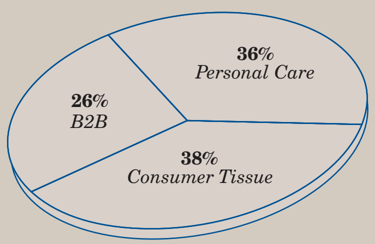
Relationships that last a lifetime Kimberly-Clark 2003 Annual Report

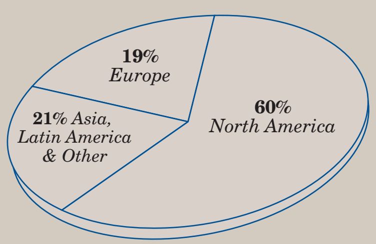
About This Report

At Kimberly-Clark, we're building brands and relationships that last a lifetime. We are home to some of the most trusted and recognized brands in the world, including Kleenex, Scott, Huggies, Pull-Ups, Kotex and Depend. What's more, we hold the No. 1 or No. 2 position globally in most of the major consumer products categories in which we compete. Every day, one in four people around the world look to our brands to enhance their health, hygiene and well-being. Whether it's a baby's first steps, a college graduation, a 50th birthday or another of life's many milestones, Kimberly-Clark is there.

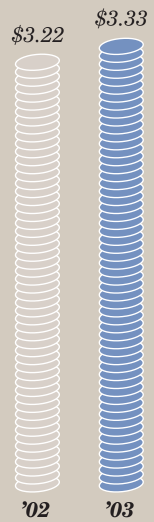
(Millions, except per share amounts)	***2003***	*2002*	CHANGE
Net sales	**$ 14,348.0**	$ 13,566.3	5.8%
Operating profit	**2,412.4**	2,463.8	-2.1%
Net income	**1,694.2**	1,674.6	1.2%
Diluted net income per share	**3.33**	3.22	3.4%
Dividends declared per share	**1.36**	1.20	13.3%
Cash provided by operations	**2,613.0**	2,424.2	7.8%
At December 31			
Total assets	**16,779.9**	15,639.6	7.3%
Ratio of total debt and preferred securities to capital	**37.1%**	43.2%	-14.1%
Common stock price per share	**59.09**	47.47	24.5%

2003 PROFILE BY SEGMENT
Consolidated Net Sales





2003 PROFILE BY GEOGRAPHY
Consolidated Net Sales



DILUTED EARNINGS PER SHARE

Chairman and CEO Tom Falk

Dear Shareholders:

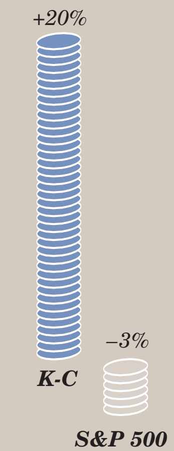
The people of Kimberly-Clark achieved a number of important accomplishments this past year that give me great confidence about our opportunities in 2004 and beyond. For starters, we set a new strategic path for our company with a five-year Global Business Plan and delivered record cash flow for the second consecutive year. We gained market share in many categories throughout the world, and I am particularly encouraged by recent trends in U.S. diapers and training pants. I was also pleased to see KMB shares rise more than 24 percent and provide you an improved return.

Kimberly-Clark revenues climbed 6 percent in 2003 and earnings per share rose more than 3 percent, to $3.33. The improvements are certainly welcome, but the modest nature of our earnings gain reflects the challenging environment in which we operate. We faced intense competitive activity in 2003, particularly in the North American and European diaper, training pant and consumer tissue markets.

Despite this environment, our sales and earnings improved sequentially each quarter during the year. Moreover, our teams delivered $190 million of cost savings, at the upper end of our $175–$200 million cost-reduction goal. These savings more than offset an increase of nearly $140 million in pension expense. All in all, we made significant progress in 2003 that sets the stage for our brands and businesses to deliver future top- and bottom-line growth.

Driving growth through innovation

By transforming consumer and customer insights into innovation, we make our brands—Kleenex, Scott, Huggies, Pull-Ups, Kotex and Depend among them—an indispensable part of life for consumers around the world. Take the Kleenex brand, which celebrates its 80th anniversary this year.



