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KIMBERLY CLARK CORP

Form 10-Q

April 22, 2019

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended March 31, 2019**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-225

**KIMBERLY-CLARK CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**                      **39-0394230**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation)                  Identification No.)

**P. O. Box 619100**

**Dallas, Texas**

**75261-9100**

(Address of principal executive offices)  
(Zip code)

**(972) 281-1200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 15, 2019, there were 343,795,330 shares of the Corporation's common stock outstanding.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES****CONSOLIDATED INCOME STATEMENT**

(Unaudited)

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31</b>           |             |
| (Millions of dollars, except per share amounts)              | <b>2019</b>               | <b>2018</b> |
| <b>Net Sales</b>   | <b>\$4,633</b>            | \$4,731     |
| Cost of products sold  | <b>3,205</b>              | 3,407       |
| <b>Gross Profit</b>  | <b>1,428</b>              | 1,324       |
| Marketing, research and general expenses                     | <b>769</b>                | 1,079       |
| Other (income) and expense, net                              | <b>4</b>                  | (2 )        |
| <b>Operating Profit</b>                                      | <b>655</b>                | 247         |
| Nonoperating expense   | <b>(11 )</b>              | (9 )        |
| Interest income  | <b>3</b>                  | 2           |
| Interest expense   | <b>(65 )</b>              | (66 )       |
| <b>Income Before Income Taxes and Equity Interests</b>       | <b>582</b>                | 174         |
| Provision for income taxes                                   | <b>(143 )</b>             | (104 )      |
| <b>Income Before Equity Interests</b>                        | <b>439</b>                | 70          |
| Share of net income of equity companies                      | <b>27</b>                 | 27          |
| <b>Net Income</b>  | <b>466</b>                | 97          |
| Net income attributable to noncontrolling interests          | <b>(12 )</b>              | (4 )        |
| <b>Net Income Attributable to Kimberly-Clark Corporation</b> | <b>\$454</b>              | \$93        |
| <br><b>Per Share Basis</b>                                   |                           |             |
| <b>Net Income Attributable to Kimberly-Clark Corporation</b> |                           |             |
| Basic  | <b>\$1.32</b>             | \$0.27      |
| Diluted  | <b>\$1.31</b>             | \$0.26      |

See notes to the unaudited interim consolidated financial statements.

**KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(Unaudited)

| (Millions of dollars)  | Three Months<br>Ended March 31 |              |
|--|--------------------------------|--------------|
|  | 2019                           | 2018         |
| <b>Net Income</b>  | <b>\$466</b>                   | <b>\$97</b>  |
| <b>Other Comprehensive Income (Loss), Net of Tax</b>                   |                                |              |
| Unrealized currency translation adjustments                            | 26                             | 117          |
| Employee postretirement benefits                                       | (4 )                           | —            |
| Other  | (17 )                          | (1 )         |
| <b>Total Other Comprehensive Income, Net of Tax</b>                    | <b>5</b>                       | <b>116</b>   |
| <b>Comprehensive Income</b>  | <b>471</b>                     | <b>213</b>   |
| Comprehensive income attributable to noncontrolling interests          | (7 )                           | (5 )         |
| <b>Comprehensive Income Attributable to Kimberly-Clark Corporation</b> | <b>\$464</b>                   | <b>\$208</b> |

See notes to the unaudited interim consolidated financial statements.

**KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

(2019 Data is Unaudited)

| (Millions of dollars)                                  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| <b>Current Assets</b>                                  |                   |                      |
| Cash and cash equivalents                              | <b>\$491</b>      | \$ 539               |
| Accounts receivable, net                               | <b>2,377</b>      | 2,164                |
| Inventories  | <b>1,857</b>      | 1,813                |
| Other current assets                                   | <b>530</b>        | 525                  |
| <b>Total Current Assets</b>                            | <b>5,255</b>      | 5,041                |
| <b>Property, Plant and Equipment, Net</b>              | <b>7,139</b>      | 7,159                |
| <b>Investments in Equity Companies</b>                 | <b>246</b>        | 224                  |
| <b>Goodwill</b>  | <b>1,476</b>      | 1,474                |
| <b>Other Assets</b>                                    | <b>1,088</b>      | 620                  |
| <b>TOTAL ASSETS</b>                                    | <b>\$15,204</b>   | \$ 14,518            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>            |                   |                      |
| <b>Current Liabilities</b>                             |                   |                      |
| Debt payable within one year                           | <b>\$1,900</b>    | \$ 1,208             |
| Trade accounts payable                                 | <b>3,027</b>      | 3,190                |
| Accrued expenses and other current liabilities         | <b>1,916</b>      | 1,793                |
| Dividends payable                                      | <b>354</b>        | 345                  |
| <b>Total Current Liabilities</b>                       | <b>7,197</b>      | 6,536                |
| <b>Long-Term Debt</b>                                  | <b>5,990</b>      | 6,247                |
| <b>Noncurrent Employee Benefits</b>                    | <b>922</b>        | 931                  |
| <b>Deferred Income Taxes</b>                           | <b>496</b>        | 458                  |
| <b>Other Liabilities</b>                               | <b>617</b>        | 328                  |
| <b>Redeemable Preferred Securities of Subsidiaries</b> | <b>64</b>         | 64                   |
| <b>Stockholders' Equity</b>                            |                   |                      |
| Kimberly-Clark Corporation                             | <b>(305 )</b>     | (287 )               |
| Noncontrolling Interests                               | <b>223</b>        | 241                  |
| <b>Total Stockholders' Equity</b>                      | <b>(82 )</b>      | (46 )                |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>      | <b>\$15,204</b>   | \$ 14,518            |

