

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2022
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 **1-12626**

EASTMAN CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

62-1539359
(I.R.S. Employer
Identification no.)

200 South Wilcox Drive
Kingsport Tennessee
(Address of principal executive offices)

37662
(Zip Code)

Registrant's telephone number, including area code: **(423) 229-2000**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.01 per share | EMN | New York Stock Exchange |
| 1.50% Notes Due 2023 | EMN23 | New York Stock Exchange |
| 1.875% Notes Due 2026 | EMN26 | New York Stock Exchange |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|---|---|
| Class | Number of Shares Outstanding at June 30, 2022 |
| Common Stock, par value \$0.01 per share | 122,808,505 |

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FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Quarterly Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act (Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended). Forward-looking statements are all statements, other than statements of historical fact, that may be made by Eastman Chemical Company ("Eastman" or the "Company") from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "forecasts", "will", "would", "could", and similar expressions or expressions of the negative of these terms. Forward-looking statements may relate to, among other things, such matters as planned and expected capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters and opportunities (including potential risks associated with physical impacts of climate change and related voluntary and regulatory carbon requirements); exposure to and effects of hedging raw material and energy prices and costs and foreign currencies exchange and interest rates; disruption or interruption of operations and of raw material or energy supply (including as a result of cyber-attacks or other breaches of information security systems); global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; pending and future legal proceedings; earnings, cash flow, dividends, stock repurchases and other expected financial results, events, decisions, and conditions; expectations, strategies, and plans for individual assets and products, businesses, and operating segments, as well as for the whole of Eastman; cash sources and requirements and uses of available cash; financing plans and activities; pension expenses and funding; credit ratings; anticipated and other future restructuring, acquisition, divestiture, and consolidation activities; cost reduction and control efforts and targets; the timing and costs of, benefits from the integration of, and expected business and financial performance of acquired businesses as well as the subsequent impairment assessments of acquired long-lived assets; strategic, technology, and product innovation initiatives and development, production, commercialization and acceptance of new products, services and technologies and related costs; asset, business, and product portfolio changes; and expected tax rates and interest costs.

Forward-looking statements are based upon certain underlying assumptions as of the date such statements were made. Such assumptions are based upon internal estimates and other analyses of current market conditions and trends, management expectations, plans, and strategies, economic conditions, and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. The known material factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements are identified and discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in Part I, Item 2 of this Quarterly Report. Other factors, risks or uncertainties of which management is not aware, or presently deems immaterial, could also cause actual results to differ materially from those in the forward-looking statements.

The Company cautions you not to place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report. Except as may be required by law, the Company undertakes no obligation to update or alter these forward-looking statements, whether as a result of new information, future events, or otherwise. Investors are advised, however, to consult any further public Company disclosures (such as filings with the Securities and Exchange Commission, Company press releases, or pre-noticed public investor presentations) on related subjects.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

**UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS**

| | Second Quarter | | First Six Months | |
|--|-----------------------|-------------|-------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| (Dollars in millions, except per share amounts) | | | | |
| Sales | \$ 2,784 | \$ 2,653 | \$ 5,498 | \$ 5,062 |
| Cost of sales | 2,114 | 1,972 | 4,278 | 3,783 |
| Gross profit | 670 | 681 | 1,220 | 1,279 |
| Selling, general and administrative expenses | 185 | 202 | 381 | 386 |
| Research and development expenses | 67 | 63 | 132 | 121 |
| Asset impairments and restructuring charges, net | 19 | 15 | 21 | 22 |
| Other components of post-employment (benefit) cost, net | (34) | (37) | (65) | (73) |
| Other (income) charges, net | 14 | (1) | 2 | (5) |
| Net (gain) loss on divested businesses | (7) | 495 | (10) | 495 |
| Earnings (loss) before interest and taxes | 426 | (56) | 759 | 333 |
| Net interest expense | 45 | 51 | 91 | 101 |
| Earnings (loss) before income taxes | 381 | (107) | 668 | 232 |
| Provision for income taxes | 124 | 37 | 175 | 99 |
| Net earnings (loss) | 257 | (144) | 493 | 133 |
| Less: Net earnings attributable to noncontrolling interest | 1 | 2 | 2 | 5 |
| Net earnings (loss) attributable to Eastman | \$ 256 | \$ (146) | \$ 491 | \$ 128 |
| Basic earnings (loss) per share attributable to Eastman | \$ 2.05 | \$ (1.07) | \$ 3.87 | \$ 0.94 |
| Diluted earnings (loss) per share attributable to Eastman | \$ 2.03 | \$ (1.07) | \$ 3.82 | \$ 0.93 |
| Comprehensive Income | | | | |
| Net earnings (loss) including noncontrolling interest | \$ 257 | \$ (144) | \$ 493 | \$ 133 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in cumulative translation adjustment | 16 | 9 | 23 | 11 |
| Defined benefit pension and other postretirement benefit plans: | | | | |
| Amortization of unrecognized prior service credits | (9) | (7) | (15) | (14) |
| Derivatives and hedging: | | | | |
| Unrealized gain (loss) during period | 27 | 4 | 67 | 29 |
| Reclassification adjustment for (gains) losses included in net income, net | (32) | 9 | (36) | 14 |
| Total other comprehensive income (loss), net of tax | 2 | 15 | 39 | 40 |
| Comprehensive income (loss) including noncontrolling interest | 259 | (129) | 532 | 173 |
| Less: Comprehensive income attributable to noncontrolling interest | 1 | 2 | 2 | 5 |
| Comprehensive income (loss) attributable to Eastman | \$ 258 | \$ (131) | \$ 530 | \$ 168 |
| Retained Earnings | | | | |
| Retained earnings at beginning of period | \$ 8,694 | \$ 8,260 | \$ 8,557 | \$ 8,080 |
| Net earnings (loss) attributable to Eastman | 256 | (146) | 491 | 128 |
| Cash dividends declared | (93) | (94) | (191) | (188) |
| Retained earnings at end of period | \$ 8,857 | \$ 8,020 | \$ 8,857 | \$ 8,020 |

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)

| | June 30, 2022 | December 31, 2021 |
|--|------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 456 | \$ 459 |
| Trade receivables, net of allowance for doubtful accounts | 1,210 | 1,091 |
| Miscellaneous receivables | 425 | 489 |
| Inventories | 1,826 | 1,504 |
| Other current assets | 86 | 96 |
| Assets held for sale | — | 1,007 |
| Total current assets | 4,003 | 4,646 |
| Properties | | |
| Properties and equipment at cost | 12,743 | 12,680 |
| Less: Accumulated depreciation | 7,784 | 7,684 |
| Net properties | 4,959 | 4,996 |
| Goodwill | 3,663 | 3,641 |
| Intangible assets, net of accumulated amortization | 1,248 | 1,362 |
| Other noncurrent assets | 1,002 | 874 |
| Total assets | \$ 14,875 | \$ 15,519 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Payables and other current liabilities | \$ 2,169 | \$ 2,133 |
| Borrowings due within one year | 979 | 747 |
| Liabilities held for sale | — | 91 |
| Total current liabilities | 3,148 | 2,971 |
| Long-term borrowings | 4,012 | 4,412 |
| Deferred income tax liabilities | 738 | 810 |
| Post-employment obligations | 768 | 811 |
| Other long-term liabilities | 802 | 727 |
| Total liabilities | 9,468 | 9,731 |
| Stockholders' equity | | |
| Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 222,316,005 and 221,809,309 for 2022 and 2021, respectively) | 2 | 2 |
| Additional paid-in capital | 2,179 | 2,187 |
| Retained earnings | 8,857 | 8,557 |
| Accumulated other comprehensive income (loss) | (143) | (182) |
| | 10,895 | 10,564 |
| Less: Treasury stock at cost (99,558,298 and 92,892,229 shares for 2022 and 2021, respectively) | 5,572 | 4,860 |
| Total Eastman stockholders' equity | 5,323 | 5,704 |
| Noncontrolling interest | 84 | 84 |
| Total equity | 5,407 | 5,788 |
| Total liabilities and stockholders' equity | \$ 14,875 | \$ 15,519 |

The accompanying notes are an integral part of these consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | First Six Months | |
|--|------------------|--------------|
| | 2022 | 2021 |
| (Dollars in millions) | | |
| Operating activities | | |
| Net earnings | \$ 493 | \$ 133 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 243 | 289 |
| Mark-to-market pension and other postretirement benefit plans (gain), net | (3) | — |
| Asset impairment charges | — | 5 |
| Loss on sale of assets | 15 | — |
| (Gain) loss on divested business | (10) | 495 |
| Benefit from deferred income taxes | (81) | (28) |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| (Increase) decrease in trade receivables | (163) | (361) |
| (Increase) decrease in inventories | (372) | (214) |
| Increase (decrease) in trade payables | 179 | 306 |
| Pension and other postretirement contributions (in excess of) less than expenses | (81) | (97) |
| Variable compensation (in excess of) less than expenses | (132) | 8 |
| Other items, net | 174 | 106 |
| Net cash provided by operating activities | 262 | 642 |
| Investing activities | | |
| Additions to properties and equipment | (247) | (198) |
| Proceeds from sale of businesses | 998 | — |
| Acquisitions, net of cash acquired | (1) | (63) |
| Additions to capitalized software | (7) | (12) |
| Other items, net | 13 | (4) |
| Net cash provided by (used in) investing activities | 756 | (277) |
| Financing activities | | |
| Net decrease in commercial paper and other borrowings | — | (25) |
| Proceeds from borrowings | 500 | — |
| Repayment of borrowings | (550) | — |
| Dividends paid to stockholders | (196) | (188) |
| Treasury stock purchases | (752) | (140) |
| Proceeds from stock option exercises and other items, net | (12) | 38 |
| Net cash used in financing activities | (1,010) | (315) |
| Effect of exchange rate changes on cash and cash equivalents | (11) | (5) |
| Net change in cash and cash equivalents | (3) | 45 |
| Cash and cash equivalents at beginning of period | 459 | 564 |
| Cash and cash equivalents at end of period | \$ 456 | \$ 609 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**1. SIGNIFICANT ACCOUNTING POLICIES****Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company ("Eastman" or the "Company") in accordance and consistent with the accounting policies stated in the Company's 2021 [Annual Report on Form 10-K](#), and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of that report, with the exception of recently adopted accounting standards noted below. The December 31, 2021 financial position data included herein was derived from the consolidated financial statements included in the 2021 [Annual Report on Form 10-K](#) but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, the unaudited consolidated financial statements include all normal recurring adjustments necessary for the fair statement of the interim financial information in conformity with GAAP. These statements contain some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, revenues, and expenses of business ventures for which a controlling interest is determined. Eastman accounts for other joint ventures and investments where it exercises significant influence on the equity basis. During the six months 2022, the Company contributed \$24 million in a new joint venture located in Kingsport, Tennessee which will produce acetylated wood. The Company owns a 40 percent interest in the joint venture. Intercompany transactions and balances are eliminated in consolidation. Certain prior period data has been reclassified in the unaudited consolidated financial statements and accompanying footnotes to conform to current period presentation, including sales revenue, earnings before interest and taxes ("EBIT"), and assets related to the divested rubber additives product lines and related assets and technology and the divested adhesives resins business. See Note 17, "Segment and Regional Sales Information" for more information.

Recently Adopted Accounting Standards

Accounting Standards Update ("ASU") 2021-05 Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments: On January 1, 2022, Eastman adopted this update which is a part of the Financial Accounting Standards Board's ("FASB") post-implementation review of this Topic. The update provides that lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both: the lease would have been classified as a sales-type lease or a direct financing lease and the lessor would have otherwise recognized a day-one loss. The adoption does not have significant impact on the Company's financial statements and related disclosures.

ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance: On January 1, 2022, Eastman adopted prospectively this amendment which requires business entities that account for transactions with a government by applying a grant or contribution model by analogy (for example, a grant model within International Financial Reporting Standards) to provide annual disclosures about government assistance recorded during the period. The adoption does not have significant impact on the Company's financial statements and related disclosures.

Accounting Standards Issued But Not Adopted as of June 30, 2022

ASU 2021-08 Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers: The FASB issued this update in October 2021, which requires that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 *Revenue from Contracts with Customers*, as if it had originated the contracts. The update also provides certain practical expedients for acquirers and is applicable to all contract assets and liabilities within the scope of Topic 606. The expedients are as follows: "provides relief for contracts that have been previously modified before the acquisition date" and "relief for situations in which the acquirer does not have the appropriate data or expertise to analyze the historical periods in which the contract was entered into". This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. Adoption is on a prospective basis to business combinations occurring on or after the initial application and if adopted early, retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application. Management does not expect that changes required by the new standard will have a significant impact on the Company's financial statements and related disclosures.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ASU 2022-01 Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method: The FASB issued this update in March 2022. This ASU clarifies the guidance in Accounting Standards Codification ("ASC") 815 on fair value hedge accounting of interest rate risk for portfolios of financial assets. This ASU amends the guidance in ASU 2017-123 (released on August 28, 2017) that, among other things, established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible. ASU 2022-01 renames that method the "portfolio layer" method and addresses feedback from stakeholders regarding its application. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those years. Management does not expect that changes required by the new standard will have a significant impact on the Company's financial statements and related disclosures.

ASU 2022-02 Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures: The FASB issued this update in March 2022. This ASU updates the requirements for accounting for credit losses under ASC 326, eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40, and enhances creditors' disclosure requirements related to loan refinancings and restructurings for borrowers experiencing financial difficulty. This ASU also amends the guidance on "vintage disclosures" to require disclosure of gross write-offs by year of origination. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those years. Management does not expect that changes required by the new standard will have a significant impact on the Company's financial statements and related disclosures.

ASU 2022-03 Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions: The FASB issued this update in June 2022, which states that when measuring the fair value of an asset or a liability, a reporting entity should consider the characteristics of the asset or liability, including restrictions on the sale of the asset or liability, if a market participant also would take those characteristics into account. Key to that determination is the unit of account for the asset or liability being measured at fair value. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company is continuing to assess the impact on the Company's financial statements and related disclosures.

Working Capital Management and Off Balance Sheet Arrangements

The Company has an off balance sheet, uncommitted accounts receivable factoring program under which entire invoices may be sold, without recourse, to third-party financial institutions. Under these agreements, the Company sells the invoices at face value, less a transaction fee, which substantially equals the carrying value and fair value with no gain or loss recognized, and no credit loss exposure is retained. Available capacity under these agreements, which the Company uses as a routine source of working capital funding, is dependent on the level of accounts receivable eligible to be sold and the financial institutions' willingness to purchase such receivables. In addition, certain agreements also require that the Company continue to service, administer, and collect the sold accounts receivable at market rates. The total amounts sold under the program in second quarter 2022 and 2021 were \$637 million and \$298 million, respectively, and \$1,139 million and \$587 million in first six months 2022 and 2021, respectively.

2. DIVESTITURES

Rubber Additives Divestiture

On November 1, 2021, the Company and certain of its subsidiaries completed the sale of its rubber additives (including Crystex™ insoluble sulfur and Santoflex™ antidegradants) and other product lines and related assets and technology of the global tire additives business ("rubber additives") of its Additives & Functional Products ("AFP") segment. The sale did not include the Eastman Impera™ and other performance resins product lines of the tire additives business. The Company is providing certain business transition and post-closing services to the buyer on agreed terms. The business was not reported as a discontinued operation because the sale did not have a major effect on the Company's operations and financial results.

The total estimated consideration, after estimates of contingent consideration and post-closing adjustments and ongoing agreements through October 2027, was \$687 million. The additional amount of consideration of up to \$75 million is to be paid based on performance of divested rubber additives through December 2023. The divestiture resulted in a \$552 million loss (including cumulative translation adjustment liquidation of \$23 million and certain costs to sell of \$10 million).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The major classes of divested assets and liabilities as of the date of the divestiture were as follows:

(Dollars in millions)

Assets divested

| | | |
|---|----|--------------|
| Trade receivables, net of allowance for doubtful accounts | \$ | 107 |
| Inventories | | 94 |
| Other assets | | 26 |
| Properties, net of accumulated depreciation | | 300 |
| Goodwill | | 398 |
| Intangible assets, net of accumulated amortization | | 381 |
| Assets divested | | <u>1,306</u> |
| Liabilities divested | | |
| Payables and other liabilities | | 48 |
| Post-employment obligations | | 34 |
| Other liabilities | | 18 |
| Liabilities divested | | <u>100</u> |
| Disposal group, net | \$ | <u>1,206</u> |

Separately, the Company recognized \$3 million and \$15 million of transaction costs for the divested business in first six months 2022 and twelve months 2021, respectively. Transaction costs are expensed as incurred and are included in "Selling, general and administrative expenses" ("SG&A") in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

Adhesives Resins Divestiture

On April 1, 2022, the Company and certain of its subsidiaries completed the sale of its adhesives resins business, which includes hydrocarbon resins (including Eastman Impera™ tire resins), pure monomer resins, polyolefin polymers, rosins and dispersions, and oleochemical and fatty-acid based resins product lines ("adhesives resins"), of its AFP segment. The business was not reported as a discontinued operation because the sale did not have a major effect on the Company's operations and financial results. Included in the adhesives resins divestiture was the 50 percent interest in a joint venture that has a manufacturing facility in Nanjing, China, which produces Eastotac™ hydrocarbon tackifying resins for pressure-sensitive adhesives, caulks, and sealants.

