



# WE MOVE TOWARDS OUR VISION TOGETHER

## CONTENTS

A word from our Chairman

Our achievements

### 1. Lala transformation

- a. Our history
  - i. Mission and vision
  - ii. Lala in the world
- b. What defines us
- c. What we do

### 2. Our values

- a. Corporate governance
- b. Ethics and human rights
- c. Associations

### 3. Driving innovation

- a. Products that nourish
- b. Lala Institute
- c. Always transforming

### 4. Responsible strategy and development

- a. Sustainability model
- b. Stakeholder engagement
- c. Our commitment to the SDG

### 5. Value chain

- a. About the process
- b. Lala Quality
- c. Our suppliers

### 6. Caring for the planet

- a. Water
- b. Energy
- c. Emissions
- d. Waste

### 7. Strengthening talent

- a. Our talent
- b. Training and development
- c. Occupational safety and health

### 8. Advancing together

- a. Responsible contribution to the community
- b. Fundación Lala: Actions for a more sustainable future

### 9. ANNEXES



## LETTER FROM THE CEO AND EXECUTIVE CHAIRMAN OF THE BOARD\_\_

102-1 | 102-10 | 102-14 | 102-15

I came to Grupo Lala in September 2018. In my initial tour of the company, I was able to recognize its tremendous potential and business opportunities. I was excited by the promise that building the right talent can mean to the entire organization.

We quickly began a growth-oriented restructuring and focused our efforts on creating value through a virtuous circle of value: Revenue Management, Innovation, and Zero-Based Budgeting. With this we intend to work toward our goals while achieving a transformation of our culture and talent.

As part of our cultural transformation, we created an organizational structure of business units, streamlining bureaucratic processes and bringing all our operations closer together, with more open and effective communication. We also defined and simplified our agendas based on value generation.

**Through all these activities we are reaffirming our decision to continue our cultural transformation and promote the right talent to reach the goals we have set for ourselves. Furthermore, we are bolstering our structure for growth, with an emphasis on Mexico, and we are taking a disciplined approach to the virtuous circle of Revenue Management, Innovation, and Zero-Based Budgeting.**

I am confident that we can transform this effort into financial results. We intend to sharpen our focus as an innovative company and make it more agile.

In 2018 we launched fifty-one new products, including Lala Orgánica; flavored Lala 100; Leche Lala Suprema; and Lala Delicias Oreo and Apple Pie in Mexico. In Brazil we launched Jabuticaba Greek yogurt; Greek yogurt with apple and strawberry bits; Vigor provolone cheese; Forma brand gouda, gruyere and brie. In Central America, Sheikit popsicles; La Perfecta yogurt and cream in Nicaragua, and Lala yogurt with topping and with seeds in Guatemala. With this we maintain our capacity to serve each market segment promptly, with the quality that meets its needs.

In the year just ended, our social value generation was enhanced by our support for employee volunteer work. The value contributed to communities through this commitment totaled 68,672 hours of volunteer time. Particularly notable was the mobilization of more than 3,500 volunteers in 63 workplaces on a single day, to paint public schools in Mexico. In parallel, Fundación Lala invested a little over 14 million pesos in four fundamental areas: nutrition, education, health and the environment. Through our partnership with 351 associations and institutions, we work to maximize the impact of our social investment.

The transformation we have begun, and the early results of which we are already seeing, is based on a guide to conduct and values contained in our Code of Conduct:

We are people who respect and care for each other; we are practical because we operate flexibly and sustainably; we set an example for others and we consider quality and safety to be non-negotiable; we grow through meritocracy and promote equal opportunities for all; we don't take short cuts and we always abide by the law; we communicate openly

and honestly; we deliver results and add value to the communities where we operate; we think like owners and use the company's assets responsibly; and most importantly, we dream big!

I am excited about being able to turn our efforts into growth through talent and transformation.

**#VamosConTodo**

**Mauricio Leyva**  
CEO and Executive  
Chairman of the Board

## 2018 HIGHLIGHTS

The past year has seen a significant transformation at Grupo Lala, focusing on customer care to boost their preference for our products and brands, and on building a more sustainable value chain by supporting our employees, who are what drives this transformation.

Based on our **market presence, image and reputation**, we are among the top companies in Mexico and internationally:

**Brand Footprint:** Number 2 in Mexico and number 4 in Latin America.

**Reputation Institute:** Top-ranking Mexican food company.

**Folha Top of Mind:** In Brazil, Vigor was recognized in the Greek Yogurt and Ricotta categories.

We have **17 factories certified** in Global Food Safety Initiative (GFSI) approved quality systems.

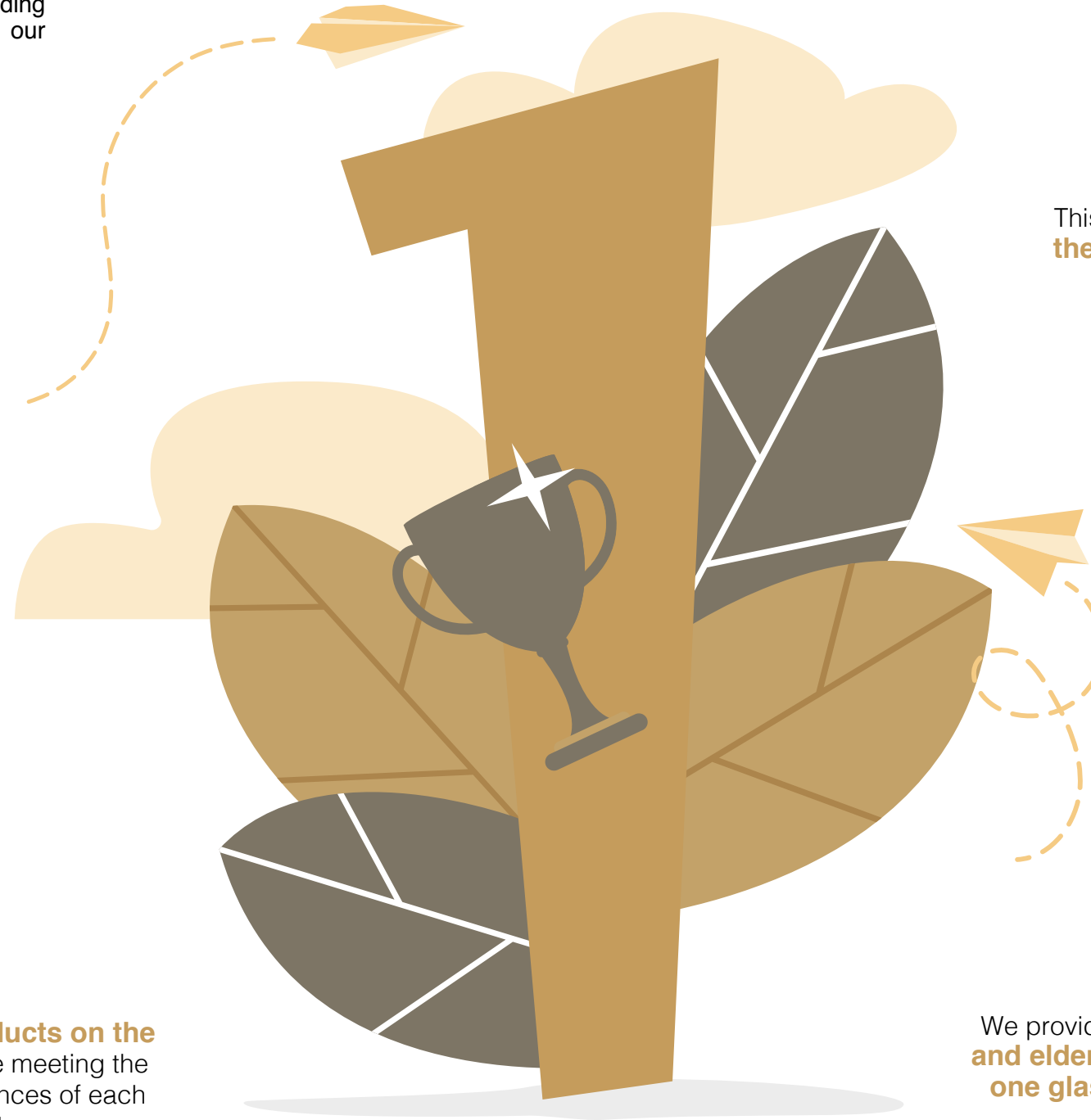
**We launched 51 new products on the market** in order to continue meeting the nutrition needs and preferences of each market segment.

This year we launched **Lala Orgánica**, the **only organic pasteurized milk** in the Mexican market.

We provided **613,148 hours** of technical training and academic courses to strengthen talent through **Lala University**.

**We benefit 462,854 people** who suffer from nutritional or **economic poverty** through regular support.

We provide **37,436 infants and elderly adults at least one glass of milk** a day.





# OUR PERFORMANCE IN NUMBERS

## Income Statement

MXN million	2017**	2018	% Chge.
Net Sales	62,540	75,419	20.60%
Gross Income	23,298	26,510	13.80%
Operating Income	5,600	5,411	-3.40%
EBITDA*	7,479	7,781	-3.40%
Net Income	2,965	1,994	-32.80%

\* EBITDA = operating income before depreciation and amortization.  
\*\*Includes changes for assignment of purchase price of Vigor en Brasil. de compra de Vigor.