See notes to the unaudited interim consolidated financial statements.



**KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT**

(Unaudited)

| (Millions of dollars)   | Three Months<br>Ended March 31 |               |
|---|--------------------------------|---------------|
|   | 2019                           | 2018          |
| <b>Operating Activities</b>   |                                |               |
| Net income  | \$466                          | \$97          |
| Depreciation and amortization                                       | 234                            | 211           |
| Asset impairments   | —                              | 74            |
| Stock-based compensation  | 16                             | 18            |
| Deferred income taxes   | 11                             | (27 )         |
| Net losses on asset dispositions                                    | 6                              | 36            |
| Equity companies' earnings in excess of dividends paid              | (27 )                          | (27 )         |
| Operating working capital   | (375 )                         | 103           |
| Postretirement benefits   | (12 )                          | (41 )         |
| Other   | (2 )                           | 98            |
| <b>Cash Provided by Operations</b>                                  | <b>317</b>                     | <b>542</b>    |
| <b>Investing Activities</b>   |                                |               |
| Capital spending  | (316 )                         | (189 )        |
| Investments in time deposits  | (80 )                          | (83 )         |
| Maturities of time deposits   | 72                             | 19            |
| Other   | —                              | (3 )          |
| <b>Cash Used for Investing</b>                                      | <b>(324 )</b>                  | <b>(256 )</b> |
| <b>Financing Activities</b>   |                                |               |
| Cash dividends paid   | (345 )                         | (341 )        |
| Change in short-term debt   | 851                            | 249           |
| Debt repayments   | (402 )                         | (2 )          |
| Proceeds from exercise of stock options                             | 26                             | 14            |
| Acquisitions of common stock for the treasury                       | (164 )                         | (197 )        |
| Other   | (8 )                           | (6 )          |
| <b>Cash Used for Financing</b>                                      | <b>(42 )</b>                   | <b>(283 )</b> |
| <b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b> | <b>1</b>                       | <b>7</b>      |
| <b>Change in Cash and Cash Equivalents</b>                          | <b>(48 )</b>                   | <b>10</b>     |
| <b>Cash and Cash Equivalents - Beginning of Period</b>              | <b>539</b>                     | <b>616</b>    |
| <b>Cash and Cash Equivalents - End of Period</b>                    | <b>\$491</b>                   | <b>\$626</b>  |

See notes to the unaudited interim consolidated financial statements.

**KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1. Accounting Policies**

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all material adjustments which are of a normal and recurring nature necessary for a fair presentation of the results for the periods presented have been reflected. Dollar amounts are reported in millions, except per share dollar amounts, unless otherwise noted.

For further information, refer to the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2018. The terms "Corporation," "Kimberly-Clark," "K-C," "we," "our" and "us" refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

Highly Inflationary Accounting in Argentina

GAAP guidance requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100 percent. In the second quarter of 2018, published inflation indices indicated that the three-year cumulative inflation in Argentina exceeded 100 percent, and as of July 1, 2018, we elected to adopt highly inflationary accounting for our subsidiaries in Argentina ("K-C Argentina"). Under highly inflationary accounting, K-C Argentina's functional currency became the U.S. dollar, and its income statement and balance sheet have been measured in U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on peso-denominated monetary assets and liabilities has been reflected in earnings in Other (income) and expense, net and was not material. As of March 31, 2019, K-C Argentina had a small net peso monetary position. Net sales of K-C Argentina were less than 2 percent of our consolidated net sales for the three months ended March 31, 2019 and 2018.

Leases

Lease assets and lease liabilities are recognized at the commencement of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using our incremental borrowing rate generally applicable to the location of the lease asset, unless the implicit rate is readily determinable. Lease assets also include any upfront lease payments made and exclude lease incentives. Lease terms include options to extend or terminate the lease when it is reasonably certain that those options will be exercised.

