

KIMBERLY CLARK CORP
Form 10-K
February 08, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016

or
 Transition Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

KIMBERLY-CLARK CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 1-225 39-0394230
(State or other jurisdiction of incorporation) (Commission file number) (I.R.S. Employer Identification No.)

P.O. Box 619100, Dallas, Texas 75261-9100
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (972) 281-1200

Securities registered pursuant to Section 12(b) of the Act:

Common Stock—\$1.25 Par Value New York Stock Exchange
(Title of each class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates on June 30, 2016 (based on the most recent closing stock price on the New York Stock Exchange as of such date) was approximately \$49.5 billion. As of February 1, 2017, there were 356,274,872 shares of Kimberly-Clark common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for Kimberly-Clark's Annual Meeting of Stockholders to be held on April 20, 2017 is incorporated by reference into Part III.

KIMBERLY-CLARK CORPORATION
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PART
I

ITEM 1. BUSINESS

Kimberly-Clark Corporation was incorporated in Delaware in 1928. We are a global company focused on leading the world in essentials for a better life through product innovation and building our personal care, consumer tissue and K-C Professional brands. We are principally engaged in the manufacturing and marketing of a wide range of products mostly made from natural or synthetic fibers using advanced technologies in fibers, nonwovens and absorbency. Unless the context indicates otherwise, the terms "Corporation," "Kimberly-Clark," "K-C," "we," "our" and "us" refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

For financial information by business segment and geographic area, including revenue, profit and total assets of each reportable segment, and information about our principal products and markets, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and Item 8, Note 16 to the consolidated financial statements.

Dollar amounts are reported in millions, except per share dollar amounts, unless otherwise noted.

Description of Kimberly-Clark

We are organized into operating segments based on product groupings. These operating segments have been aggregated into three reportable global business segments. Information on these three segments, as well as their principal sources of revenue, is included 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 ("KCP") 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.

These reportable segments were determined in accordance with how our chief operating decision maker and our executive managers develop and execute our global strategies to drive growth and profitability of our worldwide personal care, consumer tissue and KCP operations. 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.

Products for household use are sold directly to supermarkets, mass merchandisers, drugstores, warehouse clubs, variety and department stores and other retail outlets, as well as through other distributors and e-commerce. Products for away-from-home use are sold through distributors and directly to manufacturing, lodging, office building, food service, and high volume public facilities.

Net sales to Wal-Mart Stores, Inc. were approximately 14 percent in 2016 and 2015, and 13 percent in 2014 of our total net sales.

Patents and Trademarks

We own various patents and trademarks registered domestically and in many foreign countries. We consider the patents and trademarks that we own and the trademarks under which we sell certain of our products to be material to our business. Consequently, we seek patent and trademark protection by all available means, including registration.

Raw Materials

Cellulose fiber, in the form of kraft pulp or fiber recycled from recovered waste paper, is the primary raw material for our tissue products and in the form of fluff pulp is a component of disposable diapers, training and youth pants, feminine pads and incontinence care products.

Polypropylene and other synthetics and chemicals are the primary raw materials for manufacturing nonwoven fabrics, which are used in disposable diapers, training and youth pants, wet wipes, feminine pads, incontinence products, and away-from-home wipers and apparel. Superabsorbent materials are important components of disposable diapers, training and youth pants and incontinence care products.

Raw materials are purchased from third parties, and we consider the supply to be adequate to meet the needs of our businesses. See Item 1A, "Risk Factors."

Competition

We have several major competitors in most of our markets, some of which are larger and more diversified than us. The principal methods and elements of competition include brand recognition and loyalty, product innovation, quality and performance, price, and marketing and distribution capabilities. For additional discussion of the competitive environment in which we conduct our business, see Item 1A, "Risk Factors."

Research and Development

Research and development expenditures are directed toward new or improved personal care, tissue, wiping, safety and nonwoven materials. Consolidated research and development expense was \$328 in 2016, \$324 in 2015 and \$368 in 2014.

Foreign Market Risks

We operate and market our products globally, and our business strategy includes targeted growth in Asia, Latin America, Eastern Europe, the Middle East and Africa, with a particular emphasis in China, Eastern Europe and Latin America. See Item 1A, "Risk Factors" for a discussion of foreign market risks that may affect our financial results.

