

KIMBERLY CLARK CORP
Form 10-Q
July 24, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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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 July 17, 2018, there were 347,664,541 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)

| | Three Months | | Six Months | |
|---|--------------|---------|------------|---------|
| | Ended | | Ended | |
| | June 30 | | June 30 | |
| (Millions of dollars, except per share amounts) | 2018 | 2017 | 2018 | 2017 |
| Net Sales | \$4,604 | \$4,576 | \$9,335 | \$9,080 |
| Cost of products sold | 3,149 | 2,924 | 6,556 | 5,768 |
| Gross Profit | 1,455 | 1,652 | 2,779 | 3,312 |
| Marketing, research and general expenses | 771 | 835 | 1,850 | 1,642 |
| Other (income) and expense, net | 10 | 3 | 8 | 8 |
| Operating Profit | 674 | 814 | 921 | 1,662 |
| Nonoperating expense | (36) | (15) | (45) | (29) |
| Interest income | 3 | 2 | 5 | 4 |
| Interest expense | (68) | (85) | (134) | (168) |
| Income Before Income Taxes and Equity Interests | 573 | 716 | 747 | 1,469 |
| Provision for income taxes | (138) | (202) | (242) | (409) |
| Income Before Equity Interests | 435 | 514 | 505 | 1,060 |
| Share of net income of equity companies | 30 | 26 | 57 | 55 |
| Net Income | 465 | 540 | 562 | 1,115 |
| Net income attributable to noncontrolling interests | (10) | (9) | (14) | (21) |
| Net Income Attributable to Kimberly-Clark Corporation | \$455 | \$531 | \$548 | \$1,094 |
| Per Share Basis | | | | |
| Net Income Attributable to Kimberly-Clark Corporation | | | | |
| Basic | \$1.30 | \$1.50 | \$1.57 | \$3.08 |
| Diluted | \$1.30 | \$1.49 | \$1.56 | \$3.06 |
| Cash Dividends Declared | \$1.00 | \$0.97 | \$2.00 | \$1.94 |

See notes to consolidated financial statements.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------------|-------|--------------------------------|---------|
| (Millions of dollars) | 2018 | 2017 | 2018 | 2017 |
| Net Income | \$465 | \$540 | \$562 | \$1,115 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Unrealized currency translation adjustments | (381) | 55 | (264) | 322 |
| Employee postretirement benefits | 79 | (1) | 79 | (3) |
| Other | 29 | (24) | 28 | (40) |
| Total Other Comprehensive Income (Loss), Net of Tax | (273) | 30 | (157) | 279 |
| Comprehensive Income | 192 | 570 | 405 | 1,394 |
| Comprehensive (income) loss attributable to noncontrolling interests | 1 | (1) | (4) | (32) |
| Comprehensive Income Attributable to Kimberly-Clark Corporation | \$193 | \$569 | \$401 | \$1,362 |

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(2018 Data is Unaudited)

| (Millions of dollars) | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$484 | \$ 616 |
| Accounts receivable, net | 2,286 | 2,315 |
| Inventories | 1,750 | 1,790 |
| Other current assets | 508 | 490 |
| Total Current Assets | 5,028 | 5,211 |
| Property, Plant and Equipment, Net | 7,046 | 7,436 |
| Investments in Equity Companies | 257 | 233 |
| Goodwill | 1,504 | 1,576 |
| Other Assets | 729 | 695 |
| TOTAL ASSETS | \$14,564 | \$ 15,151 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Debt payable within one year | \$1,741 | \$ 953 |
| Trade accounts payable | 2,802 | 2,834 |
| Accrued expenses | 1,764 | 1,730 |
| Dividends payable | 348 | 341 |
| Total Current Liabilities | 6,655 | 5,858 |
| Long-Term Debt | 5,746 | 6,472 |
| Noncurrent Employee Benefits | 1,091 | 1,184 |
| Deferred Income Taxes | 467 | 395 |
| Other Liabilities | 366 | 299 |
| Redeemable Preferred Securities of Subsidiaries | 61 | 61 |
| Stockholders' Equity (Deficit) | | |
| Kimberly-Clark Corporation | (57 |) 629 |
| Noncontrolling Interests | 235 | 253 |
| Total Stockholders' Equity | 178 | 882 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$14,564 | \$ 15,151 |

See notes to consolidated financial statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
(Unaudited)

| (Millions of dollars) | Six Months | |
|--|---------------|----------|
| | Ended June 30 | |
| | 2018 | 2017 |
| Operating Activities | | |
| Net income | \$ 562 | \$ 1,115 |
| Depreciation and amortization | 435 | 358 |
| Asset impairments | 74 | — |
| Stock-based compensation | 26 | 50 |
| Deferred income taxes | 17 | (34) |
| Net losses on asset dispositions | 53 | 10 |
| Equity companies' earnings in excess of dividends paid | (25) | (22) |
| Operating working capital | 93 | (191) |
| Postretirement benefits | (14) | (8) |
| Other | 108 | (17) |
| Cash Provided by Operations | 1,329 | 1,261 |
| Investing Activities | | |
| Capital spending | (347) | (386) |
| Investments in time deposits | (147) | (61) |
| Maturities of time deposits | 94 | 70 |
| Other | (12) | (10) |
| Cash Used for Investing | (412) | (387) |
| Financing Activities | | |
| Cash dividends paid | (691) | (674) |
| Change in short-term debt | 104 | 114 |
| Debt proceeds | — | 344 |
| Debt repayments | (4) | (12) |
| Proceeds from exercise of stock options | 22 | 107 |
| Acquisitions of common stock for the treasury | (420) | (597) |
| Other | (41) | (46) |
| Cash Used for Financing | (1,030) | (764) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (19) | 18 |
| Change in Cash and Cash Equivalents | (132) | 128 |
| Cash and Cash Equivalents - Beginning of Period | 616 | 923 |
| Cash and Cash Equivalents - End of Period | \$ 484 | \$ 1,051 |
| See notes to consolidated financial statements. | | |

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Accounting Policies

Basis of Presentation

The accompanying unaudited 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, 2017. The terms "Corporation," "Kimberly-Clark," "K-C," "we," "our" and "us" refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

In prior years, we followed an accounting practice whereby costs associated with sales of K-C Professional dispensers were classified as a reduction in revenue, similar to sales incentives. Effective January 1, 2018, we changed this practice and now classify these costs as cost of products sold. This change resulted in an immaterial increase in net sales and cost of products sold and all applicable amounts included in this filing have been recast accordingly.