Variable lease payments are generally expensed as incurred and include certain index-based changes in rent, certain nonlease components, such as maintenance and other services provided by the lessor, and other charges included in the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and the expense for these short-term leases and for operating leases is recognized on a straight-line basis over the lease term.

Lease agreements with lease and nonlease components are combined as a single lease component. The depreciable life of lease assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Recently Adopted Accounting Standards

The Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, amended by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. The new guidance requires a lessee to recognize assets and liabilities for all leases with lease terms of more than 12 months and provide additional disclosures. The ASU requires adoption using a modified retrospective transition approach with either 1) periods prior to the adoption date being recast or 2) a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast. We adopted this standard on January 1, 2019 using the cumulative-effect adjustment approach. We elected the package of practical expedients in transition for leases that commenced prior to January 1, 2019 whereby these contracts were not reassessed or reclassified from their

previous assessment as of December 31, 2018. We also elected certain other practical expedients in transition including not reassessing existing land easements as lease contracts. For all new and modified leases after adoption of the ASU, we have taken the component election allowing us to account for lease components together with non lease components in the calculation of the lease asset and corresponding liability. We implemented processes and a lease accounting system to ensure adequate internal controls were in place to assess our contracts and enable proper accounting and reporting of

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financial information upon adoption. No cumulative-effect adjustment was recognized as the amount was not material, and the impact on our results of operations and cash flows was also not material. See Note 7 for the financial position impact and additional disclosures.

The FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The new standard makes more financial and non-financial hedging strategies eligible for hedge accounting. It also amends presentation and disclosure requirements and changes how companies assess hedge effectiveness. This ASU requires adoption using a modified retrospective transition approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast. We adopted this standard on January 1, 2019 with no cumulative-effect adjustment as the amount was not material. The effects of this standard on our financial position, results of operations and cash flows were not material.

Accounting Standards Issued - Not Yet Adopted

The FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this ASU while delaying adoption of the additional disclosures until their effective date.

The FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*. The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The effects of this standard on our financial position, results of operations or cash flows are not expected to be material.

**Note 2. 2018 Global Restructuring Program**

In January 2018, we announced the 2018 Global Restructuring Program to reduce our structural cost base by streamlining and simplifying our manufacturing supply chain and overhead organization. We expect to close or sell approximately 10 manufacturing facilities and expand production capacity at several others. We expect to exit or divest some lower-margin businesses that generate approximately 1 percent of our net sales. The sales are concentrated in our consumer tissue business segment. The restructuring is expected to impact our organizations in all major geographies. Workforce reductions are expected to be in the range of 5,000 to 5,500. Certain capital appropriations under the 2018 Global Restructuring Program are being finalized. Accounting for actions related to each appropriation will commence when the appropriation is authorized for execution.

The restructuring is expected to be completed by the end of 2020, with total costs anticipated to be \$1.7 billion to \$1.9 billion pre-tax (\$1.35 billion to \$1.5 billion after tax). Cash costs are expected to be \$900 to \$1.0 billion, primarily related to workforce reductions. Non-cash charges are expected to be \$800 to \$900 pre-tax and will primarily consist of incremental depreciation, asset write-offs and pension settlement and curtailment charges. Restructuring charges in 2019 are expected to be \$600 to \$750 pre-tax (\$470 to \$570 after tax).

The following charges were incurred in connection with the 2018 Global Restructuring Program:

|   | Three<br>Months<br>Ended<br>March 31,<br>2019 | Three<br>Months<br>Ended<br>March 31,<br>2018 |
|---|---|---|
| Cost of products sold:  |   |   |
| Charges for workforce reductions                                    | \$ 30   | \$ 119  |
| Asset impairments   | —   | 74  |
| Asset write-offs  | 12  | 55  |
| Incremental depreciation  | 67  | 28  |
| Other exit costs  | 16  | 1   |
| Total   | 125   | 277   |
| Marketing, research and general expenses:                           |   |   |
| Charges for workforce reductions                                    | 4   | 286   |
| Other exit costs  | 24  | 14  |
| Total   | 28  | 300   |
| Other (income) and expense, net                                     | (1 )  | —   |
| Total charges   | 152   | 577   |
| Provision for income taxes  | (31 )   | (143 )  |
| Net charges   | 121   | 434   |
| Net impact related to equity companies and noncontrolling interests | 1   | (6 )  |
| Net charges attributable to Kimberly-Clark Corporation              | \$ 122  | \$ 428  |

The asset impairment charges were measured based on the excess of the carrying value of the impacted asset groups over their fair values. These fair values were measured by using discounted cash flows expected over the limited time the assets would remain in use and as a result, the assets were essentially written off. The use of discounted cash flows represents a level 3 measure under the fair value hierarchy.

