EASTMAN CHEMICAL CO
Form 10-K
February 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
200 South Wilcox Drive Kingsport, Tennessee	37662
(Address of principal executive offices)	(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	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

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

	Yes	No
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X]	
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.		[X]
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.	[X]	
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	[X]	
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	[X]	

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

The aggregate market value (based upon the $50.37 closing price on the New York Stock Exchange on June 29, 2012) of the 153,242,131 shares of common equity held by non-affiliates as of December 31, 2012 was approximately $7,718,806,138 using beneficial ownership rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude common stock that may be deemed beneficially owned as of December 31, 2012 by Eastman Chemical Company's ("Eastman" or the "Company") directors and executive officers and charitable foundation, some of whom might not be held to be affiliates upon judicial determination. A total of 153,955,346 shares of common stock of the registrant were outstanding at December 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2013 Annual Meeting of Stockholders (the "2013 Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K (the "Annual Report") as indicated herein.

FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual 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 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," "will," "would," 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; pending and future legal proceedings; exposure to, and effects of hedging of, raw material and energy costs, foreign currencies and interest rates; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; earnings, cash flow, dividends and other expected financial results and conditions; expectations, strategies, and plans for individual assets and products, businesses, and segments as well as for the whole of Eastman; cash 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, and benefits from, the integration of, and expected business and financial performance of, acquired businesses; strategic 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 net 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 most significant known 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-Forward-Looking Statements and Risk Factors" in Part II, Item 7 of this Annual Report.

The Company cautions you not to place undue reliance on forward-looking statements, which speak only as of the date of this Annual 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.

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PART I

ITEM 1. BUSINESS

CORPORATE OVERVIEW

Eastman Chemical Company ("Eastman" or the "Company") is a global specialty chemicals company that produces a broad range of advanced materials, chemicals, and fibers that are found in products people use every day. Eastman began business in 1920 for the purpose of producing chemicals for Eastman Kodak Company's photographic business and became a public company, incorporated in Delaware, on December 31, 1993. Eastman has over 40 manufacturing sites in 16 countries and equity interests in joint ventures that supply chemicals, plastics, and fibers products to customers throughout the world. The Company's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

Eastman has a strong portfolio of specialty businesses that hold leading positions and provide products that enhance performance in a variety of end markets such as transportation, building and construction, and consumables. Eastman management believes that the Company's end-market diversity is a source of strength, as these markets are benefiting from longer-term global trends such as energy efficiency, a rising middle class in emerging economies, and increased health and wellness. End uses for the Company's products include both original equipment manufacturing ("OEM") and replacement or after market products. These trends, combined with the diversity of the Company's end markets, allow for more consistent demand for the Company's products over time. Eastman is focused on achieving consistent earnings growth through a market-driven approach that takes advantage of the Company's existing technology platforms, global market and manufacturing presence, and leading positions in end markets.

On July 2, 2012, the Company completed its acquisition of Solutia Inc. ("Solutia"), a global leader in performance materials and specialty chemicals. In order to provide the most meaningful comparison of results, some of the corporate and segment information in this Annual Report on Form 10-K (this "Annual Report") includes both actual results for 2012 and results on a "pro forma combined" basis, giving effect to the acquisition of Solutia as if it had been completed at the beginning of the earliest period presented. For additional information on the assumptions and related matters considered in connection with the presentation of information on a pro forma combined basis, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP and Pro Forma Combined Financial Measures" in Part II, Item 7 of this Annual Report.

In 2012, the Company had sales revenue of $8.1 billion, operating earnings of $800 million, and earnings from continuing operations of $443 million. Earnings per diluted share from continuing operations were $2.92. Asset impairments and restructuring charges and Solutia acquisition-related costs included in operating earnings were charges and costs of $120 million and $44 million, respectively. On a pro forma combined basis, the Company had sales revenue of $9.1 billion and operating earnings of $940 million.

Beginning in third quarter 2012, the Company changed its reportable segments due to changes resulting from the acquisition of Solutia. Eastman has made organizational and reporting changes resulting in five reporting segments: Additives & Functional Products, Adhesives & Plasticizers, Advanced Materials, Fibers, and Specialty Fluids & Intermediates. The new reporting structure has been retrospectively applied to financial results of all periods presented. This organizational structure is based on the management of the strategies, operating models, and sales channels that the various businesses employ. The reporting segment changes are as follows:

- Additives & Functional Products consists of the rubber additives product lines from Solutia's former Technical Specialties segment and the specialty polymers and solvents product lines of Eastman's former Coatings, Adhesives, Specialty Polymers and Inks ("CASPI") segment.
- Adhesives & Plasticizers consists of the adhesives product lines formerly in the Company's CASPI segment and the plasticizer product lines of Eastman's former Performance Chemicals and Intermediates ("PCI") segment.
- Advanced Materials consists of Eastman's former Specialty Plastics segment and Solutia's former Performance Films and Advanced Interlayers segments.

- Fibers continues to consist of the acetate tow, acetate yarn, and acetyl chemical product lines.
- Specialty Fluids & Intermediates consists of the specialty fluids product lines from Solutia's former Technical Specialties segment and Eastman's oxo and acetyl intermediates product lines of its former PCI segment.

The Company manages certain costs and initiatives at the corporate level, including certain research and development ("R&D") costs not allocated to the operating segments. For additional information concerning the Company's operating segments, see Note 23, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Due to the sale of substantially all of the Performance Polymers segment on January 31, 2011, Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are not included in results from continuing operations. See Note 3, "Discontinued Operations", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Business Strategy

Eastman's objective is to be an outperforming specialty chemical company through consistent earnings growth. The Company's business segments currently sell differentiated products into diverse markets and geographic regions, and management believes that this end-market diversity is a source of strength. Eastman works with customers to meet their needs in existing and new markets through development of innovative products and technologies. Management believes that the Company can increase the revenues from its businesses while improving profitability through a balance of new applications for existing products, development of new products, sales growth in adjacent markets and emerging economies, and leveraging asset investments to improve cost positions. These revenue and earnings increases are expected to result from both organic (internal growth) and inorganic (external growth through joint venture and acquisition) initiatives.

In 2012, the Company progressed on both organic and inorganic growth initiatives, including:

- continuing the integration of Solutia, which was acquired on July 2, 2012 and which:
  - broadens Eastman's global presence;
  - establishes a combined platform with extensive organic growth opportunities through complementary technologies and business capabilities, and an overlap of key end markets; and
  - expands Eastman's portfolio of sustainable products;
- in the Additives & Functional Products segment, making significant progress in the refinement and enhancement of its technology for the manufacture of Crystex® insoluble sulfur in order to improve its cost position and introduce a higher performance product into the growing tires industry, with plans during third quarter 2013 to evaluate the timing of incorporating this technology in a modest capacity expansion at the Kuantan, Malaysia manufacturing facility to capitalize on expected high industrial growth rates in the Asia Pacific region;
- in the Adhesives & Plasticizers segment, pursuing growth in the consumables, building and construction, health and wellness, and durable goods markets by:
  - expanding capacity to serve the growing global demand for non-phthalate plasticizers, including retrofitting the acquired Sterling Chemicals, Inc. ("Sterling") plasticizer manufacturing unit in two phases, with the first phase operational in second quarter 2012 and with the timing of the second phase to be determined based on demand; and
  - entering into a joint venture in third quarter 2012 with Sinopec Yangzi Petrochemical Company Limited to build a world scale hydrogenated hydrocarbon resin plant in Nanjing, China, expected to be operational by the end of 2014, which will be equally owned by the two companies; it will produce 50,000 metric tons of the Adhesives & Plasticizers segment's Regalite™ hydrocarbon resins upon completion, increasing Eastman's total capacity for hydrogenated resins by 50 percent, making Eastman the largest global supplier of hydrogenated hydrocarbon resins, and supporting demand growth for its products in hygiene and packaging applications;
- in the Advanced Materials segment:
  - adding 30,000 metric tons of resin capacity at its facility in Kingsport, Tennessee for Tritan™ copolyester polymer, which was operational in first quarter 2012 and supports growth in the durable goods market;
  - completing a capacity expansion for cyclohexane dimethanol ("CHDM"), a monomer used in the manufacture of copolyesters in first quarter 2012;
  - completing a capacity expansion for cellulose triacetate to serve growth in displays, which was operational in second quarter 2012;
  - adding a second line at the manufacturing facility in Suzhou, China for polyvinyl butyral ("PVB") sheet, which was operational in third quarter 2012 and will support growth in emerging economies of the Asia Pacific region;

increasing capacity for acoustic PVB sheet at the manufacturing facility in Ghent, Belgium, which was operational in fourth quarter 2012 and will support premium growth for acoustics in the transportation market; and

progressing on enhancements and innovations to improve the Company's cost position in PVB resin technology supporting expected growth in the transportation and building and construction markets, with construction of a manufacturing facility incorporating these improvements and modestly increasing the segment's PVB resin capacity expected to begin in Kuantan, Malaysia during the second half of 2013 and to be operational during 2015;
- in the Fibers segment, nearing completion of construction of a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China, a joint venture with China National Tobacco Corporation, which is expected to be operational in mid-2013;
- in the Specialty Fluids & Intermediates segment:
entering into an agreement in second quarter 2012 with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant, further improving the Company's competitive cost position compared to purchasing olefins in the North American market;
increasing capacity of 2-ethyl hexanol ("2-EH") by 37,000 metric tons in second quarter 2012 to support expected growth in the plasticizers, coatings, and fuel additive markets;
completing a debottlenecking project in its largest olefins cracking unit in Longview, Texas, in the first half of 2013, which will primarily produce more ethylene and is expected to improve Eastman's olefin cost position; and
expanding Therminol® heat transfer fluid capacity through a plant expansion in Newport, Wales, which is expected to be operational in 2014 and will support demand growth in the industrial chemicals and processing market; and
- the announcement of the new Eastman™ microfiber technology, with applications in a variety of end markets, and subsequent completion of a small commercial-scale facility in third quarter 2012.

The Company benefits from advantaged feedstocks and proprietary technologies, and is focusing on sustainability as a competitive strength for growth. Eastman has developed new products and technologies that enable customers' development and sales of sustainable products, and has reduced its greenhouse gas emissions and energy consumption on a unit basis over the last five years.

Management expects continued earnings growth, despite persistent economic uncertainty, as a result of the strength of the Company's businesses (including the Solutia product lines acquired in 2012) and balance sheet. The Company continues to evaluate inorganic growth opportunities, through joint ventures and acquisitions, intended to enhance the Company's product portfolios and extension into emerging markets.

The following chart shows significant Eastman products and markets by segment.

SEGMENT	KEY PRODUCTS AND MARKETS
Additives & Functional Products	Polymers, solvents, insoluble sulfur, antidegradants, performance resins, and other formulated products used in transportation, building and construction, durable goods, and consumables
Adhesives & Plasticizers	Resins and plasticizers used in consumables, building and construction, durable goods, health and wellness, and industrial chemicals and processing
Advanced Materials	Specialized copolyesters, cellulosic plastics, aftermarket window films, and PVB sheet and resins used in transportation, consumables, building and construction, durable goods, health and wellness, and electronics
Fibers	Acetate fibers used in consumables
Specialty Fluids & Intermediates	Specialty fluids and intermediate chemicals used in industrial chemicals and processing; building and construction; health and wellness; energy, fuels, and water; consumables; and agriculture

Seasonality and Cyclicality

The Company's earnings are typically greater in the second and third quarters, and cash flows from operations are highest in the fourth quarter due to seasonality. Results in the Adhesives & Plasticizers and the Advanced Materials segments are typically weaker in the fourth quarter due to seasonal downturns in key markets.

The olefins and olefin derivatives product lines of the Specialty Fluids & Intermediates segment and the solvent product lines of the Additives & Functional Products segment are impacted by the cyclicality of key end products and markets, while other segments are more sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of business cycles and global economic conditions affect the length of each cycle.

Despite sensitivity to global economic conditions, many of the products of each segment are expected to continue to provide a stable foundation for earnings.

Financial Strategy

In addition to managing its businesses and growth initiatives, the Company remains committed to maintaining a strong financial position with financial flexibility and consistently solid cash flows. Eastman management believes maintaining a financial profile that supports an investment grade rating is important to its long term strategic and financial flexibility. The Company employs what management believes is a disciplined process for capital allocation and deployment of cash. The Company pursues a variety of organic growth opportunities and also considers inorganic growth opportunities, including joint ventures and acquisitions. The Company also returns cash to stockholders through dividends and, from time to time, by share repurchases. The Company manages its debt based upon its capital structure objectives, funding requirements, and public and private debt market conditions. Management expects that the strength of the Company's businesses and balance sheet will provide continued strong cash flow, a portion of which will be used to significantly repay its five year Solutia acquisition term loan by the end of 2013.

BUSINESS SEGMENTS

The Company's products and operations are currently managed and reported in five operating segments: Additives & Functional Products, Adhesives & Plasticizers, Advanced Materials, Fibers, and Specialty Fluids & Intermediates.

ADDITIVES & FUNCTIONAL PRODUCTS SEGMENT

•Overview

In the Additives & Functional Products segment, the Company manufactures chemicals for products in the coatings and tires industries in transportation, building and construction, durable goods, and consumables markets. In 2012, the Additives & Functional Products segment had sales revenue of $1.3 billion, 16 percent of Eastman's total sales. On a pro forma combined basis, in 2012 the Additives & Functional Products segment had sales revenue of $1.6 billion, 18 percent of Eastman's total pro forma combined sales. Key technology platforms in this segment are rubber additives, cellulosic polymers, specialty ketones and coalescents, polyester polymers, and hydrocarbon resins.

