

ANNUAL REPORT LALA 2017 / EXECUTIVE SUMMARY



UNITED STATES



MEXICO



CENTRAL AMERICA

VIGOR

**WE MOVE  
TOWARDS  
OUR VISION**



BRAZIL



**We move towards  
our vision**



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# Letter to our Shareholders

2017 was an exceptional year in which we made significant progress on the path to achieving our vision.

In the fourth quarter of the year, we announced the purchase of Vigor Alimentos, S.A. in Brazil, and with it took a transcendental step forward to becoming North and South America's favorite dairy company.

Vigor is a Brazilian firm, founded in 1917, that leads that country's dairy market with a focus on healthy, value-added products and growth through innovation. The company has nine plants located in central and southeastern Brazil where leading national brands are produced, like Vigor, Danubio and Faixa Azul, in addition to the Amélia brand for the institutional segment.

For Grupo Lala, bringing Vigor Alimentos into our family in the Americas is a unique opportunity to venture into the Brazilian market, which is not only Latin America's largest economy but it also the region's largest dairy market.

We are very pleased that Vigor is ours to build a profitable dairy business with high added value.

We advanced steadily toward our vision, with confidence and results: from a presence in only 3 countries in 2013, we were operating in 7 countries at the close of 2017, with 696 million potential consumers.

## Results

In 2017, net sales totaled MXN62.54 billion, a 17% increase over 2016. Within this growth, sales by businesses that were part of the Group in 2016 grew 12.6%, and the Vigor acquisition in October contributed the remaining 4.4%.

Gross earnings grew 15.2% in 2017, to MXN23.38 billion pesos, equivalent to 37.4% of net sales. Operating expenses rose 18%, including expense relating to the purchase and integration of new businesses and the operating expense of business outside of Mexico that presently operate with less efficiency than our domestic operations. Operating income outpaced gross earnings with a 17.7% growth, ending the year at MX6.17 billion, spurred on by productivity initiatives in Mexico.

EBITDA for the year 2017 was MXN8.04 billion, a 17.3% growth over 2016. In comparable terms (excluding the benefits and costs of Vigor), EBITDA was MXN7.67 billion, which is 11.7% higher than the year before. Net income for the year 2017 totaled MXN3.34 billion, a 20.4% reduction, affected mainly the costs associated with the debt taken on with the Vigor acquisition, taxes paid on the sale of Itambé, and the net tax affect of monetary balance accounts.

## Debt

As of December 31, 2017, total debt came to MXN30.97 billion, 92.42% of it short-term and the remainder long-term. This debt includes the bridge loan used to finance the Vigor acquisition, Brazilian debt acquired in local currency, and the refinancing of working capital instruments in Brazil.

## Innovation

We are a company recognized for our innovation. Thanks to the talent of our people and our in-house research and development, we were able to launch 26 new products in 2017, among them Delicias Yogurt; the Soy Vita line of food products and Chambourcy gourmet cheese, as well as the Lala "squeeze" and Nutrileche cream brands.

For the fifth year in a row, Lala was rated the second most recognized brand in mass consumer products in the Brand Footprint Mexico 2017 ranking, measured by market penetration and purchase frequency. In Brazil, Food Ingredients rated Vigor's Pedazos Greek Yogurt the most innovative product of the year for 2017.

## Use of capital

Between January and December 2017, the Company invested approximately MXN3.70 billion in properties, plant and equipment, and other capital expenditures.

These investments were devoted to optimizing, but above all to expanding our capacities. Among the highlights were the NutriDeli luncheon meat factory in Tizayuca, Hidalgo, Mexico, a world-class factory and one of the most modern in the industry in Mexico. Its premises incorporate a Technology and Innovation Center that will develop meat products with an unwavering focus on customer satisfaction and wellness.

## Sustainability

Sustainability is the commitment we assume in making decisions and in pursuing our vision and purpose, according to a model that guides our actions in harmony with the environment. In 2017 we worked on lowering our consumption of water per kilogram of product produced, reducing emissions through greater fuel efficiency in our transportation fleet, reducing energy consumption and promoting an ambitious recycling plan.

