

ESG **SUSTAINABILITY** *strategy*

Our KCM sustainability strategy is based on three main pillars: Environment, Social and Occupational Safety, and Economic.

Because we are committed to building a sustainable future, we seek to positively impact all three pillars to obtain outstanding performance.

KCM has matched its material issues to specific **SDGs**, underscoring our commitment to meeting these goals.

ECONOMIC PILLAR

This pillar is clearly essential for KCM because it determines our ability to pursue the others forms of sustainability. This is why we are committed to meeting the needs of our stakeholders to the greatest extent possible in order to achieve the economic results we propose in our Vision.

Conversely, positive results in this area depend on the success of social responsibility and occupational safety programs in our plants, because these keep our employees healthy and productive, and ensure we can continue to efficiently invest in environmental care. We stress the idea of shared responsibility for all of us who participate in this economic cycle.

SOCIAL AND OCCUPATIONAL SAFETY

KCM's success is grounded in its ability to contribute social value to the world around us, to ensure the physical safety of our employees and to provide them a better standard of living. That is the reason we have also incorporated an Environmental Health and Safety (EHS) strategy to our operations.



ENVIRONMENTAL PILLAR

This area pursues two key objectives.

Our first responsibility is to ensure compliance with all applicable environmental laws and regulations and improve compliance wherever possible. The second is to identify and efficiently take advantage of opportunities to increase our energy efficiency, reduce CO₂-e emissions, monetize solid waste, reduce water consumption and install efficient wastewater treatment systems to protect receiving bodies of water and the biodiversity they contain.

Our environmental strategy focuses on promoting a circular economy through our value chain, which includes suppliers, production processes, administrative facilities, logistics, support areas and clients. To do this we strive for excellence in the design and execution of our Environmental Management System, which is prepared in accordance with KCC global guidelines and ISO 14001 standards.

MATERIALITY

KCM has a responsibility to identify relevant issues that create long-term value, and to identify future risks to avoid an impact on our business. To keep track of these issues, we assess our progress against certain performance metrics, and we keep the public continually and transparently informed about them.

To build the materiality graph, we used the GRI advanced reporting methodology, evaluating the relative position of each issue with respect to the others. Taking all 34 issues into consideration, we assigned a value of 1 to the most important issue for stakeholders, and so on down to a value of 34 to

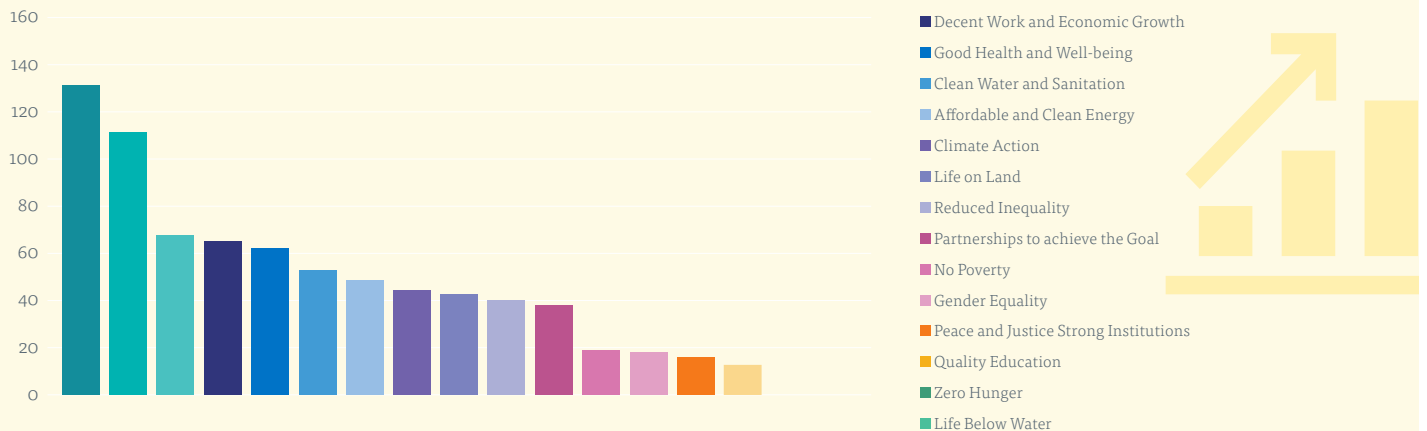


(GRI 102-47)

MATERIALITY GRAPH



ALIGNMENT OF MATERIAL ISSUES WITH SDGs (MATERIAL SDGs)



the least important topic for these groups. We did the same to rate the relative impact of each issue. We then identified issues that were rated high for relevance or impact.

