case of operations with options on futures not designated and/or do not qualify under strict hedge accounting criteria, premiums paid or received in connection with options are initially recognized respectively as assets or liabilities within derivative instruments; while subsequent changes in their fair value are recognized within income of the year in which such changes occur under comprehensive financial results.

q) Derivative financial Instruments, designated and qualified as hedging instruments for one or more risks-

The Company uses selected financial derivative instruments to protect itself against adverse price fluctuations in agriculture commodities, such as corn and sorghum. Those agriculture commodities derivative instruments include futures and options on futures which are listed on the CBOT, as well as options on futures accessed through ASERCA (Farming Marketing Support and Services, ascribed to Mexico's Secretary of Farming and Agriculture), who functions as counterparty and that is a dependent entity of the Mexican Government's unit that belongs to the Secretary of Farming, Livestock, Rural Development, Fishing and Food (SAGARPA, Secretaria de Agricultura, Ganaderia y Desarrollo Rural, Pesca y Alimentación), through which, a commodities-related price hedging program (the "Farming by Contract") scheme is offered to both farmers and agro-business entities such as the Company. The ASERCA program has two participating modalities: (i) 0% of the payment of the option's premium and 100% of the benefit with a 60% discount on the amount of the initial premium, or (ii) 50% of the payment of the option's premium, and 100% of the benefit.

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Notes to the Consolidated Financial Statements

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When the derivatives are acquired to hedge risks, and accomplish with hedge accounting, strict requirements the hedging relationship is documented for each hedged price risk. This documentation includes a description of the objective or hedge strategy, the nature of the hedged item position, the risk(s) to be hedged, the designated derivatives and how the initial effectiveness testing assessment will be performed, as well as the subsequent measurement of its retrospective effectiveness, which applies to each established hedge relationship.

Formal hedging derivatives designated into a hedging relationship, follow special hedge accounting recognition, for fair value changes based on each corresponding hedge accounting model: (1) Fluctuations in fair value type of hedges, require that both the derivative and the hedged item are to be valued at fair value and recognized in the statement of operations adjusting the carrying value of hedge item; (2) in the case of cash flow hedges, only the effective portion of the derivative is temporarily recognized in comprehensive income (equity) and recycled to operations when the effects of the hedged item affects operations as cost of good sold, interest, etc., while the ineffective portion is immediately recognized within operations.

The Company discontinues hedge accounting in the following cases: when the derivative has expired, has been sold, is cancelled or exercised, or when the derivative does not achieve the required level of accumulated effectiveness as to compensate for the changes in the fair value or cash flows of the hedged item, when the hedged item is prepaid or when the Company decides to cancel the hedge relationship on a discretionary basis.

Certain financial derivative instruments are entered into to hedge on or more exposures from the user's economic perspective, but are neither designated nor qualify for hedge accounting purposes, hence these derivatives are treated accounting wise, as trading derivatives that is, with fluctuations in the fair value of these derivatives recognized within comprehensive financial result.

In the case of hedges with options on futures or combinations of these options, which are designated and qualifying under hedge accounting models, the premiums paid and received through these derivative financial instruments are initially recognized as assets within derivative financial instruments in the consolidated balance sheet, with subsequent changes in their fair values recognized in the comprehensive financial result in the case of fair value hedges, while under cash flow hedge model, these changes are recognized within other comprehensive income (OCI).

(Continued)

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The Company has an investment risk and hedge committee that analyzes the Company's risk.

r) Income taxes (income tax (IT), flat rate business tax (IETU)), and employee statutory profit sharing (ESPS)-

IT, IETU and ESPS payable for the year are determined in conformity with the tax provisions in effect.

Deferred IT and deferred ESPS, are accounted for under the asset and liability method. Deferred tax and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT, for tax loss and tax credit carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax and ESPS assets and liabilities of a change in tax rates is recognized in income during the period that includes the enactment date.

s) Net controlling interest (loss) income per share-

Net controlling interest (loss) income per share has been computed based on controlling interest net (loss) income and on the weighted average number of shares outstanding, as established in Bulletin B-14 "Profit per Share".

t) Financial information by segments-

Bulletin B-5, "Financial Information by Segments", establishes the rules for disclosing financial information by segment.