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For Lala, caring is the most important part of everything we are, do and share. That's why we are committed to quality and excellence in our performance, and we do so in a sustainable, socially responsible manner: We are committed to caring for our origins, our people, and our planet earth.

Beyond our commitment to the environment, and through Lala Foundation, we increased our social investment by 35%, including a commitment to deliver one million liters of milk to those affected by the September 2017 earthquakes in Mexico. Throughout the year, 596,771 people benefited directly from our nutrition and educational programs in Mexico and Central America.

We are grateful to our employees for their passion, commitment and ownership attitude; to our clients, consumers, partners, board members and shareholders for their trust. 2017 posed a number of challenges, but we were able to face them confidently, focused on our vision of being North and South America's favorite dairy company.

### **Eduardo Tricio Haro**

Chairman of the Board of Directors

### **Scot Rank**

Chief Executive Officer

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# About Us

We are a Mexican company focused on healthy, nutritious foods. We specialize in the innovation, production, sale and distribution of milk and dairy products, in a continuous effort to contribute the wellness of all who consume them.

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## How we do it

- With fresh, natural, top-quality products.
- Through disruptive innovation to care for you and make your day to day life easier.
- With a capable team committed to your health and growth.



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## Philosophy

- The principles that guide our actions have made us a market favorite. With our culture of care and respect, we passionately pursue what we know best: feeding your life.

We abide by four core beliefs:



**We believe  
in a world of  
possibilities**



**We believe  
in a natural  
world**



**We believe in a  
comprehensive  
world**



**We believe  
in a balanced  
world**

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## Mission

**“Feeding your  
life is our passion.”**

To pursue this mission, we rely on the talent and commitment of our people, focusing on bringing innovative, top-quality products to our consumers.

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## Values

- Agility
- Integrity
- Teamwork

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## Vision

**“To be North and  
South America’s  
favorite dairy  
company.”**

We build brand preference through innovation, quality and social responsibility.

- Quality
- Frugality
- Results

# Production Infrastructure

## Global



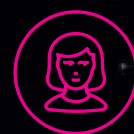
32  
Factories



173  
Distribution centers



+7,000  
Delivery routes



+38,000  
Employees

## Mexico

16 factories  
143 distribution centers  
+5,100 delivery routes  
31,528 employees

## United States

3 factories  
335 employees



## Central America

4 factories  
11 distribution centers  
+240 delivery routes  
2,423 employees

## Brazil

9 factories  
19 distribution centers  
+1,600 delivery routes  
4,044 employees



In 2017, we acquired 99.9% of the shares of the Brazilian dairy firm Vigor, which had a consolidated infrastructure of more than 4,000 employees, 3 milk collection centers, 9 production facilities and 19 distribution centers, reaching 47,000 points of sale.

# Achievements

We care for our consumers, to build preference for our brands

We contributed

**86**  
**million kilos**  
**of protein**, equivalent to 4.3% of the daily protein requirement of the Mexican population.

**36,557**  
**underprivileged children** receive at least one glass of Lala milk a day.

We grew our productive infrastructure in Mexico :

**2**  
**new factories**, a luncheon meat factory, and a dairy product factory.

**18**  
of our factories have earned GFSI approved food quality system certification



We increased  
**35%**  
**social investment**  
by 35% over 2016.

We purchased and renovated

**712**  
**transportation units**  
to improve our logistical efficiency.

**1,400,000**  
**hours** invested in training.

We improved

**5 points**  
**our employee satisfaction** and commitment score by 5 points, according to Great Place to Work.

We created Lala Global Services Center to ensure control, efficiency and automation of operations in Mexico and six countries in Central America.



