



EXECUTIVE SUMMARY

# 2019 SUSTAINABILITY REPORT

# ONE MORE YEAR OF SHARED SUCCESSSES



**933,167**  
academic training  
hours offered by  
Lala University.



**5%**  
We reuse and recycle  
5% of the water from  
our operations.



**7**  
of our manufacturing  
plants have been certified  
by SEMARNAT as  
Clean Industry.



**MXN\$164,570,897**  
invested in food, education, health, community development  
and support, and the environment and biodiversity.



**514,341**  
people benefitted.



**5,412**  
queries to our digital library that offers more  
than 280 contents.



## CERTIFICATIONS AND AWARDS

### Economic Value

**49<sup>th</sup>** in the *500 Most Important Companies in Mexico* ranking by *Expansión* magazine.

**67<sup>th</sup>** in the *1,000 + Important Companies in Mexico* ranking by *Mundo Ejecutivo* magazine.

### Image and Reputation

**1<sup>st</sup>** in the *100% Mexican Brands* ranking in the non-alcoholic beverage sector by *Forbes Mexico* magazine

**24<sup>th</sup>** in the *MERCO Empresas México* ranking.

### Quality

**21 factories certified** in GFSI quality systems (Global Food Safety Initiative).

### Purchase Frequency

**Brand Footprint:**  
**3<sup>rd</sup> place** in México  
**4<sup>th</sup> place** in Latin América

### Folha Top of Mind (Brazil):

Vigor was recognized in the Greek Yoghurt and Cottage Cheese categories.

### Social Responsibility and Human Capital

**ESR** (Corporate Social Sustainability certification in Mexico) certified for 15 years in a row.

**73<sup>rd</sup>** in the Integridad Corporativa 500 ranking.

**7<sup>th</sup>** in the LinkedIn Top Companies ranking.

## MESSAGE FROM THE CEO

2019 was a year of major challenges for us as an organization. The hard work and enthusiasm demonstrated by all of us who work at Lala helped us achieve results based on the countries in which we operate as the result of our participation in challenging consumer environments stemming from global uncertainty.

As a team, we have maintained our commitment to generating value for each and every person and organization we come into contact with. Our cultural transformation and focus on social responsibility and sustainability continue to develop as we promote greater dialog and mutually beneficial relationships.

At Lala, we are convinced that challenges can be turned into opportunities. Every single day we give our all to cover these areas and meet our short-, mid- and long-term goals. We are convinced that sustainability is playing an ever increasing role in helping us get to where we want to be.

As an innovative company, we kept the pace of product launches according to the needs of our consumers. The strengthening of our line of cold meats in Mexico stands out with the relaunch of Lala Plenia®, the only one on the market with 100% turkey meat, without preservatives and with sea salt; In Brazil we innovated with the new Danubio® dessert packages. Moreover, we made two launches in Central America: ice creams under the LALA® brand for Guatemala, Nicaragua and Costa Rica, as well as LALA® milk in the latter country. In the United States,

LALA® smoothie improved its formula and we innovated in a functional yogurt-based drink with probiotics, just to name a few.

We know that one of our major competitive advantages is our refrigerated distribution network, which is why we have rolled out ambitious plans to drive specific actions that will allow us to increase our market share and boost profits.

In social terms, we have achieved outstanding results through the LALA Foundation. We invested more than MXN \$160 million in a range of programs focusing on food, education, health, community development and support, and the environment and biodiversity.

Our commitment to the environment is an on-going one. The results include the reuse and recycling of water used in our operations, the implementation of Diesel engines and Euro V technology in our fleet, which allows us to reduce our emissions, as well as the Clean Industry certification in seven of our manufacturing plants.

At Lala, we believe that the coming years will be challenging ones. As leaders, we are committed to giving the very best of ourselves to deliver the results that all our stakeholders expect, in order to reaffirm our position and remain at the cutting edge of the global industry.

Thank you for placing your trust in us.

**Arquímedes Celis,**  
**CEO & Executive President**



Our cultural transformation and focus on social responsibility and sustainability continue to develop as we promote greater dialog and mutually beneficial relationships.