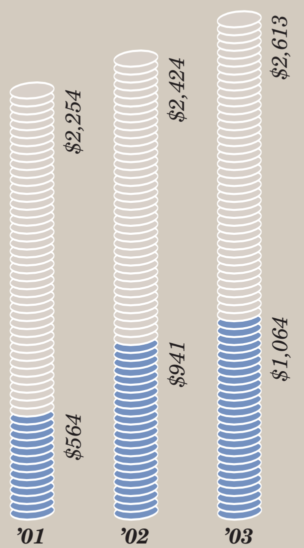
FIVE-YEAR TOTAL SHAREHOLDER RETURNS*
Through 12/31/03
**includes changes in stock price and reinvestment of dividends*

Our strong portfolio of leading brands—we have the No. 1 or No. 2 brand position in more than 80 countries—helped drive double-digit sales growth to our top six global customers for the third straight year.

Generations have relied on Kleenex tissue for comfort when dealing with the sniffles, colds and little messes that go with everyday life. You'll read more about how Kimberly-Clark is building brands and relationships that last a lifetime later in this report.

In 2003, innovation remained the lifeblood behind all our brands. We introduced Pull-Ups training pants with easy-open sides in North America, which drove record sales volumes for the year and sequential market share growth in each quarter. Our new Poise pantiliners and Ultrathin pads also contributed to record volumes, sales and operating profits in our North American adult care business. Our South Korean team achieved all-time record market shares for our Huggies, Kotex, Kleenex and Popee brands. In Australia, the successful launch of Viva towels—based on our proprietary uncreped through-air dried (UCTAD) technology—helped boost our market share and spurred category growth. New and improved surgical products also led to solid volume improvement at K-C Health Care.

Our strong portfolio of leading brands—we have the No. 1 or No. 2 brand position in more than 80 countries—helped drive double-digit sales growth to our top six global customers for the third straight year. Similarly, our history of innovation and our expertise in supply-chain and category management appeal to retailers and customers worldwide who look to Kimberly-Clark to meet their needs.



RECORD CASH FLOW
Millions

Cash Provided By Operations
Free Cash Flow*

**Cash provided by operations less capital spending and dividends (see page 16 for computations)*

Putting strong cash flow to work

Our progress in sales, market shares and cost management also translated into record cash flow. That allowed us to provide a healthy dividend increase, repurchase our stock and fund capital investments. On the dividend front, we recently announced a nearly 18 percent increase for 2004. That's our 32nd consecutive annual increase. Over the next several years, we expect our annual dividend to increase at a high single-digit to low double-digit rate, which should provide a top-tier dividend payout. We repurchased about 2 percent of the KMB shares outstanding in 2003 and anticipate buying back a similar amount in 2004. Capital spending in 2003 was just over 6 percent of sales, and we expect to manage it to about 5 percent of sales in 2004. Major capital projects included a new diaper facility in Singapore, a new UCTAD tissue machine in Australia and the conversion of a tissue machine to the UCTAD process in the U.K.

We also completed a few small acquisitions in 2003, consistent with our strategy to expand our health and hygiene portfolio globally. Early in the year, we bought Poland's leading tissue business to give us a better presence in Central Europe's fast-growing markets. In addition, we increased our ownership in two Latin American affiliates—Klabin Kimberly in Brazil and K-C Peru—which enhances our position in these important markets.

Allocating our resources more efficiently

Through our Global Business Plan, we're making important changes in how we view our businesses, prioritize growth opportunities and allocate resources. The changes are all about employing greater financial discipline to balance growth and profitability for improved returns. Improving return on invested capital (ROIC) is a primary objective of the new plan. We are being more selective with our investments, earmarking capital for businesses with the greatest growth potential. The plan also calls for aggressively fixing our underperforming operations, with our European Personal Care and North American K-C Professional Washroom businesses representing the largest opportunities in this area. The latter is already showing strong signs of improvement aided by its relentless focus on innovation and cost reductions, as well as an uptick in the U.S. economy.

The K-C board of directors also recently authorized management to evaluate a potential tax-free spin-off later this year of our Neenah Paper and Technical Paper businesses, along with our Canadian pulp operations in Pictou, Nova Scotia, and Terrace Bay, Ontario. If this transaction occurs, it should strengthen our focus on growing our health and hygiene businesses, improve our capital effectiveness and provide additional value to our shareholders.