The following summarizes the 2019 restructuring liabilities activity:

|  | 2019  | 2018  |
|--|-------|-------|
| Restructuring liabilities at January 1                     | \$210 | \$—   |
| Charges for workforce reductions and other cash exit costs | 74    | 418   |
| Cash payments  | (71 ) | (14 ) |
| Currency and other   | 6     | 3     |
| Restructuring liabilities at March 31                      | \$219 | \$407 |

Restructuring liabilities of \$132 and \$306 are recorded in Accrued expenses and other current liabilities and \$87 and \$101 are recorded in Other Liabilities as of March 31, 2019 and 2018, respectively. The impact related to restructuring charges is recorded in Operating working capital and Other Operating Activities, as appropriate, in our consolidated cash flow statement.

Through March 31, 2019, cumulative pre-tax charges for the 2018 Global Restructuring Program were \$1.2 billion (\$905 after tax).

### Note 3. U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). In the period ended December 31, 2017, we recorded a provisional discrete net tax benefit related to the transition tax, remeasurement of deferred taxes, our reassessment of permanently reinvested earnings, uncertain tax positions and valuation allowances, and actions taken in anticipation of the Tax Act. The provisional amounts recorded in 2017 were finalized in 2018. During 2018, we recorded discrete net tax expense related to new guidance issued during 2018 affecting tax benefits we recorded in the period ended December 31, 2017 for the transition tax and certain tax planning actions taken in anticipation of the Tax Act. At December 31, 2018, we

finalized our policy and elected to use the period cost method for global intangible low-taxed income (“GILTI”) provisions and therefore have not recorded deferred taxes for basis differences expected to reverse in future periods.

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In the first quarter of 2018, we recorded discrete net tax expense of \$82 primarily related to guidance issued affecting tax benefits we recorded in the fourth quarter of 2017 for certain tax planning actions taken in anticipation of the Tax Act.

**Note 4. Fair Value Information**

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1 – Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

During the three months ended March 31, 2019 and for the full year 2018, there were no significant transfers among level 1, 2, or 3 fair value determinations.

Derivative assets and liabilities are measured on a recurring basis at fair value. At March 31, 2019 and December 31, 2018, derivative assets were \$29 and \$30, respectively, and derivative liabilities were \$29 and \$18, respectively. The fair values of derivatives used to manage interest rate risk and commodity price risk are based on LIBOR rates and interest rate swap curves and NYMEX price quotations, respectively. The fair values of hedging instruments used to manage foreign currency risk are based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates. Measurement of our derivative assets and liabilities is considered a level 2 measurement. Additional information on our classification and use of derivative instruments is contained in Note 8.

Redeemable preferred securities of subsidiaries are measured on a recurring basis at fair value and were \$64 at both March 31, 2019 and December 31, 2018. They are not traded in active markets. For certain redeemable securities, fair values were calculated using a floating rate pricing model that compared the stated spread to the fair value spread to determine the price at which each of the financial instruments should trade. The model used the following inputs to calculate fair values: face value, current LIBOR rate, unobservable fair value credit spread, stated spread, maturity date and interest or dividend payment dates. The fair values of the remaining redeemable securities were based on a discounted cash flow valuation model. Measurement of the redeemable preferred securities is considered a level 3 measurement.

Company-owned life insurance ("COLI") assets are measured on a recurring basis at fair value. COLI assets were \$69 and \$64 at March 31, 2019 and December 31, 2018, respectively. The COLI policies are a source of funding primarily for our nonqualified employee benefits and are included in other assets. The COLI policies are measured at fair value using the net asset value per share practical expedient, and therefore, are not classified in the fair value hierarchy.

The following table includes the fair value of our financial instruments for which disclosure of fair value is required:

|  | Fair Value Hierarchy Level | Estimated Fair Value |                | Estimated Fair Value |                   |
|--|----------------------------|----------------------|----------------|----------------------|-------------------|
|  |                            | Carrying Amount      | March 31, 2019 | Carrying Amount      | December 31, 2018 |
| <b>Assets</b>  |                            |                      |                |                      |                   |
| Cash and cash equivalents <sup>(a)</sup>                     | 1                          | \$491                | \$ 491         | \$539                | \$ 539            |
| Time deposits <sup>(b)</sup>                                 | 1                          | 260                  | 260            | 256                  | 256               |
| <b>Liabilities and redeemable securities of subsidiaries</b> |                            |                      |                |                      |                   |
| Short-term debt <sup>(c)</sup>                               | 2                          | 1,338                | 1,338          | 495                  | 495               |
| Long-term debt <sup>(d)</sup>                                | 2                          | 6,552                | 7,017          | 6,960                | 7,192             |

(a) Cash equivalents are composed of certificates of deposit, time deposits and other interest-bearing investments with original maturity dates of 90 days or less.