## Sales (KL million\*)

Segment	2017	2018
Milk	2,683	2,772
Dairy Products	622	873
Beverages and others	118	126
Total Volume	3,423	3,771

\*Volume is measured in KL, which is calculated by adding kilos and liters

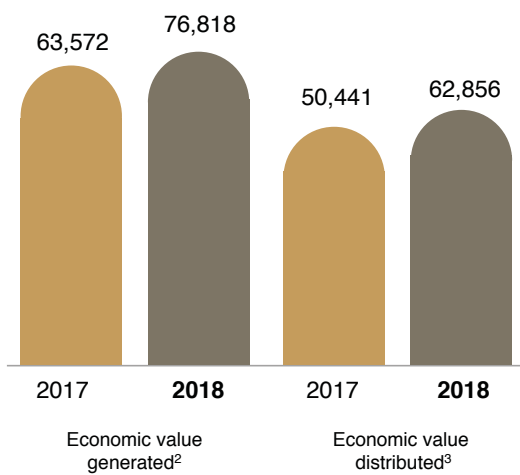
## Sales (MXN million)

Segment	2017	2018	Var. %
Milk	36,949	39,050	5.70%
Dairy Products	22,168	32,466	46.50%
Beverages and others	3,423	3,904	14.00%
Total Volume	62,540	75,419	20.60%

## EBITDA by region

MXN million	2017	2018
Mexico	7,887	7,385
USA	-244	-297
Central America	24	-106
Brazil	-188	799
Total EBITDA	7,479	7,781

## Value Creation



- (1) Results in millions of nominal pesos and according to IFRS standards.  
(2) Net revenues + revenues from financial products + asset sales + other proceeds  
(3) Cost of Goods Sold + wages and salaries + employee benefits + training + other expenses + taxes + dividends + interest payments + investments in community.

20.83% MORE  
ECONOMIC VALUE  
GENERATED



01

---

**LALA  
TRANSFORMATION**

# OUR HISTORY

We are a proudly Mexican company, with 69 years of experience in making and selling healthy, nutritious foods. As specialists in the production, innovation, marketing and distribution of milk and dairy products, we contribute to all our consumers' wellness by offering them the highest quality.

“ WE HAVE 69 YEARS OF CONTRIBUTING TO THE WELFARE OF OUR CONSUMERS WITH PRODUCTS OF THE HIGHEST QUALITY. ”

1949

Unión de Crédito de Productores de Leche de Torreón is founded.



1950

First pasteurizing plant opens in Torreón.



1967

Milk begins to be sold in cardboard cartons.



2003

The NutriLeche brand joins the Lala portfolio.



1985

Fundación Lala is created



2007

Instituto Lala is founded



2008

Integration of Pasteurizadora Foremost in Guatemala; Lala University is founded.



2011

Lala opens a Research and Development center in Torreón.



2014

Initial Public Offer of shares in the Mexican Stock Exchange.



2017

Integration of Vigor Brazil to Grupo Lala



2016

Integration of three Laguna Dairy plants in the United States



CULTURE\_

We promote open, effective communication.

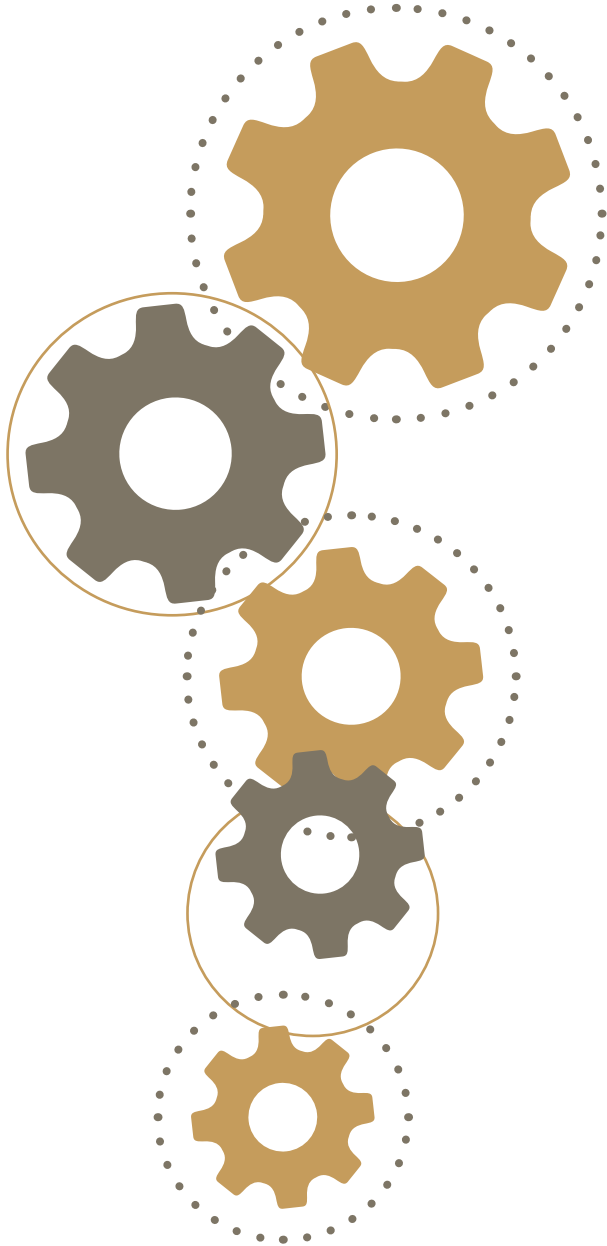
We encourage transparent, direct relations.

We recognize great and small achievements.

Value generation defines our agenda.

We respect our communities, our clients and our consumers.

Diversity and inclusion enrich our decisions.



GRUPO LALA: SNAPSHOT 2018\_

	 Global	 Mexico	 Central America	 United States	 Brazil
 Factories	31	16	4	2	9
 Distribution Centers	172	140	10		22
 Delivery routes	+6,900	+5,000	+212		+1,600
 Employees	+38,000	+31,000	+1,900	+290	+4,000
 New products	51	20	11	2	18

We currently operate a fleet of close to 7,000 vehicles for distributing more than 600 products.





# 02

---

## OUR VALUES

# OUR VALUES\_

GRI: 102-20 | 102-16 | 205-2 | 102-24

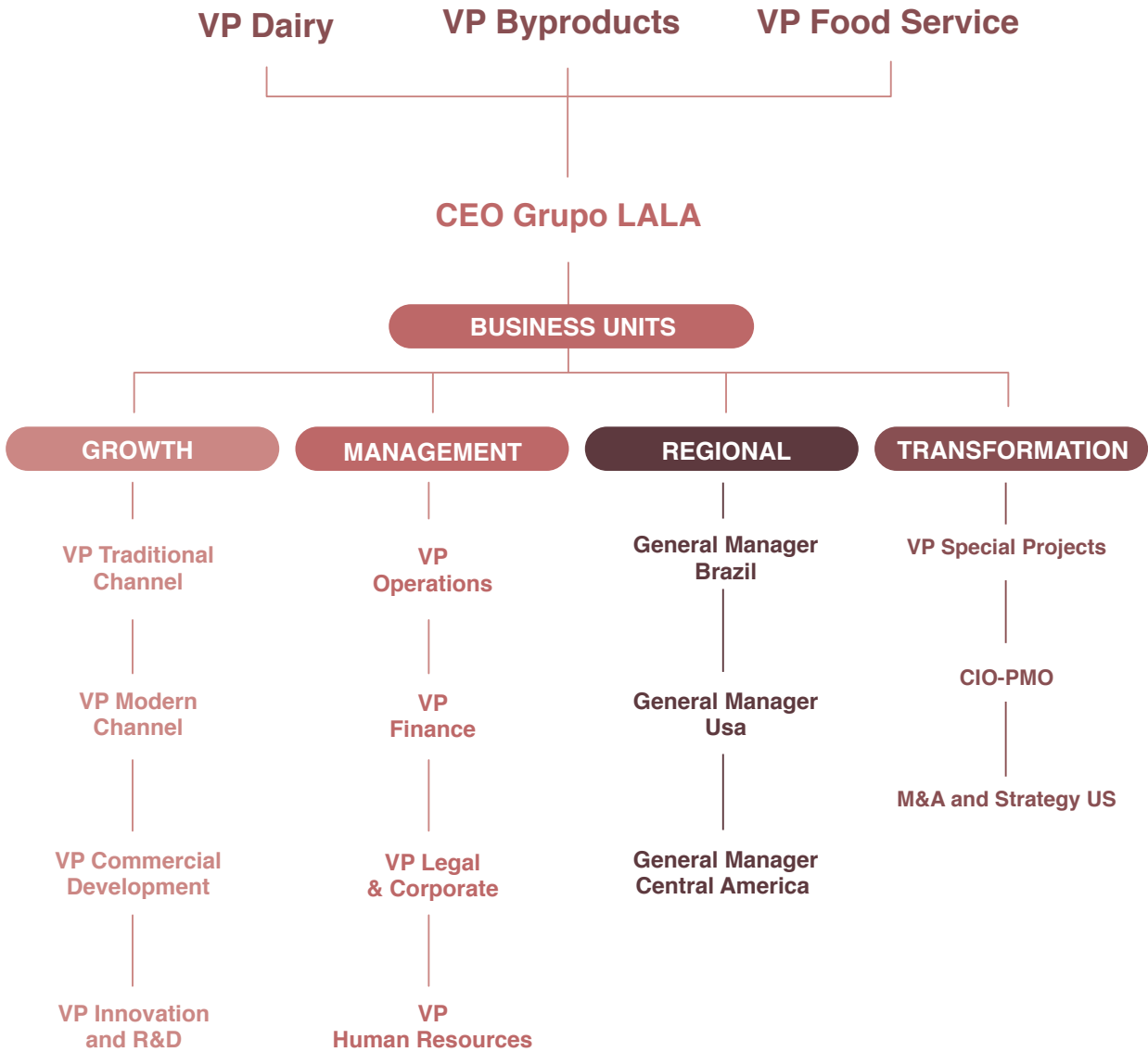


# CORPORATE GOVERNANCE\_

GRI: 102-20 | 102-16 | 205-2 | 102-24

This past year we transformed and restructured ourselves in order to move forward as a Group and meet our goals and targets, earning a reputation for ambitious innovation.