## Results

	2013	2017
Countries	3	7
Potential Consumers	144 million	696 million
Production Plants	17	32
Net Sales (MXN mn)	43,156	62,540
EBITDA (MXN mn)	5,253	8,045

## Income Statement

	2016	2017	Chge %
Net Sales	\$53,468	\$62,540	17.00%
Gross Income	20,295	23,378	15.20%
Operating Income	5,248	6,175	17.70%
EBITDA <sup>(2)</sup>	6,861	8,045	17.30%
Consolidated Net Income	4,193	3,338	-20.40%

## Financial Position

	2016	2017	Chge %
Total Assets	\$40,832	\$77,891	90.76%
Cash	4,266	6,733	57.83%
Total Liabilities	11,845	47,550	301.43%
Shareholders' Equity	28,987	30,341	4.67%

## Market Data

	2016	2017	Chge %
Price per share	30.21	27.61	-8.61%
Earnings per share	1.67	1.31	-21.67%
Dividend per share	0.54	0.61	12.96%
Book Value per share	10.96	11.64	6.20%
Outstanding shares	2,475.93	2,475.93	0.00%

(1) Results and Financial Position in millions of nominal pesos and according to IFRS standards.

(2) EBITDA = operating income before depreciation and amortization

(3) At the close of each year.

(4) Net revenues + revenues from financial products + asset sales + other proceeds

(5) Cost of Goods Sold + wages and salaries + employee benefits + training + other expenses + taxes + dividends + interest payments + investments in community.

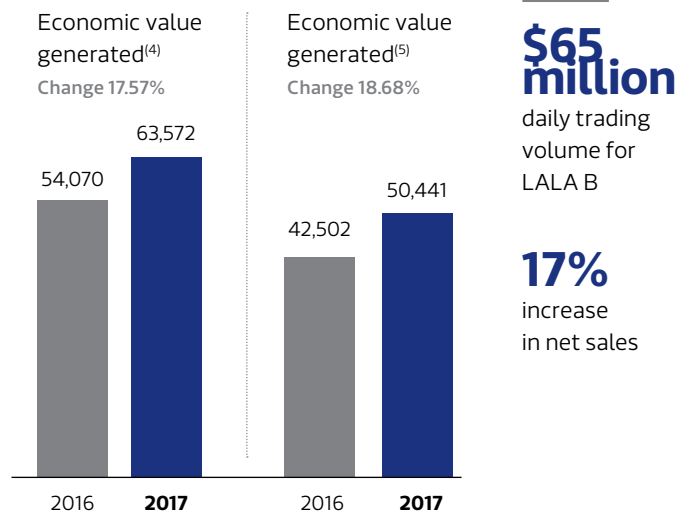
## Operations

	2016	2017	Chge %
Employees <sup>(3)</sup>	34,866	38,393	10.12%
Economic Value Generated <sup>(1)(4)</sup>	54,070.40	63,572.00	17.57%
Economic Value Distributed <sup>(5)</sup>	42,502.00	50,441.14	18.68%

## 2017 Sales

Segment	2016	2017	Chge %
Milk	\$33,835	\$37,067	9.60%
Dairy Products	16,612	22,168	33.40%
Beverages and others	3,021	3,305	9.40%
	\$53,468	<b>\$62,540</b>	

## Value Creation



# Talent

We care for our talent, to better care for you.