Speeding change around the world

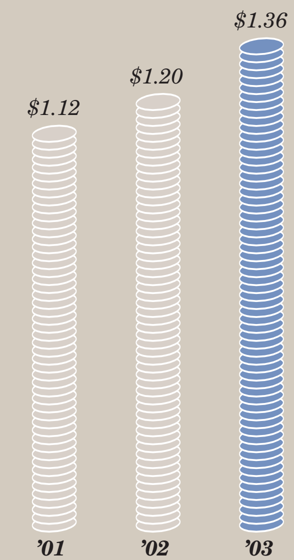
We recently made a number of organizational changes to speed the implementation of our Global Business Plan. We've combined our North American and European Personal Care groups under a single North Atlantic management team, and have done the same with Consumer Tissue. Likewise, we're putting more focus on the best growth opportunities for our three global businesses across Asia, Latin America and Eastern Europe with the creation of a Developing and Emerging Markets organization. These changes will help increase our speed in translating consumer and customer insights into innovative products, streamline our decision-making and help us deliver cost reductions on a sustainable basis.

Building on a foundation of global brands

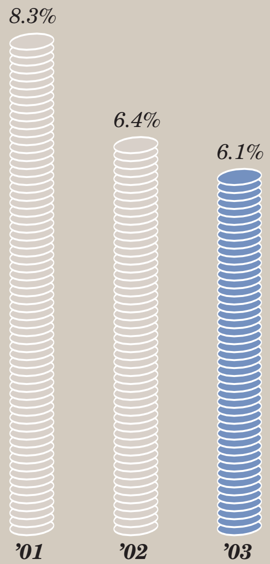
Our global brands and strategic customer relationships will provide the foundation for our growth. Continued focus on innovation will allow us to introduce high-margin line extensions and new products, and in some cases, to expand our brands beyond their traditional product categories. This list of recent and upcoming launches related to the Huggies brand includes some great examples:

- In late summer, we unveiled Huggies Convertibles diaper-pants and Huggies disposable changing pads. Although available in only a single product size, Huggies Convertibles diaper-pants have already captured one share point of the $4 billion U.S. diaper market. A second size is planned for 2004. Huggies disposable changing pads provide parents with an easy-to-pack and easy-to-use changing surface for diapering their children.
- Huggies Supreme diapers with Triple Protection Leak Barriers hit stores in the fall, and we recently extended this feature to Huggies Ultratrim diapers.
- In January 2004, Huggies entered the baby toiletries category when we began shipping Huggies disposable washcloths and Huggies Natural Care baby wash.

On the dividend front, we recently announced a nearly 18 percent increase for 2004. That's our 32nd consecutive annual increase.



DIVIDENDS DECLARED
Per Share



CAPITAL SPENDING
Percent of Net Sales

In 2004, we expect child care sales to continue to climb behind innovations to the Pull-Ups, Little Swimmers and GoodNites brands. Building on the success of Poise pantiliners—which have boosted our share of the U.S. incontinence market to more than 55 percent—we plan to tap global growth opportunities for light incontinence products. Sales of Cottonelle Ultra, a high-margin line extension and our softest, thickest and most absorbent bathroom tissue ever, continue to grow. The product has already garnered a 2-plus percent share of the more than $5 billion U.S. bathroom tissue market since its second-quarter 2003 launch. In the U.K., the successful relaunch of improved Andrex bathroom tissue with aloe vera is helping to build our volume and grow our market share in this important market.

Based on the success of these innovations and other initiatives as well, we expect 3–5 percent revenue growth in 2004 and earnings growth in the mid-to-high single digits, despite continued stiff competition. Volume growth should be the key driver of sales; an encouraging sign is the 5 percent volume increase we achieved during the fourth quarter of 2003. Improving sales will drive earnings growth, as will our continued focus on cost reduction. We are targeting cost savings of approximately $150 million in 2004.

Before closing, I want to express my appreciation to two valued leaders who are retiring. In 2004, Executive Vice President Kathi Seifert and Asia-Pacific Group President Paul Geisler will step down after 26 and 22 years, respectively, of outstanding service. Since Kathi became head of Global Personal Care in 1999, sales in this business grew by $600 million, reaching $5.3 billion in 2003. Paul has overseen dramatic growth in our Asia-Pacific region, which today accounts for more than 10 percent of our overall sales. Both will remain through mid-2004 to ensure a smooth transition.

I would also like to pay tribute to George Everbach, who retired in August after 20 years of service from his post as Senior Vice President for Law and Government Affairs. Among his many accomplishments, George was instrumental in negotiating the 1995 merger with Scott Paper. I have been privileged to work alongside Kathi, Paul and George for many years and to witness the positive impact they have had on our people, our brands and our results. They will be missed.