Next, to align these material issues with the SDGs, we identified equivalents between the Materiality Graph and the UN SDGs, and thus arrived at a list of Material Sustainable Development Goals for KCM. This was done through an analysis by independent experts.

STAKEHOLDER ENGAGEMENT

We have established specific frequencies, mechanisms and persons responsible for communication with our stakeholders (meaning anyone who is affected by or may affect our company's development) so that we can suitably address their needs and concerns.

EFFECTIVE RISK CULTURE

Effective risk mitigation and crisis prevention is vital for long-term financial planning, as well as to our organizational flexibility. KCM has internal control processes that ensure we comply with existing regulations, and we proactively develop mechanisms for risk and crisis control.



For us, the first step in risk management is to identify these in the company's various locations and operations. This identification is carried out in coordination between the Risk Management area and key personnel at each facility and operation, with the support of independent professionals specializing in loss prevention. Having identified the risks, we conduct an assessment to determine how likely they are to occur and how severe consequences would be in terms of the expected damages or loss.

The next step is to establish measures to eliminate and/or control the risks we have identified and assessed. In this process we analyze various alternatives that enable us to responsibly and effectively select the solution most appropriate to the conditions of the risk we are trying to eliminate or reduce.

If after implementing these measures the risk is not eliminated or the impact of loss reduced, or if the risk materializes to an extent that is

outside the organization's range of tolerance, we then analyze the possibility of taking additional measures—insurance policies to cover potential financial losses, for example. In these cases, we contact leading local insurance companies and international reinsurers. In all cases, the main risks we identify are continually monitored and evaluated to guarantee they are being efficiently controlled, according to corporate policies and current legislation.

Additionally, procedures have been established for all company operations to assess risk when setting up new operations or making significant changes in existing operations. Depending on the magnitude of the new operation or change, people responsible for each of the areas will be involved, up to the level of the risk management area and the various area directors.

There are established procedures in all the company's operations to evaluate the risks when setting up new facilities or making significant changes in the existing ones.



2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities	Related projects
ENVIRONMENTAL			
Water			
High levels of waste and water consumption	<ul style="list-style-type: none"> › Low water availability › Poor quality water supply for operations 	<ul style="list-style-type: none"> › Investment in supply and discharge water treatment plants. Comply with / exceed regulations › Use of post-consumer water instead of fresh water › Closed water cycles (4.5 x recirculation) › Best practices to obtain discharge quality certifications (quality higher than that required by regulations) › Investment in cutting-edge technology 	Third-party treatment of water for recirculation in processes at Ramos Arizpe plant
Poor handling of environmental management system	<ul style="list-style-type: none"> › Regulatory changes › Impact on biodiversity 		
Solid waste			
Poor handling and waste	<ul style="list-style-type: none"> › Impact on the environment 	<ul style="list-style-type: none"> › Development of RSU and special waste handling system / compliance with applicable laws and standards 	Further drying of sludge sent for monetization from the Bajío, Ecatepec and Ramos Arizpe plants
Performance indicators	<ul style="list-style-type: none"> › Impact on outside parties › Excessive use of landfills 	<ul style="list-style-type: none"> › Co-processing of cellulose sludge instead of sending to landfill › Monetization of waste for recycling and co-processing - zero-landfill goal 	
Obsolete management system	<ul style="list-style-type: none"> › Changes to applicable laws and standards in this area 	<ul style="list-style-type: none"> › Increase in operational productivity / waste reduction › Sustainable innovation. › Lifecycle analysis 	
Energy			
Elevated consumption	<ul style="list-style-type: none"> › Increase in prices and availability 	<ul style="list-style-type: none"> › Energy management systems and training › Identification and deployment of energy efficiency investments and projects 	Annual energy savings program
Poor handling of environmental management system	<ul style="list-style-type: none"> › Competition within the industry › Impact on operating costs › GHG emissions 	<ul style="list-style-type: none"> › Supply contracts with companies that produce energy with low GHG emission factors › Use of energy from clean sources › Co-generation of thermal and electrical energy › Increase in operational productivity 	
Deforestation and climate change			
Elevated GHG emissions	<ul style="list-style-type: none"> › Impact on protected habitats and forests › Impact on biodiversity as a result of water discharge or impact on forests › Impact of natural disasters on our facilities › Compliance › Regulatory changes › Commitment to COP 21 › Supply of required amounts of virgin fibers 	<ul style="list-style-type: none"> › Use of 100% virgin fibers from certified forests › Commitment to zero deforestation › Use of recycled fibers from post-consumer paper (above 60%) › CDP Forests report and benchmark › Report of official emissions from fixed and mobile sources through the National Emissions Registry (RENE) › Wastewater discharge compliant with legislation and exceeding quality standards › Risk prevention and asset protection manual › Resilience of our production in eliminating or mitigating material damage › Insurance to cover potential financial losses in the event of material losses stemming from hydrometeorological events. › Training in evacuation and damage containment procedures › Risk management programs to identify, assess, reduce and prevent losses › Adherence to national climate change strategy › Evaluate measures of adaptation and mitigation › Capital investments to ensure compliance › Mitigation projects to reduce GHG emissions › Supply contracts with companies that produce energy with low GHG emission factors and clean energies › Transition toward use of cleaner energies / co-generation and renewable energies 	Inclusion in Mexican carbon market and energy savings projects