Financial information by segment is prepared based on a management's approach, in conformity with Bulletin B-5, considering a segment to be an operating component that is subject to risks and benefits that are different from other business segments. (see note 18).

u) Reclassifications-

Certain captions shown in the 2009 financial statements as originally issued have been reclassified for uniformity of presentation with the 2010 financial statements. The changes in these reclassifications were recognized retrospectively at December 31, 2009 and 2008, in conformity with Mexican FRS B-1.

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

Notes to the Consolidated Financial Statements

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v) Convenience translation-

United States thousands dollars amounts as shown in the accompanying consolidated balance sheet as of December 31, 2010, as well as in the consolidated statements of operations and cash flows for the year ended December 31, 2010, have been included solely for the convenience of the reader and are translated from pesos to US dollars as a matter of arithmetic computation only, at an exchange rate of \$12.37 to one U.S. dollar, which was the exchange rate at December 31, 2010. Such translation should not be construed as a representation that the peso amounts could have been or could be converted into U.S. dollars at this rate.

w) New accounting pronouncements-

The FRS, their Interpretations (INT FRS) and Revisions mentioned below, issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) became effective for fiscal years beginning on or after January 1, 2010, with the respective prospective or retrospective application being specified in each case.

(a) FRS C-1 “Cash and cash equivalents” – FRS C-1 supersedes Bulletin C-1 “Cash” and is effective beginning January 1, 2010. The principal changes with respect to the superseded Bulletin include the following:

- FRS C-1 requires the presentation of restricted cash and cash equivalents in caption “Cash and cash equivalents” on the balance sheet.
  - The term “demand temporary investment” is replaced by “available on-demand investments”.
- To be identified as available on-demand investment, the investments should be highly liquid (original maturities of three months or less).
- FRS C-1 includes the definition of the terms: acquisition cost, cash equivalents, restricted cash and cash equivalents; available demand investments, net realizable value, nominal value and fair value.

(Continued)

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

## Notes to the Consolidated Financial Statements

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Accounting changes resulting from the initial application of this standard were recognized retrospectively, affecting the financial information as follows:

	Previously reported amounts	Accounting change	Adjusted amounts
Available on-demand investments as of December 31, 2009	\$ 2,363,949	(151,841)	2,212,108
Cash and cash equivalents as of December 31, 2009	2,550,968	(151,841)	2,399,127

(b) 2010 FRS Revisions-

In December 2009, the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) issued the document referred to as “2010 FRS Revisions” setting forth the following accounting changes:

- FRS B-2 “Statement of Cash Flows”- Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows. Likewise, the concept “Adjustment to cash flow from foreign exchange fluctuations and inflation levels” is changed to “Effects from cash value changes” which includes effects from translation, inflation, foreign exchange fluctuations and fair value of cash balances. Additionally, includes the change of the definition of “available on-demand investments” as mentioned in paragraph (a) of this note. The changes in the presentation of the statement of cash flows were recognized retrospectively, and are as follows:

(Continued)

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

## Notes to the Consolidated Financial Statements

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At December 31, 2008

	Previously reported amounts	Accounting change	Adjusted amounts
Net cash used in investing activities	\$ (926,258 )	(61,998 )	(988,256 )
Net decrease in cash and cash equivalents	(1,041,629)	(61,998 )	(1,103,627)
Cash and cash equivalents at beginning of year	3,039,876	(406,005)	2,633,871
Cash and cash equivalents at end of year	1,998,247	(468,003)	1,530,244

At December 31, 2009

	Previously reported amounts	Accounting change	Adjusted amounts
Net cash used in investing activities	\$ (801,703 )	316,162	(485,541 )
Net increase in cash and cash equivalents	552,721	316,162	868,883
Cash and cash equivalents at beginning of year	1,998,247	(468,003)	1,530,244
Cash and cash equivalents at end of year	2,550,968	(151,841)	2,399,127

- FRS C-7 “Investments in associates and other permanent investments” – Capital contributions by the holding company to the associate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The changes resulting from the application of this FRS Revision are recognized prospectively beginning January 1, 2010.

