2021 ANNUAL REPORT

The future is TODAY with passion for innovation

Kimberly-Clark de México

CONTENTS

KIMBERLY-CLARK DE MEXICO is a Mexican company that makes, distributes and sells products for daily use inside and outside of the home for personal consumption, such as: diapers and baby products, feminine napkins, incontinence products, toilet paper, napkins, tissues, paper towels, wet wipes and soaps. Among its main brands are Huggies®, KleenBebé®, Kleenex®, Evenflo®, Pétalo®, Suavel®, Cottonelle®, Depend®, Kotex® and Escudo®. Because of its continuous innovation and consumer-centric approach, the company is a leader in most of the categories in which it participates. KCM is listed on the Mexican Stock Exchange under the ticker symbol "KIMBER."

MAKING THE ESSENTIAL EXTRAORDINARY

Every day, for a lifetime.

At Kimberly-Clark de México, **the future begins today,** and we work every day **with passion for innovation** to make our vision of the future a reality, with new products that better meet our customers' needs, operating profitably, and efficiently to create more value for our stakeholders.

The future is: STAYING ONE STEP AHEAD OF THE CONSUMER'S NEEDS

Always looking for ways to create value through innovation.

With our consumer-centric vision, we anticipate the consumer's needs and develop products with greater comfort, strength, softness, and care.

Kleenex® Cottonelle® Elegance

Kleenex® Cottonelle® is a brand renowned for its softness and premium quality in the toilet paper category. **Kleenex® Cottonelle®** pays attention to every detail and strives to offer the best products, which is why it launched the new **Cottonelle® Elegance®** on the market, the first product to offer XL sheets, which means more comfort: fatter rolls and the highest experience of softness, fragrance, and skincare.

Pétalo® Maxi Resist

Pétalo launched a new **Maxi Resist®** line, designed with a technology unique in Mexico to better care for your family, available in 18- and 32-roll packages. With its new Wet-Strength technology, it's two times stronger than conventional toilet paper, with Pétalo's usual quality, yield and softness. Ideal for you and your family. Because Pétalo always gives you more.

Kleenex® Allergy Comfort®

Kleenex has a new line of **Kleenex® Allergy Comfort™** tissues, specially designed to provide comfort for people with allergy symptoms. They are hypoallergenic, with no added fragrances or chemicals, and have been dermatologically and ophthalmologically tested with all the softness and absorbency of regular **Kleenex®**, making them safe for frequent use around the nose and eyes, delicately cleaning your skin.

The future of PROTECTION AND WELLNESS TODAY

Comprehensive solutions that turn care for your baby into something extraordinary.

Inspired by mommy's hugs, we select the highest-quality materials, technology, and design to create products that accompany your baby's development.

Huggies® Supreme Unisex

We incorporated Derma Protect technology into the inner covers, expanding the absorbent core to offer superior protection for boys and girls. The only diapers that have been clinically and dermatologically tested.

Huggies® All Around Size 7

With bigger babies in mind, we launched Size 7 **Huggies**® to provide a perfect fit with a self-adjustable diaper, to continue encouraging baby's efforts and achievements at every phase of their development.

Huggies® Supreme Platino wet wipes

Superior softness thanks to a new cottony 3-D texture. Safe for baby's skin, clinically and dermatologically tested. Superior care, enhanced by glycerin and essential lavender oil.

The future of COMFORT AND SECURITY TODAY

Practical, convenient solutions so you and your baby can enjoy every phase of your motherhood.

KleenBebé Suavelastic

Absorbency and dryness for much more time, with new channels that better distribute liquids. Dermatologically tested in all brands.

Advanced by Evenflo breast pumps

Innovation and advanced technology to facilitate nursing. Convenient and practical for pumping, the cups adapt perfectly to the breast, stimulating and massaging for a more comfortable experience. Light and noiseless, with rechargeable batteries.

Evenflo has designed a whole range of innovative, advanced and high-quality solutions that assist consumers and help their motherhood flow smoothly.

The future of PROTECTION AND WELLNESS TODAY

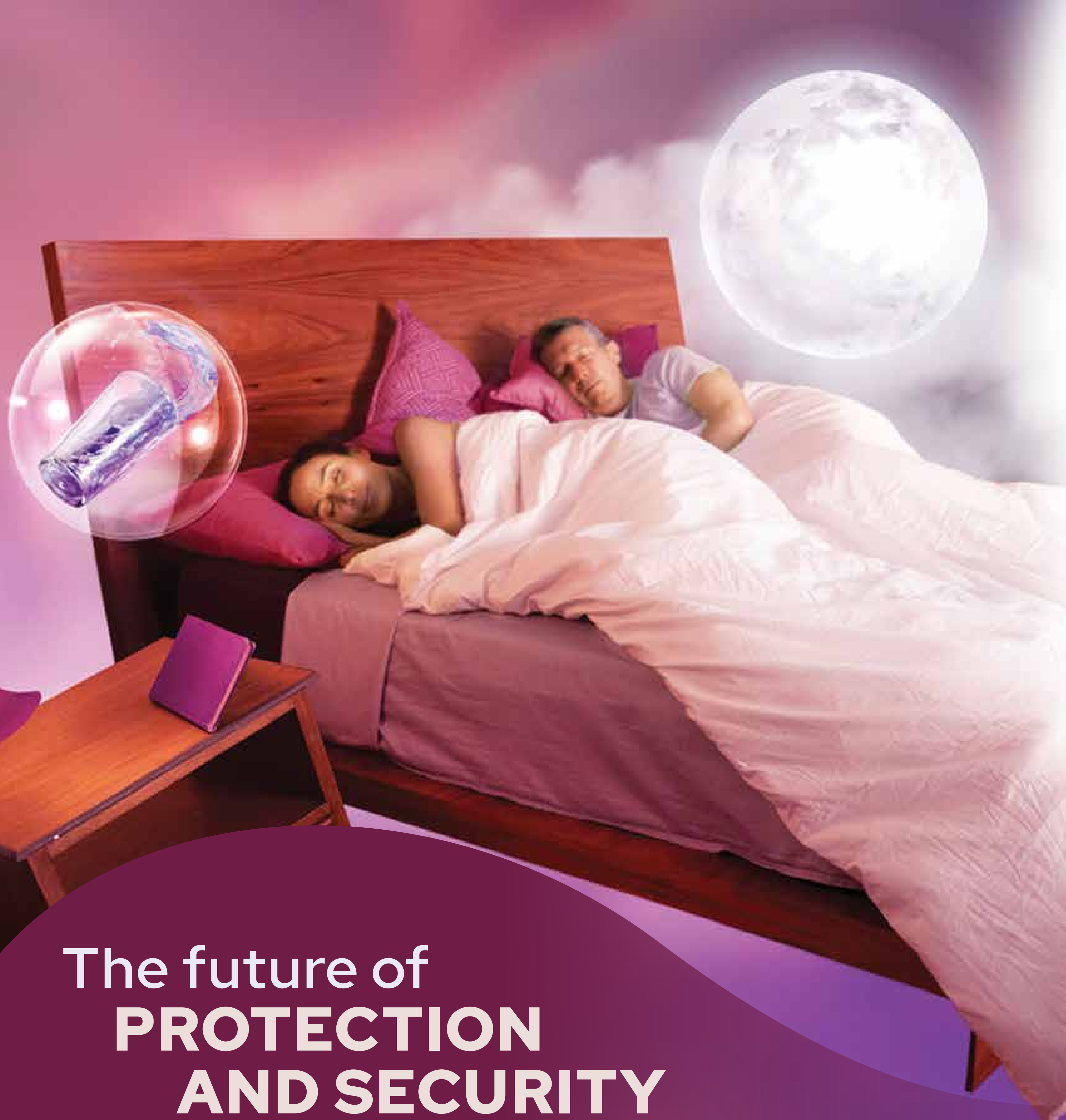
Superior care for maximum softness and skin protection, transforming personal care into an extraordinary experience.

Kleenex® Soaps

Soft by Nature, a brand that had already gained a reputation in Mexico for its softness, now has an updated focus and positioning: emphasizing its natural ingredients, clean formula and commitment to sustainability.

Escudo® Soft Protect

The new line of **Escudo® Soft Protect** products is a comprehensive product family consisting of a portfolio of bar soap and liquid hand soap, providing the superior protection and moisturizing that the whole family needs.



The future of PROTECTION AND SECURITY TODAY

Excellence in protection means maximum absorbency, discretion, and superior skin care, so you can live your life confident and protected.

We know that people who live with urinary incontinence have different protection needs, not just **Maximum Absorbency** but a solution to the day-to-day challenges of this condition.

Depend® Derma Protect

The only brand to offer **Superior Skin Care,** its **Exclusive Inner Lining** with added minerals help relieve irritation, improve skin moisture conditions and prevents bacteria from forming.

Depend® Nighttime Underwear

Our most absorbent underwear. Offers **ultra protection for maximum security,** whether you're lying down or up and about.

The future of SECURITY AND CONFIDENCE TODAY

Advanced protection, greater comfort and security that turn peace of mind into something extraordinary.

Through innovations in our feminine hygiene product lines, we bring advanced protection to the everyday lives of our consumers, with comfort and confidence. This translates into better intimate care, and greater health and wellness.

Longer-lasting protection

With the Kotex® Nighttime Rapi-Absorb Technology that captures and distributes your flow quickly, a new cover that provides **double softness, and a perfect fit** so you feel more comfortable.

Experience Maxi-Protection

With **Kotex® Maxi Pantyliners,** with **Improved Absorbency** thanks to an **elongated design that is wider at the back,** giving you maximum protection so you can feel protected and dry.

Protection is in your hands.

With **Kotex® Unika applicator-free tampons,** you can **reduce waste while enjoying maximum absorbency.** Easy insertion thanks to **Blue Protection technology** and anatomical curves.

The future in **QUALITY AND YIELD TODAY**

Together creating exceptional places to work

We offer innovative solutions, and in 2020, we launched our hygiene and cleaning portfolio, and we continue to work on protecting the environment by creating the S-Pack program to generate less waste, for a cleaner world.

S-PACK Smart Pack

S-Pack Smart Pack

Our **S-Pack Smart Pack** program brings together all the areas of the company toward the goal of finding ways to improve our containers and products to reduce waste in the environment, optimize storage space and reduce logistical costs.

Skin-cleansing Foam

Our **Escudo Professional skin-cleansing** foam helps eliminate 99% of bacteria without stickiness or dryness, with double the yield of antiseptic gel, a practical presentation for hotels and restaurants.