The total estimated consideration, after estimates of post-closing adjustments, was \$957 million. The divestiture resulted in a \$5 million gain (including cumulative translation adjustment liquidation of \$10 million and certain costs to sell of \$10 million).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The major classes of divested assets and liabilities as of the date of the divestiture were as follows:

(Dollars in millions)

Assets divested

| | |
|---|--------------|
| Trade receivables, net of allowance for doubtful accounts | \$ 129 |
| Inventories | 163 |
| Other assets | 21 |
| Properties, net of accumulated depreciation | 303 |
| Goodwill | 399 |
| Intangible assets, net of accumulated amortization | 14 |
| Assets divested | 1,029 |

Liabilities divested

| | |
|--------------------------------|-----------|
| Payables and other liabilities | 86 |
| Deferred tax liability | 7 |
| Other liabilities | 4 |
| Liabilities divested | 97 |

| | |
|----------------------------|---------------|
| Disposal group, net | \$ 932 |
|----------------------------|---------------|

The Company recognized \$8 million and \$3 million of transaction costs for the divested business in first six months 2022 and twelve months 2021, respectively. Transaction costs are expensed as incurred and are included in SG&A in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

3. INVENTORIES

(Dollars in millions)

| | June 30, 2022 | December 31, 2021 |
|--|--------------------------|------------------------------|
| Finished goods | \$ 1,241 | \$ 1,007 |
| Work in process | 283 | 273 |
| Raw materials and supplies | 692 | 589 |
| Total inventories at FIFO or average cost | 2,216 | 1,869 |
| Less: LIFO reserve | 390 | 365 |
| Total inventories | \$ 1,826 | \$ 1,504 |

Inventories valued on the last-in, first-out ("LIFO") method were approximately 50 percent of total inventories at both June 30, 2022 and December 31, 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
4. PAYABLES AND OTHER CURRENT LIABILITIES

| | June 30, 2022 | December 31, 2021 |
|--|------------------|----------------------|
| (Dollars in millions) | | |
| Trade creditors | \$ 1,395 | \$ 1,228 |
| Accrued payroll and variable compensation | 147 | 311 |
| Accrued taxes | 182 | 138 |
| Post-employment obligations | 66 | 70 |
| Dividends payable to stockholders | 96 | 101 |
| Other | 283 | 285 |
| Total payables and other current liabilities | <u>\$ 2,169</u> | <u>\$ 2,133</u> |

The "Other" above consists primarily of accruals for the current portion of interest payable, operating lease liabilities, environmental liabilities, and other miscellaneous accruals.

5. INCOME TAXES

| | Second Quarter | | | | First Six Months | | | |
|---|----------------|------|-------|-----|------------------|------|-------|------|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| (Dollars in millions) | \$ | % | \$ | % | \$ | % | \$ | % |
| Provision for income taxes and tax rate | \$ 124 | 33 % | \$ 37 | — % | \$ 175 | 26 % | \$ 99 | 44 % |

Second quarter and first six months 2022 effective tax rates include adjustments to the provision for income taxes to reflect the tax implications of the divestiture of the adhesives resins business. Second quarter and first six months 2021 effective tax rates include a \$21 million decrease to the provision for income taxes from the revaluation of deferred tax liabilities as a result of business held for sale classification of certain assets.

At June 30, 2022 and December 31, 2021, Eastman had \$204 million and \$200 million, respectively, in unrecognized tax benefits. At June 30, 2022, it is expected that, as a result of the resolution of federal, state, and foreign examinations and appeals, and the expiration of various statutes of limitation, the total amounts of unrecognized tax benefits could decrease by up to \$15 million within the next 12 months.

Income tax incentives, in the form of tax holidays, have been granted to the Company in certain jurisdictions to attract investment and encourage industrial development. The expiration of these tax holidays varies by country. The tax holidays are conditional on the Company meeting certain requirements, including employment and investment thresholds; determination of compliance with these conditions may be subject to challenge by tax authorities in those jurisdictions. No individual tax holiday had a material impact to the Company's earnings in second quarter or first six months 2022 or 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. BORROWINGS

(Dollars in millions)

Borrowings consisted of:

| | June 30, 2022 | December 31, 2021 |
|---|------------------|----------------------|
| 3.6% notes due August 2022 | \$ 200 | \$ 747 |
| 1.50% notes due May 2023 ⁽¹⁾ | 779 | 850 |
| 7 1/4% debentures due January 2024 | 198 | 198 |
| 7 5/8% debentures due June 2024 | 43 | 43 |
| 3.80% notes due March 2025 | 695 | 698 |
| 1.875% notes due November 2026 ⁽¹⁾ | 517 | 565 |
| 7.60% debentures due February 2027 | 195 | 195 |
| 4.5% notes due December 2028 | 495 | 494 |
| 4.8% notes due September 2042 | 494 | 494 |
| 4.65% notes due October 2044 | 876 | 875 |
| 2022 Term loan | 499 | — |
| Total borrowings | 4,991 | 5,159 |
| Borrowings due within one year | 979 | 747 |
| Long-term borrowings | \$ 4,012 | \$ 4,412 |

⁽¹⁾ The carrying value of the euro-denominated 1.50% notes due May 2023 and 1.875% notes due November 2026 will fluctuate with changes in the euro to U.S. dollar exchange rate. The carrying value of these euro-denominated borrowings have been designated as non-derivative net investment hedges of a portion of the Company's net investments in euro functional-currency denominated subsidiaries to offset foreign currency fluctuations.

Credit Facility, Term Loan, and Commercial Paper Borrowings

The Company has access to a \$1.50 billion revolving credit agreement (the "Credit Facility") expiring December 2026. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. The Credit Facility includes sustainability-linked pricing terms, provides available liquidity for general corporate purposes, and supports commercial paper borrowings. Commercial paper borrowings are classified as short-term. At June 30, 2022 and December 31, 2021, the Company had no outstanding borrowings under the Credit Facility. At June 30, 2022 and December 31, 2021, the Company had no outstanding commercial paper borrowings.

In second quarter 2022, the Company borrowed \$500 million under a five-year term loan agreement ("2022 Term Loan"). The 2022 Term Loan had a variable interest rate of 2.73% as of June 30, 2022. Borrowings under the 2022 Term Loan are subject to interest at varying spreads above quoted market rates. In second quarter 2022, \$550 million principal amount of the 3.6% notes due August 2022 were repaid using proceeds from the 2022 Term Loan and available cash.

The Credit Facility and 2022 Term Loan contain customary covenants, including requirements to maintain certain financial ratios, that determine the events of default, amounts available, and terms of borrowings. The Company was in compliance with all applicable covenants at both June 30, 2022 and December 31, 2021.

Subsequent Activity

In July 2022, the Company repaid the remaining \$200 million principal amount of the 3.6% notes due August 2022 prior to maturity.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value of Borrowings

Eastman has classified its total borrowings at June 30, 2022 and December 31, 2021 under the fair value hierarchy as defined in the accounting policies in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#). The fair value for fixed-rate debt securities is based on quoted market prices for the same or similar debt instruments and is classified as Level 2. The fair value for the Company's other borrowings, such as commercial paper and the 2022 Term Loan, equals the carrying value and is classified as Level 2. At June 30, 2022 and December 31, 2021, the fair values of total borrowings were \$4.857 billion and \$5.737 billion, respectively. The Company had no borrowings classified as Level 3 as of June 30, 2022 and December 31, 2021.

7. DERIVATIVE AND NON-DERIVATIVE FINANCIAL INSTRUMENTS

Overview of Hedging Programs

Eastman is exposed to market risks, such as changes in foreign currency exchange rates, commodity prices, and interest rates. To mitigate these market risks and their effects on the cash flows of the underlying transactions and investments in foreign subsidiaries, the Company uses various derivative and non-derivative financial instruments, when appropriate, in accordance with the Company's hedging strategy and policies. Designation is performed on a specific exposure basis to support hedge accounting. The Company does not enter into derivative transactions for speculative purposes.

For further information on hedging programs, see Note 10, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#).

Cash Flow Hedges

Cash flow hedges are derivative instruments designated as and used to hedge the exposure to variability in expected future cash flows that are attributable to a particular risk. The derivative instruments that are designated and qualify as a cash flow hedge are reported on the balance sheet at fair value and the changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the anticipated cash flows of the underlying exposures being hedged. The change in the hedge instrument is reported as a component of "Accumulated other comprehensive income (loss)" ("AOCI") on the Unaudited Consolidated Statements of Financial Position and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Cash flows from cash flow hedges are classified as operating activities in the Unaudited Consolidated Statements of Cash Flows.

Fair Value Hedges

Fair value hedges are defined as derivative or non-derivative instruments designated as and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. The derivative instruments that are designated and qualify as fair value hedges are reported as "Long-term borrowings" on the Unaudited Consolidated Statements of Financial Position at fair value and the changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the anticipated fair value of the underlying exposures being hedged. The net of the change in the hedge instrument and item being hedged for qualifying fair value hedges is recognized in earnings in the same period or periods during which the hedged transaction affects earnings. Cash flows from fair value hedges are classified as operating activities in the Unaudited Consolidated Statements of Cash Flows.

Net Investment Hedges

Net investment hedges are defined as derivative or non-derivative instruments designated as and used to hedge the foreign currency exposure of the net investments in certain foreign operations. The net of the change in the hedge instrument and item being hedged for qualifying net investment hedges is reported as a component of the "Cumulative Translation Adjustment" ("CTA") within AOCI on the Unaudited Consolidated Statements of Financial Position. Cash flows from the CTA component are classified as operating activities in the Unaudited Consolidated Statements of Cash Flows. Recognition in earnings of amounts previously recognized in CTA is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. In the event of a complete or substantially complete liquidation of the net investment, cash flows from net investment hedges are classified as investing activities in the Unaudited Consolidated Statements of Cash Flows.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For derivative cross-currency interest rate swap net investment hedges, gains and losses representing hedge components excluded from the assessment of effectiveness are recognized in CTA within AOCI and recognized in earnings through the periodic swap interest accruals. The cross-currency interest rate swaps designated as net investment hedges are included as part of "Other long-term liabilities", "Other noncurrent assets", "Payables and other current liabilities", or "Other current assets" on the Unaudited Consolidated Statements of Financial Position. Cash flows from excluded components are classified as operating activities in the Unaudited Consolidated Statements of Cash Flows.

In second quarter 2022, the Company terminated fixed-to-fixed cross-currency swaps designated to hedge a portion of its net investment in a euro functional currency denominated subsidiary against foreign currency fluctuations. The notional amount terminated was €266 million (\$320 million) which was scheduled to mature in August 2022. The termination resulted in a \$40 million gain recognized in CTA. The related cash flows were classified as investing activities in the Unaudited Consolidated Statements of Cash Flows.

Summary of Financial Position and Financial Performance of Hedging Instruments

The following table presents the notional amounts outstanding at June 30, 2022 and December 31, 2021 associated with Eastman's hedging programs.

| <i>Notional Outstanding</i> | June 30, 2022 | December 31, 2021 |
|---|----------------------|--------------------------|
| Derivatives designated as cash flow hedges: | | |
| Foreign Exchange Forward and Option Contracts (in millions) | | |
| EUR/USD (in EUR) | €558 | €429 |
| Commodity Forward and Collar Contracts | | |
| Feedstock (in million barrels) | 1 | 1 |
| Energy (in million british thermal units) | 5 | 13 |
| Interest rate swaps for the future issuance of debt (in millions) | \$75 | \$75 |
| Derivatives designated as fair value hedges: | | |
| Fixed-for-floating interest rate swaps (in millions) | \$75 | \$75 |
| Derivatives designated as net investment hedges: | | |
| Cross-currency interest rate swaps (in millions) | | |
| EUR/USD (in EUR) | €587 | €853 |
| Non-derivatives designated as net investment hedges: | | |
| Foreign Currency Net Investment Hedges (in millions) | | |
| EUR/USD (in EUR) | €1,246 | €1,246 |

Fair Value Measurements

All the Company's derivative assets and liabilities are currently classified as Level 2. Level 2 fair value is based on estimates using standard pricing models. These standard pricing models use inputs that are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. The fair value of commodity contracts is derived using forward curves supplied by an industry recognized and unrelated third party. In addition, on an ongoing basis, the Company tests a subset of its valuations against valuations received from transaction counterparties to validate the accuracy of its standard pricing models. The Company had no derivatives classified as Level 3 as of June 30, 2022 and December 31, 2021. Counterparties to these derivative contracts are highly rated financial institutions which the Company believes carry minimal risk of nonperformance, and the Company diversifies its positions among such counterparties to reduce its exposure to counterparty risk and credit losses. The Company monitors the creditworthiness of its counterparties on an ongoing basis. The Company did not recognize a credit loss during second quarter and first six months 2022 or 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

All the Company's derivative contracts are subject to master netting arrangements, or similar agreements, which provide for the option to settle contracts on a net basis when they settle on the same day and in the same currency. In addition, these arrangements provide for a net settlement of all contracts with a given counterparty in the event that the arrangement is terminated due to the occurrence of default or a termination event. The Company does not have any cash collateral due under such agreements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company has elected to present derivative contracts on a gross basis on the Unaudited Consolidated Statements of Financial Position. The following table presents the financial assets and liabilities valued on a recurring and gross basis and includes where the financial assets and liabilities are on the Unaudited Consolidated Statements of Financial Position as of June 30, 2022 and December 31, 2021.

The Financial Position and Fair Value Measurements of Hedging Instruments on a Gross Basis

(Dollars in millions)

| Derivative Type | Statements of Financial Position Classification | June 30, 2022 Level 2 | December 31, 2021 Level 2 |
|--|---|--------------------------|------------------------------|
| Derivatives designated as cash flow hedges: | | | |
| Commodity contracts | Other current assets | \$ 16 | \$ 16 |
| Commodity contracts | Other noncurrent assets | — | 2 |
| Foreign exchange contracts | Other current assets | 33 | 12 |
| Foreign exchange contracts | Other noncurrent assets | 14 | 6 |
| Forward starting interest rate swap contracts | Other current assets | 13 | 5 |
| Derivatives designated as fair value hedges: | | | |
| Fixed-for-floating interest rate swap | Other current assets | 1 | 1 |
| Fixed-for-floating interest rate swap | Other noncurrent assets | — | 1 |
| Derivatives designated as net investment hedges: | | | |
| Cross-currency interest rate swaps | Other current assets | — | 20 |
| Cross-currency interest rate swaps | Other noncurrent assets | 83 | 35 |
| Total Derivative Assets | | <u>\$ 160</u> | <u>\$ 98</u> |
| Derivatives designated as cash flow hedges: | | | |
| Commodity contracts | Payables and other current liabilities | \$ — | \$ 1 |
| Commodity contracts | Other long-term liabilities | — | 1 |
| Foreign exchange contracts | Payables and other current liabilities | — | 1 |
| Derivatives designated as fair value hedges: | | | |
| Fixed-for-floating interest rate swap | Long-term borrowings | 3 | — |
| Derivatives designated as net investment hedges: | | | |
| Cross-currency interest rate swaps | Other long-term liabilities | 2 | 5 |
| Total Derivative Liabilities | | <u>\$ 5</u> | <u>\$ 8</u> |
| Total Net Derivative Assets (Liabilities) | | <u>\$ 155</u> | <u>\$ 90</u> |

In addition to the fair value associated with derivative instruments designated as cash flow hedges, fair value hedges, and net investment hedges, the Company had non-derivative instruments designated as foreign currency net investment hedges with a carrying value of \$1.3 billion at June 30, 2022 and \$1.4 billion at December 31, 2021. The designated foreign currency-denominated borrowings are included as part of "Long-term borrowings" on the Unaudited Consolidated Statements of Financial Position.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For additional fair value measurement information, see Note 1, "Significant Accounting Policies", and Note 10, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#).

As of June 30, 2022 and December 31, 2021, the following amounts were included on the Unaudited Consolidated Statements of Financial Position related to cumulative basis adjustments for fair value hedges.

| (Dollars in millions) Line item on the Unaudited Consolidated Statements of Financial Position in which the hedged item is included | Carrying amount of the hedged liabilities | | Cumulative amount of fair value hedging loss adjustment included in the carrying amount of the hedged liability | |
|---|--|-------------------|---|-------------------|
| | June 30, 2022 | December 31, 2021 | June 30, 2022 | December 31, 2021 |
| Borrowings due within one year ⁽¹⁾ | \$ 199 | \$ 697 | \$ (1) | \$ (2) |
| Long-term borrowings | \$ 72 | \$ 76 | \$ (3) | \$ 1 |

⁽¹⁾ Cumulative amount of fair value hedging loss adjustment remaining for hedged liabilities for which hedge accounting has been discontinued.

The following table presents the effect of the Company's hedging instruments on "Other comprehensive income (loss), net of tax" ("OCI") and financial performance for second quarter and first six months 2022 and 2021.

| (Dollars in millions) Hedging Relationships | Change in amount of after tax gain (loss) recognized in OCI on derivatives | | | | Pre-tax amount of gain (loss) reclassified from OCI into earnings | | | |
|--|---|-------|------------------|-------|--|--------|------------------|--------|
| | Second Quarter | | First Six Months | | Second Quarter | | First Six Months | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Derivatives in cash flow hedging relationships: | | | | | | | | |
| Commodity contracts | \$ (25) | \$ 14 | \$ (1) | \$ 15 | \$ 34 | \$ (5) | \$ 37 | \$ (5) |
| Foreign exchange contracts | 16 | — | 22 | 22 | 10 | (5) | 15 | (10) |
| Forward starting interest rate and treasury lock swap contracts | 5 | (1) | 10 | 6 | (3) | (3) | (5) | (5) |
| Non-derivatives in net investment hedging relationships (pre-tax): | | | | | | | | |
| Net investment hedges | 87 | (19) | 148 | 50 | — | — | — | — |
| Derivatives in net investment hedging relationships (pre-tax): | | | | | | | | |
| Cross-currency interest rate swaps | 12 | (10) | 35 | 32 | — | — | — | — |
| Cross-currency interest rate swaps excluded component | 5 | 6 | (5) | (5) | — | — | — | — |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the effect of fair value and cash flow hedge accounting in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for second quarter 2022 and 2021.

Location and Amount of Gain or (Loss) Recognized in Earnings from Fair Value and Cash Flow Hedging Relationships

| | Second Quarter | | | | | |
|---|----------------|---------------|----------------------|----------|---------------|----------------------|
| | 2022 | | | 2021 | | |
| | Sales | Cost of Sales | Net Interest Expense | Sales | Cost of Sales | Net Interest Expense |
| (Dollars in millions) | | | | | | |
| Total amounts of income and expense line items presented in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in which the effects of fair value or cash flow hedges are recognized | \$ 2,784 | \$ 2,114 | \$ 45 | \$ 2,653 | \$ 1,972 | \$ 51 |
| The effects of fair value and cash flow hedging: | | | | | | |
| Gain or (loss) on fair value hedging relationships: | | | | | | |
| Interest contracts (fixed-for-floating interest rate swaps): | | | | | | |
| Hedged items | | | — | | | 1 |
| Derivatives designated as hedging instruments | | | — | | | (1) |
| Gain or (loss) on cash flow hedging relationships: | | | | | | |
| Interest contracts (forward starting interest rate and treasury lock swap contracts): | | | | | | |
| Amount reclassified from AOCI into earnings | | | (3) | | | (3) |
| Commodity Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | | 34 | | | (5) | |
| Foreign Exchange Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | 10 | | | (5) | | |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the effect of fair value and cash flow hedge accounting in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for first six months 2022 and 2021.