Additives & Functional Products growth in the United States, Canada, and Europe typically approximates general economic growth due to the wide variety of end uses such as tires, paints, and consumables. Recently, growth in Asia, Eastern Europe, and Latin America has been higher than global economic growth because of higher growth in gross domestic product ("GDP") and per capita income in these emerging economies. The segment focuses on producing high-value additives rather than finished formulated products and developing long-term, strategic relationships to achieve preferred supplier status with its customers.

The profitability of the Additives & Functional Products segment is sensitive to the global economy, market trends, broader chemical cycles, particularly the olefins cycle, and foreign currency exchange rates. Due to their functional performance attributes, certain of the segment's products, including cellulose-based specialty polymers, coalescents, and selected hydrocarbon resins, are less sensitive to the olefins cycle as discussed under "Eastman Chemical Company General Information - Manufacturing Streams" in this "Part I - Item 1. Business". The Company seeks to leverage its proprietary technologies, competitive cost structure, and integrated manufacturing facilities to maintain a strong competitive position throughout such cycles.

- Products

Coatings Industry

Chemicals for the coatings industry enhance the aesthetic appeal and improve the performance of industrial, architectural, and transportation coatings. The products Eastman manufactures for the coatings industry can be broadly classified as solvents and polymers. Coatings industry sales accounted for approximately 60 percent, 75 percent, and 70 percent of the Additives & Functional Products segment's total sales for 2012, 2011, and 2010, respectively. On a pro forma combined basis, coatings industry sales accounted for approximately 50 percent of the Additives & Functional Products segment's total sales for 2012. Eastman management believes that its coatings industry products have a favorable competitive position because of the segment's access to the Company's integrated manufacturing streams. Additionally, the Company's products have breadth across the industry and more stable demand across economic scenarios, as the segment's products for transportation coatings are used in both OEM and refinish applications.

- The solvents product line includes specialty coalescents and ketones, and esters, glycol ethers, and alcohol solvents. Coalescents include products such as Texanol™ ester alcohol, which improves film formation and durability in architectural latex paints. Ketones are used in high solids low volatile organic compound ("VOC") coatings applications. Commodity solvents, which consist of esters, glycol ethers, and alcohol solvents, are used in both paints and inks to maintain the formulation in liquid form for ease of application.
- The polymers product line consists primarily of cellulose and polyester-based specialty polymers. Eastman's cellulose-based specialty polymers enhance the aesthetic appeal and improve the performance of industrial and transportation coatings and inks. The polyester-based specialty polymers are multifunctional water-dispersible film formers for personal care, graphic arts, textile, coatings, and packaging applications. The polymers product line also includes chlorinated and non-chlorinated polyolefins which promote the adherence of paints and coatings to plastic substrates, United States Pharmacopeia ("USP")-grade hydroquinone which is used as an active pharmaceutical ingredient in skin lightening creams, and sucrose acetate iso-butyrate ("SAIB") which provides thermal, hydrolytic, and color stability in cosmetic applications.

Tires Industry

Additives for the tires industry cure and protect rubber, increase durability, and lengthen product life. These products are important in the manufacture of tires and other rubber products such as belts, hoses, seals, and footwear. The Additives & Functional Products segment manufactures products for the rubber chemicals industry classified into three main product groups: insoluble sulfur products; antidegradant products; and performance resins and cellulosic products. Tires industry sales accounted for approximately 20 percent of the Additives & Functional Products segment's total sales for 2012, with no sales revenue in 2011 or 2010 prior to the acquisition of Solutia. On a pro forma combined basis, tires industry sales accounted for approximately 35 percent of the Additives & Functional Products segment's total sales for 2012. Eastman management believes that the Company's tires industry products have a favorable competitive position due to the industry's growth rate in excess of GDP, primarily in China, combined with the segment's unique proprietary technologies and the breadth of its offering for both OEM tires and replacement tires.

- The insoluble sulfur products are a key vulcanizing agent manufactured predominantly for the tires industry, and without which tires cannot be effectively manufactured. Eastman is the world's leading supplier of insoluble sulfur and markets it under the Crystex® brand.
- The antidegradant products, principally marketed under the Santoflex® brand, are used in pneumatic tires, solid tires, belts, hoses, cables, automotive mounts, bushings, and general mechanical products that are exposed to continuous or intermittent dynamic operating conditions and require protection from ozone-initiated breakdown. Santoflex® is also a powerful anti-ozonant and imparts excellent high temperature, fatigue, and flex resistance to rubber compounds.
- The performance resins and cellulosic products enhance performance of tire tread, particularly wet grip and handling.

Other Applications

Other applications for Additives & Functional Products solvents and polymers include use in consumables, health and wellness, electronics, and industrial chemicals.

- Solvents sales to other markets include sales of esters and ketones for printing ink, consumables, and process solvent markets, and chemicals marketed by Eastman's subsidiary Dynaloy, LLC for specialized electronic applications.
- Other polymer applications include cellulosics used in graphic arts and pharmaceutical applications, specialty polyesters utilizing Eastman's award winning bio-catalytic chemistry in personal care applications, and unique aqueous polymer technology used for personal care products.

• Strategy and Innovation

A key element of the Additives & Functional Products segment's strategy is to leverage proprietary technologies for the continued development of innovative product offerings and to focus growth efforts on expanding markets such as coatings, tires, and consumables. Eastman management believes that the ability to leverage the Additives & Functional Products segment's research, application development, and production capabilities across multiple markets makes the segment uniquely positioned to meet evolving needs to improve the quality and performance of its customers' products. For example, new government regulatory requirements are driving the transportation market to look for innovative materials to help improve fuel efficiency. Eastman tire additive technology can allow tire manufacturers to do this without compromising critical properties like handling and wet traction.

The Company's global manufacturing presence is a key element of the Additives & Functional Products segment's growth strategy. For example, the segment is well positioned to capitalize on expected high industrial growth rates in China and other parts of Asia from its facilities in Singapore and Kuantan, Malaysia. The Company has made significant progress in the refinement and enhancement of its technology for the manufacture of Crystex® insoluble sulfur in order to improve its cost position and introduce a higher performance product into the growing tires industry, with plans during third quarter 2013 to evaluate the timing of incorporating this technology in a modest capacity expansion at the Kuantan, Malaysia manufacturing facility to capitalize on expected high industrial growth rates in the Asia Pacific region. The Company is committed to maintaining reliability of supply of the Additives & Functional Products segment products to its strategic customers to allow Eastman to remain the supplier of choice.

• Customers and Markets

As a result of the variety of end uses for its products, the customer base for the Additives & Functional Products segment is broad and diverse. The segment focuses on establishing long-term relationships with its strategic customers in order to become their preferred supplier and leverage these relationships into sales opportunities in previously underserved markets. Growth in the North American and European markets typically coincides with economic growth in general due to the wide variety of end uses for these applications and their dependence on the economic conditions of the markets for transportation, building and construction, durable goods, and consumables.

The current regulatory environment, particularly in the United States, Canada, and Europe, provides both market challenges and opportunities for the Additives & Functional Products segment. Environmental regulations that impose limits on the emission of VOCs and hazardous air pollutants ("HAPs") continue to impact coatings formulations requiring compliant coatings raw materials. These regulations are in addition to the consumer market sustainability trend. The coatings industry is responding by promoting products and technologies designed to enable customers and end users to reduce air emissions of VOCs and HAPs in compliance with applicable regulations. A variety of Eastman's Additives & Functional Products segment products are used in these coatings.

• Competition

Competition within the Additives & Functional Products segment's markets varies widely depending on the specific product or product group. The segment principally competes on unique performance characteristics of its products and through leveraging its strong customer base and long-standing customer relationships to promote substantial recurring business and product development. The Company's major competitors in the segment's markets include larger companies such as BASF SE ("BASF") and The Dow Chemical Company ("Dow") and other companies such as Oriental Carbon & Chemicals Limited; Shikoku Chemicals Corporation; Jiangsu Sinorgchem Technology Co., Ltd.; Korea Kumho Petrochemical Co., Ltd.; and LANXESS AG. Some of these companies may commit greater financial and other resources than Eastman to products in markets in which the Additives & Functional Products segment competes. Additionally, within each segment product market, the Company may compete with other smaller, regionally focused companies that may have advantages based upon location, local market knowledge, manufacturing

strength in a specific product, or other similar factors. Eastman management believes its competitive advantages include its level of vertical integration; unique performance characteristics of its products; low-cost manufacturing position; consistent product quality; security of supply; and process and market knowledge.

ADHESIVES & PLASTICIZERS SEGMENT

• Overview

In the Adhesives & Plasticizers segment, Eastman manufactures resins and plasticizers which are used in the manufacture of products serving the consumables, building and construction, durable goods, health and wellness, and industrial chemicals and processing markets. Growth for resins in Asia, Eastern Europe, and Latin America continues to be higher than regional economic growth, mainly due to growing use of consumables in these emerging economies. Use of non-phthalate plasticizers in the United States, Canada, and Europe continues to increase more than general economic growth due to increasing regulatory requirements and consumer preferences. The Adhesives & Plasticizers segment's specialty products, which include selected hydrocarbon resins, are less sensitive to the general olefins cycle due to their functional performance attributes. The Adhesives & Plasticizers segment focuses on producing intermediate chemicals rather than finished products and developing long-term, strategic relationships to enable customers' growth in their end markets. In 2012, the Adhesives & Plasticizers segment had sales revenue of $1.4 billion, 18 percent of Eastman's total sales and 16 percent of Eastman's total pro forma combined sales. Eastman is one of the world's largest suppliers of resins and non-phthalate plasticizers.

• Products

Resins
The resins product line consists of hydrogenated hydrocarbon resins such as Regalite™, Eastotac™, and Regalrez™; non-hydrogenated hydrocarbons resins such as Kristalex™, Plastolyn™, and Piccotac™; and rosins and amorphous polyolefins such as Permalyn™, Pamolyn™, and Eastoflex™. These products are sold primarily to adhesive formulators and consumer product companies for use as raw materials essential in hot-melt and pressure sensitive adhesives and as binders in nonwoven products such as disposable diapers, feminine products, and pre-saturated wipes. Eastman offers a broad product portfolio of essential ingredients for the adhesives industry and ranks as the second largest global tackifier producer. With its recently announced joint venture to construct a hydrogenated hydrocarbon resin plant in China, Eastman will become the largest global supplier of hydrogenated hydrocarbon resins and well positioned to meet growing global demand and improve its position in emerging markets. Resins accounted for approximately 55 percent of the Adhesives & Plasticizers segment's total sales for both 2012 and 2011, and 60 percent for 2010.

Plasticizers
The plasticizers product line primarily consists of a unique set of primary non-phthalate plasticizers such as Eastman 168™ and Eastman™ DOA, and a range of niche non-phthalate plasticizers such as Benzoflex™, Eastman TXIB™, Admex™ and Eastman™ DBT. These non-phthalate plasticizers are typically used in end-use applications such as interior surfaces, medical devices, food contact materials, toys, and childcare articles. In 2012, retrofitting of the acquired Sterling manufacturing unit to produce non-phthalate plasticizers was begun in two phases, with the first of two phases operational in second quarter 2012 and with the timing of startup of the second phase to be determined based on demand. This capacity is used to serve the growing demand for non-phthalate plasticizers in the United States, Canada, and Europe. The 2011 acquisition of Scandiflex do Brasil S.A. Indústrias Químicas ("Scandiflex") in Brazil has extended Eastman's non-phthalate plasticizer offerings into Latin American markets. Plasticizers accounted for approximately 45 percent of the Adhesives & Plasticizers segment's total sales for both 2012 and 2011, and 40 percent for 2010.

• Strategy and Innovation

A key element of the Adhesives & Plasticizers segment's strategy for high value growth is to leverage leading positions and market insights in high-growth hygiene, consumables, durables, and non-phthalate applications. Eastman management believes that the ability to leverage the Adhesives & Plasticizers segment's strong technical

capabilities across multiple markets makes the segment uniquely positioned to meet evolving market needs and support adoption of Eastman products in new or additional customer formulations.

The Adhesives & Plasticizers segment focuses on developing and accessing markets with high-growth potential for the Company's products. Key growth markets for the Adhesives & Plasticizers segment are consumables such as hygiene and packaging, and flexible plastic products used in sensitive applications. For flexible plastic products used in sensitive applications, the segment's strategy is to develop and provide sustainable alternatives to ortho-phthalate plasticizers traditionally used in toys, child care articles, medical packaging and devices, and food contact items. For hygiene and packaging applications, the segment's strategy is to enhance customer options for next generation hot-melt packaging adhesives and to enable customers to meet changing and growing needs in hygiene products.

The acquisitions of Sterling and Scandiflex in 2011 and Genovique Specialties Corporation ("Genovique") in 2010 added to the Adhesives & Plasticizers segment's portfolio of and manufacturing capacity for non-phthalate plasticizers that serve growing substitution of non-phthalate plasticizers for phthalate plasticizers in markets such as consumables, building and construction, health and wellness, and durable goods. In addition, the segment is well positioned to capitalize on expected high market growth in China and other parts of Asia with its world scale hydrogenated hydrocarbons resin plant in China in a joint venture with Sinopec Yangzi Petrochemical Company Limited, which will support expected demand growth for its products in hygiene and packaging applications.