2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities	Related projects
SOCIAL			
Occupational health and safety / loss prevention			
Poor performance indicators		<ul style="list-style-type: none"> › On-going improvements to SAES system › Preventive health programs for employees and their families 	
Poor handling of management system	<ul style="list-style-type: none"> › Possibility of serious, disabling or fatal accidents › Absenteeism / decreased productivity as a result of injuries or illnesses › Natural disasters associated with climate change or earthquakes that have an impact on our operations › Safety of our carriers › Possibility of fires or earthquakes at our facilities 	<ul style="list-style-type: none"> › Development and deployment of training plans to prevent accidents using the highest industry standards › Events during health week › Training in evacuation and containment procedures › Drills › Programs in conjunction with civil defense authorities › Appropriate personal protection equipment › Training and creation of fire teams / instructors › Hazardous waste and chemical handling systems › Training for product distribution and transport operators › Theft prevention/tracking systems for trucks › Training on how to handle situations of risk › Investment in asset protection insurance 	New health and safety system at corporate level (SAES maturity level)
Relationship with communities and unions			
Poor relationship with communities and unions	<ul style="list-style-type: none"> › Lack of acceptance by community › Possibility of strikes › Impact on productivity › Negative social impacts in the communities in which we operate › Retention of highly skilled employees 	<ul style="list-style-type: none"> › Communication of the company's mission, vision and values › Support for local social programs › Dialog with community representatives › Consolidation of working relationships with unions / incentives for productivity and occupational safety › Salary negotiations and collective bargaining agreements › Mixed health and safety commission › Cultural and family events › Safety week events › Promotion of good working practices › Benefits exceeding those required by law 	
Labor market competitiveness			
High employee turnover	<ul style="list-style-type: none"> › Retention of key employees for the company who have high growth potential 	<ul style="list-style-type: none"> › Training and career development plans › Competitive compensation system › Promotion of KCM's mission, vision and values › Board of directors' compensation committee - performance evaluation and succession plans › Performance evaluation and feedback › Financial results - profit sharing results › Programs to reduce turnover and absenteeism rates › Measures that favor work-life balance 	Assistance to help graduates of "Youth Building the Future" program find jobs



2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities
SOCIAL		
Social responsibility		
Poor human rights management and corruption	<ul style="list-style-type: none"> › Failure to meet stakeholder expectations › Respect for human rights › Operational and financial transparency › Prevention of bribery and corruption › Safety and quality of our products › Legal and regulatory compliance 	<ul style="list-style-type: none"> › Creation of stakeholder dialogue strategies and mechanisms › Definition of plans of action for material / relevant aspects for stakeholders › In-kind donations to low-income communities and institutions › Structure and scope of annual sustainability report › Actions to support stakeholders › Solid corporate governance › Financial reports › Employee code of conduct training, induction and monitoring › Social compliance standards for suppliers › Comprehensive audits of the supply chain: quality, service, internal control systems, transparency and respect for human rights › Anonymous whistleblower mechanisms and exhaustive investigation of each case / report to the board of directors' audit and corporate practices committee › Medical endorsements for materials and products, and the HACCP system › Strict compliance with applicable laws and standards for each product category › Process control and quality assurance processes / quality and statistical indices in real time (EWMA) › Health and hygiene campaigns › "Reading makes you Great" campaign › On-going review of compliance and changes to product, fiscal, environmental, health and hygiene, labor, stock exchange, accounting, and personal data protection laws and regulations, etc.