As we enter 2004, I am energized by the momentum we've created across all phases of our operations. We have put in place a solid platform for expanding our three global businesses, applying greater financial discipline and delivering improved shareholder returns. At the same time, the people of Kimberly-Clark remain committed to enhancing the health, hygiene and well-being of people every day, everywhere. That is our mission and the ultimate promise of our brands. Thank you for your continued support.

Thomas J. Falk
Chairman of the Board and
Chief Executive Officer

February 26, 2004

Q&A with CFO Mark Buthman

Mark Buthman joined Kimberly-Clark in 1982 and became chief financial officer in 2003. In the Q&A below, he discusses key financial goals and K-C's approach to corporate governance.

WHAT ARE KIMBERLY-CLARK'S CAPITAL SPENDING GOALS AND HOW WILL YOU REACH THEM?
We plan to reduce capital spending to a target of 5–6 percent of sales. That compares to more than 7 percent of sales over the past five years. This new spending target is consistent with the growth profile of our businesses and will help improve returns on our investors' capital. In dollar terms, this means we plan to spend about $750 million on capital projects in 2004, down from almost $900 million in both 2002 and 2003. Through our Global Business Plan, we're taking a more disciplined approach to allocating capital to our businesses. We'll provide our fastest-growing businesses with expansion capital as needed. In our other businesses, we'll focus our capital on product improvements and cost savings while supporting growth through productivity gains. Overall, we'll spend less capital on expansion and a greater percentage of our available dollars on product innovation and cost savings opportunities.

KIMBERLY-CLARK PLANS TO REDUCE PRIMARY WORKING CAPITAL AS A PERCENT OF SALES BY 40–50 BASIS POINTS PER YEAR. HOW WILL YOU ACCOMPLISH THIS?
We have multiple efforts under way. With the rollout of SAP information systems largely complete in Europe, Latin America and Asia, our people have better information on hand every day to help them manage our customer receivables and inventory levels. Continued management of the entire supply chain and run-to-target manufacturing practices should also reduce inventories. I'm encouraged by the progress we made in the second half of 2003 when we reduced primary working capital—net investment in accounts receivable, inventories and accounts payable—by about $75 million. Now we have to keep the momentum going in 2004!

HOW WILL YOU MANAGE MARKETING, RESEARCH AND G&A SPENDING OVER THE LONG TERM?
Although we expect to maintain spending at 16–17 percent of sales, we plan to change the mix over time. As our business systems and process improvements create efficiencies in the general and administrative areas, we can invest more in strategic marketing and research and development. To help achieve our objective, we have instituted a rigorous planning process to better manage our "between the lines" expenses.

SHOULD WE EXPECT ANY MAJOR CHANGES TO KIMBERLY-CLARK'S FINANCIAL STRUCTURE?
Not really. We'll continue to maintain a healthy balance sheet with cash flow and interest coverage metrics that support a strong credit rating. Our ratio of debt and preferred securities to capital is expected to stay within our targeted range of 35–45 percent. This gives us access to low-cost financing as well as the flexibility to take advantage of investment opportunities as they arise.

HOW ARE YOU RESPONDING TO THE NEW SARBANES-OXLEY CORPORATE GOVERNANCE REGULATIONS?
One of the things that makes me proud to work at Kimberly-Clark is our tradition of strong internal controls. Many of the corporate governance practices mandated by Sarbanes-Oxley, as well as by the Securities and Exchange Commission and New York Stock Exchange, have been in place for years at K-C. For as long as I can remember, our audit committee has been comprised of independent directors. In addition, our line and financial managers have provided assurance about the quality of their internal controls and financial results (similar to the new certification process) throughout my career.

Great relationships span generations. Twenty-five years ago, parents began diapering their babies with Huggies products. Today, those children are fully grown and making the same choice for their own new arrivals. Why? From Mexico to Malaysia, parents choose the Huggies brand and its superior performance to help make their babies happy. In fact, one out of every four disposable diapers sold in the world carries a K-C brand. And, as babies grow into big kids, Pull-Ups training pants help make potty training easier. For children who experience bedwetting, DryNites pyjama pants and GoodNites underpants provide discreet nighttime protection. No wonder K-C commands more than two-thirds of the global pants market.

The conversation might concern the latest additions to the family photo album. Or perhaps weightier matters like career, marriage and kids. Whatever the topic, women of all ages are linked by common experiences. They also share a connection to the Kotex brand, which is as likely to meet the needs of a girl entering high school as those of a woman in the prime of her life. As we say, Kotex fits. Period. In fact, the Kotex brand has helped double our share of South Korea's expanding feminine care market to more than 60 percent in just over five years. Likewise, Depend and Poise incontinence care products are spurring double-digit category growth worldwide by giving people the freedom to be themselves.

