2016 ANNUAL REPORT

Kimberly-Clark de México

more and better products for you

Kimberly-Clark de México manufactures and commercializes consumer products for daily use in and outside of the home, such as diapers and baby care products, feminine pads, incontinence products, toilet paper, napkins, facial tissues, paper towels, wet wipes and soap.

Among our leading brands are Huggies®, KleenBebé®, Kleenex®, Evenflo®, Pétalo ®, Cottonelle®, Depend®, Kotex® and Escudo®.

Through continuous innovation and focus on the consumer needs, we lead the market in most of the categories where we participate in. Kimberly-Clark de México is listed on the Mexican Stock Exchange under the ticker symbol KIMBER.

At Kimberly-Clark de México, we aim to be closer to our customers every single day, understanding their needs, anticipating their preferences and developing more and better products for them.

With an intensive focus on innovation, efficient operation, clear strategy, solid financial position, attractive returns and minimizing environmental impact, we fulfill our commitment to continue generating value for all our stakeholders.

more and better products
for your baby

We are continuously strengthening our leadership in most of the categories in which we participate, with a wide range of brands that are the consumers' favorite. This reflects the superior quality and unique functionality of our entire product portfolio.

Huggies® Supreme

Maximum pure and natural protection for your baby's delicate skin

Evenflo®

For advanced moms

Huggies® Natural Care

Pure and natural care for your baby

Eco Natural® by Huggies®

Maximum eco-friendly care for your baby

more and better products

for your home

With our multi-brand and multi-channel strategy, we continue to grow in the categories we serve, offering differentiated products that satisfy each of our consumer's needs. This year's results are proof of the speed at which we can deliver products to the consumer, our superior execution at the point-of-sale and our clear focus on results.

Kleenex® Cottonelle® Beauty Care

The perfect combination of softness and strength

Kleenex® Class

The softness that distinguishes your home

Kleenex® Calorie Absorb

Helps your family's health

Kleenex®

I can't live without Kleenex®

more and better products
for women

Based on continuous innovation and technology, we are constantly improving our variety of products and we invest to maximize the efficiency of our operations to offer better products that add value to each of our categories.

Kotex® Maxi®

The only one with extra protection at the end of the pad

Kotex® Naturals®

With extra chamomile

Kotex® Unika®

The feminine pad with all the attitude

Kotex® Nocturna

The fastest to absorb

more and better products
for your beauty

We are a versatile and dynamic company that knows how to anticipate and seize opportunities in the market to meet consumers' changing needs, whether through organic growth or acquisitions, launching or improving products, entering new categories or expanding our presence.

Escudo®

Eliminates 99.9% of the bacteria that cause body odor

Kleenex® Liquid Soaps

Gives your hands the sensation of moisture and softness

Kleenex® Refreshing Energy

Freshens and hydrates your skin

Kleenex® Body Balance

Cleans your skin softly

more and better products
for your wellness

Our focus on improving life quality for consumers offers an array of products that go beyond meeting their basic needs such as comfort, freedom and protection, so they are able to enjoy an active and healthy lifestyle.

Depend® Underwear

Get your life back

Depend® Ultraconfort

No limits, it is up to you

Depend® Feminine®

Feel the difference

Diapro®

Great quality at the best price

more and better products
for your clients

Through our Professional line, we offer a better experience for our clients' customers. We help them grow and succeed with hygienic and efficient solutions designed for every type of business.

WypAll®
Wipers

Kimpop®
Napkin Dispensers

Scott®
Hand Towels

Scott®
Paper

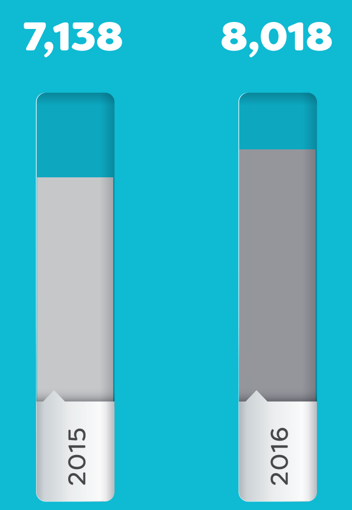
financial data

Figures in millions of pesos

	2016	2015	% Chge
Net Sales	**35,660**	32,206	10.7%
Gross Income	**13,785**	12,428	10.9%
Margin	**38.7%**	38.6%	
Operating Income	**8,018**	7,138	12.3%
Margin	**22.5%**	22.2%	
Net Income	**4,794**	4,333	10.6%
EBITDA	**9,619**	8,803	9.3%
Margin	**27.0%**	27.3%	
Basic earnings per share	**1.55**	1.40	10.7%

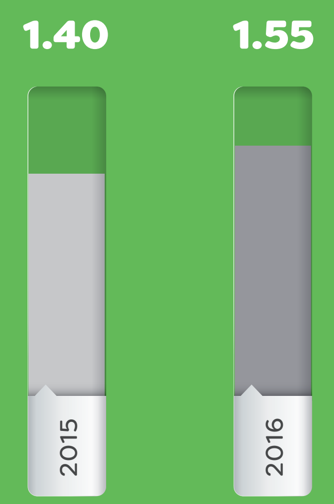
Years ended December 31, 2016 and 2015

Net Sales
millions of pesos



Operating Income
millions of pesos

EBITDA
millions of pesos



Earnings per share
pesos

letter
to our shareholders

Ps.$9.6

billion in EBITDA

Dear Shareholders:

In 2016, the world's economy continued to advance at a modest pace, despite widespread uncertainty and volatility prompted by geopolitical events like Brexit and the election of now President Trump in the United States.

The U.S. economy continued generating jobs and growing, and even though there was a contraction in manufacturing and exports, consumption—it´s main component—remained strong. At the same time, consumer confidence readings showed substantial improvements and various stock indexes hit record highs.