Environmental Matters

Total worldwide capital expenditures for voluntary environmental controls or controls necessary to comply with legal requirements relating to the protection of the environment at our facilities are expected to be as follows:

	2017	2018
Facilities in U.S.	\$ 14	\$ 1
Facilities outside U.S.	20	7
Total	\$ 34	\$ 8

Total worldwide operating expenses for environmental compliance, including pollution control equipment operation and maintenance costs, governmental payments, and research and engineering costs are expected to be as follows:

	2017	2018
Facilities in U.S.	\$58	\$59
Facilities outside U.S.	52	53
Total	\$110	\$112

Total environmental capital expenditures and operating expenses are not expected to have a material effect on our total capital and operating expenditures, consolidated earnings or competitive position. Current environmental spending estimates could be modified as a result of changes in our plans, changes in legal requirements, including any requirements related to global climate change, or other factors.

Employees

In our worldwide consolidated operations, we had approximately 42,000 employees as of December 31, 2016.

Available Information

We make financial information, news releases and other information available on our corporate website at www.kimberly-clark.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on this website as soon as reasonably practicable after we file these reports and amendments with, or furnish them to, the Securities and Exchange Commission ("SEC"). The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the SEC. Stockholders may also contact Stockholder Services, P.O. Box 612606, Dallas, Texas 75261-2606 or call 972-281-5317 to obtain a hard copy of these reports without charge.

ITEM 1A. RISK FACTORS

Our business faces many risks and uncertainties that we cannot control. Any of the risks discussed below, as well as factors described in other places in this Form 10-K, or in our other filings with the SEC, could adversely affect our business, consolidated financial position, results of operations or cash flows. In addition, these items could cause our future results to differ from those in any of our forward-looking statements. These risks are not the only ones we face. Other risks that we do not presently know about or that we presently believe are not material could also adversely affect us.

Our international operations are subject to foreign market risks, including foreign exchange risk, currency restrictions and political, social and economic instability, which may adversely affect our financial results.

Our strategy includes operations growth outside the U.S., especially in developing markets such as China, Latin America and Eastern Europe. About half of our net sales come from markets outside the U.S. We and our equity companies have manufacturing facilities in 38 countries, and sell products in more than 175 countries. Our results may be substantially affected by a number of foreign market risks:

Exposure to the movement of various currencies against each other and the U.S. dollar. A portion of the exposures, arising from transactions and commitments denominated in non-local currencies, is systematically managed through foreign currency forward and swap contracts. We do not generally hedge our translation exposure with respect to foreign operations.

Increases in currency exchange restrictions. These restrictions could limit our ability to repatriate earnings from outside the U.S. or obtain currency exchange for U.S. dollar inputs to continue operating in certain countries.

Adverse political conditions. Risks related to political instability, expropriation, new or revised legal or regulatory constraints, difficulties in enforcing contractual and intellectual property rights, and potentially adverse tax consequences would adversely affect our financial results.

Increases in dollar-based input costs for operations outside the U.S. due to weaker foreign exchange rates versus the U.S. dollar. There can be no assurance that we will be protected against substantial foreign currency fluctuations. The inability to effectively manage foreign market risk could adversely affect our business, consolidated financial condition, results of operations or liquidity.

Intense competition for sales of our products, changes in consumer purchasing patterns and the inability to innovate or market our products effectively could have an adverse effect on our financial results.

We operate in highly competitive domestic and international markets against well-known, branded products and low-cost or private label products. Inherent risks in our competitive strategy include uncertainties concerning trade and consumer acceptance, the effects of consolidation within retailer and distribution channels, and competitors' actions. Our competitors for these markets include global, regional and local manufacturers, including private label manufacturers. Some of these competitors may have better access to financial resources and greater market penetration, which enable them to offer a wider variety of products and services at more competitive prices.