New dispenser line

A new line of dispensers with cutting-edge designs and a standardized image for our three business segments: **Kleenex in stainless steel, Marli with a practical and functional smoked finish,** and **Pétalo** with a modern look in white plastic.

Letter to our **SHAREHOLDERS**

2021 was a highly challenging year for your company. Sales were affected by an economy that began by recovering from a steep decline the year before but quickly lost dynamism in 2021 and ended with negative numbers in the third and fourth quarters. Domestic consumption followed the same pattern and slowed in the second half of the year, affected by the pandemic and other factors, including a sharp rise in inflation.

On the costs side, we experienced an unprecedented situation in the sudden surge in raw material prices, along with distribution expenses pushed up by supply-chain disruptions. These increases were heightened toward the end of the year, squeezing our margins downward.

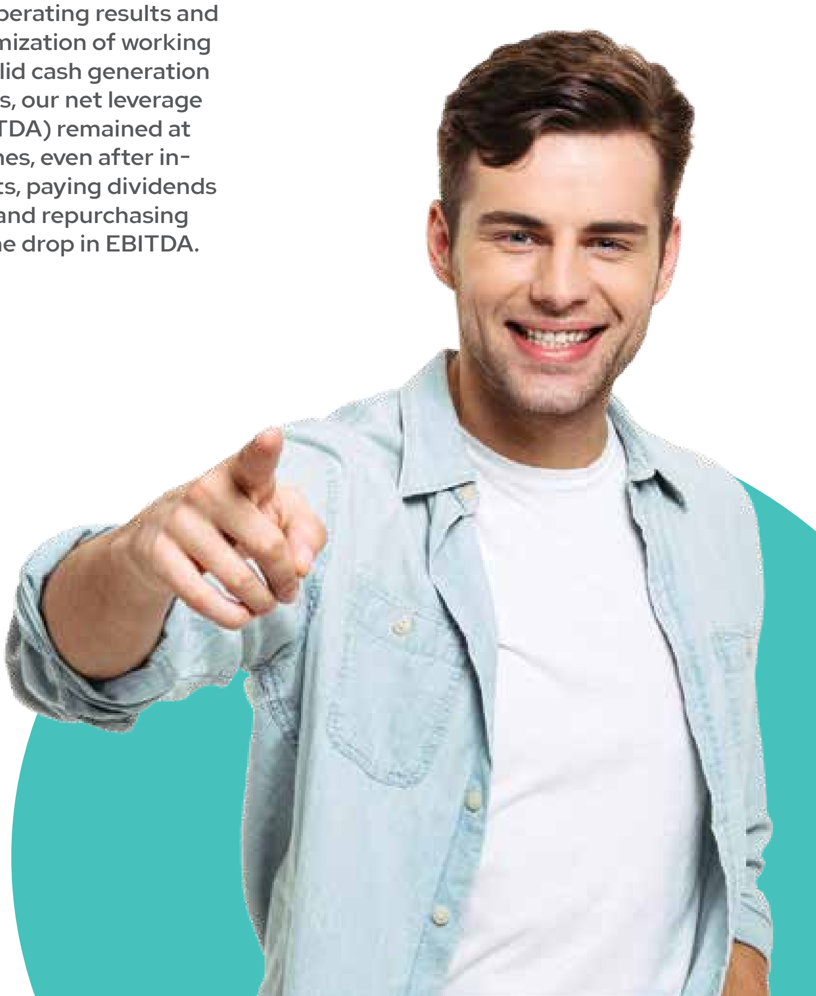
We are taking the necessary actions to deal with this situation, but these take time to materialize, while costs, again, rose at an unprecedented rate.

SALES REACHED A NEW RECORD HIGH FOR THE COMPANY DESPITE VERY TOUGH COMPARABLES IN 2020 WHEN SEVERAL PRODUCTS SAW SKYROCKETING SALES DUE TO THE PANDEMIC.

Also important throughout 2021 were the actions and protocols we continued to apply to protect our employees and their families. By the end of the year, 88% of our people were fully vaccinated and 97% had received at least one dose. We also continued our plans to support suppliers and clients, as well as the communities where we operate, to ensure that our products—many of them indispensable during the pandemic—were always available in stores. These pandemic-era actions will continue in 2022.

In this complex setting, we were still able to increase sales to a record level for the company, despite a daunting base of comparison in 2020, when sales of some products skyrocketed due to the pandemic, and despite price increases that reduced sales volume of some products, our brands remained solidly positioned.

Despite higher sales, improved operating efficiency and productivity, and substantial savings through an ongoing cost and expense cutting program, cost pressures were far greater, which caused a 20.8 percent drop in our operating income, and a 17.7 percent decline in EBITDA. Net profit was down by 26.2 percent. Even with this, our operating results and our control and optimization of working capital supported solid cash generation for the year. With this, our net leverage index (net debt/EBITDA) remained at a very healthy 1.4 times, even after investing in fixed assets, paying dividends to our shareholders and repurchasing stock, and despite the drop in EBITDA.



Unfortunately, we do not see any near-term easing of cost pressures from our vendors' price increases, so we have a lot to do heading into 2022.

Regarding the external context, we expect the Mexican economy to grow at a moderate pace given the lack of growth drivers, very specifically the lack of investment at the levels this country requires. For this reason, the economy will take longer to return to its prepandemic levels, particularly as regards GDP per capita. Consumption will grow slowly despite wage increases and a strong flow of remittances from abroad, since savings were diminished during the pandemic, new jobs are low-paying and primarily in the informal sector, and inflation is putting more pressure on household income. There will be growth, but not entirely as much as the country needs.

Projections regarding inflation in our raw materials and distribution expenses show something of a stabilization, but at much higher levels than in previous years. Some of these prices are likely to come down again eventually, but only moderately and gradually.

To deal with this situation we have been analyzing all of the company's operating areas in order to identify opportunities where we can improve our prices and sales and substantially reduce cost and expenses. Among them:

1 a more efficient use of promotional investment, along with additional price increases based on our "Revenue Growth Management Models;"
2 strengthening our execution structure and capacities in the commercial area;

WE ANALYZED ALL OPERATING AREAS IN ORDER TO IDENTIFY OPPORTUNITIES WHERE WE CAN IMPROVE OUR PRICES AND SALES.

3 accelerating innovation tha gives us a competitive edge and strengthen our brands;
4 leveraging our multi-brand, multi-channel strategy;
5 bringing in manufacturing equipment that support innovation and enable us to improve quality, productivity and efficiency while cutting costs;
6 strengthening our costs saving program, which resulted in record savings this past year; and
7 actions to tighten working capital and generate more cash, among many others.

On the whole, all these actions increase our speed to the market and improve what we offer to consumers and clients, while helping us use our resources more efficiently, and make more with less.

We are convinced that these programs will bring a sequential improvement in results in the first half of the year and position this company for an impressive margin recovery in the second half. It will also put us on even better footing for accelerated growth and stronger profits in the years to come.

In the attached report you can learn about the company's actions and results in areas like innovation, operations, sustainability, social responsibility and human resources.

Dear Shareholders, once again we thank you for your support and confidence in our management this past year, and we reiterate our commitment to carrying out the plans and programs necessary for Kimberly-Clark de México to continue being the successful company it is and has always been.

Very truly yours,

Claudio X. González L.
Chairman of the Board of Directors

Pablo R. González G.
Chief Executive Officer

This report was approved in full by the Board of Directors in its meeting of February 8, 2022.

OPERATING Review

INNOVATION

Throughout 2021, we continued building value with vital innovations that distinguish us from our competitors and improve the quality of life for our consumers, every day, for a lifetime. We developed and launched products focused on their needs and designed to deliver superior performance and greater care, confidence and protection.

In the baby diaper segment, Huggies Supreme® incorporated a new three-dimensional DermoProtect padded cover that offers superior dryness and absorbency, and we introduced the new Huggies Size 7 All Around®, responding to growing consumer demand for larger diapers. KleenBebé Suavelastic® introduced a new technology of Maxi-Dry channels to improve absorption and strength during use.

In 2021 we also began producing Huggies® Snug & Dry™ for exports to the US market.

In our Toiletries category, we launched the Huggies® Natural Touch line, a portfolio of products formulated with highly effective, natural ingredients that are dermatologically certified.

Among our innovations in the Evenflo line, we launched a new line of breast pumps that incorporate technologies and features that make them more comfortable, lighter, quieter and portable.

In the Adult Care category, we innovated in the area of skin care, with a new Depend® Derma Protect line that includes an exclusive three-mineral complex (zinc, copper and silver) that is clinically proven to relieve irritation and your keep skin healthy in contact with the product.

In our Toilet Paper line, we developed a new Pétalo® Maxi Resist, with superior strength even when wet. We also launched new Pétalo® and Suavel® toilet paper, whose new technology and embossing design offer improved strength and softness.

In the napkin category, we expanded our portfolio with new Pétalo® Antibacterial wet wipes, which offer superior cleaning while eliminating the most common bacteria.

The new Kleenex® Allergy Comfort facial tissues offer maximum softness and an innovative hypoallergenic formula, dermatologically tested and endorsed by experts.

IN OUR TOILET PAPER BUSINESS, WE DEVELOPED A NEW PÉTALO® MAXI RESIST, WITH SUPERIOR STRENGTH EVEN WHEN WET.

OPERATIONS

In the Feminine Care category, we launched Kotex® Unika® Non-applicator Tampons, eliminating the waste associated with single-use plastic applicators. They incorporate Blue Protection technology for greater absorbency and confidence.

We also introduced new Kotex® Maxi pantiliners that offer extra protection and confidence with a larger absorbent area at the back, and new Kotex® Unika® Colors pantiliners that offer enhanced discretion with colors that match your underwear.

In the Protection category, we expanded our range of solutions into a new segment. The Escudo® Kids line now includes wet wipes and liquid hand soap, and Kleenex® Kids facemasks have an ergonomic, attractive design to effectively protect kids. We also launched new Escudo® SoftProtect bar and liquid hand soap that offer the anti-bacterial protection this brand is known for plus extra moisturizing thanks to its emollients, for gentle skin care.

Finally, in our Professional division, we introduced Escudo® skin-cleansing foam, which removes impurities from hands without the need to rinse.

In 2021, our productive strategy focused on keeping operations up and running during the pandemic, protecting our employees at all times. We started up a variety of manufacturing and conversion equipment in our home and personal care product lines to support the company's growth, increase product quality and update the technological platform, which will boost innovation and process improvement.