Adoption of Highly Inflationary Accounting in Argentina

GAAP guidance requires the use of highly inflationary accounting for countries whose cumulative three-year inflation exceeds 100 percent. We have been closely monitoring the inflation data and currency volatility in Argentina, where there are multiple data sources for measuring and reporting inflation. In the second quarter of 2018, the Argentine peso rapidly devalued relative to the U.S. dollar, which along with increased inflation, indicated that the three-year cumulative inflation in that country exceeded 100 percent as of June 30, 2018. As a result, we have elected to adopt highly inflationary accounting as of July 1, 2018 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 will be 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 will be reflected in earnings in other (income) and expense, net. As of June 30, 2018, 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 six months ended June 30, 2018 and 2017.

Recently Adopted Accounting Standards

The Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This new standard permits entities to reclassify to retained earnings the tax effects stranded in accumulated other comprehensive income ("AOCI") as a result of U.S. tax reform. We early adopted this ASU as of April 1, 2018 and reclassified \$156 of stranded tax effects related to the U.S. tax reform change in the federal corporate tax rate from AOCI to retained earnings.

The FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit (presented as "Nonoperating expense" in our consolidated income statement). We adopted this standard as of January 1, 2018 and applied the amendments retrospectively, and all applicable amounts included in this filing have been recast accordingly. We used the practical expedient that permits us to use the amounts previously disclosed in our employee postretirement benefits note for the prior comparative periods as the basis for applying the retrospective presentation requirements.

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted this ASU effective January 1, 2018 on a full retrospective basis. Adoption of this standard did not result in significant changes to our accounting policies, business processes, systems or controls, or have a material impact on our financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast. We primarily generate revenue from the sale of finished products and recognize revenue at the time of product shipment or delivery, depending on when control passes. Rebate and promotion accruals are based on estimates of the quantity of customer sales. Promotion accruals also consider estimates of the number of consumer coupons that will be redeemed and timing and costs of activities within the promotional programs. The cost

of promotion activities provided to customers is classified as a reduction in sales revenue. Under ASU No. 2014-09, effective January 1, 2018 for interim reporting, the estimated redemption value of consumer coupons and related expense are recorded when the related revenue from customers is recognized. In prior years, these costs were recognized at the time of coupon issuance. The impact of this change was not material.

Accounting Standards Issued - Not Yet Adopted

The FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The standard makes more financial and non-financial hedging strategies eligible for hedge accounting, amends the presentation and disclosure requirements and changes how companies assess effectiveness. For public companies, this ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period. The effects of this standard on our financial position, results of operations and cash flows are not expected to be material.

The FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The ASU requires additional disclosures. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The ASU requires adoption based upon a modified retrospective transition approach. The effects of this standard will be to increase total assets and total liabilities by an amount yet to be determined. The impact on our results of operations and cash flows is not expected to be material.

Note 2. 2018 Global Restructuring Program

On January 23, 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 and asset impairments. Restructuring charges in 2018 are expected to be \$1.2 billion to \$1.35 billion pre-tax (\$950 to \$1.05 billion after tax).

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

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 |
|---|--|--|
| Cost of products sold: | | |
| Charges for workforce reductions | \$ 6 | \$ 125 |
| Asset impairments | — | 74 |
| Asset write-offs | 31 | 86 |
| Incremental depreciation | 40 | 68 |
| Other exit costs | 8 | 9 |
| Total | 85 | 362 |
| Marketing, research and general expenses: | | |
| Charges (adjustments) for workforce reductions | (16) | 270 |
| Other exit costs | 31 | 45 |
| Total | 15 | 315 |
| Nonoperating expense ^(a) | 30 | 30 |
| Total charges | 130 | 707 |
| Provision for income taxes | (24) | (167) |
| Net charges | 106 | 540 |
| Net impact related to equity companies and noncontrolling interests | (4) | (10) |
| Net charges attributable to Kimberly-Clark Corporation | \$ 102 | \$ 530 |

(a) Represents non-cash pension settlement charges resulting from restructuring actions.

The asset impairments charge measurement was 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 restructuring liabilities activity:

| | 2018 |
|--|--------|
| Restructuring liabilities at January 1 | \$— |
| Charges for workforce reductions and other cash exit costs | 446 |
| Cash payments | (158) |
| Currency and other | (13) |
| Restructuring liabilities at June 30 | \$275 |

As of June 30, 2018, restructuring liabilities of \$157 are recorded in Accrued expenses and \$118 are recorded in Other Liabilities. The cash impact related to restructuring charges is recorded in Operating working capital and Other Operating Activities, as appropriate, in our consolidated cash flow statement.

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"). The Tax Act made changes to the U.S. tax code, which included (1) reduced U.S. corporate tax rate from 35 percent to 21 percent, (2) implemented a base erosion and anti-abuse tax, (3) generally eliminated U.S. federal income taxes on dividends from foreign subsidiaries, (4) a new provision designed to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries which allows for the possibility of utilizing foreign tax credits to offset the tax liability (subject to some limitations), (5) a lower effective U.S. tax rate on certain revenues from sources outside the U.S., and (6) a one-time transition tax on certain undistributed earnings of foreign subsidiaries.

In the period ended December 31, 2017, we recorded a provisional discrete net tax benefit associated with the Tax Act and related matters. In the first quarter of 2018, we recorded discrete net tax expense of \$82 primarily related to new

guidance issued affecting tax benefits we recorded in fourth quarter 2017 for certain tax planning actions taken in anticipation of the Tax Act.

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As of June 30, 2018, the amounts recorded for the Tax Act remain provisional for the transition tax, the remeasurement of deferred taxes, and our reassessment of permanently reinvested earnings, uncertain tax positions and valuation allowances. These estimates may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations, state tax conformity to federal tax changes and the impact of the GILTI provisions. At June 30, 2018, we were not able to reasonably estimate, and therefore have not recorded, deferred taxes for the GILTI provisions. We have not yet determined our policy election with respect to whether to record deferred taxes for basis differences expected to reverse as a result of the GILTI provisions in future periods or use the period cost method. We have, however, included an estimate of the current GILTI impact in our tax provision for 2018.