# 1 OUR SUCCESSES

## EXPANDING HORIZONS

USA

2 / 286  
Factories / Employees

MEXICO

16 / 141 / 5,544 / 33,630  
Factories / Distribution Centers / Delivery Routes / Employees

CENTRAL AMERICA

4 / 10 / 212 / 1,986  
Factories / Distribution Centers / Delivery Routes / Employees

BRAZIL

9 / 22 / 1,750 / 4,414  
Factories / Distribution Centers / Delivery Routes / Employees

GLOBAL

31 / 173 / 7,506 / 40,316  
Factories / Centros de distribución / Delivery Routes / Employees



+7 THOUSAND  
units, distributing more than  
+628 THOUSAND  
sale points.

## OUR PERFORMANCE IN NUMBERS

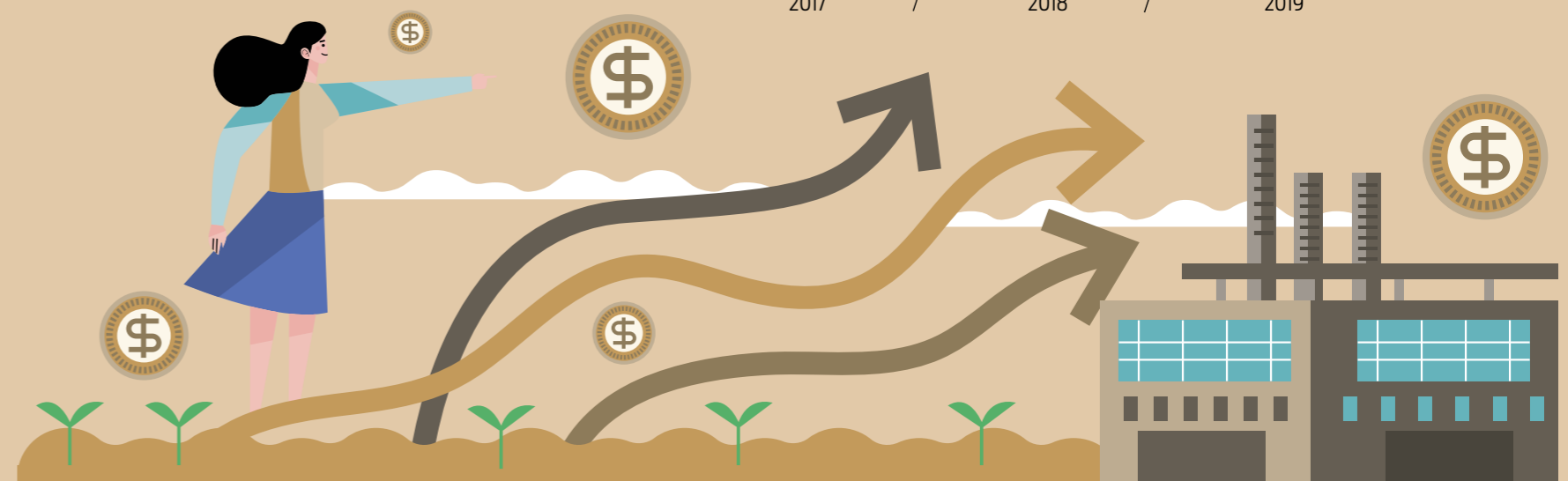
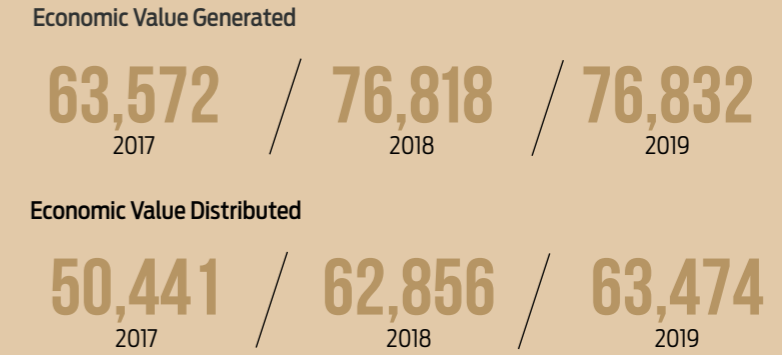
Sales (KL Million)				
Segment	2017	2018	2019	
Milk	2,683	2,772	2,765	
Dairy Products	622	873	883	
Beverages & Others	118	126	90	
<b>Total Volume</b>	<b>3,423</b>	<b>3,771</b>	<b>3,738</b>	