In Personal Care, we started up new equipment and machinery for turning out nonwoven fabric for export, like Huggies® Snug and Dry™, WypAll® dry cleaning wipes, distribution covers for turning into diaper lines at Kimberly-Clark North America, and laminating cover material for turning into safety garments at Kimberly-Clark Professional. Additionally, a line of wet wipes for surfaces in a canister container made at the Tlaxcala plant, the startup of equipment to produce Escudo® antiseptic gel at the Toluca plant, and a pet bottle-blowing line for Escudo® liquid soap at the Evenflo plant. A third line turning out Kleenex® disposable facemasks in child sizes was added at the Prosede plant. Finally, we acquired equipment to increase capacity of wide-neck baby bottles at the Evenflo plant, as well as automated packing and palletizing systems at various of our personal care operations.

In Tissue, the Texmelucan plant started up a new line of interfolded hand towels to meet the growing demand for products in our Professional division; the Bajío plant started up a new paper towel line that enables us to modernize our value proposition to the market and reinforce our vision of remaining at the forefront of our industry in technology; for our Pétalo® and Suavel® brands, in the toilet paper category we installed new embossing rolls with state-of-the-art laminating technology which not only helps modernize this brands but makes operations more flexible and efficient. In practically all of our wadding machines we installed new and modern equipment to mechanically improve the characteristics of our fibers and make the most of their properties, which will lead to better products at a lower cost and a more efficient use of resources.

We also worked intensively on identifying and implementing various initiatives that will increase cost-competitiveness, generating Ps. 1.4 million in savings and, for the eighth year in a row, equivalent to at least five percent of the cost of goods sold.

WE MONETIZE 98 PERCENT OF OUR WASTE, WHICH IS USED IN OTHER PROCESSES OR TO GENERATE ENERGY

SUSTAINABILITY

As a testament of the priority that our organization places on environmental and social issues, in 2021, we joined in supporting the United Nations Global Compact, committing to ten universal principles relating to human rights, labor, the environment and anti-corruption.

Furthermore, reaffirming our commitment to the planet and society, we announced our SUSTAINABLE AMBITION 2030 PROGRAM, which contributes to thirteen of the United Nations' 17 Sustainable Development Goals. In it, we detail our strategy and targets in matters such as water, forests, emissions and social engagement, among other goals.

This unwavering pursuit of environmental, social and governance issues was reflected in the scores we obtained from the most prestigious international rating agencies. For the fifth year in a row we remained members of the London Stock Exchange's FTSE4Good Index, and we were once again listed in the Dow Jones Sustainability Index (DJSI) MILA Region (Latin American Integrated Market).
For the second year in a row, KCM was included in the Dow Jones Sustainability Index (DJSI) Sustainable markets, where we remain leaders in our industry in the 25 emerging economies covered by the index—one of only four Mexican companies that meet this exacting standard.

Our Forest Stewardship, Water and Greenhouse Gas Emissions management was evaluated by the Carbon Disclosure Project (CDP), one of the world's most renowned organizations regarding disclosure of environmental strategies, we advanced to Leadership Level with scores above the global industry average. We also made our first Taskforce on Climate-Related Financial Disclosure report and were one of the first companies in Mexico to complete it, systematically analyzing climate-change related risks in our operations.

Within our operations we have prioritized the circular economy model and succeeded in monetizing 98 per cent of our waste, which are used in other processes or for energy generation. We continue to reduce our greenhouse gas emissions and energy consumption; we maintained our leadership in water stewardship, prioritizing the use of postconsumer water; and we ensured that 100% of our virgin fiber comes from sustainable sources, which earned us certifications like Ecólogo®, FSC® and Green Seal for our products.

WE SUPPORTED FRONTLINE MEDICAL PERSONAL DURING THE PANDEMIC, EXPANDING OUR WORK THROUGH AN ALLIANCE WITH FONDO PYMO TO HELP 22 OF THE COUNTRY'S NEEDIEST HOSPITALS WITH MORE THAN 60,000 UNITS OF SUPPLIES, PROTECTION MATERIALS AND HYGIENE PRODUCTS.

SOCIAL RESPONSIBILITY

As always, the safety and health of our employees was a priority last year, when we held various events and workshops through the KCM Wellness program, covering topics like metal and physical health as well as financial culture.

Continuing our support for frontline medical personal during the pandemic, we expanded our work through an alliance with Fondo PYMO to help 22 of the country's neediest hospitals with more than 60,000 units of supplies, protection materials and hygiene products.

One of our continuing brand efforts is Embracing Their Development by Huggies®, through which we offered online workshops to more than 180,000 people, given by specialists in psychomotor development, to help parents encourage their children's overall development from home. Additionally, through various platforms and points of contact we reached 4 million parents and caretakers with accessible information endorsed by experts in child development, which included exercises and activities to promote babies' motor, cognitive and socioemotional development.

Through Kleenbebé®, hand-in-hand with the Apapachos de la Vida initiative and the Mexican Red Cross, we counseled parents and caretakers in ways to reduce infant mortality, improving quality of life and supporting families in remote and poorer communities in areas like healthy pregnancy, breastfeeding, importance of vaccinations and baby care and hygiene. So far we have impacted more than 5,000 families and more than 20,000 people.

The Kotex® brand continued to support Mexican women through the Kotex® for All platform, whose launch involved a series of talks and lectures about sisterhood in order to raise our voices and build awareness about equality and the development of Mexican women. The platform reached more than 4 million people in its first year. The brand also developed a program and content about detecting and eradicating gender violence and achieving equality, which was brought to vulnerable communities in Mexico State, where people learned skills for relating to themselves and others based on respect for their family, neighbors, and the world around them.

In August, Kotex® joined forces with seven Mexican designers to create fashion items with special designs in partnership with the retail chain Forever 21®, donating a portion of the sales to support workshops against gender violence. In October, it launched a cause marketing campaign together with COI foundation, which supports detection and early treatment of breast cancer.

Our Kleenex® brand facemasks had their initiative called Every Facemask Counts, to raise awareness and educate people about disposing of them properly. Through various allies, we placed more than 60 containers in strategic sites in Mexico City, Playa del Carmen and Acapulco, where we collected more than 40,000 masks in this first phase.

Depend® continued to strengthen its "Always There for You" program, which offers confidence and protection to older adults, improving their quality of life. In this new phase the focus was on recycling and on jobs and training for women, offering scholarships to 100 disadvantaged women in the municipality of Chimalhuacán, Mexico State, who received training on using Depend® packaging waste to make handicrafts. So far more than 100,000 product bags have been recycled.

Since its inception, we have firmly supported the government's Youth Building the Future program, welcoming more than 500 interns into our operations. We are convinced that this training program can have a positive effect on our society and our country.

HUMAN RESOURCES

WE INVESTED MORE THAN 200 MILLION PESOS IN SANITATION EQUIPMENT FOR OUR FACILITIES; AND MORE THAN 97 PERCENT OF OUR EMPLOYEES ARE VACCINATED.

In 2021, we continued to deal with the effects of the pandemic, always striving, beyond every effort and result, to keep our employees and their families safe and healthy. We invested heavily in permanent equipment and sanitation for our facilities, in working conditions and to help people do what was necessary to stay healthy, get tested and vaccinated. More than 200 million pesos were poured into the effort, and we are pleased to report that 97 percent of our employees have received at least one vaccine, while 88 percent are fully vaccinated. This has been of great help in weathering this latest phase of the pandemic.

Beyond the current situation, and aware that having the most qualified, committed and competitive people has always been key to our success, we encourage a challenging working environment, where our employees can grow, develop their potential and be recognized and rewarded for their contributions. Our compensation scheme focuses on achieving results and can be summed up in the belief that "when the company does well, its people do well." This is clearly reflected in our employee profit-sharing, consistently one of the highest in the country.

We support equality, and our hiring, inclusion and development practices were designed to be free of discrimination, supportive and respectful of the individual and their rights. We maintain a relationship of mutual respect and recognition with unions, and we were able to ratify all of our collective bargaining contracts as well as salary and contractual reviews on competitive terms, always in a climate of cordiality.

Once again, at KCM the health and wellness of all employees and their families was our top priority last year, and we invested time and money in industrial safety within our operations. Unfortunately, 2021 was not a great year by this measure, and in this knowledge, we are redoubling efforts and taking the pertinent measures to correct it. There is no result or achievement that justifies placing our people at risk. It has always been that way for KCM, and it will remain so.

RELATIONSHIP WITH KIMBERLY-CLARK CORPORATION

Our partnership with Kimberly-Clark Corporation is fundamental both for supporting our product and processes innovation, and for introducing state-of-the-art technology. This alliance is vital for KCM to have an active, dynamic window on what is happening around the world, and it enables us to participate in global purchasing agreements and share information on best practices, both operating and commercial.

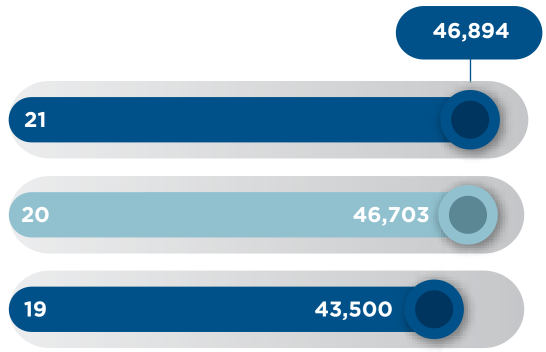
In 2021, we undertook key projects in various categories, making ourselves an increasingly invaluable part of the KCC supply chain and achieving vigorous growth. These projects included toilet paper products like Scott® 1000, Cottonelle® and Cottonelle® flushables; in baby diapers, Huggies® Snug & Dry™; in diaper wipes, Huggies Simply Clean® and Kleenbebé® Absorsec®; and others. We are working on other developments for 2022 that should provide the basis for strong growth in exports to our partner.