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 six months ended June 30, 2018 and for the full year 2017, 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 June 30, 2018 and December 31, 2017, derivative assets were \$39 and \$27, respectively, and derivative liabilities were \$63 and \$51, 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 7.

Redeemable preferred securities of subsidiaries are measured on a recurring basis at fair value and were \$61 at both June 30, 2018 and December 31, 2017. 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 \$68 at June 30, 2018 and December 31, 2017, 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 Carrying Amount | | Estimated Carrying Amount | |
|--|----------------------------|---------------------------|--------|---------------------------|--------|
| | | June 30, 2018 | Value | December 31, 2017 | Value |
| Assets | | | | | |
| Cash and cash equivalents ^(a) | 1 | \$484 | \$ 484 | \$ 616 | \$ 616 |
| Time deposits ^(b) | 1 | 229 | 229 | 185 | 185 |
| Liabilities and redeemable securities of subsidiaries | | | | | |
| Short-term debt ^(c) | 2 | 638 | 638 | 547 | 547 |
| Long-term debt ^(d) | 2 | 6,849 | 7,102 | 6,878 | 7,398 |

(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. 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:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|-------|--------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| (Millions of shares) | 2018 | 2017 | 2018 | 2017 |
| Basic | 348.8 | 354.4 | 349.6 | 355.2 |
| Dilutive effect of stock options and restricted share unit awards | 1.5 | 2.3 | 1.7 | 2.4 |
| Diluted | 350.3 | 356.7 | 351.3 | 357.6 |

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 June 30, 2018 and 2017 was 347.9 million and 353.4 million, respectively.

Note 6. Stockholders' Equity (Deficit)

Set forth below is a reconciliation for the six months ended June 30, 2018 of the carrying amount of total stockholders' equity from the beginning of the period to the end of the period.

| | Stockholders' Equity (Deficit) Attributable to The Noncontrolling Corporation Interests | |
|---|---|--------|
| Balance at December 31, 2017 | \$629 | \$ 253 |
| Net Income | 548 | 12 |
| Other comprehensive income, net of tax | (147) | (10) |
| Stock-based awards exercised or vested | 24 | — |
| Recognition of stock-based compensation | 25 | — |
| Shares repurchased | (447) | — |

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| | |
|--------------------------|----------------|
| Dividends declared | (699) (20) |
| Other | 10 — |
| Balance at June 30, 2018 | \$(57) \$ 235 |

During the six months ended June 30, 2018, we repurchased 3.9 million shares at a total cost of \$427 pursuant to a share repurchase program authorized by our Board of Directors.

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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 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 six months ended June 30, 2018 was primarily due to the weakening of most foreign currencies versus the U.S. dollar, including the Brazilian real, Australian dollar and South Korean won.

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, 2016 | \$ (2,351) | \$(1,097) | \$ (31) | \$ 5 |
| Other comprehensive income (loss) before reclassifications | 310 | (17) | — | (37) |
| (Income) loss reclassified from AOCI | — | 15 | (a)— | (3) |
| Net current period other comprehensive income (loss) | 310 | (2) | — | (40) |
| Balance as of June 30, 2017 | \$ (2,041) | \$(1,099) | \$ (31) | \$ (35) |
| Balance as of December 31, 2017 | \$ (1,864) | \$(976) | \$ (39) | \$ (40) |
| Other comprehensive income (loss) before reclassifications | (254) | 27 | 13 | 15 |
| (Income) loss reclassified from AOCI | 1 | 39 | (a)(1) | (a)13 |
| Net current period other comprehensive income (loss) | (253) | 66 | 12 | 28 |
| Tax effects reclassified from AOCI | (18) | (125) | (5) | (8) |
| Balance as of June 30, 2018 | \$ (2,135) | \$(1,035) | \$ (32) | \$ (20) |

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

Note 7. 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

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designated as net investment hedges and have an aggregate notional value of \$808 at June 30, 2018. Changes in fair value of net investment hedges are recorded in AOCI as part of the cumulative translation adjustment.

At June 30, 2018 and December 31, 2017, derivative assets were \$39 and \$27, respectively, and derivative liabilities were \$63 and \$51, respectively, primarily comprised of foreign currency exchange contracts.

Derivative instruments that are designated and qualify as fair value hedges are predominantly used to manage interest rate risk. The fair values of these derivative instruments are recorded as an asset or liability, as appropriate, with the offset recorded in current earnings. The offset to the change in fair values of the related hedged items also is recorded in current earnings. 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 June 30, 2018, the aggregate notional value of outstanding interest rate contracts designated as fair value hedges was \$300. Fair value hedges resulted in no significant ineffectiveness in the six months ended June 30, 2018 and 2017, and gains or losses recognized in interest expense for interest rate swaps were not significant. For the six months ended June 30, 2018 and 2017, no gains or losses were recognized in earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of 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 period that the hedged exposure affects earnings. As of June 30, 2018, 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 2018 and future periods. As of June 30, 2018, the aggregate notional values of outstanding foreign exchange and interest rate derivative contracts designated as cash flow hedges were \$699 and \$100, respectively. Cash flow hedges resulted in no significant ineffectiveness for the six months ended June 30, 2018 and 2017, and no significant gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges due to the original forecasted transaction no longer being probable of occurring. At June 30, 2018, amounts to be reclassified from AOCI during the next twelve months are not expected to be material. The maximum maturity of cash flow hedges in place at June 30, 2018 is June 2020.

Gains or losses on undesignated foreign exchange hedging instruments are immediately recognized in other (income) and expense, net. A loss of \$40 and a gain of \$19 were recorded in the three months ended June 30, 2018 and 2017, respectively. A loss of \$37 and a gain of \$16 were recorded in the six months ended June 30, 2018 and 2017, 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 June 30, 2018, the notional value of these undesignated derivative instruments was approximately \$2.3 billion.