There is not any effect as result of this FRS Revision.

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

Notes to the Consolidated Financial Statements

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(3) Cash and cash equivalents-

Consolidated cash and cash equivalents as of December 31, 2009 and 2010 consist of:

	2009	2010
Cash and bank accounts	\$ 178,749	\$ 513,076
Available on-demand investments (note 10 b)	2,212,108	3,445,899
Unrestricted cash and cash equivalents	2,390,857	3,958,975
Restricted cash	8,270	8,899
Total cash and cash equivalents	\$ 2,399,127	\$ 3,967,874

Restricted cash corresponds to margin calls to cover future derivative commitments, due to adverse market movements associated with the underlying prices for which the Company had an open position as of December 31, 2009 and 2010.

(4) Trade receivables, net-

Trade receivables at December 31, 2009 and 2010 amounting \$903,609 and \$963,273, respectively, are shown net of an allowance of doubtful accounts of \$29,801 and \$32,990, respectively.

(Continued)

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

## Notes to the Consolidated Financial Statements

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(Thousands of pesos,  
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## (5) Related parties-

a) A summary of related party accounts payable as of December 31, 2009 and 2010 is as follows:

	2009	2010
Vimifos, S.A. de C.V.	\$ 43,749	\$ 43,051
Maquinaria Agrícola, S.A. de C.V.	5,570	7,973
Frescopack, S.A. de C.V.	8,767	6,670
Llantas y Accesorios, S.A. de C.V.	4,418	1,144
Autos y Tractores de Culiacán, S.A. de C.V.	855	1,025
Autos y Accesorios, S.A. de C.V.	53	678
Distribuidora Automotriz de los Mochis, S.A. de C.V.	16	213
Camiones y Tractocamiones de Sonora, S.A. de C.V.	108	67
Alfonso R. Bours, S.A. de C.V.	-	52
Pulmex 2000, S.A. de C.V.	4,077	-
	\$ 67,613	\$ 60,873

At December 31, 2009 and 2010, balances due to related parties correspond to unsecured current accounts denominated in pesos that bear no interest and are payable within 30 days

(Continued)

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

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b) For the years ended December 31, 2008, 2009 and 2010, the Company had the following transactions with related parties:

Purchases of feed, raw materials and packing supplies	2008	2009	2010
Vimifos, S.A. de C.V.	\$ 283,912	\$ 261,385	\$ 215,967
Frescopack, S.A. de C.V.	128,176	136,609	113,229
Pulmex 2000, S.A. de C.V.	15,619	17,307	10,896
Qualiplast, S.A. de C.V.	22	21	19
Purchases of vehicles, tires and spare parts	2008	2009	2010
Maquinaria Agrícola, S.A. de C.V.	\$ 54,502	\$ 56,502	\$ 64,546
Llantas y Accesorios, S.A. de C.V.	22,426	30,848	32,775
Autos y Tractores de Culiacán, S.A. de C.V.	26,665	19,555	16,551
Autos y Accesorios, S.A. de C.V.	21,729	11,849	13,371
Distribuidora Automotriz de los Mochis, S.A. de C.V.	13,687	11,093	7,635
Alfonso R. Bours, S.A. de C.V.	3,356	847	931
Camiones y Tractocamiones de Sonora, S.A. de C.V.	14,501	8,391	338
Airplane leasing expenses	2008	2009	2010
Taxis Aéreos del Noroeste, S.A. de C.V.	\$ 2,106	\$ 9,810	\$ 8,866

Purchases transactions with related parties are made at market prices, which are similar to those that would be used in arms-length transactions.