OUR PARTNERSHIP WITH KCC IS FUNDAMENTAL BOTH FOR SUPPORTING OUR PRODUCT AND PROCESS INNOVATION, AND FOR INTRODUCING STATE-OF-THE-ART TECHNOLOGY

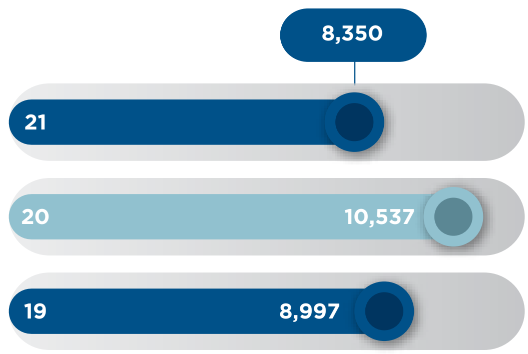
Financial HIGHLIGHTS

Figures in millions of pesos	2021	2020
Net sales	46,894	46,703
Gross earnings	15,786	18,009
Margin	33.7%	38.6%
Operating Income	8,350	10,537
Margin	17.8%	22.6%
Net income	4,494	6,086
Margin	9.6%	13.0%
EBITDA	10,285	12,491
Margin	21.9%	26.7%
Net earnings per share (pesos)	1.46	1.97

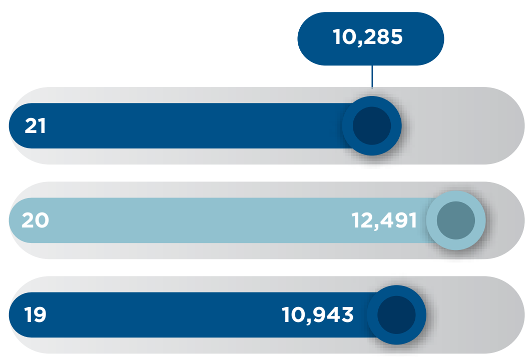
NET SALES
MILLIONS OF PESOS



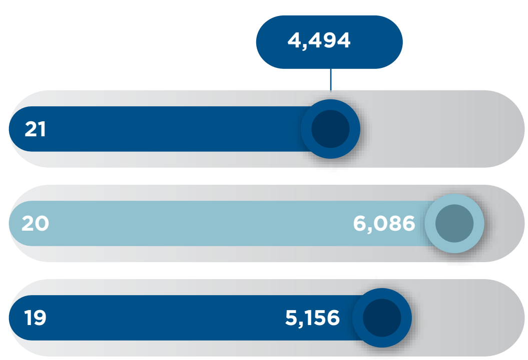
OPERATING INCOME
MILLIONS OF PESOS



EBITDA
MILLIONS OF PESOS



NET INCOME



PRODUCT Portfolio

BABIES

Diapers, pull-up training pants, swim diapers, diaper wipes, shampoo, cream and bar soap, feeding products

PERSONAL CARE

Bar soap, liquid hand soap, foaming liquid soap, liquid body wash, micellar water, makeup removing wipes

WOMEN

Feminine pads, panty liners, tampons, intimate wipes

CLEANING AND PROTECTION

Wet wipes, anti-bacterial gel, disinfecting spray, facemasks

ADULTS

Underwear, protectors, feminine pads, prefolded

HOME

Toilet paper, napkins, facial tissue, Servitoalla® paper towels

PROFESSIONAL

Dispensers, jumbo roll toilet paper, paper towels, hand towels, industrial cleaning cloths

Board of DIRECTORS

DIRECTORS

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Valentín Diez Morodo*
Vice Chairman

Michael Hsu
Vice Chairman

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Kim Underhill

* Independent

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Chief Executive Officer

Xavier Cortés Lascurain
Finance

Ommar H. Parra de la Rocha
Consumer Sales

Jorge Morales Rojas
Transformation and Execution

Cristina Pichardo López
Marketing Infant Products, Incontinence and Beauty Care

Regina Celorio Calvo
Marketing Family and Femenine Care

Armando Bonilla Ruiz
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Catalina Uribe Restrepo
Purchasing

Ernesto Reyes Díaz
Personal Care Manufacturing

Roberto García Palacios
Tissue Manufacturing

Carlos Franco Solís
Innovation, Technical Development, Quality and Sustainability

Jesús González Laporte
Strategic Operations Planning

Alejandro Lascurain Curbelo
Human Resources

Alonso Martínez Marmolejo
Corporate Communications | Digital Marketing

Fernando Vergara Rosales
Corporate Comptroller

Alejandro Argüelles de la Torre
General Counsel

Carlos Conss Curiel
Information Services

Salvador Escoto Barjau
Treasury and Investor Relations

CONSOLIDATED
Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF KIMBERLY-CLARK DE MÉXICO, S.A.B. DE C.V.

OPINION

We have audited the accompanying consolidated financial statements of Kimberly-Clark de México, S. A. B. de C. V. and its Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the consolidated statements of income, other comprehensive income, changes in stockholders' equity and cash flows for the years then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kimberly-Clark de México, S. A. B. de C. V. and its subsidiaries as of December 31, 2021 and 2020, and their consolidated financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants together with the Code of Ethics issued by the Mexican Institute of Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with both codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The key audit matters were selected from those reported to the Entity's Management and Audit Committee, but do not represent all the issues discussed with them. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

Allowance for rebates

Rebates are granted considering commercial plans established at the beginning of each period with customers, and in some cases, include assumptions that require significant management judgement to estimate the expected sales volume and the required allowance.

Our audit procedures included, amongst others, an understanding of the different commercial plans, analyses of variances and trends, the execution of control tests, recalculation of the amounts and validating source data. The results of our procedures were satisfactory.

Note 5 to the accompanying consolidated financial statements includes certain information about this allowance.

Recoverable value of goodwill and intangible assets of certain cash-generating units

The Entity has quantified the recoverable value of certain cash-generating units based on the methods required by the international accounting standard IAS 36 "Impairment of assets". Goodwill and intangibles acquired on a business combination are subject to yearly impairment tests that include management judgement to estimate future cash flows and an appropriate discount rate. At the end of this year, goodwill for $934,221 thousand of Mexican pesos and intangible assets for $1,097,290 thousand of Mexican pesos, represent 4% of total consolidated assets.

Our audit procedures included, among others, discussions with management about the assumptions used in the projections and their adequacy, an independent recalculation by an Auditor's expert to validate the discount rate used and the execution of control and substantive tests. The results of our procedures were satisfactory.

Notes 9 and 10 to the accompanying consolidated financial statements include certain disclosures about goodwill and intangibles.

ANNUAL REPORT PRESENTED TO THE MEXICAN STOCK EXCHANGE

Management is responsible for the annual report that is presented in accordance with the rules applicable to issuers listed on the Mexican Stock Exchange, which will include the consolidated financial statements and our auditors' report. The annual report will be provided to us after the date of this auditor's report.

Our responsibility is to read the information contained in the annual report when it becomes available to us, and in doing so, consider whether such information is materially consistent with the consolidated financial statements and with our knowledge obtained in the audit. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate this matter.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process, reviewing the content of the consolidated financial statements and submitting them for the approval of the Entity's Board of Directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit executed in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtained sufficient appropriate evidence regarding the financial information of the entities or the business activities performed within the Entity to enable us to issue an opinion on the accompanying consolidated financial statements. We are responsible for the management, supervision and performance of the group audit and are exclusively responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would outweigh the benefits.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Manuel Nieblas Rodríguez
Mexico City, Mexico
February 8, 2022

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020
(Thousands of Mexican pesos)

ASSETS	NOTES	2021	2020
Current assets:			
Cash and cash equivalents	4	$ 12,274,693	$ 18,583,898
Trade accounts receivable and others	5	6,805,751	6,051,941
Derivative financial instruments	16	-	396,053
Inventories	6	4,462,120	3,792,471
Total current assets		23,542,564	28,824,363
Long-term assets:			
Right-of-use assets	7	1,310,845	1,293,569
Property, plant and equipment	8	17,071,316	16,370,142
Derivative financial instruments	16	3,993,654	3,813,478
Intangibles and other assets	9	1,931,392	2,080,878
Goodwill	10	934,221	934,221
Total long-term assets		25,241,428	24,492,288
Total		$ 48,783,992	$ 53,316,651

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Current portion of long-term debt	11	$ 3,000,000	$ 3,990,000
Bank loans		235,000	235,000
Trade accounts payable		8,754,380	6,687,155
Lease liabilities	7	251,679	240,706
Other accounts payable, accrued liabilities and provisions	12	1,796,549	2,069,483
Employee benefits		1,202,530	1,582,311
Income tax	13	10,018	757,644
Total current liabilities		15,250,156	15,562,299
Long-term liabilities:			
Long-term debt	11	25,175,518	27,603,092
Lease liabilities	7	1,172,029	1,122,717
Derivative financial instruments	16	927,811	2,652,355
Deferred income taxes	13	198,505	19,455
Other liabilities	14	336,344	663,912
Total long-term liabilities		27,810,207	32,061,531
Total liabilities		43,060,363	47,623,830
Stockholders' equity:			
Contributed		19,634	19,659
Earned		5,095,373	6,146,996
Other comprehensive income		608,622	(357,430)
Controlling Entity stockholders' equity	17	5,723,629	5,809,225
Minority interest stockholders' equity		-	(116,404)
Total stockholders' equity		5,723,629	5,692,821
Total		$ 48,783,992	$ 53,316,651

See accompanying notes to consolidated financial statements.

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2021 and 2020
(Thousands of Mexican pesos, except as indicated)

	NOTES	2021	2020
Net sales		$ 46,893,963	$ 46,702,895
Cost of sales		31,108,287	28,693,621
Gross profit		15,785,676	18,009,274
Selling expenses		5,127,092	5,085,764
Administrative expenses		2,308,865	2,386,217
Operating profit		8,349,719	10,537,293
Finance costs:			
Borrowing costs		2,245,208	2,258,807
Interest income		(462,261)	(598,433)
Exchange fluctuation – net		(43,018)	3,798
Income before income taxes		6,609,790	8,873,121
Income taxes	13	2,150,052	2,792,133
Consolidated net income before minority interest		4,459,738	6,080,988
Net loss minority interest		(34,130)	(4,784)
Net income		$ 4,493,868	$ 6,085,772
Basic earnings per share (in pesos)		$ 1.46	$ 1.97
Weighted average number of outstanding shares (in thousands)		3,076,716	3,084,833

See accompanying notes to consolidated financial statements.