Note 8. 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 touch and improve people's lives every day. 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 Jackson Safety, 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 | | | Six Months | | |
|------------------------|----------------|----------------|-------------|----------------|----------------|-------------|
| | Ended June 30 | | Change | Ended June 30 | | Change |
| | 2018 | 2017 | | 2018 | 2017 | |
| NET SALES | | | | | | |
| Personal Care | \$2,257 | \$2,270 | -1 % | \$4,564 | \$4,520 | +1 % |
| Consumer Tissue | 1,472 | 1,463 | +1 % | 3,051 | 2,918 | +5 % |
| K-C Professional | 861 | 832 | +3 % | 1,693 | 1,621 | +4 % |
| Corporate & Other | 14 | 11 | N.M. | 27 | 21 | N.M. |
| TOTAL NET SALES | \$4,604 | \$4,576 | +1 % | \$9,335 | \$9,080 | +3 % |

OPERATING PROFIT

| | | | | | | |
|--|--------------|--------------|--------------|--------------|----------------|--------------|
| Personal Care | \$461 | \$474 | -3 % | \$931 | \$961 | -3 % |
| Consumer Tissue | 207 | 245 | -16 % | 456 | 525 | -13 % |
| K-C Professional | 165 | 166 | -1 % | 323 | 315 | +3 % |
| Corporate & Other ^(a) | (149) | (68) | N.M. | (781) | (131) | N.M. |
| Other (income) and expense, net ^(a) | 10 | 3 | +233 % | 8 | 8 | — |
| TOTAL OPERATING PROFIT | \$674 | \$814 | -17 % | \$921 | \$1,662 | -45 % |

Corporate & Other and Other (income) and expense, net include income and expense not associated with the business segments, including charges related to the 2018 Global Restructuring Program. Restructuring charges related to the personal care, consumer tissue and K-C Professional business segments were \$401, \$159 and \$101, respectively, for the six months ended June 30, 2018.

(a) N.M. - Not Meaningful

Sales of Principal Products

| (Billions of dollars) | Three Months | | Six Months | |
|--------------------------------------|---------------|--------------|---------------|--------------|
| | Ended June 30 | | Ended June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Consumer tissue products | \$1.5 | \$1.5 | \$3.1 | \$2.9 |
| Baby and child care products | 1.6 | 1.6 | 3.2 | 3.2 |
| Away-from-home professional products | 0.9 | 0.8 | 1.7 | 1.6 |
| All other | 0.6 | 0.7 | 1.3 | 1.4 |
| Consolidated | \$4.6 | \$4.6 | \$9.3 | \$9.1 |

Note 9. Supplemental Balance Sheet Data

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

| | June 30, 2018 | | | December 31, 2017 | | |
|--|---------------|-----------------|----------------|-------------------|-----------------|----------------|
| | LIFO | Non-LIFO | Total | LIFO | Non-LIFO | Total |
| Raw materials | \$86 | \$ 247 | \$333 | \$87 | \$ 258 | \$345 |
| Work in process | 108 | 99 | 207 | 110 | 103 | 213 |
| Finished goods | 453 | 654 | 1,107 | 421 | 684 | 1,105 |
| Supplies and other | — | 280 | 280 | — | 303 | 303 |
| | 647 | 1,280 | 1,927 | 618 | 1,348 | 1,966 |
| Excess of FIFO or weighted-average cost over LIFO cost | (177) | — | (177) | (176) | — | (176) |
| Total | \$470 | \$ 1,280 | \$1,750 | \$442 | \$ 1,348 | \$1,790 |

Inventories are valued at the lower of cost or net realizable value, determined on the FIFO or weighted-average cost methods, and at the lower of cost or market, determined on the LIFO cost method.

The following schedule presents a summary of property, plant and equipment, net:

| | June 30, December 31, | |
|-------------------------------|-----------------------|-----------|
| | 2018 | 2017 |
| Land | \$169 | \$ 173 |
| Buildings | 2,791 | 2,830 |
| Machinery and equipment | 14,120 | 14,612 |
| Construction in progress | 383 | 300 |
| | 17,463 | 17,915 |
| Less accumulated depreciation | (10,417) | (10,479) |
| Total | \$7,046 | \$ 7,436 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This management's discussion and analysis ("MD&A") of financial condition and results of operations is intended to provide investors with an understanding of our recent performance, financial condition and prospects. The following will be discussed and analyzed:

Overview of Second Quarter 2018 Results

Results of Operations and Related Information

Liquidity and Capital Resources

Business Outlook

We describe our business outside North America in two groups – Developing and Emerging Markets ("D&E") and Developed Markets. D&E markets comprise Eastern Europe, the Middle East and Africa, Latin America and Asia-Pacific, excluding Australia and South Korea. Developed Markets consist of Western and Central Europe, Australia and South Korea.

This section presents a discussion and analysis of our second quarter 2018 net sales, operating profit and other information relevant to an understanding of the results of operations. In addition, we provide commentary regarding organic sales growth, which describes the impact of changes in volume, net selling prices and product mix on net sales. Changes in foreign currency exchange rates and acquisitions and divestitures also impact the year-over-year change in net sales. Our analysis compares the three and six months ended June 30, 2018 results to the same periods in 2017.

Effective January 1, 2018, we adopted ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, and accordingly classify the other components of net benefit costs separately from the service cost component and outside of operating profit (presented as "Nonoperating expense" in our consolidated income statement). Prior periods have been recast for the adoption of this standard.

In prior years, we followed an accounting practice whereby costs associated with sales of K-C Professional dispensers were classified as a reduction in revenue, similar to sales incentives. Effective January 1, 2018, we changed this practice and now classify these costs as cost of products sold. This change resulted in an immaterial increase in net sales and cost of products sold and all applicable prior period amounts have been recast accordingly.

Throughout this MD&A, we refer to financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S., or GAAP, and are therefore referred to as non-GAAP financial measures. These measures include adjusted gross and operating profit, adjusted net income, adjusted earnings per share, adjusted other (income) and expense, net and adjusted effective tax rate. We believe these measures provide our investors with additional information about our underlying results and trends, as well as insight into some of the financial measures used to evaluate management.

Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for the comparable GAAP measures, and they should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. There are limitations to these non-GAAP financial measures because they are not prepared in accordance with GAAP and may not be comparable to similarly titled measures of other companies due to potential differences in methods of calculation and items being excluded. We compensate for these limitations by using these non-GAAP financial measures as a supplement to the GAAP measures and by providing reconciliations of the non-GAAP and comparable GAAP financial measures.