2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities
ECONOMIC		
Economic disparity in Mexico		
Economic disparity in Mexico	<ul style="list-style-type: none"> › Domestic economic crisis or slow growth in domestic consumption and the economy › Impact on sale of frequently consumed products › Increased inflation › Increase in funding costs › Impact on profit margins 	<ul style="list-style-type: none"> › Technological innovation to generate added value for our products › Investment in prices to generate scale and safeguard market share › On-going consolidation of fair and transparent relationships with our customers › Generation of added value for our products, helping reflect increasing raw material costs to compensate any possible impact and ensure our competitiveness › Strategic promotion of the use of our brands in public places outside the home › Operational efficiency and cost reduction programs / Less is more program › Use of derivative financial instruments › Increased use of domestically-sourced recycled fibers › On-going promotion of domestic supplier development › Continuous assessment of new avenues of growth - (M&A)

2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities
ECONOMIC		
Global economy and us economic trends		
Sluggish global economy and US economic trends	<ul style="list-style-type: none"> › Complex global economic situation that affects the domestic market › Exchange rate volatility and depreciation 	<ul style="list-style-type: none"> › Technological innovation to generate added value in our products › Efficient investments and preparation for accelerated periods of growth › Strengthen competitive advantages in innovation and costs › Limit exposure to exchange rate and exchange rate fluctuations through cross-currency swaps › Strategic promotion of categories that represent high growth/investment potential for markets and segments in which we can offer competitive advantages › Export growth projects › Import substitution projects. Vertical integration and domestic supplier development › Cost-saving and operational efficiency programs (costs and expenses) to mitigate foreign-exchange impacts
Liquidity risk		
Risk of low liquidity	<ul style="list-style-type: none"> › Insufficient cash flow for operations and debt payments 	<ul style="list-style-type: none"> › Maintain healthy cash flow and position through sales and profits, in addition to efficient working capital management › Use of debt instruments with staggered maturity dates › Maintain investment grade rating of local and foreign-currency debt
Cost of energy, water, solid waste management and atmospheric emissions control		
High cost of energy, water, solid waste management and atmospheric emissions control	<ul style="list-style-type: none"> › Increase in water and energy costs. Increase in cost of adequate solid waste management, atmospheric emission control and compliance › Tighter environmental regulation 	<ul style="list-style-type: none"> › Private electrical energy supply contracts. Use of energy from co-generation and clean sources › Fuel efficiency › Projects to increase energy efficiency and reduce energy use › Use of post-consumer water and closed water systems › Investment in waste water treatment-discharge quality. Water quality certifications › Compliance with obligations stemming from current water permits › Monetization of solid waste through recycling and co-processing › Increased productivity and operational efficiency › Efficient spending and investment in environmental performance and control
Competitiveness and brand strength		
Increasingly aggressive competition and lower brand strength	<ul style="list-style-type: none"> › Highly competitive industry could affect financial results › Global brands with a specific quality problem in a given country, leading to local repercussions on brand › Limited resources to support and sustain a multi-brand over the long term 	<ul style="list-style-type: none"> › Leadership in innovation and value generation for consumers/efficacy of differentiating brands and products › Investment in cutting-edge technology for the efficient manufacturing of value-added products › Investment in brand relevance / voltage. › Research into market tendencies, habits and customs › Convert studies in changing /unmet consumer needs and preferences into differentiators and value-added goods and services › Use customer and consumer insights to create specific measures to consolidate brands and trade marketing › Multi-segment and multi-channel strategy. Optimal management of product portfolios, focusing on resources and priorities for channels and segments that represent the greatest long-term potential for KCM › Competitive advantages in product performance and cost and expense structure › Continuous improvement strategies for brand reputation and positioning › Proper management of social networks and stakeholder engagement › Digital strategies for stakeholder engagement › Excellence in quality management, customer and consumer service and support