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Years ended December 31, 2021 and 2020
(Thousands of Mexican pesos)

	NOTES	2021	2020
Consolidated net income		$ 4,459,738	$ 6,080,988
Other comprehensive income:			
Items that will not be reclassified subsequently to statements of income			
Actuarial earnings (losses) on retirement benefits – net of tax	14	2,661	(60,935)
Items that may be reclassified subsequently to statements of income			
Changes in valuation of derivative financial instruments – net of tax	16	963,391	(366,546)
		966,052	(427,481)
Consolidated comprehensive income before minority interest		5,425,790	5,653,507
Comprehensive loss minority interest		(34,130)	(4,784)
Comprehensive income		$ 5,459,920	$ 5,658,291

See accompanying notes to consolidated financial statements.

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2021 and 2020
(Thousands of Mexican pesos)

	CONTRIBUTED	EARNED	OTHER COMPREHENSIVE INCOME					
	Common stock	Retained earnings	Actuarial losses	Translation effects of foreign operations	Valuation of derivative financial instruments	Controlling entity stockholders' equity	Minority interest net of purchase obligation (Note 14a)	Total stockholders' equity
Balance, January 1, 2020	$ 19,695	$ 5,194,819	$ (209,778)	$ 145,682	$ 134,147	$ 5,284,565	$ (111,620)	$ 5,172,945
Dividends paid		(4,935,732)				(4,935,732)		(4,935,732)
Repurchase of own stock	(36)	(197,863)				(197,899)		(197,899)
Comprehensive income		6,085,772	(60,935)		(366,546)	5,658,291	(4,784)	5,653,507
Balance, December 31, 2020	19,659	6,146,996	(270,713)	145,682	(232,399)	5,809,225	(116,404)	5,692,821
Dividends paid		(5,296,108)				(5,296,108)		(5,296,108)
Repurchase of own stock	(25)	(135,908)				(135,933)		(135,933)
Reduction of stockholders' equity in minority interest and cancellation of purchase obligation		(113,475)				(113,475)	150,534	37,059
Comprehensive income		4,493,868	2,661		963,391	5,459,920	(34,130)	5,425,790
Balance, December 31, 2021	**$ 19,634**	**$ 5,095,373**	**$ (268,052)**	**$ 145,682**	**$ 730,992**	**$ 5,723,629**	**$ -**	**$ 5,723,629**

See accompanying notes to consolidated financial statements.

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2021 and 2020
(Thousands of Mexican pesos)

	2021	2020
OPERATING ACTIVITIES		
Income before income taxes	$ 6,609,790	$ 8,873,121
Items related to investing and financing activities:		
Depreciation and amortization	1,935,281	1,953,335
Exchange fluctuations	(43,018)	3,798
Interest expense - net	1,782,947	1,660,374
	10,285,000	12,490,628
Trade accounts receivable and other	(710,199)	652,833
Inventories	(669,649)	(566,768)
Trade accounts payable	1,978,702	876,660
Other accounts payable, accrued liabilities and provisions	(512,223)	(386,354)
Employee benefits and retirement	(443,273)	182,203
Income taxes paid	(3,130,697)	(2,915,441)
Net cash flows provided by operating activities	6,797,661	10,333,761
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,150,474)	(813,250)
Other assets	8,778	17,969
Net cash flows used in investing activities	(2,141,696)	(795,281)
Excess cash to apply in financing activities	4,655,965	9,538,480
FINANCING ACTIVITIES		
Borrowings	-	11,217,000
Payment of loans	(3,578,600)	(2,500,000)
Interest paid	(1,697,109)	(1,243,940)
Payment of lease liabilities	(358,300)	(322,252)
Dividends paid	(5,296,108)	(4,935,732)
Repurchase of own stock	(135,933)	(197,899)
Net cash flows used in financing activities	(11,066,050)	2,017,177
(Decrease) increase in cash and cash equivalents	(6,410,085)	11,555,657
Effects of exchange rate changes on balance held in foreign currency	100,880	189,685
Cash and cash equivalents at the beginning of year	18,583,898	6,838,556
Cash and cash equivalents at the end of year	$ 12,274,693	$ 18,583,898

Relevant transactions related to financing activities eliminated in the preparation of this statement were: exchange fluctuations for $(638,800) in 2021 and $500,000 in 2020.

See accompanying notes to consolidated financial statements.

KIMBERLY-CLARK DE MÉXICO, S. A. B. DE C. V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2021 and 2020
(Thousands of Mexican pesos, except as indicated)

1. GENERAL INFORMATION

Kimberly-Clark de México, S. A. B. de C. V. and its subsidiaries (the Entity) is a public company listed on the Mexican Stock Exchange. The address of its registered office and principal place of business is 8 Jaime Balmes street, 9th floor, Los Morales Polanco, Mexico City, and it is engaged in the manufacture and commercialization of disposable products for daily use by consumers within and away from home, such as: diapers and child care products, feminine pads, incontinence care products, bath tissue, napkins, facial tissue, hand and kitchen towels, wet wipes and soap starting in 2016. Some of the main brands include: Huggies®, KleenBebé®, Kleenex®, Suavel®, Pétalo®, Cottonelle®, Depend®, Kotex®, Evenflo®, Escudo® and Blumen®.

2. SIGNIFICANT EVENT

In March 2020 the World Health Organization declared the new coronavirus (COVID-19) a Global pandemic. Despite the profound impact it has having on human health, the economy and society throughout the world, the Entity was able to face the situation and its impact to mitigate the possible effects on its personnel and its businesses.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared under the going concern basis of accounting and they are in accordance with IFRS. They have been translated from Spanish into English for use outside of Mexico. The significant accounting policies are as follows:

a. ***Measurement basis*** – The consolidated financial statements have been prepared on the historical cost basis except for valuation of financial instruments that are measured at fair value.

   - Historical cost is generally based on the fair value of the consideration given in exchange for assets.

   - Fair value is defined as the price which would be received for selling an asset or which would be paid for transferring a liability in an orderly transaction between market participants at the valuation date. Fair value measurements are categorized in three levels:

     - Level 1 inputs are quoted prices in active markets,
     - Level 2 inputs are observable inputs, other than quoted prices included within Level 1,
     - Level 3 inputs are unobservable inputs for the assets or liability.

b. ***Basis of consolidation*** – The consolidated financial statements include the accounts of Kimberly-Clark de México, S. A. B. de C. V. and the following wholly owned subsidiaries, except where indicated.

   - Crisoba Industrial, S. A. de C. V., rents property, machinery and equipment and provides other services to Kimberly-Clark de México, S. A. B. de C. V.

   - Servicios Empresariales Során, S. A. de C. V. provides financing, operating lease of equipment and through its subsidiaries, distribution and other services to Kimberly-Clark de México, S. A. B. de C. V.

   - Three subsidiaries, which comprise the feeding accessories business in Mexico and the United States, as well as the commercialization in Mexico of other Evenflo® trademark products.

   - Taxi Aéreo de México, S. A. provides air transportation services to personnel of Kimberly-Clark de México, S. A. B. de C. V. and its subsidiaries, as well as to the general public.

- Other subsidiaries which operating lease of properties, mainly to different subsidiaries of Kimberly-Clark de México, S. A. B. de C. V.

- Some subsidiaries which comprise liquid soap and antibacterial gel businesses and others, of which it owns 77.5% during 2020 and until October 2021. As of November 2021, the Entity owns 100%.

Intercompany transactions and balances have been eliminated in these consolidated financial statements.

c. ***Critical accounting judgments and key information for estimates***

In the application of the Entity's accounting policies, the management is required to make judgments, estimates and assumptions regarding the carrying amounts of consolidated financial statements' assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Review of accounting estimates are recognized in the period in which the estimate is revised or in the period of the revision and future periods if the revision affects both current and future periods (see Notes 5 through 9).

d. ***Cash equivalents***

Consist of daily cash surplus investments, which are highly liquid investments and are easily convertible into cash and subject to low risk of changes in value.

e. ***Financial assets***

Financial assets are recognized when the Entity becomes a party to the contractual provisions of the instruments.

- Loans and accounts receivable

  Accounts receivable, loans and other accounts receivable with fixed or determinable payments that are not quoted in an active market are classified as loans and accounts receivable. Loans and accounts receivable are measured at amortized cost using the effective interest method, less any impairment.

- Impairment of financial assets

  As regards the impairment of financial assets, IFRS 9 requires the use of an expected credit loss method. The expected credit loss method requires that the Entity recognize the probability of expected losses arising at each reporting date to reflect credit risk changes from the initial recognition of financial assets.

  In the case of accounts receivable, the carrying amount is reduced through the use of an allowance for doubtful account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

f. ***Inventories***

Inventories are stated at the lower of cost and net realizable value. The costs, including an appropriate portion of indirect fixed and variable costs, are allocated to inventories by using the most appropriate method for the specific class of inventory; the majority are valued by the first-in first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

g. ***Leases***

The Entity as a lessee

Contracts with significant value and with a term greater than twelve months, which grant the Entity control of an asset are recognized as a right-of-use asset and a lease liability.

The right-of-use of the leased assets is initially calculated at cost and subsequently measured at cost less accumulated depreciation and impairment losses.

Lease liability is initially measured at the present value of the minimum lease payments.

The lease payments are distributed between the financial costs and the reduction of the lease obligations in order to reach a constant base on the remaining balance of the liability.

Financial costs are charged or credited directly to income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity accounting policy for borrowing costs.

Rent increases directly associated with an index or rate will be considered to carry out a remeasurement of the right-of-use asset and the lease liability.

h. ***Property, plant and equipment***

Property, plant and equipment are recorded at acquisition cost. Depreciation is recorded in profit or loss and computed using the straight-line method, based on the estimated useful lives of the assets.

The estimated useful lives are reviewed at the end of each reporting period, and the effect of any changes in estimate is accounted for on a prospective basis.

Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Properties in the course of construction for production are carried at cost, less any recognized impairment loss. Depreciation of these assets, as well as in other property assets, commences when the assets are ready for their intended use.

i. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be made ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

j. ***Intangibles***

Intangible assets acquired separately - Are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized within administrative expenses in the consolidated statements of income on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life, residual value and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination - Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

k. ***Impairment of tangible and intangible assets***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks of the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset in prior years.

l. ***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are recognized in profit or loss as incurred. The consideration transferred in each business combination is measured at fair value; the identifiable assets acquired and the liabilities assumed are also measured at fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes, and IAS 19, Employee Benefits, respectively.

There is a valuation period in which the acquirer adjusts the provisional amounts or recognizes additional assets or liabilities necessary to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The valuation period is the time elapsed from the acquisition date until the Entity obtains complete information on the facts and circumstances in effect at the acquisition date, which cannot exceed one year.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed at the acquisition date.

m. ***Goodwill***

Goodwill arising from business acquisitions is carried at cost, as established at the acquisition date, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating unit (or groups of cash-generating units) of the Entity, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

n. ***Financial liabilities***

Financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognized immediately in results.