The non-GAAP financial measures exclude the following items for the relevant time periods as indicated in the reconciliations included later in this MD&A:

2018 Global Restructuring Program - In 2018, we initiated this restructuring program to reduce our structural cost base by streamlining and simplifying our manufacturing supply chain and overhead organization. Results in 2018 include charges related to this program. See Note 2 to the consolidated financial statements for details.

U.S. Tax Reform Related Matters - In the first quarter of 2018, we recognized a net charge associated with U.S. tax reform related matters. See Note 3 to the consolidated financial statements for details.

Overview of Second Quarter 2018 Results

Net sales of \$4.6 billion increased 1 percent compared to the year-ago period. Changes in foreign currency exchange rates benefited sales by 1 percent while organic sales were even year-on-year.

Operating profit was \$674 in 2018 and \$814 in 2017. Net income attributable to Kimberly-Clark Corporation was \$455 in 2018 compared to \$531 in 2017, and diluted earnings per share were \$1.30 in 2018 and \$1.49 in 2017. Results in 2018 include charges related to the 2018 Global Restructuring Program.

Results of Operations and Related Information

This section presents a discussion and analysis of our second quarter 2018 net sales, operating profit and other information relevant to an understanding of the results of operations.

Consolidated

| Selected Financial Results | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|----------------------------|---------|----------------|--------------------------|---------|----------------|
| | 2018 | 2017 | Percent Change | 2018 | 2017 | Percent Change |
| Net Sales: | | | | | | |
| North America | \$2,347 | \$2,379 | -1 % | \$4,732 | \$4,703 | +1 % |
| Outside North America | 2,335 | 2,279 | +2 % | 4,757 | 4,542 | +5 % |
| Intergeographic sales | (78) | (82) | N.M. | (154) | (165) | N.M. |
| Total Net Sales | 4,604 | 4,576 | +1 % | 9,335 | 9,080 | +3 % |
| Operating Profit: | | | | | | |
| North America | 571 | 574 | -1 % | 1,124 | 1,154 | -3 % |
| Outside North America | 262 | 311 | -16 % | 586 | 647 | -9 % |
| Corporate & Other ^(a) | (149) | (68) | N.M. | (781) | (131) | N.M. |
| Other (income) and expense, net ^(a) | 10 | 3 | +233 % | 8 | 8 | — |
| Total Operating Profit | 674 | 814 | -17 % | 921 | 1,662 | -45 % |
| Share of net income of equity companies | 30 | 26 | +15 % | 57 | 55 | +4 % |
| Net Income Attributable to Kimberly-Clark Corporation | 455 | 531 | -14 % | 548 | 1,094 | -50 % |
| Diluted Earnings per Share | 1.30 | 1.49 | -13 % | 1.56 | 3.06 | -49 % |

(a) Corporate & Other and Other (income) and expense, net include income and expense not associated with the business segments, including adjustments as indicated in the Non-GAAP Reconciliations.

N.M. - Not Meaningful

GAAP to Non-GAAP Reconciliations of Selected Financial Results

| | Three Months Ended June 30, 2018 | |
|---|----------------------------------|----------------------|
| | As Reported | As Adjusted Non-GAAP |
| Cost of products sold | \$3,149 | \$ 85 |
| Gross Profit | 1,455 | (85) |
| Marketing, research and general expenses | 771 | 15 |
| Operating Profit | 674 | (100) |
| Nonoperating expense | (36) | (30) |
| Provision for income taxes | (138) | 24 |
| Effective tax rate | 24.1 % | — % |
| Share of net income of equity companies | 30 | 2 |
| Net income attributable to noncontrolling interests | (10) | 2 |
| Net Income Attributable to Kimberly-Clark Corporation | 455 | (102) |
| Diluted Earnings per Share | 1.30 | (0.29) |

| | Six Months Ended June 30, 2018 | | | |
|---|--------------------------------|-----------------------------------|---------------------------------|----------------------|
| | As Reported | 2018 Global Restructuring Program | U.S. Tax Reform Related Matters | As Adjusted Non-GAAP |
| Cost of products sold | \$6,556 | \$ 362 | \$ — | \$ 6,194 |
| Gross Profit | 2,779 | (362) | — | 3,141 |
| Marketing, research and general expenses | 1,850 | 315 | — | 1,535 |
| Operating Profit | 921 | (677) | — | 1,598 |
| Nonoperating expense | (45) | (30) | — | (15) |
| Provision for income taxes | (242) | 167 | (82) | (327) |
| Effective tax rate | 32.4 % | — | — | 22.5 % |
| Share of net income of equity companies | 57 | (1) | — | 58 |
| Net income attributable to noncontrolling interests | (14) | 11 | — | (25) |
| Net Income Attributable to Kimberly-Clark Corporation | 548 | (530) | (82) | 1,160 |
| Diluted Earnings per Share | 1.56 | (1.51) | (0.23) | 3.30 |

Analysis of Consolidated Results

| Net Sales | Percent Change | | Adjusted Operating Profit | Percent Change | |
|------------------------|----------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|
| | Three Months Ended June 30 | Six Months Ended June 30 | | Three Months Ended June 30 | Six Months Ended June 30 |
| Volume | (1) | 1 | Volume | (2) | 2 |
| Net Price | (1) | (1) | Net Price | (3) | (4) |
| Mix/Other | 1 | — | Input Costs | (25) | (23) |
| Acquisition | — | — | Cost Savings ^(c) | 18 | 14 |
| Currency | 1 | 2 | Currency Translation | 1 | 1 |
| Total ^(a) | 1 | 3 | Other ^(d) | 6 | 6 |
| Organic ^(b) | — | 1 | Total | (5) | (4) |

(a) Total may not equal the sum of volume, net price, mix/other, acquisition and currency due to rounding.

(b) Combined impact of changes in volume, net price and mix/other.

(c) Combined benefits of the FORCE (Focused On Reducing Costs Everywhere) program and 2018 Global Restructuring Program.

(d) Includes impact of changes in product mix, marketing, research and general expenses, foreign currency transaction effects and other manufacturing costs.