(Continued)



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

## Notes to the Consolidated Financial Statements

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## (6) Inventories and biological assets-

## a) Inventories consist of the following:

	2009	2010
Raw materials and subproducts	\$ 1,769,251	\$ 1,889,850
Restricted raw material (sorghum) (note 9a)	24,584	-
	1,793,835	1,889,850
Medicine, materials and spare parts	480,459	452,373
Finished feed	57,613	60,405
	2,331,907	2,402,628
Agricultural products:		
Live chicken	889,415	877,654
Processed chicken	339,965	250,904
Commercial egg	27,441	22,094
Turkey	21,567	20,186
Beef	1,493	4,463
Others	1,424	-
	1,281,305	1,175,301
Total	\$ 3,613,212	\$ 3,577,929

## b) Biological assets at December 31, 2009 and 2010 consist of the following:

	2009	2010
Current biological assets:		
Breeder pigs	\$ 45,808	\$ 48,120
Incubatable eggs	110,652	105,873
Total current biological assets	\$ 156,460	\$ 153,993
Non-current biological assets:		
Laying and breeder hens	\$ 252,415	\$ 282,111
Breeder pigs	31,409	34,828
Hens in production	818,415	771,454
Allowance for productivity declines	(358,630 )	(338,105 )
Total non-current biological assets	\$ 743,609	\$ 750,288

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

## Notes to the Consolidated Financial Statements

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The change in the historical value of biological assets and agricultural products measured at their fair value presented an increase of \$16,358 in 2008, and decreases of \$7,214 in 2009, and \$32,016 in 2010. Such effects were included in the results of operations each year.

## (7) Property, plant and equipment-

a) Property, plant and equipment at December 31, 2009 and 2010 consists of the following:

	Useful lives (years)	2009	2010
Buildings, farm structures and equipment	7-27	\$ 15,823,099	\$ 16,068,754
Office, furniture and equipment	3	238,607	246,349
Transportation equipment	6	1,219,437	1,158,660
		17,281,143	17,473,763
Accumulated depreciation and amortization		(7,700,155 )	(8,157,371 )
		9,580,988	9,316,392
Land		937,478	948,036
Construction in progress and advance payments		391,660	322,893
Total		\$ 10,910,126	\$ 10,587,321

b) Depreciation and amortization expense for the years ended December 31, 2008, 2009 and 2010, amounted to \$616,358, \$662,630, and \$692,640, respectively.

c) As of December 31, 2009, the construction in progress amount of \$347,516, has been placed in service in 2010.

d) As of December 31, 2010, the construction in progress amount of \$279,603, are expected to be placed in service in 2011.

(Continued)

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

## Notes to the Consolidated Financial Statements

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## (8) Goodwill-

In 1999, goodwill was derived from the purchase of the shares of Campi Alimentos, S.A. de C.V. in the amount of \$359,564. At December 31, 2005 (the last year of amortization), accumulated amortization aggregated to \$58,716. In 2008, 2009 and 2010, goodwill was not amortized, but subject to impairment test on an annual basis, as a result of the adoption of Mexican FRS B-7 "Business Acquisitions" (see note 2k).

## (9) Notes payable to banks and long-term debt-

## a) Short-term notes payable to banks consist of the following:

	2009	2010
Unsecured notes payable to banks (i) (ii):		
Denominated in pesos, interest rate: TIIE(1) FIRA(2) rate less 3 points	\$ 40,000	\$ -
Denominated in pesos, interest rate: TIIE(1) FIRA(2) rate plus .75 points	40,000	-
Denominated in pesos, interest rate: TIIE(1) rate plus 2 points	133,400	-
Secured by sorghum deposit certificates (iii):		
Denominated in pesos, maturity on February 11, 2010, with appraisal 85% and interest rate of 9%.	20,896	-
Short-term notes payable total	\$ 234,296	\$ -

(i) The weighted average interest rate on short-term unsecured notes payable at December 31, 2009 and at the date of the payment in 2010 were 6.03% and 6.01% respectively.

(ii) Average interest rate on short-term unsecured notes for the years ended December 31, 2009 and at the date of the payment in 2010 were 5.73% and 6.05%, respectively.