EBITDA by Region				
MXN\$ Million	2017	2018	2019	
Mexico	7,887	7,385	6,839	
USA	(244)	(297)	112	
Central America	24	(106)	9	
Brazil	(188)	799	1,305	
<b>Total EBITDA</b>	<b>7,479</b>	<b>7,781</b>	<b>8,265</b>	

Income Statement				
MXN\$ Million	2017	2018	2019	Var. %
Net Sales	62,540	75,419	75,784	20.60%
Gross Income	23,298	26,510	26,608	13.80%
Operating Income	5,600	5,411	5,194	(3.40%)
EBITDA	7,479	7,781	8,265	(3.40%)
<b>Net Income</b>	<b>2,965</b>	<b>1,994</b>	<b>1,851</b>	<b>(32.80%)</b>

Sales (MXN\$ Million)				
Segment	2017	2018	2019	Var. %
Milk	36,949	39,050	40,680	5.70%
Dairy Products	22,168	32,466	32,825	46.50%
Beverages & Others	3,423	3,904	2,279	14.00%
<b>Total Volume</b>	<b>62,540</b>	<b>75,419</b>	<b>75,784</b>	<b>20.60%</b>

### VALUE CREATION



# BOARD OF DIRECTORS



9

Directors.



4

of whom are Independent Directors.

They are chosen by the Shareholders' Assembly based on their experience, skills and reputation.

**They are tasked with:**

- Overseeing the management of the business.
- Defining value creation strategies.
- Applying the principles of Grupo Lala's Sustainability Model.



Eduardo Tricio Haro\*  
**Chairman**

\*The Chairman holds no operational post within the company



Arquímedes Adriano Celis Ordaz  
**Board Member**



Marcelo Fulgencio Gómez Ganem  
**Board Member**



Juan Carlos Larrínaga Sosa  
**Board Member**



José Manuel Tricio Cerro  
**Board Member**



Blanca Avelina Treviño de Vega  
**Independent Board Member**



Carlos Antonio Danel Cendoya  
**Independent Board Member**



Pablo Roberto González Guajardo  
**Independent Board Member**



Rafael Robles Miajá  
**Independent Board Member**



Andrés Gutiérrez Fernández  
**Secretary**

## AUDIT AND CORPORATE PRACTICES COMMITTEE

Conformed of Independent Board Members.

**This committee focuses on:**

- Supervising internal and external company audits.
- Validating internal control mechanisms.
- Analyzing operations with related parties.
- In general, ensuring all financial information is issued and published by the company in compliance with the highest standards of responsibility, transparency, adequacy, opportunity and reasonableness..



Rafael Robles Miajá  
**Chairman**

Carlos Antonio Danel Cendoya  
**Independent Board Member**

Pablo Roberto González Guajardo  
**Independent Board Member**

Blanca Avelina Treviño de Vega  
**Independent Board Member**

## COMPENSATION COMMITTEE

**This committee focuses on:**

- Evaluating the design and implementation of adequate and reasonable policies that focus on driving the competitiveness of the company.
- Ensuring that the organization's talent and structure are aligned with the strategic plan that has been approved by the Board of Directors.



Pablo Roberto González Guajardo  
**Chairman**

Carlos Antonio Danel Cendoya  
**Board Member**

Eduardo Tricio Haro  
**Board Member**

# BUSINESS STRATEGY AND SUSTAINABILITY MODEL

## SUSTAINABILITY MODEL GRUPO LALA

At Lala, we are governed by a sustainability model that is aligned with our business strategy, the goal of which is to create value for all our stakeholders through actions that ensure compliance with Environmental, Social and Governance criteria (ESG).



### 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

## COMMITMENT SUSTAINABLE

We also contribute to the UN Sustainable Development Goals as part of our commitment to sustainability.