Net sales of \$4.6 billion in the second quarter of 2018 increased 1 percent compared to the year-ago period. Changes in foreign currency exchange rates benefited sales by 1 percent. Organic sales were even year-on-year. Changes in product mix improved sales by 1 percent, while sales volumes decreased approximately 1 percent and changes in net selling prices decreased sales slightly. In North America, organic sales decreased 2 percent in consumer products and increased 2 percent in K-C Professional. Outside North America, organic sales increased 1 percent in D&E markets and also in developed markets.

Operating profit in the second quarter of 2018 was \$674, including charges related to the 2018 Global Restructuring Program. Adjusted operating profit was \$774 in 2018 compared to operating profit of \$814 in 2017. Results were impacted by \$200 of higher input costs, driven by \$125 in pulp and \$45 in other raw materials. The operating profit

comparison was also affected by lower net selling prices and sales volumes. On the other hand, results benefited from \$110 of cost savings from our FORCE program and \$40 of cost savings from the 2018 Global Restructuring Program. In addition, the comparison benefited from improved product mix and reduced marketing, research and general spending, including lower general and administrative costs.

The second quarter effective tax rate was 24.1 percent in 2018 and 28.2 percent in 2017. The adjusted effective tax rate was 23.0 percent in the second quarter of 2018. The comparison benefited from U.S. tax reform, along with resolution of certain tax matters.

Our share of net income of equity companies in the second quarter was \$30 in 2018 and \$26 in 2017. Kimberly-Clark de Mexico, S.A.B. de C.V. ("K-C de Mexico") results benefited from sales growth and cost savings, but were negatively impacted by higher input costs.

Diluted net income per share for the second quarter of 2018 was \$1.30. Second quarter adjusted earnings per share were \$1.59 in 2018, an increase of 7 percent compared to diluted net income per share of \$1.49 in 2017.

Year-to-date net sales of \$9.3 billion increased 3 percent compared to the year ago period, as changes in foreign currency exchange rates were favorable by 2 percent. Organic sales increased 1 percent. Sales volumes increased more than 1 percent and changes in product mix improved sales slightly, while changes in net selling prices decreased sales by about 1 percent. Year-to-date operating profit was \$921 in 2018, including charges related to the 2018 Global Restructuring Program. Adjusted operating profit was \$1,598 in 2018 compared to operating profit of \$1,662 in 2017. The comparison was impacted by \$375 of higher input costs and lower net selling prices. Results benefited from sales volume growth, \$200 of FORCE cost savings, \$40 of cost savings from the 2018 Global Restructuring Program and reduced marketing, research and general spending. Diluted net income per share was \$1.56 in 2018. Year-to-date adjusted earnings per share were \$3.30 in 2018, an increase of 8 percent compared to diluted net income per share of \$3.06 in 2017.

Results by Business Segments

Personal Care

| | Three Months Ended June 30 | | Six Months Ended June 30 | | Three Months Ended June 30 | | Six Months Ended June 30 | | |
|-----------|----------------------------|---------|--------------------------|---------|----------------------------|-------|--------------------------|-------|-------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Net Sales | \$2,257 | \$2,270 | \$4,564 | \$4,520 | Operating Profit | \$461 | \$474 | \$931 | \$961 |

| Net Sales | Percent Change | Percent Change | Operating Profit | Percent Change | Percent Change |
|------------------------|----------------|----------------|-----------------------------|----------------|----------------|
| Volume | — | 1 | Volume | — | 1 |
| Net Price | (2) | (2) | Net Price | (10) | (10) |
| Mix/Other | 1 | 1 | Input Costs | (12) | (12) |
| Acquisition | — | 1 | Cost Savings ^(c) | 16 | 13 |
| Currency | — | 1 | Currency Translation | — | 1 |
| Total ^(a) | (1) | 1 | Other ^(d) | 3 | 4 |
| Organic ^(b) | (1) | — | Total | (3) | (3) |

(a) Total may not equal the sum of volume, net price, mix/other, acquisition and currency due to rounding.

(b) Combined impact of changes in volume, net price and mix/other.

(c) Combined benefits of the FORCE program and 2018 Global Restructuring Program.

(d) Includes impact of changes in product mix, marketing, research and general expenses, foreign currency transaction effects and other manufacturing costs.

Second quarter net sales of \$2.3 billion decreased 1 percent. Changes in net selling prices decreased sales by 2 percent, while changes in product mix improved sales by 1 percent. Second quarter operating profit of \$461 decreased 3 percent. The comparison was impacted by input cost inflation and lower net selling prices, while results benefited from cost savings, reduced marketing, research and general spending and favorable product mix.

Net sales in North America decreased 1 percent. Changes in net selling prices decreased sales by nearly 3 percent, including higher promotion spending to support innovations and growth initiatives, while sales volumes increased 2 percent. Volumes were up double-digits in adult care, including benefits from innovations and category growth. Volumes were similar year-on-year in Huggies diapers, baby wipes and child care.

Net sales in D&E markets decreased 1 percent. Changes in currency rates were unfavorable by 2 percent while the acquisition of our joint venture in India benefited sales by 1 percent. Changes in product mix improved sales by 2 percent while net selling prices decreased sales by 2 percent. Sales volumes were even year-on-year, including increases in Eastern Europe and declines in China and Argentina.

Net sales in developed markets outside North America increased 1 percent, including a 5 percent benefit from favorable currency rates. Sales volumes decreased 3 percent, driven by South Korea, and the combined impact of

changes in net selling prices and product mix decreased sales by 1 percent.

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Consumer Tissue

| | Three Months Ended June 30 | | Six Months Ended June 30 | | Three Months Ended June 30 | | Six Months Ended June 30 | | |
|-----------|----------------------------|---------|--------------------------|---------|----------------------------|-------|--------------------------|-------|-------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Net Sales | \$1,472 | \$1,463 | \$3,051 | \$2,918 | Operating Profit | \$207 | \$245 | \$456 | \$525 |

| Net Sales | Percent Change | Percent Change | Operating Profit | Percent Change | Percent Change |
|------------------------|----------------|----------------|-----------------------------|----------------|----------------|
| Volume | (3) | 2 | Volume | (10) | 3 |
| Net Price | 2 | 1 | Net Price | 9 | 4 |
| Mix/Other | 1 | — | Input Costs | (44) | (40) |
| Acquisition | — | — | Cost Savings ^(c) | 20 | 15 |
| Currency | 2 | 2 | Currency Translation | 1 | 2 |
| Total ^(a) | 1 | 5 | Other ^(d) | 8 | 3 |
| Organic ^(b) | (1) | 2 | Total | (16) | (13) |

(a) Total may not equal the sum of volume, net price, mix/other, acquisition and currency due to rounding.