2019 RISKS AND OPPORTUNITIES

Risks	Real or potential impacts	Specific activities and opportunities
ECONOMIC		
Transport and distribution network		
High transport and distribution costs, theft and low availability of transport	<ul style="list-style-type: none"> › Increase in price of diesel fuel › Increase in KCM fleet maintenance costs › Increase in freight costs through external carriers › Product losses as a result of a lack of highway security › Transport availability to meet customer service commitments 	<ul style="list-style-type: none"> › Efficient and controlled logistics planning. Decrease in empty runs to reduce diesel use, freight costs and emissions › Efficient procurement and management of spare part inventories and preventive maintenance programs › Streamlining strategies for freight and loading and unloading with customers and external carriers › On-going analysis of customer service (fill rate) and continuous improvement measures › Efficient planning for scheduled deliveries, invoicing, production and inventories › Efficient and timely investment in cutting-edge transport equipment › On-going optimization program for packaging and cubic capacity › Theft prevention/tracking systems for trucks › Training for drivers on how to handle situations of risk › On-going dialog with the authorities for prevention and monitoring activities
Supply chain		
Increased supply chain costs and low resource availability	<ul style="list-style-type: none"> › Sudden interruptions to supply as a result of uncontrollable market variables or cases of force majeure › Increase in raw material costs › Inconsistent quality of materials › Product safety and hygiene 	<ul style="list-style-type: none"> › Development of two or more suppliers that offer sufficient supply capacity and high-quality standards for each key raw material › Efficient inventory management of raw materials at greatest market risk and contingency plans for key materials › Customer-supplier operational efficiency programs › Sustainable innovation (Less is more) and operating cost reduction programs › Quality assurance systems for raw materials that include medical endorsements for materials, world-class good manufacturing practices and the HACCP system › Compliance audits for the supply chain



(GRI 201-2)

ECONOMIC CONSEQUENCES OF CLIMATE CHANGE

We are aware of the increasing frequency of hydro-meteorological phenomena like hurricanes, electrical storms, flooding, unusually heavy rains and drought, among others, that result of rising temperatures across the planet. These have affected human settlements in coastal regions but also regions much farther inland.

The result has been substantial economic and human losses, which in many cases national and international insurance companies have made payments for, which pushes up the cost of insurance coverage and reduces its availability. This increase in insurance costs eventually affects the cost of companies' insurance programs.

Internally, and as part of our Risk Management program, KCM evaluates this type of risk using information generated by the National Disaster Prevention Program (CENAPRED) regarding vulnerability to climate change by municipality, and taking the pertinent actions to reduce this exposure.

RISKS AND OPPORTUNITIES IN CLIMATE CHANGE

The increasing frequency and intensity of natural risks like hurricanes, rains, landslides, flooding, etc., can affect the infrastructure near the company's productive units, or the infrastructure used by our key suppliers. We must therefore monitor zones affected by disasters and identify damages that might extend to our operations or impede the distribution of our products to customers, developing contingency plans and reducing the impact of such phenomena.

Seeking out safe and reliable sources of information for tracking these phenomena is vitally important in the preparation of contingency plans.

SUSTAINABILITY STRATEGY

For KCM, it is highly important to be able to detect opportunities to generate value for the company and for society. We do this by seeking an in-depth understanding of all areas of the organization, internal and external stakeholders, material aspects, and the risks we face and their potential effects. With this in mind, the Board of Directors, supported by the CEO and the Sustainability Committee, created a business strategy to generate value in every fundamental aspect of KCM, to guide the company toward profitable, sustainable growth.

This strategy is grounded in growth in the pillars of Environment, Business Ethics and Social Responsibility, and Corporate Governance, which enables us to direct operations toward our vision, the objective of which is to find solutions to more efficiently care for the environment and serve our stakeholders.

The economic value we create for shareholders and other stakeholders, the social impact that benefits an increasing number of persons, and outstanding environmental performance in our industry, are part of our mission of substantially improving quality of life for people on the most basic level.



The values that constitute this company's organizational culture—leadership, innovation, passion and accomplishment—allow us to obtain the sustainable results KCM's vision anticipates, and have earned us a privileged position in consumer preferences.

This means we incorporate the precautionary principle into the company's very DNA, which is reflected in our processes, regulatory systems and the technologies we use in productive processes and in our product design, development and safety. It is also why we are continually perfecting, innovating and making constant progress toward reducing the environmental footprint of every one of our activities and generating the greatest prosperity and satisfaction possible for our stakeholders.

Keeping our employees and stakeholders informed about our Sustainability Strategy is a high priority for the company. The Executive Sustainability Committee, which is responsible for designing and implementing the Sustainability Strategy, reviews the relevant aspects of our environmental performance every quarter. The conclusions of these meetings are



passed on to the Chief Executive Officer, who in turn reports to the Board of Directors on the most salient aspects of our environmental performance and the progress being made in terms of the goals of our long-term vision.