Meanwhile, in the euro zone the economy improved thanks to the aggressive support of the European Central Bank, which stepped in to spur consumption and higher inflation. Many challenges remain in the region, particularly the aging of the population, high unemployment among young people, intense migratory flows, a still-weak financial system and the impact of Brexit. On the other hand, "Quantitative Easing" measures applied by the ECB seem to have staved off the threat of deflation and a new recession.

In emerging markets, China growth remained steady while Brazil and Russia continued in a strong recession. Only India was able to accelerate growth thanks to recent reforms.

Despite the moderate global growth and gradual improvement in oil prices and other commodities, socio-political tensions across the globe spurred a shift in investment toward assets considered "safe havens," which strengthened the dollar and affected market activities and exchange rates in countries like ours.

In the case of Mexico, the economic performance was lower compared to the previous year and once again grew significantly less than expected. The drop in oil production and prices, together with the slowdown in exports took their toll on the economy. On the other hand, jobs creation, real growth in wages, remittances and lending, together with a pickup in the housing industry and an upturn in tourism, all supported domestic consumption and the economy overall. Nevertheless, the strong uncertainty and volatility we mentioned earlier, negatively affected the exchange rate, inflation and growth expectations in the near future.

Increase in sales

11%

Despite this scenario, the company achieved very good results with record sales, net income and EBITDA.

Financial Results

The positive consumption trend, along with the solid position of our brands, our innovation plans and good performance from various categories, allowed us to increase sales by 11 percent during the year.

We further improved our operating efficiencies, and our ongoing cost reduction program generated record savings. This, together with higher sales prices and a more profitable sales mix, helped us partially offset the impact of the peso's depreciation.

With all of this together, operating income rose 12 percent and net income grew by 11 percent, maintaining profitability despite an increasingly complex cost environment. Our EBITDA reached Ps.$9.6 billion, which together with the bank loan allowed us to continue our investment program and close the year with Ps.$7.4 billion in cash and cash equivalents.

During the year, we invested Ps.$4.1 billion (Ps.$3.8 billion in CapEx and acquisitions and Ps.$298 million in stock buybacks).

Finally, during 2016 we paid off Ps.$800 million in debt and obtained a five-year bank loan for US$200 million. Adhering to our policies, in order to hedge the exchange-rate risk, we swapped into Mexican pesos both principal and interest. All of the company's debt is currently denominated in Mexican pesos.

Innovation

At Kimberly-Clark de México (KCM), innovation has always been a determining factor for the growth and strengthening of our brands. With this in mind, we made some significant improvements across our various product categories in 2016.

In baby diapers, at the higher end of our product range we innovated Huggies® Ultraconfort® with new "Comfort Move" technology, which incorporates a much wider elastic band at the back to provide complete support for all the baby's movements.

We also launched the Huggies® Eco Natural® diaper, which is made with more biodegradable and natural ingredients, maintaining the absorbency and softness that Huggies® is known for.

In the middle segment, KleenBebé® Suavelastic Max® incorporated four grip points in the diaper waist, which adjusts better to the baby's body and avoids leakage.

Kotex®

revamped its portfolio with a new technology and brand, along with a differentiated presence within the category.

Ps.$4.1

billion invested during the year

We also modified our wet wipes formulas to offer softer, more natural and environmentally-friendly solutions for both the baby's skin and the environment.

In the Evenflo® line, we revitalized our line of bottles and training cups and our gear portfolio (strollers and car seats, among others) evolved to offer technological innovation in materials and structures, providing more functionality and safety.

In the toilet paper category, we completely re-designed our premium line to target a younger consumer, through Kleenex® Cottonelle® Soft Care with a new texture, and Kleenex® Cottonelle® Beauty Care, a triple-layer, finely embossed toilet paper that offers the perfect combination of softness and strength.

In the napkin category, we improved the texture and whiteness of Petalo® and in paper towels, we launched Kleenex® Calorie Absorb, a product that uses TAD technology to absorb food grease more thoroughly and rapidly than any other product on the market.

In the feminine care category, Kotex® revamped its entire portfolio in 2016, with a new technology and image along with a differentiated presence within the category. The focal point of this change was the launch of the new Kotex® Nighttime pad with an ultra-absorbent core, a unique technology that captures flow in seconds and distributes it to keep it in the pad and away from the skin.

In our incontinence business, our Depend® Feminine® and Depend® underwear line was modified to offer slimmer, more absorbent products, softer covers and the Odor-Lock system for odor control.

In beauty care, we developed the Kleenex® line of liquid soaps and incorporated as well foaming soaps that help save water.

To further strengthen our position we acquired Escudo®, a leading brand in the anti-bacterial soap segment, along with 55% of 4e Global, a leader in liquid soaps with brands like Blumen® and Solei®. These additions position us as a key player in the overall category, and are part of KCM's effort to enter new consumer product categories.

Finally, in the Kimberly-Clark Professional® business, we launched the Experience Life System, which offers a line of sustainable high-performance products focused on the needs of institutional segment.

Operations

In 2016, our production strategy focused on starting up a range of manufacturing and conversion equipment in both home and personal care products, in order to continue supporting our volume growth, improving product quality and continuing to upgrade our technological platform.

We modified our wet wipes formulas to offer softer, more natural and environmentally-friendly solutions for both the baby's skin and the environment.

We also worked intensively on identifying and implementing initiatives to build competitive cost advantages, which generated Ps.$1.1 billion in savings, representing 5 percent of the cost of goods sold for the third year in a row.

Inventory turnover was down from 9.3 to 8.4 times as a consequence of the incorporation of Escudo® acquisition, the liquid soap business and the increase in finished product inventories in order to serve our clients better.

Sustainability and Social Responsibility

In our report on sustainability goals and achievements, we provide information on the company's progress in areas like Corporate Governance, Environmental Care and Social Responsibility. The report is assessed each year by the rating agency in charge of selecting the Mexican Stock Exchange's Sustainable IPC Index, in which KCM has been included year by year, thanks to our solid results and clear trend towards ongoing improvement.

In terms of Environmental Care, we continue our progress in a number of areas such as: water consumption per metric ton of production (where we remain an industry benchmark), procurement of sustainable fibers, use of recovered fibers, efficient energy consumption in our operations and a reduction of greenhouse gases emission intensity.