(iii) At December 31, 2009 and 2010, unused sorghum deposit certificates lines of credit amounted to \$179,104 and \$100,000, respectively. In 2009 and 2010, the Company was not required to pay any fee for unused lines of credit.

(1) TIIE = Interbank Equilibrium Rate

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

(Continued)



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

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b) Long-term debt, as of December 31, consist of the following:

	2009	2010
<b>Secured by equipment:</b>		
Denominated in pesos, payable in monthly installments through December 2010, at CETES (3) rate plus 2 points.	\$ 10,500	\$ -
<b>Unsecured:</b>		
Denominated in pesos, maturing in July 2015, at TIIE (1) plus 1.50 points.	-	250,000
Denominated in pesos, maturing in April 2015, at TIIE (1) FIRA (2) rates plus 1.90 points.	-	250,000
Denominated in pesos, maturing in June 2015, at TIIE (1) rate plus 2.50 points.	-	38,993
Denominated in pesos, maturing in December 2013, at TIIE (1) FIRA (2) rates less 1.00 point.	-	38,133
Denominated in pesos, maturing in April 2012 and June 2013, at TIIE (1) FIRA (2) rates less 1.10 points and 0.875 points.	46,000	30,720
Denominated in pesos, maturing in April 2015, at TIIE (1) rate plus 0.95 points.	-	23,617
Denominated in pesos, maturing in June 2011, at TIIE (1) FIRA(2) rates plus 2 points.	137,500	12,500
Denominated in pesos, maturing in March 2014, at TIIE (1) rate plus 2 points.	-	2,957
Denominated in pesos, maturing in July 2011, at TIIE (1) rate plus 2 points.	500,000	-
Denominated in pesos, maturing in 2014, at TIIE (1) rate plus 3.5 points.	33,750	-
Denominated in pesos, maturing in December 2010, at TIIE (1) FIRA (2) rate less 3.30 points, at minimum rate of 2.90%.	1,789	-
Total	729,539	646,920
Less current installments.	(357,569 )	(139,867 )
Long-term debt, excluding current installments.	\$ 371,970	\$ 507,053

In 2010, the Company made prepayments of long-term debt of \$533,750, without being required to pay early termination fee.

Weighted average interest rate on long-term debt at December 31, 2009 and 2010 was 6.76% and 6.32%, respectively.

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

Notes to the Consolidated Financial Statements

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The average interest rate of the Company's total long-term debt for the years ended December 31, 2009 and 2010 was 8.88%, and 6.64%, respectively.

- (1) TIE = Interbank Equilibrium Rate  
 (2) FIRA = Agriculture trust (Fideicomiso Instituido en Relación con la Agricultura by its Spanish acronym)  
 (3) CETE = Treasury Bills.

The weighted average interest rate of the Company's total debt at December 31, 2009 and 2010 was 6.59% and 6.32%, respectively.

c) At December 31, 2009 and 2010, unused lines of credit amounted to \$823,320 and \$2,047,839, respectively. In 2009 and 2010, the Company did not pay any fee for unused lines of credit.

d) The book value of assets collateralizing long-term debt was \$120,844 at December 31, 2009.

e) Maturities of long-term debt as of December 31, 2010, are as follows:

Year	Amount
2012	\$ 153,038
2013	148,332
2014	129,083
2015	76,600
	\$ 507,053

Interest expense on loans for the years ended December 31, 2008, 2009 and 2010, aggregated to \$16,040, \$66,989, and \$52,903, respectively.

Bank loans establish certain affirmative and negative covenants. As of December 31, 2010 and June 16, 2011, the Company was in compliance with all these covenants. The Company estimates that the covenants will be in compliance during 2011.