The fair value of debt is determined at the end of each accounting period, considering observable data although not from active market quotes. Such value is determined with a discounted cash flow model.

- Borrowings and trade payables

Borrowings and trade payables are measured at amortized cost using the effective interest method.

The effective interest method is a method for calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate a shorter period), to the net carrying amount on initial recognition.

- Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

o. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

- Current income tax

Income tax (ISR) is recorded in results of the year in which it is incurred.

- Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities included in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, applying the rate corresponding to these differences and, as appropriate, tax losses to be amortized or tax credits are included. Deferred tax liabilities are generally recognized for all taxable temporary differences. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

- Current and deferred tax

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, income tax is also recognized in other comprehensive income or directly in equity, respectively, or in the case of the initial accounting for a business combination, within goodwill.

The Entity reviews whether there is any uncertain tax position, and if it exists, quantifies it using the most likely amount or the expected value method, depending on which one best predicts the resolution of the uncertainty.

p. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or assumed) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

q. ***Employee benefits***

Employee benefits are determined based on the services provided, considering current salaries, and the liability is recognized as accrued. It includes statutory employee profit sharing (PTU) payable, fringe benefits earned by the employees for direct benefits and incentives. Benefits also include a compensation plan for officers and employees named "Plan de Asignación de Unidades Virtuales" (Virtual Shares Award Plan), for which compensation cost is recognized in profit or loss of each year. To meet this obligation, the Entity has established a trust.

PTU is recorded in profit or loss of the year in which it is incurred and is presented within cost of sales and administrative expenses line items, as applicable.

r. ***Retirement benefits***

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the beginning and the end of each reporting period.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation, reduced by the fair value of plan assets.

Differences between actuarial valuation at the beginning and end of each period represent actuarial gains and losses of the year and they are presented within other comprehensive income.

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

s. ***Derivative financial instruments***

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss and in other comprehensive income when it qualifies for cash flow hedge accounting.

According to the current IFRS 9, effectiveness testing has been replaced by the principle of an "economic relationship", meaning that retrospectively evaluating hedge effectiveness is no longer necessary.

t. ***Revenue recognition for contracts with customers***

Revenues represent the transfer of goods and services to customers for an amount that reflects the payment to which the Entity expects to be entitled in exchange for the provision of these goods or services, while considering the shift to a control approach.

These revenues are recognized by utilizing a five-step model:

1. Identify the contract executed with the customer
   a) The contract is approved, including the commitment of the parties.
   b) The payment terms can be identified.
   c) The Entity will be able to collect the payment to which it is entitled.
   d) The rights of each party can be identified.
   e) Commercial substance.

2. Identify the performance obligations detailed in the contract
   a) Identify all the promised goods and services and determine whether they can be differentiated.

3. Determine the transaction price
   a) Determine whether the payment is fixed or variable.
   b) Identify reductions like sales returns and rebates.

4. Assign the transaction price to the performance obligations.

5. Recognize revenues when each performance obligation is fulfilled.
   a) When the vendor's performance generates an asset controlled by the customer.
   b) The customer receives and consumes the benefit generated by the vendor's performance.
   c) When the vendor has the right to receive the payment.

u. ***Foreign currency transactions***

The functional currency of the Entity is the Mexican peso.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange rate differences are recognized in results of the period.

4. CASH AND CASH EQUIVALENTS

Are composed as follows:

	2021	2020
Cash	$ 246,818	$ 803,222
Temporary cash investments	12,027,875	16,936,791
Restricted cash (see Note 16)	-	843,885
Total	$ 12,274,693	$ 18,583,898

5. TRADE ACCOUNTS RECEIVABLE AND OTHERS

	2021	2020
Trade	$ 7,213,848	$ 7,052,137
Allowance for rebates	(546,327)	(1,036,943)
Allowance for doubtful accounts	(171,927)	(161,500)
Net	6,495,594	5,853,694
Advance payments	93,642	20,672
Other	216,515	177,575
Total	$ 6,805,751	$ 6,051,941

Allowance for rebates:

	2021	2020
Balance at January 1,	$ (1,036,943)	$ (1,209,748)
Increases	(8,585,363)	(8,053,178)
Applications	9,075,979	8,225,983
Balance at December 31,	$ (546,327)	$ (1,036,943)

The allowance for rebates is determined according to customer negotiations based on the fulfillment of conditions, such as: sales volumes, timeliness of orders, a product mix and compliance with the credit terms established, among others.

Based on the portfolio recovery history, the expected credit loss is insignificant; this amount has been recognized under accounts receivable according to the approach required by IFRS 9.

6. INVENTORIES

	2021	2020
Finished goods	$ 1,808,051	$ 1,466,356
Work in process	444,613	402,274
Raw materials and spare parts	2,209,456	1,923,841
Total	$ 4,462,120	$ 3,792,471

7. LEASES

a. Lease contacts that qualify for the application of this standard correspond to industrial buildings, warehouses and space for administrative offices.

	2021	2020
Right-of-use assets	$ 1,940,332	$ 1,767,302
Accumulated depreciation	(629,487)	(473,733)
Net	$ 1,310,845	$ 1,293,569

	BUILDINGS
Right-of-use assets	
Balance at the beginning of 2020	$ 1,536,385
Additions	267,547
Disposals	(36,630)
Balance at December 31, 2020	1,767,302
Additions	337,161
Disposals	(164,131)
Balance at December 31, 2021	$ 1,940,332
Depreciation of right-of-use asset	
Balance at the beginning of 2020	$ (237,565)
Additions	(272,798)
Disposals	36,630
Balance at December 31, 2020	(473,733)
Additions	(299,782)
Disposals	144,028
Balance at December 31, 2021	$ (629,487)

b. The liabilities movements for these lease agreements were as follows:

Balance at the beginning of 2020	$ 1,304,244
Additions	267,547
Payments	(322,252)
Interest paid	88,560
Exchange rate fluctuation - net	25,324
Balance at December 31, 2020	1,363,423
Additions	337,161
Cancelation	(21,820)
Payments	(358,300)
Interest paid	87,219
Exchange rate fluctuation - net	16,025
Balance at December 31, 2021	1,423,708
Short-term	(251,679)
Long-term	$ 1,172,029

c. Maturity of long-term lease liabilities is as follows:

2023	$ 230,569
2024	217,639
2025	199,635
2026	142,131
Thereafter	382,055
	$ 1,172,029

d. During the years 2021 and 2020, an amount of $10,736 and $12,394 was charged to operating expenses for operating lease contracts with a term less than one year and $12,099 and $9,017 correspond to contracts where the underlying asset has a low value, respectively.

8. PROPERTY, PLANT AND EQUIPMENT

	2021	2020
Depreciable fixed assets	$44,085,826	$ 43,635,189
Accumulated depreciation	(30,108,744)	(28,725,468)
Net	13,977,082	14,909,721
Land	741,814	741,814
Construction in progress	2,352,420	718,607
Total	$ 17,071,316	$ 16,370,142

At December 31, 2021 and 2020, the amount of unamortized capitalized borrowing costs amounted to $119,805 and $126,797, respectively.

	Buildings	Machinery and equipment	Transportation equipment	Total
Depreciable fixed assets				
Balance at the beginning of 2020	$ 6,266,460	$ 35,985,583	$ 1,037,214	$ 43,289,257
Additions	56,301	636,300	7,446	700,047
Disposals	(59)	(337,460)	(16,596)	(354,115)
Balance at December 31, 2020	6,322,702	36,284,423	1,028,064	43,635,189
Additions	6,308	392,319	165,852	564,479
Disposals		(68,011)	(45,831)	(113,842)
Balance at December 31, 2021	**$ 6,329,010**	**$ 36,608,731**	**$ 1,148,085**	**$ 44,085,826**

	Buildings	Machinery and equipment	Transportation equipment	Total
Accumulated depreciation				
Balance at the beginning of 2020	$(2,988,260)	$ (23,887,241)	$ (650,261)	$ (27,525,762)
Additions	(179,383)	(1,309,140)	(50,059)	(1,538,582)
Disposals	59	327,619	11,198	338,876
Balance at December 31, 2020	(3,167,584)	(24,868,762)	(689,122)	(28,725,468)
Additions	(174,684)	(1,270,336)	(50,938)	(1,495,958)
Disposals		66,874	45,808	112,682
Balance at December 31, 2021	**$ (3,342,268)**	**$ (26,072,224)**	**$ (694,252)**	**$ (30,108,744)**

The following average useful lives are used in the calculation of depreciation:

Buildings	45 años
Machinery and equipment	15 a 25 años
Transportation equipment	6 y 20 años

9. INTANGIBLES AND OTHER ASSETS

	2021	2020
Trademarks and licenses	$ 1,773,882	$ 1,773,882
Patents and permits	94,352	94,352
Customer relationships	583,441	583,441
	2,451,675	2,451,675
Accumulated amortization	(918,382)	(778,841)
Trademarks and licenses with indefinite life	374,372	374,372
Total intangibles	1,907,665	2,047,206
Other assets	23,727	33,672
Total	$ 1,931,392	$ 2,080,878

	Trademarks and licenses	Patents and permits	Customer relationships	Total
Cost				
Balance at the beginning of 2020, and at December 31, 2020 and 2021	**$ 1,842,598**	**$ 25,636**	**$ 583,441**	**$ 2,451,675**
Accumulated amortization				
Balance at the beginning of 2020	$ (406,651)	$ (13,969)	$ (216,266)	$ (636,886)
Additions	(112,795)	(1,770)	(27,390)	(141,955)
Balance at December 31, 2020	(519,446)	(15,739)	(243,656)	(778,841)
Additions	(110,381)	(1,770)	(27,390)	(139,541)
Balance at December 31, 2021	**$ (629,827)**	**$ (17,509)**	**$ (271,046)**	**$ (918,382)**

The useful lives used for calculating amortization are:

Trademarks and licenses	10, 15 and 20 years
Patents and permits	15 years
Customer relationship	15 and 25 years

10. GOODWILL

Feeding accessories business	$	582,771
Liquid soap, antibacterial gel and other products business		351,450
Total	$	934,221

The recoverable amounts of these cash generating units are determined by calculating their usage value, which utilizes cash flow projections based on the financial budgets approved by management for a five-year period and with an annual discount rate.