**Our corporate governance is fully aligned with our principles and values.**

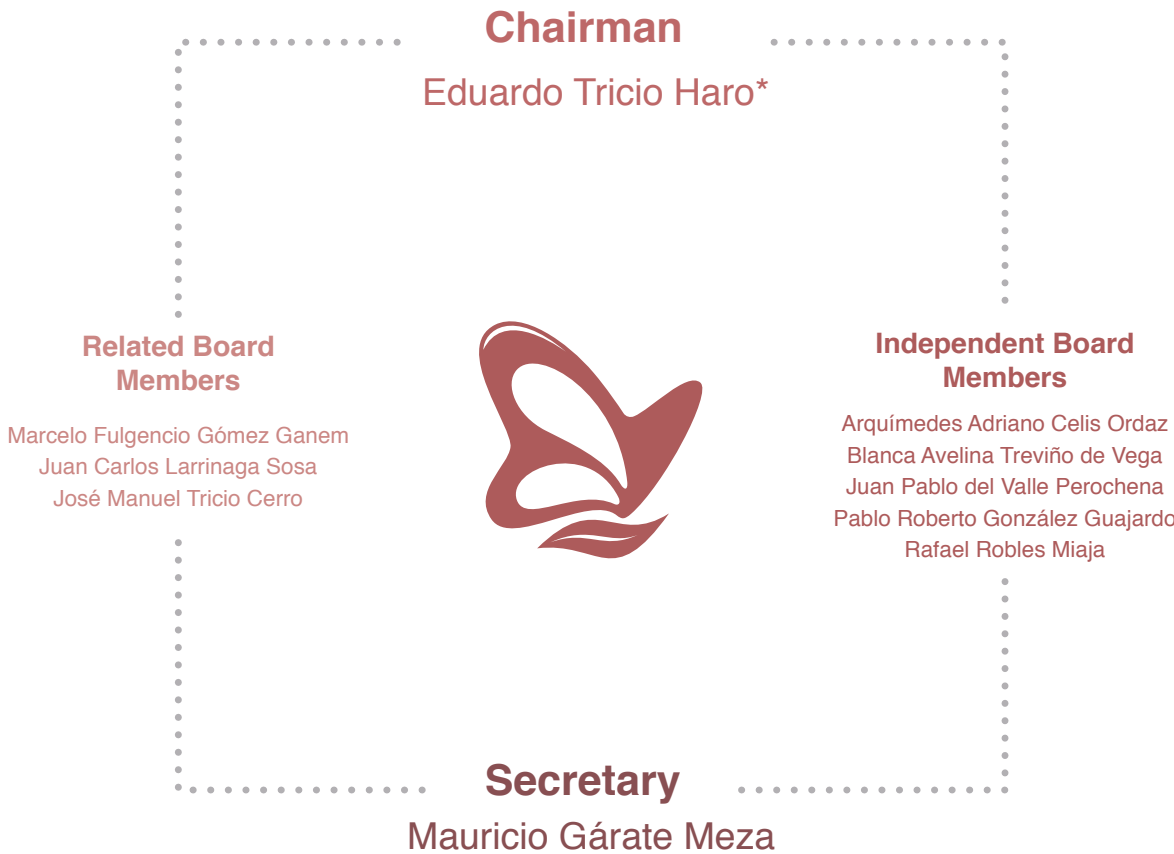




**Board of Directors**

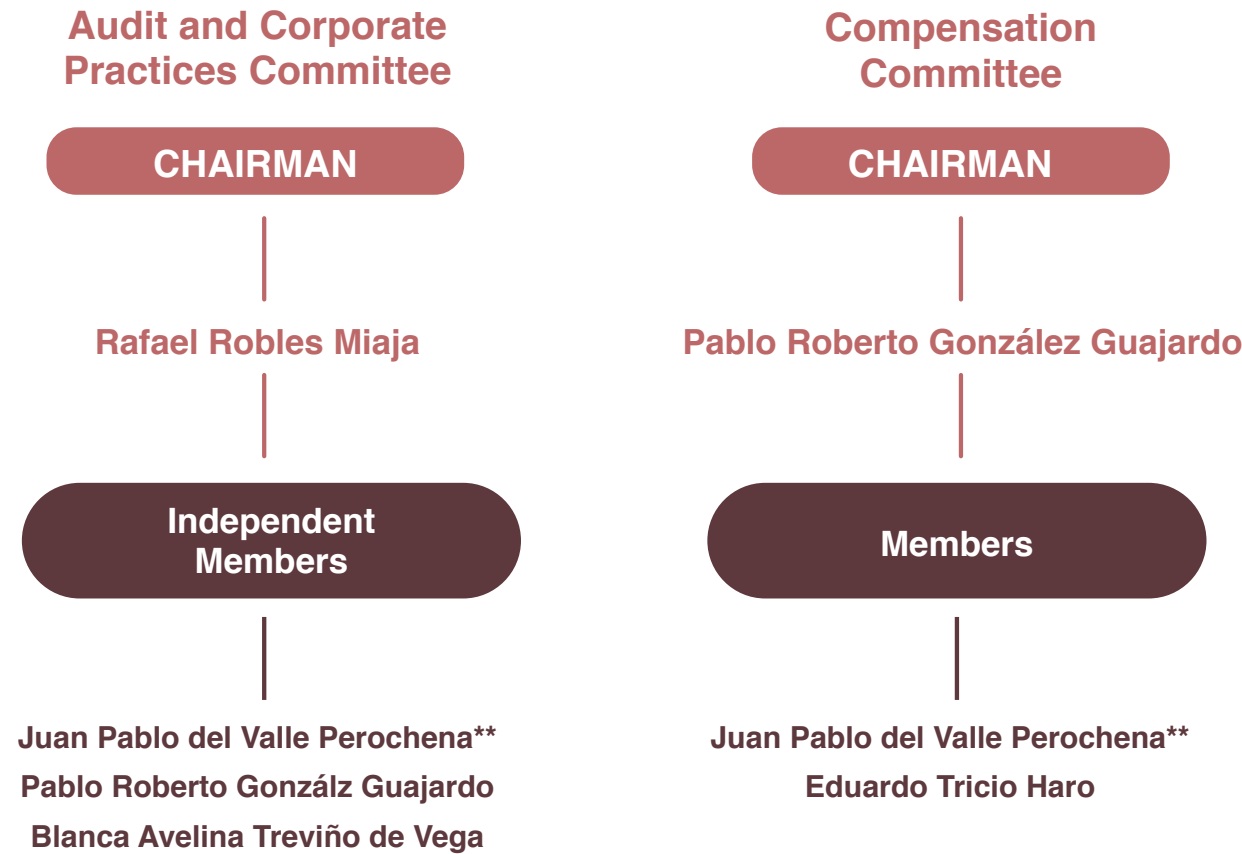
Because we are legally established as a publicly-traded corporation, our Board of Directors must by law consist of a maximum of 21 members, and 25% of these must be independent and chosen by shareholders in the Annual Meeting, on the basis of their experience, capacity and reputation.

Our Board of Directors is tasked with overseeing the management of the business and establishing the broad strategies for application of the Sustainability Model for Grupo Lala and its subsidiaries, all in keeping with the Securities Market Act and our corporate bylaws.



**The Audit and Corporate Practices Committee** is responsible for supervising the external audit of the company, notifying the Board of irregularities in internal control, examining transactions with related parties, supervising the activities of the Chief Executive Officer and finance area, and preparing an annual report of its activities.

**The Compensation Committee** handles the Compensation and Evaluation duties established in the Code of Best Corporate Practices (which Lala has adopted) as well as others assigned to it by the Board of Directors.





## ETHICS AND HUMAN RIGHTS\_

Our ethical commitment is consistent with and inspired by respect for the human rights recognized in the International Declaration of Human Rights as well as the labor principles established by the International Labor Organization.

We have a Code of Conduct available to every one of our employees regardless of the country where they work. Through it we ensure the physical, moral and ethical integrity of all of our stakeholders.

We also have a whistleblower system that is managed by an independent firm, guaranteeing anonymity and proper use of the system.

[www.lineadedenuncia.com/lala](http://www.lineadedenuncia.com/lala)  
[lala@lineadedenuncia.com](mailto:lala@lineadedenuncia.com)  
Phone: 01 800 112 0616

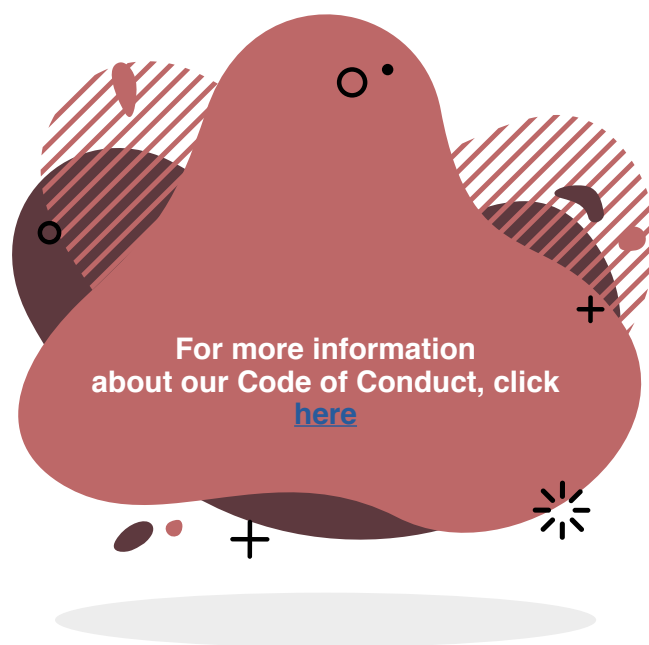


## NORMATIVE\_

We are committed to manage in a timely and efficient manner our change management so that we can execute our relationship plan with the governments of the countries where we are located, thus attending, in a timely manner, the main fronts that are presented for the industry and the company, taking advantage of opportunities and promoting proactive issues that place Grupo Lala in a better competitive position and its relationship with the government.

Our responsibility is to ensure compliance with the applicable regulations in labeling, specifications, commercial and health information of the products we manufacture and market, as well as authorize advertising and communication materials to minimize risks or regulatory breaches.

It is for all the above that we fully comply with the regulations of each country where we are, having no relevant fine or sanction during 2018.