Location and Amount of Gain or (Loss) Recognized in Earnings from Fair Value and Cash Flow Hedging Relationships

| | First Six Months | | | | | |
|---|------------------|---------------|----------------------|----------|---------------|----------------------|
| | 2022 | | | 2021 | | |
| (Dollars in millions) | Sales | Cost of Sales | Net Interest Expense | Sales | Cost of Sales | Net Interest Expense |
| Total amounts of income and expense line items presented in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in which the effects of fair value or cash flow hedges are recognized | \$ 5,498 | \$ 4,278 | \$ 91 | \$ 5,062 | \$ 3,783 | \$ 101 |
| The effects of fair value and cash flow hedging: | | | | | | |
| Gain or (loss) on fair value hedging relationships: | | | | | | |
| Interest contracts (fixed-for-floating interest rate swaps): | | | | | | |
| Hedged items | | | 1 | | | 1 |
| Derivatives designated as hedging instruments | | | (1) | | | (1) |
| Gain or (loss) on cash flow hedging relationships: | | | | | | |
| Interest contracts (forward starting interest rate and treasury lock swap contracts): | | | | | | |
| Amount reclassified from AOCI into earnings | | | (5) | | | (5) |
| Commodity Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | | 37 | | | (5) | |
| Foreign Exchange Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | 15 | | | (10) | | |

The Company enters into foreign exchange derivatives denominated in multiple currencies which are transacted and settled in the same quarter. These derivatives are not designated as hedges due to the short-term nature and the gains or losses on these derivatives are marked-to-market in line item "Other (income) charges, net" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings. As a result of these derivatives, the Company recognized a net loss of \$6 million during both second quarter and first six months 2022, and recognized a net loss of \$5 million during second quarter 2021 and no gain or loss during first six months 2021.

Pre-tax monetized positions and mark-to-market gains and losses from raw materials and energy, currency, and certain interest rate hedges that were included in AOCI included net gains of \$223 million and net losses of \$7 million at June 30, 2022 and December 31, 2021, respectively. Gains in AOCI increased between June 30, 2022 and December 31, 2021 primarily as a result of an increase in euro to U.S. dollar exchange rates. If recognized, approximately \$42 million in pre-tax gains, as of June 30, 2022, would be reclassified into earnings during the next 12 months.

8. RETIREMENT PLANS

Defined Benefit Pension Plans and Other Postretirement Benefit Plans

Eastman maintains defined benefit pension plans that provide eligible employees with retirement benefits. In addition, Eastman provides life insurance for eligible retirees hired prior to January 1, 2007. The Company provided a subsidy for pre-Medicare health care and dental benefits to eligible retirees hired prior to January 1, 2007 that ended on December 31, 2021. Company funding is also provided for eligible Medicare retirees hired prior to January 1, 2007 with a health reimbursement arrangement. Costs recognized for these benefits are estimated amounts, which may change as actual costs for the year are determined.

For additional information regarding retirement plans, see Note 11, "Retirement Plans", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Components of net periodic benefit (credit) cost were as follows:

| | Second Quarter | | | | | |
|---|----------------|----------------|----------------|---------------|------------------------------------|---------------|
| | Pension Plans | | | | Other Postretirement Benefit Plans | |
| | 2022 | | 2021 | | 2022 | 2021 |
| | U.S. | Non-U.S. | U.S. | Non-U.S. | | |
| (Dollars in millions) | | | | | | |
| Service cost | \$ 6 | \$ 3 | \$ 6 | \$ 5 | \$ — | \$ — |
| Interest cost | 11 | 4 | 9 | 3 | 3 | 3 |
| Expected return on assets | (32) | (8) | (31) | (10) | (1) | (1) |
| Amortization of: | | | | | | |
| Prior service credit, net | — | — | — | — | (8) | (10) |
| Mark-to-market pension and other postretirement benefits (gain) loss ⁽¹⁾ | 7 | (10) | — | — | — | — |
| Net periodic benefit (credit) cost | <u>\$ (8)</u> | <u>\$ (11)</u> | <u>\$ (16)</u> | <u>\$ (2)</u> | <u>\$ (6)</u> | <u>\$ (8)</u> |

| | First Six Months | | | | | |
|---|------------------|----------------|----------------|---------------|------------------------------------|----------------|
| | Pension Plans | | | | Other Postretirement Benefit Plans | |
| | 2022 | | 2021 | | 2022 | 2021 |
| | U.S. | Non-U.S. | U.S. | Non-U.S. | | |
| (Dollars in millions) | | | | | | |
| Service cost | \$ 12 | \$ 7 | \$ 13 | \$ 9 | \$ — | \$ — |
| Interest cost | 22 | 8 | 18 | 6 | 7 | 6 |
| Expected return on assets | (64) | (17) | (63) | (19) | (2) | (2) |
| Amortization of: | | | | | | |
| Prior service credit, net | — | — | — | — | (16) | (19) |
| Mark-to-market pension and other postretirement benefits (gain) loss ⁽¹⁾ | 7 | (10) | — | — | — | — |
| Net periodic benefit (credit) cost | <u>\$ (23)</u> | <u>\$ (12)</u> | <u>\$ (32)</u> | <u>\$ (4)</u> | <u>\$ (11)</u> | <u>\$ (15)</u> |

⁽¹⁾ Also includes curtailment triggered by the sale of the adhesives resins business which is included in "Other components of post-employment (benefit) cost, net" on the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

Subsequent to the adhesives resins divestiture, the Company retained pension liabilities of certain plan participants while the status of the participants changed in a Non-U.S. pension plan which triggered a curtailment. The Company recognized a curtailment gain of \$7 million in second quarter and first six months 2022, which also triggered an interim mark-to-market ("MTM") remeasurement of the impacted Non-U.S. pension plan's assets and liabilities that led to a gain of \$3 million in second quarter and first six months 2022.

Settlements are triggered in a plan when distributions exceed the sum of service cost and interest cost of the respective plan. Lump sum payments from a U.S. pension plan resulted in a plan settlement in second quarter and first six months 2022. The settlement itself was not material, but it triggered an interim MTM remeasurement of the impacted U.S. pension plan's assets and liabilities resulting in a \$7 million loss in second quarter and first six months 2022.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**9. LEASES AND OTHER COMMITMENTS****Leases**

There are two types of leases: finance and operating. Both types of leases have associated right-to-use assets and lease liabilities that are valued at the present value of the lease payments and recognized on the Unaudited Consolidated Statements of Financial Position. The discount rate used in the measurement of a right-to-use asset and lease liability is the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, the collateralized incremental borrowing rate is used. The Company elected the accounting policy not to apply the recognition and measurement requirements to short-term leases with a term of 12 months or less and do not include a bargain purchase option.

The Company has operating leases, as a lessee, with customary terms that do not include: significant variable lease payments; significant reasonably certain extensions or options required to be included in the lease term; restrictions; or other covenants for real property, rolling stock, and machinery and equipment. Real property leases primarily consist of office space and rolling stock leases primarily for railcars and fleet vehicles. At June 30, 2022 and December 31, 2021, operating right-to-use assets of \$209 million and \$216 million, respectively, are included as part of "Other noncurrent assets" on the Unaudited Consolidated Statements of Financial Position. The operating right-to-use assets include \$3 million and \$3 million, respectively, of assets previously classified as lease intangibles and \$6 million and \$5 million, respectively, of prepaid lease assets. Operating lease liabilities are included as part of "Payables and other current liabilities" and "Other long-term liabilities" on the Unaudited Consolidated Statements of Financial Position.

As of June 30, 2022, reconciliation of lease payments and operating lease liabilities is provided below:

| (Dollars in millions) | Operating Lease Liabilities |
|---|------------------------------------|
| Remainder of 2022 | \$ 29 |
| 2023 | 50 |
| 2024 | 37 |
| 2025 | 30 |
| 2026 | 21 |
| 2027 and beyond | 53 |
| Total lease payments | 220 |
| Less: amounts of lease payments representing interest | 20 |
| Present value of future lease payments | 200 |
| Less: current obligations under leases | 50 |
| Long-term lease obligations | \$ 150 |

The Company has operating leases, primarily leases for railcars, with terms that require the Company to guarantee a portion of the residual value of the leased assets upon termination of the lease that will expire beginning third quarter 2023. Residual guarantee payments that become probable and estimable are recognized as rent expense over the remaining life of the applicable lease. Management's current expectation is that the likelihood of material residual guarantee payments is remote.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Lease costs during the period and other information is provided below:

| (Dollars in millions) | Second Quarter | | First Six Months | |
|--|----------------|--------------|------------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| Lease costs: | | | | |
| Operating lease costs | \$ 16 | \$ 18 | \$ 34 | \$ 36 |
| Short-term lease costs | 11 | 11 | 21 | 19 |
| Sublease income | (3) | (1) | (7) | (2) |
| Total | <u>\$ 24</u> | <u>\$ 28</u> | <u>\$ 48</u> | <u>\$ 53</u> |
| Other operating lease information: | | | | |
| Cash paid for amounts included in the measurement of lease liabilities | \$ 17 | \$ 18 | \$ 33 | \$ 35 |
| Right-to-use assets obtained in exchange for new lease liabilities | \$ 27 | \$ 18 | \$ 35 | \$ 26 |
| Weighted-average remaining lease term, in years | | | 6 | 5 |
| Weighted-average discount rate | | | 2.8 % | 3.5 % |

10. ENVIRONMENTAL MATTERS AND ASSET RETIREMENT OBLIGATIONS

Certain Eastman manufacturing facilities generate hazardous and nonhazardous wastes, of which the treatment, storage, transportation, and disposal are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP") by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for certain cleanup costs. In addition, the Company will incur costs for environmental remediation and closure and post-closure under the federal Resource Conservation and Recovery Act. Reserves for environmental contingencies have been established in accordance with Eastman's policies described in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#). The resolution of uncertainties related to environmental matters may have a material adverse effect on the Company's consolidated results of operations in the period recognized. However, because of the availability of legal defenses, the Company's preliminary assessment of actions that may be required, and the extended period of time that the obligations are expected to be satisfied, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will have a material adverse effect on the Company's future overall financial position, results of operations, or cash flows.

Environmental Remediation and Environmental Asset Retirement Obligations

The Company's net environmental reserve for environmental contingencies, including remediation costs and asset retirement obligations, is included as part of "Other noncurrent assets", "Payables and other current liabilities", and "Other long-term liabilities" on the Unaudited Consolidated Statements of Financial Position as follows:

| (Dollars in millions) | June 30, 2022 | December 31, 2021 |
|--|---------------|-------------------|
| Environmental contingencies, current | \$ 10 | \$ 20 |
| Environmental contingencies, long-term | 267 | 261 |
| Total | <u>\$ 277</u> | <u>\$ 281</u> |

Environmental Remediation

Estimated future environmental expenditures for undiscounted remediation costs ranged from the best estimate or minimum of \$249 million to the maximum of \$464 million and from the best estimate or minimum of \$253 million to the maximum of \$473 million at June 30, 2022 and December 31, 2021, respectively. The best estimate or minimum estimated future environmental expenditures are considered to be probable and reasonably estimable and include the amounts recognized at both June 30, 2022 and December 31, 2021.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Reserves for environmental remediation include liabilities expected to be paid within approximately 30 years. The amounts charged to pre-tax earnings for environmental remediation and related charges are recognized in "Cost of sales" and "Other (income) charges, net" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

Changes in the reserves for environmental remediation liabilities during first six months 2022 and full year 2021 are summarized below:

| (Dollars in millions) | Environmental Remediation Liabilities |
|---|--|
| Balance at December 31, 2020 | \$ 257 |
| Changes in estimates recognized in earnings and other | 9 |
| Cash reductions | (13) |
| Balance at December 31, 2021 | 253 |
| Changes in estimates recognized in earnings and other | 4 |
| Cash reductions | (8) |
| Balance at June 30, 2022 | \$ 249 |

Environmental Asset Retirement Obligations

An asset retirement obligation is an obligation for the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. Environmental asset retirement obligations consist of primarily closure and post-closure costs. For sites that have environmental asset retirement obligations, the best estimate recognized to date for these environmental asset retirement obligation costs was \$28 million at both June 30, 2022 and December 31, 2021.

Non-Environmental Asset Retirement Obligations

The Company has contractual asset retirement obligations not associated with environmental liabilities. Eastman's non-environmental asset retirement obligations are primarily associated with the future closure of leased manufacturing assets in Pace, Florida and Oulu, Finland. These non-environmental asset retirement obligations were \$51 million at both June 30, 2022 and December 31, 2021 and are included in "Other long-term liabilities" on the Unaudited Consolidated Statements of Financial Position.

11. LEGAL MATTERS

From time to time, Eastman and its operations are parties to, or targets of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. While the Company is unable to predict the outcome of these matters, it does not believe, based upon currently available facts, that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial position, results of operations, or cash flows.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
12. STOCKHOLDERS' EQUITY

Reconciliations of the changes in stockholders' equity for second quarter 2022 and 2021 are provided below:

| (Dollars in millions, except per share amount) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|--|---------------------------------------|------------------------------|--|---------------------------------------|---|------------------------------------|---------------------|
| Balance at March 31, 2022 | \$ 2 | \$ 2,262 | \$ 8,694 | \$ (145) | \$ (4,920) | \$ 5,893 | \$ 84 | \$ 5,977 |
| Net Earnings | — | — | 256 | — | — | 256 | 1 | 257 |
| Cash Dividends Declared ⁽¹⁾ (\$0.76 per share) | — | — | (93) | — | — | (93) | — | (93) |
| Other Comprehensive Income (Loss) | — | — | — | 2 | — | 2 | — | 2 |
| Share-Based Compensation Expense ⁽²⁾ | — | 17 | — | — | — | 17 | — | 17 |
| Stock Option Exercises | — | 1 | — | — | — | 1 | — | 1 |
| Other | — | (1) | — | — | — | (1) | (1) | (2) |
| Share Repurchase ⁽³⁾ | — | (100) | — | — | (652) | (752) | — | (752) |
| Balance at June 30, 2022 | \$ 2 | \$ 2,179 | \$ 8,857 | \$ (143) | \$ (5,572) | \$ 5,323 | \$ 84 | \$ 5,407 |

| (Dollars in millions, except per share amount) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|--|---------------------------------------|------------------------------|--|---------------------------------------|---|------------------------------------|---------------------|
| Balance at March 31, 2021 | \$ 2 | \$ 2,219 | \$ 8,260 | \$ (248) | \$ (4,000) | \$ 6,233 | \$ 86 | \$ 6,319 |
| Net Earnings (Loss) | — | — | (146) | — | — | (146) | 2 | (144) |
| Cash Dividends Declared ⁽¹⁾ (\$0.69 per share) | — | — | (94) | — | — | (94) | — | (94) |
| Other Comprehensive Income (Loss) | — | — | — | 15 | — | 15 | — | 15 |
| Share-Based Compensation Expense ⁽²⁾ | — | 18 | — | — | — | 18 | — | 18 |
| Stock Option Exercises | — | 21 | — | — | — | 21 | — | 21 |
| Other | — | (3) | — | — | — | (3) | — | (3) |
| Share Repurchase | — | — | — | — | (100) | (100) | — | (100) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | (4) | (4) |
| Balance at June 30, 2021 | \$ 2 | \$ 2,255 | \$ 8,020 | \$ (233) | \$ (4,100) | \$ 5,944 | \$ 84 | \$ 6,028 |

⁽¹⁾ Cash dividends declared consists of cash dividends paid and dividends declared but unpaid.

⁽²⁾ Share-based compensation expense is based on the fair value of share-based awards.

⁽³⁾ Additional paid-in capital includes payment for repurchase of shares under the second quarter 2022 accelerated share repurchase program ("2022 ASR") which were settled after June 30, 2022.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Reconciliations of the changes in stockholders' equity for first six months 2022 and 2021 are provided below:

| (Dollars in millions, except per share amount) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|--|---------------------------------------|------------------------------|--|---------------------------------------|---|------------------------------------|---------------------|
| Balance at December 31, 2021 | \$ 2 | \$ 2,187 | \$ 8,557 | \$ (182) | \$ (4,860) | \$ 5,704 | \$ 84 | \$ 5,788 |
| Net Earnings | — | — | 491 | — | — | 491 | 2 | 493 |
| Cash Dividends Declared ⁽¹⁾ (\$1.52 per share) | — | — | (191) | — | — | (191) | — | (191) |
| Other Comprehensive Income (Loss) | — | — | — | 39 | — | 39 | — | 39 |
| Share-Based Compensation Expense ⁽²⁾ | — | 42 | — | — | — | 42 | — | 42 |
| Stock Option Exercises | — | 9 | — | — | — | 9 | — | 9 |
| Other ⁽³⁾ | — | (19) | — | — | — | (19) | (2) | (21) |
| Share Repurchases ⁽⁴⁾ | — | (40) | — | — | (712) | (752) | — | (752) |
| Balance at June 30, 2022 | <u>\$ 2</u> | <u>\$ 2,179</u> | <u>\$ 8,857</u> | <u>\$ (143)</u> | <u>\$ (5,572)</u> | <u>\$ 5,323</u> | <u>\$ 84</u> | <u>\$ 5,407</u> |

| (Dollars in millions, except per share amount) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|--|--|---------------------------------------|------------------------------|--|---------------------------------------|---|------------------------------------|---------------------|
| Balance at December 31, 2020 | \$ 2 | \$ 2,174 | \$ 8,080 | \$ (273) | \$ (3,960) | \$ 6,023 | \$ 85 | \$ 6,108 |
| Net Earnings | — | — | 128 | — | — | 128 | 5 | 133 |
| Cash Dividends Declared ⁽¹⁾ (\$1.38 per share) | — | — | (188) | — | — | (188) | — | (188) |
| Other Comprehensive Income (Loss) | — | — | — | 40 | — | 40 | — | 40 |
| Share-Based Compensation Expense ⁽²⁾ | — | 40 | — | — | — | 40 | — | 40 |
| Stock Option Exercises | — | 59 | — | — | — | 59 | — | 59 |
| Other ⁽³⁾ | — | (18) | — | — | — | (18) | (1) | (19) |
| Share Repurchases | — | — | — | — | (140) | (140) | — | (140) |
| Distributions to Noncontrolling Interest | — | — | — | — | — | — | (5) | (5) |
| Balance at June 30, 2021 | <u>\$ 2</u> | <u>\$ 2,255</u> | <u>\$ 8,020</u> | <u>\$ (233)</u> | <u>\$ (4,100)</u> | <u>\$ 5,944</u> | <u>\$ 84</u> | <u>\$ 6,028</u> |

⁽¹⁾ Cash dividends declared consists of cash dividends paid and dividends declared but unpaid.