31,528  
Employees in Mexico



2,423  
Employees in Central America



335  
Employees  
in United States



4,044  
Employees in Brazil

38,330  
Employees in total

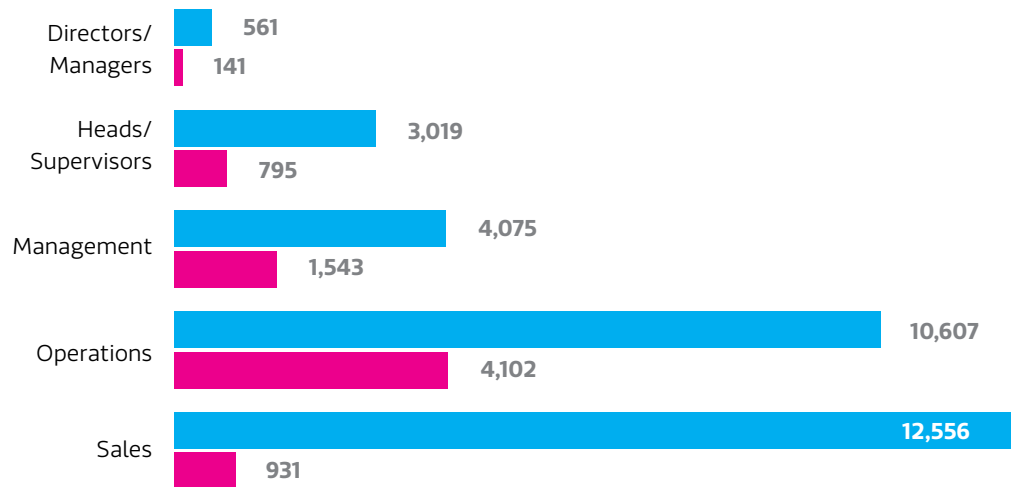
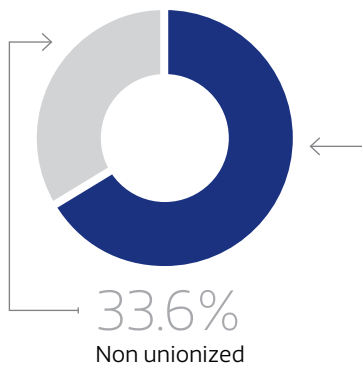


7,512  
women



30,818  
men

66.4%  
Unionized



At Lala, we encourage the development of the communities where we operate by creating jobs. In 2017, we created 15,794 new jobs.



In 2017, we invested  
**46.8 million pesos**  
in 68,799 training events.

# Development

Training our talent is an essential part of Lala's sustainability, so we support the ongoing advancement of our personnel focused on the needs of each area.

## Lala University

In 2017, we invested 46.8 million pesos in 68,799 training events, accumulating 1.4 million work hours of training for some 24,757 people.

Job category	Number of people trained	Hours of training	Average hours of training per person
Directors/Managers	279	7,372.99	26.43
Heads/Supervisors	2,126	72,026.00	33.88
Management	2,721	85,592.71	31.46
Operations	10,731	627,643.25	58.49
Sales	8,501	603,817.40	71.03
External*	442	20035.71	45.33
<b>Total</b>	<b>24,800</b>	<b>1,416,488.06</b>	<b>57.12</b>



**68,799**  
training events held by  
Lala University in 2017

\* Including suppliers, universities, interns, employee family members, and others.

## Central America

Country	Participation	Hours of training	Average per person
Guatemala	1,780	7,364	4
El Salvador	159	349	2
Nicaragua	7,400	17,497	2
Costa Rica	264	725	3
<b>Total</b>	<b>9,603</b>	<b>25,935</b>	<b>3</b>



## Performance evaluations

At Lala, we evaluate performance to detect areas of opportunity where we need to improve, and to properly recognize our talent.

**5,198**  
employees evaluated

**36.7**  
Average age



**1,414**  
women



**3,784**  
men

### Satisfaction and commitment survey

Through **Great Place to Work**, we surveyed our employees about their satisfaction and commitment in order to evaluate our workplace environment..

- We improved our score by 5 points over 2015
- 28,779 participants
- Included employees of Mexico and Central America
- 100% in line through Great Place to Work

### Take Off with Lala

We support new generations by providing them opportunities to capitalize on their strengths through the Scholarship Program, through which we recruit young people to gain early professional experience and participate in strategic projects while contributing value to the business.

In 2017 the program's second generation was made up of:

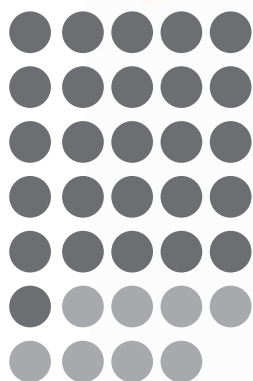
40% public university students  
60% private university students



In our first call for applicants:

34 we selected **students**

26 of which graduated in a corporate event - a retention rate of 70%



### Diversity and Workplace inclusiveness

So far, we have analyzed accessibility conditions in five factories where we have hired people with disabilities.