Our Social Responsibility efforts embody our commitment to stakeholders, as we meet their needs through social work by our employees and donations to more than 230 charitable institutions every year.

Also in 2016 we created the "KCM Inspira" initiative, under the motto "Caring, Educating, Encouraging," which will group together our various social responsibility projects that will bring us closer to our stakeholders while increasing the impact of our efforts.

The first of these projects was #ArteKleenex, in which 15 Mexican artists were invited to design Kleenex® tissue boxes and their works were shown in one of Mexico City's most popular parks. The designs will be incorporated into the Kleenex Selection tissue line and a portion of the sales will be used to renovate public spaces, which will translate into an environment that fosters family unity, outdoor activity and artistic expression.

Human Resources

We know that one of the key factors to our success is having the most highly trained, committed and competitive personnel. That's why we encourage a challenging work environment in which our employees can develop their fullest potential and be recognized and compensated for their contributions.

We encourage a challenging work environment in which our employees can develop their fullest potential and be recognized and compensated for their contributions.

KCM INSPIRA
CUIDANDO
EDUCANDO
IMPULSANDO

In keeping with the above, a significant portion of the compensation and benefits we offer our employees is variable, and our contractual negotiations with unions have always been based on competitive guidelines and conducted in a climate of cordiality and mutual respect, which the company has always encouraged. As customary, in 2016 the company generated and paid out employee profit-sharing, recognized as one of the highest in the country and consistent with our philosophy of giving our employees a share in our results.

In terms of safety, KCM is committed to manage operations in a way that guarantees the occupational safety and health of every one of our employees, contractors and visitors as well. The year was not as good as we had hoped in terms of our safety record, and we failed to meet our goal of zero accidents, but we fully intend to redouble our efforts in the coming year to achieve this.

We are grateful to all of our personnel for their efforts during the year, and we urge them all to continue working with the dedication, commitment and enthusiasm they have always been known for.

Relationship with Kimberly-Clark Corporation

Our partnership with Kimberly-Clark Corporation is fundamental for both supporting our product and processes innovation, as well as for introducing state-of-the-art technology. This cooperation also enables us to participate in global purchasing agreements and share best practices, both operating and commercial.

Outlook

As you all know, 2017 started out amid strong uncertainty and volatility resulting from the possible public policies to be introduced by the newly elected Trump administration in the United States, particularly in the areas of trade, migration and taxes.

Together with this, a more aggressive monetary policy approach by the U.S. Federal Reserve has driven the dollar sharply higher against the Mexican peso.

Under this circumstances, we expect a material upturn in inflation this coming year, a reduction in investments and a slower growth for the Mexican economy. As for consumption, the creation of new jobs and incoming remittances will help, along with other factors, but initial indications suggest lower growth than in the previous two years.

We continue advancing firmly on various environmental care aspects such as: water consumption per metric ton of production (where we remain an industry benchmark), procurement of sustainable fibers, use of recovered fibers, efficient energy consumption in our operations and a reduction of greenhouse gases emission intensity.

Therefore, the outlook is challenging but it also presents a great opportunity to redouble efforts to firmly boost even more the domestic economy and help this country reach its full growth potential. This is why it is essential we accelerate the effective orchestration of structural reforms, undertake an aggressive deregulation program and in general remove obstacles to trigger investment, competitiveness, more jobs and steady for the long-term. It is also urgent and essential that we make more progress in the area of public finances and safety, attacking corruption and impunity, building strong institutions and promoting a true Rule of Law.

In these areas there is little doubt that we are in debt to the country and it is urgent that we act more decisively to face the situation. This is the only way we can restore the confidence and credibility needed to really make the changes the country so direly needs and eventually become a modern, competitive and developed country.

In this environment, our company will work to consolidate and strengthen our competitive advantages, investing in innovation, in our brands, technology, and in the training and development of our people.

At the same time, to offset the impact of higher prices on raw materials, energy and exchange-rate effects, we will continue to improve our efficiency and productivity as well as introducing further cost and expense-cutting measures.

Our investments are expected to reach between US$200 and US$250 million in assets, focused precisely on innovation, product quality, cost savings and some capacity expansions.

With all of this, we expect once again to report solid results in 2017. It will be difficult at the start, but we are confident that the actions we are taking will bring a steady improvement as the year progresses.
As economic growth accelerates in the year to come and translates into a more dynamic and stronger market for domestic consumption with a growing middle class, the company will be exceptionally well positioned to take advantage of it.

Finally, and in consistency with our dividend policy, this year's Shareholders' Meeting is proposing to approve the payment of a dividend that grows in real terms year over year.

Dear shareholders, we once again express our gratitude for your support and trust during our management for the year just ended and we reiterate our pledge to carry out the necessary plans and programs to ensure Kimberly-Clark de México remains the successful company it is and has always been.

Sincerely,

Claudio X. González
Chairman of the Board

Pablo R. González G.
Chief Executive Officer

This report was fully approved by the Board of Directors in its meeting on February 7, 2017.

products
for you

Kimberly-Clark de México

Babies

diapers • pull-up training pants • swim diapers • wet wipes • shampoo • cream and bar soap • feeding products