# VALUES THAT GUIDE US



## ASSOCIATIONS\_

To further our actions and strengthen our responsibilities in the industry, we have allied with various associations, chambers and boards in every country where we operate.

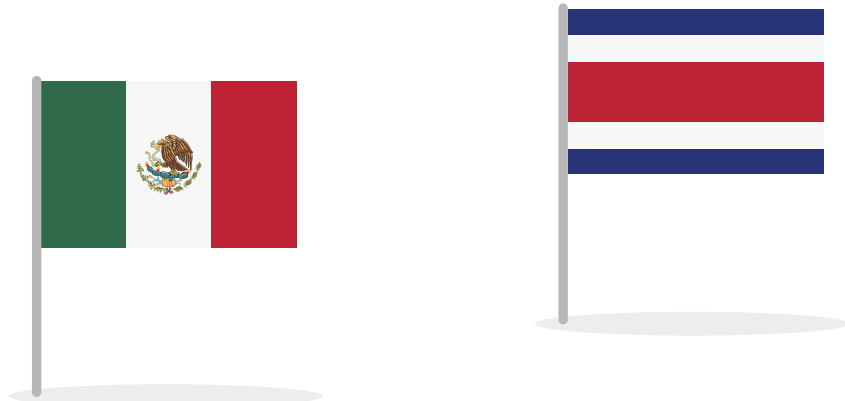
### Industry groups (Chambers and trade associations)

#### Mexico

- Asociación Nacional del Transporte Privado (ANTP)
- Consejo Mexicano de la Industria de Productos de Consumo (Conmexico)
- Consejo Nacional Agropecuario (CNA)
- Asociación Nacional de Establecimientos TIF (ANETIF)
- Consejo Consultivo del Agua (CCA)
- Cámara Nacional de la Industria de la Transformación (CANACINTRA)
- Consejo Mexicano de la Carne (COMECARNE)
- Cámara Nacional de Industriales de la Leche (CANILEC)
- Consejo Mexicano de Comercio Exterior (COMCE)
- Consejo Nacional de Autorregulación y Ética Publicitaria (CONAR).

#### Costa Rica

- Cámara Nacional de Productores de Leche (PROLECHE)
- Cámara de Industria y Comercio Costa Rica-México (CICOMEX)
- Cámara de Comercio Costarricense
- Cámaras de Industria de Costa Rica (CICR)
- Cámara Costarricense de la Industria Alimentaria (CACIA)
- Unión Costarricense de Cámaras y Asociaciones del Empresariado Privado (UCCAEP).



We are a member of the **ECOCE agreement, which we first signed in 2017.**

#### Guatemala

- Cámara de Comercio de Guatemala
- Cámara de Industria de Guatemala
- Cámara de Comercio e Industria Guatemalteco – Mexicana
- Asociación de Exportadores de Guatemala.

#### Nicaragua

- Cámara Nicaragüense de la Industria Láctea (CANISLAC)
- Federación del Transporte de Carga de Nicaragua (FETRACANIC)
- Asociación de Distribuidores de Productos de Consumo de Nicaragua (ADIPRONIC)
- Cámara de Comercio Americana de Nicaragua (AMCHAM)
- Cámara Mexicana Nicaragüense de Comercio (CAMEXNIC)
- Cámara de Industrias de Nicaragua (CADIN)
- Asociación de Productores y Exportadores de Nicaragua (APEN)
- Cámara de Comercio y Servicios de Nicaragua (CCSN).

#### Brazil

- Associação Brasileira das Indústrias da Alimentação (ABIA)
- Associação Brasileira de Laticínios
- Associação Brasileira das Relações Empresa Cliente (ABRAREC).
- Associação Brasileira de Leite Longa Vida (ABLV)





03

**DRIVING  
INNOVATION**





## PRODUCTS THAT NOURISH\_\_

We work to satisfy our consumers, so every day we offer them a wide range of healthy, natural, nutritious products, that meet their varying needs depending on their lifestyles.

Concerned about wellness, at Lala we continue to innovate through products low in saturated fats, trans fats, sodium and added sugars..

Because of the positioning of our brands, in 2018 we were the second most widely recognized company in consumer goods and fourth in Latin America, according to Kantar's Brand Footprint Mexico, while in Brazil, Vigor was recognized in the Greek yogurt and ricotta categories.

50%

of our milks are reduced between 48% and 70% of their total fat amount.

100%

of our drinks went through a process of reducing added sugars and in the case of juices, sugars are from natural fruit.

99%

of our dairy and combined dairy food, have a reduction in saturated fat, trans fat and cholesterol.

**WE ALSO CONTRIBUTED 87.5 MILLION KILOS OF PROTEIN TO MEXICANS' DIET, EQUIVALENT TO 4.4% OF THE DAILY PROTEIN REQUIREMENTS OF THE ENTIRE POPULATION.**



## LALA INSTITUTE\_\_

As a sign of our commitment to the health of Mexican families, through the Lala Institute we promote research into nutrition and wellness. With this, we not only have the guidance we need to improve the nutritional qualities of our product portfolio, encourage proper diet and nutrition and support scientific research and scholarship in the field of dairy products, but we can also bring products to your table that nourish your body and mind.

We participate actively on congresses on dietary health and nutrition, the Nutrition Forum and Lala cooking labs, in order to enhance the nutritional value of dairy products in people's daily lives.

**Instituto LALA**  
NUTRICIÓN • SALUD • INVESTIGACIÓN



**WE DIRECTLY IMPACT MORE THAN 500,000 PEOPLE BY PROMOTING HEALTHY LIFESTYLES AND PREVENTING CHRONIC ILLNESS.**

## ALWAYS TRANSFORMING\_

### Productive infrastructure

We invested 3.6 million pesos in our Drivers' Development Center, addressing the need for more qualified drivers of fifth-wheel vehicles (articulated tractor-trailers) and to help improve technical skills and professional advancement, ultimately improving the safety and service of this type of work.



**IN 2018 WE INTRODUCED A COMPLETE SOLUTION TO THE AIR MANAGEMENT UNITS IN OUR PROCESSING AREA AND A PLANT REFRIGERATION SYSTEM TO REDUCE COSTS, THUS INCREASING THE EFFICIENCY OF OUR TIZAYUCA PLANT.**



**In Central America:** we invested close to 52 million dollars in three projects that will start up in 2019 to ensure operating capacity and build brand presence in the market.

The **new factory in Guatemala**, located in Palín, Escuintla, has a nameplate capacity of 4,500 metric tons of UHT milk and 1,100 metric tons of ice cream a month, representing an investment of 31.6 million dollars.



### In Brazil:

As part of the Group's consolidation strategy in the Brazilian market, we invested 29 million reais in increasing production capacity and guaranteeing production in our São Gonzalo de Sapucaí, São Paulo y Barra de Pirai plants.

- At São Gonzalo de Sapucaí, we increased monthly production capacity by 400% and parmesan cheese aging capacity by 460% with an investment of 7 million reais in the first phase.
- At the São Paulo plant we installed a second fermented milk line, increasing production from 1,200 to 2,400 metric tons a month. We also automated production and replaced two pasteurizing machines in order to guarantee quality and improve productivity in all of the yogurt lines, with a total investment of 16 million reais.
- With an investment of 6 million reais at the Barra de Pirai factory, we adjusted yogurt packing lines and expanded the storage infrastructure to support the planned 171% increase in current production capacity.



With an investment of 14.2 million dollars, the **new Factory in Costa Rica** can produce 2,800 metric tons of UHT milk and 1,200 metric tons of ice cream per month.







# SUSTAINABILITY MODEL

GRI: 102-40

Lala works according to a sustainability model that is concerned about the wellbeing of all of our stakeholders. Following this philosophy, we are committed to publicizing the company’s goals both inside and out of the Group and to operating continuously under an ethical framework.

Our strategy is organized along the following axes:

## Sustainability Model Grupo Lala



- Planet**
- 1. Water
  - 2. Climate change
  - 3. Packaging
  - 4. Food security



- Society**
- 1. Social fabric
  - 2. Weliness
  - 3. Community development



- Consumers**
- 1. Quality
  - 2. Innovation
  - 3. Product portfolio
  - 4. Nutricional information
  - 5. Healthy products



- Corporate governance**
- 1. Transparency
  - 2. Independence
  - 3. Equality



- Company**
- 1. Human Rights
  - 2. Training
  - 3. Recognition
  - 4. Fair trade
  - 5. Profitability and efficiency
  - 6. Safety, health and hygiene

Thanks to our strategic business vision and a process of stakeholder engagement, we identified 10 relevant issues and their respective coverage for ensuring the proper performance of our business:

ISSUES	INCLUDES
Ethics and Corporate Governance	Transparency, integrity and corporate practices
Certified quality	Customer service and satisfaction, transparency, advertising and labeling of products and services.
Brand strength and product innovation	Education, research and information to consumers.
Value chain eco-efficiency	Eco-efficiency in consumption of water and energy, protection of biodiversity, control of greenhouse gas emissions from our processes (methane gas emissions) and product distribution, management and final disposal of waste.
Direct economic value generated and distributed	Economic results and opportunities for organizational activities in a context of sustainability.
Social responsibility	Social investment with impact and dissemination of action.
Diversity and inclusiveness	Inclusion of people with disabilities and gender equity.
Care, attraction and retention of talent	Benefits, development/training of employees, occupational safety and health, and employee wellness.
Supplier development	Compliance by dairy farmers and key suppliers with the company’s social responsibility and ethics principles.
Integration of sustainability into strategy	Interaction with stakeholders.

# STAKEHOLDER ENGAGEMENT










GRI: 102-21 | 102-43 | 102-25 | 102-37 | 102-44

We consider it highly important to identify the groups our operations involve and affect. Whether directly or indirectly, we must always be aware of the various stakeholders with which we maintain frequent relations through various modes of communication.