In 2017, 1.2% of the personnel employed in the work centers where the Lala Inclusiveness Program is in effect had some type of disability.





At Lala, we evaluate performance to detect areas of opportunity where we need to improve, and to properly recognize our talent.

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WE MOVE TOWARDS OUR VISION

## We take care of our people

At Lala, the safety of our people is paramount, so we take a number of actions to guarantee that they always have the necessary resources and conditions to do their jobs safely.

The U.S. National Safety Council, Nebraska Division, recognized our Omaha factory as one of the safest factories in the state.



## Safety Committees in Mexico



41

We have 41 **Management Occupational Safety and Health Committees** in factories and distribution centers in northern México.



395

There are 395 **employees** in Management Occupational Safety and Health Committees. 125 women and 270 men.



125  
women



270  
men



68

There are 68 Occupational Safety and Health Committees in our factories and distribution centers.

143  
women and

455  
men



16

**factories** and 18 **distribution centers** are covered by the Self-Management Program developed by the Ministry of Labor and Social Planning.

## Training in Occupational Safety and Health



163,793

**hours of training** in occupational safety and health **México**



52,485

Employees in Brazil underwent a combined 52,485 **hours of safety training.**



**Our US factories** have a robust safety training program in place.

# Innovation

We innovate in products and processes to care for your nutrition

We are a cutting-edge company recognized for our innovation. Through research and development of new products we meet the needs of various segments of the consumer market.

We launch **26 new products** in the market in 2017.

- **Delicias** yogurt
- **Soy Vita** liquid food line (almonds, 3 nuts and coconut)
- sliced panela cheese
- cream in a squeeze bottle
  - NutriLeche cream
  - **Chambourcy** line of gourmet cheeses.



## Digital transformation

Through our project **“Sales2Go: Mobilizing supervision to lead the market,”** we developed a mobile solution to automate supervisory tasks for team heads in certain retail channel routes, maximizing sales route management and tracking of 01800 tickets and facilitating cooperative tasks, all with an electronic tablet.

- Maximizar la gestión de rutas de ventas.
- Seguimiento de atención a los tickets 01800.
- Facilitar las tareas de colaboración.

Lala was recognized as one of the 50 most innovative countries in 2017 by Innovation Week.



## Lala Global Service Center

To ensure greater control, efficiency and automation in our operations in Mexico and six countries of Central America, we opened the Lala Global Service Center in northern Mexico, staffed with top-quality human capital and supported by world-class digital tools, incorporating key processes and standardized, centralized human resources.

The facilities provide an innovative workplace environment with:

- State of the art technology.
- High connectivity.
- Co-working areas.



## New infrastructure



### Tizayuca factory

We opened a Nutri Deli luncheon meats factory in Tizayuca, Hidalgo, designed under the strictest standards of food safety, process control and quality, and in line with best international practice. We now have a world-class factory, one of the most modern in the Mexican food industry.



### Obregon Factory

In 2017, we opened a pasteurized milk factory in Obregon City, Sonora, which reinforces our contribution healthy nutrition for families in northwest Mexico while supporting the development of local farmers.