Whether you're turning seven or 70, blowing out candles is a time for bringing family together. As birthday celebrations unfold in every corner of the globe, Kimberly-Clark tissue brands are always within reach. Families have been saying Thank Goodness for Kleenex Tissue for 80 years. In the U.S., they've made Scott towels their "common sense choice" for nearly a century. In 2003, Australian families began putting premium Viva towels made with our proprietary uncreped through-air dried (UCTAD) technology to the test. The result? The brand has already captured a 14 percent market share in Australia, helping to strengthen K-C's No. 1 position in the global consumer tissue category. Now that's what we call icing on the cake.

With today's busy schedules, parents know the importance of finding time for their kids. Romping in the snow, a game of checkers, or a quiet day at home are just the things to bring a family closer. When it comes to comfort, families rely on the performance of K-C brands—like the superior softness and thickness of Cottonelle bathroom tissue in the U.S. or the soothing touch of Andrex bathroom tissue with aloe vera in the U.K. For the value-conscious, there's no better choice than Scott bathroom tissue, offering 1,000 sheets of softness to a roll. Qualities like these make caring for your family that much easier and also make K-C the leader in bathroom tissue with nearly one-fourth of the global market.

The amount of time many of us spend at work—and the close relationships we forge there—often make it seem like a second home. No wonder, then, that we like to keep family photos, our favorite coffee mug or other personal comforts handy. Kimberly-Clark is doing its part, too, with a wide range of trusted brands for business. In offices, hotels and industrial settings worldwide, Kleenex tissue is known for offering “at home comfort, while away from home.” In health care facilities across the globe, Kimberly-Clark’s branded surgical gowns, masks, gloves and devices help protect medical personnel and the patients in their care. That’s made Health Care one of Kimberly-Clark’s fastest-growing businesses.

Selected Financial Data *(Millions, except percentages and per share amounts)*

Year ended December 31	**2003**	*2002*	*2001*	*2000*	*1999*
INCOME STATEMENT DATA					
Net sales	**$14,348.0**	$13,566.3	$13,287.6	$12,909.5	$11,901.0
Gross profit	**4,899.9**	4,815.6	4,669.6	4,676.7	4,215.5
Operating profit	**2,412.4**	2,463.8	2,338.2	2,633.8	2,435.4
Share of net income of equity companies	**107.0**	113.3	154.4	186.4	189.6
Net income	**1,694.2**	1,674.6	1,609.9	1,800.6	1,668.1
PER SHARE BASIS					
Diluted net income	**$ 3.33**	$ 3.22	$ 3.02	$ 3.31	$ 3.09
Dividends declared	**1.36**	1.20	1.12	1.08	1.04
Stock price	**59.09**	47.47	59.80	70.69	65.44
Book value	**13.49**	11.06	10.84	10.81	9.42
CASH FLOW AND BALANCE SHEET DATA					
Cash provided by operations	**$ 2,613.0**	$ 2,424.2	$ 2,253.8	$ 2,133.2	$ 2,139.9
Capital spending	**877.6**	870.7	1,099.5	1,170.3	786.4
Cash dividends paid	**671.9**	612.7	590.1	580.1	551.3
Free cash flow [a]	**1,063.5**	940.8	564.2	382.8	802.2
Depreciation	**745.8**	706.6	650.2	591.7	586.2
Total debt and preferred securities	**4,165.9**	4,484.1	4,198.5	3,491.1	2,709.0
Stockholders' equity	**6,766.3**	5,650.3	5,646.9	5,767.3	5,093.1
Total assets	**16,779.9**	15,639.6	15,059.1	14,520.7	12,865.6
Common shares outstanding	**501.6**	510.8	521.0	533.4	540.6
FINANCIAL RATIOS					
Percent of net sales					
Gross profit	**34.2%**	35.5%	35.1%	36.2%	35.4%
Operating profit	**16.8%**	18.2%	17.6%	20.4%	20.5%
Net income	**11.8%**	12.3%	12.1%	13.9%	14.0%
Capital spending	**6.1%**	6.4%	8.3%	9.1%	6.6%
Total debt and preferred securitites to capital [b]	**37.1%**	43.2%	41.3%	36.6%	33.7%
Dividend payout ratio [c]	**40.7%**	37.0%	36.8%	32.3%	33.4%

[a] Free cash flow is a non-GAAP financial measure. It is calculated by subtracting capital spending and dividends paid from cash provided by operations.