(a) Cash equivalents are recorded at cost, which approximates fair value.

(b) Time deposits are composed of deposits with original maturities of more than 90 days but less than one year and instruments with original maturities of greater than one year, included in other current assets or other assets in the consolidated balance sheet, as appropriate. Time deposits are recorded at cost, which approximates fair value.

(c) Short-term debt is composed of U.S. commercial paper and/or other similar short-term debt issued by non-U.S. subsidiaries, all of which are recorded at cost, which approximates fair value.

(d) Long-term debt includes the current portion of these debt instruments. Fair values were estimated based on quoted prices for financial instruments for which all significant inputs were observable, either directly or indirectly.

#### Note 5. Earnings Per Share ("EPS")

There are no adjustments required to be made to net income for purposes of computing EPS. The average number of common shares outstanding is reconciled to those used in the basic and diluted EPS computations as follows:

| (Millions of shares)  | Three Months Ended March 31 |       |
|---|-----------------------------|-------|
|   | 2019                        | 2018  |
| Basic   | 344.3                       | 350.4 |
| Dilutive effect of stock options and restricted share unit awards | 1.7                         | 2.2   |
| Diluted   | 346.0                       | 352.6 |

The impact of options outstanding that were not included in the computation of diluted EPS because their exercise price was greater than the average market price of the common shares was insignificant. The number of common shares outstanding as of March 31, 2019 and 2018 was 343.9 million and 349.6 million, respectively.

#### Note 6. Stockholders' Equity

Set forth below is a reconciliation for the three months ended March 31, 2019 and 2018 of the carrying amount of total stockholders' equity from the beginning of the period to the end of the period.

|   | Stockholders' Equity Attributable to |                          |
|---|--------------------------------------|--------------------------|
|   | The Corporation                      | Noncontrolling Interests |
| Balance at December 31, 2018            | \$(287)                              | \$ 241                   |
| Net Income                              | 454                                  | 11                       |
| Other comprehensive income, net of tax  | 10                                   | (5)                      |
| Stock-based awards exercised or vested  | 28                                   | —                        |
| Recognition of stock-based compensation | 17                                   | —                        |
| Shares repurchased                      | (174)                                | —                        |
| Dividends declared (\$1.03 per share)   | (354)                                | (24)                     |
| Other                                   | 1                                    | —                        |
| Balance at March 31, 2019               | \$(305)                              | \$ 223                   |





|   | Stockholders' Equity |                          |
|---|----------------------|--------------------------|
|   | Attributable to      |                          |
|   | The Corporation      | Noncontrolling Interests |
| Balance at December 31, 2017            | \$629                | \$ 253                   |
| Net Income                              | 93                   | 3                        |
| Other comprehensive income, net of tax  | 115                  | 1                        |
| Stock-based awards exercised or vested  | 14                   | —                        |
| Recognition of stock-based compensation | 17                   | —                        |
| Shares repurchased                      | (211 )               | —                        |
| Dividends declared (\$1.00 per share)   | (350 )               | (20 )                    |
| Other                                   | 10                   | 1                        |
| Balance at March 31, 2018               | \$317                | \$ 238                   |

During the three months ended March 31, 2019, we repurchased 1.4 million shares at a total cost of \$167 pursuant to a share repurchase program authorized by our Board of Directors.

Net unrealized currency gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries, except those in highly inflationary economies, are recorded in Accumulated Other Comprehensive Income ("AOCI"). For these operations, changes in exchange rates generally do not affect cash flows; therefore, unrealized translation adjustments are recorded in AOCI rather than net income. Upon sale or substantially complete liquidation of any of these subsidiaries, the applicable unrealized translation would be removed from AOCI and reported as part of the gain or loss on the sale or liquidation.

Also included in unrealized translation amounts are the effects of foreign exchange rate changes on intercompany balances of a long-term investment nature and transactions designated as hedges of net foreign investments.

The change in net unrealized currency translation for the three months ended March 31, 2019 was primarily due to strengthening of foreign currencies versus the U.S. dollar.