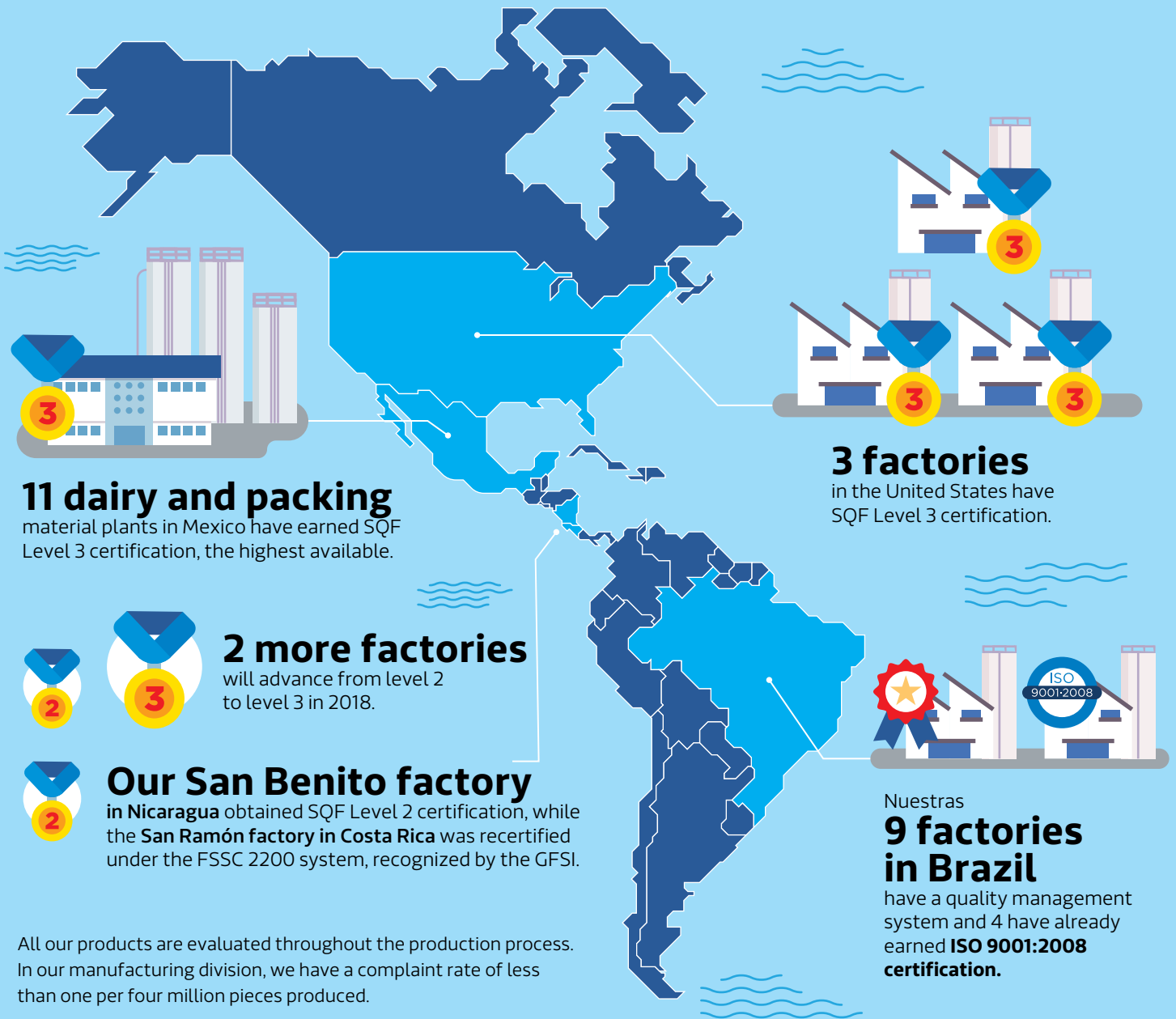
### Supply Chain

To improve our level of service and lower distribution costs, we built four macro-distribution centers in 2017.

At the same time, we optimize the logistical process of our distribution routes, to reach more points of sale and use fewer vehicles, helping to reduce emissions and protect the environment.

# Certified quality

Our concern for quality has earned the market's preference. A fundamental part of Lala's comprehensive quality system is certification of our processing plants according to Global Food Safety Initiative (GFSI) standards.



## Procurement

All the commercial partners that supply our ingredients and packaging take part in the Supplier Development and Approval Program.



Our milk comes from stables certified with the highest standards of feeding and care for the dairy cows



46%

of our suppliers of raw materials and primary/secondary packaging in **Mexico** have GFSI-backed quality assurance systems



100%

In the US, 100% of our suppliers of raw materials and primary/secondary packaging have GFSI-backed quality assurance systems.