Home

toilet paper • napkins • facial tissue • paper towels

Women

feminine napkins • panty protectors • tampons • intimate wipes

Beauty

bar soap • liquid hand soap • foaming liquid soap

Adults

underwear • protectors • feminine napkins • prefolded

Professional

dispensers • jumbo roll toilet paper • paper towels • hand towels • industrial cleaning cloths

board of directors

Directors

Claudio X. González Laporte
Chairman

Valentín Diez Morodo*
Vice Chairman

Thomas J. Falk
Vice Chairman

Jorge Ballesteros Franco*

Emilio Carrillo Gamboa*

Antonio Cosío Ariño*

Pablo R. González Guajardo

Maria Henry

Michael Hsu

Esteban Malpica Fomperosa*

Fernando Senderos Mestre*

Sandra Macquillan

Alternate Directors

Guillermo González Guajardo

Jorge Babatz García

José Antonio Noguera Castillo

José Antonio Mondragón Pacheco

Agustín Gutiérrez Espinosa

Antonio Cosío Pando

Fernando Ruiz Sahagún

Sergio Chagoya Díaz

Jesús González Laporte

Jorge Barrero Stahl

Juan Carlos Machorro Guerrero

Jorge A. Lara Flores

**Independent*

officers

Pablo González Guajardo
Chief Executive Officer

Jorge Morales Rojas
Corporate Director of Business and Commercial Strategy

Xavier Cortés Lascurain
Chief Financial Officer

Bernardo Aragón Paasch
Chief Operating Officer

Fernando González Velazco
Director of Consumer Product Sales

Roberto García Palacios
Corporate Director of Product Innovation, Technology Development and Quality

Jesús González Laporte
Director of Strategic Operations Planning

Alejandro Lascurain Curbelo
Director of Human Resources

Jose María Robles Miaja
Export Manager

Regina Celorio Calvo
e-Marketing /e-Commerce / Communications Manager

Fernando Vergara Rosales
Corporate Comptroller

Alejandro Argüelles de la Torre
General Counsel

Carlos Conss Curiel
Deputy Director of Information Services

Azul Argüelles Rojas
Treasurer and Investor Relations

consolidated financial statements

Report
of independent auditors

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, 2016 and 2015, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kimberly-Clark de México, S. A. B. de C. V. and its subsidiaries as of December 31, 2016 and 2015, and their financial performance and of 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico. 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 4 to the accompanying financial statements includes certain information about this allowance.

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 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.

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 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 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 reasonably be expected to outweigh the public interest benefits of such communication.

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

C. P. C. Alejandro González Anaya

Mexico City, Mexico
January 31, 2017

Consolidated Statements of **financial position**

December 31, 2016 and 2015
(Thousands of Mexican pesos)

	NOTES	2016	2015
Assets			
Current assets:			
Cash and cash equivalents		$ **7,461,492**	$ 7,933,699
Trade accounts receivable - net	4	**5,280,324**	4,784,119
Notes receivable and others		**346,726**	75,256
Inventories	5	**2,861,198**	2,226,509
Total current assets		**15,949,740**	15,019,583
Long-term assets:			
Property, plant and equipment	6	**16,298,731**	15,670,354
Derivative financial instruments	14	**4,867,331**	1,830,163
Intangibles and other assets	7 and 8	**2,648,603**	944,158
Goodwill	7	**934,221**	582,771
Total long-term assets		**24,748,886**	19,027,446
Total		$ **40,698,626**	$ 34,047,029
Liabilities and stockholders' equity			
Current liabilities:			
Current portion of long-term debt	9	$ **2,500,000**	$ 800,000
Trade accounts payable		**4,589,573**	3,721,679
Other accounts payable, accrued liabilities and provisions	10	**1,982,343**	1,840,944
Employee benefits		**1,373,311**	1,230,398
Income tax	11	**555,189**	724,302
Total current liabilities		**11,000,416**	8,317,323
Long-term liabilities:			
Long-term debt	9	**20,762,887**	17,238,200
Deferred income taxes	11	**1,408,296**	1,461,820
Other liabilities	7 and 12	**440,932**	292,148
Total long-term liabilities		**22,612,115**	18,992,168
Total liabilities		**33,612,531**	27,309,491
Stockholders' equity			
Contributed		**580,286**	581,706
Earned		**5,827,476**	6,034,302
Items of other comprehensive income		**591,511**	121,530
Controlling Entity stockholders' equity	15	6,999,273	6,737,538
Minority interest stockholders' equity	7	**86,822**	-
Total stockholders' equity		**7,086,095**	6,737,538
Total		$ **40,698,626**	$ 34,047,029

See accompanying notes to consolidated financial statements.

Consolidated Statements of income

Years ended December 31, 2016 and 2015
(Thousands of Mexican pesos, except as indicated)

	NOTES	2016	2015
Net sales		$ 35,660,295	$ 32,206,234
Cost of sales		21,875,362	19,778,457
Gross profit		13,784,933	12,427,777
General expenses		5,766,523	5,289,686
Operating profit		8,018,410	7,138,091
Finance costs:			
Borrowing costs		1,224,993	1,075,526
Interest income		(269,774)	(206,687)
Exchange fluctuation – net		118,050	(3,483)
Income before income taxes		6,945,141	6,272,735
Income taxes	11	2,155,929	1,940,202
Consolidated net income before minority interest		4,789,212	4,332,533
Net loss minority interest		(4,353)	-
Net income		$ 4,793,565	$ 4,332,533
Basic earnings per share (in pesos)		$ 1.55	$ 1.40
Weighted average number of outstanding shares (in thousands)		3,090,300	3,097,016

See accompanying notes to consolidated financial statements.

Consolidated Statements of Other **comprehensive income**

Years ended December 31, 2016 and 2015
(Thousands of Mexican pesos)

	NOTES		2016		2015
Consolidated net income		**$**	**4,789,212**	$	4,332,533
Other comprehensive income:					
Items that will not be reclassified subsequently to statements of income					
Actuarial gains (losses) on retirement benefits – net of tax	12		**9,899**		(9,909)
Items that may be reclassified subsequently to statements of income					
Changes in valuation of derivative financial instruments – net of tax	14		**460,082**		179,167
			469,981		169,258
Consolidated other comprehensive income before minority interest			**5,259,193**		4,501,791
Comprehensive loss minority interest			**(4,353)**		-
Other comprehensive income		**$**	**5,263,546**	$	4,501,791

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in stockholders' equity

Years ended December 31, 2016 and 2015
(Thousands of Mexican pesos)