(b) Combined impact of changes in volume, net price and mix/other.

(c) Combined benefits of the FORCE program and 2018 Global Restructuring Program.

(d) Includes impact of changes in marketing, research and general expenses, foreign currency transaction effects and other manufacturing costs.

Second quarter net sales of \$1.5 billion increased 1 percent. Changes in currency rates benefited sales by 2 percent. Sales volumes decreased 3 percent, while changes in net selling prices increased sales by approximately 2 percent and product mix improved sales slightly. Second quarter operating profit of \$207 decreased 16 percent. The comparison was impacted by input cost inflation and lower volumes. Results benefited from cost savings, higher net selling prices, reduced marketing, research and general spending and favorable product mix.

Net sales in North America decreased 4 percent, driven by changes in the timing of promotion shipments, along with lower sales in facial tissue. Sales volumes decreased 6 percent, while changes in net selling prices and product mix each improved sales by 1 percent.

Net sales in D&E markets were even year-on-year. Changes in net selling prices increased sales by 2 percent and product mix increased sales by 1 percent, while sales volumes decreased 3 percent. The changes in net selling prices and volumes occurred primarily in Latin America.

Net sales in developed markets outside North America increased 12 percent. Changes in currency rates benefited sales by 7 percent, mostly in Western/Central Europe. Sales volumes increased 3 percent and net selling prices increased sales by 2 percent.

K-C Professional

| | Three Months Ended June 30 | | Six Months Ended June 30 | | Three Months Ended June 30 | | Six Months Ended June 30 | | |
|-----------|----------------------------|-------|--------------------------|---------|----------------------------|-------|--------------------------|-------|-------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Net Sales | \$861 | \$832 | \$1,693 | \$1,621 | Operating Profit | \$165 | \$166 | \$323 | \$315 |

| Net Sales | Percent Change | Percent Change | Operating Profit | Percent Change | Percent Change |
|------------------------|----------------|----------------|-----------------------------|----------------|----------------|
| Volume | 1 | 1 | Volume | 3 | 2 |
| Net Price | — | — | Net Price | — | 1 |
| Mix/Other | 1 | 1 | Input Costs | (20) | (16) |
| Acquisition | — | — | Cost Savings ^(c) | 14 | 10 |
| Currency | 2 | 2 | Currency Translation | 1 | 2 |
| Total ^(a) | 3 | 4 | Other ^(d) | 1 | 4 |
| Organic ^(b) | 2 | 2 | Total | (1) | 3 |

(a) Total may not equal the sum of volume, net price, mix/other, acquisition and currency due to rounding.

(b) Combined impact of changes in volume, net price and mix/other.

(c) Combined benefits of the FORCE program and 2018 Global Restructuring Program.

(d) Includes impact of changes in product mix, marketing, research and general expenses, foreign currency transaction effects and other manufacturing costs.

Second quarter net sales of \$0.9 billion increased more than 3 percent. Changes in currency rates benefited sales by approximately 2 percent. Sales volumes and changes in product mix each increased sales by 1 percent. Second quarter operating profit of \$165 decreased 1 percent. The comparison was impacted by input cost inflation, mostly offset by cost savings, volume growth and favorable product mix.

Net sales in North America increased 2 percent. Sales volumes increased 2 percent, with growth in all major product categories.

Net sales in D&E markets increased 3 percent. Sales volumes increased 2 percent, driven by Asia-Pacific, and changes in net selling prices increased sales by 1 percent.

Net sales in developed markets outside North America increased 7 percent. Changes in currency rates benefited sales by approximately 7 percent, mostly in Western/Central Europe. Changes in product mix increased sales by 1 percent.

2018 Global Restructuring Program

On January 23, 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 and asset impairments. Annual pre-tax savings from the restructuring are expected to be \$500 to \$550 by 2021. In addition, to implement this program, we expect to incur incremental capital spending of approximately \$600 to \$700 by the end of 2020. Restructuring charges in 2018 are expected to be \$1.2 billion to \$1.35 billion pre-tax (\$950 to \$1.05 billion after tax).

Second quarter restructuring cash charges were \$28 pre-tax, non-cash charges were \$102 pre-tax and total net restructuring charges were \$102 after tax. For the six months ended June 30, 2018, cash charges were \$446 pre-tax, non-cash charges were \$261 pre-tax and total restructuring charges were \$530 after tax. Second quarter non-cash charges primarily related to incremental depreciation, asset write-offs and pension settlement charges. Savings for the first six months of 2018 were \$40. We expect to generate full year savings of \$100 to \$120 in 2018.

Liquidity and Capital Resources

Cash Provided by Operations

Cash provided by operations was \$1,329 for the first six months of 2018, compared to \$1,261 in the prior year. The increase was mainly due to lower tax payments in 2018, partially offset by payments for restructuring charges.

Financing

Our short-term debt, which consists of U.S. commercial paper with original maturities up to 90 days and/or other similar short-term debt issued by non-U.S. subsidiaries, was \$638 as of June 30, 2018 (included in debt payable within one year on the consolidated balance sheet). The average month-end balance of short-term debt for the second quarter of 2018 was \$794. These short-term borrowings provide supplemental funding for supporting our operations. The level of short-term debt generally fluctuates depending upon the amount of operating cash flows and the timing of customer receipts and payments for items such as dividends and income taxes.

At June 30, 2018 and December 31, 2017, total debt was \$7.5 billion and \$7.4 billion, respectively.

In June 2018, we entered into a \$2.0 billion revolving credit facility which expires in June 2023 and a \$500 revolving credit facility which expires in June 2019. These facilities, currently unused, replaced a similar \$2.0 billion facility, support our commercial paper program, and would provide liquidity in the event our access to the commercial paper markets is unavailable for any reason.

We repurchase shares of Kimberly-Clark common stock from time to time pursuant to publicly announced share repurchase programs. During the first six months of 2018, we repurchased 3.9 million shares of our common stock at a cost of \$427 through a broker in the open market. We are targeting full-year 2018 share repurchases of \$700 to \$900, subject to market conditions.