GROUPS	Expectations	Initiatives	Communication Channels	Frequency of contact
CLIENTS	Maintain supply Competitive prices Top quality Freshness	Expand logistical networks Productive operations Efficient use of resources	In person Phone calls E-mail Videoconferencing	Daily
SHAREHOLDERS	Profitability Growth	Transparency Principle Accountability reports: quarterly, annual	Conference calls In person Regular meetings	Daily Monthly Quarterly Annually
SUPPLIERS	Long-term relationship Fair treatment	Supplier Development and Approval Program Evaluation Development and engagement	In person Congresses Phone calls E-mails Web page	Daily
EMPLOYEES	Shared vision Sense of belonging Lala culture Learning and change Recognition Growth opportunities	Compensation committee Lala University Scholarship program Safety committees Training Workplace inclusion Leadership model Performance evaluation	In person Internal print and digital media (Así Somos magazine, Sales and Operation Bulletin Boards, Lala Comunica, Newsletters, Annual Report) Workplace environment survey Lala Forum Official union communiqués	Daily Monthly Bi-monthly Quarterly Annually
CONSUMERS	Satisfaction with the purchase and consumption of our products Competitive prices Great brand experience Top quality Freshness	Wide product range Product innovation Healthy, nutritious choices that meet their needs	In person Phone calls E-mail Mass media Website Social networks	Daily
COMMUNITY	Contribute to the common good in communities where we operate	Lala Foundation Social investment Reforestation programs Lala International Marathon	Meetings with social leaders and groups E-mail Mass media Website Social networks	Daily
AUTHORITIES	Compliance with the law Alliances for common causes	Programs, projects and management systems for compliance Participation in government programs and activities Constant dialogue	In person Phone calls Postal and e-mail Requests for reports Participation in industry association	Daily Monthly Quarterly Annually

At Grupo Lala, we contribute to technological innovation through tools that help us address our clients' and consumers' needs. In October of this year, we evolved our Customer Service department by incorporating an omni-channel platform in which interactions by phone, chat, e-mail, social networks and any other channel are handled in a single place. Furthermore, starting in December we offer our service through WhatsApp for Business, which gives us a more direct relationship with our clients by enabling them to communicate with us in real time via instant messaging.

Through our Service and Nutrition Center, we received 126,839 requests in 2018, 99.8% of which were for our Mexican operations and the remaining 0.02% for operations in Central America--Guatemala, Nicaragua, Honduras, Costa Rica and Panama. These came in through the following media:

Contact media	# Requests
 Phone	112,327
 Voicemail	2,690
 E-mail	6,899
 Social media	1,907
 Web	1,508
 Chat	1,115
 Web Widget	296
 Hotline	18
 WhatsApp	79

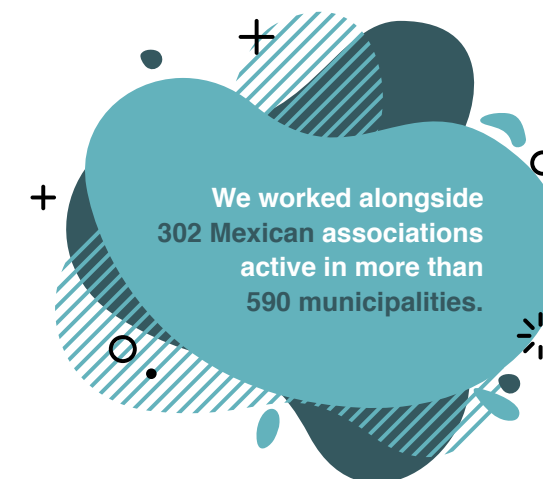
# WE CONTRIBUTE DIRECTLY AND INDIRECTLY TO 11 SUSTAINABLE DEVELOPMENT GOALS

## OUR COMMITMENT TO THE SDG

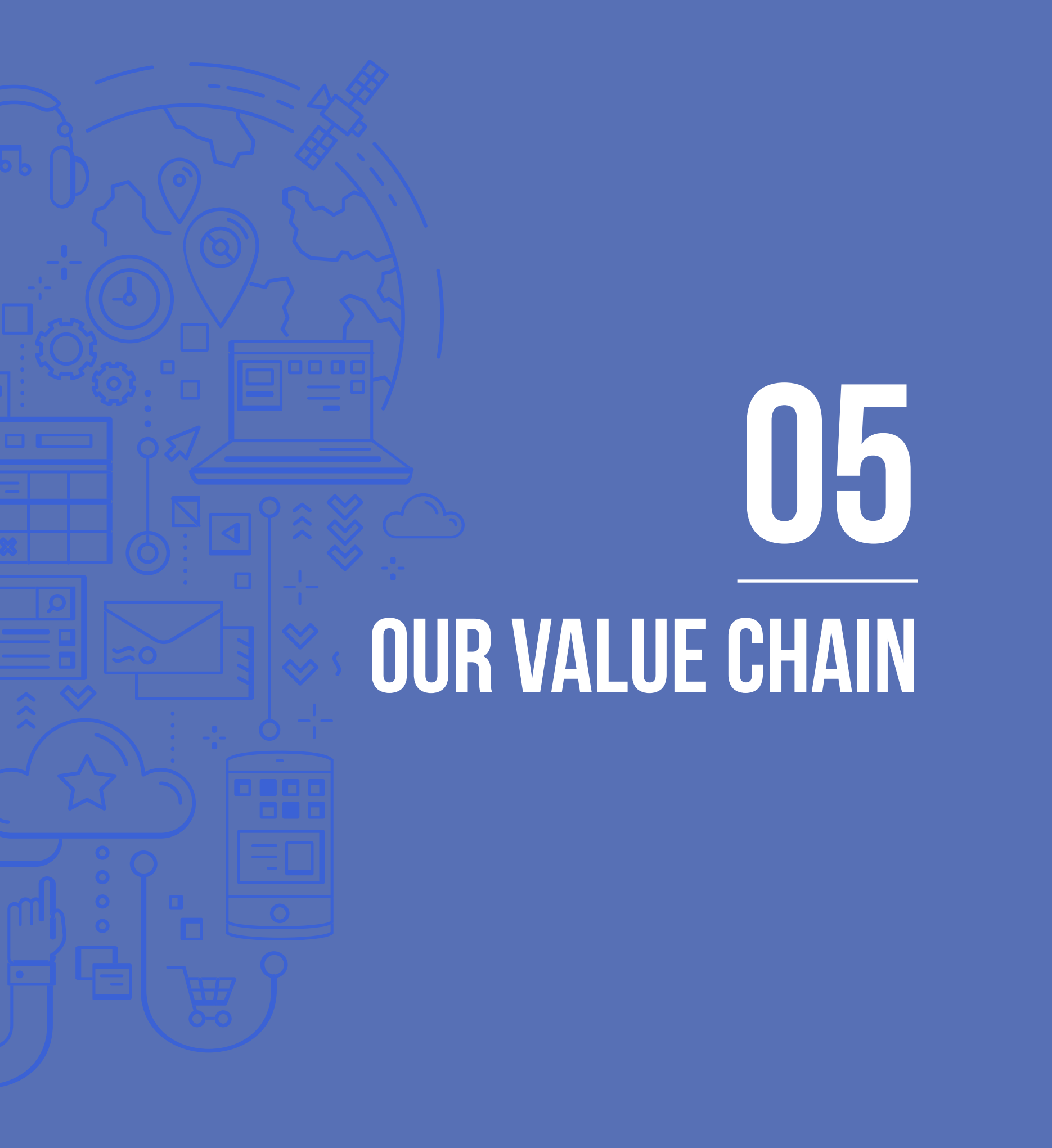
As a Group, we are committed to the U.N. Sustainable Development Goals, and everything we do is done with a sense of shared responsibility and purpose toward meeting these goals.

Through Fundación Lala, we help to improve nutrition for people living in conditions of deprivation, exclusion or poverty, particularly young children, addressing SDG goals 1., ending poverty, 2., zero hunger, and 4., inclusive education.

Within the various areas of operations, we contribute to 11 of the SDG:







05

OUR VALUE CHAIN



## ABOUT THE PROCESS

At Lala, we work to produce the highest-quality products possible. For this reason, we work with others who share our vision of sustainability and our goals. Our entire value chain has earned Global Food Safety Initiative (GFSI) certification, and we also incorporate these goals into our supplier development program.



### IN 2018 ALONE:



We involved **94 small and mid-sized** enterprises in various consulting sessions and courses given by companies belonging to the **Mexican Center for Competitiveness**.



**We checked all our packaging and ingredients** before accepting and receiving them at the processing plants.

**172**

We acquired and upgraded

**vehicles**

to improve our logistical efficiency.