# 4 LALA EMPLOYEES



## TALENT

Having the best possible team plays a fundamental role in achieving our goals and creating value for everyone, which is why we offer a workplace that is committed to the development and well-being of each and every person who works with us.

MEXICO	BRAZIL	CENTRAL AMERICA	USA
27,159 Men	3,077 Men	1,620 Men	216 Men
6,471 Women	1,337 Women	366 Women	70 Women
33,630 Total	4,414 Total	1,986 Total	286 Total

**40,316**  
men and women  
work at Lala.

**32,072**  
men

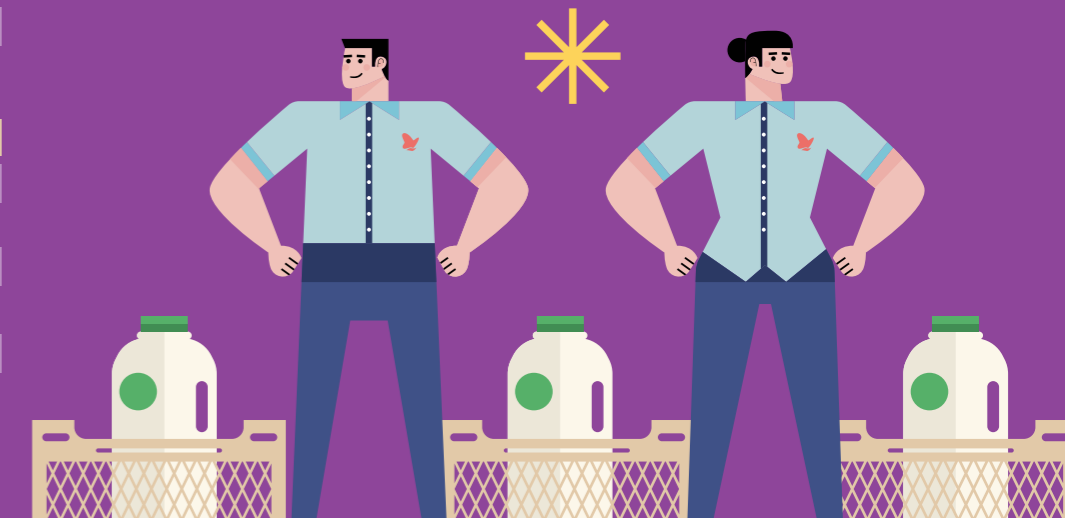
**8,244**  
women

	Men	Women
Directors/Managers	475	126
Chiefs/Supervisors	3,390	966
Administration	2,146	1,537
Operations	12,617	4,641
Sales	13,444	974
<b>Total</b>	<b>32,072</b>	<b>8,244</b>

	Men	Women
Under 30	10,831	2,465
30 to 34	6,360	1,659
35 to 44	9,746	2,790
45 to 55	4,313	1,143
Over 55	822	187
<b>Total</b>	<b>32,072</b>	<b>8,244</b>

	Men	Women
Temporary	959	295
Permanent	31,113	7,949
<b>Total</b>	<b>32,072</b>	<b>8,244</b>

**73%**  
are members  
of a union.



# TRAINING

We offer on-going training opportunities to our employees based on their specific needs, helping drive their professional growth within the company. Thanks to Lala University, we offer a major part of this training.



**885,086**

training hours invested in Mexico, i.e., 26 hours per person on average.



**29,671**

training hours invested in Central America, i.e., 15 hours per person on average.



**15,682**

training hours invested in Brazil, i.e., 4 hours per person on average.



**2,728**

training hours invested in USA, i.e., 10 hours per person on average.

**933,167**

global training hours, i.e., 23 hours per person on average.



# LALA INCLUSION

We recognize the talents and skills of each person, which is why we offer employment and development opportunities to all our employees. This allows us to promote a culture of diversity and inclusion.



In 2019, we achieved the following milestones:

**46%**

We increased the number of people on our team with disabilities by 46%.

Inclusion in the Workplace		
	2018	2019
Visual Disability	31	67
Hearing Disability	74	89
Motor Disability	58	102
Intellectual Disability	5	5
Psychosocial Disability	36	37
Under Rehabilitation	7	9
<b>Total</b>	<b>211</b>	<b>309</b>

# SUPPORTING YOUNG TALENT

We would not be able to achieve our goals without the young talent we have at Lala. We offer internship programs that help promote the attraction and retention of young talent.