•Customers and Markets

As a result of the variety of end uses for its products, the customer base for the Adhesives & Plasticizers segment is broad and diverse. The Adhesives & Plasticizers segment focuses on producing intermediate chemicals rather than finished products and developing long-term, strategic relationships to enable customer's growth in their end markets. The most significant end markets for Adhesives & Plasticizers segment products are consumables, building and construction, durable goods, health and wellness, and industrial chemicals and processing. While end market growth in the North American and European regions typically coincides with economic growth in general, Adhesives & Plasticizers segment sales have recently and management expects will continue to grow above this rate due to the challenging requirements of changing government regulations and consumer preferences for non-phthalate plasticizers. In addition, growth for resins in Asia, Eastern Europe, and Latin America continues to be higher than regional economic growth mainly due to increasing use of consumables in these emerging economies.

•Competition

Eastman is the world's largest non-phthalate plasticizer manufacturer and the second largest resin manufacturer. Eastman's major competitors in this segment include large, multinational companies such as BASF, LG Chem, Ltd., and Exxon Mobil Corporation ("Exxon"). Eastman competes with these and other producers primarily based on breadth of its product portfolio, performance, and price.

ADVANCED MATERIALS SEGMENT

•Overview

In the Advanced Materials segment, the Company produces and markets specialty copolyesters, cellulose esters, interlayers, and aftermarket window film products that possess differentiated performance properties for value-added end uses in transportation, consumables, building and construction, durable goods, health and wellness, and electronics. In 2012, the Advanced Materials Segment had sales revenue of $1.7 billion, 21 percent of Eastman's total sales. On a pro forma combined basis, in 2012, the Advanced Materials segment had sales revenue of $2.3 billion, 25 percent of Eastman's total pro forma combined sales.

Eastman has strong technical and market development capabilities that enable the segment to modify its polymers and plastics to control and customize their final properties for new application development to deliver more functionality. Examples include sound reduction and solar control through the interlayers product line. Additionally, these capabilities allow the Company to maintain what management believes is its leading solar control technology position in the window film market through the use of high performance sputter coatings.

- Products

Specialty Materials

The specialty materials product line consists of two primary products: specialty copolyesters and cellulose esters. Eastman management expects that market growth for specialty copolyesters will continue to be higher than global economic growth due to ongoing specialty copolyester material innovations and favorable macro trends driven by alternative polymer displacement opportunities. Management expects that cellulose esters will grow at or above the rate of global economic growth in the long term driven by growth in the liquid crystal displays ("LCD") market, and increased demand for cellulose esters driven by the sustainability profile of these bio-derived materials and their performance as engineered thermoplastics. Eastman's specialty materials product line accounted for approximately 70 percent of the Advanced Materials segment's total sales for 2012, and 100 percent in both 2011 and 2010 prior to the acquisition of Solutia. On a pro forma combined basis, Eastman's specialty materials product line accounted for approximately 50 percent of the Advanced Materials segment's sales revenue for 2012. Eastman's newest copolyester, Tritan™, enables the Company to move to higher value applications by adding high temperature resistance to the other properties of copolyesters, including toughness, chemical resistance, and excellent processability. Through the development of new formulations and applications, Eastman continues to solidify its position as a key supplier of cellulosics resins in certain applications for LCDs. Eastman's proprietary family of cellulosic polymers, the Visualize™ cellulosics line of products, are known for their superior optical properties and are the preferred choice for certain film structures in LCD polarizers.

Interlayers

PVB is a specialty resin used as an adhesive interlayer in the production of laminated safety glass sheet used in the transportation and building and construction markets. It imparts high tensile strength, impact resistance, transparency, and elasticity that make it particularly useful in the production of safety glass. Laminated safety glass is predominately produced with PVB sheet and is subject to government regulation in all industrialized countries for automobile windshields. Emerging markets are increasing the use of laminated safety glass in automotive windshields although it is generally not subject to government regulation. Architectural laminated safety glass is widely used in the construction of modern office buildings, airports, and residential homes. Other applications for PVB resin include non-sheet applications such as wash primers and other surface coatings, specialty adhesive formulations, and inks. Interlayers products are primarily marketed under the SAFLEX® brand. The Advanced Materials segment also manufactures specialty intermediate PVB resin products, sold under the BUTVAR® brand; optical grade PVB resin; and plasticizers. With a significant portion of sales in Europe, the interlayers product line accounted for approximately 20 percent of the Advanced Materials segment's total sales for 2012, with no sales revenue in either 2011 or 2010 prior to the acquisition of Solutia. On a pro forma combined basis, the product line accounted for approximately 35 percent of the Advanced Materials segment's total sales for 2012.

Performance Films

The performance films product line accounted for approximately 10 percent of the Advanced Materials segment's total sales for 2012, with no sales revenue in 2011 or 2010 prior to the acquisition of Solutia. On a pro forma combined basis, the performance films product line accounted for approximately 15 percent of the Advanced Materials segment's total sales for 2012. The performance films product line primarily consists of window film products, which are aftermarket applied films to enhance the characteristics and functional performance of automotive and architectural glass. Eastman offers an extensive portfolio of products, including solar and insulation control, safety and security, and decorative. These products, including the LLumar® and V-Kool® brands, are professionally installed through a global network of dealers and installers, and sold as "do-it-yourself" kits in North America through national automotive retailers and home centers. Other products for residential and commercial building applications include EnerLogic® and IQue®.

- Strategy and Innovation

The Advanced Materials segment has leading positions in attractive end markets based on strong technical and market development capabilities combined with significant manufacturing scale in the segment's core products and markets. The segment has substantial opportunities to leverage technology platforms into new products and applications, accelerate its growth, and further leverage its manufacturing capacity. Additionally, the segment is working to expand its portfolio of higher margin products in attractive end markets. The significant manufacturing scale and capacity expansion the segment completed during the last two years also enables the segment to reduce unit costs as capacity utilization increases.

Through Eastman's advantaged asset position and applications development innovation efforts, management believes that the Advanced Materials segment is well positioned for future growth. The trend of influencing the consumer purchasing decision with product design is demonstrated by Eastman's clear handleware solutions for large containers. Additionally, increased demand for products free of Bisphenol A has created new opportunities for various applications of legacy copolyesters. The addition of Tritan™ copolyester to Eastman's specialty copolyesters product offering has created new opportunities for applications previously produced with materials such as polycarbonate. During 2012, expansion of Tritan™ copolyester manufacturing capacity, which supports growth in the durable goods market, and of CHDM capacity, a monomer used in the manufacture of copolyesters, were completed and became operational. The Company also completed expansion of its cellulose triacetate capacity to serve growth in displays. In its specialty materials product line, the Advanced Materials segment is focused on increasing operating margins and continues to leverage the advantages of being an integrated polyester manufacturer.

The interlayers product line leverages its global presence to deliver industry leading innovations to automotive and architectural end markets by collaborating with global and large regional customers to develop added functionality and interlayer solutions. The Advanced Materials segment is also exploring interlayers product line synergies and new polymer solutions across the Advanced Materials segment. Interlayers product line growth efforts are focused on the emerging economies of the Asia Pacific region, and in premium growth markets such as acoustics and solar control, to provide added functionality to the transportation market. Additionally, SAFLEX® brand products help reduce the vehicle weight and increase fuel economy, assisting customers in addressing government regulatory requirements for vehicle fuel efficiency, while also decreasing cabin noise.

The Company completed several capacity expansions, including adding a second line at the manufacturing facility in Suzhou, China for PVB sheet, which was operational in third quarter 2012, and adding capacity for acoustic PVB sheet at the manufacturing facility in Ghent, Belgium, which was operational in fourth quarter 2012. The Company has also progressed on enhancements and innovations to improve its cost position in its PVB resin technology in 2012, and expects to begin construction on a manufacturing facility incorporating these improvements and modestly increasing the segment's PVB resin capacity in Kuantan, Malaysia during the second half of 2013 and to be operational during 2015, which will support growth in the transportation and building and construction markets.

In the automotive end market, the performance films product line has industry leading technologies, recognized brands, and what management believes is one of the largest distribution and dealer networks which, when combined, position Eastman for strong growth, particularly in emerging markets such as Asia and Latin America. The business' product portfolio is aligned with underlying trends toward energy efficiency in both automotive and architectural markets. New product innovations, such as EnerLogic® for residential and commercial building applications, capitalize on this trend by leveraging advanced coating technologies to deliver a unique combination of better heat rejection and higher insulation performance that results in both lower cooling and heating costs. Eastman management believes that its portfolio of high performance branded window film products will allow the Company to increase revenue and earnings at rates higher than the overall automotive and building and construction markets.

•Customers and Markets

The customer base in the Advanced Materials segment ranges from broad and diverse in the specialty copolyesters, cellulose esters, and performance films product lines, to highly concentrated in the interlayers product line. The segment seeks to develop mutually beneficial and long-term relationships with its customers. By doing so, it better understands its customers' needs as those customers develop product innovations and allows the segment more effectively to bring new solutions to market.

The Advanced Materials segment has diverse end market positions that give it stability and a wide range of opportunities for innovation. Significant end markets include transportation, consumables, building and construction, durable goods, health and wellness, and electronics. Specialty copolyesters are sold into a wide range of markets and

applications including specialty packaging, durable goods, medical goods, personal care and consumer packaging, and in-store fixtures and displays. Cellulose esters are sold into markets and applications such as LCDs and durable goods. The Tritan™ family of products is being sold into a range of end uses, including consumer housewares, medical devices, infant care, small appliances, bulk water, and other durable goods. Saflex® brand PVB is sold into OEM and replacement automotive and architectural interlayers markets. LLumar® and V-Kool® brand window films are sold mainly into the aftermarket automotive applications markets as well as for upgrading interlayers in residential and commercial building markets. Flexvue® brand high performance films are sold mainly into medical and electronic applications.

•Competition

Eastman's primary competitors for specialty materials are Bayer AG, Styron LLC, Evonik Industries AG, Saudi Basic Industries Corporation, Mitsubishi Chemical Corporation, S.K. Chemical Industries, Sichuan Push Acetati Company Limited, and Daicel Chemical Industries Ltd ("Daicel"). Eastman's major global competitors for PVB are Sekisui Chemical Co., Ltd., Kuraray Co., Ltd., and E. I. du Pont de Nemours and Company ("DuPont"). Key competitors for performance films are 3M Company, Saint-Gobain S.A., Commonwealth Laminating & Coating, Inc., and Garware Chemicals Limited. Besides major global competitors, the Advanced Materials segment also has some regional competition from smaller competitors.

Management believes the Advanced Materials segment's competitive advantages include long-term customer relationships, differentiated technology, industry-leading technical service, vertical integration, leading market positions, and scale in manufacturing. The segment principally competes on long-term customer relationships and differentiated technology.

FIBERS SEGMENT

•Overview

In the Fibers segment, Eastman manufactures and sells Estron™ acetate tow and Estrobond™ triacetin plasticizers for use primarily in the manufacture of cigarette filters; Estron™ natural and Chromspun™ solution-dyed acetate yarns for use in apparel, home furnishings and industrial fabrics; and cellulose acetate flake and acetyl raw materials for other acetate fiber producers. Eastman is one of the world's two largest suppliers of acetate tow and has been a market leader in the manufacture and sale of acetate tow since it began production in the early 1950s. The Company is the world's largest producer of acetate yarn and has been in this business for over 75 years. The Fibers segment's manufacturing operations are primarily located at the Kingsport, Tennessee site and also include smaller acetate tow production plants in Workington, England and Ulsan, South Korea. Eastman increased its acetate tow capacity with the expansion of the Workington plant in 2008 and the startup of the Korean facility during 2010, and is further expanding its Asia Pacific capacity with a joint venture manufacturing facility in Hefei, China. In 2012, the Fibers segment had sales revenue of $1.3 billion, 16 percent of Eastman's total sales. On a pro forma combined basis, in 2012, the Fibers segment had 14 percent of Eastman's total pro forma combined sales. The Fibers segment has been and is expected to be a strong and stable source of cash flow and earnings.

The Company's long history and experience in the fibers markets are reflected in the Fibers segment's operating expertise, both within the Company and in support of its customers' processes. The Fibers segment's knowledge of the industry and of customers' processes allows it to assist its customers in maximizing their processing efficiencies, promoting repeat sales and mutually beneficial, long-term customer relationships.

The Company's fully integrated fiber manufacturing process employs unique technology that allows it to use a broad range of high-purity wood pulps for which the Company has dependable sources of supply.

Contributing to the profitability in the Fibers segment are the limited number of competitors, high industry capacity utilization, and significant barriers to entry. These barriers include, but are not limited to, high capital costs for integrated manufacturing facilities.

•Products

Acetate Tow

Eastman manufactures acetate tow under the Estron™ trademark according to a wide variety of customer specifications, primarily for use in the manufacture of cigarette filters. Acetate tow is the largest sales product of the

Fibers segment. Worldwide demand for acetate tow is expected to increase by one to two percent per year over the next several years. Demand growth within Asia, mostly China, one of the largest and fastest growing markets, primarily influences this expected global increase. Acetate tow accounted for approximately 85 percent of the Fibers segment total sales revenue in 2012 and 80 percent in both 2011 and 2010.