The following discount rates were utilized for the feeding accessories business: 12.5% for 2021 and 13.06% for 2020 for the domestic portion; and, in the case of the foreign portion, 8% and 7.6% for 2021 and 2020, respectively.

The following discount rates were utilized for liquid soap business: 12.5% and 13.06% for 2021 and 2020, respectively.

Based on the work it performed, the Entity concluded that there were no impairment.

11. LONG-TERM DEBT

	2021	2020
Marketable notes denominated in Mexican pesos, unsecured, bearing interest at fixed annual rate of 6.98%.	$ 1,750,000	$ 1,750,000
Notes denominated as global bonds issued for USD$250 million, unsecured, bearing interest at a fixed net annual rate of 3.8%.	5,127,500	4,987,500
Notes denominated as global bonds issued for USD$250 million, unsecured, bearing interest at a fixed net annual rate of 3.25%.	5,127,500	4,987,500
Credit contract with Bank of America for USD$200 million, unsecured, bearing interest based on a monthly London Interbank Offered Rate Libor plus 110 spread.	-	3,990,000
Credit contract with Citibanamex, denominated in Mexican pesos, unsecured, bearing interest based on the 28-day Mexican Interbank Equilibrium rate TIIE plus 30 credit spreads. As of December 31, 2021, the annual rate is 5.7882%.	3,000,000	3,000,000
Credit contract with Citibanamex, denominated in Mexican pesos, unsecured, bearing interest based on the 28-day Mexican Interbank Equilibrium rate TIIE plus 50 credit spreads. As of December 31, 2021, the annual rate is 5.7882%.	3,000,000	3,000,000
Notes denominated as global bonds issued for USD$500 million, unsecured, bearing interest at a fixed net annual rate of 2.431%.	10,255,000	9,975,000
Total	28,260,000	31,690,000

	2021	2020
Current portion	(3,000,000)	(3,990,000)
Expenses on debt issuance	(100,607)	(123,107)
Increase of debt due to fair value hedge	15,825	26,199
Long-term debt	$ 25,175,518	$ 27,603,092

Long-term debt agreements contain certain covenants that do not include financial restrictions. Such obligations have been complied.

Long-term debt matures as follows:

2023	$ 3,250,000
2024	5,127,500
2025	5,127,500
2026	1,500,000
2029	3,418,320
2030	3,418,340
2031	3,418,340
	$ 25,260,000

Considering the interest rates, exchange rates and the debt in effect as of December 31, 2021, maturity of interest is an average of $1,517 million Mexican pesos in 2022 to 2025 and an average of $686 million Mexican pesos from 2026 to 2031.

As of December 31, 2021 and 2020, the fair value of debt approximates its carrying value.

12. OTHER ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

Are composed as follows:

	2021	2020
Provisions	$ 339,008	$ 409,259
Derivative financial instruments (see Note 16)	22,893	11,165
Value added tax, withholdings and taxes other than income tax	193,002	597,602
Other accrued services	1,241,646	1,051,457
Total	$ 1,796,549	$ 2,069,483

Provisions are composed as follows:

	2021	2020
Promotion	$ 145,488	$ 165,322
Freight	193,520	243,937
Total	$ 339,008	$ 409,259

	Promoción	Fletes	Total
Balance at the beginning of 2020	$154,136	$ 318,875	$ 473,011
Increases	429,285	2,659,092	3,088,377
Applications	(418,099)	(2,734,030)	(3,152,129)
Balance at December 31, 2020	165,322	243,937	409,259
Increases	342,480	2,779,697	3,122,177
Applications	(362,314)	(2,830,114)	(3,192,428)
Balance at December 31, 2021	$ 145,488	$ 193,520	$ 339,008

13. INCOME TAXES

The statutory income tax rate is 30% for the years 2021 and 2020.

a. Income taxes recognized in profit or loss

	2021	2020
Current	$ 2,383,071	$ 2,977,000
Deferred	(233,019)	(184,867)
Total income taxes	$ 2,150,052	$ 2,792,133

b. Reconciliation between the statutory rate and the effective rate expressed as a percentage of income before income taxes is as follows:

	2021 Rate %	2020 Rate %
Statutory rate	30.0	30.0
Effects of inflation	.8	.3
Non-deductible items	1.7	1.2
Effective rate	32.5	31.5

c. Annual deferred income tax recognized in other comprehensive income:

	2021	2020
Due to valuation of derivative financial instruments	$ (412,882)	$ 157,091
Due to actuarial loss	(1,140)	26,115
Total	$ (414,022)	$ 183,206

d. Deferred tax in the statement of financial position

The main items comprising the balance of the deferred tax liability as of December 31 are:

	2021	2020
Property, plant and equipment	$ 567,890	$ 922,888
Intangibles arising from business combination	7,323	7,629
Inventories	27,281	25,661
Loss carryforwards (expiring from 2023 to 2038)	(122,733)	(125,076)
Other liabilities and provisions	(594,538)	(712,047)
Derivative financial instruments	313,282	(99,600)
Total	$ 198,505	$ 19,455

14. OTHER LIABILITIES

Is comprised as follows:

	2021	2020
Obligation to purchase minority interest	$ -	$ 260,275
Retirement benefits	336,344	403,637
Total	$ 336,344	$ 663,912

a. Call and put option

At the end of 2016, it was acquired the liquid soap, antibacterial gel and other products business.

The acquisition agreement included a call option that allowed the Entity to acquire the remaining stock from the date of purchase; it also included a put option clause that could be exercised by non-controlling interest that could force the Entity to acquire the remaining stock from the end of the fifth until the tenth anniversary. The fair value of this obligation was recognized as a liability with a debit to stockholders' equity.

As mentioned in Note 3 subsection b, as of November 2021 the Entity owns 100% of the investment, and therefore the put option was not exercised.

b. Retirement benefits

The liability and the annual cost for labor obligations derive from a pension plan for qualifying personnel, retirement severance payments and legal seniority premium.

The present value of the obligations for defined benefits and the annual cost are calculated by an independent actuary based on the projected unit credit method. To meet this obligation, the Entity has established administration funds that are balanced between fixed and variable rates with a moderate risk.

Relevant information regarding these obligations is as follows:

	2021	2020
Projected benefit obligation	$ 881,007	$ 851,687
Plan assets	(544,663)	(448,050)
Net liability	336,344	403,637
Annual cost	$ 74,038	$ 67,844

The main assumptions used for actuarial valuations purposes are as follows:

	2021	2020
	%	%
Discount rate	8.75	8.00
Expected return on plan assets	8.75	8.00
Expected rate of salary increase	4.50	4.50

As of December 31, 2021 and 2020, employee benefits expense totaled $4,017 and $4,166 million, respectively.

15. RISKS

a. Liquidity risk

The Entity's liquidity risk is limited as it has a healthy cash flow profile due to its diversified sales, which are made to customers and distributors with solvent financial positions. As of December 31, 2021, considering the profile of the Entity's debt it believes it has enough cash on hand to mitigate the negative effects of any potential external event which could temporarily result in a liquidity reduction and impact the Entity's ability to meet its short-term obligations.

When the Entity acquires debt, it seeks to ensure staggered maturities to further mitigate the liquidity risk. The profile of future maturities as of December 31, 2021 is spaced out over ten years and no maturities in any one year represent more than 25% of the total debt. None of the Entity's annual maturities under its current debt profile exceeds the flow derived from the net cash flow provided by operating activities as of December 31, 2021.

The Entity has sound relations with different financial institutions and considers that it has access to different types of financing through loans in Mexico or abroad, whether directly with such institutions or through the capital markets. For such purpose the Entity permanently maintains ratings of the Standard & Poor's and Fitch Ratings agencies for debt both in pesos and in foreign currency. As of March 31, 2021, debt ratings by Standard & Poor's were "AAA" in pesos and "BBB+" in U.S. dollars, whereas those of Fitch Ratings were "AAA" in pesos and "A" in U.S. dollars. In all cases, these ratings are at least two notches above investment-grade.

b. Market risk

- Exchange rate

The purchases which the Entity makes in foreign currency are greater than sales in foreign currency. This is reflected in the fact that accounts payable in foreign currency exceed accounts receivable, resulting in a liability position which is subject to exchange rate fluctuations. To reduce the exchange rate risk for the exposed position, the Entity keeps part of its cash in U.S. dollars. The foreign currency position is presented in Note 18.

Furthermore, the prices of a significant portion of the inputs that the Entity utilizes in its production processes are established in foreign currency or tend to be adjusted for exchange rate movements. To mitigate this risk, an export business is maintained. Also, the financial derivatives markets are continually analyzed to seek opportunities to mitigate these risks. As of December 31, 2021, the Entity had not entered into any hedge instrument on supplies purchases. Export sales in the year 2021 were $5,557 million Mexican pesos and it is estimated that the purchases of those inputs whose prices fluctuate due to changes in the exchange rate represent about 60% of its costs.

To reduce exchange rate risk, Entity entered into derivative financial instruments denominated cross currency swaps (CCS) the same year that U.S. dollar denominated debt was contracted.

- Interest rates

As of December 31, 2021, 79% of the debt was at a fixed rate and 21% at a variable rate. To reduce the risk of interest rate variations, the Entity entered into derivative financial instruments denominated "interest rate swaps" with the aim to change the one hundred percent of its debt to a fixed rate.

- Other pricing risks

The main pricing risk is related with movements in cellulose prices and recycling fibers. To reduce this risk, the Entity has different strategies in place such as paper-recycling plants. Approximately 60% of the cellulose consumed by the Entity during 2021 was recycled fiber. Other strategies include the utilization of different types of fiber and different suppliers, as well as sourcing from different geographical regions and some cases contract signing. The Entity believes that no efficient financial hedge market exists for cellulose.

Another pricing risk derives from the price of natural gas as a result of the Entity's consumption of this input in its processes, as well as its impact on the prices of electricity. The prices of gas are monitored and hedging options are constantly analyzed. As of December 31, 2021, the Entity had not contracted any hedge instrument related to natural gas.

16. DERIVATIVE FINANCIAL INSTRUMENTS

a. Cross currency swaps

In order to reduce its exposure to exchange rate fluctuations and interest rate from its U.S. dollar-denominated debt, Entity entered into cross currency swaps contracts. Such instruments as of December 31, 2021 and 2020 convert U.S. dollar-denominated for 1,000 and 1,200 million of debt into $18,253.3 and $21,831.8 million of Mexican pesos, respectively.