	Contributed	Earned	Items of other comprehensive income					
	Common stock	Retained earnings	Actuarial losses	Translation effects of foreign operations	Valuation of derivative financial instruments	Entity stockholders' equity	Controlling interest stockholders' equity	Minority Total stockholders' equity
Balance, January 1, 2015	$ 2,874,706	$ 4,106,644	$ (88,373)	$ 145,682	$ (105,037)	$ 6,933,622	$ -	$ 6,933,622
Dividends paid		(2,293,327)				(2,293,327)		(2,293,327)
Capital stock reimbursement	(2,289,696)					(2,289,696)		(2,289,696)
Repurchase of own stock	(3,304)	(111,548)				(114,852)		(114,852)
Comprehensive income		4,332,533	(9,909)		179,167	4,501,791		4,501,791
Balance, December 31, 2015	581,706	6,034,302	(98,282)	145,682	74,130	6,737,538	-	6,737,538
Dividends paid		(4,703,899)				(4,703,899)		(4,703,899)
Repurchase of own stock	(1,420)	(296,492)				(297,912)		(297,912)
Recognition of minority interest							351,450	351,450
Put option of minority interest (see Note 7e)							(260,275)	(260,275)
Comprehensive income		4,793,565	9,899		460,082	5,263,546	(4,353)	5,259,193
Balance, December 31, 2016	**$ 580,286**	**$ 5,827,476**	**$ (88,383)**	**$ 145,682**	**$ 534,212**	**$ 6,999,273**	**$ 86,822**	**$ 7,086,095**

See accompanying notes to consolidated financial statements.

Consolidated Statements of cash flows

Years ended December 31, 2016 and 2015
(Thousands of Mexican pesos)

	2016	2015
Operating activities:		
Income before income taxes	$ 6,945,141	$ 6,272,735
Items related to investing and financing activities:		
Depreciation and amortization	1,600,919	1,664,773
Exchange fluctuations	118,050	(3,483)
Interest expense - net	955,219	868,839
	9,619,329	8,802,864
Trade accounts receivable and other	(454,022)	287,439
Inventories	(531,213)	(339,152)
Trade accounts payable	293,486	(71,731)
Other accounts payable, accrued liabilities and provisions	124,705	21,673
Employee benefits and retirement	171,103	333,401
Income taxes paid	(2,564,004)	(1,731,102)
Net cash flows provided by operating activities	6,659,384	7,303,392
Investing activities		
Additions to property, plant and equipment	(1,993,088)	(1,318,384)
Acquisition of intangibles and other assets	(1,417,681)	114
Business acquisition	(761,000)	-
Net cash flows used in financing activities	(4,171,769)	(1,318,270)
Excess cash to apply in financing activities	2,487,615	5,985,122
Financing activities		
Borrowings	3,566,748	3,683,442
Payment of loans	(800,000)	(1,500,000)
Interest paid	(962,996)	(818,776)
Dividends paid	(4,703,899)	(2,293,327)
Capital stock reimbursement	-	(2,289,696)
Repurchase of own stock	(297,912)	(114,852)
Other liabilities	(35,549)	(28,534)
Net cash flows used in financing activities	(3,233,608)	(3,361,743)
(Decrease) increase in cash and cash equivalents	(745,993)	2,623,379
Effects of exchange rate changes on balance held in foreign currency	273,786	260,773
Cash and cash equivalents at the beginning of year	7,933,699	5,049,547
Cash and cash equivalents at the end of year	$ 7,461,492	$ 7,933,699

There were no significant non-monetary transactions.
See accompanying notes to consolidated financial statements.

Notes to the Consolidated financial statements

Years ended December 31, 2016 and 2015
(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®, Kimlark®, Pétalo®, Cottonelle®, Depend®, Kotex®, Evenflo®, since April 2016 Escudo® and since November 2016 Blumen® and Solei® (see Note 7).

2. International Financial Reporting Standards ("IFRS")

Mandatory standards and improvements issued by the International Accounting Standard Board (IASB) are effective beginning on or after January 1, 2015.

These new standards and improvements have no effect on the Entity's amounts and disclosures included in the consolidated financial statements.

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:

- 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 other subsidiaries of Kimberly-Clark de México, S. A. B. de C. V.

Starting in November, 2016:

- Seven subsidiaries which comprise liquid soap and antibacterial gel businesses and others.

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 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 4 through 8).

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**

Financial assets are assessed for indicators of impairment at the end of each reporting period.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of accounts receivable could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on payments.

In the case of accounts receivable, the carrying amount is reduced through the use of an allowance for doubtful accounts. 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. 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.

h. 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.

i. Intangibles

Intangible assets acquired separately - Are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized within general 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.

j. 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.

k. 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.

l. 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.

m. 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.

n. Income taxes

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

- Current tax

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

- **Deferred income tax**

  Deferred 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.

o. 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.

p. 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 general expenses line items, as applicable.

q. 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.

r. 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.

s. Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable, taking into account the estimated amount of customer returns, discounts and other similar allowances.

Revenue from the sale of goods is recognized when all of the following conditions are met:

- The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

t. 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.

Effective January 1, 2015, functional currency of Evenflo Feeding Inc. was modified as a result of changes in the economic environment in which the company operates, in respect to the currency in which cash flows from financing activities are obtained. Consequently non-monetary balances that were recorded originally at fair value, represented mainly by goodwill and intangible assets arising at acquisition, are translated at the exchange rate of the date in which the modification was made.

4. Trade accounts receivable - net

	2016	2015
Trade	$ **6,526,144**	$ 6,109,719
Allowance for rebates	**(1,120,879)**	(1,207,251)
Allowance for doubtful accounts	**(124,941)**	(118,349)
Net	$ **5,280,324**	$ 4,784,119

Allowance for rebates:		
Balance at January 1,	$ **(1,207,251)**	$ (899,066)
Increases	**(6,023,645)**	(5,812,732)
Applications	**6,110,017**	5,504,547
Balance at December 31,	$ **(1,120,879)**	$ (1,207,251)

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.

The Entity reviews on a quarterly basis the allowance for doubtful accounts. The main factors it considers to determine the amount of the allowance are risks related to the customer's financial position based on credit limits established and delays in collection.