Acetate Yarn

The Company manufactures acetate filament yarn under the Estron™ and Chromspun™ trademarks in a wide variety of specifications. Estron™ acetate yarn is available in bright and dull luster and is suitable for subsequent dyeing in the fabric form. Chromspun™ acetate yarn is solution-dyed in the manufacturing process and is available in more than 100 colors. Worldwide demand for acetate yarn is expected to continue to decrease as mills continue to substitute these cheaper yarns for acetate yarn. Management, however, believes that Eastman remains uniquely positioned because of its integrated production of acetate yarn.

Acetyl Chemical Products

The Fibers segment's acetyl chemical products are sold primarily to other acetate fiber producers and include cellulose diacetate flake, acetic acid, and acetic anhydride. Each is used as a raw material for the production of cellulose acetate fibers. The Fibers segment also markets acetyl-based triacetin plasticizers under the Estrobond™ brand, generally for use by cigarette manufacturers as a bonding agent in cigarette filters.

•Strategy and Innovation

Growth

In the Fibers segment, Eastman continues to leverage its strong customer relationships and knowledge of the industry to identify growth options. These growth options have been enabled primarily by its acetate flake capacity at the Kingsport, Tennessee site. In 2008, Eastman expanded its Workington, England plant to support customer demand in the region. In 2010, production began at a new acetate tow facility in Ulsan, South Korea to support customer demand in Asia. With this new facility Eastman's total global acetate tow capacity is approximately 210,000 metric tons. In 2011, Eastman began construction of a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China, expected to be operational in mid-2013, in a joint venture with China National Tobacco Corporation. Eastman has 45 percent ownership of the joint venture and expects to supply the acetate flake raw material to the joint venture from the Company's manufacturing facility in Kingsport. The Company continues to evaluate growth opportunities, particularly in the Asia Pacific region.

Continue to Capitalize on Fibers Technology Expertise

The Company intends to continue to make use of its capabilities in fibers technology to maintain a strong focus on incremental product and process improvements, with the goals of meeting customers' evolving needs and improving the segment's manufacturing process efficiencies.

Maintain Cost-Effective Operations

The Company intends to continue to operate the Fibers segment in a cost effective manner, capitalizing on its technology, scale and vertical integration, and to make further productivity and efficiency improvements through continued investments in R&D.

Research and Development

The Company's Fibers segment R&D efforts focus on process and product improvements, as well as cost reduction, with the objectives of increasing sales and reducing costs. The Fibers segment also conducts research to assist acetate tow customers in the effective use of the segment's products and in the customers' product development efforts.

•Customers and Markets

The customer base in the Fibers segment is relatively concentrated, consisting of approximately 140 customers in the tobacco, textile, and acetate fibers industries. Eastman's Fibers segment customers are located in all regions of the world. The largest 14 customers within the Fibers segment include multinational as well as regional cigarette producers, fabric manufacturers, and other acetate fiber producers. These top 14 customers accounted for about 80 percent of the segment's total sales revenue in 2012, although the segment is not dependent on any single customer.

Sales prices for a significant portion of the Fibers segment's products are typically negotiated on an annual basis. The segment maintains a strong position in acetate tow exports to China.

•Competition

Eastman is the second largest acetate tow manufacturer in the world. Competitors in the fibers market for acetate tow include Celanese Corporation ("Celanese"), Daicel, Mitsubishi Rayon Co., Ltd. ("Mitsubishi Rayon"), and Solvay S.A. (formerly Rhodia S.A.).

In the segment's acetate yarn business, major competitors include Industrias del Acetato de Celulosa S.A., UAB Korelita, and Mitsubishi Rayon. Eastman is the world leader in acetate yarn production and the only acetate yarn producer in the United States and Canada. The physical properties of acetate yarn make it desirable for use in textile products such as suit linings, women's apparel, medical tape, drapery, ribbons and other specialty fabrics. However, over the past 20 years, demand for acetate yarn has been adversely affected by the substitution of lower cost polyester and rayon yarns. Accordingly, worldwide demand for acetate yarn is expected to continue to decrease as mills continue to substitute these cheaper yarns for acetate yarn. Management, however, believes that Eastman remains uniquely positioned because of its integrated production of acetate yarn.

The Fibers segment's competitive strengths include a reputation for high-quality products, technical expertise, large scale vertically-integrated processes, reliability of supply, acetate flake supply in excess of internal needs, a reputation for customer service excellence, and a customer base characterized by long-term customer relationships. The Company intends to continue to capitalize and build on these strengths to improve the strategic position of its Fibers segment. The principal methods of competition include maintaining the Company's large-scale vertically integrated manufacturing process from acetyl raw materials, reliability of supply, product quality, and sustaining long-term customer relationships.

SPECIALTY FLUIDS & INTERMEDIATES SEGMENT

•Overview

The Specialty Fluids & Intermediates segment leverages large scale and vertical integration from the acetyl and olefins streams to manufacture diversified products that are sold externally for use in markets such as industrial chemicals and processing; building and construction; health and wellness; energy, fuels, and water; consumables; and agriculture, as well as used internally by other segments of the Company. The Specialty Fluids & Intermediates segment has leading market positions in many of its core products and believes it is well-positioned in key markets for most of its major products including specialty fluids, acetyl products and olefin derivatives due to its competitive cost position, scale, technology, and reliability of supply compared to competitors. In 2012, the Specialty Fluids & Intermediates segment had sales revenue of $2.3 billion, 29 percent of the Company's total sales. On a pro forma combined basis, in 2012, the Specialty Fluids & Intermediates segment had sales revenue of $2.5 billion, 27 percent of Eastman's total pro forma combined sales.

Historically, the segment's competitive cost position has been primarily due to use of and access to lower cost raw materials such as coal, which is used in the production of acetyl stream products, and olefin feedstocks, which are used in the production of olefin derivative products. Some of the segment's products are affected by the olefins cycle. See "Eastman Chemical Company General Information - Manufacturing Streams" in this "Part I - Item 1. Business." This cyclicality is caused by periods of supply and demand imbalance, either when incremental capacity additions are not offset by corresponding increases in demand or when demand exceeds existing supply. While the segment has taken steps to reduce the impact of the trough of the olefins cycle, future Specialty Fluids & Intermediates segment results are expected to continue to fluctuate from period to period due both to general economic conditions and olefins supply and demand.

•Products

The Specialty Fluids & Intermediates segment offers approximately 175 products that include intermediates based on oxo and acetyl chemistries and performance chemicals. Approximately 65 percent of the Specialty Fluids & Intermediates segment's sales revenue is generated in the United States and Canada, a region in which the Company has leading market positions for most of its key oxo and acetyl products and where the majority of its capacity is located. Sales in all regions are generated through a mix of the Company's direct sales force and a network of distributors.

Specialty Fluids

Therminol® heat transfer fluids are used for indirect heating and cooling of chemical processes in various types of industrial equipment and in solar energy power systems. The fluids provide enhanced heat transfer characteristics because they remain thermally stable at both high and low temperatures. Skydrol® brand aviation hydraulic fluids are supplied across the aviation industry, including to airline airframe manufacturers and aviation maintenance facilities. The Skydrol® line includes fire-resistant aviation hydraulic fluids which are used in the majority of the world's commercial aircraft. Specialty fluids accounted for approximately 10 percent of the Specialty Fluids & Intermediates segment's total sales for 2012, with no sales revenue in 2011 or 2010 prior to the acquisition of Solutia. On a pro forma combined basis, specialty fluids accounted for approximately 15 percent of the Specialty Fluids & Intermediates segment's total sales for 2012.

Chemical Intermediates

The Company's Specialty Fluids & Intermediates segment is the largest United States marketer of acetic anhydride, an intermediate that is a critical component in analgesics, laundry care products, and nutritional supplements, and is the only United States producer of acetaldehyde, a key intermediate in the production of agricultural and other specialty products. Eastman management believes that it manufactures one of the world's broadest ranges of products derived from oxo aldehydes and holds a leading North American market position for many of these products. Many of the intermediates products in the Specialty Fluids & Intermediates segment are priced based on supply and demand of substitute and competing products. In order to maintain a competitive position, the Company strives to operate with a low cost manufacturing base. Chemical intermediates accounted for approximately 50 percent, 55 percent, and 60 percent of the Specialty Fluids & Intermediates segment's total sales for 2012, 2011, and 2010, respectively. On a pro forma combined basis, chemical intermediates accounted for approximately 45 percent of the Specialty Fluids & Intermediates segment's total sales for 2012.

The Specialty Fluids & Intermediates segment also manufactures performance chemicals and complex organic molecules such as diketene derivatives, specialty ketones, and specialty anhydrides for medical, pharmaceutical, fiber, and food and beverage ingredients, which are typically used in specialty market applications.

Other Intermediate Products

Sales of typically lower margin acetic acid, oxo alcohols, ethylene, and polymer intermediates make up the majority of this product group. Production of these products is maximized to achieve high capacity utilizations in order to reduce costs for downstream derivatives. The Specialty Fluids & Intermediates segment manages the sales for these products, which accounted for approximately 40 percent, 45 percent, and 40 percent of the Specialty Fluids & Intermediates segment's total sales for 2012, 2011, and 2010, respectively. On a pro forma combined basis, other products accounted for approximately 40 percent of the Specialty Fluids & Intermediates segment's total sales for 2012.

Strategy and Innovation

A key focus for the segment is to continue to develop and access markets with high-growth potential for the Company's specialty fluid products. The segment also focuses on reliability of supply across all products as a significant competitive advantage. A major goal is to expand volumes in high-growth markets for Therminol® heat transfer fluids through market development efforts. In addition, the business is working to ensure that supply capabilities are able to meet demand growth. In the short term, the business will leverage Eastman manufacturing and process expertise to increase product availability. Furthermore, debottlenecking efforts have been initiated to further increase capacity. For the long term, the business has announced plans to increase Therminol® heat transfer fluid capacity through a plant expansion in Newport, Wales, which is expected to be operational in 2014 and will support expected demand growth in the industrial chemicals and processing markets. The Therminol® team has a continued emphasis on product innovation to meet future market needs.

A key element of the Skydrol® aviation hydraulic fluids strategy is to maintain its market leadership position by being a reliable and consistent supplier in a risk averse industry. The business is continuing to differentiate the Skydrol® brand through emphasis on value added technical services. In addition, the Skydrol® team will work closely with key suppliers and customers to ensure the successful commercialization of Skydrol® PE-5, a state of the art fluid that meets the demanding requirements of next generation aircraft.

To maintain and enhance its status as a low cost producer, the Specialty Fluids & Intermediates segment continuously focuses on cost control, operational efficiency, and capacity utilization to maximize earnings in the chemical intermediates and other product lines. Through the Specialty Fluids & Intermediates segment, the Company maximizes the advantage of its highly integrated and world-scale manufacturing facilities. For example, the Kingsport, Tennessee manufacturing facility allows the Specialty Fluids & Intermediates segment to produce acetic anhydride and other acetyl derivatives from coal rather than natural gas or other petroleum feedstocks. At the Longview, Texas manufacturing facility, Eastman's Specialty Fluids & Intermediates segment uses its proprietary oxo-technology in the world's largest single-site, oxo butyraldehyde manufacturing facility to produce a wide range of alcohols, esters, and other derivative products utilizing local propane and ethane supplies, as well as purchased propylene. These integrated facilities, combined with large scale production processes and a continuous focus on additional process improvements, allow the chemical intermediates and other product lines to remain cost competitive with, and for some products cost-advantaged over, competitors.

During second quarter 2012, the Company entered into an agreement with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant expected to be operational in 2015, further improving the Company's competitive cost position compared to purchasing olefins in the North American market. Prior to completion of the plant, the Company will benefit from a propylene market contract to improve its cost position for purchased propylene beginning in 2013. The Company will also complete a debottlenecking project in its largest olefins cracking unit in Longview, Texas, in the first half of 2013, which will primarily produce more ethylene and is expected to improve Eastman's olefin cost position. The Company also completed a 37,000 metric ton capacity increase of 2-EH in second quarter 2012 to support growth in the plasticizers, coatings, and fuel additive markets, and plans to continue to expand 2-EH capacity as needed to meet North American demand.

The Company engages in research and development initiatives to develop new Specialty Fluids & Intermediates segment products and find additional applications for existing products and to lower its costs. The Company has licensed technology to produce acetyl products to Saudi International Petrochemical Company in Saudi Arabia and to Chang Chun Petrochemical Company in Taiwan in 2005 and 2007, respectively, and has recognized all revenue from these license agreements. The Company is currently evaluating additional licensing opportunities for acetic acid and oxo derivatives.

•Customers and Markets

The Specialty Fluids & Intermediates segment's products are used in a variety of markets and end uses. Significant end markets include industrial chemicals and processing; building and construction; consumables; energy, fuels, and water; health and wellness; agriculture; and transportation. Because of its cost position, scale, technology, reliability, and service, the Company has been able to establish and maintain long-term arrangements and relationships with Specialty Fluids & Intermediates segment customers. Product-specific olefin derivative market conditions vary based upon prevailing supply and demand conditions. An important trend for the Specialty Fluids & Intermediates segment's business is a tendency toward regionalization of key markets due to increased transportation costs and local supply in developing regions from new capacities. The Specialty Fluids & Intermediates segment benefits from this trend primarily in the United States and Canada. Additionally, the Specialty Fluids & Intermediates segment is engaged in continuous efforts to optimize product and customer mix.