Alternatively, some of these competitors may have significantly lower product development and manufacturing costs, particularly with respect to private label products, allowing them to offer products at a lower price. The

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actions of these competitors could adversely affect our financial results. It may be necessary for us to lower prices on our products and increase spending on advertising and promotions, which could adversely affect our financial results. We may be unable to anticipate or adequately respond to changes in consumer demand for our products. Demand for our products may change based on many factors, including shifting consumer purchasing patterns to lower cost options such as private-label products and mid to lower-tier value products, low birth rates in certain countries due to slow economic growth or other factors, negative consumer response to pricing actions or changes in consumer trends or habits. If we experience lower sales due to changes in consumer demand for our products, our earnings could decrease.

Our ability to develop new products is affected by whether we can successfully anticipate consumer needs and preferences, develop and fund technological innovations, and receive and maintain necessary patent and trademark protection. In addition, we incur substantial development and marketing costs in introducing new and improved products and technologies. The introduction of a new consumer product (whether improved or newly developed) usually requires substantial expenditures for advertising and marketing to gain recognition in the marketplace. If a product gains consumer acceptance, it normally requires continued advertising and promotional support to maintain its relative market position. Some of our competitors may spend more aggressively on advertising and promotional activities, introduce competing products more quickly and respond more effectively to changing business and economic conditions. We may not be successful in developing new or improved products and technologies necessary to compete successfully in the industry, and we may not be successful in advertising, marketing, timely launching and selling our products. Also, if we fail to perfect or successfully assert our intellectual property rights, we may be less competitive, which could adversely affect our business, financial results and financial condition.

Increasing dependence on key retailers in developed markets and the emergence of new sales channels may adversely affect our business.

Our products are sold in a highly competitive global marketplace, which continues to experience increased concentration and the growing presence of large-format retailers and discounters. With the consolidation of retail trade, especially in developed markets such as the U.S., Europe and Australia, we are increasingly dependent on key retailers, and some of these retailers, including large-format retailers, may have significant bargaining power. They may use this leverage to demand higher trade discounts or allowances which could lead to reduced profitability. We may also be negatively affected by changes in the policies of our retail trade customers, such as inventory de-stocking, limitations on access to shelf space, delisting of our products, additional requirements related to safety, environmental, social and other sustainability issues, and other conditions. If we lose a significant customer or if sales of our products to a significant customer materially decrease, our business, financial condition and results of operations may be adversely affected. In addition, the emergence of new sales channels may affect customer preferences and market dynamics and could adversely impact our financial results. These new channels include sales of consumer and other products via e-commerce, as well as the growth of large-format retailers and discounters that exclusively sell private-label products.

Damage to the reputation of Kimberly-Clark or to one or more of our brands could adversely affect our business.

Developing and maintaining our reputation, as well as the reputation of our brands, is a critical factor in our relationship with consumers, customers, suppliers and others. Our inability to address adverse publicity or other issues, including concerns about product safety, quality, efficacy or similar matters, or breaches of consumer, customer, supplier, employee or other confidential information, real or perceived, could negatively impact sentiment towards us and our products and brands, and our business and financial results could suffer. Consumers increasing use and reliance on social media for information could increase the risk of adverse publicity, potentially with negative perception of our products or brands. Our business and results could also be negatively impacted by the effects of a significant product recall, product-related litigation, allegations of product tampering or contamination, the distribution and sale of counterfeit products, or a failure or breach of our information technology systems.

Government regulations and enforcement, and potential litigation, could have an adverse effect on our financial results.

As a global company, we are subject to many laws and governmental regulations across all of the countries in which we do business, including laws and regulations involving marketing, antitrust, anti-bribery or anti-corruption, product liability, environmental, intellectual property or other matters, as well as potential litigation or administrative actions.

If we are unable to comply with all laws and regulations, it could negatively impact our reputation and our business results. We cannot provide assurance that our internal control policies and procedures, and ethics and compliance program will always protect us from acts committed by our employees or agents. Adverse regulatory action, including a recall, regulatory or other governmental investigation, or product liability or other litigation may also adversely affect our financial condition and business operations.

Although we believe that none of these proceedings or requirements will have a material adverse effect on us, the outcome of these proceedings may not be as expected.

In addition, new or revised laws or regulations may alter the environment in which we do business, which could adversely impact our financial results. For example, new legislation or regulations may result in increased costs to us, directly for our compliance or indirectly to the extent suppliers increase prices of goods and services because of increased compliance costs, excise taxes or reduced availability of raw materials.