5. Inventories

	2016	2015
Finished goods	$ **1,046,376**	$ 760,691
Work in process	**346,222**	254,155
Raw materials and spare parts	**1,468,600**	1,211,663
Total	$ **2,861,198**	$ 2,226,509

6. Property, plant and equipment

	2016	2015
Depreciable fixed assets	$ **37,680,447**	$ 36,664,170
Accumulated depreciation	**(23,452,426)**	(22,904,735)
Net	**14,228,021**	13,759,435
Land	**741,814**	742,593
Construction in progress	**1,328,896**	1,168,326
Total	$ **16,298,731**	$ 15,670,354

In 2016, there was an increase in land for $3,500 and a disposal for $4,279.

At December 31, 2016 and 2015, the amount of unamortized capitalized borrowing costs amounted to $58,722 and $49,491 respectively.

	Buildings	Machinery and equipment	Transportation equipment	Total
Depreciable fixed assets				
Balance at the beginning of 2015	$ 5,353,319	$ 29,750,032	$ 948,413	$ 36,051,764
Additions	57,841	645,404	50,112	753,357
Disposals	(13,816)	(72,448)	(54,687)	(140,951)
Balance at December 31, 2015	5,397,344	30,322,988	943,838	36,664,170
Additions	109,402	1,480,928	308,524	1,898,854
Additions arising from business acquisition	-	141,564	25,436	167,000
Disposals	(19,177)	(685,092)	(345,308)	(1,049,577)
Balance at December 31, **2016**	**$ 5,487,569**	**$ 31,260,388**	**$ 932,490**	**$ 37,680,447**
Accumulated depreciation				
Balance at the beginning of 2015	$ (2,230,639)	$ (18,431,378)	$ (753,704)	$ (21,415,721)
Additions	(154,605)	(1,431,671)	(41,378)	(1,627,654)
Disposals	13,816	71,446	53,378	138,640
Balance at December 31, 2015	(2,371,428)	(19,791,603)	(741,704)	(22,904,735)
Additions	(174,056)	(1,320,005)	(49,622)	(1,543,683)
Disposals	18,559	633,892	343,541	995,992
Balance at December 31, **2016**	**$ (2,526,925)**	**$ (20,477,716)**	**$ (447,785)**	**$ (23,452,426)**

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

Buildings	45 years
Machinery and equipment	15 to 25 years
Transportation equipment	6 and 20 years

7. Business acquisition

a. **Business acquired –** During November 2016, the Entity acquired 55% of a liquid soap, anti-bacterial gel and others. The original agreement considered the acquisition of a 50% interest and subsequently an additional 5% was acquired. Total consideration paid was $781 million Mexican pesos.

b. **Assets acquired and liabilities acquired at the acquisition date**

Assets:	
Cash and cash equivalents	$ 20,000
Accounts receivable and others	20,272
Inventories	103,476
Plant, equipment and other assets	167,000
Intangibles	594,000
	904,748
Liabilities:	
Suppliers and other accrued liabilities	(123,748)
Net assets	$ 781,000
Acquired percentage 55%	$ 429,550

The costs related to this acquisition were excluded from the consideration paid and were recognized as an expense in the period as part of general expenses in the income statement.

The fair value of the net assets acquired was determined by an independent expert using the following methods: present value of future net cash flows, replacement cost and substitution cost. Final values will be determined during 2017.

c. Goodwill

Assets:		
Consideration paid	$	781,000
Less: Fair value of net assets		
Acquired at 55%		429,550
Goodwill determined in acquisition	$	351,450

Goodwill arising from the business acquisition is because the acquisition cost included the benefits of the expected synergies, revenue growth, future market development and the established workforce. These benefits are not recognized separately from goodwill because they do no fulfill the recognition criteria for identified intangible assets.

d. Net cash flows on acquisition of subsidiaries

Consideration paid in cash	$	781,000
Less: cash and cash equivalent acquired		(20,000)
	$	761,000

The acquisition agreement includes a contingent additional payment to be determined based on 2017 results.

e. Call and put option

The acquisition agreement includes a call option that allows the Entity to acquire the remaining stock from the date of purchase; it also includes a put option clause exercisable by the non-controlling interest that forces the Entity to acquire the remaining stock from the end of the third anniversary until the eight anniversary of the closing date. The fair value of this obligation is recognized as a liability with a debit to stockholders' equity.

8. Intangibles and other assets

		2016		2015
Trademarks and licenses	**$**	**1,777,088**	$	106,735
Patents and permits		**25,636**		25,636
Customer relationships		**583,441**		583,441
		2,386,165		715,812
Accumulated amortization		**(220,837)**		(163,601)
Trademarks and licenses with indefinite life		**374,372**		374,372
Total intangibles		**2,539,700**		926,583
Other assets		**108,903**		17,575
Total	**$**	**2,648,603**	$	944,158

	Trademarks and licenses	Patents and permits	Customer relationships	Total
Cost				
Balance at the beginning of 2015 and 2016	$ 106,735	$ 25,636	$ 583,441	$ 715,812
Additions	1,076,353			1,076,353
Additions arising from business acquisition	594,000			594,000
Balance at December 31, **2016**	**$ 1,777,088**	**$ 25,636**	**$ 583,441**	**$ 2,386,165**
Accumulated amortization				
Balance at the beginning of 2015	$ (42,047)	$ (5,118)	$ (79,317)	$ (126,482)
Additions	(7,957)	(1,772)	(27,390)	(37,119)
Balance at December 31, 2015	(50,004)	(6,890)	(106,707)	(163,601)
Additions	(28,078)	(1,769)	(27,389)	(57,236)
Balance at December 31, **2016**	**$ (78,082)**	**$ (8,659)**	**$ (134,096)**	**$ (220,837)**

The useful lives used for calculating amortization are:

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

9. Long-term debt

	2016	2015
Marketable notes denominated in Mexican pesos, unsecured, bearing interest at fixed annual rates of 9.65%, 7.17% and 6.98%, with maturities in 2019, 2020 and 2023.	**$ 4,650,000**	$ 5,450,000
Marketable notes denominated in Mexican pesos, unsecured, bearing interest based on the 28-day Mexican Interbank Equilibrium rate TIIE plus or minus certain credit spreads. As of December 31, 2016, the annualized rates ranged from 5.50% to 5.78%, with maturities in 2017 and 2018.	**4,000,000**	4,000,000
Notes denominated as global bonds issued for USD$250 million, unsecured, bearing interest at a fixed net annual rate of 3.8%.	**5,182,500**	4,300,000
Notes denominated as global bonds issued for USD$250 million, unsecured, bearing interest at a fixed net annual rate of 3.25%.	**5,182,500**	4,300,000
Credit contract with Bank of America for USD$200 million, unsecured, bearing interest based on a monthly Libor plus 110 spread. At December 31, 2016 the net annual rate was 1.957%.	**4,146,000**	-
Total	**23,161,000**	18,050,000
Current portion	**(2,500,000)**	(800,000)
Expenses on debt issuance	**(82,782)**	(84,806)
Increase of debt due to fair value hedge	**184,669**	73,006
Long-term debt	**$ 20,762,887**	$ 17,238,200

Long-term debt agreements contain certain covenants that do not include financial restrictions. Such obligations have been complied with as of December 31, 2016 and 2015.

Long-term debt matures as follows:

2018	1,500,000
2019	400,000
2020	2,500,000
2021	4,146,000
2023	1,750,000
2024	5,182,500
2025	5,182,500
	$ 20,661,000

Considering the interest rates, exchange rates and the debt in effect as of December 31, 2016, maturity of interest are $987 million Mexican pesos in 2017, an average of $808 million Mexican pesos from 2018 to 2020 and an average of $501 million Mexican pesos from 2021 to 2023.

As of December 31, 2016 and 2015, the fair value of debt approximates its carrying value.

10. Other accounts payable, accrued liabilities and provisions

Other accounts payable, accrued liabilities and provisions are mainly represented by value-added tax, other taxes payable, accrued services and provisions. Provisions are composed as follows:

	2016	2015
Promotion	**$ 123,177**	$ 123,430
Freight	**140,494**	125,373
Total	**$ 263,671**	$ 248,803

	Promotion	Freight	Total
Balance at the beginning of 2015	$ 69,322	$ 133,550	$ 202,872
Increases	390,170	1,685,859	2,076,029
Applications	(336,062)	(1,694,036)	(2,030,098)
Balance at December 31, 2015	123,430	125,373	248,803
Increases	415,042	1,983,931	2,398,973
Applications	(415,295)	(1,968,810)	(2,384,105)
Balance at December 31, **2016**	**$ 123,177**	**$ 140,494**	**$ 263,671**

11. Income taxes

The statutory income tax rate is 30% for the years 2016 and 2015. The Entity is subject to ISR on a consolidated basis until 2013. As a consequence of amendments to the Income tax law in December 2013, the tax consolidation regime was eliminated. As a result, the Entity must pay benefits previously recognized under the consolidation regime over the next five years starting in 2014. The amount of this obligation is not significant.

a. Income taxes recognized in profit or loss

	2016	2015
Current	**$ 2,394,806**	$ 2,254,958
Deferred	**(238,877)**	(314,756)
Total income taxes	**$ 2,155,929**	$ 1,940,202

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

	2016 RATE %	2015 RATE %
Statutory rate	**30.0**	30.0
Effects of inflation	**.8**	.5
Non deductible items	**1.0**	1.0
Tax incentive and others	**(.8)**	(.6)
Effective rate	**31.0**	30.9

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

	2016	2015
Due to valuation of derivative financial instruments	**$ (197,177)**	$ (76,786)
Due to actuarial (gain) or loss	**(4,242)**	4,247
Total	**$ (201,419)**	$ (72,539)

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:

	2016	2015
Property, plant and equipment	**$ 1,661,349**	$ 1,799,086
Intangibles arising from business combination	3**0,513**	33,524
Inventories	**16,216**	9,045
Loss carryforwards (expiring from 2023 to 2035)	**(122,679)**	(104,695)
Other liabilities and provisions	**(406,051)**	(306,910)
Derivative financial instruments	**228,948**	31,770
Total	**$ 1,408,296**	$ 1,461,820

12. Other liabilities

Is comprised as follows:

		2016		2015
Obligation to purchase minority interest (see Note 7e)	**$**	**260,275**	$	-
Retirement benefits		**180,657**		166,608
Derivative financial instruments (see Note 14)		**-**		89,991
Income tax		**-**		35,549
Total	**$**	**440,932**	$	292,148

a. 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:

		2016		2015
Projected benefit obligation	**$**	**546,537**	$	538,047
Plan assets		**(365,880)**		(371,439)
Net liability		**180,657**		166,608
Annual cost	**$**	**31,666**	$	32,519

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

	2016 %	2015 %
Discount rate	8.75	6.50
Expected return on plan assets	8.75	6.50
Expected rate of salary increase	4.50	4.50

As of December 31, 2016 and 2015, employee benefits expense totaled $2,896 and $2,703 million, respectively.

13. 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, 2016, 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, 2016 is spaced out over nine 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 result before income taxes for the year 2016, nor the cash and cash equivalents position as of December 31, 2016.

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 December 31, 2016, debt ratings by Standard & Poor's were "AAA" in pesos and "A-" in U.S. dollars, whereas those of Fitch Ratings were "AAA" in pesos and "A" in U.S. dollars. In all cases, these are considered investment-grade ratings.

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 16).

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, 2016 the Entity had not entered into any hedge instrument on supplies purchases. Export sales in the year 2016 were $1,717 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.

During 2016 and 2015, the Entity entered into derivative financial instruments denominated cross currency swaps (CCS) in order to reduce its exposure to exchange rate fluctuations related to this U.S. dollar denominated debt.