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

Notes to the Consolidated Financial Statements

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(10-a) Financial Instruments and hedging activities as at December 31, 2009 and 2010-

Derivatives for trading purposes (neither designated nor qualified for hedges accounting treatment)

The Company maintains a portfolio of explicit Financial Derivative Instruments (FDI), which were neither designated nor qualified as hedges under FRS C-10 and, therefore, their related changes in fair value were recognized as valuation effects of financial instruments within Comprehensive Financial Results (CFR), in the results of operations. The related amount of the open balance as of December 31, 2009 and 2010, was \$(3,137) and \$(7,096), respectively, and arose from the derivative instruments, shown on the following pages:

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

## Notes to the Consolidated Financial Statements

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As at December 31, 2009:

OTC1 foreign currency option structures and forwards – finance counter-party in private agreements:

Counter-party	Instrument	Underlying <sup>6</sup>	Notional	Maturity	Effects on the results of operations CFR/loss (gain)
Morgan Stanley	Collar <sup>2</sup>	Exchange rate MXP/USD	1,000 US\$	May 2010	\$ (2,537 )
	KO collars <sup>2</sup>	Exchange rate MXP/USD	1,000 US\$	March 2010	(185 )
	KO collars <sup>2</sup>	Exchange rate MXP/USD	2,000 US\$	July 2010	8
	KO put spread <sup>4</sup>	Exchange rate MXP/USD	1,000 US\$	March 2010	(256 )
	Call spread <sup>3</sup>	Exchange rate MXP/USD	1,000 US\$	March 2010	(902 )
UBS	Knock out-5 knock in	Exchange rate MXP/USD	2,000 US\$	January 2010	(45 )
	Forwards	Exchange rate MXP/USD	2,000 US\$	July 2010	1,026
					\$ (2,891 )

<sup>1</sup>Over the Counter (OTC): refers to privately agreed operations (outside of the standardized or organized futures & options exchange markets such as CBOT) with other financial or non-financial parties.

<sup>2</sup>Knock Out Collars: Option combination in which the Company acquires at both, a minimum and a maximum exchange rate. The maximum limit no longer applies if the referenced exchange rate is equal or greater than the Knock Out upper level.

3Call Spread: A hedging instrument against decreases in the exchange rate. It is compounded by a long call with certain strike, and a short call with a greater strike.

4KO Put Spread: Option combination that the Company entered into, at the same time as in took a long position in a long collar and a long position in a call spread. It hedges a certain rank in the exchange rate value, generally low values.

5Knock out – knock in: Option combination that hedges up to a certain level of the exchange rate, and from another level of the exchange rate respectively.

6MXP means Thousands of Mexican Peso and USD means Thousands of U.S. dollars.

(Continued)

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

## Derivatives on prices of farming goods (Commodities):

Counter-party	Instrument	Underlying	Maturity 2010	Effects on the results of operations CFR/ loss (gain)
Cargill (OTC)	Swaps	Corn	March	\$ (445 )
New Edge 7	Futures	Corn	March	(409 )
	Futures	Corn	March	(361 )
	Futures	Corn	March	(1,360 )
	Futures	Corn	March	4,162
	Futures	Corn	March	(215 )
	Futures	Corn	March	(314 )
	Futures	Corn	March	(98 )
	Puts on futures	Corn	March	(159 )
	Puts on futures	Corn	March	(337 )
	Puts on futures	Corn	March	(311 )
	Puts on futures	Corn	March	104
	Puts on futures	Corn	March	(503 )
				\$ (246 )

7 New Edge is the broker or the commission agents for the futures or options on the futures, that the Company used to enter into these operation in this listed CBOT market on corn and soybeans forwards. See note 3, collaterals established by the broker for Bachoco.