•Competition

Historically, there have been significant barriers to entry for potential competitors in the Specialty Fluids & Intermediates segment's major product lines. For acetic acid and acetic anhydride, the relevant technology has been held by a small number of companies. As this technology has become more readily available, competition from multinational chemical manufacturers has intensified. The Therminol® brand offers the widest range of synthetic fluids for indirect heating and cooling. The business has multiple competitors who compete in different temperature

ranges. In most cases, however, heat transfer fluids are not the core platform for their businesses. Additionally, there are barriers to entry for potential competitors as the Specialty Fluids & Intermediates chemistry and service model provide a competitive advantage. Eastman's major competitors in this segment include large, multinational companies such as BASF, Celanese, Dow, and Exxon.

CORPORATE INITIATIVES

In addition to its business segments, the Company manages certain costs and initiatives at the corporate level, including certain R&D costs not allocated to any one operating segment. The Company uses a stage-gating process, which is a disciplined decision making framework for evaluating targeted opportunities, with a number of projects at various stages of development. As projects meet milestones, additional investment is committed to those projects. The Company continues to explore and invest in R&D initiatives that are aligned with macro trends in sustainability, consumerism, and energy efficiency such as high performance materials, advanced cellulosics, and environmentally-friendly chemistry. Such initiatives include:

- acetylated wood, branded as Perennial Wood™, using Eastman's breakthrough TruLast™ process technology which permanently modifies the molecular structure of wood to be three times more stable than unmodified wood, resulting in real wood with long-lasting performance;
- Eastman™ microfiber technology which leverages the Company's core competency in polymers chemistry, spinning capability, and in-house application expertise, for use in high purity air filtration, liquid filtration, and energy storage media, and with opportunities for future growth in nonwoven and textile applications; and
- Cerfis™ technology for the building and construction market.

REGIONAL BUSINESS OVERVIEW

Eastman operates as a global business with approximately 50 percent of its sales generated from outside the United States and Canada region in 2012. As the Company focuses on growth in emerging markets, the percentage of sales from outside the United States and Canada is expected to increase. With the acquisition of Solutia, the Company has expanded its international manufacturing presence, and the Company is also able to transport products globally to meet demand. While all regions are affected by the uncertainty in the global economy, the degree of the impact on the various regions is dependent on the mix of the Company's segments and products in each region.

In 2012, the mix of regional revenue from the segments on a pro forma combined basis was as follows:

	United States and Canada	Asia Pacific	Europe, Middle East, and Africa	Latin America
Additives & Functional Products	15 %	20 %	15 %	30 %
Adhesives & Plasticizers	20 %	5 %	20 %	20 %
Advanced Materials	20 %	25 %	35 %	20 %
Fibers	5 %	30 %	15 %	10 %
Specialty Fluids & Intermediates	40 %	20 %	15 %	20 %
TOTAL	100 %	100 %	100 %	100 %

In addition, segment revenue by region on a pro forma combined basis was as follows:

	Additives & Functional Products	Adhesives & Plasticizers	Advanced Materials	Fibers	Specialty Fluids & Intermediates	Combined
United States and Canada	40 %	55 %	40 %	20 %	65 %	50 %
Asia Pacific	30 %	10 %	25 %	50 %	20 %	25 %
Europe, Middle East, and Africa	20 %	30 %	30 %	25 %	10 %	20 %
Latin America	10 %	5 %	5 %	5 %	5 %	5 %

TOTAL	100 %	100 %	100 %	100 %	100 %	100 %

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The United States and Canada region contains the highest concentration of the Company's long-lived assets with approximately 75 percent located in the United States. Management believes that the location of these manufacturing facilities provides the Company with an advantaged cost position for the Company's domestic customers, particularly for commodity and bulk products. The Specialty Fluids & Intermediates segment accounts for approximately 40 percent of the region's revenue, as the segment is well-positioned in this region's market for most of its major products, including acetic acid, acetic anhydride, 2-EH, and normal butanol, although revenues in the region can be volatile due to the dependence of this segment's selling prices on key raw material and energy costs.

Approximately one-fourth of revenue in the Asia Pacific region is from acetate tow products in the Fibers segment. The region includes many emerging growth markets served by Eastman products, particularly in China. The Company is responding to this growth by strengthening its position through joint ventures and acquisitions. These include the new 30,000 metric ton acetate tow manufacturing facility being constructed in Hefei, China, expected to be operational in mid-2013 in a joint venture with China National Tobacco Corporation; the acquisition of an acetate tow manufacturing facility in Korea which began production in 2010; and the announced investment in a joint venture with Sinopec Yangzi Petrochemical Company Limited to build a world scale hydrogenated hydrocarbon resin plant in Nanjing, China, expected be operational by the end of 2014, which will be equally owned by the two companies, and is expected to produce 50,000 metric tons of the Adhesives & Plasticizers segment's Regalite™ hydrocarbon resins upon completion.

Company revenues in the Europe, Middle East, and Africa region have recently been affected by the ongoing recession in Europe as well as an unfavorable shift in the euro to U.S. dollar exchange rate. However, regulatory requirements and consumer preferences in Europe have allowed sales of certain of the Company's products to increase more than general economic growth. Additionally, growth in the emerging economies of Eastern Europe for certain products has been higher than global economic growth because of higher growth in GDP and per capita income. The Advanced Materials segment accounts for approximately 35 percent of the region's revenue, with a high concentration of interlayers product line sales in this region. The Company has recently increased capacity for acoustic PVB sheet at the manufacturing facility in Ghent, Belgium, which was operational in the second half of 2012 and will support premium growth for acoustics in the transportation market.

The Latin America region has significant sales from commodity product lines and is therefore subject to increased volatility in sales volume and selling prices as a result of general economic conditions and other factors outside of the Company's control. The Company's 2011 acquisition of Scandiflex in Brazil has extended Eastman's non-phthalate plasticizer offerings into Latin American markets.

Financial Information About Geographic Areas

For sales revenue and long-lived assets by geographic areas, see Note 23, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report. For information about regional sales and earnings, see "Regional Business Overview" above in this "Business" section of this Annual Report.

EASTMAN CHEMICAL COMPANY GENERAL INFORMATION

Sales, Marketing, and Distribution

The Company markets and sells products primarily through a global marketing and sales organization which has a presence in the United States and in 29 other countries selling into approximately 119 countries around the world. Eastman has a marketing and sales strategy targeting industries and applications where Eastman products and services provide differentiated value. Market, customer, application, and technical expertise are critical capabilities. Through a highly skilled and specialized sales force that is capable of providing differentiated product solutions, Eastman strives to be the preferred supplier in the Company's targeted markets. The acquisition of Solutia strengthened Eastman's

commercial capabilities and enhanced the Company's overall value to customers.

The Company's products are also marketed through indirect channels, which include distributors and contract representatives. Sales outside the United States tend to be made more frequently through distributors and contract representatives than are sales in the United States. The combination of direct and indirect sales channels, including sales online through its Customer Center website, allows Eastman to reliably serve customers throughout the world.

The Company's products are shipped to customers directly from Eastman's manufacturing plants and from distribution centers worldwide.

Sources and Availability of Raw Material and Energy

Eastman purchases a substantial portion, estimated to be approximately 70 percent, of its key raw materials and energy through long-term contracts, generally of three to five years in initial duration with renewal or cancellation options for each party. Most of these agreements do not require the Company to purchase materials or energy if its operations are reduced or idle. The cost of raw materials and energy is generally based on market price at the time of purchase, and Eastman uses derivative financial instruments, valued at quoted market prices, to mitigate the impact of short-term market price fluctuations. Key raw materials include propane, paraxylene, cellulose, propylene, natural gas, coal, ethane, and a wide variety of precursors for specialty organic chemicals. Key purchased energy sources include natural gas, steam, coal, and electricity. The Company has multiple suppliers for most key raw materials and energy and uses quality management principles, such as the establishment of long-term relationships with suppliers and on-going performance assessment and benchmarking, as part of its supplier selection process. When appropriate, the Company purchases raw materials from a single source supplier to maximize quality and cost improvements, and has developed contingency plans designed to minimize the potential impact of any supply disruptions from single source suppliers.

While temporary shortages of raw materials and energy may occasionally occur, these items are generally sufficiently available to cover current and projected requirements. However, their continuous availability and cost are subject to unscheduled plant interruptions occurring during periods of high demand, domestic and world market conditions, changes in government regulation, natural disasters, war or other outbreak of hostilities or terrorism or other political factors, or breakdown or degradation of transportation infrastructure. Eastman's operations or products have in the past, and may in the future, be adversely affected by these factors. The Company's raw material and energy costs as a percent of total cost of operations were approximately 55 percent, 65 percent, and 60 percent in 2012, 2011, and 2010, respectively.

The following chart shows the Company's key purchased raw materials by segment.

SEGMENT	KEY RAW MATERIALS
Additives & Functional Products	Propane, propylene, napthenic process oil, methyl isobutyl ketone, aniline, nitrobenzene, butyl alcohol, sulfur, acetone, ethane
Adhesives & Plasticizers	Propane, C9 resin oil, piperylene, propylene, gum rosin, toluene
Advanced Materials	Paraxylene, polyvinyl alcohol, ethylene glycol, cellulose, polyethylene terephthalate film, 2-EH, vinyl acetate monomer, butyraldehyde, ethanol
Fibers	Wood pulp, methanol, high sulfur coal
Specialty Fluids & Intermediates	Propane, ethane, propylene, paraxylene, metaxylene, benzene

Manufacturing Streams

Integral to Eastman's corporate strategy for growth is leveraging its heritage of expertise and innovation in acetyl, olefins, and polyester chemistries in key markets, including building and construction, consumables, transportation, and tobacco. For each of these chemistries, Eastman has developed a combination of assets and technologies that are operated within three manufacturing "streams".

- In the acetyl stream, the Company begins with coal and oxygen which are then gasified in its coal gasification facility. The resulting synthesis gas is converted into a number of chemicals including methanol, methyl acetate, acetic acid, and acetic anhydride. These chemicals are used in manufacturing products throughout the Company including, but not limited to, cellulose fibers, plastics, and esters. The Company's ability to use coal is considered to be a raw material cost advantage. The major end uses for products from the acetyl stream include coatings, displays, and tobacco. Manufacturing capacities in 2012 of select chemicals and product lines in the acetyl stream for acetic chemicals included: 611 million pounds of acetic acid; 1,631 million pounds of acetic anhydride; and 475 million pounds of

methanol. These quantities are an expected average for an annual reporting period and actual production can vary based on a variety of factors, including the number of operating days, daily rates per manufacturing asset, routine improvements of operating efficiencies, and maintenance activities.

In the olefins stream, the Company begins primarily with propane and ethane, which are cracked into the "olefin" chemicals ethylene and propylene at its facility in Longview, Texas. "Cracking" is a chemical process in which liquefied petroleum gases are converted into the more reactive olefin molecules which can then be used in the manufacture of other chemicals. Eastman operates three cracking units in Longview, Texas, and expects to complete a debottlenecking project in its largest unit in first half 2013, which will primarily produce more ethylene and is expected to improve Eastman's olefin cost position. The Company also purchases additional propylene for use at its Longview facility and its facilities outside the United States and recently entered into an agreement with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant expected to be operational in 2015, which is expected to further improve the Company's competitive cost position compared to purchasing propylene in the North American market. Prior to completion of the plant, the Company will benefit from a propylene market contract to improve its cost position for purchased propylene beginning in 2013. The propylene is used in chemical intermediates, which are used to produce a variety of items such as paints and coatings, automotive safety glass, and non-phthalate plasticizers for plastic toys. The ethylene is used to produce chemicals that Eastman's customers ultimately convert for end uses in the food industry, health and beauty products, detergents, and automotive products. Petrochemical business cycles are influenced by periods of over- and under-capacity. Capacity additions to steam cracker units around the world, combined with demand for light olefins, determine the operating rate and thus profitability of producing olefins. Historically, periodic additions of large blocks of capacity have caused profit margins of light olefins to expand and contract, resulting in "ethylene" or "olefins" cycles. The Company believes it is positioned to be less impacted by the these cycles than it has been historically due to actions it has taken to leverage its diverse derivatives products to take advantage of regulatory trends and focus on more durable markets. Manufacturing capacities in 2012 of select chemicals and product lines in the olefins stream included: 1,310 million pounds of ethylene; 404 million pounds of acetaldehyde and 220 million pounds of ethylene glycol (both ethylene derivatives); 567 million pounds of propylene; and 2,100 million pounds of oxo aldehydes, 1,106 million pounds of oxo alcohols, and 771 million pounds of plasticizers (all oxo products). These quantities are determined as described above in the acetyl stream. Manufacturing capacities of oxo aldehydes and oxo alcohols increased as a result of debottlenecking activities, while increased plasticizers production capacity reflects the acquisitions of Sterling and Scandiflex in 2011.

- In the polyester stream, the Company begins with purchased paraxylene and produces purified terephthalic acid ("PTA") and dimethyl terephthalate ("DMT") for polyesters and copolyesters. PTA or DMT is then reacted with various glycols, which the Company either makes or purchases, along with other raw materials (some of which the Company makes and are proprietary) to produce copolyesters. The Company believes that this backward integration of polyester manufacturing is a competitive advantage, giving Eastman a low cost position, as well as surety of intermediate supply. In addition, Eastman can add specialty monomers to copolyesters to provide clear, tough, chemically resistant product characteristics. As a result, the Company's copolyesters effectively compete with materials such as polycarbonate and acrylic.