**40**

young people took part in the 4<sup>th</sup> Despega con Lala internship program.



**22%**

of the graduates from the 3<sup>rd</sup> Despega con Lala internship program were offered full-time employment.



**580**

spaces for the federal government's Young People Building the Future program.



In 2019, we received the following awards for our workplace inclusion practices:

Éntrale 2019 award from Alianza Éntrale

The Outreach Network for People with Disabilities and Movimiento Congruencia.



# HEALTH AND SAFETY

We continue to consolidate our culture of prevention to create a safer working environment for all. We also have a range of materials, tools and training courses to help safeguard and protect our employees.

We invested more than MXN \$13 million in increasing our fire and sprinkler system at the Irapuato Complex.



**4.5%**  
reduction in accidents compared to 2018.



**21.4%**  
drop in temporary incapacity days as a result of occupational hazard compared to 2018.



**137**  
Health and Safety Management Committees, comprising 202 women and 872 men.



**118,119**

man hours focusing on safety training.

**43**

Health and Safety Commissions, comprising 104 women and 238 men.



**16**

plants and 20 distribution centers form part of the STPS self-management program.



**641**

trained brigade members.



**47**

emergency drills.



**7,282**

general medical check-ups and risk exposure assessments.



# PRODUCTIVE PROCESS

We ensure the highest quality of standards throughout the entire productive process, and we encourage our value chain to implement sustainable practices in order to ensure joint growth and better products.



Our entire value chain has a GFSI-certified system (Global Food Safety Initiative).

**118** primary and secondary distribution units procured through a MXN \$68-million investment.

**21** plants are GFSI certified.

**16,833** coolers procured.

# QUALITY

In 2019:



We protect our consumers by offering them products that meet their needs and comply with the quality and safety requirements demanded by national and international standards.

Our complaint index was less than 1 for every million units produced.

We maintained the Kosher certification in 9 factories within Mexico.

**Mexico:** BPM Certified by SENASICA, SQF Level 3 Certification.

**USA:** Plant Inspection by Department of Agriculture, SQF Level 3 Certification.

**Central America:** APPC/HACCP-certified by IPSA Nicaragua, Certified Exporter by SENASA in Costa Rica. SQF Level 3 Certification/FSSC 22000.