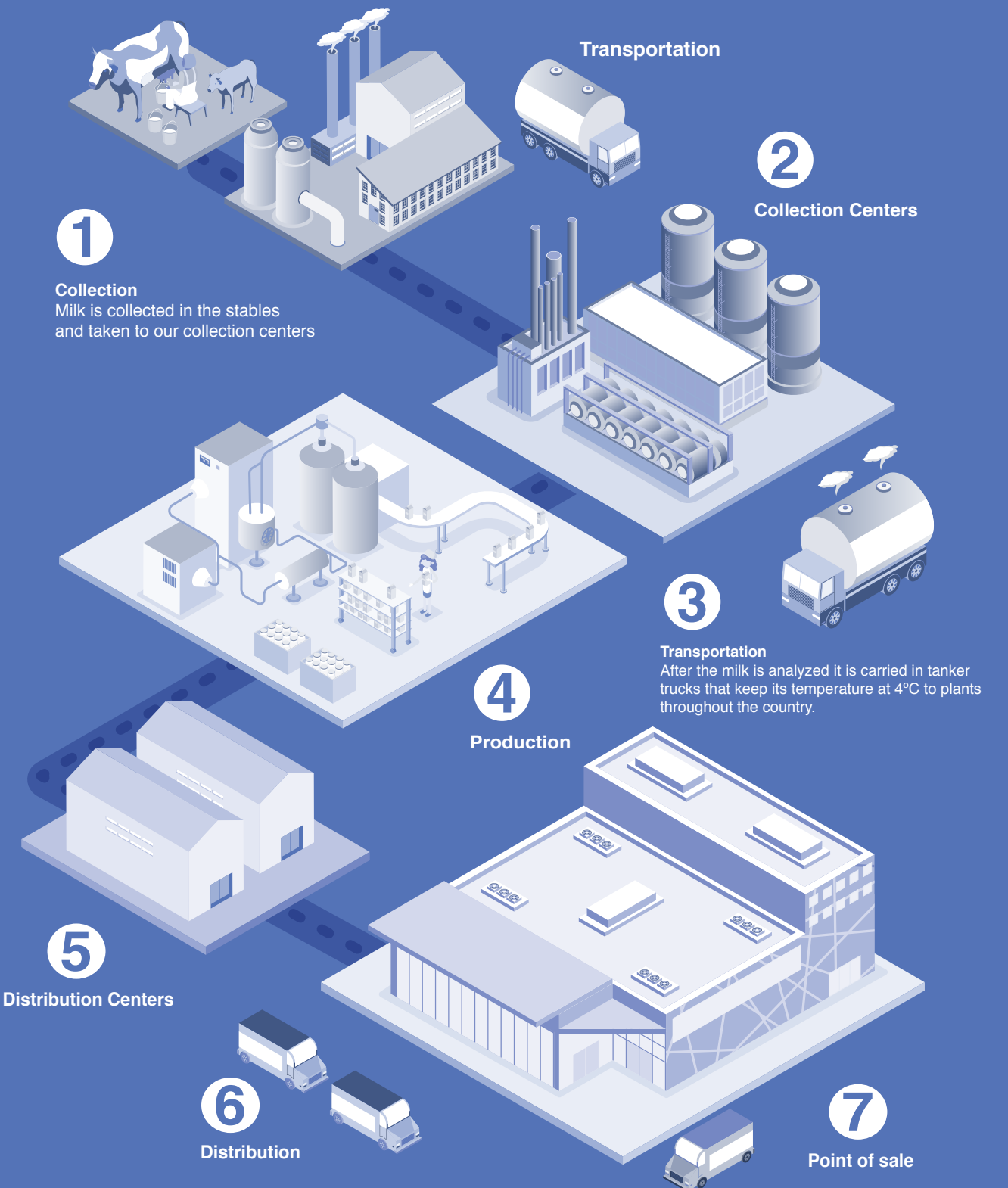
We acquired a total of  
**10,543**  
**point-of-sale**  
coolers for the  
retail channel.



We have  
**17 factories**  
with GFSI food  
safety certification.



For 2019 we plan to obtain  
GFSI certification on  
**2 plants**  
in Brazil.



We also have facilities where we make the highest quality plastic containers and Pure-pak cardboard cartons.





## QUALITY

GRI: 416-1 | 416-2 | 417-1 | 417-2



We are committed to offering the best at all times. From the moment we receive the milk from dairy farmers until the time it reaches your table, we guarantee the quality of our products through compliance with the highest national and international standards.



### Standards

### Certifications



Mexico

BPM Certification from SENASICA

SQF Level 3 certification



United States

Factory inspections in accordance with Department of Agriculture

SQF Level 3 Certification



Central America

PPC/HACCP certification from IPSA Nicaragua Export  
Certification from SENASA Costa Rica

SQF Level 3 certification  
FSSC 22000



Brazil

SIF Certification from the Ministry of Agriculture

Additionally, all of our products and raw materials are evaluated using the Hazard analysis and critical control point (HACCP) methodology to guarantee food safety throughout our processes.

## SOME OF OUR ACHIEVEMENTS IN 2018:

We reversed the trend in non-quality complaints and costs in the first half of the year and achieved a significant improvement by the close of 2018.



We achieve recertification of Quality Systems in SQF Level 3

All of our products met the required labeling and regulatory requirements.

We maintained Kosher certification at our **Aguascalientes factory.**



We launched “Lala Orgánica”, the only pasteurized milk from a certified organic stable under the supervision of the National Agro-Food Safety, Health and Quality Service (SENASICA).



There were **NO** cases of non-compliance with our consumers.

We increased the percentage of safety quality systems certified under GFSI from **58% in 2017 to 87% in 2018**

We achieved an index of less than one complaint for every

**6 million**

pieces made.



At Lala, we are continuously improving our processes, and according to this philosophy, **in 2019 we intend to further reduce the number of consumer complaints.**





## OUR SUPPLIERS\_

Our suppliers are of our most important stakeholder groups. We remain in constant contact with them through meetings and conferences held regularly throughout the year.

We have a Supplier Development and Approval Program by which small and mid-sized businesses can get in touch with and develop themselves together with major companies through the Mexican Center for Competitiveness.

In 2017, 96 small and mid-sized businesses in our supply chain participated in consulting sessions and specialization courses given by the Mexican Center for Competitiveness, where major corporations share best practices.

Ninety-six percent of our suppliers are Mexican, and all of them receive an annual evaluation focusing on the following aspects:

### SUPPLIER EVALUATION

We carry out an annual assessment on the basis of environmental criteria such as:

- **Automotive:** proper disposal of hazardous materials, regulations on fuel tank placement.
- **Industrial:** review of documentation depending on the suppliers' area of business, and compliance with Mexican laws and official standards.

We also urge them to comply with various ethical principles such as anti-corruption, gifts, fraud, money-laundering, conflicts of interest, and others; all of which is regulated through our Code of Conduct, which is signed by our suppliers and employees.



At the same time, we make sure our milk is of the highest quality and peak freshness, so we ask our suppliers to commit to avoiding the use of the bovine growth hormone. Instead, we encourage a stress-free environment for dairy cows, accompanied by balanced feeding.

In Nicaragua, Grupo Lala and The Nature Conservancy signed an alliance to promote more productive, climate change-resistant free-range grazing systems. Under this alliance, farmers can produce higher-quality milk using more environmentally-friendly practices.

With the participation of at least 700 dairy farmers from northern Nicaragua we were able to train and improve the quality of milk in this region.







**06**

---

**CARING FOR  
THE PLANET**





Grupo Lala is aware of the importance of the environment and caring for the planet, which is why year after year we make process improvements, abide by national and international standards and regulations, and guarantee proper management of resources.

We also improve energy efficiency in all our facilities and operations, use water wisely and correctly manage our wastes and discharges.



**WE BELIEVE IN A BETTER WORLD, IN WHICH ALL PEOPLE CAN HELP TO CARE FOR OUR PLANET, LIVING TOGETHER AND PRESERVING THE ENVIRONMENT AROUND US FOR A BETTER FUTURE.**

# WATER

GRI: 303-1 | 303-2 | 303-3 | 306-1 | 306-5

At Lala, we know that water stewardship implies not only efficient management of this vital resource, but also supporting actions to conserve it. This is why we have had various initiatives in place for more than eight years in support of projects relating to the environment, biodiversity, and water resources.

We also support the protection of natural protected areas, the preservation and rescue of endangered native species, the remediation of watershed regions, reforestation and care, and preventing wildfires.

We support three medium- and long-term initiatives:

- Conservation of the Mexican spruce forest to maintain its water retention capacity and protect infiltration to local aquifers.
- Preservation of the Cuatro Ciénegas Ecological Preserve
- Remediation of the Rio Nazas river basin in the Comarca Lagunera region.

**WE REDUCED OUR WATER CONSUMPTION BY 10%, FROM 1.4 LITERS PER KILO OF PRODUCT PRODUCED IN 2016, TO 1.25 IN 2018.**



**Thanks to our efforts to more efficiently manage water, in 2018 we achieved the following:**

## Reused and recycled



**of the water from our operations**

Some of this was reused in other internal processes like boiler operations, condensers and truck washing; or was donated to external organizations for watering gardens and parks.



## ENERGY

GRI: 302-1 | 302-3 | 302-4



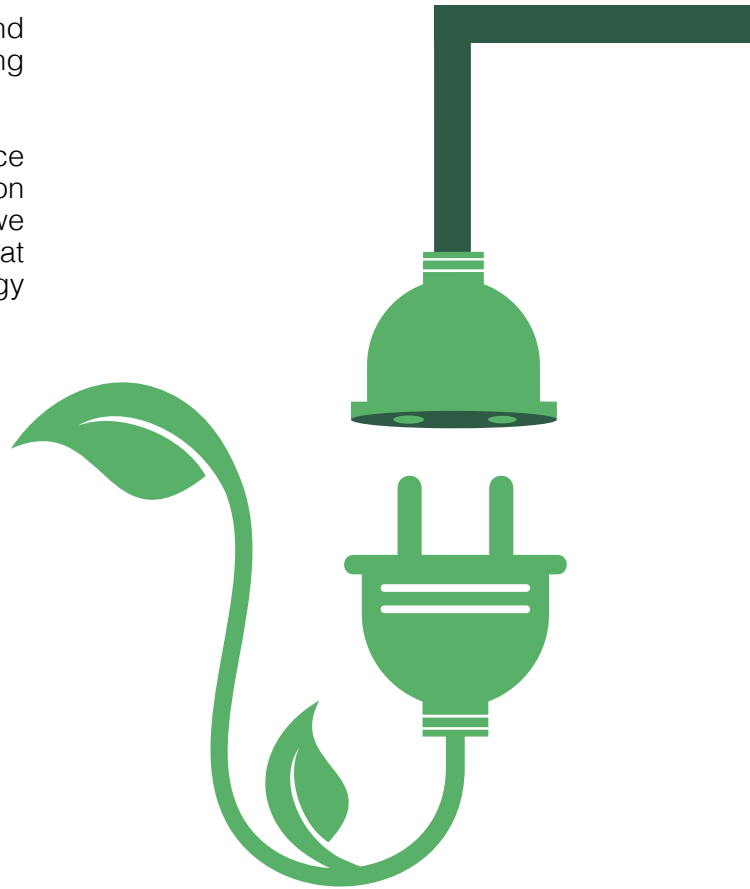
In 2018, **we acquired Danish refrigeration technology for our luncheon meats plant in Tizayuca**. The result has been an improvement in the cost of converting electrical energy in refrigeration systems, and lower operating and maintenance costs as well..