- Interest rates

To reduce the risk of interest rate variations, the Entity divides the profile of its debt between fixed rate and variable rate. As of December 31, 2016, 65% of the debt was at a fixed rate and 35% at a variable rate. Of the variable rate debt, $1,500 million Mexican pesos are hedged whereby the derivative instrument converts the debt to a fixed rate; as well as $3,628 million Mexican pesos of U.S. dollar-denominated debt are hedged to convert fixed rate debt in U.S. dollars to variable rate debt in Mexican pesos, with the net exposure being $10,274 million Mexican pesos, equivalent to 44% of the total debt. On another hand, the Entity had $7,064 million Mexican pesos invested in variable rate investments and thus the net exposure was $3,210 million Mexican pesos.

- ### Other pricing risks

The main pricing risk is related with movements in cellulose prices. 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 2016 was recycled fiber. Other strategies include the utilization of different types of fiber and different suppliers, as well as sourcing from different geographical regions. 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, 2016, the Entity had not contracted any hedge instrument related to natural gas.

14. 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, the Entity entered into cross currency swaps contracts. Such instruments as of December 31, 2016 and 2015 convert U.S. dollar-denominated for 700 and 500 million of debt into $10,614.8 and $7,036.3 million of Mexican pesos, respectively.

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

		2016		2015
Contracts to convert 325 million of U.S. dollar-denominated debt to $4,508.1 million of Mexican peso debt and to convert annual fixed rates in USD from 3.8% and 3.25% to annual fixed rates in pesos of 6.85% and 6.21%, respectively.	**$**	**2,990,535**	$	1,251,498
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, 2016 annual rates in pesos are 5.65% and 5.82%		**1,279,370**		578,665
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, 2016 annual rate in pesos is 6.43%.		**597,426**		-
	$	**4,867,331**	$	1,830,163

Maturity of the contract are as follows:

2021		597,426
2024		2,434,897
2025		1,835,008
	$	4,867,331

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.

The favorable effect of cash flow hedge that was reclassified to net income were $1,147,250 and $772,500 for the 2016 and 2015 years, respectively.

b. Interest rate swaps on peso-denominated debt

To reduce interest rate volatility, an interest rate swap was contracted for $1,500 million, whereby interest payment profile is converted from variable rate to fixed rate.

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 $57,489 and $73,045 for the years 2016 and 2015, respectively, recycled to net income, are 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, wich is considered a level 2 measure in the fair value categories.

15. Stockholders' equity

As of December 31, 2016 and 2015, common stock consists of nominative common shares with no par value, as follows:

	Shares			
	2016	%	2015	%
Series "A"	1,605,970,352	52	1,610,024,363	52
Series "B"	1,482,003,719	48	1,485,504,035	48
Total	3,087,974,071	100	3,095,528,398	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 years ended December 31, 2016 and 2015, 7,554,327 and 3,562,480 shares, respectively, were repurchased.

In an extraordinary shareholders meeting held on February 26, 2015, stockholders approved a capital stock reimbursement of $0.74 pesos per share, totaling $2,289,696 which was paid during the second quarter of such year.

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, 2016, the balances of the stockholders' equity tax accounts are represented by contributed capital account of $30,249,000, the net tax income account until 2013 for $4,239,000 and the net tax income account that started in 2014 for $14,668,000, approximately.

During the years ended December 31, 2016 and 2015, the Entity paid dividends for $4,703,899 and $2,293,327; likewise for the year ended December 31, 2015, the Entity paid a capital stock reimbursement for $2,289,696. If such dividends and capital stock reimbursement had not been paid, stockholders' equity have been increased by $9,286,922 and $4,583,023, as of such dates.

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

16. 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:

		2016		2015
Monetary assets	**$**	**152,386**	$	149,894
Monetary liabilities (see Note 14)		**824,370**		620,232

Exchange rates used to value such balances were $20.73 and $17.20 Mexican pesos per one U.S. dollar, respectively.

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

		2016		2015
Export sales	**$**	**91,566**	$	108,370
Purchases of raw materials, spare parts and services		**561,333**		582,479
Purchases of machinery and equipment		**66,856**		30,537

17. Related parties

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

		2016		2015
Kimberly-Clark Corporation:				
Purchases and technical services	**$**	**1,408,419**	$	1,352,972
Machinery and equipment		**21,310**		8,881
Net sales and others		**194,812**		391,960
Trade accounts payable		**238,357**		178,306
Trade accounts receivable		**49,589**		42,723

Other - As of December 31, 2016 and 2015, employee benefits granted to Entity's key senior management were $201,605 and $157,314, respectively.

18. Business segment information

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

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

	2016			
	Consumer Products	Professional and Health Care	Exports	Total
Net sales	$ 30,640,717	$ 3,302,920	$ 1,716,658	$ 35,660,295
Operating profit	7,285,584	432,731	300,095	8,018,410
Depreciation and amortization	1,355,356	177,906	67,657	1,600,919
Total assets	34,969,848	3,769,579	1,959,199	40,698,626

	2015			
	Consumer Products	Professional and Health Care	Exports	Total
Net sales	$ 27,345,900	$ 3,129,648	$ 1,730,686	$ 32,206,234
Operating profit	6,420,009	446,157	271,925	7,138,091
Depreciation and amortization	1,398,672	187,087	79,014	1,664,773
Total assets	28,908,895	3,308,528	1,829,606	34,047,029

19. Commitments

At December 31, the Entity held the following commitments:

	2016	2015
Acquisition of machinery, equipment and construction projects	**$ 1,390,392**	$ 598,851
Acquisition of raw materials, spare parts and other	**476,114**	454,507
Operating lease agreements of real estate and offices with non-cancelable terms ranging from 1 to 12 years, and estimated annual rents	**308,352**	195,263

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

20. New accounting principles

The following new and revised IFRS have been analyzed but are not yet effective:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue From Contracts With Customers
- IFRS 16 Leases

21. Authorization of issuance of financial statements

On January 31, 2017, the issuance of these consolidated financial statements was authorized by Licenciado Pablo R. González Guajardo, General Director, and Ingeniero 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

Mexican Stock Exchange (BMV), Mexico

The United States (OTC ADRs)

Types of shares

Series A

Series B

Ticker

BMV: KIMBER

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