Our subsidiaries in Argentina (“K-C Argentina”) began accounting for their operations as highly inflationary effective July 1, 2018, as required by GAAP. Under highly inflationary accounting, K-C Argentina’s functional currency became the U.S. dollar, and its income statement and balance sheet will be 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 will be reflected in earnings in other (income) and expense, net. As of June 30, 2018, 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 six months ended June 30, 2018 and 2017.

We believe that our ability to generate cash from operations and our capacity to issue short-term and long-term debt are adequate to fund working capital, payments for our 2018 Global Restructuring Program, capital spending, dividends and other needs for the foreseeable future. Further, we do not expect restrictions or taxes on repatriation of cash held outside of the U.S. to have a material effect on our overall business, liquidity, financial condition or results of operations for the foreseeable future.

Business Outlook

In 2018, we plan to continue to execute our Global Business Plan strategies, which include a focus on targeted growth initiatives, innovation and brand building, cost savings programs and shareholder-friendly capital allocation. In 2018, we expect earnings per share to be \$3.37 to \$3.87. Adjusted earnings per share are expected to be \$6.60 to \$6.80 (prior estimate was \$6.90 to \$7.20), which excludes 2018 Global Restructuring Program charges equivalent to \$2.70 to \$3.00 and U.S. tax reform related net charge impact of \$0.23. Our adjusted earnings per share guidance is based on the assumptions described below:

• We expect net sales similar, to up 1 percent, year-on-year (prior assumption reported in our first quarter Form 10-Q was an increase of 2 to 3 percent). We anticipate changes in foreign currency exchange rates to have a neutral to 1 percent negative impact on net sales (previous estimate was 1 to 2 percent positive impact).

• We expect organic sales to increase approximately 1 percent.

• We expect adjusted operating profit decline of 2 to 5 percent (prior estimate growth of 2 to 5 percent).

• We expect inflation in key cost inputs of \$675 to \$775 (previous estimate of \$400 to \$550). The update reflects higher assumptions for pulp costs in particular, and secondarily other raw materials.

• We plan to achieve cost savings of \$425 to \$450 from the FORCE program. The prior target was for savings of approximately \$400.

We plan to achieve cost savings of approximately \$100 to \$120 from the 2018 Global Restructuring Program (previous estimate was \$50 to \$70).

• We expect the adjusted effective tax rate to be at the low end of the 23 to 26 percent target range.

Information Concerning Forward-Looking Statements

Certain matters contained in this report concerning the business outlook, including the anticipated cost savings from our FORCE program, charges and savings from the 2018 Global Restructuring Program, cash flow and uses of cash, growth initiatives, innovations, marketing and other spending, net sales, anticipated currency rates and exchange risks, including the impact in Argentina, raw material, energy and other input costs, effective tax rate, contingencies and anticipated transactions of Kimberly-Clark, including dividends and share repurchases, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are based upon management's expectations and beliefs concerning future events impacting Kimberly-Clark. There can be no assurance that these future events will occur as anticipated or that our results will be as estimated. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update them. The assumptions used as a basis for the forward-looking statements include many estimates that, among other things, depend on the achievement of future cost savings and projected volume increases. In addition, many factors outside our control, including fluctuations in foreign currency exchange rates, the prices and availability of our raw materials, potential competitive pressures on selling prices for our products, energy costs, our ability to maintain key customer relationships, as well as general economic and political conditions globally and in the markets in which we do business, could affect the realization of these estimates.

For a description of certain factors that could cause our future results to differ from those expressed in these forward-looking statements, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 entitled "Risk Factors." Other factors not presently known to us or that we presently consider immaterial could also affect our business operations and financial results.

Item 4. Controls and Procedures

As of June 30, 2018, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2018. There were no changes in our internal control over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We repurchase shares of Kimberly-Clark common stock from time to time pursuant to publicly announced share repurchase programs. All our share repurchases during the second quarter of 2018 were made through a broker in the open market.

The following table contains information for shares repurchased during the second quarter of 2018. None of the shares in this table were repurchased directly from any of our officers or directors.

| Period (2018) | Total Number of Shares Purchased ^(a) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|---------------------|---|------------------------------|--|--|
| April 1 to April 30 | 697,100 | \$ 105.47 | 19,376,818 | 20,623,182 |
| May 1 to May 31 | 737,300 | 103.83 | 20,114,118 | 19,885,882 |
| June 1 to June 30 | 717,400 | 102.32 | 20,831,518 | 19,168,482 |
| Total | 2,151,800 | | | |

Share repurchases were made pursuant to a share repurchase program authorized by our Board of Directors on (a) November 13, 2014. This program allows for the repurchase of 40 million shares in an amount not to exceed \$5 billion.

Item 6. Exhibits

(a) Exhibits

Exhibit No. (3)a. Amended and Restated Certificate of Incorporation, dated April 30, 2009, incorporated by reference to Exhibit No. (3)a of the Corporation's Current Report on Form 8-K filed on May 1, 2009.

Exhibit No. (3)b. By-Laws, as amended December 14, 2015, incorporated by reference to Exhibit No. (3)b of the Corporation's Current Report on Form 8-K filed on December 14, 2015.

Exhibit No. (4). Copies of instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission on request.

Exhibit No. (10)n. Form of Award Agreements under 2011 Equity Participation Plan for Nonqualified Stock Options, filed herewith.

Exhibit No. (10)r. Form of Award Agreements under 2011 Equity Participation Plan for Time-Vested Restricted Stock Units, filed herewith.

Exhibit No. (31)a. Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.

Exhibit No. (31)b. Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.

Exhibit No. (32)a. Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit No. (32)b. Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit No. (101).INS XBRL Instance Document

Exhibit No. (101).SCH XBRL Taxonomy Extension Schema Document

Exhibit No. (101).CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit No. (101).DEF XBRL Taxonomy Extension Definition Linkbase Document

Exhibit No. (101).LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit No. (101).PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KIMBERLY-CLARK CORPORATION
(Registrant)

By: /s/ Maria Henry
Maria Henry
Senior Vice President and
Chief Financial Officer
(principal financial officer)

By: /s/ Michael T. Azbell
Michael T. Azbell
Vice President and Controller
(principal accounting officer)
July 24, 2018