Grupo Lala is committed to going above and beyond in mitigating climate change, taking concrete action for our planet.

Our view of planet action has let us to introduce cleaner energies in our plants' production systems and in our distribution centers; we have also installed LED lighting and meters that allow us to quantify and evaluate our energy performance.

Thanks to the use of renewable energy sources, **we were able to eliminate 29,065,249 KWh of energy consumption from non-renewable sources**

\*Kilowatt hours



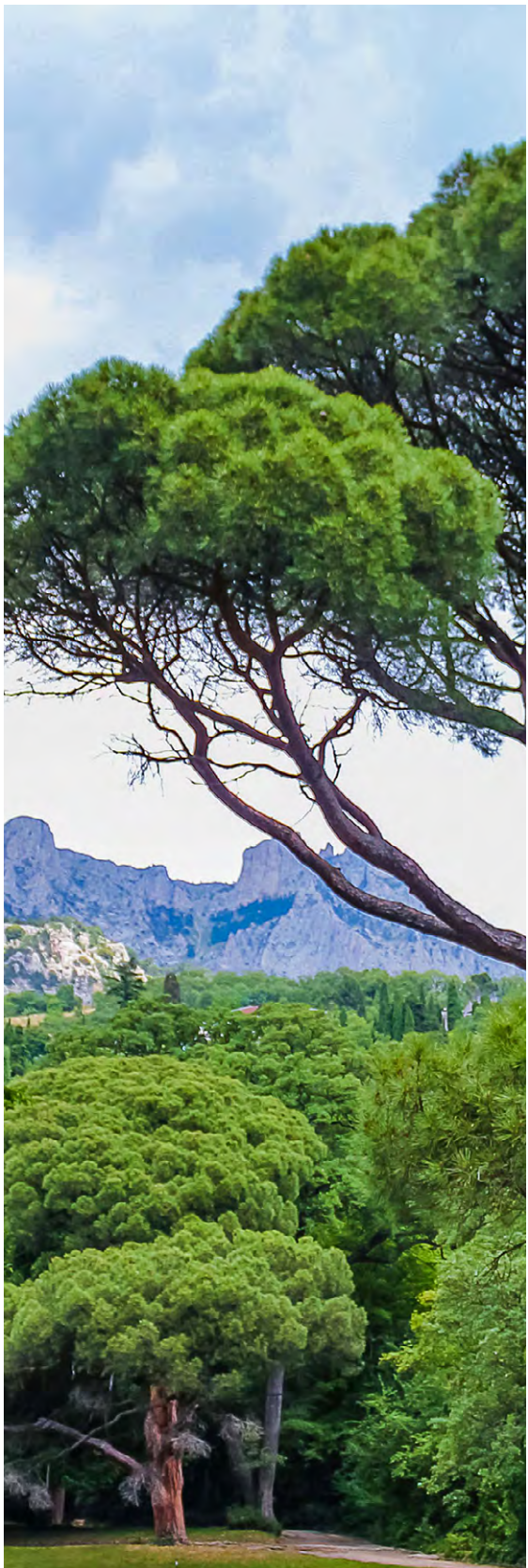
**OUR MANUFACTURING PROCESSES ARE DESIGNED TO REDUCE ELECTRICAL ENERGY CONSUMPTION, AND LAST YEAR WE CONSUMED A TOTAL OF 532,765 JULES/KG, SAVING MORE THAN 2,088,400.33 KWH.**



Lala knows that the transition to **renewable energy is a medium- and long-term process**, so we remain committed to reporting to stakeholders on our consumption of energy from non-renewable sources.

### Total consumption of energy from non-renewable sources

Source	MJ
Natural gas	505,250,065,704.6
LP Gas	4,027,186,246.06
Diesel	27,292,970







EMISSIONS\_

GRI: 305-1 | 305-2 | 305-3 | 305-7

We carry out maintenance and upgrade programs for our various transportation fleets in order to improve our fuel efficiency and minimize environmental impact. Our actions in 2018 included:

Primary fleet:

We revamped 45 tractor-trucks with high-efficiency engines

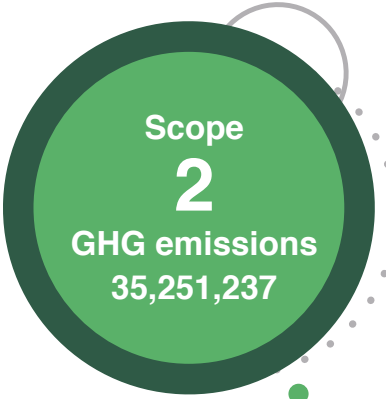
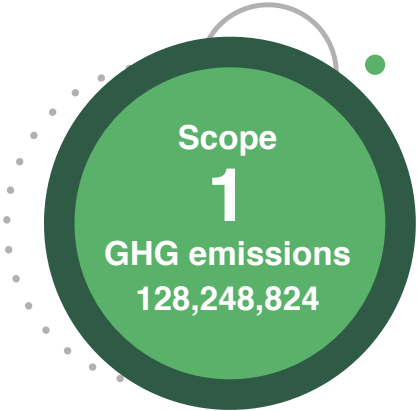


Secondary fleet:

We revamped 127 distribution vehicles.



In line with this general commitment, Lala reports on its Greenhouse Gas (GHG) emissions by scope, as follows:



(gC02 eq)

WASTE\_

GRI: 306-2 | 305-2 | 305-7 | 306-2 | 306-4

To cut down on the amount of waste we generate, Lala has a number of strategies to reduce, reuse and recycle throughout the organization. These strategies involve:

Evaluation of the type of waste

Its impact on the environment

The techniques we have for treating it currently

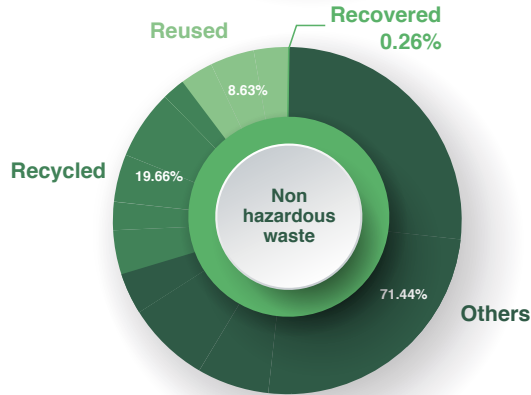
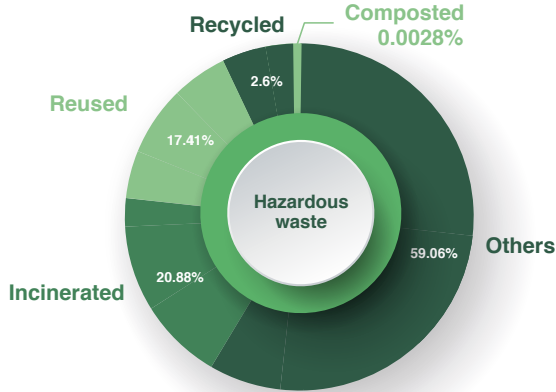
Reusing or recycling it

Complete traceability in collection, transport and final disposal, to guarantee correct management of our waste

WE OBTAINED CLEAN  
INDUSTRY CERTIFICATION  
FOR THE SETYLSA, LALA'S  
TRANSPORTATION DIVISION.



As a result of our waste management strategy, we achieved the following results in 2018:



In 2017 we joined forces with ECEO, a nonprofit environmental association created and sponsored by the consumer products industry, which focuses primarily on recovering waste containers and product packaging for recycling. Thanks to this alliance, in 2018 1,266.2 metric tons of PET plastic were recycled, along with 5,585.4 metric tons of HDPE; equivalent to 60% of the containers placed by Lala on the market.








07

# STRENGTHENING TALENT





OUR TALENT



			
	Men	Women	Total
 Mexico	25,545	5,992	31,537
 United States	224	69	293
 Central America	1,607	365	1,972
 Brazil	3,029	1,297	4,326
TOTAL	30,405	7,723	38,128

AT LALA, WE ARE FIRMLY CONVINCED THAT OUR PEOPLE  
ARE THE REASON FOR OUR SUCCESS, AND WE THEREFORE  
SUPPORT THEIR COMPREHENSIVE DEVELOPMENT  
AND PROMOTE MERITOCRACY.



BY AREA

		
	Men	Woman
Directors/Managers	479	107
Area heads/Supervisors	3,207	895
Administration	2,923	1,502
Operations	11,083	4,248
Sales	12,713	971
Total	30,405	7,723

BY AGE RANGE

		
	Men	Woman
Less than 30	10,750	2,350
Between 30 and 34	5,976	1,560
Between 35 and 44	9,076	2,631
Between 45 and 54	3,855	1,007
Over 55	748	175
Total	30,405	7,723

BY TYPE OF CONTRACT

		
	Men	Woman
Temporary	401	91
Permanent	30,004	7632
Total	30,405	7,723

54% OF OUR  
EMPLOYEES ARE  
UNDER 35

73.89%  
are unionized

26.11%  
are not union members



## TRAINING AND DEVELOPMENT

GRI: 404-1 | 404-2 | 405-1

At Lala, we understand employee training as an essential part of our sustainability model, which is why we work ceaselessly for their advancement, focusing on their talents and the needs of each area. This includes Occupational Safety and Health training as part of our new culture-building program, and the creation, development and execution of programs to strengthen the sales area, like Sales Connection, Sales Academy, quality of life improvement programs in distribution centers, and strengthening of the leadership team of regional distribution centers.

Another essential part of our employees' development takes place through Lala University, where we promote the growth of each individual through learning and developing new skills.



	Hours	Average hours of training per employee
Mexico	550,808	17
United States	6,706	23
Central America	36,549	19
Brazil	19,085	4
TOTAL	613,148	16

### Promoting Youth

Lala has an internship program to incorporate young talent from around the country, through which young people can acquire professional training in key projects in our factories, sales areas and corporate offices, with the support of a mentor and financial aid.