**Brazil:** SIF-certified by MAPA (Ministry of Agriculture), certification pending.



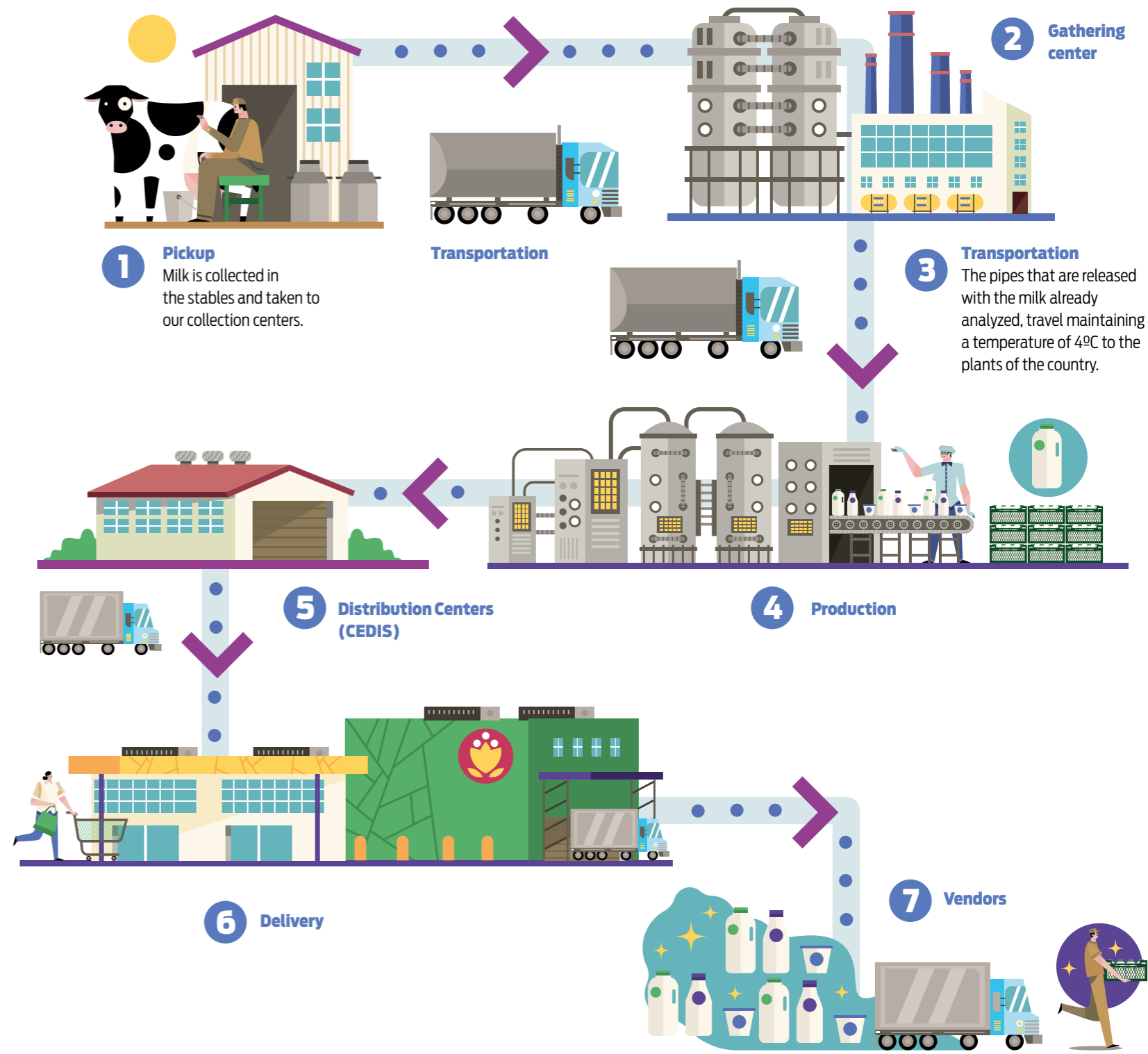
**2**

plants in Brazil became BRC certified, which is recognized by GFSI.



**10%**

Our GFSI-certified quality systems increased by 10% compared to 2018.



**1 Pickup**  
Milk is collected in the stables and taken to our collection centers.

**Transportation**

**2 Gathering center**

**3 Transportation**  
The pipes that are released with the milk already analyzed, travel maintaining a temperature of 4°C to the plants of the country.

**4 Production**

**5 Distribution Centers (CEDIS)**

**6 Delivery**

**7 Vendors**

## 5 VALUE CHAIN

# RELEVANT MILESTONES

Our wide range of products enables us to offer numerous healthy, natural and nutritious options to our consumers, especially products that are low in saturated fats, trans fats, salt and added sugars

We contribute **87 million kilograms** of protein in Mexico, equivalent to the 4.3% required by the population.

### 2019 was characterized by the following investments and achievements:

Through an MXN \$100-million investment, we began the construction of a **wastewater treatment plant** at our Laguna Complex, which will be capable of processing up to 30 liters per second. It will also be able to generate and recover biogas for use in generating electricity for the plant's operations.

We inaugurated the **Operator Development Center (CDO)**, which offers simulators to help train and certify fifth wheel operators.

At our Irapuato Complex, we invested more than MXN \$83 million on 3 projects to help streamline productive processes and increase capacity.

We have reaffirmed our commitment to promoting sustainability, reducing the environmental impact of our operations, protecting our surroundings and driving compliance.

### Kantar Brand Footprint Ranking – Mexico 2019:

**Third** most recognized brand for products aimed at the mass market.

**Fourth** in Latin America.

**In Brazil**, *Vigor* was recognized in the Greek Yoghurt and Cottage Cheese categories.



In Nicaragua, we adapted the treatment plant to increase its capacity by 500% thanks to an almost MXN \$2-million investment in new treatment technologies.

In Brazil, we invested more than BRL \$98 million to increase installed capacity by making process more efficient and guaranteeing production.