35%

In Brazil, 35% of our suppliers of raw materials and primary/secondary packaging have quality assurance systems.

In **Central America** we maintain supplier development programs.

In 2017

160

**SMEs in our supply chain enrolled in consulting programs and specialization courses given by major companies affiliated with Mexican Center for Competitiveness.**

# Sustainability

We operate sustainably to fulfill our vision with harmony and balance.

At Lala, we understand sustainability as a commitment that enables us to follow processes, make decisions, and carry out all our activities within an ethical framework, with established principles, a clear mission, and working hand in hand with our various stakeholders.

We abide by the Lala Sustainability Model, our guide for fulfilling our vision.

## Lala Sustainability Model



### Planet

1. Water
2. Climate change
3. Packaging
4. Food security



### Society

1. Social fabric
2. Wellness
3. Community development



### Consumers

1. Quality
2. Innovation
3. Product portfolio
4. Nutritional 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

## Environment

We develop strategies that enable us to manufacture and distribute products with less environmental impact, we improve our process efficiency to reduce our use of resources, and we strive to preserve the biodiversity around us.



## Water Conservation

We reduce water use per kilogram of product made by 8.5% against the base line.\*

We contribute through water conservation initiatives:

- Remediation of the upper basin of the Nazas River in the Comarca Lagunera región.
- The Sierra de Santiago in Nuevo Leon, and Arteaga in Coahuila.
- Preservation of the Cuatrociénegas Ecological Preserves.

\*Data from factories in Mexico..



## Emissions

We perform maintenance programs and upgrade in our transportation fleet focused on improving fuel consumption yield and minimizing environmental impact.

### Primary Fleet

We added

**93**  
**tractor-trucks** with high-efficiency engines..

### Secondary Fleet

**100**  
**new delivery** vehicles fueled by compressed natural gas, which is less contaminating than conventional fuel.

**28**  
 In Central America, we renovated **28 vehicles** and added 5 more to our delivery fleet.

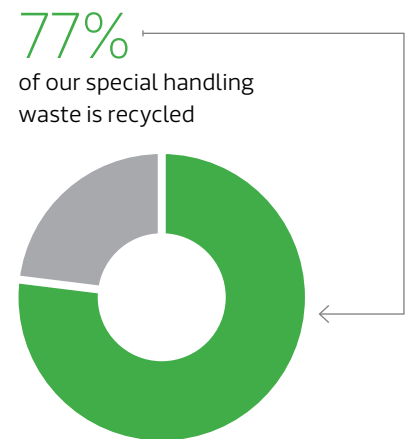
### Pre-sale

**486**  
 we acquired **486 motorcycles** that help us increase our logistical efficiency.

## Waste

We have developed waste management plans to make sure we appropriately dispose of all waste, in keeping with the law, and we also have strategies for reducing, reusing and recycling waste throughout the organization.

Setylsa has lengthened the maintenance cycle for its diesel and LP Gas engine trucks, which reduces the generation of hazardous waste.



We have strategies for ensuring that all of hazardous waste generated in our food factories is used as alternative fuel by other companies.

in 2017 we introduced a recycling program for PET and PEAD packing materials by adopting the special handling waste management initiative developed by ECOCE, with which we have succeeded in incorporating 11,091 metric tons of product packaging into recycling processes.

# Social Responsibility

We care for those who need it most, with improved nutrition

We reaffirm our social commitment through various **Lala Foundation** programs. Our support for communities and the environment would not be possible without the involvement of all those who give of their time and effort.



## Guatemala

2  
food programs

3,798  
people benefited

7  
organizations



## Brazil

In 2017, Vigor's Danubio brand received the Top Quality Brazil Social Action Prize for its support for the Special Chefs Institute, an initiative established in 2006 to facilitate workplace inclusion of people with Down Syndrome through gastronomy.