The changes in the components of AOCI attributable to Kimberly-Clark, net of tax, are as follows:

|  | Unrealized Translation | Defined Benefit Pension Plans | Other Postretirement Benefit Plans | Cash Flow Hedges and Other |
|--|------------------------|-------------------------------|------------------------------------|----------------------------|
| Balance as of December 31, 2017                            | \$(1,864 )             | \$(976 )                      | \$ (39 )                           | \$(40 )                    |
| Other comprehensive income (loss) before reclassifications | 116                    | (10 )                         | —                                  | (9 )                       |
| Loss reclassified from AOCI                                | —                      | 10                            | (a)—                               | 8                          |
| Net current period other comprehensive income (loss)       | 116                    | —                             | —                                  | (1 )                       |
| Balance as of March 31, 2018                               | \$(1,748 )             | \$(976 )                      | \$ (39 )                           | \$(41 )                    |
| Balance as of December 31, 2018                            | \$(2,297 )             | \$(1,017 )                    | \$ 12                              | \$3                        |
| Other comprehensive income (loss) before reclassifications | 31                     | (7 )                          | —                                  | (12 )                      |
| (Income) loss reclassified from AOCI                       | —                      | 3                             | (a)—                               | (5 )                       |
| Net current period other comprehensive income (loss)       | 31                     | (4 )                          | —                                  | (17 )                      |
| Balance as of March 31, 2019                               | \$(2,266 )             | \$(1,021 )                    | \$ 12                              | \$(14 )                    |

(a) Included in computation of net periodic benefit costs.

## Note 7. Leases

We have entered into leases for certain facilities, vehicles, material handling and other equipment. Our leases have remaining contractual terms up to 20 years, some of which include options to extend the leases for up to 20 years, and some of which include options to terminate the leases within 1 year. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Our operating lease costs are primarily related to facility leases for inventory warehousing and administration offices, and our finance leases are immaterial.



Operating Lease Cost

|                                    | Three<br>Months<br>Ended<br>March 31,<br>2019 | Income Statement Classification                                 |
|------------------------------------|---|---|
| Lease cost                         | <b>\$ 39</b>                                  | Cost of products sold, Marketing, research and general expenses |
| Variable lease cost <sup>(a)</sup> | <b>37</b>                                     | Cost of products sold, Marketing, research and general expenses |
| Total lease cost                   | <b>\$ 76</b>                                  |   |

(a) Includes short-term leases, which are immaterial.

Operating Lease Assets and Liabilities

|                              | March 31,<br>2019 | Balance Sheet Classification                   |
|------------------------------|-------------------|--|
| Lease assets                 | <b>\$ 421</b>     | Other Assets                                   |
| Current lease liabilities    | <b>\$ 131</b>     | Accrued expenses and other current liabilities |
| Noncurrent lease liabilities | <b>301</b>        | Other Liabilities                              |
| Total lease liabilities      | <b>\$ 432</b>     |  |

Maturity of Operating Lease Liabilities

|                                    | March 31,<br>2019 |
|------------------------------------|-------------------|
| 2019                               | <b>\$ 114</b>     |
| 2020                               | <b>124</b>        |
| 2021                               | <b>86</b>         |
| 2022                               | <b>58</b>         |
| 2023                               | <b>40</b>         |
| Thereafter                         | <b>73</b>         |
| Total lease payments               | <b>495</b>        |
| Less imputed interest              | <b>63</b>         |
| Present value of lease liabilities | <b>\$ 432</b>     |

As of March 31, 2019, our operating leases have a weighted-average remaining lease term of 4.6 years and a weighted-average discount rate of 5.2 percent. Cash paid for amounts included in the measurement of operating lease liabilities was \$39 for the three months ended March 31, 2019.

The future minimum obligations under operating leases in effect as of December 31, 2018 having a noncancelable term in excess of one year as determined prior to the adoption of ASU 842 are as follows:

|                            | December<br>31, 2018 |
|----------------------------|----------------------|
| 2019                       | \$ 160               |
| 2020                       | 123                  |
| 2021                       | 85                   |
| 2022                       | 57                   |
| 2023                       | 41                   |
| Thereafter                 | 72                   |
| Future minimum obligations | \$ 538               |

**Note 8. Objectives and Strategies for Using Derivatives**

As a multinational enterprise, we are exposed to financial risks, such as changes in foreign currency exchange rates, interest rates, and commodity prices. We employ a number of practices to manage these risks, including operating and financing activities and, where appropriate, the use of derivative instruments. We enter into derivative instruments to hedge a portion of forecasted cash flows denominated in foreign currencies for non-U.S. operations' purchases of raw

materials, which are priced in U.S. dollars, and imports of intercompany finished goods and work-in-process priced predominantly in U.S. dollars and euros. The derivative instruments used to manage these exposures are designated and qualify as cash flow hedges. The foreign currency exposure on

certain non-functional currency denominated monetary assets and liabilities, primarily intercompany loans and accounts payable, is hedged with primarily undesignated derivative instruments.