At our **plant in Costa Rica**, we invested USD \$14 million to increase production capacity by 200%.

# INNOVATION AND TECHNOLOGY



The Mexican Institute of Industrial Property (IMPI) provided Lala with the first patent in Mexico covering the process used to produce its Lala 100® Lactose-Free line.

Through Lala's proprietary nano-filtration and ultra-filtration process, consumers are guaranteed that their milk is lactose-free and 100% from Mexican cows.

We obtained a patent for the first 100% lactose-free milk in Mexico.



# SUPPLIERS

**97%** of our supply chain is made up of national suppliers.

**3%** of our supply chain is made up of international suppliers.



We are IBD and RSPO certified regarding the sustainable production of palm oil used in some of our products.



We avoid the use of the STBr hormone in the production of our Lala milk.

# ETHICS AND COMPLIANCE

The physical, moral and ethical integrity of our employees and stakeholders is of the utmost importance to us, which is why, through our Code of Conduct and its procedures, we ensure implementation and strict compliance with all applicable regulations that safeguard human rights, the quality of our products, and the environment. We have a system to report any irregularities in this area.



[www.lineadedenuncia.com/lala](http://www.lineadedenuncia.com/lala)  
[lala@lineadedenuncia.com](mailto:lala@lineadedenuncia.com)  
 Telephone: 800 112 0616  
 To review our Code of Conduct, please visit [www.lala.com.mx/nosotros/codigo-de-conducta](http://www.lala.com.mx/nosotros/codigo-de-conducta)

To offer the best possible quality to our customers, we ensure strict compliance with regulations governing the labeling and commercial and safety information of all our products.

# LALA FOUNDATION

Through the LALA Foundation, we implement social and environmental programs that focus on three key areas: No Poverty, Zero Hunger and Inclusive Education.



**32** states, 667 towns and 3,605 communities in Mexico.

**832** employees and volunteers took part

**MXN\$ 164,570,897**

invested in food, education, health, community development and support, and the environment and biodiversity. **83.70%** earmarked for food.



**39,858** volunteering hours within Mexico.



**333** institutions in permanent partnership to optimize social investments.

In 2019, those benefitted by our food programs include:



**35,875** girls and boys from school cafeterias, children's homes and indigenous shelters.

**1,630** adults from senior citizen centers.

**9,258** people from shelters for immigrants.

**399,219** families through food banks.

**65,065** vulnerable families at centers.

**1,069** families at emergency centers.

**2,225** people received occasional support



People Benefitted			
	Direct	Indirect	Total
Food	514,341	--	514,341
Education	2,197	51,600	53,797
Health	120	68,600	68,720
Environment and Biodiversity	146	18,000	18,146
Community Development and Support	1,450	69,810	70,260
<b>Total</b>	<b>518,254</b>	<b>207,010</b>	<b>725,264</b>

## VOLUNTEERING

In México:

**7,200** volunteers.



**195** events

**3,770** trees planted across 4 hectares in the country.

We coordinated a large-scale non-perishable food drive as part of World Humanitarian Day, supporting some **15,000 families**.

Wellness Workshops offered to more than **5,000** boys and girls from public schools in Mexico, focusing on the importance of healthy diets.

We received the Socially Responsible Company (ESR) certification from CEMEFI for the 15<sup>th</sup> consecutive year.

## LALA INTERNACIONAL MARATHON

In 2019, 5,800 runners took part in the 31st LALA Marathon at Comarca Lagunera.

The Lala Marathon has been awarded the Inclusive Event Certification (DEI)".



# OUR COMMITMENT

All our products are made in compliance with our sustainability strategy, through processes that aim to be more efficient and have less of an environmental impact..

## WATER

We continue implementing water efficiency and improvement programs by reusing treated water in peripheral processes, such as in our boilers and cooling areas. In 2019, 1.75 m<sup>3</sup> of water per ton of finished product was used in our manufacturing operations<sup>1</sup>.

<sup>1</sup>Not including our Transport and Tizayuca operations.

**5%**

We reuse and recycle 5% of the water used in our operations.



Committed to our communities, we have signed water donation agreements with several towns to help them irrigate green areas.