⁽²⁾ Share-based compensation expense is based on the fair value of share-based awards.

⁽³⁾ Additional paid-in capital includes value of shares withheld for employees' taxes on vesting of share-based compensation awards.

⁽⁴⁾ Additional paid-in capital includes payment for repurchase of shares under the 2022 ASR which were settled after June 30, 2022, offset by treasury shares delivered pursuant to final settlement of the 2021 accelerated share repurchase program ("2021 ASR") accounted for as a reduction of Additional paid-in capital prior to settlement.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Accumulated Other Comprehensive Income (Loss), Net of Tax

| (Dollars in millions) | Cumulative Translation Adjustment | Benefit Plans Unrecognized Prior Service Credits | Unrealized Gains (Losses) on Derivative Instruments | Unrealized Losses on Investments | Accumulated Other Comprehensive Income (Loss) |
|------------------------------|--|---|--|---|--|
| Balance at December 31, 2020 | \$ (293) | \$ 87 | \$ (66) | \$ (1) | \$ (273) |
| Period change | 56 | (28) | 63 | — | 91 |
| Balance at December 31, 2021 | (237) | 59 | (3) | (1) | (182) |
| Period change | 23 | (15) | 31 | — | 39 |
| Balance at June 30, 2022 | <u>\$ (214)</u> | <u>\$ 44</u> | <u>\$ 28</u> | <u>\$ (1)</u> | <u>\$ (143)</u> |

Amounts of other comprehensive income (loss) are presented net of applicable taxes. Eastman recognizes deferred income taxes on the CTA related to branch operations and income from other entities included in the Company's consolidated U.S. tax return. No deferred income taxes are recognized on the CTA of other subsidiaries outside the United States because the CTA is considered to be a component of indefinitely invested, unremitted earnings of these foreign subsidiaries.

Components of other comprehensive income recognized in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings are presented below, before tax and net of tax effects:

| (Dollars in millions) | Second Quarter | | | |
|--|-----------------------|-------------------|-------------------|-------------------|
| | 2022 | | 2021 | |
| | Before Tax | Net of Tax | Before Tax | Net of Tax |
| Other comprehensive income (loss) | | | | |
| Change in cumulative translation adjustment | \$ 16 | \$ 16 | \$ 9 | \$ 9 |
| Defined benefit pension and other postretirement benefit plans: | | | | |
| Amortization of unrecognized prior service credits | (12) | (9) | (10) | (7) |
| Derivatives and hedging: | | | | |
| Unrealized gain (loss) during period | 36 | 27 | 6 | 4 |
| Reclassification adjustment for (gains) losses included in net income, net | (43) | (32) | 12 | 9 |
| Total other comprehensive income (loss) | <u>\$ (3)</u> | <u>\$ 2</u> | <u>\$ 17</u> | <u>\$ 15</u> |

| (Dollars in millions) | First Six Months | | | |
|--|-------------------------|-------------------|-------------------|-------------------|
| | 2022 | | 2021 | |
| | Before Tax | Net of Tax | Before Tax | Net of Tax |
| Other comprehensive income (loss) | | | | |
| Change in cumulative translation adjustment | \$ 23 | \$ 23 | \$ 11 | \$ 11 |
| Defined benefit pension and other postretirement benefit plans: | | | | |
| Amortization of unrecognized prior service credits | (20) | (15) | (19) | (14) |
| Derivatives and hedging: | | | | |
| Unrealized gain (loss) during period | 89 | 67 | 39 | 29 |
| Reclassification adjustment for (gains) losses included in net income, net | (48) | (36) | 19 | 14 |
| Total other comprehensive income (loss) | <u>\$ 44</u> | <u>\$ 39</u> | <u>\$ 50</u> | <u>\$ 40</u> |

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. EARNINGS AND DIVIDENDS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share ("EPS") which are calculated using the treasury stock method:

| | Second Quarter | | First Six Months | |
|--|----------------|-----------|------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| (In millions, except per share amounts) | | | | |
| Numerator | | | | |
| Earnings (loss) attributable to Eastman, net of tax | \$ 256 | \$ (146) | \$ 491 | \$ 128 |
| Denominator | | | | |
| Weighted average shares used for basic EPS | 124.8 | 135.9 | 126.9 | 136.0 |
| Dilutive effect of stock options and other awards ⁽¹⁾ | 1.6 | — | 1.7 | 1.8 |
| Weighted average shares used for diluted EPS | 126.4 | 135.9 | 128.6 | 137.8 |
| (Calculated using whole dollars and shares) | | | | |
| EPS | | | | |
| Basic | \$ 2.05 | \$ (1.07) | \$ 3.87 | \$ 0.94 |
| Diluted | \$ 2.03 | \$ (1.07) | \$ 3.82 | \$ 0.93 |

⁽¹⁾ Dilutive effect is not applicable in a period with a net loss.

Shares underlying stock options of 1,342,328 and 327,782 for second quarter 2022 and 2021, respectively, and 507,692 for first six months 2022 were excluded from calculations of diluted EPS because the grant date exercise price of these options was greater than the average market price of the Company's common stock and the effect of including them in the calculation of diluted EPS would have been antidilutive. No shares were excluded from the calculation of diluted EPS for first six months 2021. There were 6,118,034 and 6,666,069 share repurchases in second quarter and first six months 2022, respectively. There were 833,580 and 1,188,375 share repurchases in second quarter and first six months 2021, respectively.

The Company declared cash dividends of \$0.76 and \$0.69 per share for second quarter 2022 and 2021, respectively, and \$1.52 and \$1.38 per share for first six months 2022 and 2021, respectively.

In December 2021, the Company's Board of Directors authorized the additional repurchase of up to \$2.5 billion of the Company's outstanding common stock at such time, in such amounts, and on such terms, as determined by management to be in the best interest of the Company and its stockholders (the "2021 authorization").

In second quarter 2022, the Company entered into an accelerated share repurchase program ("2022 ASR") to purchase \$500 million of the Company's common stock under the board approved authorizations. In exchange for upfront payment totaling \$500 million, the financial institutions committed to deliver shares during the 2022 ASR's purchase period, which will be settled in third quarter 2022. The total number of shares ultimately delivered will be determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's stock during the term of the 2022 ASR, less a discount. Approximately 80 percent of the expected shares repurchased under the 2022 ASR were delivered in second quarter 2022. Shares in the amount of 1,212,732 were delivered under the 2022 ASR subsequent to June 30, 2022.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
14. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

(Dollars in millions)

| | Second Quarter | | First Six Months | |
|--|----------------|--------------|------------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| Tangible Asset Impairments | | | | |
| Site optimizations | | | | |
| Other - Tire additives ⁽¹⁾ | \$ — | \$ 4 | \$ — | \$ 4 |
| AM - Advanced interlayers ⁽²⁾ | — | 1 | — | 1 |
| | — | 5 | — | 5 |
| Loss (Gain) on Sale of Previously Impaired Assets | | | | |
| Site optimizations | | | | |
| Other - Tire additives ⁽¹⁾ | (1) | — | (1) | — |
| AM - Advanced interlayers ⁽²⁾ | 16 | — | 16 | — |
| AFP - Animal nutrition ⁽³⁾ | — | — | — | (1) |
| | 15 | — | 15 | (1) |
| Severance Charges | | | | |
| Business improvement and cost reduction actions ⁽⁴⁾ | 2 | — | 2 | — |
| Site optimizations | | | | |
| AM - Performance films ⁽⁵⁾ | 1 | — | 1 | — |
| AM - Advanced interlayers ⁽²⁾ | — | — | — | 1 |
| | 3 | — | 3 | 1 |
| Other Restructuring Costs | | | | |
| CI & AFP - Singapore ⁽⁶⁾ | 1 | 8 | 2 | 13 |
| Site optimizations | | | | |
| AM - Advanced interlayers ⁽²⁾ | — | 2 | 1 | 2 |
| Other - Tire additives ⁽¹⁾ | — | — | — | 2 |
| | 1 | 10 | 3 | 17 |
| Total | \$ 19 | \$ 15 | \$ 21 | \$ 22 |

⁽¹⁾ Asset impairment charges, gain on sale of previously impaired assets, and site closure costs in "Other" from the previously reported closure of a tire additives manufacturing facility in Asia Pacific as part of ongoing site optimization.

⁽²⁾ Asset impairment charges, loss on transfer of previously impaired assets to a third party, severance costs, and site closure costs in the Advanced Materials ("AM") segment due to the previously reported closure of an advanced interlayers manufacturing facility in North America as part of ongoing site optimization. In addition, accelerated depreciation of \$4 million was recognized in "Cost of sales" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in first six months 2021 related to the closure of this facility.

⁽³⁾ Fixed asset impairments, net in the AFP segment from the previously reported closure of an animal nutrition manufacturing facility in Asia Pacific as part of ongoing site optimization.

⁽⁴⁾ Severance as part of business improvement which were reported in "Other".

⁽⁵⁾ Severance charges in the AM segment from the previously reported closure of a performance films manufacturing facility in North America as part of ongoing site optimization.

⁽⁶⁾ Site closure of \$1 million and \$2 million for second quarter and first six months 2022, respectively, in the Chemical Intermediates ("CI") segment, contract termination fees in both second quarter and first six months 2021 of \$7 million and \$1 million in the CI and AFP segments, respectively, and site closure costs in first six months 2021 of \$4 million and \$1 million in the CI and AFP segments, respectively, resulting from closure of the Singapore manufacturing site.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Changes in Reserves

The following table summarizes the changes in asset impairments and restructuring reserves in first six months 2022 and full year 2021:

| (Dollars in millions) | Balance at January 1, 2022 | Provision/ Adjustments | Non-cash Reductions/ Additions | Cash Reductions | Balance at June 30, 2022 |
|---------------------------|---------------------------------------|-----------------------------------|---|------------------------|-------------------------------------|
| Severance costs | \$ 12 | \$ 3 | \$ — | \$ (4) | \$ 11 |
| Other restructuring costs | 5 | 18 | — | (5) | 18 |
| Total | \$ 17 | \$ 21 | \$ — | \$ (9) | \$ 29 |

| (Dollars in millions) | Balance at January 1, 2021 | Provision/ Adjustments | Non-cash Reductions/ Additions | Cash Reductions | Balance at December 31, 2021 |
|---------------------------|---------------------------------------|-----------------------------------|---|------------------------|---|
| Non-cash charges | \$ — | \$ 16 | \$ (16) | \$ — | \$ — |
| Severance costs | 65 | 2 | (1) | (54) | 12 |
| Other restructuring costs | 14 | 29 | (9) | (29) | 5 |
| Total | \$ 79 | \$ 47 | \$ (26) | \$ (83) | \$ 17 |

Substantially all severance costs remaining are expected to be applied to the reserves within one year.

15. SHARE-BASED COMPENSATION AWARDS

The Company utilizes share-based awards under employee and non-employee director compensation programs. These share-based awards have included restricted and unrestricted stock, restricted stock units, stock options, and performance shares. In second quarter 2022 and 2021, \$17 million and \$18 million, respectively, of compensation expense before tax were recognized in SG&A in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for all share-based awards. The impact on second quarter 2022 and 2021 net earnings of \$13 million in both periods, is net of deferred tax expense related to share-based award compensation for each period.

In first six months 2022 and 2021, \$42 million and \$40 million, respectively, of compensation expense before tax was recognized in SG&A in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for all share-based awards. The impact on first six months 2022 and 2021 net earnings of \$32 million and \$30 million, respectively, is net of deferred tax expense related to share-based award compensation for each period.

For additional information regarding share-based compensation plans and awards, see Note 18, "Share-Based Compensation Plans and Awards", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

16. SUPPLEMENTAL CASH FLOW INFORMATION

Included in the line item "Other items, net" of the "Operating activities" section of the Unaudited Consolidated Statements of Cash Flows are the following changes to Unaudited Consolidated Statements of Financial Position:

(Dollars in millions)

| | First Six Months | |
|--|------------------|---------|
| | 2022 | 2021 |
| Other current assets | \$ 2 | \$ (33) |
| Other noncurrent assets | (57) | 8 |
| Payables and other current liabilities | 179 | 69 |
| Long-term liabilities and equity | 50 | 62 |
| Total | \$ 174 | \$ 106 |

The above changes resulted primarily from accrued taxes, deferred taxes, environmental liabilities, monetized positions from raw material and energy, currency, and certain interest rate hedges, equity investment dividends, prepaid insurance, miscellaneous deferrals, value-added taxes, and other miscellaneous accruals.

17. SEGMENT AND REGIONAL SALES INFORMATION

Eastman's products and operations are managed and reported in four operating segments: Additives & Functional Products ("AFP"), Advanced Materials ("AM"), Chemical Intermediates ("CI"), and Fibers. The economic factors that impact the nature, amount, timing, and uncertainty of revenue and cash flows vary among the Company's business operating segments and the geographical regions in which they operate. For disaggregation of revenue by major product lines and regions for each business operating segment, see Note 20, "Segment and Regional Sales Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#). For additional financial information for each segment, see Part I, Item 1, "Business - Business Segments", in the Company's 2021 [Annual Report on Form 10-K](#).

(Dollars in millions)

| Sales by Segment | Second Quarter | | First Six Months | |
|----------------------------------|----------------|----------|------------------|----------|
| | 2022 | 2021 | 2022 | 2021 |
| Additives & Functional Products | \$ 835 | \$ 655 | \$ 1,640 | \$ 1,264 |
| Advanced Materials | 846 | 769 | 1,583 | 1,485 |
| Chemical Intermediates | 861 | 736 | 1,660 | 1,341 |
| Fibers | 242 | 223 | 455 | 440 |
| Total Sales by Operating Segment | 2,784 | 2,383 | 5,338 | 4,530 |
| Other ⁽¹⁾ | — | 270 | 160 | 532 |
| Total Sales | \$ 2,784 | \$ 2,653 | \$ 5,498 | \$ 5,062 |

⁽¹⁾ "Other" includes sales revenue from the divested rubber additives and adhesives resins businesses previously part of the AFP segment.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

| Earnings (Loss) Before Interest and Taxes by Segment | Second Quarter | | First Six Months | |
|---|-----------------------|----------------|-------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Additives & Functional Products | \$ 148 | \$ 109 | \$ 293 | \$ 216 |
| Advanced Materials | 141 | 150 | 202 | 296 |
| Chemical Intermediates | 154 | 137 | 288 | 206 |
| Fibers | 37 | 37 | 61 | 82 |
| Total Earnings Before Interest and Taxes by Operating Segment | 480 | 433 | 844 | 800 |
| Other⁽¹⁾ | | | | |
| Growth initiatives and businesses not allocated to operating segments | (53) | (18) | (85) | (17) |
| Pension and other postretirement benefits income (expense), net not allocated to operating segments | 26 | 27 | 49 | 54 |
| Asset impairments and restructuring charges, net | (1) | (3) | (1) | (5) |
| Net gain (loss) on divested businesses and transaction costs | 5 | (495) | (1) | (495) |
| Steam line incident costs, net of insurance proceeds | (17) | — | (42) | — |
| Other income (charges), net not allocated to operating segments | (14) | — | (5) | (4) |
| Total Earnings Before Interest and Taxes | \$ 426 | \$ (56) | \$ 759 | \$ 333 |

⁽¹⁾ "Other" includes EBIT of \$6 million in first six months 2022 and loss before interest and taxes of \$477 million and \$449 million in second quarter and first six months 2021, respectively, from the divested rubber additives and adhesives resins businesses previously part of the AFP segment.

(Dollars in millions)

| Assets by Segment⁽¹⁾ | June 30, 2022 | December 31, 2021 |
|--|--------------------------|------------------------------|
| Additives & Functional Products | \$ 4,211 | \$ 4,188 |
| Advanced Materials | 4,778 | 4,661 |
| Chemical Intermediates | 2,741 | 2,703 |
| Fibers | 1,008 | 972 |
| Total Assets by Operating Segment | 12,738 | 12,524 |
| Corporate & Other Assets | 2,137 | 2,995 |
| Total Assets | \$ 14,875 | \$ 15,519 |

⁽¹⁾ Segment assets include accounts receivable, inventory, fixed assets, goodwill, and intangible assets. As disclosed in Note 1, "Significant Accounting Policies", December 31, 2021 Assets by Segment have been recast from Note 20, "Segment and Regional Sales Information", to the Company's 2021 [Annual Report on Form 10-K](#). Prior to the recast, December 31, 2021 assets reported for the AFP segment were revised from \$4,643 million to \$5,195 million, and assets reported for Corporate & Other Assets were revised from \$2,540 million to \$1,988 million. Total assets were not impacted by the misclassification.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)

| Sales by Customer Location | Second Quarter | | First Six Months | |
|-----------------------------------|-----------------------|-----------------|-------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| United States and Canada | \$ 1,304 | \$ 1,197 | \$ 2,502 | \$ 2,201 |
| Europe, Middle East, and Africa | 681 | 688 | 1,426 | 1,344 |
| Asia Pacific | 638 | 611 | 1,250 | 1,219 |
| Latin America | 161 | 157 | 320 | 298 |
| Total Sales | \$ 2,784 | \$ 2,653 | \$ 5,498 | \$ 5,062 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is based upon the consolidated financial statements of Eastman Chemical Company ("Eastman" or the "Company"), which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and should be read in conjunction with the Company's audited consolidated financial statements, including related notes, and MD&A contained in the Company's 2021 [Annual Report on Form 10-K](#), and the unaudited consolidated financial statements, including related notes, included elsewhere in this Quarterly Report on Form 10-Q. All references to earnings per share ("EPS") contained in this report are diluted EPS unless otherwise noted.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NON-GAAP FINANCIAL MEASURES

Non-GAAP financial measures, and the accompanying reconciliations of the non-GAAP financial measures to the most comparable GAAP measures, are presented below in this section and in "Overview", "Results of Operations", "Summary by Operating Segment", "Liquidity and Other Financial Information", and "Outlook" in this MD&A.

Management discloses non-GAAP financial measures, and the related reconciliations to the most comparable GAAP financial measures, because it believes investors use these metrics in evaluating longer term period-over-period performance, and to allow investors to better understand and evaluate the information used by management to assess the Company's and its operating segments' performances, make resource allocation decisions, and evaluate organizational and individual performances in determining certain performance-based compensation. Non-GAAP financial measures do not have definitions under GAAP, and may be defined differently by, and not be comparable to, similarly titled measures used by other companies. As a result, management cautions investors not to place undue reliance on any non-GAAP financial measure, but to consider such measures alongside the most directly comparable GAAP financial measure.