Interest rate risk is managed using a portfolio of variable and fixed-rate debt composed of short and long-term instruments. Interest rate swap contracts may be used to facilitate the maintenance of the desired ratio of variable and fixed-rate debt and are designated and qualify as fair value hedges. From time to time, we also hedge the anticipated issuance of fixed-rate debt, and these contracts are designated as cash flow hedges.

We use derivative instruments, such as forward swap contracts, to hedge a limited portion of our exposure to market risk arising from changes in prices of certain commodities. These derivatives are designated as cash flow hedges of specific quantities of the underlying commodity expected to be purchased in future months.

Translation adjustments result from translating foreign entities' financial statements into U.S. dollars from their functional currencies. The risk to any particular entity's net assets is reduced to the extent that the entity is financed with local currency borrowings. A portion of our balance sheet translation exposure for certain affiliates, which results from changes in translation rates between the affiliates' functional currencies and the U.S. dollar, is hedged with financial instruments. These instruments are designated as net investment hedges and have an aggregate notional value of \$1.1 billion at March 31, 2019. Changes in fair value of net investment hedges are recorded in AOCI as part of the cumulative translation adjustment. For the three months ended March 31, 2019, \$12 of unrealized gains related to net investment hedge fair value changes were recorded in AOCI and no significant amounts were reclassified from AOCI to Interest expense.

At March 31, 2019 and December 31, 2018, derivative assets were \$29 and \$30, respectively, and derivative liabilities were \$29 and \$18, respectively, primarily comprised of foreign currency exchange contracts. Derivative assets are recorded in Other current assets or Other Assets, as appropriate, and derivative liabilities are recorded in Accrued expenses and other current liabilities or Other Liabilities, as appropriate.

Derivative instruments that are designated and qualify as fair value hedges are predominantly used to manage interest rate risk. The fair values of these interest rate derivative instruments are recorded as an asset or liability, as appropriate, with the offset recorded in Interest expense. The offset to the change in fair values of the related debt is also recorded in Interest expense. Any realized gain or loss on the derivatives that hedge interest rate risk is amortized to Interest expense over the life of the related debt. As of March 31, 2019, the aggregate notional values and carrying values of outstanding interest rate contracts designated as fair value hedges were \$300 and \$299, respectively. For the three months ended March 31, 2019 and 2018, gains or losses recognized in Interest expense for interest rate swaps were not significant. The cumulative changes in fair value of related hedged items for which hedge accounting has been discontinued were not significant as of March 31, 2019.

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is initially recorded in AOCI, net of related income taxes, and recognized in earnings in the same income statement line and period that the hedged exposure affects earnings. As of March 31, 2019, outstanding commodity forward contracts were in place to hedge a limited portion of our estimated requirements of the related underlying commodities in the remainder of 2019 and future periods. As of March 31, 2019, the aggregate notional values of outstanding foreign exchange and interest rate derivative contracts designated as cash flow hedges were \$625 and \$100, respectively. For the three months ended March 31, 2019 and 2018, no significant gains or losses were reclassified into Interest expense, Cost of products sold or Other (income) and expense, net as a result of the discontinuance of cash flow hedges due to the original forecasted transaction no longer being probable of occurring. At March 31, 2019, amounts to be reclassified from AOCI into Interest expense, Cost of products sold or Other (income) and expense, net during the next twelve months are not expected to be material. The maximum maturity of cash flow hedges in place at March 31, 2019 is March 2021.

No significant amounts were excluded from the assessment of net investment, fair value or cash flow hedge effectiveness as of March 31, 2019.

Gains or losses on undesignated foreign exchange hedging instruments are immediately recognized in Other (income) and expense, net. Losses of \$8 and \$3 were recorded in the three months ended March 31, 2019 and 2018, respectively. The effect on earnings from the use of these non-designated derivatives is substantially neutralized by the transactional gains and losses recorded on the underlying assets and liabilities. At March 31, 2019, the notional

value of these undesignated derivative instruments was approximately \$1.7 billion.

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**Note 9. Business Segment Information**

We are organized into operating segments based on product groupings. These operating segments have been aggregated into three reportable global business segments: Personal Care, Consumer Tissue and K-C Professional. The reportable segments were determined in accordance with how our chief operating decision maker and our executive managers develop and execute global strategies to drive growth and profitability. These strategies include global plans for branding and product positioning, technology, research and development programs, cost reductions including supply chain management, and capacity and capital investments for each of these businesses. Segment management is evaluated on several factors, including operating profit. Segment operating profit excludes Other (income) and expense, net and income and expense not associated with ongoing operations of the business segments, including the costs of corporate decisions related to the 2018 Global Restructuring Program described in Note 2. The principal sources of revenue in each global business segment are described below:

*Personal Care* brands offer our consumers a trusted partner in caring for themselves and their families by delivering confidence, protection and discretion through a wide variety of innovative solutions and products such as disposable diapers, training and youth pants, swimpants, baby wipes, feminine and incontinence care products, and other related products. Products in this segment are sold under the Huggies, Pull-Ups, Little Swimmers, GoodNites, DryNites, Kotex, U by Kotex, Intimus, Depend, Plenitud, Poise and other brand names.