In addition to stream integration, the Company also derives value from Eastman's cellulosics expertise. These cellulosics are natural polymers, sourced from managed forests, which, when combined with the acetyl and olefin streams, provide differentiated product lines and an advantaged raw material position for Eastman.

The Company continues to leverage its heritage of expertise and innovation in acetyl, olefins, and polyester chemistries and technologies, as well as its use of cellulosics, to meet demand and create new uses and opportunities for the Company's products in key markets. Through integration and optimization across these streams, the Company is able to create unique and differentiated products that have a performance advantage over competitive materials. The Company's acquired Solutia businesses are expected to benefit from Eastman legacy chemistries for some of their products. The Company continues to assess the unique chemistries and manufacturing streams of its businesses to further determine both the appropriate stream integration approach and the level of stream integration.

Capital Expenditures

Capital expenditures were $465 million, $457 million, and $243 million in 2012, 2011, and 2010, respectively. Capital expenditures in 2012 were primarily for organic growth initiatives, particularly in the Specialty Fluids & Intermediates and Advanced Materials segments. The lower expenditures in 2010 were primarily due to the deferral of discretionary spending in response to the global recession. The Company expects that 2013 capital spending will be approximately $525 million.

Employees

Eastman employs approximately 13,500 men and women worldwide. Approximately eight percent of the total worldwide labor force is represented by unions, mostly outside the United States.

Customers

Eastman has an extensive customer base and, while it is not dependent on any one customer, loss of certain top customers could adversely affect the Company until such business is replaced. The top 100 customers accounted for approximately 60 percent of the Company's 2012 sales revenue. No single customer accounted for 10 percent or more of the Company's consolidated sales revenue during 2012.

Intellectual Property and Trademarks

While the Company's intellectual property portfolio is an important Company asset which it expands and vigorously protects globally through a combination of patents that expire at various times, trademarks, copyrights, and trade secrets, neither its business as a whole nor any particular segment is materially dependent upon any one particular patent, trademark, copyright, or trade secret. The Company's intellectual property relates to a wide variety of products and processes and its portfolio of intellectual property has been significantly expanded by the Solutia acquisition. As a producer of a broad range of advanced materials, additives and functional products, specialty chemicals, and fibers, Eastman owns over 700 active United States patents and more than 1,600 active foreign patents, expiring at various times over several years, and also owns over 4,900 active worldwide trademark applications and registrations. Eastman continues to actively protect its intellectual property. As the laws of many countries do not protect intellectual property to the same extent as the laws of the United States, Eastman cannot ensure that it will be able to adequately protect its intellectual property assets outside the United States.

The Company pursues opportunities to license proprietary technology to third parties in areas where it has determined competitive impact to its businesses will be minimal. These arrangements typically are structured to require payments at significant project milestones such as signing, completion of design, and start-up. To date, efforts have been focused on acetyls technology in the Specialty Fluids & Intermediates segment. The Company also is actively pursuing licensing opportunities for oxo derivatives in the Specialty Fluids & Intermediates segment.

Research and Development

For 2012, 2011, and 2010, Eastman's R&D expenses totaled $198 million, $159 million, and $152 million, respectively.

Environmental

Eastman is subject to significant and complex laws, regulations, and legal requirements relating to the use, storage, handling, generation, transportation, emission, discharge, disposal, and remediation of, and exposure to, hazardous and non-hazardous substances and wastes in all of the countries in which it does business. These health, safety, and environmental considerations are a priority in the Company's planning for all existing and new products and processes. The Health, Safety, Environmental and Security Committee of Eastman's Board of Directors oversees the Company's policies and practices concerning health, safety, and the environment and its processes for complying with related laws and regulations, and monitors related matters.

The Company's policy is to operate its plants and facilities in compliance with all applicable laws and regulations such that it protects the environment and the health and safety of its employees and the public. The Company intends to continue to make expenditures for environmental protection and improvements in a timely manner consistent with its policies and with the technology available. In some cases, applicable environmental regulations such as those adopted under the Clean Air Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act, and related actions of regulatory agencies, determine the timing and amount of environmental costs incurred by the Company. Likewise, when finalized, potential legislation related to greenhouse gas emissions, energy policy, and associated implementing regulations could impact the timing and amount of

environmental costs incurred by the Company.

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. In some instances, the amount cannot be reasonably estimated due to insufficient information, particularly as to the nature and timing of future expenditures. In these cases, the liability is monitored until such time that sufficient information exists. With respect to a contaminated site, the amount accrued reflects liabilities expected to be paid out within 30 years and the Company's assumptions about remediation requirements at the 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 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, and chemical control regulations, and testing requirements could result in higher or lower costs. The Company's cash expenditures related to environmental protection and improvement were $262 million, $219 million, and $200 million, in 2012, 2011, and 2010, respectively. These amounts were primarily for operating costs associated with environmental protection equipment and facilities, but also included $34 million and $35 million in expenditures for engineering and construction in 2012 and 2011, respectively. Expenditures in 2012 also included costs and expenditures in the second half of the year for sites acquired in the acquisition of Solutia.

Cash expenditures in 2013, including expenditures for engineering and construction, are expected to increase primarily as a result of full year integration of the acquired Solutia sites. Costs of certain remediation projects included in the environmental reserve assumed in the acquisition of Solutia are subject to a cost-sharing arrangement with Monsanto Company ("Monsanto") under the provisions of the Amended and Restated Settlement Agreement effective February 28, 2008 (the "Effective Date"), into which Solutia entered with Monsanto upon its emergence from bankruptcy (the "Monsanto Settlement Agreement"). Under the provisions of the Monsanto Settlement Agreement, the Company shares responsibility with Monsanto for remediation at certain locations outside of the boundaries of plant sites in Anniston, Alabama and Sauget, Illinois (the "Shared Sites"). The Company is responsible for the funding of environmental liabilities at the Shared Sites up to a total of $325 million from the Effective Date. If remediation costs for the Shared Sites exceed this amount, such costs will thereafter be shared equally between the Company and Monsanto. Including payments by Solutia prior to its acquisition by Eastman, $45 million had been paid for costs at the Shared Sites as of December 31, 2012. As of December 31, 2012, an additional $229 million has been accrued for estimated future remediation costs at the Shared Sites, over a period of thirty years.

Management anticipates that capital expenditures associated with the Company's approach to addressing recently finalized boiler air emissions regulations will modestly increase average annual environmental capital expenditures over the next five years compared to recent historical levels. However, the Company has decided to diversify by converting over the next three to six years 50 percent of its steam and electric generation capacity at the Kingsport, Tennessee facility to natural gas. Management does not believe that these expenditures will have a material effect on the Company's consolidated financial position or cash flows. Other than these planned capital expenditures at the Company's Kingsport, Tennessee facility, the Company does not currently expect future environmental capital expenditures arising from requirements of recently promulgated environmental laws and regulations to materially increase the Company's planned level of annual capital expenditures for environmental control facilities.

Other matters concerning health, safety, and the environment are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II Item 7 and in Notes 1, "Significant Accounting Policies"; 16, "Environmental Matters"; and 25, "Reserve Rollforwards" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Backlog

On January 1, 2013 and 2012, Eastman's backlog of firm sales orders represented less than 10 percent of the Company's total consolidated revenue for the previous year. These orders are primarily short-term and all orders are expected to be filled in the following year. The Company manages its inventory levels to control the backlog of products depending on customers' needs. In areas where the Company is the single source of supply, or competitive

forces or customers' needs dictate, the Company may carry additional inventory to meet customer requirements.

Available Information - SEC Filings

The Company makes available free of charge, through the "Investors - SEC Information" section of its Internet website (www.eastman.com), its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission (the "SEC").

The Company is required to file annual, quarterly and current reports, proxy statements and other information with the SEC. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

ITEM 1A. RISK FACTORS

For identification and discussion of the most significant risks applicable to the Company and its business, see Part II – Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements and Risk Factors" of this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

EXECUTIVE OFFICERS OF THE COMPANY

Certain information about the Company's executive officers is provided below:

James P. Rogers, age 61, is Chairman of the Board and Chief Executive Officer of Eastman Chemical Company. He served as President and Chief Executive Officer from May 2009 until January 2011. Mr. Rogers was appointed Executive Vice President of the Company and President of Eastman Division effective November 2003. Mr. Rogers joined the Company in 1999 as Senior Vice President and Chief Financial Officer and in 2002 was also appointed Chief Operations Officer of Eastman Division. Mr. Rogers served previously as Executive Vice President and Chief Financial Officer of GAF Materials Corporation ("GAF"). He also served as Executive Vice President, Finance, of International Specialty Products, Inc., which was spun off from GAF in 1997.

Mark J. Costa, age 46, is Executive Vice President, Additives & Functional Products, Advanced Materials, and Chief Marketing Officer. Mr. Costa joined the Company in June 2006 as Senior Vice President, Corporate Strategy & Marketing; was appointed Executive Vice President, Polymers Business Group Head and Chief Marketing Officer in August 2008; and was appointed Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer in May 2009. Prior to joining Eastman, Mr. Costa was a senior partner with Monitor Group ("Monitor"). He joined Monitor, a global management consulting firm, in 1988 and his experience included corporate and business unit strategies, asset portfolio strategies, innovation and marketing, and channel strategies across a wide range of industries. Mr. Costa was appointed to his current position in July 2012.

Ronald C. Lindsay, age 54, is Executive Vice President, Adhesives & Plasticizers, Fibers, Specialty Fluids & Intermediates, Engineering and Construction, and Manufacturing Support. He joined Eastman in 1980 and held a number of positions in various manufacturing and business organizations. In 2003, Mr. Lindsay was appointed Vice President and General Manager of Intermediates, in 2005 became Vice President, Performance Chemicals and Intermediates; in 2006 was appointed Senior Vice President and Chief Technology Officer; in 2008 was appointed Senior Vice President, Corporate Strategy and Regional Leadership; in May 2009 was appointed Executive Vice President, Performance Polymers and Chemical Intermediates; and in January 2011 was appointed Executive Vice President, Performance Chemicals and Intermediates, Fibers, Engineering and Construction, and Manufacturing Support. He was appointed to his current position in July 2012.

Michael H.K. Chung, age 59, is Senior Vice President and Chief International Ventures Officer. Mr. Chung joined Eastman in 1976, and since that time has held various management positions, primarily in the Company's chemicals and fibers businesses. He was appointed Vice President, Fibers International Business in 2006 and in 2009, he was appointed Vice President and Managing Director, Asia Pacific Region. Mr. Chung was appointed to his current position in January 2011.

Curtis E. Espeland, age 48, is Senior Vice President and Chief Financial Officer. Mr. Espeland joined Eastman in 1996, and has served in various financial management positions of increasing responsibility, including Vice President, Finance, Polymers; Vice President, Finance, Eastman Division; Vice President and Controller; Director of Corporate Planning and Forecasting; Director of Finance, Asia Pacific; and Director of Internal Auditing. He served as the Company's Chief Accounting Officer from December 2002 to 2008. Prior to joining Eastman, Mr. Espeland was an audit and business advisory manager with Arthur Andersen LLP in the United States, Eastern Europe, and Australia. Mr. Espeland was appointed to his current position in September 2008.

Godefroy A.F.E. Motte, age 54, is Senior Vice President, Integrated Supply Chain and Chief Regional and Sustainability Officer. Since joining Eastman in 1985, Mr. Motte has held leadership positions in various organizations, including sales, supply chain, and manufacturing and in both the Company's chemicals and polymers businesses. He was appointed Vice President for the Europe, Middle East, and Asia ("EMEA") region for the Chemicals Division in 2001 and for the EMEA Polymers Business Group in April 2006. In January 2011, Mr. Motte

was appointed Senior Vice President, Chief Regional and Sustainability Officer and was appointed to his current position in July 2012.

Greg W. Nelson, age 50, is Senior Vice President and Chief Technology Officer. Dr. Nelson joined Eastman in 1988 in the Research and Development organization, and served in various positions in specialty plastics technology and business organizations, including business unit manager of polymer films and coatings. In 2001, Dr. Nelson was appointed Vice President, Technology, in 2006 became Vice President, Polymers Technology, and in 2007 Vice President, Corporate Technology until appointed to his current position in August 2008.

David A. Golden, age 47, is Senior Vice President, Chief Legal Officer, and Corporate Secretary. Mr. Golden joined Eastman in 1995 as an attorney and has held positions of increasing responsibility, including Vice President, Associate General Counsel, and Corporate Secretary. In this role, Mr. Golden had responsibility for Eastman's Law Department, which has personnel in the United States, Europe and Asia. He also had overall responsibility for Eastman's Ethics and Corporate Compliance program. Prior to joining Eastman, he was an attorney in the Atlanta office of the law firm of Hunton & Williams. Mr. Golden was appointed to his current position in January 2013.

Perry Stuckey, III, age 53, is Senior Vice President, Chief Human Resources Officer. Mr. Stuckey joined Eastman in 2011, as Vice President, Global Human Resources, and was responsible for Eastman's human resources strategy and services worldwide. Mr. Stuckey's work experience spans more than 25 years, including a variety of global human resource management positions in manufacturing, industrial automation, and bio-technology organizations. Mr. Stuckey was appointed to his current position in January 2013.