Company Use of Non-GAAP Financial Measures

Non-Core Items and any Unusual or Non-Recurring Items Excluded from Non-GAAP Earnings

In addition to evaluating Eastman's financial condition, results of operations, liquidity, and cash flows as reported in accordance with GAAP, management also evaluates Company and operating segment performance, and makes resource allocation and performance evaluation decisions, excluding the effect of transactions, costs, and losses or gains that do not directly result from Eastman's normal, or "core", business and operations or are otherwise of an unusual or non-recurring nature.

- Non-core transactions, costs, and losses or gains relate to, among other things, cost reductions, growth and profitability improvement initiatives, changes in businesses and assets, and other events outside of core business operations, and have included asset impairments and restructuring charges and gains, costs of and related to acquisitions, gains and losses from and costs related to dispositions, closure, or shutdowns of businesses or assets, financing transaction costs, environmental costs related to previously divested businesses or non-operational sites and product lines; and mark-to-market losses or gains for pension and other postretirement benefit plans.
- In second quarter and first six months 2022, the Company recognized unusual costs, net of insurance proceeds, from the previously reported January 31, 2022 operational incident at its Kingsport site as a result of a steam line failure (the "steam line incident"). Management considered the operational incident unusual because of the Company's operational and safety history and the magnitude of the unplanned disruption.

Because non-core, unusual, or non-recurring transactions, costs, and losses or gains may materially affect the Company's, or any particular operating segment's, financial condition or results in a specific period in which they are recognized, management believes it is appropriate to evaluate both the financial measures prepared and calculated in accordance with GAAP and the related non-GAAP financial measures excluding the effect on the Company's results of these non-core, unusual, or non-recurring items. In addition to using such measures to evaluate results in a specific period, management evaluates such non-GAAP measures, and believes that investors may also evaluate such measures, because such measures may provide more complete and consistent comparisons of the Company's and its segments' operational performance on a period-over-period historical basis and, as a result, provide a better indication of expected future trends.

Adjusted Tax Rate and Provision for Income Taxes

In interim periods, Eastman discloses non-GAAP earnings with an adjusted effective tax rate and a resulting adjusted provision for income taxes using the Company's forecasted tax rate for the full year as of the end of the interim period. The adjusted effective tax rate and resulting adjusted provision for income taxes are equal to the Company's projected full year effective tax rate and provision for income taxes on earnings excluding non-core, unusual, or non-recurring items for completed periods. The adjusted effective tax rate and resulting adjusted provision for income taxes may fluctuate during the year for changes in events and circumstances that change the Company's forecasted annual effective tax rate and resulting provision for income taxes excluding non-core, unusual, or non-recurring items. Management discloses this adjusted effective tax rate, and the related reconciliation to the GAAP effective tax rate, to provide investors more complete and consistent comparisons of the Company's operational performance on a period-over-period interim basis and on the same basis as management evaluates quarterly financial results to provide a better indication of expected full year results.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-GAAP Debt Measure

Eastman from time to time evaluates and discloses to investors and securities and credit analysts the non-GAAP debt measure "net debt", which management defines as total borrowings less cash and cash equivalents. Management believes this metric is useful to investors and securities and credit analysts to provide them with information similar to that used by management in evaluating the Company's overall financial position, liquidity, and leverage and because management believes investors, securities analysts, credit analysts and rating agencies, and lenders often use a similar measure to assess and compare companies' relative financial position and liquidity.

Non-GAAP Measures in this Quarterly Report

The following non-core items are excluded by management in its evaluation of certain earnings results in this Quarterly Report:

- Asset impairments and restructuring charges, net;
- Mark-to-market pension and other postretirement benefit plans gains and losses resulting from the changes in discount rates and other actuarial assumptions and the difference between actual and expected returns on plan assets during the period;
- Environmental and other costs from previously divested or non-operational sites and product lines;
- Gains and losses, net on divested businesses and transaction costs; and
- Accelerated depreciation resulting from the closure of a manufacturing facility as part of ongoing site optimization.

The following unusual item is excluded by management in its evaluation of certain earnings results in this Quarterly Report:

- Steam line incident costs, net of insurance proceeds.

As described above, the alternative non-GAAP measure of debt, "net debt", is also presented in this Quarterly Report.

Non-GAAP Financial Measures - Non-Core and Unusual Items Excluded from Earnings and Adjustments to Provision for Income Taxes

| | Second Quarter | | First Six Months | |
|---|----------------|--------|------------------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| (Dollars in millions) | | | | |
| Non-core items impacting earnings before interest and taxes: | | | | |
| Asset impairments and restructuring charges, net | \$ 19 | \$ 15 | \$ 21 | \$ 22 |
| Mark-to-market pension and other postretirement benefits (gain), net | (3) | — | (3) | — |
| Environmental and other costs | 15 | — | 15 | — |
| Net (gain) loss on divested businesses and transaction costs | (5) | 495 | 1 | 495 |
| Accelerated depreciation | — | — | — | 4 |
| Unusual item impacting earnings before interest and taxes: | | | | |
| Steam line incident costs, net of insurance proceeds | 17 | — | 42 | — |
| Total non-core and unusual items impacting earnings before interest and taxes | 43 | 510 | 76 | 521 |
| Less: Items impacting provision for income taxes: | | | | |
| Tax effect of non-core and unusual items | (49) | 33 | (44) | 35 |
| Interim adjustment to tax provision | (10) | (8) | (16) | (18) |
| Total items impacting provision for income taxes | (59) | 25 | (60) | 17 |
| Total items impacting net earnings attributable to Eastman | \$ 102 | \$ 485 | \$ 136 | \$ 504 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This MD&A includes an analysis of the effect of the foregoing on the following GAAP financial measures:

- Gross profit,
- Selling, general and administrative costs ("SG&A"),
- Other components of post-employment (benefit) cost, net,
- Other (income) charges, net,
- Earnings before interest and taxes ("EBIT"),
- Provision for income taxes,
- Net earnings attributable to Eastman,
- Diluted EPS, and
- Total borrowings.

Other Non-GAAP Financial Measures

Alternative Non-GAAP Cash Flow Measures

In addition to the non-GAAP measures presented in this Quarterly Report and other periodic reports, management occasionally has evaluated and disclosed to investors and securities analysts the non-GAAP measure cash provided by or used in operating activities excluding certain non-core, unusual, or non-recurring sources or uses of cash or including cash from or used by activities that are managed as part of core business operations ("adjusted cash provided by or used in operating activities") when analyzing, among other things, business performance, liquidity and financial position, and performance-based compensation. Management has used this non-GAAP measure in conjunction with the GAAP measure cash provided by or used in operating activities because it believes it is an appropriate metric to evaluate the cash flows from Eastman's core operations that are available for organic and inorganic growth initiatives and because it allows for a more consistent period-over-period presentation of such amounts. In its evaluation, management generally excludes the impact of certain non-core and unusual activities and decisions of management that it considers non-core, ongoing components of operations and the decisions to undertake or not to undertake such activities may be made irrespective of the cash generated from operations, and generally includes cash from or used in activities that are managed as operating activities and in business operating decisions. Management has disclosed this non-GAAP measure and the related reconciliation to investors and securities analysts to allow them to better understand and evaluate the information used by management in its decision-making processes and because management believes investors and securities analysts use similar measures to assess Company performance, liquidity, and financial position over multiple periods and to compare these with other companies.

From time to time, Eastman evaluates and discloses to investors and securities analysts an alternative non-GAAP measure of "free cash flow", which management defines as net cash provided by or used in operating activities less the amount of net capital expenditures (typically the GAAP measure additions to properties and equipment). Such net capital expenditures are generally funded from available cash and, as such, management believes they should be considered in determining free cash flow. Management believes this is an appropriate metric to assess the Company's ability to fund priorities for uses of available cash. The priorities for cash after funding operations include payment of quarterly dividends, repayment of debt, funding targeted growth opportunities, and repurchasing shares. Management believes this metric is useful to investors and securities analysts to provide them with information similar to that used by management in evaluating financial performance and potential future cash available for various initiatives and assessing organizational performance in determining certain performance-based compensation, and because management believes investors and securities analysts often use a similar measure of free cash flow to compare the results, and value, of comparable companies. In addition, Eastman may disclose to investors and securities analysts an alternative non-GAAP measure of "free cash flow yield", which management defines as annual free cash flow divided by the Company's market capitalization, and "free cash flow conversion", which management defines as annual free cash flow divided by adjusted net income. Management believes this metric is useful to investors and securities analysts in comparing cash flow generation with that of peer and other companies.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS*****Alternative Non-GAAP Earnings Measures***

From time to time, Eastman may also disclose to investors and securities analysts the non-GAAP earnings measures "Adjusted EBIT Margin", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Return on Invested Capital" (or "ROIC"), and "Adjusted ROIC". Management defines Adjusted EBIT Margin as the GAAP measure EBIT adjusted to exclude the same non-core, unusual, or non-recurring items as are excluded from the Company's other non-GAAP earnings measures for the same periods divided by the GAAP measure sales revenue in the Company's Consolidated Statement of Earnings, Comprehensive Income and Retained Earnings for the same period. Adjusted EBITDA is EBITDA (net earnings before interest, taxes, depreciation and amortization) adjusted to exclude the same non-core, unusual, or non-recurring items as are excluded from the Company's other non-GAAP earnings measures for the same periods. Adjusted EBITDA Margin is Adjusted EBITDA divided by the GAAP measure sales revenue in the Company's Consolidated Statement of Earnings, Comprehensive Income and Retained Earnings for the same periods. Management defines ROIC as net earnings plus interest expense after tax divided by average total borrowings plus average stockholders' equity for the periods presented, each derived from the GAAP measures in the Company's financial statements for the periods presented. Adjusted ROIC is ROIC adjusted to exclude from net earnings the same non-core, unusual, or non-recurring items as are excluded from the Company's other non-GAAP earnings measures for the same periods. Management believes that Adjusted EBIT Margin, Adjusted EBITDA, Adjusted EBITDA Margin, ROIC, and Adjusted ROIC are useful as supplemental measures in evaluating the performance of and returns from Eastman's operating businesses, and from time to time uses such measures in internal performance calculations. Further, management understands that investors and securities analysts often use similar measures of Adjusted EBIT Margin, Adjusted EBITDA, Adjusted EBITDA Margin, ROIC, and Adjusted ROIC to compare the results, returns, and value of the Company with those of peer and other companies.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS****OVERVIEW**

Eastman's products and operations are managed and reported in four operating segments: Additives & Functional Products ("AFP"), Advanced Materials ("AM"), Chemical Intermediates ("CI"), and Fibers. Eastman uses an innovation-driven growth model which consists of leveraging world class scalable technology platforms, delivering differentiated application development capabilities, and relentlessly engaging the market. The Company's world class technology platforms form the foundation of sustainable growth by differentiated products through significant scale advantages in research and development ("R&D") and advantaged global market access. Differentiated application development converts market complexity into opportunities for growth and accelerates innovation by enabling a deeper understanding of the value of Eastman's products and how they perform within customers' and end-user products. Key areas of application development include thermoplastic conversion, functional films, coatings formulations, nonwovens and textiles, animal nutrition, and molecular recycling technologies. The Company engages the market by working directly with customers and downstream users, targeting attractive niche markets, and leveraging disruptive macro trends. Management believes that these elements of the Company's innovation-driven growth model, combined with disciplined portfolio management and balanced capital deployment, will result in consistent, sustainable earnings growth and strong cash flow.

The Company generated sales revenue of \$2.8 billion and \$2.7 billion in second quarter 2022 and 2021, respectively, and \$5.5 billion and \$5.1 billion in first six months 2022 and 2021, respectively. EBIT was \$426 million in second quarter 2022 and loss before interest and taxes was \$56 million in second quarter 2021. EBIT was \$759 million and \$333 million in first six months 2022 and 2021, respectively. Excluding the non-core and unusual items identified in "Non-GAAP Financial Measures", adjusted EBIT was \$469 million and \$454 million in second quarter 2022 and 2021, respectively, and \$835 million and \$854 million in first six months 2022 and 2021. Sales revenue increased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily due to higher selling prices partially offset by lower sales volume. Adjusted EBIT increased in second quarter 2022 compared to second quarter 2021 primarily due to higher selling prices more than offsetting higher raw material and energy costs and higher distribution costs, partially offset by lower sales volume. Adjusted EBIT decreased in first six months 2022 compared to first six months 2021 primarily due to lower sales volume and higher manufacturing costs. This was partially offset by higher selling prices more than offsetting higher raw material and energy costs and higher distribution costs.

On January 31, 2022, the Company had an incident at its Kingsport site as a result of a steam line failure. Consistent with Eastman's safety processes, all manufacturing operations at the site were safely shut down following the incident. All impacted areas of the manufacturing facility were operational as of March 31, 2022. The primary impacted area was specialty copolyesters in the AM segment. The Fibers segment was also modestly impacted.

First six months 2022 includes costs associated with normal business operations, including labor, benefits, and depreciation, which were accelerated into the first-quarter as well as incremental costs to repair damaged infrastructure and minimize customer disruption. Incremental costs, net of insurance proceeds, of \$17 million and \$42 million for second quarter and first six months 2022, respectively, primarily related to the repair of damaged infrastructure were excluded from the Company's adjusted EBIT.

On November 1, 2021, the Company and certain of its subsidiaries completed the sale of the rubber additives (including Crystex™ insoluble sulfur and Santoflex™ antidegradants) and other product lines and related assets and technology of the global tire additives business of its AFP segment ("rubber additives"). The sale did not include the Eastman Impera™ tire resins and other performance resins product lines of the tire additives business.

On April 1, 2022, the Company and certain of its subsidiaries completed the sale of the adhesives resins business, which includes hydrocarbon resins (including Eastman Impera™ tire resins), pure monomer resins, polyolefin polymers, rosins and dispersions, and oleochemical and fatty-acid based resins product lines, of its AFP segment ("adhesives resins").

For additional information on the sales of the rubber additives business and the adhesive resins business, see Note 2, "Divestitures", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of first quarter 2022, the Company reported sales revenue and EBIT for the divested businesses from the AFP segment in "Other". To maintain comparability of segment financial statement information, the Company has recast the segment financial information for the AFP segment and "Other" for each quarter from first quarter 2019 through fourth quarter 2021. The information presented below excludes the financial results of the divested businesses from the AFP segment and includes the financial results of the divested businesses in "Other". For more information, refer to the [Current Report on Form 8-K](#) dated April 18, 2022, and Part II, Item 5, "Other Information" in the [Quarterly Report on Form 10-Q](#) for first quarter 2022.

Discussion of sales revenue and EBIT changes is presented in "Results of Operations" and "Summary by Operating Segment" in this MD&A.

Net earnings (loss) and EPS and adjusted net earnings and EPS were as follows:

| | Second Quarter | | | |
|--|----------------|---------|----------|-----------|
| | 2022 | | 2021 | |
| | \$ | EPS | \$ | EPS |
| (Dollars in millions, except EPS) | | | | |
| Net earnings (loss) attributable to Eastman | \$ 256 | \$ 2.03 | \$ (146) | \$ (1.07) |
| Total non-core and unusual items, net of tax | 92 | 0.72 | 477 | 3.47 |
| Interim adjustment to tax provision | 10 | 0.08 | 8 | 0.06 |
| Adjusted net earnings | \$ 358 | \$ 2.83 | \$ 339 | \$ 2.46 |

| | First Six Months | | | |
|--|------------------|---------|--------|---------|
| | 2022 | | 2021 | |
| | \$ | EPS | \$ | EPS |
| (Dollars in millions, except EPS) | | | | |
| Net earnings attributable to Eastman | \$ 491 | \$ 3.82 | \$ 128 | \$ 0.93 |
| Total non-core and unusual items, net of tax | 120 | 0.94 | 486 | 3.53 |
| Interim adjustment to tax provision | 16 | 0.12 | 18 | 0.13 |
| Adjusted net earnings | \$ 627 | \$ 4.88 | \$ 632 | \$ 4.59 |

Cash provided by operating activities was \$262 million and \$642 million in first six months 2022 and 2021, respectively.

RESULTS OF OPERATIONS

Sales

| | Second Quarter | | | | First Six Months | | | |
|---|----------------|----------|--------|-------|------------------|----------|--------|------|
| | | | Change | | | | Change | |
| | 2022 | 2021 | \$ | % | 2022 | 2021 | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Sales | \$ 2,784 | \$ 2,653 | \$ 131 | 5 % | \$ 5,498 | \$ 5,062 | \$ 436 | 9 % |
| Volume / product mix effect | | | 53 | 2 % | | | 60 | 1 % |
| Price effect | | | 405 | 15 % | | | 838 | 17 % |
| Exchange rate effect | | | (57) | (2)% | | | (90) | (2)% |
| Divested business effect ⁽¹⁾ | | | (270) | (10)% | | | (372) | (7)% |

⁽¹⁾ Contribution to sales revenue of businesses divested which are not in 2022 comparable periods.

Sales revenue increased in second quarter and first six months 2022 compared to second quarter and first six months 2021 as a result of increases in all operating segments. Further discussion by operating segment is presented in "Summary by Operating Segment" in this MD&A.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Gross Profit

| | Second Quarter | | | First Six Months | | |
|--|----------------|---------------|--------|------------------|-----------------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (Dollars in millions) | | | | | | |
| Gross profit | \$ 670 | \$ 681 | (2)% | \$ 1,220 | \$ 1,279 | (5)% |
| Accelerated depreciation | — | — | | — | 4 | |
| Steam line incident costs, net of insurance proceeds | 17 | — | | 42 | — | |
| Gross profit excluding non-core and unusual items | <u>\$ 687</u> | <u>\$ 681</u> | 1 % | <u>\$ 1,262</u> | <u>\$ 1,283</u> | (2)% |

Gross profit in second quarter and first six months 2022 included incremental costs, net of insurance proceeds, from the steam line incident, and first six months 2021 included accelerated depreciation resulting from the previously reported closure of an advanced interlayers manufacturing facility in North America in the AM segment as part of ongoing site optimization actions. Excluding these non-core and unusual items, gross profit increased in second quarter 2022 compared to second quarter 2021 as a result of increases in all segments except the Fibers segment, and gross profit decreased in first six months 2022 compared to first six months 2021 primarily as a result of decreases in the AM and Fibers segments partially offset by increases in the AFP and CI segments. Further discussion of sales revenue and EBIT changes is presented in "Summary by Operating Segment" in this MD&A.