*Consumer Tissue* offers a wide variety of innovative solutions and trusted brands that responsibly improve everyday living for families around the world. Products in this segment include facial and bathroom tissue, paper towels, napkins and related products, and are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Neve and other brand names.

*K-C Professional* partners with businesses to create Exceptional Workplaces, helping to make them healthier, safer and more productive through a range of solutions and supporting products such as wipers, tissue, towels, apparel, soaps and sanitizers. Our brands, including Kleenex, Scott, WypAll, Kimtech and KleenGuard are well known for quality and trusted to help people around the world work better.

Information concerning consolidated operations by business segment is presented in the following tables:

|  | Three Months Ended |                |             |          |
|--|--------------------|----------------|-------------|----------|
|  | March 31           |                |             |          |
|  | 2019               | 2018           | Change      |          |
| <b>NET SALES</b>                               |                    |                |             |          |
| Personal Care                                  | \$2,275            | \$2,307        | -1          | %        |
| Consumer Tissue                                | 1,526              | 1,579          | -3          | %        |
| K-C Professional                               | 817                | 832            | -2          | %        |
| Corporate & Other                              | 15                 | 13             | N.M.        |          |
| <b>TOTAL NET SALES</b>                         | <b>\$4,633</b>     | <b>\$4,731</b> | <b>-2</b>   | <b>%</b> |
| <b>OPERATING PROFIT</b>                        |                    |                |             |          |
| Personal Care                                  | \$484              | \$470          | +3          | %        |
| Consumer Tissue                                | 241                | 249            | -3          | %        |
| K-C Professional                               | 150                | 158            | -5          | %        |
| Corporate & Other <sup>(a)</sup>               | (216)              | (632)          |             | N.M.     |
| Other (income) and expense, net <sup>(a)</sup> | 4                  | (2)            |             | N.M.     |
| <b>TOTAL OPERATING PROFIT</b>                  | <b>\$655</b>       | <b>\$247</b>   | <b>+165</b> | <b>%</b> |

Corporate & Other and Other (income) and expense, net include income and expense not associated with the business segments, including charges related to the (a)2018 Global Restructuring Program. Restructuring charges related to the personal care, consumer tissue and K-C Professional business segments were \$89,

\$46 and \$16, respectively, for the three months ended March 31, 2019, and \$314, \$141 and \$95, respectively, for the three months ended March 31, 2018. N.M. - Not Meaningful



Sales of Principal Products

| (Billions of dollars)                | Three<br>Months<br>Ended<br>March 31 |       |
|--------------------------------------|--------------------------------------|-------|
|                                      | 2019                                 | 2018  |
| Consumer tissue products             | <b>\$1.5</b>                         | \$1.6 |
| Baby and child care products         | <b>1.6</b>                           | 1.6   |
| Away-from-home professional products | <b>0.8</b>                           | 0.8   |
| All other                            | <b>0.7</b>                           | 0.7   |
| Consolidated                         | <b>\$4.6</b>                         | \$4.7 |

**Note 10. Supplemental Balance Sheet Data**

The following schedule presents a summary of inventories by major class:

|  | March 31, 2019 |               |              | December 31, 2018 |          |       |
|--|----------------|---------------|--------------|-------------------|----------|-------|
|  | LIFO           | Non-LIFO      | Total        | LIFO              | Non-LIFO | Total |
| Raw materials  | <b>\$96</b>    | <b>\$ 248</b> | <b>\$344</b> | \$99              | \$ 263   | \$362 |
| Work in process  | <b>119</b>     | <b>93</b>     | <b>212</b>   | 120               | 94       | 214   |
| Finished goods   | <b>494</b>     | <b>725</b>    | <b>1,219</b> | 461               | 692      | 1,153 |
| Supplies and other                                     | <b>—</b>       | <b>278</b>    | <b>278</b>   | —                 | 275      | 275   |
|  | <b>709</b>     | <b>1,344</b>  | <b>2,053</b> | 680               | 1,324    | 2,004 |
| Excess of FIFO or weighted-average cost over LIFO cost | <b>(196)</b>   | <b>—</b>      | <b>(196)</b> | (191)             | <b>—</b> | (191) |
| Total  | <b>\$</b>      |               |              |                   |          |       |