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Second Party Opinion

Eastman Chemical Co.'s Green Financing Framework

Feb. 16, 2023

Eastman Chemical Co. (Eastman) is a global specialty materials manufacturer that produces a broad range of products found in everyday items across its four business segments: Additives & Functional Products, Advanced Materials, Chemical Intermediates, and Fibers. The Kingsport, Tenn.-headquartered company was founded in 1920, operates two joint ventures, and has a global presence with 36 manufacturing locations spread across the U.S., Canada, Europe, and Asia-Pacific region. Eastman serves customers in more than 100 countries.

In our view, Eastman's Green Financing Framework, published on Feb. 16, 2023, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021

Issuer's Sustainability Objectives

Eastman's approach to sustainability is focused on innovating material solutions across its business segments, which is reflected in its three overarching sustainability goals: mitigating climate change by minimizing the environmental footprint of its direct operations, mainstreaming circularity in its product portfolio by recycling its plastic waste using molecular recycling technologies, and caring for society by aligning its business operations with responsible sourcing practices, gender parity and racial equity benchmarks, and other sustainability efforts.

The company has set 2030 sustainability goals using 2017 as its base year, including reducing its Scope 1 and 2 greenhouse gas (GHG) emissions by one-third by 2030 and achieving carbon neutrality by 2050, sourcing 100% of the purchased electricity used at its North American and EU facilities from renewable sources by 2030, recycling more than 500 million pounds of plastic waste annually by 2030 (and half this figure by 2025) through molecular recycling technologies, and aligning 100% of its growth research and development (R&D) spend with macro trends to develop more sustainable materials across its four business segments.

Eastman has developed a Green Financing Framework to further align its funding strategy with its sustainability commitments, under which it will finance or refinance new or existing projects that provide environmental benefits related to its strategy. The framework details which project types are eligible to receive financing or refinancing with the various types of financings the company elects to use, including bond issuances, loans, and commercial paper.

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Second Party Opinion Summary

Use of proceeds

Alignment  Eastman's Green Financing Framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

Eastman commits to allocate the net proceeds from the financing instruments issued under the framework to finance or refinance, in whole or in part, eligible projects spanning natural resource conservation, pollution prevention and control, and climate change mitigation. The framework outlines the relevant sustainability benefits associated with each eligible project category, as well as example projects.

Process for project evaluation and selection

Alignment  Eastman's Green Financing Framework is aligned with this component of the Principles.

Score Not aligned **Aligned** Strong Advanced

Eastman established a green finance committee comprising members of its sustainability/ESG, treasury management, legal, finance, controllers, investor relations, operations, and audit teams, which will be responsible for selecting and approving projects that meet the eligibility criteria outlined in the framework. It will also apply its overarching policies and procedures, which aim to identify and manage environmental and social risks, in its project selection process.

Management of proceeds

Alignment  Eastman's Green Financing Framework is aligned with this component of the Principles.

Eastman's green finance committee will track the allocation of the proceeds from its outstanding instruments toward eligible green projects using an internal system. The company commits to publish an allocation and impact report annually until it fully allocates the proceeds and, in the event of any material changes, until the maturity date of the relevant instruments. Eastman aims to allocate the proceeds from any green financing it issues under the framework in three years following their issuance date. Unallocated proceeds will be managed in accordance with the company's normal liquidity practices, which may include the repayment of its debt.

Reporting

Alignment  Eastman's Green Financing Framework is aligned with this component of the Principles.

Score Not aligned **Aligned** Strong Advanced

Eastman commits to report on the allocation of the proceeds from the outstanding instruments across its eligible projects, at least annually, until full allocation. Where feasible, the issuer will also report on the environmental impact of the projects and make its allocation and impact reporting publicly available on its website.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Eastman's Green Financing Framework is aligned with this component of the Principles.

Commitments score

Not aligned Aligned **Strong** Advanced

We consider Eastman's overall use of proceeds commitments to be strong.

Eastman commits to use an amount equivalent to the net proceeds from the instruments issued under the framework to exclusively finance or refinance eligible green projects. The projects fall within GBP- and GLP-aligned eligible categories including eco-efficient and/or circular economy adapted products, production technologies, and processes; pollution prevention and control; energy efficiency; renewable energy; and sustainable water or wastewater management. For each eligible category, the framework describes how the projects will help facilitate the company's execution of its sustainability strategy and how they are linked to three high-level environmental objectives: climate change mitigation, natural resource conservation, and pollution prevention and control.

Proposed investments in eco-efficient and/or circular-economy adapted products, technologies, and processes will support the scaling of Eastman's waste reduction and product circularity efforts, including its goal to recycle upwards of 500 million pounds of waste annually--a 3,837% increase of its recycling capacity in 2021--largely via new molecular recycling facilities in France and Kingsport, Tenn. The pollution prevention and control and energy efficiency categories' expenditures also enable improved product circularity and decarbonization of the company's direct operations through its financing of carbon capture technologies and refrigerant monitoring and detection equipment, among other pollution-mitigating infrastructure.

Further, renewable energy projects are intended to finance on- and off-site renewable energy generation, prioritizing expenditures aligned to the EU Taxonomy Standard benchmarks for direct emissions as well as long-term PPAs or vPPAs, which we view as strong practices to reduce emissions and a key driver of Eastman's goal to achieve 100% sourcing of its North American and EU facilities' purchased electricity from renewable sources by 2030. Finally, the framework's sustainable water and wastewater project category includes investments in technologies to improve its natural resource management, from internal water leak detection and repair to biodiversity conservation activities, better aligning the company's R&D spending with technologies and processes that improve its community's quality of life.