- In October 2018 we welcomed the third class of **43 interns**.
- Of the **38 interns** that came in with the second class, 75% remained with the company for the entire program and 65% were later hired for full-time work with the company.

### Lala Inclusion Program

Committed to workplace diversity and inclusion, Lala applies an Equality Model for developing inclusion and gender equity initiatives.

**WE INCREASED THE NUMBER OF PEOPLE WITH DISABILITIES IN OUR WORKFORCE BY 17% LAST YEA**

### WORKPLACE INCLUSION

	2017	2018
Visual disability	23	31
Auditory disability	59	74
Motor disability	48	58
Intellectual disability	39	5
Psycho-social disability	6	36
Rehabilitated disability	5	7
Total	180	211

**IN 2018, WE OBTAINED THE FOLLOWING RECOGNITIONS FOR WORKPLACE INCLUSION:**

**Incluye Awards**

**Movimiento  
Congruencia**

**La Laguna Labor  
Connection Network for  
People with Disabilities**

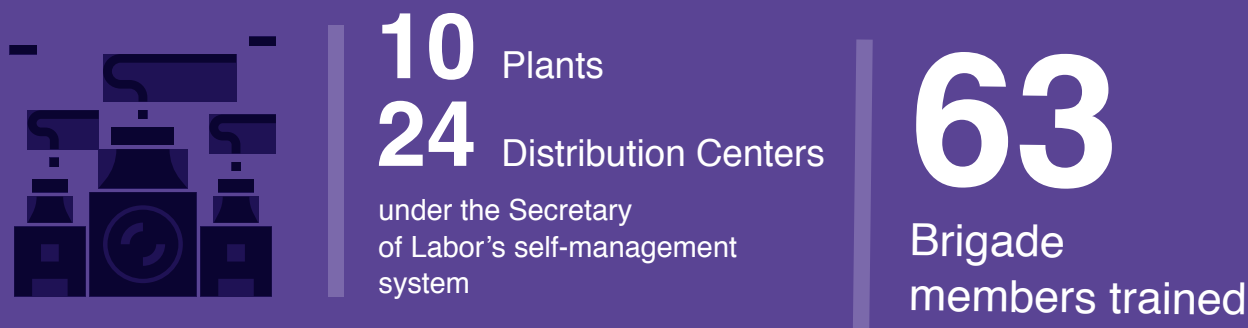


# OCCUPATIONAL HEALTH AND SAFETY\_

GRI: 403-2 | 403-4

For Lala, the safety of our people is fundamental. We take a number of actions to make sure they always have the equipment, the training, and the conditions to do their jobs safely and efficiently.

Throughout 2018 we continued our “Zero Risks Plan” changing our security strategy approach from a reactive to a preventive one. We are therefore very proud to present the following information on our progress in the area of Occupational Health and Safety:



On the basis of these achievements, we plan to **reduce our accident rate by 10% from 2018 to 2019, and Days Lost by 15%.**



08

ADVANCING  
TOGETHER



## RESPONSIBLE CONTRIBUTION TO THE COMMUNITY

GRI: 412-3 | 413-1 | 412-2



Lala's commitment to society and the environment is embodied in the many programs funded by Fundación Lala. Among its 2018 achievements were:



Invested Ps.

# 141.3 milion

in 4 key areas--diet and nutrition, education, health and the environment

Contributed to better diet and nutrition for a little over  
**500,000 people**  
including **36,025 boys and girls**  
and **1,411 elderly adults**  
every day.



This information is compiled from a network of allies that monitor "food needs" in the communities where we operate, complemented by data from INEGI and CONEVAL.

The program is currently present in 498 municipalities throughout Mexico, where more than

# 8,630,519 kilos

of Lala products are donated each year.



Ongoing alliance with

# 351

**associations and institutions**  
to pinpoint and optimize social investment

In Guatemala, which ranks first in Latin America in terms of chronic malnutrition according to the World Health Organization, Grupo Lala Guatemala has joined the ¡Un milagro por Guate! (a miracle for Guatemala) movement, which will benefit more than 400 children with a fortified dairy drink called Nutri Lety, in order to improve nutrition and support health growth and scholastic performance.

In 2018, we helped:

**144** shelters  
**58** student lunchrooms  
**8** indigenous shelters  
**18** old-age homes and  
**1** migrant shelter.



We formed an alliance with  
**42** food banks  
**9** emergency aid center  
**6** centers that support needy communities.

We invested  
**24.9 milion pesos**

pesos, directly and indirectly benefiting  
**862,770 people**  
through education, health, biodiversity and environmental programs, including:



# 14 projects

to improve education, with an investment of **Ps.14 million**



# 14 projects

to improve health, with an investment of almost **Ps. 8 million.**

## 6 key biodiversity conservation projects

with an investment of

# Ps. 7 million

rescue of endangered species, re-use of goods, restoration of watershed regions, reforestation, fire prevention and control, protection of natural areas, and our Cuatrociénagas project to remediate the area by 2040.

Grupo Lala Costa Rica joined forces with Fundación Acción Joven and the MAS Program to support academic development for youth of that country, supporting four activities that improve academic yield and attendance. The program's main goal is to prevent exclusion among Costa Rican students.

This program has reached

# 540 students in 6 schools.



# VOLUNTEER WORK

## Central America

### Guatemala

- We donated **40,000 liters of milk** to communities affected by the eruption of Volcán de Fuego in Guatemala.
- More than **30 Lala volunteers** pitched in to help.
- We formed an **alliance with Kellogg's and United Way** to complement our donation and get it to the people who needed it the most.



### Brazil

The Vigor School Project has been working for more than 35 years to support children between 6 and 12 years old, teaching them in a playful way about how our products are made, as well as the importance of proper diet, nutrition and environmental care.

- Twenty thousand students participated in the program in 2018.



### Mexico

Our corporate volunteer efforts in 2018 included:

- The participation of **5,000 volunteers**
- **21,000 hours** of activity
- **116 events**

One of the biggest events of the year was Lala Volunteer Day, this time with the record involvement of more than 3,500 volunteers from 63 Lala offices and plants, who helped paint public schools and charitable offices in various states of Mexico.

These activities were carried out under an alliance with Home Depot®, which donated more than 6,000 buckets of paints as well as its own volunteers.



### United States

- Volunteers from Lala USA supported the North Texas food bank in sorting and packing activities. This food bank is a widely respected NGO that benefits children, elderly adults and families with more than 190,000 meals a day in the Plano, Texas region.



Foundation Path:

128

Distribution centers/plants:



1,009

Number of volunteers:



47,672

Number of hours donated:



Inspired by the overwhelming response of all our volunteers in 2018, and to underscore our commitment, Fundación Lala pledges to maintain social investment of between Ps. 130 million and 150 million, increase its contribution to food programs particularly in south-southeast Mexico, and to bolster actions to bring us closer to Lalas people, particularly in retail areas.

Lala International Marathon

In 2018, the Lala International Marathon was held for the 30th time in the Comarca Lagunera region, now with “Inclusive Event Distinction” certification from the Alianza Éntrale, which recognizes sporting and recreational events that ensure equal access to people of all circumstances and abilities. At the same time, Ps. 240,000 pesos was donated by runners in the Lala International marathon and Fundación Lala, to build homes through Operación Bendición México in the community of Unión Hidalgo, municipality of Juchitán, Oaxaca.

5,650

participants

33%

of participants were women



Additionally:

- We obtained awards and recognitions on issues of care and preservation of the environment and biodiversity, such as the Recognition of Reforestemos México A.C.
- On social issues, we obtained various awards, among which the Recognition of Hospitals of the Tarahumara, the Recognition of Fundación Nutrición y Vida, the Recognition of Amigos de Arteaga y Santiago A.C., and the Recognition of Centro de Apoyo al Pobre más Pobre A.C.
- In coordination with the City of Umán and through its Directorate of Rural Development, the Clean Our Community Program was carried out in the Itzincab neighborhood.





---

# ANNEXES

## ABOUT THIS REPORT

This 2018 Sustainability Report has been prepared in accordance with the GRI Guidelines, Core option. This is our 5th year reporting our performance as a socially responsible, environmentally-concerned company.

This year for the first time we also report on our commitment to the U.N. Sustainable Development Goals, in addition to compliance with GRI Standard indicators, because as we grow as a company, our challenges and responsibilities also grow.

We underwent some major changes this past year as we welcomed our new CEO and Executive Chairman, Mauricio Leyva, and we strengthened our consolidation as a Group with our affiliates in the U.S., Central America, Brazil and Mexico. We rose to the challenges of the past year, thanks to the innovation we are known for.

**We hope the information shared in this report is interesting and useful for each of our stakeholders.**

**Some data may change, cause they are under verification process by KPMG.**

### Investor Relations

**David González Pelaez / Elisa Manzato**

+52 (55) 9177 5900

[investor.relations@grupolala.com](mailto:investor.relations@grupolala.com)

### Social Responsibility

**Rafael Garza Jáuregui**

+52 (871) 7293100

[rafael.garza@grupolala.com](mailto:rafael.garza@grupolala.com)





### **Contact and information to shareholders**

Oficinas Corporativas Grupo Lala, S.A.B. de C.V.  
Calzada Carlos Herrera Araluce 185, Parque Industrial Carlos A. Herrera  
Araluce. Gómez Palacio, Durango. C.P. 35079. México.

---

#### **Relationship with shareholders** **David González Pelaez / Elisa Manzato**

+52 (55) 9177 5900  
investor.relations@grupolala.com

**Social Responsibility**  
**Rafael Garza Jáuregui**  
+52 (871) 7293100  
rafael.garza@grupolala.com

#### **Independent auditors**

**Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte)**  
Boulevard Independencia 1819-B Ote. Colonia San Isidro.  
Torreón, Coahuila. C.P. 27100

**Lala Administración y Control, S.A. de C.V.**  
Calzada Carlos Herrera Araluce 185,  
Parque Industrial Carlos A. Herrera Araluce.  
Gómez Palacio, Durango. C.P. 35079. México.

**[www.lala.com.mx](http://www.lala.com.mx)**