New or revised tax regulations could have an adverse effect in our financial results.

We are subject to income tax requirements in various jurisdictions in the U.S. and internationally. Many of these jurisdictions have made changes to their tax policies or are contemplating changes, or have unpredictable enforcement activity. Increases in applicable tax rates, implementation of new taxes, changes in applicable tax laws and interpretations of these tax laws and actions by tax authorities in jurisdictions in which we operate could reduce our after-tax income and have an adverse effect on our results of operations.

Disruption in our supply chain or the failure of third-party providers to satisfactorily perform could adversely impact our operations.

Our ability to manufacture, distribute and sell products is critical to our operations. These activities are subject to inherent risks such as natural disasters, power outages, fires or explosions, labor strikes, terrorism, pandemics, import restrictions, regional economic, business, environmental or political events, governmental regulatory requirements or nongovernmental voluntary actions in response to global climate change or other concerns regarding the sustainability of our business, which could impair our ability to manufacture or sell our products. This interruption, if not mitigated in advance or otherwise effectively managed, could adversely impact our business, financial condition and results of operations, as well as require additional resources to address.

In addition, third parties manufacture some of our products and provide certain administrative services. Disruptions or delays at these third-party manufacturers or service providers due to the reasons above or the failure of these manufacturers or service providers to otherwise satisfactorily perform, could adversely impact our operations, sales, payments to our vendors, employees, and others, and our ability to report financial and management information on a timely and accurate basis.

Significant increases in prices for raw materials, energy, transportation and other necessary supplies and services, without corresponding increases in our selling prices, could adversely affect our financial results.

Increases in the cost and availability of raw materials, including pulp and petroleum-based materials, the cost of energy, transportation and other necessary services, supplier constraints, an inability to maintain favorable supplier arrangements and relations or an inability to avoid disruptions in production output could have an adverse effect on our financial results.

Cellulose fiber, in the form of kraft pulp or recycled fiber from recovered waste paper, is used extensively in our tissue products and is subject to significant price fluctuations. Cellulose fiber, in the form of fluff pulp, is a key component in our personal care products. In past years, pulp prices have experienced significant volatility. Increases in pulp prices or limits in the availability of recycled fiber could adversely affect our earnings if selling prices for our finished products are not adjusted or if these adjustments significantly trail the increases in pulp prices. We have not used derivative instruments to manage these risks.

A number of our products, such as diapers, training and youth pants, feminine pads, incontinence care products and disposable wipes, contain certain materials that are principally derived from petroleum. These materials are subject to price fluctuations based on changes in petroleum prices, availability and other factors, with these prices experiencing significant volatility in recent years. We purchase these materials from a number of suppliers. Significant increases in prices for these materials could adversely affect our earnings if selling prices for our finished products are not adjusted, if these adjustments significantly trail the increases in prices for these materials, or if we do not utilize lower priced substitutes for these materials. Generally, we have not used derivative instruments to manage these risks.

Our manufacturing operations utilize electricity, natural gas and petroleum-based fuels. To ensure we use all forms of energy efficiently and cost-effectively, we maintain energy efficiency improvement programs at our manufacturing sites. Our contracts with energy suppliers vary as to price, payment terms, quantities and duration. Our energy costs are also affected by various market factors including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions (including actions taken to address climate change and related

market responses). There can be no assurance that we will be fully

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protected against substantial changes in the price or availability of energy sources. We use derivative instruments to manage a portion of natural gas price risk in accordance with our risk management policy.

There is no guarantee that our ongoing efforts to reduce costs will be successful.

We continue to implement plans to improve our competitive position by achieving cost reductions in our operations, including implementing restructuring programs in functions or areas of our business where we believe such opportunities exist. In addition, we expect ongoing cost savings from our continuous improvement activities. We anticipate these cost savings will result from reducing material costs and manufacturing waste and realizing productivity gains, distribution efficiencies and overhead reductions in each of our business segments and in our corporate functions. Any negative impact these plans have on our relationships with employees or customers or any failure to generate the anticipated efficiencies and savings could adversely affect our financial results.