Scott V. King, age 44, is Vice President, Controller and Chief Accounting Officer. Since joining Eastman in 1999 as Manager, Corporate Consolidations and External Reporting, he has held various positions of increasing responsibility in the financial organization, and was appointed Vice President and Controller in August 2007. Prior to joining Eastman, Mr. King was an audit and business advisory manager with PricewaterhouseCoopers LLP. Mr. King was appointed to his current position in September 2008.

ITEM 2. PROPERTIES

PROPERTIES

At December 31, 2012, Eastman Chemical Company ("Eastman" or the "Company") operated over 40 manufacturing sites in 16 countries. Utilization of these facilities may vary with product mix and economic, seasonal, and other business conditions; however, none of the principal plants are substantially idle. The Company's plants, including approved expansions, generally have sufficient capacity for existing needs and expected near-term growth. These plants are generally well maintained, in good operating condition, and suitable and adequate for their use. Unless otherwise indicated, all of the properties are owned. The locations and general character of the major manufacturing facilities are:

	Segment using manufacturing facility				
Location	Additives & Functional Products	Adhesives & Plasticizers	Advanced Materials	Fibers	Specialty Fluids & Intermediates
USA					
Alvin, Texas[1]					x
Anniston, Alabama					x
Axton, Virginia			x		
Canoga Park, California[2]			x		
Cartersville, Georgia[1]	x				
Chestertown, Maryland		x			
Chicago, Illinois[2]			x		
Columbia, South Carolina[3]			x		
Franklin, Virginia[1]		x			
Jefferson, Pennsylvania	x	x			
Indianapolis, Indiana	x				
Kingsport, Tennessee	x	x	x	x	x
Lemoyne, Alabama[1]	x				
Longview, Texas	x	x	x		x
Martinsville, Virginia			x		
Monongahela, Pennsylvania	x				
Sauget, Illinois	x				
Springfield, Massachusetts			x		
Sun Prairie, Wisconsin			x		
Texas City, Texas		x			x
Trenton, Michigan			x		
Europe					
Antwerp, Belgium[1]	x		x		
Ghent, Belgium			x		
Workington, England				x	
Kohtla-Järve, Estonia		x			x
Sete, France	x				
Dresden, Germany			x		
Nienburg, Germany	x				
Middelburg, the Netherlands		x			
Newport, Wales			x		x

(1)

Indicates a location where Eastman is a guest under an operating agreement with a third party, which operates its manufacturing facilities at the site.

(2) Indicates a location that Eastman leases from a third party and Eastman operates the site.

(3) Although nearly all of the manufacturing facility was included in the first quarter 2011 divestiture of the Company's polyethylene terephthalate ("PET") business and related assets, a portion has been retained subsequent to the sale.

Location	Segment using manufacturing facility				
	Additives & Functional Products	Adhesives & Plasticizers	Advanced Materials	Fibers	Specialty Fluids & Intermediates
Asia Pacific					
Suzhou, China[1][2][3]			x		x
Tongxiang, China	x				
Wuhan, China[4]		x			
Zibo City, China[5]	x	x			
Kashima, Japan	x				
Ulsan, Korea				x	
Kuantan, Malaysia[1][2]	x		x		
Jurong Island, Singapore[1]	x	x			x
Taipei, Taiwan[1]			x		
Latin America					
Itupeva, Brazil[6]	x				
Sao Jose Dos Campos, Brazil[6][7]	x		x		x
Sao Paulo, Brazil		x			
Santo Toribio, Mexico			x		
Uruapan, Mexico		x			

(1) Indicates a location that Eastman leases from a third party and Eastman operates the site.

(2) Indicates a location where Eastman has more than one manufacturing facility.

(3) Eastman holds a 60 percent share in the joint venture Solutia Therminol Co., Ltd., Suzhou in the Specialty Fluids & Intermediates Segment.

(4) Eastman holds a 51 percent share in the joint venture Genovique Specialties Wuhan Youji Chemical Co., Ltd.

(5) Eastman holds a 51 percent share in the joint venture Qilu Eastman Specialty Chemical Ltd.

(6) Indicates a location where Eastman is a guest under an operating agreement with a third party, which operates its manufacturing facilities at the site.

(7) In fourth quarter 2012, the Company terminated an operating agreement at the acquired Solutia facility in Sao Jose dos Campos, Brazil. For more information, see Note 19, "Asset Impairments and Restructuring Charges (Gains), Net", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Eastman has a 50 percent interest in Primester, a joint venture that manufactures cellulose acetate at Eastman's Kingsport, Tennessee plant. The production of cellulose acetate is an intermediate step in the manufacture of acetate tow and other cellulose acetate based products. The Company also has a 50 percent interest in a joint venture that has a manufacturing facility in Nanjing, China. The Nanjing facility produces Eastotac™ hydrocarbon tackifying resins for pressure-sensitive adhesives, caulks, and sealants. Eastotac™ hydrocarbon resins are also used to produce hot melt adhesives for packaging applications in addition to glue sticks, tapes, labels, and other adhesive applications. In November 2010, the Company entered into a joint venture with 50 percent interest for the manufacture of compounded cellulose diacetate ("CDA") in Shenzhen, China. CDA is a bio-derived material, which is used in various injection molded applications, including but not limited to ophthalmic frames, tool handles and other end use products. In 2011, the Company entered into a joint venture for a 30,000 metric ton acetate tow manufacturing facility in China, expected to be operational in mid-2013. Eastman has 45 percent ownership of the joint venture and expects to provide 100 percent of the acetate flake raw material to the joint venture from the Company's manufacturing facility in Kingsport. In 2012, the Company entered into a joint venture to build a 50,000 metric ton hydrogenated hydrocarbon resin plant in Nanjing, China. The venture will be equally owned by Eastman and Sinopec Yangzi Petrochemical Company Limited and is expected to be operational by the end of 2014.

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Eastman has distribution facilities at all of its plant sites. In addition, the Company owns or leases approximately 160 stand-alone distribution facilities in the United States and 23 other countries. Corporate headquarters are in Kingsport, Tennessee. The Company's regional headquarters are in Miami, Florida; Capelle aan den IJssel, the Netherlands; Zug, Switzerland; Singapore; and Kingsport, Tennessee. Technical service is provided to the Company's customers from technical service centers in Kingsport, Tennessee; Palo Alto, California; Canoga Park, California; Indian Orchard, Massachusetts; Akron, Ohio; Martinsville, Virginia; Kirkby, England; Middelburg, the Netherlands; Shanghai, China; and Singapore. In addition to Eastman's regional customer service centers located in Kingsport, Tennessee; St. Louis, Missouri; Miami, Florida (Latin America); Capelle aan den IJssel, the Netherlands; Zaventum, Belgium; Koeln, Germany; Shanghai, China; and Singapore, the Company also has customer service offices located in 10 other countries around the world.

A summary of properties, classified by type, is included in Note 5, "Properties and Accumulated Depreciation", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

General

From time to time, Eastman Chemical Company ("Eastman" or the "Company") 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 being 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 (including those described below) will have a material adverse effect on its overall financial condition, results of operations, or cash flows.

Certain Solutia Historical Legal and Administrative Proceedings

Legacy Tort 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 to defend and indemnify Solutia against any Legacy Tort Claims (as defined in the Monsanto Settlement Agreement) and Solutia agreed to retain responsibility for certain tort claims, if any, that may arise from Solutia's conduct after its spinoff from Pharmacia Corporation ("Pharmacia") (f/k/a Monsanto), which occurred on September 1, 1997. Solutia, which became a wholly owned subsidiary of Eastman on July 2, 2012, has been named as a defendant in several such proceedings, and has submitted the matters to Monsanto 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 the acquisition, Eastman guaranteed the obligations of Solutia and Eastman was added as an indemnified party under the Monsanto Settlement Agreement.

Medicare Reimbursement Litigation. On December 1, 2009, the Department of Justice ("DOJ"), on behalf of the United States government, filed suit in the United States District Court, Northern District of Alabama (in a case captioned United States of America v. Stricker, et al.), against Solutia, Monsanto, Pharmacia and the attorneys and law firms who represented the plaintiffs in the Abernathy v. Solutia Inc., et al. ("Abernathy") lawsuit arising out of polychlorinated biphenyl ("PCB") contamination in Anniston, Alabama. The DOJ alleges the defendants failed to reimburse Medicare for medical expenses paid to Abernathy settlement recipients who were Medicare beneficiaries. The DOJ seeks recovery of these allegedly unpaid reimbursements from the defendants who paid into the Abernathy settlement fund, as well as the plaintiffs' counsel who represented the Medicare recipients and were responsible for the distribution of the settlement funds.

The district court granted the defendants' motions to dismiss finding the DOJ failed to file the action within the applicable statute of limitations. The DOJ appealed the case to the Eleventh Circuit Court of Appeals, which heard oral argument on the case July 26, 2012, and a decision is expected in 2013.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a)Eastman Chemical Company's ("Eastman" or the "Company") common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "EMN". The following table presents the high and low sales prices of the common stock on the NYSE and the cash dividends per share declared by the Company's Board of Directors for each quarterly period of 2012 and 2011.

		High	Low	Cash Dividends Declared
2012	First Quarter	$55.14	$39.16	$0.260
	Second Quarter	55.53	41.54	0.260
	Third Quarter	59.56	46.18	0.260
	Fourth Quarter	68.22	52.93	0.300
2011	First Quarter	$50.07	$42.39	$0.235
	Second Quarter	55.36	46.82	0.235
	Third Quarter	53.31	32.45	0.260
	Fourth Quarter	42.62	33.21	0.260

As of December 31, 2012, there were 153,955,346 shares of the Company's common stock issued and outstanding, which shares were held by 20,760 stockholders of record. These shares include 60,485 shares held by the Company's charitable foundation. The Company's Board of Directors has declared a cash dividend of $0.30 per share during the first quarter of 2013, payable on April 1, 2013 to stockholders of record on March 15, 2013. Quarterly dividends on common stock, if declared by the Board of Directors, are usually paid on or about the first business day of the month following the end of each quarter. The payment of dividends is a business decision made by the Board of Directors from time to time based on the Company's earnings, financial position and prospects, and such other considerations as the Board considers relevant. Accordingly, while management currently expects that the Company will continue to pay the quarterly cash dividend, its dividend practice may change at any time.

In July 2012, as part of the Company's acquisition of Solutia Inc., the Company issued 14.7 million shares of Eastman common stock and 4,481,250 warrants to purchase 0.12 shares of Eastman common stock and $22.00 cash per warrant upon payment of the warrant exercise price of $29.70. The warrants expired on February 27, 2013. For more information, see Note 2, "Acquisitions and Investments in Joint Ventures" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K ("Annual Report").

See Part III, Item 12 — "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Securities Authorized for Issuance Under Equity Compensation Plans" of this Annual Report for the information required by Item 201(d) of Regulation S-K.

(b)Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

Operating Data	Year Ended December 31,				
(Dollars in millions, except per share amounts)	2012	2011	2010	2009	2008
Sales	$8,102	$7,178	$5,842	$4,396	$5,936
Operating earnings	800	937	844	276	221
Earnings from continuing operations	443	607	418	116	141
Earnings (loss) from discontinued operations	—	9	9	(22)	(37)
Gain from disposal of discontinued operations	1	31	—	—	18
Net earnings	444	647	427	94	122
Less: Net earnings attributable to noncontrolling interest	7	1	2	5	1
Net earnings attributable to Eastman	$437	$646	$425	$89	$121
Amounts attributable to Eastman stockholders					
Earnings from continuing operations, net of tax	$436	$606	$416	$111	$140
Earnings (loss) from discontinued operations, net of tax	1	40	9	(22)	(19)
Net earnings attributable to Eastman stockholders	$437	$646	$425	$89	$121
Basic earnings per share attributable to Eastman					
Earnings from continuing operations	$2.99	$4.34	$2.88	$0.77	$0.93
Earnings (loss) from discontinued operations	0.01	0.29	0.07	(0.16)	(0.13)
Net earnings	$3.00	$4.63	$2.95	$0.61	$0.80
Diluted earnings per share attributable to Eastman					
Earnings from continuing operations	$2.92	$4.24	$2.81	$0.76	$0.92
Earnings (loss) from discontinued operations	0.01	0.28	0.07	(0.15)	(0.12)
Net earnings	$2.93	$4.52	$2.88	$0.61	$0.80
Statement of Financial Position Data					
Current assets	$2,594	$2,302	$2,047	$1,735	$1,423
Net properties	4,181	3,107	3,219	3,110	3,198
Goodwill	2,644	406	375	315	325
Other intangibles	1,849	101	92	43	79
Total assets	11,619	6,184	5,986	5,515	5,281
Current liabilities	1,364	1,114	1,070	800	832
Long-term borrowings	4,779	1,445	1,598	1,604	1,442
Total liabilities	8,591	4,283	4,327	3,975	3,724
Total Eastman stockholders' equity	2,943	1,870	1,627	1,513	1,553
Dividends declared per share	1.080	0.990	0.895	0.880	0.880

In first quarter 2012, Eastman Chemical Company ("Eastman" or the "Company") elected to change its method of accounting for actuarial gains and losses for its pension and other postretirement benefit ("OPEB") plans to a more preferable method permitted under accounting principles generally accepted ("GAAP") in the United States. The current method recognizes actuarial gains and losses in the Company's operating results in the year in which the gains and losses occur rather than amortizing them over future periods. Under the current method of accounting, these gains and losses are measured annually at December 31 and recorded as a mark-to-market ("MTM") adjustment during the fourth quarter of each year. Any interim remeasurements triggered by a curtailment, settlement, or significant plan changes are recognized as an MTM adjustment in the quarter in which such remeasurement event occurs. The current method has been retrospectively applied to financial results of all periods presented. For additional information, see Note 14, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K (this "Annual Report").