Eastman specifies a 24-month lookback period for refinanced projects, which we view as in line with best market practices. It also commits to provide an estimate of the share of financing and refinancing for existing and new eligible projects in its published reports or official statements made available to stakeholders.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Eastman's Green Financing Framework is aligned with this component of the Principles.

Commitments score

Not aligned **Aligned** Strong Advanced

Second Party Opinion

We consider Eastman's overall use of proceeds commitments to be aligned with this component of the Principles.

Eastman's Green Financing Framework outlines its process to identify and approve eligible green projects, which will be led by an established green finance committee comprising members of its sustainability/ESG, treasury management, legal, finance, controllers, investor relations, operations, and audit teams. The company's green finance committee will identify, evaluate, and select eligible projects based on the eligibility criteria included in the framework. All eligible projects must also meet the criteria under the issuer's Environmental Stewardship, Responsible Care, and Code of Business Conduct policies, which collectively require continual risk assessments to identify potential social, environmental, and economic risks associated with the projects, as well as follow-on precautions to minimize these risks. The committee will also ensure that the eligible projects meet or exceed applicable environmental and social laws, regulations, and other compliance procedures.

The framework incorporates several environmental market-based standards, certifications, or benchmarks that the company will use to prioritize projects in some eligible project categories, which help illustrate its strong project selection practices. These include the alignment of its circular economy projects with at least a minimum rating for sustainability performance, as defined by the World Business Council for Sustainable Development's (WBCSD) methodology for Portfolio Sustainability Assessments, as well as its pollution prevention and control projects' use of low-global warming potential (GWP) refrigerants for its refrigerant monitoring and detection equipment financing. Additionally, eligible projects related to renewable-based products will prioritize the Forest Stewardship Council's (FSC) Program for the Endorsement of Forest Certification (PEFC) and/or Canopy Planet global certifications to demonstrate responsible sourcing. Finally, among its other ambitious bioenergy or waste-to-energy efforts, the framework specifies that renewable energy projects will prioritize adherence to the EU's Taxonomy Standard benchmarks for direct emissions, which are capped at 100 grams of CO₂-equivalent per kilowatt hour (100g co₂e/kWh) for solar, wind, and geothermal initiatives and small-scale hydropower generation projects. However, the framework does not identify market-based taxonomies or standards by which it will evaluate the eligibility of its energy efficiency and sustainable water/wastewater management projects, which limits our view.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Eastman's Green Financing Framework is aligned with this component of the Principles.

Eastman commits to track the funds allocated toward eligible green projects and the amounts pending allocation through its internal systems. An amount equivalent to the net proceeds from any green financing issued under the framework will be allocated and managed by the company's Finance department. Eastman will make reasonable efforts to substitute any material projects that are no longer eligible as soon as practicable upon identifying an appropriate substitute. Unallocated funds will be managed in accordance with Eastman's normal liquidity practices. This may include the repayment of its outstanding debt, which is not a market best practice in our view. Positively, the issuer clearly commits to allocating all of the net proceeds to eligible projects within three years following the issuance of each green instrument.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

Second Party Opinion



Eastman's Green Financing Framework is aligned with this component of the Principles.

Disclosure score



We consider Eastman's overall reporting practices to be aligned.

Eastman commits to annually report on the allocation and impact of its investments until full allocation or there are no more instruments outstanding. The issuer will report this information publicly on its website. For each green financing, Eastman will report the net proceeds of the outstanding green financing instruments, the amount of net proceeds allocated to eligible project categories, and the remaining balance of any unallocated proceeds. It will also provide an estimate of the share of financing and refinancing for all existing or new eligible green projects post issuance. Each allocation report will be verified by an external third-party auditor.

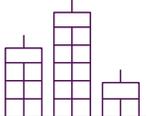
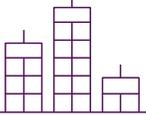
In its impact reports, Eastman will focus on the estimated environmental impacts and benefits of its eligible projects. Examples of the metrics that the issuer commits to report include total waste prevented, minimized, or recycled (in metric tons); the reduction in energy intensity of its operations (kWh per sales or kWh per square foot) per unit of product; and volatile organic compounds or other GHG emissions avoided/reduced (metric tons of CO₂e), among several others. However, its management team has not committed to report on both the expected and actual impacts of its financed projects or to use a third party to verify its estimated impacts.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Eastman's Green Financing Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Eco-efficient and Circular Adapted Products					
	8. Decent work and economic growth*	12. Responsible consumption and production*	9. Industry, innovation and infrastructure	13. Climate action	
Pollution prevention and control					
	3. Good health and well-being*	11. Sustainable cities and communities*	12. Responsible consumption and production*	9. Industry, innovation and infrastructure	13. Climate action
Energy efficiency					
	7. Affordable and clean energy*	8. Decent work and economic growth*	9. Industry, innovation and infrastructure*	13. Climate action	
Renewable Energy					
	3. Good health and well-being*	7. Affordable and clean energy*	8. Decent work and economic growth*	13. Climate action	
Sustainable Water and Wastewater Management					
	6. Clean water and sanitation*	11. Sustainable cities and communities*			

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

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