Selling, General and Administrative Expenses

| | Second Quarter | | | First Six Months | | |
|--|----------------|---------------|--------|------------------|---------------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (Dollars in millions) | | | | | | |
| Selling, general and administrative expenses | \$ 185 | \$ 202 | (8)% | \$ 381 | \$ 386 | (1)% |
| Transaction costs | (2) | — | | (11) | — | |
| Selling, general and administrative expenses excluding non-core item | <u>\$ 183</u> | <u>\$ 202</u> | (9)% | <u>\$ 370</u> | <u>\$ 386</u> | (4)% |

Second quarter and first six months 2022 SG&A expenses included transaction costs for the sale of the rubber additives and adhesives resins businesses. Excluding this non-core item, SG&A expenses decreased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily as a result of lower variable compensation costs partially offset by higher growth initiative costs.

Research and Development Expenses

| | Second Quarter | | | First Six Months | | |
|-----------------------------------|----------------|-------|--------|------------------|--------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (Dollars in millions) | | | | | | |
| Research and development expenses | \$ 67 | \$ 63 | 6 % | \$ 132 | \$ 121 | 9 % |

R&D expenses increased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily due to higher growth initiative project costs, primarily in the AM and AFP segments.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Asset Impairments and Restructuring Charges, Net

(Dollars in millions)

| | Second Quarter | | First Six Months | |
|--|----------------|--------------|------------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| Tangible Asset Impairments | | | | |
| Site optimizations | | | | |
| Other - Tire additives | \$ — | \$ 4 | \$ — | \$ 4 |
| AM - Advanced interlayers | — | 1 | — | 1 |
| | — | 5 | — | 5 |
| Loss (Gain) on Sale of Previously Impaired Assets | | | | |
| Site optimizations | | | | |
| Other - Tire additives | (1) | — | (1) | — |
| AM - Advanced interlayers | 16 | — | 16 | — |
| AFP - Animal nutrition | — | — | — | (1) |
| | 15 | — | 15 | (1) |
| Severance Charges | | | | |
| Business improvement and cost reduction actions | 2 | — | 2 | — |
| Site optimizations | | | | |
| AM - Performance films | 1 | — | 1 | — |
| AM - Advanced interlayers | — | — | — | 1 |
| | 3 | — | 3 | 1 |
| Other Restructuring Costs | | | | |
| CI & AFP - Singapore | 1 | 8 | 2 | 13 |
| Site optimizations | | | | |
| AM - Advanced interlayers | — | 2 | 1 | 2 |
| Other - Tire additives | — | — | — | 2 |
| | 1 | 10 | 3 | 17 |
| Total | \$ 19 | \$ 15 | \$ 21 | \$ 22 |

For detailed information regarding asset impairments and restructuring charges, net see Note 14, "Asset Impairments and Restructuring Charges, Net", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other Components of Post-employment (Benefit) Cost, Net

(Dollars in millions)

| | Second Quarter | | First Six Months | |
|---|----------------|---------|------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Other components of post-employment (benefit) cost, net | \$ (34) | \$ (37) | \$ (65) | \$ (73) |
| Mark-to-market pension and other postretirement benefit gain, net | 3 | — | 3 | — |
| Other components of post-employment (benefit) cost, net excluding non-core item | \$ (31) | \$ (37) | \$ (62) | \$ (73) |

For more information regarding other components of post-employment (benefit) cost, net see Note 8, "Retirement Plans", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Other (Income) Charges, Net

| | Second Quarter | | First Six Months | |
|--|----------------|---------------|------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| (Dollars in millions) | | | | |
| Foreign exchange transaction (gains) losses, net | \$ 7 | \$ 1 | \$ 8 | \$ 5 |
| (Income) loss from equity investments and other investment (gains) losses, net | (3) | (3) | (15) | (9) |
| Other, net | 10 | 1 | 9 | (1) |
| Other (income) charges, net | \$ 14 | \$ (1) | \$ 2 | \$ (5) |
| Environmental and other costs | (15) | — | (15) | — |
| Other (income) charges, net excluding non-core items | <u>\$ (1)</u> | <u>\$ (1)</u> | <u>\$ (13)</u> | <u>\$ (5)</u> |

For more information regarding components of foreign exchange transaction losses, see Note 7, "Derivative and Non-Derivative Financial Instruments", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Earnings (Loss) Before Interest and Taxes

| | Second Quarter | | | First Six Months | | |
|---|----------------|---------------|--------|------------------|---------------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (Dollars in millions) | | | | | | |
| Earnings (loss) before interest and taxes | \$ 426 | \$ (56) | >100% | \$ 759 | \$ 333 | >100% |
| Mark-to-market pension and other postretirement benefits (gain), net | (3) | — | | (3) | — | |
| Asset impairments and restructuring charges, net | 19 | 15 | | 21 | 22 | |
| Net (gain) loss on divested businesses and transaction costs | (5) | 495 | | 1 | 495 | |
| Accelerated depreciation | — | — | | — | 4 | |
| Steam line incident costs, net of insurance proceeds | 17 | — | | 42 | — | |
| Environmental and other costs | 15 | — | | 15 | — | |
| Earnings before interest and taxes excluding non-core and unusual items | <u>\$ 469</u> | <u>\$ 454</u> | 3 % | <u>\$ 835</u> | <u>\$ 854</u> | (2)% |

Net Interest Expense

| | Second Quarter | | | First Six Months | | |
|----------------------------|----------------|--------------|--------|------------------|---------------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (Dollars in millions) | | | | | | |
| Gross interest costs | \$ 47 | \$ 52 | (10)% | \$ 96 | \$ 104 | (8)% |
| Less: Capitalized interest | 2 | 1 | | 4 | 2 | |
| Interest expense | 45 | 51 | | 92 | 102 | |
| Less: Interest income | — | — | | 1 | 1 | |
| Net interest expense | <u>\$ 45</u> | <u>\$ 51</u> | (12)% | <u>\$ 91</u> | <u>\$ 101</u> | (10)% |

Net interest expense decreased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily as a result of lower total borrowings.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Provision for Income Taxes

| | Second Quarter | | | | First Six Months | | | |
|---|----------------|------|--------------|------|------------------|------|---------------|------|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Provision for income taxes and effective tax rate | \$ 124 | 33 % | \$ 37 | — % | \$ 175 | 26 % | \$ 99 | 44 % |
| Tax provision for non-core and unusual items ⁽¹⁾ | (49) | | 33 | | (44) | | 35 | |
| Interim adjustment to tax provision ⁽²⁾ | (10) | | (8) | | (16) | | (18) | |
| Adjusted provision for income taxes and effective tax rate | <u>\$ 65</u> | 16 % | <u>\$ 62</u> | 16 % | <u>\$ 115</u> | 16 % | <u>\$ 116</u> | 16 % |

⁽¹⁾ Provision for income taxes for non-core and unusual items is calculated using the tax rate for the jurisdiction where the gains are taxable and the expenses are deductible.

⁽²⁾ Second quarter 2022 provision for income taxes was adjusted to reflect the current forecasted full year effective tax rate. Second quarter 2021 provision for income taxes was adjusted to reflect the then current forecasted full year effective tax rate. The adjusted provision for income taxes for first six months 2022 and 2021 are calculated applying the forecasted full year effective tax rates as shown below.

| | First Six Months ⁽¹⁾ | |
|--|---------------------------------|-------------|
| | 2022 | 2021 |
| Effective tax rate | 26 % | 44 % |
| Tax impact of current year non-core and unusual items ⁽²⁾ | (6)% | (25)% |
| Forecasted full year impact of expected tax events | (4)% | (3)% |
| Forecasted full year adjusted effective tax rate | <u>16 %</u> | <u>16 %</u> |

⁽¹⁾ Effective tax rate percentages are rounded to the nearest whole percent. The forecasted full year effective tax rates are 15.5 percent for both first six months 2022 and 2021.

⁽²⁾ Provision for income taxes for non-core and unusual items is calculated using the tax rate for the jurisdiction where the gains are taxable and the expenses are deductible.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Net Earnings (Loss) Attributable to Eastman and Diluted Earnings per Share

| | Second Quarter | | | |
|---|----------------|----------------|---------------|----------------|
| | 2022 | | 2021 | |
| | \$ | EPS | \$ | EPS |
| (Dollars in millions, except EPS) | | | | |
| Net earnings (loss) and diluted earnings per share attributable to Eastman | \$ 256 | \$ 2.03 | \$ (146) | \$ (1.07) |
| Non-core items, net of tax: ⁽¹⁾ | | | | |
| Mark-to-market pension and other post-employment benefits (gain), net | (3) | (0.02) | — | — |
| Asset impairments and restructuring charges, net | 15 | 0.12 | 12 | 0.09 |
| Net (gain) loss on divested businesses and transaction costs | 56 | 0.43 | 465 | 3.38 |
| Environmental and other costs | 11 | 0.09 | — | — |
| Unusual item, net of tax: ⁽¹⁾ | | | | |
| Steam line incident costs, net of insurance proceeds | 13 | 0.10 | — | — |
| Interim adjustment to tax provision | 10 | 0.08 | 8 | 0.06 |
| Adjusted net earnings and diluted earnings per share attributable to Eastman ⁽²⁾ | <u>\$ 358</u> | <u>\$ 2.83</u> | <u>\$ 339</u> | <u>\$ 2.46</u> |

| | First Six Months | | | |
|--|------------------|----------------|---------------|----------------|
| | 2022 | | 2021 | |
| | \$ | EPS | \$ | EPS |
| (Dollars in millions, except EPS) | | | | |
| Net earnings and diluted earnings per share attributable to Eastman | \$ 491 | \$ 3.82 | \$ 128 | \$ 0.93 |
| Non-core items, net of tax: ⁽¹⁾ | | | | |
| Mark-to-market pension and other post-employment benefits (gain), net | (3) | (0.02) | — | — |
| Asset impairments and restructuring charges, net | 16 | 0.13 | 18 | 0.13 |
| Net (gain) loss on divested businesses and transaction costs | 64 | 0.50 | 465 | 3.38 |
| Accelerated depreciation | — | — | 3 | 0.02 |
| Environmental and other costs | 11 | 0.09 | — | — |
| Unusual items, net of tax: ⁽¹⁾ | | | | |
| Steam line incident costs, net of insurance proceeds | 32 | 0.24 | — | — |
| Interim adjustment to tax provision | 16 | 0.12 | 18 | 0.13 |
| Adjusted net earnings and diluted earnings per share attributable to Eastman | <u>\$ 627</u> | <u>\$ 4.88</u> | <u>\$ 632</u> | <u>\$ 4.59</u> |

⁽¹⁾ Provision for income taxes for non-core and unusual items is calculated using the tax rate for the jurisdiction where the gains are taxable and the expenses are deductible.

⁽²⁾ Second quarter 2021 EPS calculated using diluted shares of 137.6 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

SUMMARY BY OPERATING SEGMENT

Eastman's products and operations are managed and reported in four operating segments: Additives & Functional Products ("AFP"), Advanced Materials ("AM"), Chemical Intermediates ("CI"), and Fibers. For additional financial and product information for each operating segment, see Part I, Item 1, "Business - Business Segments" and Part II, Item 8, Note 20, "Segment and Regional Sales Information", in the Company's 2021 [Annual Report on Form 10-K](#) and the recasted financial information for AFP segment and "Other" in Part II, Item 5, "Other Information" of the [Quarterly Report on Form 10-Q](#) for first quarter 2022.

Additives & Functional Products Segment

| | Second Quarter | | | | First Six Months | | | |
|--|----------------|--------|--------|------|------------------|----------|--------|------|
| | 2022 | 2021 | Change | | 2022 | 2021 | Change | |
| | | | \$ | % | | | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Sales | \$ 835 | \$ 655 | \$ 180 | 27 % | \$ 1,640 | \$ 1,264 | \$ 376 | 30 % |
| Volume / product mix effect | | | 71 | 11 % | | | 133 | 11 % |
| Price effect | | | 135 | 20 % | | | 285 | 22 % |
| Exchange rate effect | | | (26) | (4)% | | | (42) | (3)% |
| Earnings before interest and taxes | \$ 148 | \$ 109 | \$ 39 | 36 % | \$ 293 | \$ 216 | \$ 77 | 36 % |
| Asset impairments and restructuring charges, net | — | 2 | (2) | | — | 2 | (2) | |
| Earnings before interest and taxes excluding non-core item | 148 | 111 | 37 | 33 % | 293 | 218 | 75 | 34 % |

Sales revenue in second quarter and first six months 2022 increased compared to second quarter and first six months 2021 primarily due to higher selling prices and higher sales volume. Higher selling prices were due to strong end-market demand and higher raw material, energy, and distribution prices. Cost pass-through contracts represented approximately 40 percent of the selling price increase in both second quarter and first six months 2022. Higher sales volume was due to strong underlying demand in key end-markets, including animal nutrition, personal care, building and construction, and electronics.

Second quarter and first six months 2021 EBIT included asset impairments and restructuring charges resulting from a manufacturing facility closure, contract termination fees, discontinued production of certain products, and a gain on the sale of impaired assets. For more information regarding asset impairments and restructuring charges, see Note 14, "Asset Impairments and Restructuring Charges, Net", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Excluding these non-core items, EBIT increased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily due to higher sales volume and lower planned maintenance costs totaling \$33 million and \$50 million, respectively, higher selling prices were partially offset by higher raw material and energy costs, and distribution costs by \$8 million and \$38 million, respectively, and lower variable compensation costs partially offset by higher growth initiative costs totaling \$5 million in both periods. In addition, an unfavorable shift in foreign currency exchange rates was recognized in second quarter and first six months 2022 of \$5 million and \$8 million, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Advanced Materials Segment

| | Second Quarter | | | | First Six Months | | | |
|---|----------------|--------|--------|------|------------------|----------|---------|-------|
| | 2022 | 2021 | Change | | 2022 | 2021 | Change | |
| | | | \$ | % | | | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Sales | \$ 846 | \$ 769 | \$ 77 | 10 % | \$ 1,583 | \$ 1,485 | \$ 98 | 7 % |
| Volume / product mix effect | | | (10) | (1)% | | | (48) | (3)% |
| Price effect | | | 103 | 13 % | | | 170 | 12 % |
| Exchange rate effect | | | (16) | (2)% | | | (24) | (2)% |
| Earnings before interest and taxes | \$ 141 | \$ 150 | \$ (9) | (6)% | \$ 202 | \$ 296 | \$ (94) | (32)% |
| Asset impairments and restructuring charges, net | 17 | 3 | 14 | | 18 | 4 | 14 | |
| Accelerated depreciation | — | — | — | | — | 4 | (4) | |
| Earnings before interest and taxes excluding non-core items | 158 | 153 | 5 | 3 % | 220 | 304 | (84) | (28)% |

Sales revenue in second quarter and first six months 2022 increased compared to second quarter and first six months 2021 primarily due to higher selling prices partially offset by lower sales volume and an unfavorable shift in foreign currency exchange rates. Higher selling prices in the specialty plastics and advanced interlayers product lines were due to higher raw material, energy, and distribution prices. Sales volume was relatively unchanged as underlying demand remained strong across key end-markets, including consumer durables, partially offset by logistics constraints in the specialty plastics product line and continued weakness in the automotive end-market for advanced interlayers products.

Second quarter and first six months 2022 and 2021 EBIT included asset impairment and restructuring charges from a manufacturing facility closure and first six months 2021 EBIT included accelerated depreciation. For more information regarding asset impairments and restructuring charges see Note 14, "Asset Impairments and Restructuring Charges, Net", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Excluding these non-core items, EBIT increased in second quarter 2022 compared to second quarter 2021 primarily due to higher sales volume and lower manufacturing costs totaling \$10 million, higher selling prices more than offsetting higher raw materials and energy costs and distribution costs by \$7 million, and higher growth initiative costs partially offset by lower variable compensation costs totaling \$4 million. In addition, \$6 million of an unfavorable shift in foreign currency exchange rates was recognized in the period.

Excluding these non-core items, EBIT decreased in first six months 2022 compared to first six months 2021 primarily due to lower sales volume and higher manufacturing costs totaling \$46 million primarily as a result of the steam line incident, higher growth initiative costs partially offset by lower variable compensation costs by \$17 million, and higher raw material and energy costs and higher distribution costs offsetting selling prices totaling \$5 million. In addition, \$8 million of an unfavorable shift in foreign currency exchange rates was recognized in the period.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Chemical Intermediates Segment

| | Second Quarter | | | | First Six Months | | | |
|---|----------------|--------|--------|------|------------------|----------|--------|------|
| | 2022 | 2021 | Change | | 2022 | 2021 | Change | |
| | | | \$ | % | | | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Sales | \$ 861 | \$ 736 | \$ 125 | 17 % | \$ 1,660 | \$ 1,341 | \$ 319 | 24 % |
| Volume / product mix effect | | | (2) | — % | | | 1 | — % |
| Price effect | | | 140 | 19 % | | | 340 | 25 % |
| Exchange rate effect | | | (13) | (2)% | | | (22) | (1)% |
| Earnings before interest and taxes | \$ 154 | \$ 137 | \$ 17 | 12 % | \$ 288 | \$ 206 | \$ 82 | 40 % |
| Asset impairments and restructuring charges, net | 1 | 7 | (6) | | 2 | 11 | (9) | |
| Earnings before interest and taxes excluding non-core items | 155 | 144 | 11 | 8 % | 290 | 217 | 73 | 34 % |

Sales revenue in second quarter and first six months 2022 increased compared to second quarter and first six months 2021 primarily due to higher selling prices across the business, resulting from higher raw material, energy, and distribution prices, as well as continued constrained market conditions. The impact of lower sales volume, primarily in plasticizers, was partially offset by strong demand growth in the agriculture end-market for functional amines.

Second quarter and first six months 2022 and second quarter and first six months 2021 EBIT included site closure costs resulting from the previously reported plan to discontinue production of certain products at the Singapore manufacturing site. For more information regarding asset impairments and restructuring charges see Note 14, "Asset Impairments and Restructuring Charges, Net", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Excluding these non-core items, EBIT increased in second quarter and first six months 2022 compared to second quarter and first six months 2021 primarily due to higher selling prices offsetting higher raw material and energy costs, and higher distribution costs by \$7 million and \$75 million, respectively.