In developing culture of sustainability, we use various tools to build awareness within the company regarding the importance of achieving our qualitative and quantitative goals and of communicating our progress or challenges in specific areas, so that, based on our continuous improvement program, plans and measures can be reformulated or reinforced in order to achieve the targets. Among the tools we use to communicate our sustainability strategy and make progress toward achieving our sustainable targets are the following:

1. Monthly operations meeting as mentioned above.
2. Quarterly meetings of the Executive Sustainability Committee and the Ecology and Environment Committee.
3. Reports to the Chief Executive Officer, the Audit and Corporate Practices Committee and the Board of Directors, including the presentation of the Annual Sustainability Report to the Board members during their July meeting.

4. Publication of articles on specific issues, such as water, climate change, energy efficiency, waste management, sustainability trends, etc., in our quarterly e-magazine, IN HOUSE KCM.
5. Publication of our environmental policies on posters and bulletin boards at all the company's plants and operations.
6. Publication of the annual sustainability report on our Intranet and on our website.
7. "KCM Sustainability Day," aimed at promoting sustainability culture among our external stakeholders.
8. Explaining our sustainability strategy and its goals to all new hires as well as those undergoing re-induction.

ECONOMIC PERFORMANCE

Even in last year's challenging economic climate and with signs of slowdown, our brands retained their solid positioning, and together with execution of our innovation plans and promotion of various categories, this led to a 6.0% rise in sales, primarily due to price improvements.

Along with the growth in our sales, which reached all-time highs, and more and better operating efficiency measures, the on-going cost and expense reduction program brought record savings that meant a competitive cost advantage totaling MXN1.6 billion, and, for the sixth year in a row, these accounted for at least 5% of the cost of goods sold.

Also this year, we saw a better climate for costs and a more stable exchange rate, which compared favorably to the rising raw materials costs and foreign-exchange depreciation that had affected us in previous years.

With all of this, our operating income grew by 19.8 percent, while EBITDA advanced by a solid 20.6%. Net income was up 22 percent.

These results, together with our on-going efforts to improve and optimize working capital, led to solid cash flow generation, and with this, our leverage ratio (net debt/EBITDA) was reduced to

1.4 times, even after investment in Capex, a payout to shareholders, and recognition of the new international accounting standard on recognition of leasing. These results supported a yield of 25.3% to our shareholders, including the dividend paid out to them.

The consolidated financial results that KCM publishes include the financial statements of Kimberly-Clark de México S.A.B. de C.V. and those of its wholly-owned subsidiaries:

- › Crisoba Industrial S.A. de C.V.
Provides property rental and other services to KCM.
- › Servicios Empresariales Során S.A. de C.V.
Supplies financing, equipment rental and, through its subsidiaries, distribution and other services to Kimberly-Clark de México, S.A.B. de C.V.
- › Taxi Aéreo de México S.A.
Provides air transport services to employees of KCM, its subsidiaries and the general public.

- › Evenflo México S.A de C.V. y Evenflo, Inc,
Produces baby feeding accessories in Mexico and the United States and selling other Evenflo® brand products in Mexico.
- › Sodisa
Provides logistical services as a transport subsidiary.
- › 4e
Makes liquid soaps that expand the range of products KCM offers.

Throughout our history, we have maintained steady growth, underpinned by our capacity for innovation and the operating efficiency we achieve by using cutting-edge technology, using a business model focused on serving every segment of the population, developing human capital and building a leading market share and highly robust finances based on operational results. These factors helped us achieve net sales of MXN 43.5 billion in 2018.

(GRI 201-1)

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

millions of Mexican pesos

Stakeholder impact	2015	2016	2017	2018	2019
Clients (net sales)	32,206	35,660	37,766	41,026	43,500
Suppliers/the productive chain we promote (cost of goods sold and operating expenses) (GRI 204-1)	22,362	24,739	27,871	30,260	30,736
Employees and their families (salaries and benefits) ¹	2,736	2,872	2,663	3,183	3,691
Investment (CAPEX)	1,318	1,993	2,882	1,792	772
Creditors / financial institutions (net interest expense)	865	1,073	1,271	1,513	1,535
Federal and state governments (taxes)	2,659	2,932	2,705	2,697	3,144
Shareholders (dividends)	4,583	4,703	4,874	4,874	4,781

¹ Includes IMSS and Profit-Sharing.