## Volunteer work

Our volunteer strategy is in line with the Sustainable Development Objectives, and it is part of our adherence to the U.N.'s 2030 Agenda. Through various initiatives, in 2017 we helped communities in Mexico, Costa Rica, Nicaragua and Guatemala.



767,243  
people benefited

592,973  
directly

174,270  
indirectly



375  
partner associations  
(315 nutrition-related)



9 million  
kilos of product donated



+57000  
glasses of milk  
delivery daily



**MXN144,879,585**  
35% more social  
investment than 2016

## Impact in Mexico



20  
activities



27  
communities  
benefited



3,759  
participations  
in volunteer  
events



6,104  
hours invested



\$174,600  
pesos in voluntary  
contributions by our people

## Foundation Route

Through our distribution route, we support communities that need help in a number of areas, especially nutrition.



118  
Distribution Centers /Factories



811  
Employees



19,672  
hours



## Cuatrociénegas, Coahuila

We were especially involved in the Cuatrociénegas 2040 project, where we are firmly intent on substantially improving the economic, educational, social and health condition of this place.

In 2017 we were awarded the “Carranza El Constitutiona- lista” medal for over 12 years of support for communities with the highest levels of marginalization,



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## Reforestation Guanajuato

We carried out reforestation efforts in the municipality of Salamanca with the support of volunteers from the Irapuato Industrial Complex, inhabitants of the El Tropezón community, and the advice of Reforestemos México A.C.

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2

hectares reforested

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1,500

xoconostle and maguey  
pulquero plants planted

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110

participants

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925

hours of volunteer work



5,200  
participants



1,633  
women



3,567  
men

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107

Lala employees

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### 2017 Lala Marathon\*

We held our 29th annual Lala International Marathon in 2017, with participants from 32 states of Mexico as well as from the United States, Colombia and Guatemala. Through this program, we promote sports while supporting a number of social causes.

\*Results certified by the International Association of Athletic Federations (IAAF).

## Impact in Central America



### Costa Rica

Mobility for Social Progress Project: an alliance to help poor children overcome educational disadvantages.



97  
workshops



73  
individual  
students  
monitored



10  
spaces  
for interaction  
and alternative  
learning



### Guatemala

Fundación Hogar Tío Juan, which supports young people in continuing their education.



200  
children  
benefited.



375  
liters of milk  
donated.



90  
hours of  
volunteer time.



### Nicaragua

We are one of the four main sponsors of **Let's Color Kilometers for Smiles**, a race to raise money for an initiative that offers reconstructive plastic surgery for children suffering from cleft lip and cleft palate.



36  
volunteers



30  
people from  
Lala took part  
in the race.



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# Corporate Governance

We care for our business, in keeping with our principles and values.

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## 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.

### Chairman\*

Eduardo Tricio Haro

### Proprietary Board Members

Marcelo Fulgencio Gómez Ganem  
Juan Carlos Larrinaga Sosa  
José Manuel Tricio Cerro

### Independent Board Members

Arquímedes Adriano Celis Ordaz  
Blanca Avelina Treviño de Vega  
Juan Pablo del Valle Perochena  
Pablo Roberto González Guajardo  
Rafael Robles Miaja

### Secretary

Mauricio Gárate Meza

\*The Chairman does not hold an operating position in the company.

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## Ethics and Human Rights

As a group, we abide by a strict Code of Conduct that guarantees the physical, ethical and moral integrity of all of our stakeholders. Abiding by this code in all our daily activities is what enables us to meet our goals year after year.

In Mexico, we provided 10,969 hours of training in matters relating to the Code of Conduct, Human Rights and the Battle against Corruption.

In Central America, we invested 1,063 hours of training in areas relating to the Code of Conduct



**We move  
towards  
our vision**



## Investor contact and information

### Grupo Lala, S.A.B. de C.V. Corporate Headquarters

Calzada Carlos Herrera Araluce 185, Parque Industrial Carlos A. Herrera Araluce,  
Gómez Palacio, Durango, C.P. 35079, México.

#### Investor Relations

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#### Social Responsibility

Rafael Garza  
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#### 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.