[b] Capital is total debt and preferred securities plus stockholders' equity and minority owners' interest in subsidiaries.

[c] Dividend payout ratio is declared dividends per share divided by basic earnings per share.

Additional Information

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

EquiServe Trust Company, N.A. is the Transfer Agent, Registrar and Dividend Disbursing Agent for the Company's common stock and is responsible for maintaining shareholder account records. Inquiries regarding dividend payments, lost certificates, IRS Form 1099, changes in address, name or ownership, or information regarding Kimberly-Clark's Dividend Reinvestment and Stock Purchase Plan should be addressed to:

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010
Telephone: 800-730-4001
Internet: http://www.equiserve.com

DIVIDENDS AND DIVIDEND REINVESTMENT PLAN

Quarterly dividends have been paid continually since 1935. Dividends are paid on or about the second business day of January, April, July and October. The Automatic Dividend Reinvestment service of EquiServe Trust Company, N.A. is available to Kimberly-Clark stockholders of record. The service makes it possible for Kimberly-Clark stockholders of record to have their dividends automatically reinvested in common stock and to make additional cash investments up to $3,000 per quarter.

KMB Listed NYSE

STOCK EXCHANGES

Kimberly-Clark common stock is listed on the New York, Chicago and Pacific stock exchanges. The ticker symbol is KMB.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held at the Company's World Headquarters, 351 Phelps Drive, Irving, Texas, at 11:00 a.m. on Thursday, April 29, 2004.

INVESTOR RELATIONS

Securities analysts, portfolio managers and representatives of institutional investors seeking information about the Company should contact Michael D. Masseth, Vice President—Investor Relations, at 972-281-1478 or Paul Alexander, Manager—Investor Relations, at 972-281-1440. Individual shareholders should direct inquiries to Stockholder Services at 972-281-1521. Investors may also obtain information about Kimberly-Clark and copies of documents released by the Company by calling 800-639-1352.

CALENDAR

Kimberly-Clark's fiscal year ends December 31. The Annual Report is distributed in March.

SEC FORM 10-K AND OTHER INFORMATION/COMPANY WEB SITE

Stockholders and others will find the Company's financial information, news releases and other information on the Company's Web site at www.kimberly-clark.com. There is a direct link from the Web site to the Securities and Exchange Commission (SEC) filings via the EDGAR database, including Forms 10-K, 10-Q and 8-K. Stockholders may contact Stockholder Services, P.O. Box 612606, Dallas, Texas 75261-2606 or call 972-281-1521 to obtain a hard copy of these reports without charge.

ELECTRONIC DELIVERY OF PROXY MATERIALS AND ANNUAL REPORT

Stockholders and Plan participants may elect to receive future Annual Reports and Proxy Statements in electronic format rather than in printed form. In electing to do so, you will help the Company save on production and mailing costs. To sign up for electronic delivery service, go to our transfer agent's Web site at www.econsent.com/kmb at any time and follow the instructions. If your shares are not registered in your name, contact your bank or broker for information on electronic delivery service.

EMPLOYEES AND STOCKHOLDERS

In its worldwide consolidated operations, Kimberly-Clark had approximately 62,000 employees as of December 31, 2003. Equity companies had an additional 9,000 employees. The Corporation had 37,051 stockholders of record and 501.6 million shares of common stock outstanding as of the same date.

TRADEMARKS

The brand names and slogans mentioned in this report—Andrex, Ballard, Classic Crest, Convertibles, Cottonelle, Depend, DryNites, GoodNites, Hakle, Huggies, Huggies Natural Care, Kimwipes, Kleenex, Kotex, Kotex fits. Period, Lightdays, Little Swimmers, Page, Poise, Popee, Pull-Ups, Safeskin, Scott, Scottex, Surpass, Tecnol, Thank Goodness for Kleenex Tissue, Viva and WypAll—are trademarks of Kimberly-Clark, Inc. or its affiliates.

The cover and front section of the 2003 Annual Report are printed on Classic Crest papers, super-smooth finish, avon brilliant white. These papers are produced by Kimberly-Clark's Neenah Paper Sector.

DESIGN: RKC! (ROBINSON KURTIN COMMUNICATIONS! INC)

Kimberly-Clark Corporation
World Headquarters
P.O. Box 61900, Dallas, Texas 75261-9100
Toll-Free Investor Information: 800.639.1352
www.kimberly-clark.com