If our information technology systems suffer interruptions, failures or breaches, our business operations could be disrupted and we could face financial and reputational damage.

Our information technology systems, some of which are dependent on services provided by third parties, serve an important role in the efficient and effective operation and administration of our business. These systems could be damaged or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches, computer viruses or cyber-based attacks. While we have contingency plans in place to prevent or mitigate the impact of these events, if they were to occur and our disaster recovery plans do not effectively address the issues on a timely basis, we could suffer interruptions in our ability to manage our operations, which may adversely affect our business and financial results.

Increased cyber-security threats and computer crime also pose a potential risk to the security of our information technology systems, including those of third party service providers with whom we have contracted, as well as the confidentiality, integrity and availability of the data stored on those systems. Any breach in our information technology security systems could result in the disclosure or misuse of confidential or proprietary information, including sensitive customer, vendor, employee or investor information maintained in the ordinary course of our business. Any such event could cause damage to our reputation, loss of valuable information or loss of revenue and could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, or to protect against similar future events.

The 2014 spin-off of our health care business could result in substantial tax liability to us and our stockholders.

On October 31, 2014, we completed the spin-off of our health care business, creating a stand-alone, publicly traded health care company, Halyard Health, Inc. ("Halyard"). Historically, the IRS provided companies seeking to perform a spin-off transaction with an advance ruling that the proposed spin-off transaction would qualify for tax-free treatment. However, the IRS no longer provides such advance rulings. Prior to completing the spin-off of our health care business, we obtained an opinion of counsel that neither we nor our U.S. stockholders will recognize taxable income, gain or loss for U.S. federal income tax purposes as a result of the spin-off. The opinion of counsel is based on certain statements and representations made by us, which, if incomplete or inaccurate in any material respect, could invalidate the opinion of counsel. In addition, this opinion is not binding on the IRS. Accordingly, the IRS or the courts may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion of counsel. If the spin-off and certain related transactions were determined to be taxable, we would be subject to a substantial tax liability. In addition, if the spin-off were deemed taxable, each U.S. holder of our common stock who received shares of Halyard would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares received.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At December 31, 2016 we own or lease:

• our principal executive offices located in the Dallas, Texas metropolitan area;

• four operating segment and geographic headquarters at two U.S. and two international locations; and

- four administrative centers at one U.S. and three international locations.

The locations of our and our equity affiliates' principal production facilities by major geographic areas of the world are as follows:

Geographic Area:	Number of Facilities
United States (in 16 states)	18
Europe	13
Asia, Latin America and other	60
Worldwide Total (in 38 countries)	91

Many of these facilities produce multiple products. Consumer tissue and KCP products are produced in 55 facilities and personal care products are produced in 49 facilities. We believe that our and our equity affiliates' facilities are suitable for their purpose, adequate to support their businesses and well maintained.

ITEM 3. LEGAL PROCEEDINGS

See Item 8, Note 12 to the consolidated financial statements which is incorporated in this Item 3 by reference for information on legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of our executive officers as of February 8, 2017, together with certain biographical information, are as follows:

Achal Agarwal, 57, was elected President, K-C Asia-Pacific in 2012. He is responsible for our consumer business in our Asia-Pacific region. From 2008 to 2012, his title was President, K-C North Asia. Mr. Agarwal joined Kimberly-Clark from PepsiCo, Inc. where he served from March 2008 to June 2008 as Business Unit General Manager, Sub-Saharan Africa Beverages and Snacks and as Chief Operating Officer, Greater China Beverages from 2005 to February 2008.

J. Scott Boston, 54, was elected Senior Vice President and Chief Human Resources Officer in January 2017. He is responsible for the design and implementation of all human capital strategies for Kimberly-Clark, including global compensation and benefits, talent management, diversity and inclusion, organizational effectiveness and corporate health services. From 2011 to 2016, his title was Vice President of Global Talent Management, HR Strategy & Operations. Prior to joining Kimberly-Clark, Mr. Boston served as Senior Vice President, Human Resources, for McKesson Corporation.

Gustavo Calvo Paz, 55, was elected President, K-C Europe, Middle East & Africa in 2014. He is responsible for our consumer business