(Continued)

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

## Notes to the Consolidated Financial Statements

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(Thousands of pesos,  
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As at December 31, 2010:

OTC8 foreign currency option structures and forwards – finance counter-party in private agreements:

Counter-party	Instrument	Underlying <sup>11</sup>	Notional	Maturity	Effects on the results of operations CFR/loss (gain)
Morgan Stanley	European options <sup>10</sup>	Exchange rate MXP/USD	Several in US\$	January 2011	\$ 211
	Knock out-knock in <sup>9</sup>	Exchange rate MXP/USD	Several in US\$	January 2011	(199 )
	Forwards	Exchange rate MXP/USD	Several in US\$	January 2011	19
Deutsche Bank	Knock in <sup>9</sup>	Exchange rate MXP/USD	\$150 US	January 2011	(63 )
Santander	European options <sup>10</sup>	Exchange rate MXP/USD	Several in US\$	January 2011	9
	Forwards	Exchange rate MXP/USD	Several in US\$	January 2011	41
					\$ 18

8Over the Counter (OTC): refers to privately agreed operations (outside of the standardized or organized futures & options exchange markets such as CBOT) with other financial or non-financial parties.

9Knock out – knock in: Option combination that hedges up to a certain level of the exchange rate, and from another level of the exchange rate respectively.

10European options: derivative financial instruments under which the buyer has the right or the obligation to buy or sell a certain amount of a underlying asset in the future.

11MXP means Thousands of Mexican Peso and USD means Thousands of U.S. dollars.

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
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## Derivatives on prices of farming goods (commodities):

Counter-party	Instrument	Underlying	Maturity		Effects on the result of operations CFR/loss (gain)
Cargill	Swaps	Corn	January-May 2011	\$	(2,868 )
(OTC)	Swaps	Soy bean	January-May 2011		(950 )
New Edge <sup>12</sup>	American options	Corn	March 2011		(735 )
	Futures	Corn	March 2011		(2,561 )
				\$	(7,114 )

<sup>12</sup> New Edge is the broker or the commission agents for the futures or options on the futures, that the Company used to enter into these operation in this listed CBOT market on corn and soybeans forwards. See note 3, collaterals established by the broker for Bachoco.

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

Notes to the Consolidated Financial Statements

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Derivatives that are designated and qualify for hedging purposes attributable to (i) one or more risks included in identified hedged items which are already recognized on the balance sheet or (ii) associated to risk exposures not yet recognized on the balance sheet.

In regard to the positions on FDI that the Company enters into and that were designated and qualify for hedge accounting purposes on one or more financial risks, its fair value amounted to a total of \$8,135 and \$5,801 at December 31, 2009 and 2010, respectively. Following are the details on the derivative instruments found accessing special hedge accounting models, their notional dimension, risks and effects, either on the balance sheets or in the statements of operations. The derivatives mentioned below offset the effects of the hedged items within the statement of operations, as long as they continue to qualify and be designated for hedge purposes:

Fair value hedge: The Company has entered into a several firm commitments made through contractual agreements with domestic farmers to purchase estimated grain crops denominated in US dollars at a fixed price, which constitute the hedged items. The long position in puts contracted through ASERCA only hedges the risk arising from a decrease in grain prices, set through firm commitments. These put options are designated in hedging relationships under the fair value hedge accounting model. Effective changes in fair value of grain crops associated with firm commitments attributable to price risk are recognized on the balance sheet as an asset or a liability until the contracted grain volumes are recognized as inventory. Subsequently, these put options contracted through ASERCA are partly or fully re-designated to hedge any changes in fair value of a portion of the acquired grain inventories in accordance with the fair value hedge accounting model; that is, protecting against falls in grain prices by adjusting the carrying amount of such inventory against cost of sales in the results of operations, and at the same time, the pending effects derived from changes in fair value of the primary position, lodged in current assets or current liabilities during the primary position term, against cost of sales, so as to adjust the inventory cost for the effects as determined by the fair value hedging model.

(Continued)



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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

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Options listed on corn future, effective at December 31, 2009:

Counter-party	Instrument	Underlying	Maturity	Effective offsetting effects on comprehensive financial results/loss (gain)
ASERCA	Puts	Corn	March and May 2010	\$ (8,135 )

Options listed on corn future, effective at December 31, 2010:

Counter-party	Instrument	Underlying	Maturity	Effective offsetting effects on comprehensive financial results/loss (gain)
ASERCA	Puts	Corn	March and May 2011	\$ (5,801 )

Option type of derivatives entered under the ASERCA program are under the 0% modality for payment of the premium and a 100% benefit with a 60% discount over the initial premium amount.