At December 31, the fair value of the contracts are as follows:

	2021	2020
Contracts to convert 325 million of U.S. dollar-denominated debt to $4,508.1 million of Mexican peso debt and to convert annual fixed rates in USD from 3.8% and 3.25% to annual fixed rates in pesos of 6.85% and 6.21%, respectively.	$ 2,682,267	$ 2,419,693
Contracts to convert 175 million of US dollar-denominated debt to $2,528.2 million of Mexican peso debt and to convert annual fixed rates in USD from 3.8% and 3.25% to variable rates based on the 28-day TIIE plus certain credit spreads. As of December 31, 2021 annual rates in pesos are 5.2872% and 5.4562%	1,311,387	1,393,785
Contract to convert 200 million of US dollar-denominated debt to $3,578.5 million of Mexican peso debt and to convert variable USD rate based on monthly Libor plus 110 credit spread to variable pesos rate based on the 28-day TIIE plus 31.75 credit spread. As of December 31, 2020, annual rate in pesos is 4.805%.	-	396,053
Derivative financial instruments - asset	3,993,654	4,209,531
Current portion	-	(396,053)
Derivative financial instruments long term – asset	$ 3,993,654	$ 3,813,478

Maturity of the contract are as follows:

	2021	2020
2024	$ 2,187,799	$ 2,062,728
2025	1,805,855	1,750,750
	$ 3,993,654	$ 3,813,478

	2021	2020
Contracts to convert 166.6 million of U.S. dollar-denominated debt to $3,739 million of Mexican peso debt and to convert annual fixed rate in USD from 2.431% to annual fixed rates in pesos of 7.4515% with maturity in 2029.	$ (266,050)	$ (608,773)
Contracts to convert 166.7 million of U.S. dollar-denominated debt to $3,739 million of Mexican peso debt and to convert annual fixed rate in USD from 2.431% to annual fixed rates in pesos of 7.4515% with maturity in 2030.	(272,251)	(595,505)
Contracts to convert 166.7 million of U.S. dollar-denominated debt to $3,739 million of Mexican peso debt and to convert annual fixed rate in USD from 2.431% to annual fixed rates in pesos of 7.4515% with maturity in 2031.	(274,038)	(577,940)
Derivative financial instruments – (liability)	$ (812,339)	$ (1,782,218)

As the due dates of principal and interest are the same as the debt, these financial instruments were designated as hedges; those that convert to fixed rate in pesos, are recorded as a cash flow hedge and those that convert to variable rate in pesos are recorded as a fair value hedge. In both cases the effects in consolidated statement of income is recorded as the exchange rate of the hedged item fluctuates.

According to hedge accounting, interest rate swap contracts cover, in an aggregate manner, the risk exposure derived from the variable interest rate contracts recorded as fair value hedges.

As a consequence of the above mentioned, as of September 2018, all contracts are recorded as cash flow hedges, while the fair value hedge balance at that date is amortized according to the period of each contract.

The (unfavorable) effect of cash flow hedge that was reclassified to net income were $(52,864) and $(1,029,088) for the 2021 and 2020 years, respectively, which complement the exchange rate effect and the contracted interest, which correspond to the hedged item.

According to the terms and conditions signed in the contracts, when the valuation that represents a liability for the Entity exceeds 50 million dollars, the excess value must be guaranteed. As of December 31, 2020, a deposit of 42.3 million dollars is maintained (see Note 4).

b. Interest rate swaps

In order to reduce interest rate volatility during August 2018 the Entity contracted six interest rate swaps in order to convert the interest rate profile from variable to fixed rate.

At December 31, the fair value of the contracts are as follows:

	2021	2020
Contract to convert the variable 28-day TIIE rate, plus 5 basis points, to an 8.115% fixed rate with maturity in 2024.	$ (10,908)	$ (75,450)
Contract to convert the variable 28-day TIIE rate, plus 22 basis points, to an 8.34% fixed rate with maturity in 2025	(39,977)	(258,452)
Contract to convert the variable 28-day TIIE rate, plus 31.75 basis points, to an 8.44% fixed rate with maturity in 2021.	-	(11,165)
Contract to convert the 28-day TIIE rate, plus 30 basis points, to a fixed 8.344% rate with maturity in 2022.	(22,893)	(158,186)
Contract to convert the 28-day TIIE rate, plus 50 basis points, to a fixed 8.545% rate with maturity in 2023.	(19,823)	(129,719)
Contract to convert the 28-day TIIE rate, plus 50 basis points, to a fixed 8.67% rate with maturity in 2026.	(44,764)	(248,330)
Derivative financial instruments – (liability)	(138,365)	(881,302)
Current portion – (see Note 12)	22,893	11,165
Derivative financial instruments long term – (liability)	$ (115,472)	$ (870,137)

All interest rate swap contracts where interest at the variable rate is exchanged for interest at a fixed rate are designated as cash flow hedges to reduce the exposure of the Entity's cash flow derived from the variable interest rates on loans. The interest rate swaps and the interest payments on the loan take place simultaneously and the accumulated amount in other comprehensive income within stockholders' equity is reclassified to consolidated statement of income in the period in which the interest payments at the variable rate on the debt affect results.

The (unfavorable) effect of these contracts for $(313,620) and $(281,653) for the 2021 and 2020 years, respectively, is presented in results as part of borrowing costs.

Determination of fair value of those instruments includes estimations over future currency exchange rates and interest rates, as well as the counterparty credit risk and were the measured using present value of future net cash flows taking into consideration forward interest rates, forward exchange rates and rates of the contracts, which is considered a level 2 measure in the fair value categories.

17. STOCKHOLDER´S EQUITY

As of December 31, 2021 and 2020, common stock consists of nominative common shares with no par value, as follows:

	Shares			
	2021	%	2020	%
Serie "A"	1,600,738,673	52	1,601,738,673	52
Serie "B"	1,474,393,925	48	1,477,393,864	48
Total	3,075,132,598	100	3,079,132,537	100

In accordance with the Entity's by-laws, Series "A" shares must represent, at a minimum, 52% of common stock outstanding and must be owned by Mexican investors.

As part of the program for the repurchase of the Company's own shares approved annually by the stockholders, during the year ended December 31, 2021 and 2020, 3,999,939 and 5,699,970 shares, were repurchased.

In accordance with the Mexican income tax law, total stockholders' equity, except for stockholders' contributions and their related tax restatement, as well as retained earnings determined based on the provisions of such law, is subject to a dividend tax, payable by the Entity, in the event of distribution.
As of December 31, 2021, the balances of the stockholders' equity tax accounts are represented by contributed capital account of $27,370,374 and the net tax income account that started in 2014 for $37,207,000.

During the years ended December 31, 2021 and 2020, the Entity paid dividends for $5,296,108 and $4,935,732, respectively. If such dividends had not been paid, stockholders' equity have been increased by $10,231,840 and $4,935,732, as of such dates.

The Entity is not subject to any external requirement related to the management of its equity.

18. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

Assets and liabilities include monetary items receivable or payable in foreign currencies. Such items, denominated in thousands of U.S. dollars, consist of the following:

	2021	2020
Monetary assets	$ 261,271	$ 203,609
Monetary liabilities (see Note 16)	1,240,591	1,391,166

Exchange rates used to value such balances were $20.51 and $19.95 Mexican pesos per one U.S. dollar, respectively.

Transactions denominated in thousands of U.S. dollars were as follows:

	2021	2020
Export sales	$ 273,902	$ 247,567
Purchases of raw materials, spare parts and services	674,945	573,086
Purchases of machinery and equipment	72,403	24,089

19. RELATED PARTIES

For the years ended December 31, the Entity had the following transactions and balances with related parties:

	2021	2020
Kimberly-Clark Corporation:		
Purchases and technical services	$ 1,825,668	1,648,149
Machinery and equipment	52,615	75,602
Net sales and others	3,041,032	2,581,063
Trade accounts payable	372,855	349,642
Trade accounts receivable	778,334	505,748

Other - As of December 31, 2021 and 2020, employee benefits granted to Entity's key senior management were $283,426 and $264,200, respectively.

20. BUSINESS SEGMENT INFORMATION

IFRS 8, Operating Segments, requires that the operating segments be identified based on internal reports on the Entity's components.

Consumer products segment indicates that final use of the articles we commercialized are primarily intended for home.

Professional segment indicates that commercialization of products is oriented toward organizations like hotels, restaurants, offices and factories.

Information corresponding to each business segment, based on a managerial approach is as follows:

2021

	Consumer Products	Professional	Exports	Total
Net sales	**$ 37,293,542**	**$ 4,043,796**	**$ 5,556,625**	**$46,893,963**
Operating profit	**7,289,893**	**534,278**	**525,548**	**8,349,719**
Depreciation and amortization	**1,603,745**	**165,085**	**166,451**	**1,935,281**
Total assets	**38,796,633**	**4,206,778**	**5,780,581**	**48,783,992**

2020

	Consumer Products	Professional	Exports	Total
Net sales	$ 37,629,613	$ 3,667,224	$ 5,406,058	$ 46,702,895
Operating profit	9,172,711	751,897	612,685	10,537,293
Depreciation and amortization	1,583,561	167,083	202,691	1,953,335
Total assets	42,958,471	4,186,552	6,171,628	53,316,651

21. COMMITMENTS

At December 31, the Entity held the following commitments:

	2021	2020
Acquisition of machinery, equipment and construction projects	**$ 1,804,733**	$ 1,208,139
Acquisition of raw materials, spare parts and other	**669,978**	584,291

Commitments for the acquisition of machinery, equipment and raw materials are mainly denominated in U.S. dollars.

22. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS OR IAS") NEW AND REVISED

Management has evaluated the impacts of the new and amended IFRS Standards that will become effective and do not expect a significant effect on the Entity's amounts and disclosures included in the consolidated financial statements.

23. AUTHORIZATION OF ISSUANCE OF FINANCIAL STATEMENTS

On February 8, 2022, the issuance of these consolidated financial statements was authorized by Mr. Pablo R. González Guajardo, General Director, and Mr. Xavier Cortés Lascurain, Finance Director. These consolidated financial statements are subject to the approval of the Board of Directors and the Stockholders' Ordinary Meeting.

TRADE MARKETS

Bolsa Mexicana Mexican Stock Exchange (BMV), Mexico.

The United States (OTC ADRs)

Types of shares

Serie A

Serie B

Ticker

BMV: KIMBER

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