We are part of forestry conservation efforts in Picea Mexicana, the Cuatrociénegas Ecological Reserve and the Nazas River Basin in Comarca Lagunera.

## ENERGY

At Lala, we firmly believe in the importance of using renewable energies to help decrease the impact we have on the environment. This is why we prioritize the use of clean energies at our plants and distribution centers.

### Main achievements:

Acquisition of LED lighting.

Installation of meters that allow us to quantify and decrease the amount of electricity we use.

A Danish technology system for refrigeration services that allows us to improve the cost of converting electrical energy in the refrigeration systems in place at our cold meats plant located in Tizayuca.



**185,470**

KWh consumed through the use of renewable energy sources, thanks to our solar panel project within the facilities of the CID Industrial Complex.



**1.47**

GJ/Ton consumed during the production system.<sup>2</sup>

Total energy consumption from non-renewable sources (in GigaJules)		
Source	2018	2019
Natural GAS	1,105,311	1,389,711.13
Gas LP	32,971	5,834.94*
Electricity	781,210.62	797,046.25
<b>TOTAL</b>	<b>1,919,493</b>	<b>2,192,592</b>

\*Substitution from LP Gas to Natural Gas at the Tizayuca facilities.

The total amount of energy used by our manufacturing operations in 2019 was 1.92 GJ per ton of finished product.

<sup>2</sup>Considering an increase in consumption of 273,099 GJ vs. 2018, corresponding to the increase in production.



## EMISSIONS

We implement programs that allow us to reduce GHG emissions from our operations.

In recent years, we have coordinated an on-going unit replacement program, changing mostly high-cylinder, low-performance LP gas engines for more efficient diesel engines, in addition to using new technologies that have enabled us to decrease emissions by using fuels with fewer contaminants.

### 2019 milestones:

**301,899** tons of CO<sub>2</sub> equivalent (Scope 1).

**120,179** tons of CO<sub>2</sub> equivalent (Scope 2).



**587**

refurbished secondary distribution vehicles equipped with diesel engines and Euro V technology.

## 7 PROTECTING THE ENVIRONMENT

### WASTE

In all areas of our organization we have implemented Reduce, Recycle and Reuse programs for waste through treatment techniques and a waste collection, transportation and disposal system to ensure the responsible management of these materials.

Furthermore, since 2017 we have partnered with ECOCE, a civil association that focuses on recovering and recycling packaging and containers.



**+7,800**

tons of reused hazardous and special handling waste.

**90%**

We currently recycle 90% of the waste generated in our productives.



In 2019, we successfully recovered

**1,772**

tons of PET and 6,171 tons of PEAD from packaging sent to market by Lala.

We maximize the reuse and recycling of materials through comprehensive waste management schemes for their reduction.

#### Hazardous waste management:

20% of waste recycled.  
25% of waste reused.  
10% of waste incinerated.  
45% of waste disposed of in other manners.

#### Gestión de residuos no peligrosos:

79.8% of waste recycled.  
7.3% of waste reused.  
12.8% of waste disposed of in other manners.

### ENVIRONMENTAL CERTIFICATIONS

The Clean Transport (Transporte Limpio) certification from the Ministry of the Environment for good environmental performance.

Recognition to Fundación LALA A.C. for joining the Better Alliances, Better Forests initiative in favor of the Natural Protected Areas of Guanajuato, granted by the Reforestamos México Civil Association in coordination with the Ministry of Environment and Territorial Planning (SMAOT).

**7**

of our manufacturing plants have the Clean Industry certification from SEMARNAT.



Offering healthy, innovative and quality products to our customers, cultivating our environmental commitment to a better world and ensuring the well-being of our staff and communities is what drives us to strengthen our sustainable actions.





### **Investor contact and information**

Corporate offices 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. Mexico.



#### **Investor Relations**

**David González Pelaez**

+52 (55) 9177 5900

investor.relations@grupolala.com



#### **Institutional Relations**

**Miguel Ángel García Paredes**

+52 (55) 9177 5900

miguel.garcia@grupolala.com



**For more information see the 2019 Annual Report**  
**[www.lala.com.mx](http://www.lala.com.mx)**