Fibers Segment

| | Second Quarter | | | | First Six Months | | | |
|------------------------------------|----------------|--------|--------|------|------------------|--------|---------|-------|
| | 2022 | 2021 | Change | | 2022 | 2021 | Change | |
| | | | \$ | % | | | \$ | % |
| (Dollars in millions) | | | | | | | | |
| Sales | \$ 242 | \$ 223 | \$ 19 | 9 % | \$ 455 | \$ 440 | \$ 15 | 3 % |
| Volume / product mix effect | | | (6) | (2)% | | | (26) | (6)% |
| Price effect | | | 27 | 12 % | | | 43 | 9 % |
| Exchange rate effect | | | (2) | (1)% | | | (2) | — % |
| Earnings before interest and taxes | \$ 37 | \$ 37 | \$ — | — % | \$ 61 | \$ 82 | \$ (21) | (26)% |

Sales revenue in second quarter and first six months 2022 increased compared to second quarter and first six months 2021 primarily due to higher selling prices across the segment, partially offset by lower sales volume in acetate tow.

EBIT was relatively unchanged in second quarter 2022 compared to second quarter 2021. Higher selling prices more than offset higher raw material and energy costs and higher distribution costs. This was offset by lower sales volume and higher manufacturing costs primarily as a result of the steam line incident and the Russia/Ukraine conflict.

EBIT decreased in first six months 2022 compared to first six months 2021 due to \$33 million of lower sales volume and higher manufacturing costs primarily as a result of the steam line incident and the Russia/Ukraine conflict, partially offset by higher selling prices offsetting higher raw material and energy costs, and higher distribution costs by \$13 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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Other

| | Second Quarter | | First Six Months | |
|---|-----------------------|-------------|-------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| (Dollars in millions) | | | | |
| Sales | \$ — | \$ 270 | \$ 160 | \$ 532 |
| Earnings (loss) before interest and taxes | | | | |
| Growth initiatives and businesses not allocated to operating segments | \$ (53) | \$ (18) | \$ (85) | \$ (17) |
| Pension and other postretirement benefits income (expense), net not allocated to operating segments | 26 | 27 | 49 | 54 |
| Asset impairments and restructuring charges, net | (1) | (3) | (1) | (5) |
| Net gain (loss) on divested businesses and transaction costs | 5 | (495) | (1) | (495) |
| Steam line incident costs, net of insurance proceeds | (17) | — | (42) | — |
| Other income (charges), net not allocated to operating segments | (14) | — | (5) | (4) |
| Earnings (loss) before interest and taxes | \$ (54) | \$ (489) | \$ (85) | \$ (467) |
| Asset impairments and restructuring charges, net | 1 | 3 | 1 | 5 |
| Net (gain) loss on divested businesses and transaction costs | (5) | 495 | 1 | 495 |
| Steam line incident costs, net of insurance proceeds | 17 | — | 42 | — |
| Environmental and other costs | 15 | — | 15 | — |
| Mark-to-market pension and other postretirement benefits (gain), net | (3) | — | (3) | — |
| Earnings (loss) before interest and taxes excluding non-core and unusual items | (29) | 9 | (29) | 33 |

On November 1, 2021, the Company and certain of its subsidiaries completed the sale of its rubber additives (including Crystex™ insoluble sulfur and Santoflex™ antidegradants) and other product lines and related assets and technology of the global tire additives business of its AFP segment. Additionally, on April 1, 2022, the Company and certain of its subsidiaries completed the sale of its adhesives resins business. The sale included hydrocarbon resins (including Eastman Impera™ tire resins), pure monomer resins, polyolefin polymers, rosins and dispersions, and oleochemical and fatty-acid based resins product lines, all of which were also previously part of the AFP segment.

Beginning January 1, 2022, sales revenue and EBIT of the divested businesses are included in "Other". To maintain comparability of segment financial statement information, the Company has recast the segment financial information for the AFP segment and "Other" for each quarter from first quarter 2019 through fourth quarter 2021. For more information, see the [Current Report on Form 8-K](#) dated April 18, 2022, and Part II, Item 5, "Other Information" of the [Quarterly Report on Form 10-Q](#) for first quarter 2022.

Costs related to growth initiatives, R&D costs, certain components of pension and other postretirement benefits, and other expenses and income not identifiable to an operating segment are not included in operating segment results for any of the periods presented and are included in "Other". Second quarter and first six months 2022 EBIT included \$17 million and \$42 million, respectively, of net costs from the steam line incident. For more information, see "Overview" in this MD&A. Second quarter and first six months 2022 EBIT included environmental and other costs from previously divested or non-operational sites. Second quarter and first six months 2022 and 2021 EBIT included asset impairments and restructuring charges and second quarter and first six months 2021 EBIT included severance from the previously reported closure of a tire additives manufacturing facility in Asia Pacific as part of ongoing site optimization. For more information regarding asset impairments and restructuring charges see Note 14, "Asset Impairments and Restructuring Charges, Net", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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SALES BY CUSTOMER LOCATION

| | Sales Revenue | | | | | | | |
|---------------------------------|----------------|----------|--------|------|------------------|----------|--------|------|
| | Second Quarter | | | | First Six Months | | | |
| | | | Change | | | | Change | |
| | 2022 | 2021 | \$ | % | 2022 | 2021 | \$ | % |
| (Dollars in millions) | | | | | | | | |
| United States and Canada | \$ 1,304 | \$ 1,197 | \$ 107 | 9 % | \$ 2,502 | \$ 2,201 | \$ 301 | 14 % |
| Europe, Middle East, and Africa | 681 | 688 | (7) | (1)% | 1,426 | 1,344 | 82 | 6 % |
| Asia Pacific | 638 | 611 | 27 | 4 % | 1,250 | 1,219 | 31 | 3 % |
| Latin America | 161 | 157 | 4 | 3 % | 320 | 298 | 22 | 7 % |
| Total Eastman Chemical Company | \$ 2,784 | \$ 2,653 | \$ 131 | 5 % | \$ 5,498 | \$ 5,062 | \$ 436 | 8 % |

Sales revenue increased 5 percent in second quarter 2022 compared to second quarter 2021 due to increases in sales revenue across all regions, except the Europe, Middle East, and Africa ("EMEA") region. Higher sales revenue was primarily due to higher selling prices (up 15 percent) partially offset by lower volume (down 8 percent, including the impact from divested businesses) across all regions. The most significant increase in sales revenue occurred in the United States and Canada, primarily due to higher selling prices and sales volume in the CI and AFP segments.

Sales revenue increased 8 percent in first six months 2022 compared to first six months 2021 due to increases in sales revenue across all regions. Higher sales revenue was primarily due to higher selling prices (up 17 percent) partially offset by lower volume (down 6 percent, including the impact from divested businesses) across all regions. The most significant increase in sales revenue occurred in the United States and Canada, primarily due higher selling prices and sales volume in the CI and AFP segments.

Further discussion by operating segment is presented in "Summary by Operating Segment" in this MD&A.

LIQUIDITY AND OTHER FINANCIAL INFORMATION
Cash Flows

Cash flows from operations, cash and cash equivalents, and the other sources of liquidity described below are expected to be available and sufficient to meet known short and long-term cash requirements. However, the Company's cash flows from operations can be affected by numerous factors including risks associated with global operations, raw material availability and cost, demand for and pricing of Eastman's products, capacity utilization, and other factors described under "Risk Factors" in this MD&A. Management believes maintaining a financial profile consistent with an investment grade credit rating is important to its long-term strategic and financial flexibility.

| | First Six Months | |
|--|------------------|--------|
| | 2022 | 2021 |
| (Dollars in millions) | | |
| Net cash provided by (used in) | | |
| Operating activities | \$ 262 | \$ 642 |
| Investing activities | 756 | (277) |
| Financing activities | (1,010) | (315) |
| Effect of exchange rate changes on cash and cash equivalents | (11) | (5) |
| Net change in cash and cash equivalents | (3) | 45 |
| Cash and cash equivalents at beginning of period | 459 | 564 |
| Cash and cash equivalents at end of period | \$ 456 | \$ 609 |

Cash provided by operating activities decreased \$380 million in first six months 2022 compared with first six months 2021 due to higher variable compensation payout; higher working capital attributed to higher selling prices, higher raw material and energy costs, and increased inventory volume; and lower net earnings excluding (gain) loss on divested business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash provided by investing activities was \$756 million in first six months 2022 compared with cash used in investing activities of \$277 million in first six months 2021 primarily due to proceeds from the sale of the adhesives resins business in first six months 2022, partially offset by higher capital expenditures, and an acquisition in the AFP segment in first six months 2021.

Cash used in financing activities increased \$695 million in first six months 2022 compared with first six months 2021, primarily due to higher payment for repurchase of shares resulting from the accelerated share repurchase plan in first six months 2022.

Working Capital Management and Off Balance Sheet Arrangements

Eastman applies a proactive and disciplined approach to working capital management to optimize cash flow and to enable a full range of capital allocation options in support of the Company's strategy. Eastman expects to continue utilizing the programs described below to support operating cash flow consistent with past practices.

The Company has an off balance sheet, uncommitted accounts receivable factoring program under which entire invoices may be sold, without recourse, to third-party financial institutions. Available capacity under these agreements, which the Company uses as a routine source of working capital funding, is dependent on the level of accounts receivable eligible to be sold and the financial institutions' willingness to purchase such receivables. The total amounts sold in second quarter 2022 and 2021 were \$637 million and \$298 million, respectively, and \$1,139 million and \$587 million in first six months 2022 and 2021, respectively. Based on the original terms of receivables sold for certain agreements and actual outstanding balance of receivables under servicing agreements, the Company estimates that \$412 million and \$239 million of these receivables would have been outstanding as of June 30, 2022 and December 31, 2021, respectively, had they not been sold under these factoring agreements.

Eastman works with suppliers to optimize payment terms and conditions on accounts payable to enhance timing of working capital and cash flows. As part of these efforts, the Company introduced a voluntary supply chain finance program to provide suppliers with the opportunity to sell receivables due from Eastman to a participating financial institution. See Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2021 [Annual Report on Form 10-K](#) for additional information.

Debt and Other Commitments

At June 30, 2022, the Company's borrowings totaled \$5.0 billion with various maturities. In second quarter 2022, the Company borrowed \$500 million under the five-year term loan agreement ("2022 Term Loan"). The 2022 Term Loan had a variable interest rate of 2.73% as of June 30, 2022. Proceeds from the 2022 Term Loan were used to pay down \$500 million of the 3.6% notes due August 2022. In July 2022, the Company repaid the remaining \$200 million principal amount of the 3.6% notes due August 2022 prior to maturity.

See Note 6, "Borrowings" and Note 9, "Leases and Other Commitments", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding operating leases.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Other Financial Information - Debt and Other Commitments" in Part II, Item 7 of the Company's 2021 [Annual Report on Form 10-K](#) for information on other commitments.

Credit Facility and Commercial Paper Borrowings

The Company has access to a \$1.50 billion revolving credit agreement (the "Credit Facility") expiring December 2026. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. The Credit Facility includes sustainability-linked pricing terms and provides available liquidity for general corporate purposes and supports commercial paper borrowings. At June 30, 2022 and December 31, 2021 the Company had no outstanding commercial paper borrowings. See Note 6, "Borrowings", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Credit Facility and 2022 Term Loan contain customary covenants, including requirements to maintain certain financial ratios, that determine the events of default, amounts available, and terms of borrowings. The Company was in compliance with all applicable covenants at both June 30, 2022 and December 31, 2021. The total amount of available borrowings under the Credit Facility was \$1.50 billion as of June 30, 2022. For additional information, see the Section 5.03 of the Credit Facility at [Exhibit 10.01 to the Company's Current Report on Form 8-K dated April 30, 2020](#).

See Note 6, "Borrowings", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

Net Debt

| (Dollars in millions) | June 30, 2022 | December 31, 2021 |
|---------------------------------|------------------|----------------------|
| Total borrowings | \$ 4,991 | \$ 5,159 |
| Less: Cash and cash equivalents | 456 | 459 |
| Net debt ⁽¹⁾ | \$ 4,535 | \$ 4,700 |

⁽¹⁾ Includes non-cash decrease of \$119 million in 2022 and non-cash decrease of \$113 million in 2021 resulting from foreign currency exchange rates.

Capital Expenditures

Capital expenditures were \$247 million and \$198 million in first six months 2022 and 2021, respectively. Capital expenditures in first six months 2022 were primarily for the AM segment methanolysis plastic-to-plastic molecular recycling manufacturing facility in Kingsport, Tennessee, and other targeted growth initiatives and site modernization projects. The Company expects that 2022 capital expenditures will be approximately \$700 million.

Stock Repurchases

In February 2018, the Company's Board of Directors authorized the repurchase of up to \$2 billion of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company and its stockholders (the "2018 authorization"). The Company completed the 2018 authorization in May 2022, acquiring a total of 19,915,370 shares. In December 2021, the Company's Board of Directors authorized the additional repurchase of up to \$2.5 billion of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company and its stockholders (the "2021 authorization"). As of June 30, 2022, a total of 2,699,693 shares have been repurchased under the 2021 authorization for a \$285 million. During first six months 2022, the Company repurchased 6,666,069 shares of common stock for \$752 million. Both dividends and share repurchases are key strategies employed by the Company to return value to its stockholders.

In fourth quarter 2021, the Company entered into an accelerated share repurchase program ("2021 ASR") to purchase \$500 million of the Company's common stock under the 2018 authorization. In exchange for upfront payment totaling \$500 million, the financial institutions committed to deliver shares during the 2021 ASR's purchase period, which was settled in first quarter 2022. The total number of shares ultimately delivered was determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's stock during the term of the 2021 ASR, less a discount. Approximately 80 percent of the expected shares repurchased under the 2021 ASR were delivered in fourth quarter 2021 and the remaining shares were delivered in first quarter 2022.

In second quarter 2022, the Company entered into an accelerated share repurchase program ("2022 ASR") to purchase \$500 million of the Company's common stock under the board approved authorizations. In exchange for upfront payment totaling \$500 million, the financial institutions committed to deliver shares during the 2022 ASR's purchase period, which will be settled in third quarter 2022. The total number of shares ultimately delivered will be determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's stock during the term of the 2022 ASR, less a discount. Approximately 80 percent of the expected shares repurchased under the 2022 ASR were delivered in second quarter 2022 and the remaining shares were delivered in third quarter 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with GAAP, management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, sales revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Eastman evaluates its estimates, including those related to impairment of long-lived assets, environmental costs, pension and other postretirement benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the critical accounting estimates described in Part II, Item 7 of the Company's 2021 [Annual Report on Form 10-K](#) are the most important to the fair presentation of the Company's financial condition and results. These estimates require management's most significant judgments in the preparation of the Company's consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

For information regarding the impact of recently issued accounting standards, see Note 1, "Significant Accounting Policies", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

OUTLOOK

In 2022, management expects adjusted EPS to be between \$9.50 and \$10.00 and operating cash flow to be approximately \$1.5 billion. For second half 2022 these expectations assume:

- innovation and market development driving growth above underlying end-markets; further progress with price increases to recover from increase of raw material, energy, and distribution costs; and continued disciplined cost management to positively impact financial results;
- commitment to investing in growth across the company, particularly in circular initiatives;
- earnings to be negatively impacted by moderated demand in select end-markets, including durables and building and construction, as well as slower recovery of the auto market; higher energy costs and certain raw material costs remaining at higher levels; and the strong U.S. dollar;
- interest expense of approximately \$180 million;
- depreciation and amortization of approximately \$490 million;
- the full-year effective tax rate on adjusted earnings before income taxes to be between 15 and 16 percent; and
- share repurchases to more than offset impact of divested businesses.

There are also a number of macroeconomic uncertainties, including continued high global inflation, the impact of the Russia/Ukraine conflict on global growth, COVID-related lockdowns in China, and continued global supply chain constraints.

In addition, the Company expects to deploy strong operating cash flow and divestiture proceeds through the combination of investment in organic growth through capital expenditures of approximately \$700 million, bolt-on mergers and acquisitions, and share repurchases in excess of \$1 billion.

The Company's 2022 financial results forecast does not include non-core, unusual, or non-recurring items. Accordingly, management is unable to reconcile projected earnings excluding non-core, unusual, or non-recurring items to projected reported GAAP earnings without unreasonable efforts.

See "Risk Factors" below.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS****RISK FACTORS**

In addition to factors described elsewhere in this Quarterly Report, the following are the material known factors, risks, and uncertainties that could cause actual results to differ materially from those under "Outlook" and in the forward-looking statements made in this Quarterly Report and elsewhere from time to time. See "Forward-Looking Statements". The following risk factors are not necessarily presented in the order of importance. In addition, there may be other factors, not currently known to the Company, which could, in the future, materially adversely affect the Company, its business, financial condition, or results of operations. This and other related disclosures made by the Company in this Quarterly Report, and elsewhere from time to time, represents management's best judgment as of the date the information is given. The Company does not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public Company disclosures (such as in filings with the Securities and Exchange Commission, in Company press releases, or other public presentations) on related subjects.

Risks Related to Global Economy and Industry Conditions

Continued uncertain conditions in the global economy, labor market, and financial markets could negatively impact the Company.

The Company's business and operating results were impacted by the last global recession, and its related impacts, such as the credit market crisis, declining consumer and business confidence, fluctuating commodity prices, volatile exchange rates, and other challenges that impacted the global economy. Similarly, as a company which operates and sells products worldwide, uncertainty in the global economy, labor market, and capital markets (including resulting from the continuing COVID-19 pandemic and subsequent changes and disruptions in business, political, and economic conditions) have impacted and may adversely impact demand for and the costs of certain Eastman products and accordingly results of operations, and may adversely impact the Company's financial condition and cash flows and ability to access the credit and capital markets under attractive rates and terms and negatively impact the Company's liquidity or ability to pursue certain growth initiatives.

Volatility in costs for strategic raw material and energy commodities or disruption in the supply and transportation of these commodities and in transportation of Company products could adversely impact the Company's financial results.

Eastman is reliant on certain strategic raw material and energy commodities for its operations and utilizes risk management tools, including hedging, as appropriate, to mitigate market fluctuations in raw material and energy costs. These risk mitigation measures do not eliminate all exposure to market fluctuations and may limit the Company from fully benefiting from lower raw material costs and, conversely, offset the impact of higher raw material costs. In addition, the global COVID-19 pandemic and subsequent changes and disruptions in business and economic conditions, which has adversely impacted cost and availability and transportation of commodities and transportation of Company products, natural disasters, plant interruptions, supply chain and transportation disruptions (related to the global COVID-19 pandemic and otherwise), changes in laws or regulations, levels of unemployment and inflation, higher interest rates, war or other outbreak of hostilities or terrorism (such as the ongoing Russia/Ukraine conflict), and breakdown or degradation of transportation and supply chain infrastructure used for delivery of strategic raw material and energy commodities and for transportation of Company products, could adversely impact both the cost and availability of these commodities and sales of Company products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's substantial global operations subject it to risks of doing business in other countries, including U.S. and non-U.S. trade relations, which could adversely impact its business, financial condition, and results of operations.