Hedging effects on the price of grain associated with firm commitments and grain inventories denominated in the Company's non-functional currency (USD), that are recognized at their fair value due to the price risk only, under the fair value hedge accounting model.

Due to the acquired 2009 and 2010 grain price variations, the hedging effects arising from the fair value changes linked to the corn & sorghum<sup>13</sup> prices, according to the fair value hedge model were recognized in the consolidated balance sheet as a current liability or as an adjustment to the inventory, both with correspondent offsetting effects against the option's intrinsic value changes within comprehensive financial result in the consolidated statement of operations.

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<sup>13</sup> Sorghum price is not listed in an agriculture exchange, but its price-as feeding substitute for corn (which is negotiated and listed in the CBOT) has a high correlation with the futures prices of corn, therefore, corn prices are usually used as a sound proxy the hedge sorghum related prices exposure.

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

At December 31, 2009:

Grain inventories adjusted to fair value hedge<sup>14</sup>:

Description	Risk covered and secondary assigned	Changes in the fair value of the firm commitment recognized within the balance sheet
Firm Commitments with a fix price and USD denominated to sorghum and corn purchases agreements	ASERCA Puts that were re-designated as to hedge the fair value of Commodity grain inventories from losing fair value, attributable to lower grain prices	\$ (8,135 )

At December 31, 2010:

Grain inventories adjusted to fair value hedge<sup>14</sup>:

Description	Risk covered and secondary assigned	Changes in the fair value of the firm commitment recognized within the balance sheet
Firm Commitments with a fix price and USD denominated to sorghum and corn purchases agreements	ASERCA Puts that were re-designated as to hedge the fair value of Commodity grain inventories from losing fair value, attributable to lower grain prices	\$ (5,801 )

<sup>14</sup> These represent contracts the Company enters into with an unrelated party that can be executed through legal means and specify the amount the Company expects to exchange, the fixed price, the currency and the transaction schedule, among other important aspects.

(Continued)



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

## Notes to the Consolidated Financial Statements

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## (10-b) Investment in primary financial securities at December 31, 2009 and 2010-

The Company keeps investments in primary financial debt instruments and equity instruments at December 31, 2009 and 2010, both in U.S. dollars and Mexican pesos, as follows:

For trading <sup>16</sup>	Book value	2009 Fair value	Interest <sup>15</sup> rates	Book value	2010 Fair value	Interest <sup>15</sup> rate
<b>Mexican peso denominated debt securities:</b>						
Government issued	\$ 748,251	748,251	4.63 %	\$ -	-	-
Bank issued	1,228,755	1,228,755	4.79 %	3,150,010	3,150,010	5.01 %
Commercial paper	1	1	8.34 %	31,150	31,150	8.31 %
Repo	-	-		203,410	203,410	4.55 %
	\$ 1,977,007	1,977,007		\$ 3,384,570	3,384,570	
<b>U.S. dollars denominated debt securities:</b>						
Government issued	\$ -	-	-	\$ 359	359	0.27 %
Bank issued	68,981	68,981	6.63 %	-	-	-
Commercial paper	117,706	117,706	6.41 %	19,121	19,121	6.40 %
	186,687	186,687		19,480	19,480	
<b>Total</b>	<b>\$ 2,163,694</b>	<b>2,163,694</b>		<b>\$ 3,404,050</b>	<b>3,404,050</b>	

(Continued)

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2008, 2009 and 2010

(Thousands of pesos,  
except per share amounts)

For trading <sup>16</sup> maturity over 90 days	2009			2010			Interest 15 value
	Book value	Fair value	Interest <sup>15</sup> rates	Book value	Fair value		
<b>Mexican peso denominated debt securities:</b>							
Government issued	\$ 30,449	30,449	4.95 %	\$ 32,395	32,395	5.25 %	
Bank issued	31,232	31,232	8.31 %	-	-	-	
Commercial paper	81,898	81,898	8.34 %	70,487	70,487	6.03 %	