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On July 2, 2012, the Company completed its acquisition of Solutia Inc. ("Solutia"), a global leader in performance materials and specialty chemicals. The fair value of total consideration transferred was approximately $4.8 billion, consisting of cash of $2.6 billion, net of cash acquired; equity in the form of Eastman stock of approximately $700 million; and the assumption and subsequent repayment of Solutia's debt at fair value of approximately $1.5 billion. For additional information see Note 2, "Acquisitions and Investments in Joint Ventures", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report. As of the date of acquisition, results of the acquired Solutia businesses are included in Eastman results.

In third quarter 2011, the Company completed three acquisitions. Eastman acquired Sterling Chemicals, Inc. ("Sterling"), a single site North American petrochemical producer, to produce non-phthalate plasticizers in the Adhesives & Plasticizers segment, including Eastman 168™ non-phthalate plasticizers, and acetic acid in the Specialty Fluids & Intermediates segment, and Eastman also acquired Scandiflex do Brasil S.A. Indústrias Químicas ("Scandiflex"), a manufacturer of plasticizers located in São Paulo, Brazil, which is reported in the Adhesives & Plasticizers segment. The Company acquired Dynaloy, LLC ("Dynaloy"), a producer of formulated solvents, which is reported in the Additives & Functional Products segment. The acquisitions were accounted for as business combinations. For additional information see Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 2, "Acquisitions and Investments in Joint Ventures" and Note 19, "Asset Impairments and Restructuring Charges (Gains), Net" of this Annual Report.

In first quarter 2011, the Company completed the sale of the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. The PET business, assets, and technology sold were substantially all of the Performance Polymers segment. Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations in accordance with GAAP. For additional information, see Note 3, "Discontinued Operations", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

In second quarter 2010, Eastman completed the purchase of Genovique Specialties Corporation ("Genovique"), which was accounted for as a business combination. The acquired business is a global producer of specialty plasticizers, benzoic acid, and sodium benzoate. This acquisition included Genovique's manufacturing operations in Kohtla-Järve, Estonia and Chestertown, Maryland and a joint venture in Wuhan, China. Genovique's benzoate ester plasticizers were a strategic addition to Eastman's existing general-purpose and specialty non-phthalate plasticizers. For additional information see Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 2, "Acquisitions and Investments in Joint Ventures" and Note 19, "Asset Impairments and Restructuring Charges (Gains), Net" of this Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is based upon the consolidated financial statements for Eastman Chemical Company ("Eastman" or the "Company"), which have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States, and should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this 2012 Annual Report on Form 10-K (this "Annual Report"). All references to earnings per share ("EPS") contained in this report are diluted earnings per share unless otherwise noted.

On July 2, 2012, the Company completed its acquisition of Solutia Inc. ("Solutia"), a global leader in performance materials and specialty chemicals. The fair value of total consideration transferred was approximately $4.8 billion, consisting of cash of $2.6 billion, net of cash acquired; equity in the form of Eastman stock of approximately $700 million; and the assumption and subsequent repayment of Solutia's debt at fair value of approximately $1.5 billion. For additional information, see Note 2, "Acquisitions and Investments in Joint Ventures", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report. As of the date of acquisition, results of the acquired Solutia businesses are included in Eastman results.

Beginning in third quarter 2012, the Company changed its reportable segments due to changes in the Company's organization resulting from the acquisition of Solutia. Eastman currently has five reporting segments: Additives & Functional Products, Adhesives & Plasticizers, Advanced Materials, Fibers, and Specialty Fluids & Intermediates. The new reporting structure has been retrospectively applied to financial results of all periods presented.

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

In first quarter 2012, Eastman elected to change its method of accounting for actuarial gains and losses for its pension and other postretirement benefit ("OPEB") plans to a more preferable method permitted under GAAP. The current method recognizes actuarial gains and losses in the Company's operating results in the year in which the gains and losses occur rather than amortizing them over future periods. Under the current method of accounting, these gains and losses are measured annually at December 31 and recorded as a mark-to-market ("MTM") adjustment during the fourth quarter of each year. Any interim remeasurements triggered by a curtailment, settlement, or significant plan changes are recognized as an MTM adjustment in the quarter in which such remeasurement event occurs. The current method has been retrospectively applied to financial results of all periods presented. For additional information, see Note 14, "Accounting Methodology Change for Pension and Other Postretirement Benefit Plans" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with GAAP, the Company's 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, the Company evaluates its estimates, including those related to allowances for doubtful accounts, impairment of long-lived assets, environmental costs, pension and other post-employment benefits, litigation and contingent liabilities, income taxes, and purchase accounting. 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. The Company's management believes the critical accounting estimates described below 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.

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company believes, based on historical results, the likelihood of actual write-offs having a material impact on financial results is low. However, if one of the Company's key customers was to file for bankruptcy, or otherwise be unwilling or unable to make its required payments, or there was a significant slow-down in the economy, the Company could increase its allowances. This could result in a material charge to earnings. The Company's allowance for doubtful accounts was $8 million at December 31, 2012 and 2011.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount is not considered to be recoverable, an analysis of fair value is triggered. An impairment is recorded for the excess of the carrying amount of the asset over the fair value.

The Company conducts its annual testing of goodwill and indefinite-lived intangible assets in third quarter of each year, unless events warrant more frequent testing. The 2012 testing of goodwill was performed at the reporting unit level which management determined to be its operating segments.

The Company applies a fair value methodology in testing the carrying value of goodwill for each reporting unit. The key assumptions and estimates used in the Company's 2012 goodwill impairment testing included a long-term projection of revenues, expenses, and cash flows, the estimated weighted average cost of capital, and the estimated corporate tax rate. The Company believes these assumptions are consistent with those a hypothetical market participant would use given circumstances that were present at the time the estimates were made. However, actual results and amounts may be significantly different from the Company's estimates. In addition, the use of different estimates or assumptions could result in materially different determinations. If the estimated fair value of a reporting unit is determined to be less than the carrying value of the net assets of the reporting unit including goodwill, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment.

Indefinite-lived intangible assets, consisting of various trademarks, are tested for potential impairment by comparing the estimated fair value to the carrying amount. The estimated fair value of the trademarks is determined based on an assumed royalty rate savings, discounted by the Company's estimated cost of capital. The carrying value of indefinite-lived intangible assets is considered to be impaired when the estimated fair value is less than the carrying value of the trademarks.

As a result of the tests performed during third quarter 2012, no impairment was determined to exist for goodwill or any of the Company's indefinite-lived intangible assets. In the goodwill impairment analysis performed, fair values substantially exceeded the carrying values for each reporting unit. As a result of the 2012 acquisition of Solutia, the Company recorded $2,230 million of goodwill and $542 million of indefinite-lived intangible assets. As required by purchase accounting guidance, the Company performed a determination of the fair value of assets and liabilities acquired with the purchase of Solutia in third quarter 2012. Therefore, the goodwill and intangible assets from the acquisition were excluded from the current year's annual testing of goodwill and indefinite-lived intangible assets.

As the Company's assumptions related to long-lived assets are subject to change, write-downs may be required in the future. If estimates of fair value less costs to sell are revised, the carrying amount of the related asset is adjusted, resulting in a charge to earnings. The Company recognized a definite-lived intangible asset impairment charge of $8 million resulting from an environmental regulatory change during fourth quarter 2010 impacting the fair value of air emission credits remaining from the previously discontinued Beaumont, Texas, industrial gasification project.

Environmental Costs

The Company accrues environmental remediation costs when it is probable that the Company has incurred a liability at a contaminated site and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. This undiscounted accrued amount reflects liabilities expected to be paid out within 30 years and 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 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, and chemical control regulations and testing requirements could result in higher or lower costs. Estimated future environmental expenditures for remediation costs ranged from the minimum or best estimate of $365 million to the maximum of $623 million at December 31, 2012. The maximum estimated future costs are considered to be reasonably possible and are inclusive of the amounts accrued at December 31, 2012.

In accordance with GAAP, the Company also establishes reserves for closure/postclosure costs associated with the environmental and other assets it maintains. Environmental assets, as defined by GAAP, include but are not limited to waste management units, such as landfills, water treatment facilities, and ash ponds. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the retirement or closure of the asset based on an expected life of the environmental assets and the applicable regulatory closure requirements. These future expenses are charged against earnings over the estimated useful life of the assets. Currently, the Company estimates the useful life of each individual asset is up to 50 years. If the Company changes its estimate of the environmental asset retirement obligation costs or its estimate of the useful lives of these assets, expenses charged against earnings could increase or decrease.

In accordance with GAAP, the Company also monitors conditional obligations and will record reserves associated with them when and to the extent that more detailed information becomes available concerning applicable retirement costs.

The Company's reserve, including the above remediation, was $394 million at December 31, 2012 and $39 million at December 31, 2011, representing the minimum or best estimate for remediation costs and the best estimate of the amount accrued to date over the regulated assets' estimated useful lives for asset retirement obligation costs. Amounts at December 31, 2012 included environmental contingencies assumed in the acquisition of Solutia on July 2, 2012. See Note 2, "Acquisitions and Investments in Joint Ventures" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

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

Pension and Other Post-employment Benefits

The Company maintains defined benefit pension plans that provide eligible employees with retirement benefits. Additionally, Eastman subsidizes life insurance, health care, and dental benefits for eligible retirees and health care and dental benefits for retirees' eligible survivors. The costs and obligations related to these benefits reflect the Company's assumptions related to general economic conditions (particularly interest rates) and expected return on plan assets. In July 2012, as part of its acquisition of Solutia, the Company assumed Solutia's U.S. and non-U.S. defined benefit pension and OPEB plans. Prior to the acquisition, the U.S. pension plans had been closed to new participants and were no longer accruing additional benefits. In 2011, as part of its acquisition of Sterling Chemicals, Inc. ("Sterling"), the Company assumed Sterling's U.S. pension plans. For valuing the obligations and assets of the Company's U.S. and non-U.S. defined benefit pension plans, the Company assumed weighted average discount rates of 3.72 percent and 4.16 percent, respectively, and a weighted average expected return on plan assets of 7.98 percent and 5.90 percent, respectively, at December 31, 2012. The Company assumed a weighted average discount rate of 3.91 percent for its OPEB plans and an expected return on plan assets of 3.75 percent for its voluntary employees' beneficiary association retiree trust at December 31, 2012. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation.

The December 31, 2012 projected benefit obligation and 2013 expense are affected by year-end 2012 assumptions. The following table illustrates the sensitivity to changes in the Company's long-term assumptions in the expected return on assets and assumed discount rate for all pension plans and other postretirement welfare plans. The sensitivities below are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

Change in Assumption	Impact on 2013 Pre-tax Benefits Expense (Excludes mark-to-market impact) Pension Plans	Impact on December 31, 2012 Projected Benefit Obligation for Pension Plans		Impact on 2013 Pre-tax Benefits Expense (Excludes mark-to-market impact) Other Postretirement Welfare Plans	Impact on December 31, 2012 Benefit Obligation for Other Postretirement Welfare Plans
		U.S.	Non-U.S.		
25 basis point decrease in discount rate	-$3 Million	+$68 Million	+$32 Million	-$1 Million	+$33 Million
25 basis point increase in discount rate	+$3 Million	-$65 Million	-$31 Million	+$1 Million	-$31 Million
25 basis point decrease in expected return on assets	+$5 Million	No Impact	No Impact	+$1 Million	No Impact

25 basis point increase in expected return on assets	-$5 Million	No Impact	No Impact	-$1 Million	No Impact

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

The expected return on assets and assumed discount rate used to calculate the Company's pension and other post-employment benefit obligations are established each December 31. The expected return on assets is based upon the long-term expected returns in the markets in which the trusts invest their funds, primarily in the following markets: U.S. and non-U.S. fixed income, U.S. and non-U.S. public equity, private equity, and real estate markets. Historically, over a ten year period, the Company's average achieved actual return has been near the expected return on assets. The assumed discount rate is based upon a portfolio of high-grade corporate bonds, which are used to develop a yield curve. This yield curve is applied to the expected durations of the pension and post-employment benefit obligations. As future health care benefits under the U.S. benefit plan have been fixed at a certain contribution amount, changes in the health care cost trend assumptions do not have a material impact on the results of operations.

The Company uses fair value accounting for plan assets. If actual experience differs from long-term assumptions for asset returns and discount rates, the difference is recognized as part of the MTM adjustment during the fourth quarter of each year, and any other quarter in which an interim remeasurement is triggered. The MTM charges applied to earnings from continuing operations in 2012, 2011, and 2010 due to the actual experience versus assumptions of returns on plan assets and discount rates for the defined benefit pension and other postretirement benefit plans were $276 million, $144 million, and $53 million, respectively. At December 31, 2012, the Company's weighted-average assumed discount rate was 3.84 percent, down significantly from the prior year,