More than half of Eastman's sales for 2021 were to customers outside of North America. The Company expects sales from international markets to continue to represent a significant portion of its sales. Also, a significant portion of the Company's manufacturing capacity is located outside of the United States. Accordingly, the Company's business is subject to risks related to the differing legal, political, cultural, social and regulatory requirements, and economic conditions of many jurisdictions including the unique geographic impacts of the global COVID-19 pandemic. Fluctuations in exchange rates may impact product demand and may adversely impact the profitability in U.S. dollars of products and services provided in foreign countries. In addition, the U.S. and foreign countries have imposed and may impose additional taxes or otherwise tax Eastman's foreign income (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Income Taxes" in Part II, Item 7 of the Company's 2021 [Annual Report on Form 10-K](#)), or adopt or increase restrictions on foreign trade or investment, including currency exchange controls, tariffs or other taxes, or limitations on imports or exports (including recent and proposed changes in U.S. trade policy and resulting retaliatory actions by other countries, including China and Russia, which have recently reduced and which may increasingly reduce demand for and increase costs of impacted products or result in U.S.-based trade counterparties limiting trade with U.S.-based companies or non-U.S. customers limiting their purchases from U.S.-based companies). Certain legal and political risks are also inherent in the operation of a company with Eastman's global scope. For example, it may be more difficult for Eastman to enforce its agreements or collect receivables through foreign legal systems, and the laws of some countries may not protect the Company's intellectual property rights to the same extent as the laws of the U.S. Failure of foreign countries to have laws to protect Eastman's intellectual property rights or an inability to effectively enforce such rights in foreign countries could result in loss of valuable proprietary information. There is also risk that foreign governments may nationalize private enterprises in certain countries where Eastman operates. Social and cultural norms in certain countries may not support compliance with Eastman's corporate policies including those that require compliance with substantive laws and regulations. Also, changes in general economic and political conditions in countries where Eastman operates are a risk to the Company's financial performance. As Eastman continues to operate its business globally, its success will depend, in part, on its ability to anticipate and effectively manage and mitigate these and other related risks. There can be no assurance that the consequences of these and other factors relating to its multinational operations will not have an adverse impact on Eastman's business, financial condition, or results of operations.

Risks Related to the Company's Business and Strategy

The Company's business is subject to operating risks common to chemical and specialty materials manufacturing businesses, including cybersecurity risks, any of which could disrupt manufacturing operations or related infrastructure and adversely impact results of operations.

As a global specialty materials company, Eastman's business is subject to operating risks common to chemical manufacturing, storage, handling, and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation and supply chain interruptions, remediation, chemical spills, and discharges or releases of toxic or hazardous substances or gases. Significant limitation on the Company's ability to manufacture products due to disruption of manufacturing operations or related infrastructure could have a material adverse impact on the Company's sales revenue, costs, results of operations, credit ratings, and financial condition. Disruptions could occur due to internal factors such as computer or equipment malfunction (accidental or intentional), operator error, or process failures; or external factors such as supply chain disruption, computer or equipment malfunction at third-party service providers, natural disasters, changes in laws or regulations, war or other outbreak of hostilities or terrorism, cyber-attacks, or breakdown or degradation of transportation and supply chain infrastructure used for delivery of supplies to the Company or for delivery of products to customers. The Company has in the past experienced cyber-attacks and breaches of its computer information systems, although none of these have had a material adverse impact on the Company's operations and financial results. While the Company remains committed to managing cyber related risk, no assurances can be provided that any future disruptions due to these, or other, circumstances will not have a material impact on the Company's operations or financial results (see "Business - Eastman Chemical Company General Information - Information Security" in Part I, Item 1 of the Company's 2021 [Annual Report on Form 10-K](#)). Unplanned disruptions of manufacturing operations or related infrastructure could be significant in scale and could negatively impact operations, neighbors, and the environment, and could have a negative impact on the Company's results of operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

Growth initiatives may not achieve desired business or financial objectives and may require significant resources in addition to or different from those available or in excess of those estimated or budgeted for such initiatives.

Eastman continues to identify and pursue growth opportunities through both organic and inorganic initiatives, such as Eastman's sustainable innovation initiatives which aim to develop a more "circular economy." These and other growth opportunities include development and commercialization or licensing of innovative new products and technologies and related employee leadership, expertise, skill development and retention, expansion into new markets and geographic regions, alliances, ventures, and acquisitions that complement and extend the Company's portfolio of businesses and capabilities. Such initiatives are necessarily constrained by availability and development of additional resources, including development, attraction, and retention of employee leadership, application development, and sales and marketing talent and capabilities. There can be no assurance that such innovation, development and commercialization or licensing efforts, investments, or acquisitions and alliances (including integration of acquired businesses) will receive necessary governmental or regulatory approvals, or result in financially successful commercialization of products, or acceptance by existing or new customers, or successful entry into new markets or otherwise achieve their underlying strategic business objectives or that they will be beneficial to the Company's results of operations. There also can be no assurance that capital projects for growth efforts can be completed within the time or at the costs projected due, among other things, to demand for and availability of construction materials and labor and obtaining regulatory approvals and operating permits and reaching agreement on terms of key agreements and arrangements with potential suppliers and customers. Any such delays or cost overruns or the inability to obtain such approvals or to reach such agreements on acceptable terms could negatively impact the returns from any proposed or current investments and projects.

Significant acquisitions or divestitures could expose the Company to risks and uncertainties, the occurrence of any of which could materially adversely affect the Company's business, financial condition, and results of operations.

While acquisitions and divestitures have been and continue to be a part of Eastman's strategy, acquisitions of large companies and acquisitions or divestitures of businesses subject the Company to a number of risks and uncertainties, the occurrence of any of which could have a material adverse effect on Eastman. These include, but are not limited to, the possibility that the actual and projected future financial performance of the acquired or remaining business may be significantly worse than expected and that, in the case of an acquired business and as reported in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Impairment of Long-Lived Assets - Goodwill" in Part II, Item 7 of the Company's 2021 [Annual Report on Form 10-K](#), the carrying values of goodwill and certain assets from acquisitions may, as has been the case for certain acquired assets, be impaired resulting in non-cash charges to future earnings and, in the case of a divested business, the divestiture could reduce Eastman's revenue and, potentially, margins and increase its costs and liabilities in the form of transition costs and retained liabilities from the operations divested, including environmental liabilities; that significant additional indebtedness may constrain the Company's ability to access the credit and capital markets at attractive interest rates and favorable terms, which may negatively impact the Company's liquidity or ability to pursue certain growth initiatives; that the Company may not be able to achieve the cost, revenue, tax, or other "synergies" expected from any acquisition, or that there may be delays in achieving any such synergies; that management's time and effort may be dedicated to the integration of the new business or specific assets or product lines or separation of the divested business or specific assets or product lines resulting in a loss of focus on the successful operation of the Company's legacy businesses; and that the Company may be required to expend significant additional resources in order to integrate any acquired business or specific assets or product lines into Eastman or separate any divested business or specific assets or product lines from Eastman, or that the integration or separation efforts will not achieve the expected benefits.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS****Risks Related to Regulatory Changes and Compliance**

Legislative, regulatory, or voluntary actions, including associated with physical impacts of climate change, could increase the Company's future health, safety, and environmental compliance costs.

Eastman, its facilities, and its businesses are subject to complex health, safety, and environmental laws, regulations, and related voluntary actions, both in the U.S. and internationally, which require and will continue to require significant expenditures to remain in compliance with such laws, regulations, and voluntary actions. The Company's accruals for such costs and associated liabilities are subject to changes in estimates on which the accruals are based. For example, any amount accrued for environmental matters reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number of and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, chemical control regulations and actions, and testing requirements could result in higher costs. Future changes in legislation and regulation and related voluntary actions associated with physical impacts of climate change may increase the likelihood that the Company's manufacturing facilities will in the future be impacted by carbon requirements, regulation of greenhouse gas emissions, and energy policy, and may result in capital expenditures, increases in costs for raw materials and energy, limitations on raw material and energy source and supply choices, and other direct and indirect compliance or other costs or consequences including decreased demand for products related to carbon-based energy sources or increased demand for goods that result in lower emissions than competing products and reputational risk resulting from operations with greenhouse gas emissions. See "Business - Eastman Chemical Company General Information - Compliance With Environmental and Other Government Regulations" in Part I, Item 1 of the Company's 2021 [Annual Report on Form 10-K](#).]

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Eastman has exposure to various market risks principally due to changes in foreign currency exchange rates, the pricing of various commodities, and interest rates. In an effort to manage these risks, the Company employs various strategies, including pricing, inventory management, and hedging. The Company enters into derivative contracts which are governed by policies, procedures, and internal processes set forth by its Board of Directors.

The Company determines its exposures to market risk by utilizing sensitivity analyses, which measure the potential losses in fair value resulting from one or more selected hypothetical changes in foreign currency exchange rates, commodity prices, or interest rates. For more information regarding exposures, refer to Part II, Item 7A of the Company's 2021 [Annual Report on Form 10-K](#).

At June 30, 2022, the market risk associated with certain cash flows under these derivative transactions assuming a 10 percent adverse move in the U.S. dollar relative to these foreign currencies was \$58 million, with an additional \$6 million exposure for each additional one percentage point adverse change in those foreign currency rates. Since the Company utilizes currency-sensitive derivative instruments for hedging anticipated foreign currency transactions, a loss in fair value from those instruments is generally offset by an increase in the value of the underlying anticipated transactions.

At June 30, 2022, a 10 percent fluctuation in the euro currency rate would have had a \$191 million impact on the designated net investment values in the foreign subsidiaries. As a result of the designation of the euro-denominated borrowings and designated cross-currency interest rate swaps as hedges of the net investments, foreign currency translation gains and losses on the borrowings and designated cross-currency interest rate swaps are recorded as a component of the "Change in cumulative translation adjustment" within "Other comprehensive income (loss), net of tax" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in Part I, Item 1 of this Quarterly Report on Form 10-Q. Therefore, a foreign currency change in the designated investment values of the foreign subsidiaries will generally be offset by a foreign currency change in the carrying value of the euro-denominated borrowings or the foreign currency change in the designated cross-currency interest rate swaps.

Other than the foreign currency risk discussed above, there have been no material changes to the Company's market risks from those disclosed in Part II, Item 7A of the Company's 2021 [Annual Report on Form 10-K](#).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Eastman maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of June 30, 2022, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the second quarter of 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS****General**

From time to time, Eastman and its operations are parties to, or targets of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. While the Company is unable to predict the outcome of these matters, it does not believe, based upon currently available facts, that the ultimate resolution of any such pending matters will have a material adverse effect on its overall financial condition, results of operations, or cash flows. Consistent with the requirements of Securities and Exchange Commission Regulation S-K, Item 103, the Company's threshold for disclosing any environmental legal proceeding involving a governmental authority (including the Jefferson Hills, Pennsylvania proceedings described below) is potential monetary sanctions that management believes will exceed \$1 million.

Jefferson Hills, Pennsylvania Environmental Proceeding

In September 2021, Eastman Chemical Resins, Inc. ("ECRI"), a wholly-owned subsidiary of the Company, and the Company received a proposed Consent Decree from the United States Environmental Protection Agency's Region 3 Office ("EPA") and the Pennsylvania Department of Environmental Protection ("PADEP") alleging that ECRI's Jefferson Hills, Pennsylvania manufacturing operation had violated certain federal and state environmental regulations. Prior to the receipt of this proposed Consent Decree, ECRI and Company representatives met on various occasions with EPA and PADEP representatives and have determined that it is not reasonably likely that any civil penalty assessed by EPA and PADEP will be less than \$1,000,000. ECRI and the Company are vigorously defending against these allegations. Even though the Company sold the Jefferson Hills facility on April 1, 2022 as part of its previously reported sale of the adhesives resins business, it retained responsibility for any civil penalty assessed by EPA and PADEP in this matter.

Solutia Legacy Torts Claims Litigation

Pursuant to an Amended and Restated Settlement Agreement effective February 28, 2008 between Solutia, Inc. ("Solutia") and Monsanto Company ("Monsanto") in connection with Solutia's emergence from Chapter 11 bankruptcy proceedings (the "Monsanto Settlement Agreement"), Monsanto is responsible for the defense and indemnification of Solutia against any Legacy Tort Claims (as defined in the Monsanto Settlement Agreement) and Solutia has agreed to retain responsibility for certain tort claims, if any, that may arise from Solutia's conduct after its spinoff from Pharmacia Corporation (f/k/a Monsanto), which occurred on September 1, 1997. Solutia, which became a wholly-owned subsidiary of Eastman upon Eastman's acquisition of Solutia in July 2012, has been named as a defendant in several such proceedings, and has submitted the matters to Monsanto, which was acquired by Bayer AG in June 2018, as Legacy Tort Claims. To the extent these matters are not within the meaning of Legacy Tort Claims, Solutia could potentially be liable thereunder. In connection with the completion of its acquisition of Solutia, Eastman guaranteed the obligations of Solutia and Eastman was added as an indemnified party under the Monsanto Settlement Agreement.

ITEM 1A. RISK FACTORS

For identification and discussion of the material risks applicable to the Company and its business, see "Risk Factors" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this Quarterly Report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by the Issuer

In February 2018, the Company's Board of Directors authorized the repurchase of up to \$2 billion of Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company and its stockholders (the "2018 authorization"). The Company completed the 2018 authorization in May 2022, acquiring a total of 19,915,370 shares. In December 2021, the Company's Board of Directors authorized the additional repurchase of up to \$2.5 billion of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company and its stockholders (the "2021 authorization"). As of June 30, 2022, a total of 2,699,693 shares have been repurchased under the 2021 authorization for a \$285 million. Both dividends and share repurchases are key strategies employed by the Company to return value to its stockholders.

In fourth quarter 2021, the Company entered into an accelerated share repurchase program ("2021 ASR") to purchase \$500 million of the Company's common stock under the 2018 authorization. In exchange for upfront payment totaling \$500 million, the financial institutions committed to deliver shares during the 2021 ASR's purchase period, which was settled in first quarter 2022. The total number of shares ultimately delivered was determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's stock during the term of the 2021 ASR, less a discount. Approximately 80 percent of the expected shares repurchased under the 2021 ASR were delivered in fourth quarter 2021 and the remaining shares were delivered in first quarter 2022.

In second quarter 2022, the Company entered into an accelerated share repurchase program ("2022 ASR") to purchase \$500 million of the Company's common stock under the board approved authorization. In exchange for upfront payment totaling \$500 million, the financial institutions committed to deliver shares during the 2022 ASR's purchase period, which will be settled in third quarter 2022. The total number of shares ultimately delivered will be determined at the end of the applicable purchase period based on the volume-weighted average price of the Company's stock during the term of the 2022 ASR, less a discount. Approximately 80 percent of the expected shares repurchased under the 2022 ASR were delivered in second quarter 2022 and the remaining shares were delivered in third quarter 2022.

During first six months 2022, the Company repurchased 6,666,069 shares of common stock for \$752 million.

For additional information, see Note 12, "Stockholders' Equity", to the unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share ⁽¹⁾ | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program | Approximate Dollar Value that May Yet Be Purchased Under the Plan or Program |
|------------------|----------------------------------|---|--|--|
| April 1-30, 2022 | 1,834,664 | \$ 109.01 | 1,834,664 | \$ 2.667 billion |
| May 1-31, 2022 | 4,283,370 | \$ 105.63 | 4,283,370 | \$ 2.215 billion |
| June 1-30, 2022 | — | \$ — | — | \$ 2.215 billion |
| Total | 6,118,034 | \$ 106.65 | 6,118,034 | |

⁽¹⁾ Average price paid per share reflects the weighted average purchase price paid for shares.

ITEM 6. EXHIBITS

Exhibits filed as part of this report are listed in the Exhibit Index.

| Exhibit Number | EXHIBIT INDEX Description |
|-----------------------|---|
| 3.01 | <u>Amended and Restated Certificate of Incorporation of Eastman Chemical Company (incorporated herein by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012)</u> |
| 3.02 | <u>Amended and Restated Bylaws of Eastman Chemical Company (incorporated herein by reference to Exhibit 3.02 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017)</u> |
| 10.01 | <u>Term Loan Agreement dated as of April 14, 2022 (incorporated herein by reference to Exhibit 10.02 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2022)</u> |
| 31.01 | <u>Rule 13a – 14(a) Certification by Mark J. Costa, Chief Executive Officer, for the quarter ended June 30, 2022</u> |
| 31.02 | <u>Rule 13a – 14(a) Certification by William T. McLain, Jr., Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2022</u> |
| 32.01 | <u>Section 1350 Certification by Mark J. Costa, Chief Executive Officer, for the quarter ended June 30, 2022</u> |
| 32.02 | <u>Section 1350 Certification by William T. McLain, Jr., Senior Vice President and Chief Financial Officer, for the quarter ended June 30, 2022</u> |
| 101.INS | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | Inline XBRL Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Label Linkbase Document |
| 101.PRE | Inline XBRL Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

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.

Eastman Chemical Company

Date: July 29, 2022

By: /s/ William T. McLain, Jr.
William T. McLain, Jr.
Senior Vice President and Chief Financial Officer

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES**Rule 13a - 14(a)/15d - 14(a) Certifications**

I, Mark J. Costa, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Eastman Chemical Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

/s/ Mark J. Costa

Mark J. Costa

Chief Executive Officer

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES**Rule 13a - 14(a)/15d - 14(a) Certifications**

I, William T. McLain, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Eastman Chemical Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

/s/ William T. McLain, Jr.

William T. McLain, Jr.

Senior Vice President and Chief Financial Officer

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES**Section 1350 Certifications**

In connection with the Quarterly Report of Eastman Chemical Company (the "Company") on Form 10-Q for the period ending June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

A signed original of this written statement required by Section 906 has been provided to Eastman Chemical Company and will be retained by Eastman Chemical Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 29, 2022

/s/ Mark J. Costa

Mark J. Costa

Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Report or as a separate disclosure document.

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES**Section 1350 Certifications**

In connection with the Quarterly Report of Eastman Chemical Company (the "Company") on Form 10-Q for the period ending June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

A signed original of this written statement required by Section 906 has been provided to Eastman Chemical Company and will be retained by Eastman Chemical Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: July 29, 2022

/s/ William T. McLain, Jr.

William T. McLain, Jr.

Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.